

Consolidated Financial Results for the Fiscal Year Ended June 30, 2021 [IFRS]

Company name: Scala, Inc. Listing: Tokyo Stock Exchange, First Section
 Stock code: 4845 URL: <https://scalagr.jp/>
 Representative: Norikatsu Nagino, Representative Director & President
 Contact: Tomohiro Yamada, General Manager of Internal Control/Information Security Promotion Division
 Tel: +81-(0)3-6418-3960

Scheduled date of Annual General Meeting of Shareholders: September 27, 2021
 Scheduled date of filing of Annual Securities Report: September 27, 2021
 Scheduled date of payment of dividend: September 28, 2021
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and analysts)
 (All amounts are rounded down to the nearest million yen.)

1. Management Performance Measures under IFRS

(1) Consolidated Results of Operations (Percentages represent year-on-year changes.)

| | Revenue | | Operating profit | | Profit before tax | | Profit | | Profit attributable to owners of parent | |
|---------------------------------|-------------|------|------------------|-------|-------------------|-------|-------------|--------|-----------------------------------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended Jun. 30, 2021 | 8,734 | 14.6 | 220 | (3.0) | 188 | (7.2) | 3,225 | 428.8 | 3,065 | 854.4 |
| Fiscal year ended Jun. 30, 2020 | 7,624 | - | 227 | - | 203 | - | 610 | (58.2) | 321 | (66.1) |

| | Basic earnings per share | Diluted earnings per share | Ratio of equity attributable to owners of parent to profit | Ratio of profit before tax to total assets | Ratio of operating profit to revenue |
|---------------------------------|--------------------------|----------------------------|------------------------------------------------------------|--------------------------------------------|--------------------------------------|
| | Yen | Yen | % | % | % |
| Fiscal year ended Jun. 30, 2021 | 174.62 | 173.15 | 34.9 | 0.8 | 2.5 |
| Fiscal year ended Jun. 30, 2020 | 18.46 | 18.28 | 4.5 | 0.9 | 3.0 |

Reference: Share of profit (loss) of investments accounted for using equity method (million yen)

Fiscal year ended Jun. 30, 2021: (0) Fiscal year ended Jun. 30, 2020: -

Note: In the second quarter of the fiscal year ended June 30, 2021, the businesses that Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation.

The transfer of all shares of SOFTBRAIN held by Scala was complete in the third quarter. Accordingly, revenue, operating profit, and profit before tax in the above table present the amounts of those from continuing operations.

Note that the year-on-year changes for the fiscal year ended June 30, 2020 are not presented since the figures for the period are also reclassified in the same manner. For details of the discontinued operations, please refer to "3.

Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements, Discontinued Operations" on page 22 of Attachments.

2. Management Performance Measures under Non-GAAP Measures

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group's underlying operating performance and its outlook.

For details of the non-GAAP measures, please refer to "(1) Results of Operations" on page 3 of Attachments.

(1) Consolidated Results of Operations (Percentages represent year-on-year changes.)

| | Revenue | | Operating profit* | | Profit before tax | | Profit | | Profit attributable to owners of parent | |
|---------------------------------|-------------|------|-------------------|--------|-------------------|--------|-------------|--------|-----------------------------------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended Jun. 30, 2021 | 8,734 | 14.6 | 282 | (16.2) | 251 | (19.9) | 117 | (54.2) | 121 | (44.3) |
| Fiscal year ended Jun. 30, 2020 | 7,624 | - | 337 | - | 313 | - | 255 | - | 218 | - |

* Expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs, expenses on procurement of equipment and supplies and those on rebranding implemented on the occasion of the relocation) of 110 million yen, and profit resulting from discontinued operation were deducted from the line items below operating profit for the fiscal year ended June 30, 2020.

* Expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary, expenses incurred on the relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) of 61 million yen, and profit resulting from discontinued operation were deducted from the line items below operating profit for the fiscal year ended June 30, 2021.

| | Basic earnings per share | Diluted earnings per share | Ratio of operating profit to revenue |
|---------------------------------|--------------------------|----------------------------|--------------------------------------|
| | Yen | Yen | % |
| Fiscal year ended Jun. 30, 2021 | 6.93 | 6.87 | 3.2 |
| Fiscal year ended Jun. 30, 2020 | 12.55 | 12.43 | 4.4 |

3. Dividends

| | Dividend per share | | | | | Total dividends | Dividend payout ratio (consolidated) |
|-------------------------------------------------|--------------------|--------|--------|----------|-------|-----------------|-----------------------------------------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % |
| Fiscal year ended Jun. 30, 2020 | - | 14.00 | - | 14.00 | 28.00 | 490 | 151.7 |
| Fiscal year ended Jun. 30, 2021 | - | 16.00 | - | 18.00 | 34.00 | 597 | 19.5 |
| Fiscal year ending Jun. 30, 2022 (forecasts) | - | 18.00 | - | 18.00 | 36.00 | 633 | - |

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 under IFRS

(Percentages represent year-on-year changes.)

| | Revenue | | Operating profit | | Profit before tax | | Profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------|-------|------------------|-------|-------------------|-------|-------------|--------|-----------------------------------------|--------|--------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 12,000 | 37.4 | 450 | 104.2 | 400 | 112.1 | 300 | (90.7) | 300 | (90.2) | 17.05 |
| | to | to | to | to | to | to | to | to | to | to | to |
| | 20,000 | 129.0 | 1,200 | 444.6 | 1,150 | 509.8 | 800 | (75.2) | 800 | (73.9) | 45.46 |

5. Consolidated Financial Position under IFRS

| | Total assets | Total equity | Equity attributable to owners of parent | Ratio of equity attributable to owners of parent to total assets | Equity per share attributable to owners of parent |
|---------------------|--------------|--------------|-----------------------------------------|------------------------------------------------------------------|---------------------------------------------------|
| | Million yen | Million yen | Million yen | % | Yen |
| As of Jun. 31, 2021 | 20,330 | 10,470 | 10,162 | 50.0 | 577.51 |
| As of Jun. 30, 2020 | 24,912 | 10,343 | 7,402 | 29.7 | 422.79 |

6. Consolidated Cash Flows under IFRS

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------------|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal year ended Jun. 30, 2021 | 720 | 4,429 | (3,160) | 9,809 |
| Fiscal year ended Jun. 30, 2020 | 1,131 | (1,428) | 1,715 | 7,822 |

* Notes

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): Yes

Excluded: 2 (SOFTBRAIN Co., Ltd., SOFTBRAIN FIELD Co., Ltd.)

(2) Changes in accounting policies and accounting estimates

- 1) Changes in accounting policies required by IFRS: None
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting estimates: None

(3) Number of shares outstanding (common shares)

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

As of Jun. 30, 2021: 17,597,459 shares As of Jun. 30, 2020: 17,509,859 shares

2) Number of treasury shares as of the end of the period

As of Jun. 30, 2021: 8 shares As of Jun. 30, 2020: 8 shares

3) Average number of outstanding shares during the period

Fiscal year ended Jun. 30, 2021: 17,553,348 shares Fiscal year ended Jun. 30, 2020: 17,400,867 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2021 (July 1, 2020 to June 30, 2021)

(1) Non-consolidated Results of Operations (Percentages represent year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|---------------------------------|-------------|-----|------------------|--------|-----------------|--------|-------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended Jun. 30, 2021 | 1,202 | 7.9 | 254 | 1.7 | 261 | (30.9) | 5,827 | - |
| Fiscal year ended Jun. 30, 2020 | 1,114 | 5.2 | 249 | (37.6) | 378 | (27.3) | 286 | (27.6) |

| | Basic earnings per share | | Diluted earnings per share | |
|---------------------------------|--------------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Fiscal year ended Jun. 30, 2021 | 332.00 | | 329.21 | |
| Fiscal year ended Jun. 30, 2020 | 16.49 | | 16.33 | |

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Jun. 30, 2021 | 15,874 | 9,413 | 59.3 | 534.75 |
| As of Jun. 30, 2020 | 12,600 | 3,942 | 31.2 | 224.86 |

Reference: Shareholders' equity (million yen) As of Jun. 30, 2021: 9,410 As of Jun. 30, 2020: 3,937

Reason for difference from previous year's non-consolidated financial results

The financial results of the fiscal year ended June 30, 2021 is different from the fiscal year ended June 30, 2020 because we transferred all shares of SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary, and its subsidiaries in the fiscal year ended June 30, 2021.

* The current consolidated financial results are not subject to the audit by certified public accountants or auditing firms.

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

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Scala's management at the time these materials were prepared, but are not promises by Scala regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

Please refer to "1. Overview of Results of Operations, (4) Outlook" on page 8 of Attachments for forecast assumptions and notes of caution for usage.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (August 16, 2021) and available on the Company's website.

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1. Overview of Results of Operations

Scala, Inc. and its group companies (“the Group”) have adopted International Financial Reporting Standards (IFRS).

In addition to IFRS, the Group has adopted financial measures that can express its operating performance more accurately (“the non-GAAP measures”), and accordingly has disclosed its consolidated results of operations by applying both IFRS and the non-GAAP measures.

During the fiscal year ended June 30, 2021 (“the current fiscal year”), significant changes in the business conducted by the Scala Group (Scala, Inc. and its affiliates) from that described in the securities report for the previous fiscal year are as follows.

Scala, Inc. (“Scala” or “the Company”) reclassified the businesses of SOFTBRAIN Co., Ltd., the Company’s consolidated subsidiary, and its subsidiaries, which were formerly included in SFA Business and Field Marketing Business, as a discontinued operation, in the second quarter of the current fiscal year. The transfer of all shares of SOFTBRAIN held by Scala was complete.

Accordingly, the Group has changed the reportable segment structure from the former four segments consisting of SaaS/ASP Business, SFA Business, Field Marketing Business, and Customer Support Business to the five segments consisting of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business from the first half of the fiscal year ended June 30, 2021.

The segment structure before and after the change is as follows.

Comparison of Former and New Segment Structures

| Former segments | Company name | New segments |
|---------------------------------------|---------------------------------|----------------------------------|
| SaaS/ASP Business | Scala Communications, Inc. | IT/AI/IoT/DX Business |
| | Scala Service, Inc. | |
| | Scala Next, Inc. | |
| | Connect Agency, Inc. | |
| | Scala, Inc. | Incubation & Investment Business |
| SFA Business | SOFTBRAIN Co., Ltd. | – (Discontinued Operation) |
| | SOFTBRAIN SERVICE Co. Ltd. | |
| | SOFTBRAIN INTEGRATION Co., Ltd. | |
| Field Marketing Business | SOFTBRAIN FIELD Co., Ltd. | |
| Customer Support Business | Leoconnect, Inc. | Customer Support Business |
| Other Businesses | SOFTBRAIN OFFSHORE Co., Ltd. | – (Discontinued Operation) |
| | Diamond Business Planning Inc. | |
| | Athlete Planning, Inc. | HR & Education Business |
| | FourHands, Inc. | |
| | Sports Stories, Inc. | |
| | Retool, Inc. | IT/AI/IoT/DX Business |
| | Social Studio Inc. | |
| | Scala PLAYce, Inc. | EC Business |
| | Scala Partners, Inc. | Incubation & Investment Business |
| | J-Phoenix Research Inc. | |
| | SCL Capital LLC | |
| SCSV-1 Investment Limited Partnership | | |

New Segments

| New segments | Company name |
|----------------------------------|---------------------------------------|
| IT/AI/IoT/DX Business | Scala Communications, Inc. |
| | Scala Service, Inc. |
| | Scala Next, Inc. |
| | Connect Agency, Inc. |
| | Retool, Inc. |
| | Social Studio Inc. |
| Customer Support Business | Leoconnect, Inc. |
| HR & Education Business | Athlete Planning, Inc. |
| | FourHands, Inc. |
| | Sports Stories, Inc. |
| EC Business | Scala PLAYce, Inc. |
| Incubation & Investment Business | Scala, Inc. |
| | Scala Partners, Inc. |
| | J-Phoenix Research Inc. |
| | SCL Capital LLC |
| | SCSV-1 Investment Limited Partnership |

(1) Results of Operations

1) Results of operations under IFRS

The outlook for the Japanese economy and the business environment surrounding the Group remained uncertain during the current fiscal year. This is primarily because the end of the COVID-19 pandemic remained unforeseeable amid the continued spread of the infection from the previous fiscal year, though vaccination against it began across the country near the end of the current fiscal year.

In such business environment, the Group has worked to create and expand new services and enhance existing businesses in the form of “co-creation” with the domestic private companies and local governments in order to develop into a “value co-creation company solving social problems with clients through business” as stated in the Mid-term Management Plan announced in August 2019.

In addition, the Group has sought to enhance its corporate value mainly by devoting more human resources to growth areas, expanding business through M&A as well as making more efficient use of corporate resources by reorganizing the HR & Education Business acquired in the previous fiscal year.

Note that the Company decided to sell the shares of its subsidiary SOFTBRAIN Co., Ltd. in August 2020 and completed the transfer procedure in March 2021, the businesses that SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation.

As a result, the Group reported revenue of 8,734 million yen (up 14.6% year on year) for the current fiscal year.

Profits decreased due to the following reasons: aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major digital transformation (DX) projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses; and the effects of the spread of the COVID-19 infection in HR & Education Business. As a result, the Group reported operating profit of 220 million yen (down 3.0%), profit before tax of 188 million yen (down 7.2%), and profit from continuing operations of 454 million yen (up 214.0%).

On the other hand, profit from discontinued operations was 2,770 million yen due to the booking of gain on sale of shares of subsidiaries as a result of selling SOFTBRAIN Co., Ltd., a consolidated subsidiary. Profit attributable to owners of parent therefore amounted to 3,065 million yen (up 854.4%).

In addition, in order to realize the Mid-term Management Plan, the Group has been actively exploring and developing various new businesses, with a focus on the value co-creation management support business domain, the IT/AI/IoT-related business domain, and the social problem-solving business domain.

2) Results of operations under non-GAAP measures

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for our stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps them to understand the Group's underlying operating performance and its outlook.

Non-recurring items refer to one-off profits or losses that we believe should be excluded based on certain criteria for the purpose of preparing the earnings forecast.

While the Group discloses the non-GAAP measures in reference to the rules set out by the U.S. Securities and Exchange Commission, this does not mean the Group fully complies with these rules.

For the previous fiscal year, adjustments were made to calculate the non-GAAP measures for expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation) and for profit resulting from discontinued operation.

For the current fiscal year, adjustments were made to calculate the non-GAAP measures for expenses incurred on the transfer of common shares of the Company's consolidated subsidiary SOFTBRAIN Co., Ltd., expenses incurred on the relocation of the head office of the Company's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) and profit resulting from discontinued operation.

Business segment performance is as follows.

Segment revenue and operating profit are presented in accordance with IFRS.

(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and Scala Next, Inc. are working on the following: the planning and development of new services and the introduction of mainstay services in response to coexisting with the COVID-19 and promoting DX; DX initiatives mainly for local governments and the financial industry; and the planning and development of digital platforms using the app"xID," which linked to My Number Card (the individual number card issued under the Social Security and Tax Number System).

Regarding the status of major projects, we have won a contract for the annual management of "Yell-Lab Ehime," the DX promotion platform in Ehime Prefecture. We have also introduced a web-based system to insurance companies that allows customers to apply for insurance claims using an online identity verification system. We have also introduced the "i-ask" knowledge management system as our mainstay product to companies such as The Bank of Okinawa, Ltd., Toppan Inc., and KOIKE-YA Inc. We have also installed the "i-livechat" chat system for web-based customer service to The Bank of Okinawa, Ltd., and Toppan Inc. In addition, we have partially completed the additional development of a future traffic safety driving diagnosis service for Sompo Japan Insurance Inc.

Meanwhile, Connect Agency, Inc. has been pursuing to increase sales by proposing call center solutions with voice recognition, which has been added to its lineup, to existing customers.

Social Studio Inc. is organizing and administering a body called "Workshop on the DX of local governments" to share knowledge and technologies with the aim of addressing issues faced by local governments through DX.

Also in this business segment, we have been tackling the corporate value creation of our client companies through combining the digital transformation (DX) support with the know-how owned by J-Phoenix Research Inc. on value co-creation management support including investor relations.

As a result, the segment revenue was 4,146 million yen (up 0.6% year on year). On the profitability front, segment profit was 1,042 million yen (down 11.1%) before allocation of corporate expenses, and 756 million yen (down 9.1%) after allocation of corporate expenses, due to active up-front investment for new businesses in the future: recruiting human resources for new businesses; promoting the recruitment of young talent with high

entrepreneurship as well as promoting communication with ventures with young entrepreneurs.

(ii) Customer Support Business

This business segment provides consulting services for call centers and others. During the current fiscal year, both revenue and profit declined significantly despite proactive efforts to review the costs due to the impact of shrinking call-center needs at client companies caused by the spread of the COVID-19 infection. On the other hand, we have started to build a system to provide customer support services accompanying businesses co-created and developed with customers, which the Group promotes. In line with this initiative, we are building a new call center business base with considerable cost advantages.

We will also work to grow this business by aggressively winning projects by leveraging our know-how accumulated through customer support consulting operations and BPO (business process outsourcing) operations within the Group.

As a result, the business recorded segment revenue of 1,837 million yen (down 18.8% year on year), segment profit before allocation of corporate expenses of 32 million yen (down 63.9%), and segment loss after allocation of corporate expenses of 12 million yen (compared with segment profit of 29 million yen a year earlier).

Under the non-GAAP measures adjusted for Leoconnect, Inc.'s head office relocation expenses (including retirement expenses for property, plant and equipment), segment profit before allocation of corporate expenses was 44 million yen (down 50.0% year on year), and segment loss after allocation of corporate expenses was 0 million yen (compared with segment profit of 29 million yen a year earlier).

(iii) HR & Education Business

This business has been included in the scope of consolidation since April 2020. It mainly consists of the following services: (1) recruitment support for new graduates, specialized for athletic students and female students, as well as services for the planning and operation of related events such as joint information sessions and career seminars; (2) childcare and educational services such as *Minna no Hoikuen* (which literally means a nursery school for everyone), international preschool Universal Kids, UK Academy for school children to foster international awareness, and after-school day service Largo KIDS; (3) sports school for children, the planning and management of sports events, and online sports education services; and (4) support for the recruitment of foreign talent.

Due to the impact of the spread of the COVID-19 infection and the resulting declaration of state of emergency, it was difficult to organize new graduate recruitment events at which people interact face to face, such as joint information sessions held from winter to spring. However, we have kept the impact to a minimum with alternatives that utilize the web and other means. And at the same time, we are engaged in new sales activities and augmenting our capabilities as web-based interviews have become more popular among companies due to the ongoing COVID-19 pandemic.

As a result, the business recorded segment revenue of 1,353 million yen, segment loss before allocation of corporate expenses of 11 million yen, and segment loss after allocation of corporate expenses of 144 million yen.

Under the non-GAAP measures adjusted for subsidiary head office relocation expenses (consisting of retirement expenses for property, plant and equipment, etc.), segment profit before allocation of corporate expenses was 19 million yen, and segment loss after allocation of corporate expenses was 113 million yen.

(iv) EC Business

The EC business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages.

The expansion of online trading needs has been a tailwind amid the spread of the COVID-19 infection. In addition, as a leading online shop in the TCG industry, we have been continuously refining our services. As part of the efforts, we particularly focused on ongoing improvements to in-house production systems (both front-end and back-end) and digital marketing, including SEO.

We also released an iOS app in June 2021 to increase engagement with users. Since then, the app has steadily acquired users as demonstrated by the fact that there are days when 10% of the total revenue is generated through the app.

As a result, the EC business recorded revenue of 1,311 million yen (up 33.0% year on year), segment profit before allocation of corporate expenses of 200 million yen (up 52.8%), and segment profit after allocation of corporate expenses of 162 million yen (up 71.3%) for the current fiscal year.

(v) Incubation & Investment Business

The segment covers business investments and businesses related to regional revitalization in collaboration with municipalities implemented by the Company, and businesses by J-Phoenix Research Inc., which engaged with activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, and businesses related to regional revitalization, such as immigration support service from the perspective of the residents. Investments together with the related activities, such as those for value increase of the investee companies and engagement activities are also implemented under an engagement fund named SCSV-1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital LLC.

Under this structure, we will aim at establishing an organization to provide one-stop and seamless services across the Group that cover activities from investment discovery to investment execution, management support for corporate value creation, support for DX promotion and investor relations activities in order to enhance shareholders value, and eventually acquiring a competitive edge that can hardly be imitated by rival firms.

Specifically, as a municipal DX-related service, we have released *Gyaku Propo* (which literally means reverse solicitation proposal), a public-private co-creation platform service co-created with Public dots & Company Co. Several projects have already been adopted and launched. As a project derived from the *Gyaku Propo* service, we have also started Japan's first demonstration experiment on a vaccination reservation system using My Number Card for Hino Town, Shiga Prefecture based on a COVID-19 vaccination reservation system provided by the Group. The above-mentioned initiatives are based on co-creative relationships with local governments, and are beginning to attract attention from officials of the national government and many other local governments. We are aiming to develop the *Gyaku Propo* service and monetize it not only as a service for the municipal DX but also as a service specifically designed as a risk sharing scheme in developing a new business with a large enterprise.

Scala Partners, Inc. is actively building co-creative relationships with partner companies and local governments through the operation of KomfortaWorkation, a workation facility introduction website. For example, it is proposing “a new working style that is not constrained by where to work” suitable for the post COVID-19 era, as well as developing a service called “You can learn anywhere,” which enables children under compulsory education to learn at any place by utilizing online classes. In addition, it is developing experience services aimed at creating a “concerned population” (people who are diversely involved with the region) by allowing people to experience the appeal of the community at home and increasing the number of fans of the region. Furthermore, with the state of emergency continuing due to the COVID-19 pandemic, and with the aim of creating opportunities for children to experience society, we have launched a website titled *Shigoto no Tobira* (which literally means the door to work), which offers online social studies excursions through video. This website is a product of a joint project undertaken by Gakken Kids Net (operated by ONE PUBLISHING Co., Ltd.), a content portal site for elementary and junior high school students, and KIDS Challenge EXPO (operated by General Incorporated Foundation Jinsen Shidokai and Scala Partners, Inc.), the goal of which is to achieve regional revitalization through education and industry. Going forward, we will aim at further growing by rolling out the services that will orient people toward “a new lifestyle,” “a new work style” and “a new learning style.”

SCL Capital LLC has been endeavoring to boost the value of SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, through its administration and membership of the partnership by, for example, providing IR support and promoting digital transformation at ARCHITECTS STUDIO JAPAN INC., from which it had subscribed shares of the Partnership through a third-party allotment.

As mentioned above, we are aggressively operating and developing new businesses with a potential of generating substantial revenue in the future. However, revenue increase through these businesses is set as a medium-term goal. As a result, the segment revenue was 84 million yen (up 127.6% year on year) with segment loss before allocation of corporate expenses of 153 million yen (compared with segment loss of 183 million yen a year earlier) and segment loss after allocation of corporate expenses of 387 million yen (compared with segment loss of 383 million yen a year earlier), due primarily to increased upfront investment costs, such as development costs, personnel expenses and other expenses for the sake of future growth.

In terms of the non-GAAP measures adjusted for expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary, segment loss before allocation of corporate expenses was 134 million yen (compared with segment loss of 72 million yen a year earlier) and segment loss after allocation of corporate expenses was 369 million yen (compared with segment loss of 273 million yen a year earlier).

(2) Financial Position

Assets

Total assets amounted to 20,330 million yen at the end of the current fiscal year, a decrease of 4,582 million yen over the end of the previous fiscal year. This was mainly due to the transfer of the shares of SOFTBRAIN, which resulted in a decrease of 17,423 million yen in assets of related businesses excluded from the scope of consolidation and an increase of 10,545 million yen in cash and cash equivalents as the consideration for the transfer. Furthermore, income taxes receivable increased by 1,482 million yen, which represents our right of refund of income taxes paid in conjunction with the above transaction.

Other factors included an increase of 816 million yen in right-of-use assets due to leasing offices to consolidate dispersed business bases to seek for more integrated group management, and an increase of 202 million yen in securities related to investment business due to investment in securities through funds in the Incubation & Investment Business.

Liabilities

Liabilities totaled 9,859 million yen, a decrease of 4,710 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 6,628 million yen in liabilities of related businesses excluded from the scope of consolidation due to the transfer of shares of SOFTBRAIN.

Other factors included a decrease of 1,443 million yen in bonds and borrowings under current liabilities and a decrease of 1,215 million yen in bonds and borrowings under non-current liabilities due to prepayments resulting from the sale of the shares of SOFTBRAIN as well as scheduled repayments, which were partially offset by an increase in long-term borrowings and bonds newly drawn down and issued in view of securing liquidity.

Equity

Equity totaled 10,470 million yen, an increase of 127 million yen over the end of the previous fiscal year. This was mainly due to the recording of 3,065 million yen in profit attributable to owners of the parent, including gain on sale of shares of subsidiaries of 2,435 million yen due to the sale of SOFTBRAIN, despite a decrease of 2,761 million yen in non-controlling interests due to loss of control of subsidiaries resulting from the exclusion of related businesses from the scope of consolidation due to the transfer of the shares of SOFTBRAIN.

Other factors included an increase of 28 million yen in share capital resulting from the issuance of new shares as compensation for restricted stock and the exercise of stock acquisition rights, an increase of 32 million yen in capital surplus, and a decrease of 526 million yen in retained earnings due to dividend payments.

(3) Cash Flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 9,809 million yen, a net increase of 1,986 million yen over the end of the previous fiscal year.

Cash flows and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 720 million yen (compared with net cash provided of 1,131 million yen in the previous fiscal year). This was mainly due to an increase in cash inflows from depreciation and amortization of 982 million yen, a decrease in trade and other receivables of 461 million yen, and an increase in trade and other payables of 391 million yen, while there were cash outflows from a gain on sale of shares in a subsidiary of 2,435 million yen, profit before tax from discontinued operations of 2,855 million yen, and income taxes paid of 1,746 million yen due to the sale of SOFTBRAIN shares.

Cash flows from investing activities

Net cash provided by investing activities totaled 4,429 million yen (compared with net cash used of 1,428 million yen in the previous fiscal year). This was mainly due to an increase in cash inflows from proceeds of 5,652 million yen from sale of shares of subsidiaries resulting in change in scope of consolidation due to the sale of shares of SOFTBRAIN, while there were cash outflows from purchase of intangible assets of 632 million yen, purchase of investment securities of 232 million yen and purchase of shares of subsidiaries resulting in change in scope of consolidation of 65 million yen.

Cash flows from financing activities

Net cash used in financing activities totaled 3,160 million yen (compared with net cash provided of 1,715 million yen in the previous fiscal year). This was mainly due to repayments of long-term borrowings of 2,309 million yen and redemption of bonds of 620 million yen due to prepayments resulting from the sale of the shares of SOFTBRAIN as well as scheduled repayments, which were partially offset by proceeds from newly obtained long-term borrowings and newly issued bonds of 740 million yen and 350 million yen, respectively.

Other factors included a net decrease in short-term borrowings of 298 million yen, repayments of lease liabilities of 549 million yen, and dividends paid of 524 million yen.

Reference: Cash flow indicators

| | FY6/17 | FY6/18 | FY6/19 | FY6/20 | FY6/21 |
|-----------------------------------------------------------------------------------|--------|--------|--------|--------|--------|
| Ratio of equity attributable to owners of parent to total assets (%) | 40.1 | 39.7 | 37.5 | 29.7 | 50.0 |
| Market value ratio of equity attributable to owners of parent to total assets (%) | 94.7 | 114.3 | 84.2 | 47.9 | 65.4 |
| Interest-bearing debt to cash flow ratio (years) | 6.3 | 3.4 | 3.1 | 10.2 | 11.9 |
| Interest coverage ratio (times) | 37.0 | 83.7 | 80.7 | 41.0 | 15.2 |

Ratio of equity attributable to owners of parent to total assets: $\text{Equity attributable to owners of parent} / \text{Total assets}$

Market value ratio of equity attributable to owners of parent to total assets: $\text{Market capitalization} / \text{Total assets}$

Interest-bearing debt to cash flow ratio: $\text{Interest-bearing debt} / \text{Cash flows}$

Interest coverage ratio: $\text{Cash flows} / \text{Interest payments}$

Notes: 1. All indices are calculated based on consolidated figures.

2. Market capitalization is calculated based on the number of outstanding shares excluding treasury shares.

3. Cash flows are based on "Net cash provided by (used in) operating activities."

4. Interest-bearing debt includes all debt on the consolidated statement of financial position that incur interest.

(4) Outlook

The environment surrounding society and economy has changed drastically due to the COVID-19 infection since the spring of 2020. As for the outlook for the fiscal year ending June 30, 2022, the business environment surrounding the Group is expected to remain uncertain due to concerns about the reemergence of the COVID-19 infection, though there are signs of a recovery in economic activities due to measures to prevent the spread of the disease such as the establishment of an epidemic prevention system and the spread of vaccination against COVID-19.

Under such circumstances, the Group, in the third year of the Mid-term Management Plan "COMMIT5000" made in August 2019, aims to become a "value co-creation company solving social problems with clients through

business” as stated in this plan. Based on three capabilities that have been developed in Scala: (1) Capability to determine real issues; (2) Capability to discover hidden value of resources; and (3) Capability to maximize value by proposing and executing optimal combination of issues and resources, Scala will continue to provide services to companies, governments and municipalities in Japan and overseas and further enhance our existing businesses.

In the IT/AI/IoT/DX Business segment, we will focus on providing services related to AI/IoT, and the digital transformation (DX), and also on planning and developing the IT services, looking ahead to the post-coronavirus era.

Through our approach to management with a focus on the value co-creation management support, we will propose company-wide DX that leads to increased corporate value and develop the provision of packaged solution such as SaaS/ASP services that can be flexibly customized. In addition, we will provide local governments and residents with a user-friendly and efficient system through digitalization utilizing IT/AI/IoT technology in cooperation with services provided by partner companies such as “xID.”

We will continue to focus on our existing core services such as “i-ask,” a FAQ system; “i-livechat,” a web chat system; and “i-assist,” a web chatbot system, as they are in high demand from companies amid the COVID-19 pandemic, and will further improve their convenience.

The Customer Support Business mainly performs inbound contact center operations for Hikari Tsushin group companies. In addition, we will start to build a system to provide the customer support services associated with a business co-created and developed which the Group promotes, and we will build a new call center business base with considerable cost advantages.

In the EC Business, we will create a website where TCG users gather the most by transmitting various information on TCG, leveraging the competitive advantage that we hold due to the use of internal operations for logistics, systems, sales and purchases, and marketing, based on “Yuyu-Tei,” an EC website that we operate. We also believe that the launch of the smartphone app in the current fiscal year will enable us to deliver compelling trading experiences to users as the leading TCG online shop.

In HR & Education Business, we will provide better services for students and companies by responding flexibly to the changes in the way of job hunting due to the COVID-19 pandemic. In the field of preschool education, we will work on the operation of new facilities and branding.

In Incubation & Investment Business, we will promote the *Gyaku Propo* service and expect to facilitate co-creation among companies and local governments to solve social issues in a new and different way. In addition, we will accelerate the speed of investment by enhancing our system to provide one-stop and seamless services for M&A and other investments.

As a result of the above, for the fiscal year ending June 30, 2022, the Group expects to report revenue of 12,000 to 20,000 million yen with operating profit of 450 to 1,200 million yen, profit before tax of 400 to 1,150 million yen, profit of 300 to 800 million yen, and profit attributable to owners of parent of 300 to 800 million yen.

(5) Basic Policy for Profit Distribution and Dividend Plans for the Current and Next Fiscal Years

Scala regards the distribution of profits to shareholders as one of its priorities. The basic policy is to make stable dividend payments while maintaining sufficient retained earnings to strengthen financial soundness and expand business operations in the future.

Scala has consistently paid interim and year-end dividends. The decision-making bodies for distributions of retained earnings are the general meeting of shareholders for year-end dividends and the Board of Directors for interim dividends.

For the current fiscal year, the Group plans to pay an annual dividend of 34 yen, consisting of a year-end dividend of 18 yen, which will require approval at the general meeting of shareholders scheduled for September 27, 2021, in addition to an interim dividend of 16 yen, which has already been paid.

For the fiscal year ending June 30, 2022, the Group plans to pay the interim and year-end dividends of 18 yen each, resulting in an annual dividend of 36 yen, an increase for the thirteenth consecutive year, in accordance with the above basic policy and to commemorate the 30th anniversary of the Company’s foundation, as well as to return a portion of profits earned from investments.

2. Basic Approach to the Selection of Accounting Standards

The Group has adopted IFRS since the fiscal year ended June 30, 2016 for the purpose of enhancing international comparability and the usefulness of financial information in capital markets.

3. Consolidated Financial Statements and Notes**(1) Consolidated Statement of Financial Position**

| | (Thousands of yen) | |
|-----------------------------------------------|---------------------------------|---------------------------------|
| | FY6/20 (As of Jun. 30, 2020) | FY6/21 (As of Jun. 30, 2021) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 7,822,725 | 9,809,559 |
| Trade and other receivables | 3,456,765 | 1,412,951 |
| Inventories | 200,857 | 198,479 |
| Other current assets | 300,469 | 1,570,200 |
| Total current assets | <u>11,780,818</u> | <u>12,991,192</u> |
| Non-current assets | | |
| Property, plant and equipment | 706,048 | 623,252 |
| Right-of-use assets | 2,774,055 | 2,525,349 |
| Goodwill | 7,086,427 | 1,949,745 |
| Intangible assets | 1,242,517 | 175,906 |
| Other financial assets | 1,149,298 | 1,378,871 |
| Securities related to investment business | - | 202,981 |
| Deferred tax assets | 162,314 | 478,312 |
| Other non-current assets | 11,442 | 4,397 |
| Total non-current assets | <u>13,132,103</u> | <u>7,338,818</u> |
| Total assets | <u>24,912,921</u> | <u>20,330,010</u> |
| Liabilities and equity | | |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 2,319,295 | 697,097 |
| Bonds and borrowings | 4,798,660 | 3,355,217 |
| Lease liabilities | 526,892 | 481,420 |
| Income taxes payable | 101,543 | 44,164 |
| Other current liabilities | 421,882 | 333,951 |
| Total current liabilities | <u>8,168,274</u> | <u>4,911,850</u> |
| Non-current liabilities | | |
| Bonds and borrowings | 3,833,691 | 2,618,594 |
| Lease liabilities | 2,372,223 | 2,121,004 |
| Deferred tax liabilities | 60,926 | 75,201 |
| Other non-current liabilities | 134,635 | 132,382 |
| Total non-current liabilities | <u>6,401,476</u> | <u>4,947,182</u> |
| Total liabilities | <u>14,569,751</u> | <u>9,859,032</u> |
| Equity | | |
| Equity attributable to owners of parent | | |
| Share capital | 1,721,239 | 1,750,027 |
| Capital surplus | 902,874 | 934,989 |
| Retained earnings | 4,634,951 | 7,173,991 |
| Treasury shares | (9) | (9) |
| Other components of equity | 143,932 | 303,622 |
| Total equity attributable to owners of parent | <u>7,402,989</u> | <u>10,162,621</u> |
| Non-controlling interests | 2,940,181 | 308,355 |
| Total equity | <u>10,343,170</u> | <u>10,470,977</u> |
| Total liabilities and equity | <u>24,912,921</u> | <u>20,330,010</u> |

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statement of Income

| | (Thousands of yen) | |
|-----------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| | FY6/20 | FY6/21 |
| | (Jul. 1, 2019 – Jun. 30, 2020) | (Jul. 1, 2020 – Jun. 30, 2021) |
| Continuing operations | | |
| Revenue | 7,624,625 | 8,734,619 |
| Cost of sales | (4,757,876) | (5,098,940) |
| Gross profit | 2,866,749 | 3,635,678 |
| Selling, general and administrative expenses | (2,603,137) | (3,505,588) |
| Other income | 36,248 | 134,728 |
| Other expenses | (72,757) | (48,565) |
| Operating profit before gains/losses on securities related to investment business | 227,102 | 216,253 |
| Gains/losses on securities related to investment business | - | 4,082 |
| Operating profit | 227,102 | 220,336 |
| Finance income | 14,301 | 19,146 |
| Finance costs | (38,245) | (50,886) |
| Profit before tax | 203,158 | 188,595 |
| Income tax expense | (58,273) | 266,389 |
| Profit from continuing operations | 144,885 | 454,985 |
| Discontinued operations | | |
| Profit from discontinued operations | 465,197 | 2,770,842 |
| Profit | 610,082 | 3,225,828 |
| Profit attributable to | | |
| Owners of parent | 321,168 | 3,065,161 |
| Non-controlling interests | 288,913 | 160,666 |
| Total | 610,082 | 3,225,828 |
| Earnings per share | | |
| Basic earnings per share (Yen) | | |
| Continuing operations | 6.20 | 26.18 |
| Discontinued operations | 12.26 | 148.44 |
| Diluted earnings per share (Yen) | | |
| Continuing operations | 6.14 | 25.96 |
| Discontinued operations | 12.14 | 147.19 |

Consolidated Statement of Comprehensive Income

| | (Thousands of yen) | |
|-------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| | FY6/20 | FY6/21 |
| | (Jul. 1, 2019 – Jun. 30, 2020) | (Jul. 1, 2020 – Jun. 30, 2021) |
| Profit | 610,082 | 3,225,828 |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Financial assets measured at fair value through other comprehensive income | 62,278 | 162,251 |
| Other comprehensive income, net of tax | 62,278 | 162,251 |
| Comprehensive income | 672,360 | 3,388,079 |
| Comprehensive income attributable to | | |
| Owners of parent | 383,561 | 3,227,417 |
| Non-controlling interests | 288,799 | 160,662 |
| Comprehensive income | 672,360 | 3,388,079 |

(3) Consolidated Statement of Changes in Equity

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

(Thousands of yen)

| | Equity attributable to owners of parent | | | | | |
|-------------------------------------------------------|-----------------------------------------|-----------------|-------------------|-----------------|----------------------------|-----------------------------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Other components of equity | Total equity attributable to owners of parent |
| Balance as of Jul. 1, 2019 | 1,607,988 | 556,277 | 4,762,540 | (9) | 83,796 | 7,010,593 |
| Profit | - | - | 321,168 | - | - | 321,168 |
| Other comprehensive income | - | - | - | - | 62,392 | 62,392 |
| Total comprehensive income | - | - | 321,168 | - | 62,392 | 383,561 |
| Increase (decrease) by business combination | - | - | - | - | - | - |
| Share-based remuneration transactions of subsidiaries | - | - | - | - | - | - |
| Dividends | - | - | (448,757) | - | - | (448,757) |
| Dividends to non-controlling interests | - | - | - | - | - | - |
| Exercise of share acquisition rights | 96,251 | 96,251 | - | - | (2,003) | 190,498 |
| Issuance of new shares | - | 239,365 | - | - | - | 239,365 |
| Issuance of share acquisition rights | - | - | - | - | 629 | 629 |
| Forfeiture of share acquisition rights | - | 882 | - | - | (882) | - |
| Share-based remuneration transactions | 17,000 | 8,499 | - | - | - | 25,499 |
| Acquisition and disposal of non-controlling interests | - | 1,598 | - | - | - | 1,598 |
| Total transactions with owners | 113,251 | 346,597 | (448,757) | - | (2,256) | 8,834 |
| Balance as of Jun. 30, 2020 | 1,721,239 | 902,874 | 4,634,951 | (9) | 143,932 | 7,402,989 |

| | Non-controlling interests | Total equity |
|-------------------------------------------------------|---------------------------|--------------|
| Balance as of Jul. 1, 2019 | 2,597,677 | 9,608,270 |
| Profit | 288,913 | 610,082 |
| Other comprehensive income | (113) | 62,278 |
| Total comprehensive income | 288,799 | 672,360 |
| Increase (decrease) by business combination | 197,669 | 197,669 |
| Share-based remuneration transactions of subsidiaries | (23,102) | (23,102) |
| Dividends | - | (448,757) |
| Dividends to non-controlling interests | (124,593) | (124,593) |
| Exercise of share acquisition rights | - | 190,498 |
| Issuance of new shares | - | 239,365 |
| Issuance of share acquisition rights | - | 629 |
| Forfeiture of share acquisition rights | - | - |
| Share-based remuneration transactions | - | 25,499 |
| Acquisition and disposal of non-controlling interests | 3,731 | 5,330 |
| Total transactions with owners | 53,705 | 62,540 |
| Balance as of Jun. 30, 2020 | 2,940,181 | 10,343,170 |

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

(Thousands of yen)

| | Equity attributable to owners of parent | | | | | |
|---------------------------------------------------------------------------|-----------------------------------------|-----------------|-------------------|-----------------|----------------------------|-----------------------------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Other components of equity | Total equity attributable to owners of parent |
| Balance as of Jul. 1, 2020 | 1,721,239 | 902,874 | 4,634,951 | (9) | 143,932 | 7,402,989 |
| Profit | - | - | 3,065,161 | - | - | 3,065,161 |
| Other comprehensive income | - | - | - | - | 162,255 | 162,255 |
| Total comprehensive income | - | - | 3,065,161 | - | 162,255 | 3,227,417 |
| Establishment of subsidiaries with non-controlling interests | - | - | - | - | - | - |
| Change due to loss of control of subsidiaries | - | - | - | - | - | - |
| Share-based remuneration transactions of subsidiaries | - | - | - | - | - | - |
| Dividends | - | - | (526,261) | - | - | (526,261) |
| Exercise of share acquisition rights | 13,640 | 13,640 | - | - | (374) | 26,907 |
| Forfeiture of share acquisition rights | - | 2,051 | - | - | (2,051) | - |
| Share-based remuneration transactions | 15,147 | 16,073 | - | - | - | 31,220 |
| Acquisition and disposal of non-controlling interests | - | 348 | - | - | - | 348 |
| Transfer from accumulated other comprehensive income to retained earnings | - | - | 139 | - | (139) | - |
| Total transactions with owners | 28,787 | 32,114 | (526,122) | - | (2,564) | (467,785) |
| Balance as of Jun. 30, 2021 | 1,750,027 | 934,989 | 7,173,991 | (9) | 303,622 | 10,162,621 |

| | Non-controlling interests | Total equity |
|---------------------------------------------------------------------------|---------------------------|--------------|
| Balance as of Jul. 1, 2020 | 2,940,181 | 10,343,170 |
| Profit | 160,666 | 3,225,828 |
| Other comprehensive income | (4) | 162,251 |
| Total comprehensive income | 160,662 | 3,388,079 |
| Establishment of subsidiaries with non-controlling interests | 13,900 | 13,900 |
| Change due to loss of control of subsidiaries | (2,761,838) | (2,761,838) |
| Share-based remuneration transactions of subsidiaries | (46,011) | (46,011) |
| Dividends | - | (526,261) |
| Exercise of share acquisition rights | - | 26,907 |
| Forfeiture of share acquisition rights | - | - |
| Share-based remuneration transactions | - | 31,220 |
| Acquisition and disposal of non-controlling interests | 1,462 | 1,811 |
| Transfer from accumulated other comprehensive income to retained earnings | - | - |
| Total transactions with owners | (2,792,487) | (3,260,272) |
| Balance as of Jun. 30, 2021 | 308,355 | 10,470,977 |

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

| | FY6/20 (Jul. 1, 2019 – Jun. 30, 2020) | FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) |
|--------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Cash flows from operating activities | | |
| Profit before tax | 203,158 | 188,595 |
| Profit before tax from discontinued operations | 704,686 | 2,855,389 |
| Depreciation and amortization | 936,471 | 982,971 |
| Loss on retirement of non-current assets | 35,577 | 41,380 |
| Loss (gain) on securities related to investment business | - | (4,082) |
| Loss (gain) on sale of investment securities | - | (4,797) |
| Loss (gain) on valuation of investment securities | 38,838 | - |
| Loss (gain) on sale of shares of subsidiaries | - | (2,435,747) |
| Finance income | (14,486) | (19,563) |
| Finance costs | 40,362 | 52,409 |
| Decrease (increase) in trade and other receivables | 2,092 | 461,415 |
| Increase (decrease) in trade and other payables | (39,626) | 391,633 |
| Decrease (increase) in inventories | (21,473) | (38,810) |
| Other | (68,050) | 25,222 |
| Subtotal | 1,817,548 | 2,496,018 |
| Interest and dividends received | 14,202 | 19,289 |
| Interest paid | (27,568) | (47,543) |
| Income taxes refund (paid) | (673,014) | (1,746,949) |
| Net cash provided by (used in) operating activities | 1,131,167 | 720,814 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (311,728) | (137,953) |
| Purchase of intangible assets | (560,258) | (632,855) |
| Purchase of investment securities | (100,717) | (232,375) |
| Proceeds from sale of investment securities | - | 49,253 |
| Payments for loans receivable | (504,404) | (460) |
| Collection of loans receivable | 510,727 | 4,366 |
| Payments of leasehold and guarantee deposits | (251,330) | (221,757) |
| Proceeds from refund of leasehold and guarantee deposits | 79,432 | 34,315 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (287,214) | (65,100) |
| Purchase of investments accounted for using equity method | - | (18,915) |
| Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation | - | 5,652,058 |
| Other | (2,930) | (1,420) |
| Net cash provided by (used in) investing activities | (1,428,424) | 4,429,154 |

| | (Thousands of yen) | |
|--------------------------------------------------------------|--------------------------------|--------------------------------|
| | FY6/20 | FY6/21 |
| | (Jul. 1, 2019 – Jun. 30, 2020) | (Jul. 1, 2020 – Jun. 30, 2021) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 2,787,261 | (298,336) |
| Proceeds from long-term borrowings | 1,412,000 | 740,545 |
| Repayments of long-term borrowings | (1,580,537) | (2,309,263) |
| Redemption of bonds | (420,000) | (620,000) |
| Proceeds from issuance of bonds | 150,000 | 350,000 |
| Repayments of lease liabilities | (231,954) | (549,813) |
| Proceeds from exercise of share acquisition rights | 190,498 | 57,201 |
| Proceeds from issuance of share acquisition rights | 629 | - |
| Dividends paid | (448,416) | (524,111) |
| Dividends paid to non-controlling interests | (133,785) | (659) |
| Other | (10,011) | (5,938) |
| Net cash provided by (used in) financing activities | 1,715,684 | (3,160,376) |
| Effect of exchange rate changes on cash and cash equivalents | (909) | (2,758) |
| Net increase (decrease) in cash and cash equivalents | 1,417,517 | 1,986,833 |
| Cash and cash equivalents at beginning of period | 6,393,530 | 7,822,725 |
| Increase in cash and cash equivalents by share exchanges | 11,677 | - |
| Cash and cash equivalents at end of period | 7,822,725 | 9,809,559 |

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table.

Cash flows from discontinued operations are described in Note (Discontinued Operations).

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

The registered address of its head office is disclosed on its corporate website (<https://scalagr.jp/>).

Scala's consolidated financial statements for the twelve months ended June 30, 2021 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group mainly provides SaaS/ASP services supporting communications between corporations and individuals through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business.

For more information, please refer to "Segment Information, (1) Overview of reportable segments" in (5) Notes to Consolidated Financial Statements. In the second quarter of the fiscal year ended June 30, 2021, the businesses that Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation. The transfer of all shares of SOFTBRAIN held by Scala was complete in the third quarter. For more information, please refer to "Discontinued Operations" and "Transfer of Subsidiary's Shares" in (5) Notes to Consolidated Financial Statements.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with IFRS pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Ordinance.

(2) Basis of measurement

The Group's consolidated financial statements are prepared on a cost basis, except specific financial instruments and other items that are measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is Scala's functional currency, and figures are rounded down to the nearest thousand yen.

(4) Reclassifications

Profit or loss from businesses reclassified as a discontinued operation is presented on the consolidated statement of income as the amount, net of income tax expense, below "Profit from continuing operations." For businesses reclassified as a discontinued operation, partial reclassifications were made on the consolidated statement of income of the previous fiscal year, the consolidated statement of cash flows of the previous fiscal year, and relevant notes to consolidated financial statements.

Cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities for the consolidated statement of cash flows are presented as the totals of cash flows arising from both continuing operations and discontinued operations.

3. Significant Accounting Policies

The significant accounting policies applied for the consolidated financial statements for the current fiscal year remain the same as those applied for the consolidated financial statements for the previous fiscal year except for the following items.

Discontinued Operations

The Group recognizes as a discontinued operation a component of an entity that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The post-tax gain or loss on the discontinued operation and that recognized on the disposal of the disposal groups constituting the discontinued operation is presented as “Profit (loss) from discontinued operations” separately from continuing operations in the consolidated statement of income with the disclosures for the prior period being restated accordingly.

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires the management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results, however, could differ from these estimates.

These estimates and underlying assumptions are consistently reviewed. The effect of changes in accounting estimates is recognized in the reporting period in which the changes are made and in any future reporting periods affected.

The management has made estimates and judgments concerning the following matters that have a material impact on the amounts reported in the consolidated financial statements.

- Useful lives and residual values of property, plant and equipment and intangible assets
- Impairment of property, plant and equipment, goodwill and intangible assets
- Accounting for provisions and their measurement
- Recoverability of deferred tax assets

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and that the Board of Directors regularly reviews to make decisions about allocations of corporate resources and assess their performance.

During the second quarter of the current fiscal year, the businesses operated by Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries, which were included in SFA Business and Field Marketing Business, have been reclassified as a discontinued operation and excluded from the segment information for the previous and current fiscal years.

The Group changed its reportable segment structure from the four segments consisting of SaaS/ASP Business, SFA Business, Field Marketing Business, and Customer Support Business to the five segments consisting of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business in the second quarter of the current fiscal year.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through AI, IT, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, and redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan.
- The Customer Support Business provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.
- The HR & Education Business offers recruitment support specialized for athletic students, support for childcare facilities, sports education for children, and foreign personnel placement in the nursing care field.
- The EC Business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages.
- The Incubation & Investment Business provides support for new business development working with private companies in coordination with governments and municipalities, and offers regional revitalization services through projects such as ones promoting relocations to rural areas. In addition, the Incubation & Investment Business makes investment on businesses and investment through associations or other organizations, while continuing value increase and engagement activities on such investment.

(2) Information related to revenue and profit or loss for each reportable segment

| | Reportable segment | | | | | | Adjustments (Note 1) | Amounts shown on consolidated statement of income (Note 4) |
|----------------------------------------------------------|------------------------------|---------------------------------|-------------------------------|----------------|-------------------------------------------|-----------|-------------------------|------------------------------------------------------------------------|
| | IT/AI/IoT/ DX Business | Customer Support Business | HR & Education Business | EC Business | Incubation & Investment Business | Subtotal | | |
| FY6/20 (Jul. 1, 2019 – Jun. 30, 2020) (Thousands of yen) | | | | | | | | |
| Revenue | | | | | | | | |
| Sales to external customers | 4,123,286 | 2,261,894 | 216,158 | 986,023 | 37,262 | 7,624,625 | - | 7,624,625 |
| Inter-segment sales and transfers | 3,118 | 37,798 | 26 | - | - | 40,942 | (40,942) | - |
| Total | 4,126,404 | 2,299,692 | 216,184 | 986,023 | 37,262 | 7,665,568 | (40,942) | 7,624,625 |
| Segment profit (loss) | 832,276 | 29,882 | (139,626) | 95,014 | (383,607) | 433,939 | (206,837) | 227,102 |
| Finance income | | | | | | | | 14,301 |
| Finance costs | | | | | | | | (38,245) |
| Profit before tax | | | | | | | | 203,158 |

Notes: 1. The (206,837) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 3,162 thousand yen and corporate expenses of (210,000) thousand yen which were allocated to discontinued operations.

2. From the second quarter of the current fiscal year, the Group has changed the method for allocating corporate expenses to assess each segment performance more appropriately and allocate them to each segment based on a rational basis. The figures for the previous fiscal year are presented as the amount that reflects this change.

3. In connection with the classification of the SFA Business and the Field Marketing Business as discontinued operations, the amounts in the segment information by business category have been reclassified to reflect continuing operations, which excludes the amounts from discontinued operations. For more information about discontinued operations, please refer to “Discontinued Operations” in Notes to Consolidated Financial Statements.
4. Segment profit is adjusted to be consistent with operating profit presented in the consolidated statement of income.
5. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

| FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) | | | | | | | (Thousands of yen) | |
|---------------------------------------|------------------------------|---------------------------------|-------------------------------|----------------|-------------------------------------------|-----------|-------------------------|------------------------------------------------------------------------|
| | Reportable segment | | | | | | Adjustments (Note 1) | Amounts shown on consolidated statement of income (Note 4) |
| | IT/AI/IoT/ DX Business | Customer Support Business | HR & Education Business | EC Business | Incubation & Investment Business | Subtotal | | |
| Revenue | | | | | | | | |
| Sales to external customers | 4,146,840 | 1,837,624 | 1,353,594 | 1,311,738 | 84,821 | 8,734,619 | - | 8,734,619 |
| Inter-segment sales and transfers | 29,791 | 50,520 | 73,664 | - | 18 | 153,994 | (153,994) | - |
| Total | 4,176,632 | 1,888,144 | 1,427,259 | 1,311,738 | 84,839 | 8,888,613 | (153,994) | 8,734,619 |
| Segment profit (loss) | 756,621 | (12,585) | (144,862) | 162,729 | (387,964) | 373,938 | (153,602) | 220,336 |
| Finance income | | | | | | | | 19,146 |
| Finance costs | | | | | | | | (50,886) |
| Profit before tax | | | | | | | | 188,595 |

- Notes: 1. The (153,602) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 3,897 thousand yen and corporate expenses of (157,500) thousand yen which were allocated to discontinued operations.
2. Corporate expenses are allocated to each reportable segment based on a rational basis.
 3. In connection with the classification of the SFA Business and the Field Marketing Business as discontinued operations, the amounts in the segment information by business category have been reclassified to reflect continuing operations, which excludes the amounts from discontinued operations. For more information about discontinued operations, please refer to “Discontinued Operations” in the Notes to Consolidated Financial Statements.
 4. Segment profit is adjusted to be consistent with operating profit presented in the consolidated statement of income.
 5. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

Discontinued Operations

During the second quarter of the current fiscal year, the businesses operated by Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries have been reclassified as a discontinued operation. Those figures for the previous fiscal year are re-presented as discontinued operations.

(1) Discontinued operations performance

| | FY6/20 (Jul. 1, 2019 – Jun. 30, 2020) | (Thousands of yen) FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) |
|------------------------------------------------|------------------------------------------|----------------------------------------------------------------|
| Profit or loss from discontinued operations | | |
| Revenue | 9,409,273 | 9,515,125 |
| Expense | (8,704,586) | (6,659,735) |
| Profit before tax from discontinued operations | 704,686 | 2,855,389 |
| Income tax expense | (239,489) | (84,547) |
| Profit from discontinued operations | 465,197 | 2,770,842 |

Note: Revenue in FY6/21 includes gain on sale of shares of subsidiaries of 2,435,747 thousand yen resulting from transfer of all shares of SOFTBRAIN Co., Ltd.

(2) Cash flows from discontinued operations

| | FY6/20 (Jul. 1, 2019 – Jun. 30, 2020) | (Thousands of yen) FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) |
|--------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------|
| Cash flows from discontinued operations | | |
| Cash flows from operating activities | 842,769 | (2,545,805) |
| Cash flows from investing activities | (615,210) | 5,094,289 |
| Cash flows from financing activities | (458,876) | 260,507 |
| Effect of exchange rate changes on cash and cash equivalents | (2) | (1,206) |
| Total | (231,320) | 2,807,784 |

Transfer of Subsidiary's Shares

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

(1) Summary of transaction

On March 22, 2021, the Company sold all of its shares in SOFTBRAIN Co., Ltd., which had been a consolidated subsidiary, and thus lost control over the company.

(2) Value received and assets and liabilities involving the loss of control

| | (Thousands of yen) FY6/21 |
|--------------------------------------------------------------|------------------------------|
| Value received | 10,545,954 |
| Component of assets and liabilities when the control is lost | |
| Goodwill | 5,207,192 |
| Other non-current assets | 2,688,339 |
| Cash and cash equivalents | 4,817,531 |
| Other current assets | 4,710,664 |
| Non-current liabilities | (808,216) |
| Current liabilities | (5,819,830) |
| Non-controlling interests | (2,761,838) |
| Associated expenses on sale of subsidiary | (76,364) |
| Gain on sale of shares of subsidiaries | 2,435,747 |

(3) Changes of cash and cash equivalents on the sale of shares of a subsidiary

(Thousands of yen)

| | FY6/21 |
|---------------------------------------------------------------------------|-------------|
| Value received | 10,545,954 |
| Value received by cash | 10,545,954 |
| Associated expenses on the sale of shares of a subsidiary | (76,364) |
| Cash and cash equivalents held when the control is lost | (4,817,531) |
| Change in cash and cash equivalents on the sale of shares of a subsidiary | 5,652,058 |

Per-share Information

Basic earnings per share and diluted earnings per share are as follows.

| | FY6/20 (Jul. 1, 2019 – Jun. 30, 2020) | FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) |
|-----------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Profit attributable to owners of parent (thousands of yen) | | |
| Continuing operations | 107,865 | 459,520 |
| Discontinued operations | 213,303 | 2,605,640 |
| Profit used to calculate diluted earnings per share (thousands of yen) | | |
| Continuing operations | 107,865 | 459,520 |
| Discontinued operations | 213,303 | 2,605,640 |
| Average number of common shares outstanding during the period (shares) | 17,400,867 | 17,553,348 |
| Increase in the number of common shares | | |
| Share acquisition rights (shares) | 168,934 | 148,731 |
| Average number of diluted common shares outstanding during the period (shares) | 17,569,802 | 17,702,079 |
| Basic earnings per share (yen) | | |
| Continuing operations | 6.20 | 26.18 |
| Discontinued operations | 12.26 | 148.44 |
| Diluted earnings per share (yen) | | |
| Continuing operations | 6.14 | 25.96 |
| Discontinued operations | 12.14 | 147.19 |

Material 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 International Financial Reporting Standards (IFRS), for the convenience of readers who prefer an English translation.