

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2021
(Six Months Ended September 30, 2020)

[Japanese GAAP]

Company name: COMTURE CORPORATION Listing: Tokyo Stock Exchange, First Section
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Scheduled date of filing of Quarterly Report: November 6, 2020
 Scheduled date of payment of dividend: November 30, 2020
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2020
(April 1, 2020 – September 30, 2020)

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2020	10,071	(0.1)	1,336	(0.7)	1,375	1.8	920	(2.1)
Six months ended Sep. 30, 2019	10,076	18.8	1,346	10.9	1,351	10.7	940	15.7

Note: Comprehensive income (million yen):
 Six months ended Sep. 30, 2020: 928 (down 1.0%)
 Six months ended Sep. 30, 2019: 938 (up 15.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2020	28.88	-
Six months ended Sep. 30, 2019	29.69	29.68

COMTURE conducted a 2-for-1 common stock split effective on October 1, 2019. Net income per share and diluted net income per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

Diluted net income per share for the six months ended September 30, 2020 is not presented because there were no potential shares with dilutive effects.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2020	15,421	11,684	75.8
As of Mar. 31, 2020	14,771	11,195	75.8

Reference: Shareholders' equity (million yen): As of Sep. 30, 2020: 11,684 As of Mar. 31, 2020: 11,195

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2020	14.50	14.50	7.25	7.25	-
Fiscal year ending Mar. 31, 2021	7.75	7.75			
Fiscal year ending Mar. 31, 2021 (forecast)			7.75	7.75	31.00

Note: Revisions to the most recently announced dividend forecast: None

COMTURE conducted a 2-for-1 common stock split effective on October 1, 2019. The 3Q-end dividend per share and year-end dividend per share for the fiscal year ended March 31, 2020 are adjusted to reflect the stock split. No total dividend per share is shown for the fiscal year ended March 31, 2020.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	21,000	-	3,045	-	3,045	-	2,070	-	64.97

Note: Revisions to the most recently announced consolidated earnings forecasts: None

COMTURE started applying Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) in the fiscal year ending March 31, 2021, which is earlier than required. The earnings forecasts for the fiscal year ending March 31, 2021 use this revenue recognition standard. Assuming that this standard had been used in the fiscal year ended March 31, 2020, the year-on-year growth rates in this forecast are as follows.

Full year: Net sales: 5.0%; Operating profit: 7.5%; Ordinary profit: 6.2%; Profit attributable to owners of parent: 4.8%

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

(3) Changes in accounting policies and accounting-based estimates, and restatements

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|---|------|
| 1) Changes in accounting policies due to revisions in accounting standards, others: | Yes |
| 2) Changes in accounting policies other than 1) above: | None |
| 3) Changes in accounting-based estimates: | None |
| 4) Restatements: | None |

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Sep. 30, 2020:	32,241,600 shares	As of Mar. 31, 2020:	32,241,600 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2020:	365,990 shares	As of Mar. 31, 2020:	370,158 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2020:	31,873,039 shares	Six months ended Sep. 30, 2019:	31,663,388 shares
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COMTURE conducted a 2-for-1 common stock split effective on October 1, 2019. The average number of shares outstanding for the six months ended September 30, 2019 has been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the Company's management at the time the materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (4) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 5 for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	4
(3) Explanation of Cash Flows	4
(4) Explanation of Consolidated Forecast and Other Forward-looking Statements	5
2. Quarterly Consolidated Financial Statements and Notes	6
(1) Quarterly Consolidated Balance Sheet	6
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	8
(3) Quarterly Consolidated Statement of Cash Flows	10
(4) Notes to Quarterly Consolidated Financial Statements	11
Going Concern Assumption	11
Significant Changes in Shareholders' Equity	11
Changes in Accounting Policies	11
Segment and Other Information	12
Subsequent Events	12

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The enormous economic impact of the global COVID-19 pandemic continues to make the outlook for the economy uncertain.

In the IT services market, there is an urgent need at companies and in the public sector for the use of IT to implement strategic management reforms. As a result, the growth of IT investments is expected to gain momentum in the digital transformation (DX) and other market sectors.

COMTURE regards these trends as an opportunity for long-term growth. We are expanding upstream business activities, such as consulting with substantial added value. We are also using data analysis (analytics) and robotic process automation (RPA) for improving our customers' efficiency, strengthening our ability to create proposals concerning teleworking and other ways to do jobs, and training engineers by promoting the acquisition of vendor certifications. Overall, these activities position us as a comprehensive IT vendor capable of using the cloud, big data, AI and other types of digital platforms in order to play key roles in our customers' business model upgrades and innovations.

In addition, there were many activities during the first half for reforms in our business processes, such as by providing more flexibility for how people do their jobs, in order to reflect changes in the business climate. The safety of our customers and our employees is the highest priority. We make extensive use of teleworking and reduced and staggered working times. We also use web conferencing and other technologies for maintaining internal and external lines of communication.

In the first half, sales were higher than one year earlier but the gross profit decreased. Performance was affected by declining IT investments by airline companies and manufacturers and by the one-time occurrence of unprofitable projects. The performance of the COMTURE Group's business segments was as follows.

In the Cloud Solutions Business, sales increased because of the growth in demand primarily at large companies for moving internal communication systems to the cloud, the digitalization of decision-making procedures and systems to facilitate teleworking. Gross profit was lower due to the postponement of a cloud project in the airline sector, an increase in expenses caused by one-time unprofitable projects, and lost sales opportunities.

In the Digital Solutions Business, there were strong performances by data analysis services for information systems and by data management services, mainly for the financial services sector. However, demand declined for data analysis services for the production systems of manufacturers and there was a decrease in RPA business process automation projects in the airline industry. As a result, gross profit decreased.

In the Business Solutions Business, sales and gross profit increased because demand was higher in the SAP business and demand for system replacements at current customers remained steady.

In the Platform, Operation Services Business, sales increased for infrastructure/network construction services, services for the operation of cloud environments and in other categories. However, there was a one-time downturn in manufacturing industry demand for establishing new cloud environments and the decision was made to stop providing operation services to large companies, which was an activity that had little added value. As a result, sales and gross profit were lower than one year earlier.

In the Digital Learning Business, lessons were shifted from a classroom format to e-learning using the internet because of COVID-19. Gross profit increased because this shift raised the number of students due to the recovery in the number of training courses.

(Millions of yen)

		1H of FY3/20	1H of FY3/21	Change	Change (%)
Cloud Solutions Business	Net sales	3,722	4,037	315	8.5%
	Gross profit	951	880	(71)	(7.4)%
Digital Solutions Business	Net sales	957	1,021	64	6.7%
	Gross profit	278	247	(31)	(11.1)%
Business Solutions Business	Net sales	2,246	2,703	457	20.3%
	Gross profit	459	553	94	20.5%
Platform, Operation Services Business	Net sales	2,793	2,186	(607)	(21.7)%
	Gross profit	628	529	(99)	(15.8)%
Digital Learning Business	Net sales	-	122	122	-
	Gross profit	-	1	1	-

Note: COMTURE started applying Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in the fiscal year ending March 31, 2021, which is earlier than required. Net sales for 1H of FY3/20 have been calculated assuming that this standard had been used from the beginning of the fiscal year ended March 31, 2020.

In the fiscal year ending in March 2021, COMTURE has increased the number of business categories from four to five by making the Digital Learning Business, which was previously part of the Platform, Operation Services Business, a separate category.

Activities of the business categories are as follows.

Business Category	Activities
Cloud Solutions Business	Providing system solutions and other activities using collaborations with Microsoft, Salesforce.com, ServiceNow, Pega and other global platformers.
Digital Solutions Business	Providing data analysis solutions using big data and AI tools, support for the automation of business processes using robotic process automation tools.
Business Solutions Business	Consulting, design, development and other services for ERP packages (SAP) and enterprise systems.
Platform, Operation Services Business	System and network environment designs, construction and operation using collaborations with cloud platformers (Amazon Web Service, Google Cloud Platform, etc.) and hardware vendors (Hewlett Packard Enterprise, Dell, Cisco, etc.); remote surveillance of IT systems at the COMTURE Group's service center; help desk operations.
Digital Learning Business	Education services using e-learning and other platforms to upgrade the IT skills of a company's employees and enable employees to acquire platform vendor certifications.

In the first half, the COMTURE Group performed as follows.

(Millions of yen)

	1H of FY3/20	1H of FY3/21	Change	Change (%)
Net sales	9,719	10,071	352	3.6%
Gross profit	2,317	2,212	(105)	(4.5)%
Operating profit	1,346	1,336	(10)	(0.7)%
Ordinary profit	1,351	1,375	24	1.8%
Profit attributable to owners of parent	940	920	(20)	(2.1)%

Note: COMTURE started applying Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) in the fiscal year ending March 31, 2021, which is earlier than required. Net sales for 1H of FY3/20 have been calculated assuming that this standard had been used from the beginning of the fiscal year ended March 31, 2020.

Although the COVID-19 crisis had a negative impact on sales, first half sales increased 3.6% from one year earlier, after adjusting prior-year sales for the new accounting standard, to an all-time first-half high. Sales growth was attributable mainly to the ongoing shift to businesses involving the digital transformation and to extensive sales activities. This is the tenth consecutive year of first half sales growth.

Gross profit decreased 4.5% because of the significant impact of higher expenses caused by unprofitable projects. These projects were a one-time occurrence and all of these projects have been completed. There were also higher expenses for personnel and an increase in up-front investments for R&D and other activities for expanding and strengthening business operations. The increase in investments was offset by higher sales per employee, the result of upgraded proposal skills and improvements in productivity and the quality of services, and a higher workforce utilization rate.

Operating profit benefited from many cost cutting measures, including an improvement to the method used for managing profitability, but was down 0.7% from one year earlier because of the significant negative effect of unprofitable projects.

Ordinary profit increased 1.8% in part because of income for the surrender value of insurance policies.

Profit attributable to owners of parent decreased 2.1% because this profit in the first half of the previous fiscal year was increased by a gain on bargain purchase.

(2) Explanation of Financial Position

Total assets were 15,421 million yen at the end of the second quarter, 649 million yen more than the end of the previous fiscal year. Property, plant and equipment increased 183 million yen mainly because of a building and other items associated with the new Ariake office and investment securities increased 592 million yen mainly because of an investment in a company in the DX sector. Cash and deposits decreased 69 million yen in part to pay for these expenditures, and guarantee deposits decreased 57 million yen as payments were collected.

Liabilities increased 160 million yen to 3,736 million yen. This was mainly attributable to increases of 133 million yen in accrued expenses and 124 million yen in provision for bonuses, and a decrease of 69 million yen in long-term borrowings because of repayments.

Net assets increased 489 million yen to 11,684 million yen mainly because of profit attributable to owners of parent of 920 million yen and dividend payments of 478 million yen.

(3) Explanation of Cash Flows

There was a net decrease of 69 million yen in cash and cash equivalents from the end of the previous fiscal year to 8,824 million yen at the end of the second quarter. Major components of cash flows were as follows.

1) Cash flows from operating activities

Net cash provided by operating activities increased 42.7% to 1,172 million yen. Major sources of cash were profit before income taxes of 1,373 million yen, and increases in provision for bonuses of 124 million yen and accrued expenses of 133 million yen. Major uses of cash were income taxes paid of 504 million yen and a decrease in trade payables of 101 million yen.

2) Cash flows from investing activities

Net cash used in investing activities was 692 million yen, compared with 53 million yen provided in the same period a year earlier. Major uses of cash were purchase of property, plant and equipment of 220 million yen and purchase of investment securities of 600 million yen. Major source of cash was proceeds from cancellation of insurance funds of 85 million yen.

3) Cash flows from financing activities

Net cash used in financing activities was 548 million yen, compared with 581 million yen provided in the same period a year earlier. There were payments of 477 million yen for dividends, and repayments of long-term borrowings of 69 million yen.

(4) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the full-year consolidated earnings forecast for the fiscal year ending March 31, 2021 that was announced in the “Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (Japanese GAAP)” on May 15, 2020.

There is currently uncertainty about the level of IT investments by companies and the public sector due to the COVID-19 pandemic. However, we believe that this crisis will have only a limited negative effect on the performance of the COMTURE Group. We will closely monitor the constantly changing situation involving this crisis to determine the effects on our performance and will make an announcement promptly if any revisions to the forecast are needed during the fiscal year.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	2Q of FY3/21 (As of Sep. 30, 2020)
Assets		
Current assets		
Cash and deposits	8,893,827	8,824,534
Notes and accounts receivable-trade	3,139,705	3,289,978
Work in process	131,159	88,869
Other	282,173	286,519
Total current assets	12,446,865	12,489,901
Non-current assets		
Property, plant and equipment		
Buildings, net	360,020	473,249
Vehicles, net	10,631	8,861
Tools, furniture and fixtures, net	163,125	236,877
Construction in progress	39,759	39,759
Other, net	3,740	2,525
Total property, plant and equipment	577,278	761,273
Intangible assets		
Goodwill	119,136	79,846
Software	9,943	7,347
Other	2,862	2,862
Total intangible assets	131,941	90,057
Investments and other assets		
Investment securities	505,605	1,098,203
Guarantee deposits	642,509	585,436
Deferred tax assets	356,767	337,575
Other	110,563	58,834
Total investments and other assets	1,615,447	2,080,049
Total non-current assets	2,324,667	2,931,381
Total assets	14,771,532	15,421,282

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	2Q of FY3/21 (As of Sep. 30, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	882,867	933,653
Short-term borrowings	200,000	200,000
Current portion of long-term borrowings	139,992	140,032
Accrued expenses	302,332	435,643
Income taxes payable	562,592	500,940
Provision for bonuses	468,751	593,645
Provision for bonuses for directors (and other officers)	19,000	7,800
Provision for loss on construction contracts	29,748	14,423
Asset retirement obligations	27,200	1,666
Other	532,885	588,033
Total current liabilities	3,165,369	3,415,837
Non-current liabilities		
Long-term borrowings	70,036	-
Provision for retirement benefits for directors (and other officers)	47,498	-
Asset retirement obligations	190,766	220,777
Other	102,450	99,978
Total non-current liabilities	410,751	320,755
Total liabilities	3,576,121	3,736,593
Net assets		
Shareholders' equity		
Share capital	1,022,124	1,022,124
Capital surplus	3,602,597	3,617,017
Retained earnings	6,678,575	7,143,294
Treasury shares	(110,993)	(109,368)
Total shareholders' equity	11,192,304	11,673,068
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,106	11,621
Total accumulated other comprehensive income	3,106	11,621
Total net assets	11,195,410	11,684,689
Total liabilities and net assets	14,771,532	15,421,282

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Net sales	10,076,559	10,071,091
Cost of sales	7,758,683	7,858,148
Gross profit	2,317,875	2,212,942
Selling, general and administrative expenses	971,783	876,509
Operating profit	1,346,092	1,336,433
Non-operating income		
Interest income	1,000	1,681
Dividend income	9	10
Gain on cancellation of insurance policies	4,328	48,862
Gain on redemption of investment securities	7,232	-
Other	3,311	997
Total non-operating income	15,882	51,552
Non-operating expenses		
Interest expenses	822	661
Share issuance costs	4,526	-
Loss on valuation of investment securities	-	7,769
Other	5,559	4,530
Total non-operating expenses	10,909	12,960
Ordinary profit	1,351,065	1,375,025
Extraordinary income		
Gain on bargain purchase	49,131	-
Gain on step acquisitions	3,039	-
Total extraordinary income	52,171	-
Extraordinary losses		
Loss on retirement of non-current assets	7,068	1,518
Total extraordinary losses	7,068	1,518
Profit before income taxes	1,396,168	1,373,506
Income taxes	454,297	453,071
Profit	941,870	920,435
Profit attributable to non-controlling interests	1,643	-
Profit attributable to owners of parent	940,227	920,435

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Profit	941,870	920,435
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,373)	8,514
Total other comprehensive income	(3,373)	8,514
Comprehensive income	938,497	928,950
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	936,853	928,950
Comprehensive income attributable to non-controlling interests	1,643	-

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Cash flows from operating activities		
Profit before income taxes	1,396,168	1,373,506
Depreciation	50,700	70,084
Amortization of goodwill	72,539	39,289
Gain on bargain purchase	(49,131)	-
Loss (gain) on step acquisitions	(3,039)	-
Increase (decrease) in provision for bonuses	9,138	124,894
Increase (decrease) in provision for bonuses for directors (and other officers)	(9,373)	(11,200)
Increase (decrease) in provision for loss on construction contracts	-	(15,324)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	-	(47,498)
Interest and dividend income	(1,010)	(1,692)
Interest expenses	822	661
Gain on cancellation of insurance policies	(4,328)	(48,862)
Loss (gain) on valuation of investment securities	(7,232)	7,769
Loss on retirement of non-current assets	7,068	1,518
Decrease (increase) in trade receivables	244,106	69,298
Decrease (increase) in inventories	(11,860)	6,968
Increase (decrease) in trade payables	(172,109)	(101,186)
Increase (decrease) in accrued expenses	6,341	133,310
Increase (decrease) in accrued consumption taxes	(151,752)	(49,459)
Other, net	(110,829)	123,304
Subtotal	1,266,218	1,675,380
Interest and dividends received	1,010	1,692
Interest paid	(817)	(674)
Income taxes paid	(444,990)	(504,211)
Net cash provided by (used in) operating activities	821,421	1,172,187
Cash flows from investing activities		
Purchase of property, plant and equipment	(40,890)	(220,402)
Proceeds from sales of property, plant and equipment	42,490	-
Payments for asset retirement obligations	-	(27,200)
Purchase of investment securities	(50,000)	(600,006)
Proceeds from redemption of investment securities	100,000	-
Purchase of intangible assets	(194)	(1,000)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	242,417	-
Payments of guarantee deposits	(235,073)	(221)
Proceeds from refund of guarantee deposits	464	57,212
Purchase of insurance funds	(6,627)	-
Proceeds from cancellation of insurance funds	9,747	85,932
Other, net	(8,734)	13,200
Net cash provided by (used in) investing activities	53,600	(692,483)
Cash flows from financing activities		
Repayments of long-term borrowings	(69,996)	(69,996)
Dividends paid	(533,828)	(477,588)
Proceeds from disposal of treasury shares from exercise of share acquisition rights	1,187,460	-
Other, net	(1,687)	(1,411)
Net cash provided by (used in) financing activities	581,948	(548,996)
Net increase (decrease) in cash and cash equivalents	1,456,969	(69,293)
Cash and cash equivalents at beginning of period	7,809,231	8,893,827
Cash and cash equivalents at end of period	9,266,201	8,824,534

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Companies in Japan are allowed to use Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised on March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, revised on March 31, 2020) from the beginning of fiscal years that started on or after April 1, 2018. COMTURE started applying this standard and guidance at the beginning of the first quarter of the fiscal year ending in March 2021.

The primary sources of revenue at the COMTURE Group are revenue from the provision of solution services and revenue from the sale of licenses. Hardware and other sales and the sale of licenses that take place in conjunction with solution services are classified as sales agent transactions.

1) Solution services revenue

The main categories of solution services of the COMTURE Group are cloud solutions, digital solutions, business solutions, platform and operation services, and digital learning.

Contractual obligations for providing these services are obligations that must be fulfilled over a specific period. One reason is that, normally, the provision of a contractual service to a customer results in an asset that cannot be used for a different application. Furthermore, the portion of this contractual obligation that has been fulfilled gives the COMTURE Group the legal right to receive compensation for the fulfillment of this portion.

The COMTURE Group rigorously manages the profitability of all projects based on reasonable estimates of future expenses that will be required for the completion of each project. In addition, the rate of progress of every project can be estimated by using the ratio of expenses currently incurred, based on working time and other items, to the estimate of total expenses.

Due to the ability to estimate the progress of individual projects, solution services revenue is recognized over certain periods. However, for projects that are completed within a very short time and are not significant in monetary terms, all revenue is recognized at once when the customer accepts the services provided upon completion.

2) License sale revenue

Sales of licenses for the off-the-shelf software of other companies accounts for most of the license sales of the COMTURE Group. Contracts for these sales do not allow the COMTURE Group to conduct activities that would have a significant impact on customers' intellectual property. Furthermore, it is assumed that customers have no reasonable expectation for these types of activities. In addition, we believe that activities of the COMTURE Group do not have any direct effect on customers' intellectual assets.

For these reasons, revenue from license sales is recognized at the beginning of the provision of a license that gives a customer the right to use an intellectual asset.

3) Sales agent transactions

Revenue from the sale of merchandise or services is recognized in one of two ways. If the COMTURE Group is judged to have control of the merchandise or service prior to its provision to a customer, the sale is a direct transaction. In all other cases, the sale is a sales agent transaction. The judgment regarding prior control is based

mainly on three factors, as well as other items. First, is the COMTURE Group primarily responsible for the provision of the merchandise or service? Second, is the COMTURE Group vulnerable to inventory risk regarding the merchandise or service prior to its provision to a customer? Third, is the COMTURE Group able to determine the price of the merchandise or service?

Hardware and other sales and the sale of licenses that take place in conjunction with normal solution service activities of the COMTURE Group are classified as sales agent transactions. Consequently, an amount equivalent to the commission income associated with these sales is recognized as revenue.

For the application of the new accounting standard and guidance for the recognition of revenue, COMTURE has applied the transitional measures prescribed in the supplementary information in paragraph 84 of this accounting standard. As a result, the cumulative effect of the retroactive application of the new standard prior to the first quarter of the current fiscal year was reflected in retained earnings at the beginning of the first quarter and the new standard was applied to retained earnings starting at that time.

Due to the application of the new accounting standard, there was an increase of 22 million yen in retained earnings at the beginning of the current fiscal year. In addition, net sales decreased 593 million yen, and operating profit and profit before income taxes increased 21 million yen each in the first six months of the current fiscal year.

Segment and Other Information

No segment-related information is provided because COMTURE has only a single business segment.

Information related to revisions for reportable segments

In prior years, the COMTURE Group had three reportable segments: Solution Services, Network Services and Product Sales. Beginning with the first quarter of the fiscal year ending in March 2021, there is only the single reportable segment of Solution Services.

The COMTURE Group medium-term plan that started in April 2019 positions the digital transformation (DX) as the group's growth domain. Since the plan started, there has been significant growth of sales of cloud-related businesses and digital-related businesses. The increasing ties between cloud solutions services and network services made it difficult to divide the sales, expenses and earnings of these two businesses between the Solution Services and Network Services segments.

Furthermore, in part because of the COVID-19 crisis, customers' DX domain IT investments are expected to grow even faster. In April 2020, the COMTURE Group changed to a new organizational structure for business operations. In March and June 2020, COMTURE established equity and business alliances with start-up companies in the AI and robotics fields and plans to develop new types of solutions and create new businesses.

An examination of the reportable segments based on business activities in the DX domain and on other considerations resulted in the conclusion that the division of business activities among different segments will become even more difficult. Consequently, the decision was made to treat all of the COMTURE Group's activities as a unified business that should be reported as a single reportable segment.

Subsequent Events

Not applicable.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.