

Consolidated Financial Results for the Fiscal Year Ended June 30, 2023

[Japanese GAAP]

August 14, 2023

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Securities code: 9417

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Listing: Tokyo Stock Exchange

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Scheduled date of Annual General Meeting of Shareholders: September 26, 2023

Scheduled date of payment of dividend: September 27, 2023

Scheduled date of filing of Annual Securities Report: September 27, 2023

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. Consolidated Financial Results for the Fiscal Year Ended June 30, 2023 (July 1, 2022 to June 30, 2023)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---------------------------------|-----------------|------|------------------|---|-----------------|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended Jun. 30, 2023 | 3,873 | 1.8 | (74) | - | (75) | - | (48) | - |
| Fiscal year ended Jun. 30, 2022 | 3,805 | 10.4 | (15) | - | 8 | - | 1 | - |

Note: Comprehensive income (millions of yen) Fiscal year ended Jun. 30, 2023: (111) (-%)
Fiscal year ended Jun. 30, 2022: 22 (-%)

| | Net income per share | Diluted net income per share | Return on equity | Ordinary profit to total assets | Operating profit to net sales |
|---------------------------------|----------------------|------------------------------|------------------|---------------------------------|-------------------------------|
| | Yen | Yen | % | % | % |
| Fiscal year ended Jun. 30, 2023 | (4.80) | - | (2.3) | (1.9) | (1.9) |
| Fiscal year ended Jun. 30, 2022 | 0.11 | 0.11 | 0.1 | 0.2 | (0.4) |

Reference: Equity in earnings of affiliates (millions of yen) Fiscal year ended Jun. 30, 2023: - Fiscal year ended Jun. 30, 2022: -

Note: Diluted net income per share for the fiscal year ended June 30, 2023 is not presented, because net loss was posted despite the existence of latent shares with a dilution effect.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| As of Jun. 30, 2023 | 3,866 | 2,441 | 54.9 | 204.16 |
| As of Jun. 30, 2022 | 4,120 | 2,451 | 51.8 | 212.60 |

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2023: 2,121 As of Jun. 30, 2022: 2,134

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Fiscal year ended Jun. 30, 2023 | (21) | (54) | (148) | 1,239 |
| Fiscal year ended Jun. 30, 2022 | 596 | (1,175) | 1,271 | 1,463 |

2. Dividends

| | Dividend per share | | | | | Total dividends | Dividend payout ratio (consolidated) | Dividends on equity (consolidated) |
|--|--------------------|----------|--------|----------|----------|--------------------|--------------------------------------|------------------------------------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total | | | |
| Fiscal year ended Jun. 30, 2022 | Yen - | Yen 0.00 | Yen - | Yen 8.00 | Yen 8.00 | Millions of yen 80 | % 7,272.7 | % 3.8 |
| Fiscal year ended Jun. 30, 2023 | Yen - | Yen 0.00 | Yen - | Yen 8.00 | Yen 8.00 | Millions of yen 83 | % (166.7) | % 3.8 |
| Fiscal year ending Jun. 30, 2024 (forecasts) | Yen - | Yen 0.00 | Yen - | Yen 8.00 | Yen 8.00 | | % 512.8 | |

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2024 (July 1, 2023 to June 30, 2024)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share |
|------------|-----------------|------|------------------|---|-----------------|---|---|---|----------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| First half | 1,812 | 3.6 | (256) | - | (260) | - | (222) | - | (21.98) |
| Full year | 4,454 | 15.0 | 23 | - | 16 | - | 15 | - | 1.56 |

*** Notes**

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

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

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

(3) Number of shares outstanding (common shares)

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

| | | | |
|----------------------|-------------------|----------------------|-------------------|
| As of Jun. 30, 2023: | 10,679,800 shares | As of Jun. 30, 2022: | 10,264,800 shares |
|----------------------|-------------------|----------------------|-------------------|
- 2) Number of treasury shares at the end of the period

| | | | |
|----------------------|----------------|----------------------|----------------|
| As of Jun. 30, 2023: | 287,490 shares | As of Jun. 30, 2022: | 225,490 shares |
|----------------------|----------------|----------------------|----------------|
- 3) Average number of shares outstanding during the period

| | | | |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Fiscal year ended Jun. 30, 2023: | 10,111,524 shares | Fiscal year ended Jun. 30, 2022: | 10,039,238 shares |
|----------------------------------|-------------------|----------------------------------|-------------------|

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2023 (July 1, 2022 to June 30, 2023)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|---------------------------------|-----------------|-------|------------------|-------|-----------------|-------|-----------------|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended Jun. 30, 2023 | 3,112 | 2.8 | 104 | 573.8 | 156 | 291.2 | 116 | 207.2 |
| Fiscal year ended Jun. 30, 2022 | 3,026 | (2.9) | 15 | - | 39 | - | 37 | - |

| | Net income per share | Diluted net income per share |
|---------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Fiscal year ended Jun. 30, 2023 | 11.47 | 11.46 |
| Fiscal year ended Jun. 30, 2022 | 3.76 | 3.75 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| As of Jun. 30, 2023 | 3,505 | 2,302 | 65.7 | 221.60 |
| As of Jun. 30, 2022 | 3,569 | 2,135 | 59.8 | 212.74 |

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2023: 2,302 As of Jun. 30, 2022: 2,135

* The current financial report is not subject to audit by certified public accountants or auditing firm.

* Explanation of appropriate use of earnings forecast 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 Smartvalue's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to the section "1. Overview of Results of Operations, (4) Outlook" on page 5 of the attachments regarding preconditions or other related matters for the forecasts.

Contents of Attachments

| | |
|--|----|
| 1. Overview of Results of Operations | 2 |
| (1) Results of Operations | 2 |
| (2) Financial Position | 4 |
| (3) Cash Flows | 5 |
| (4) Outlook | 5 |
| 2. Basic Approach to the Selection of Accounting Standards | 6 |
| 3. Consolidated Financial Statements and Notes | 7 |
| (1) Consolidated Balance Sheet | 7 |
| (2) Consolidated Statements of Income and Comprehensive Income | 9 |
| (3) Consolidated Statement of Changes in Equity | 11 |
| (4) Consolidated Statement of Cash Flows | 13 |
| (5) Notes to Consolidated Financial Statements | 14 |
| Going Concern Assumption | 14 |
| Segment and Other Information | 14 |
| Per-share Information | 17 |
| Subsequent Events | 17 |

1. Overview of Results of Operations

(1) Results of Operations

The Japanese economy continued to slowly recover to normal as many pandemic restrictions ended and the overall economy rebounded along with the return of normal economic and social activities and the benefits of government measures to support the economy. Geopolitical risk involving the prolonged Ukraine conflict and other events increased during the fiscal year. In addition, there are concerns about the risk of a downturn in the economies of other countries caused by the high cost of resources and raw materials, the semiconductor shortage, and other factors. There are also concerns about inflation, limitations on supplies of many items, financial and capital market volatility and other items. As a result, the outlook for the economy remains unclear.

In this challenging business climate, the activities of the Smartvalue Group are guided by the mission of “combining ‘smart’ systems and technologies to create social systems that can thrive for many years.”

In the fiscal year that ended in June 2023, there were numerous measures that began in the previous fiscal year to improve sales and earnings, such as actions to operate more efficiently and cut costs wherever possible. In addition, there were more activities to generate monthly recurring revenue (MRR) in the cloud solutions business, shift to a business model capable of sustained growth, and create a new profit structure from a medium to long-term perspective.

In the Smart Venues segment, preparations are progressing generally as planned for generating sales and earnings after the 2025 opening of Kobe Arena (note 1). Results of operations in this segment reflect ongoing investments needed to start this business.

Consolidated net sales increased 1.8% to 3,873 million yen. There was an operating loss of 74 million yen compared with a loss of 15 million yen one year earlier, an ordinary loss of 75 million yen compared with a profit of 8 million yen one year earlier, and loss attributable to owners of parent of 48 million yen compared with a profit of 1 million yen one year earlier.

In the cloud solutions business, we are continuing to take actions for steady growth of MRR in the SaaS market, where growth is expected to continue, and for cutting expenses. In the Smart Venues segment, which we plan to make our third core business with Digital Government and Mobility Services, we are focusing on the creation of services that can play a role in creating digital communities, such as activities for smart cities linked to the Kobe Arena, which is to open in 2025. The objective of these initiatives is the creation of a profit model that can be a driver of more growth.

Business segment performance was as follows. As we have revised reportable segments during the fiscal year, comparisons of segment performance are based on the revised segments. For more information, please see “3. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements, Segment and Other Information.”

Digital Government

This segment provides Gabukura (note 2), a cloud suite for local governments that is designed to increase transparency, participation and linkage of local government digital transformation open government (note 3).

An increasing number of governments in Japan are using online procedures and other digital operations. As a result, the shift to the cloud is gaining momentum, including use of the government cloud (note 4) and digital marketplace (note 5). To meet needs involving the increasing use of digital technologies in the public sector, Gabukura is a cloud suite for the dissemination of information by local governments as governments continue to use digital technologies for the transition to a new concept for public services. This cloud suite has three components. First is Smart-L-Gov, CMS (note 6) for the production and operation of websites. Second is GaaS (note 7) for increasing participation and linkage for online ties between governments and the people they serve. Third is the Open-gov Platform, which is a data utilization platform (city OS) for “smart areas” of communities. With these capabilities, Gabukura can be used for community creation in a sustainable and democratic manner.

During the fiscal year, in the Digital Government segment, the priorities of this business were capturing orders from new customers and expanding relationships with existing customers. In addition, this business continued to implement many cost-cutting measures. Sales to local governments and other public-sector organizations resulting

from orders received through competitive bids remained strong because of activities by the Japanese government to increase the use of e-government. In addition, activities with alliance partner companies have started for the development of government digitalization services that do not rely on competitive bids.

As a result, segment sales increased 9.0% from one year earlier to 1,948 million yen and the segment profit increased 28.1% from one year earlier to 406 million yen.

Mobility Services

The car solutions business, which dates back to Smartvalue's establishment, involves the sale of safety assistance equipment and information devices placed in automobiles. These devices target opportunities created by the growing use of electrical equipment in automobiles, often viewed as an automobile industry revolution on a scale that happens only once in a century. The diverse activities of the mobility IoT business include the CiEMS Series (note 8), which is a connected car (note 9) service, the provision of platforms and software development for the utilization of automobile data, and Kuruma Base (note 10), which is a platform that supports car sharing and other car-as-a-service applications.

Although the use of vehicles by companies decreased during the fiscal year because of restrictions on outings, there were activities for the growth of services. The market for cargo transport and other commercial vehicles is increasing and a large company in the mobility sector is using our platform and other assistance for the development of innovative mobility services. Earnings were much higher than in the previous fiscal year because of measures to lower expenses, operate more efficiently and make other improvements.

Segment sales decreased 0.1% from one year earlier to 1,555 million yen and the segment profit increased 23.6% from one year earlier to 288 million yen.

Smart Venues

The Smart Venues segment has the goal of creating new markets based on the concepts of stadium and arena innovations and smart venues, which governments are positioning as growing business sectors. Operations of this business are centered on the Kobe Arena, which is scheduled to open in April 2025. In addition, in terms of earnings too, preparations are proceeding for making the Smart Venues Business the third core business along with Digital Government and Mobility Services.

During the fiscal year, there was progress generally as planned for establishing a sound environment for the start of operations of Kobe Arena in 2025. However, due to the slow pace of finding sponsors and other supporters for the arena and to expenses associated with up-front investments, sales were down in this business and the loss increased.

Segment sales decreased 19.9% from one year earlier to 369 million yen and the segment loss was 268 million yen compared with a loss of 89 million yen one year earlier.

(Thousands of yen)

| Business segments and categories | FY6/22 | | FY6/23 | | Year-on-year changes (%) |
|----------------------------------|-----------|-----------------|-----------|-----------------|--------------------------|
| | Sales | Composition (%) | Sales | Composition (%) | |
| Digital Government | 1,788,409 | 47.0 | 1,948,978 | 50.3 | 9.0 |
| Mobility Services | 1,556,174 | 40.9 | 1,555,345 | 40.2 | (0.1) |
| Smart Venues | 460,790 | 12.1 | 369,025 | 9.5 | (19.9) |
| Total | 3,805,373 | 100.0 | 3,873,348 | 100.0 | 1.8 |

Explanation of terms

Notes:

1. Kobe Arena The Kobe Arena Project is a project established and operated by the private sector and consisting of a consortium consisting of Smartvalue, NTT Urban Development Corporation and NTT DOCOMO, INC. This is a multi-purpose arena under construction in the second jetty of the New Port Jetty West Area in the City of Kobe.
2. Gabukura A regional information cloud platform suite for local governments and other public-sector institutions

3. Open government: A concept for measures aimed at making national and local government activities more open that is based on three basic principles: (1) Transparency, (2) Participation of the public, and (3) Public/private-sector cooperation
4. Government cloud: An IT infrastructure that allows all national government units (ministries, public-sector companies, etc.) and local governments to jointly use government systems as cloud services
5. Digital marketplace: A framework for the registration of vendors and services using the same requirements and for the easy procurement of goods and services from registered services and companies by the public sector with no need to ask for bids.
6. CMS: A Content Management System facilitates the centralized storage and management of all information concerning the content of a website, such as text, images, designs (templates) and other items
7. GaaS: Government as a Service is a service for online procedures for the digitalization of government services
8. CiEMS Series: The Car intelligent Energy Management System analyzes and utilizes a broad array of data associated with the operation of motor vehicles to eliminate traffic accidents, reduce traffic jams, operate vehicles more efficiently and provide other benefits. By fully utilizing data obtained from the operation of cars, this system also has the goal of helping solve a variety of social issues.
9. Connected car: Automobiles that use the internet to send and receive information
10. Kuruma Base: An integrated platform provided by Smartvalue that encompasses car connectivity and car-as-a-service applications

(2) Financial Position

Assets

Total assets at the end of the fiscal year decreased 254 million yen from the end of the previous fiscal year to 3,866 million yen.

Current assets decreased 162 million yen to 3,016 million yen. Major items include a decrease of 224 million yen in cash and deposits.

Non-current assets decreased 94 million yen to 844 million yen. Major items include decreases of 56 million yen in software, 18 million yen in buildings and structures and 16 million yen in goodwill.

Deferred assets increased 2 million yen to 5 million yen. Major items include an increase of 2 million yen in share issuance cost.

Liabilities

Total liabilities decreased 244 million yen from the end of the previous fiscal year to 1,424 million yen.

Current liabilities decreased 161 million yen to 1,116 million yen. Major items include decreases of 139 million yen in short-term borrowings, 11 million yen in current portion of long-term borrowings and 18 million yen in income taxes payable.

Non-current liabilities decreased 82 million yen to 308 million yen. Major items include a decrease of 79 million yen in long-term borrowings.

Net assets

Net assets decreased 10 million yen from the end of the previous fiscal year to 2,441 million yen. This decrease was mainly the result of dividend payments of 80 million yen, a decrease in retained earnings of 138 million yen due to loss attributable to owners of parent of 48 million yen, and purchase of treasury shares of 50 million yen. Capital stock and capital surplus increased 85 million yen each by the third-party allotment to WingArc1st Inc.

(3) Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the fiscal year decreased 224 million yen from the end of the previous fiscal year to 1,239 million yen.

The cash flow components and the main reasons for changes are as follows.

Cash flows from operating activities

Net cash used in operating activities was 21 million yen, compared with 596 million yen provided in the previous fiscal year. Positive factors include depreciation of 130 million yen, amortization of goodwill of 16 million yen and a 65 million yen increase in deposits received. Negative factors include loss before income taxes of 75 million yen, a 48 million yen increase in trade receivables and contract assets, a 79 million yen decrease in accrued consumption taxes and income taxes paid of 18 million yen.

Cash flows from investing activities

Net cash used in investing activities was 54 million yen, compared with 1,175 million yen used in the previous fiscal year. Negative factors include purchase of property, plant and equipment of 16 million yen and purchase of intangible assets of 35 million yen.

Cash flows from financing activities

Net cash used in financing activities was 148 million yen, compared with 1,271 million yen provided in the previous fiscal year. Positive factors include proceeds from issuance of shares of 167 million yen and proceeds from share issuance to non-controlling shareholders of 49 million yen. Negative factors include net decrease in short-term borrowings of 139 million yen, repayments of long-term borrowings of 91 million yen, purchase of treasury shares of 50 million yen and dividends paid of 80 million yen.

(4) Outlook

Economic activity in Japan is recovering following the Japanese government’s downgrade of COVID-19 to category 5. However, the business climate will probably remain unclear because of uncertainty about the direction of the global economy due to the prolonged Ukraine conflict and other reasons.

As the “cloud first” trend is expected to continue, the outlook is for more growth of our business domains, which are services for the digitalization of government services and systems and for the mobility IoT market. Furthermore, cloud services are increasingly used to acquire data, to use data linkage platforms for open data and other data linkage, and for the analysis of data. By making data an integral element of physical communities, these activities are expected to lead to the creation of smart cities capable of solving regional issues.

The Digital Government Business uses the digitalization of local governments in order to supply cloud services that function as a social system for creating lines of communication between local governments and communities and their residents. The goal is to increase activities to earn MRR to build a stable profit structure and to be a source of convenience and value for communities by further deepening the digitalization of government services.

The Mobility Services Business is looking ahead to the emerging next-generation “mobility society” that will include connected cars. One step was the development and launch of our own IoT service for motor vehicles. We plan to use this IoT service in a car sharing platform, fully automated rental car platform and other applications. We also plan to enter the markets for the management of corporate vehicles and the provision of commercial vehicles. Other goals are providing even more and better services that utilize mobility IoT technologies we have refined and establishing alliances with major customers for the growth of this business.

In the Smart Venues Business, numerous activities are under way for the planned 2025 opening of the Kobe Arena. The plan is to use this business for operations in the smart city domain based on the utilization of data while establishing a framework for generating earnings from rental of the arena, provision of hospitality services, leasing to tenants and other operations. We will also use this business for creating smart city models that incorporate consumer data obtained at the fully digitized arena. In addition, we want to use stadium and arena business, which governments are positioning as growing business sectors for community creation activities that include the energy and excitement of sports and live entertainment.

For the people of the Smartvalue Group, who are vital to our ability to grow, we will place priority on increasing salaries and improving workplace environments, including expenditures from the standpoint of investing in our human capital. Furthermore, we will continue to use the digital transformation of business processes in order to enable our people to do their jobs in many ways and from many locations.

To strengthen corporate governance, we plan to further upgrade the operation of the components of our company with a nomination and other committees governance structure, which we switched to recently, clarify the roles and responsibilities for operating businesses, and manage the Smartvalue Group with speed. By taking these actions, we are aiming for growth of sales and earnings and the establishment of an even stronger foundation for business operations by investing in community creation using data utilization, speeding up investments in our people, and other actions. Our objective is to achieve strong medium to long-term growth.

Based on this outlook, we forecast a 15.0% increase in net sales to 4,454 million yen, operating profit of 23 million yen (compared with a 74 million yen loss in the previous fiscal year), ordinary profit of 16 million yen (compared with a 75 million yen loss in the previous fiscal year), and profit attributable to owners of parent of 15 million yen (compared with a 48 million yen loss in the previous fiscal year) in the fiscal year ending on June 30, 2024.

These projections are based on information available at the time this report was released. Actual results may differ for a variety of reasons.

2. Basic Approach to the Selection of Accounting Standards

The Smartvalue Group will continue to prepare consolidated financial statements using generally accepted accounting principles in Japan for the time being to permit comparisons with prior years and with the financial data of other companies. We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

| | (Thousands of yen) | |
|---|---------------------------------|---------------------------------|
| | FY6/22 (As of Jun. 30, 2022) | FY6/23 (As of Jun. 30, 2023) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,563,701 | 2,339,306 |
| Notes receivable-trade | 1,492 | 10,986 |
| Accounts receivable-trade | 407,684 | 418,754 |
| Contract assets | 14,199 | 42,582 |
| Electronically recorded monetary claims-operating | 1,683 | 1,683 |
| Merchandise | 102,025 | 110,333 |
| Work in process | 12,832 | 9,491 |
| Other | 75,697 | 83,285 |
| Allowance for doubtful accounts | (34) | (20) |
| Total current assets | 3,179,281 | 3,016,404 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 202,918 | 184,387 |
| Tools, furniture and fixtures, net | 53,000 | 56,156 |
| Leased assets, net | 7,616 | 8,034 |
| Construction in progress | 788 | 9,300 |
| Total property, plant and equipment | 264,324 | 257,879 |
| Intangible assets | | |
| Goodwill | 142,122 | 125,880 |
| Software | 184,956 | 128,447 |
| Software in progress | 8,183 | 13,405 |
| Other | 2,414 | 2,706 |
| Total intangible assets | 337,676 | 270,439 |
| Investments and other assets | | |
| Investment securities | 1,593 | 1,593 |
| Deferred tax assets | 127,775 | 100,962 |
| Leasehold and guarantee deposits | 203,869 | 205,526 |
| Other | 3,298 | 7,715 |
| Allowance for doubtful accounts | (69) | - |
| Total investments and other assets | 336,467 | 315,797 |
| Total non-current assets | 938,468 | 844,115 |
| Deferred assets | | |
| Organization expenses | 444 | 325 |
| Share issuance costs | 2,461 | 5,269 |
| Total deferred assets | 2,906 | 5,595 |
| Total assets | 4,120,656 | 3,866,115 |

| | (Thousands of yen) | |
|---|-----------------------|-----------------------|
| | FY6/22 | FY6/23 |
| | (As of Jun. 30, 2022) | (As of Jun. 30, 2023) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 87,754 | 92,212 |
| Short-term borrowings | 628,000 | 488,560 |
| Current portion of long-term borrowings | 91,114 | 79,440 |
| Lease liabilities | 14,905 | 6,629 |
| Income taxes payable | 33,650 | 15,440 |
| Contract liabilities | 124,618 | 125,306 |
| Provision for bonuses | 41,453 | 44,046 |
| Other | 256,898 | 264,815 |
| Total current liabilities | 1,278,394 | 1,116,449 |
| Non-current liabilities | | |
| Long-term borrowings | 326,560 | 247,120 |
| Lease liabilities | 8,893 | 5,681 |
| Asset retirement obligations | 55,428 | 55,564 |
| Other | 127 | 125 |
| Total non-current liabilities | 391,009 | 308,492 |
| Total liabilities | 1,669,403 | 1,424,941 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 959,454 | 1,044,944 |
| Capital surplus | 1,044,888 | 1,114,988 |
| Retained earnings | 254,539 | 116,161 |
| Treasury shares | (124,485) | (154,411) |
| Total shareholders' equity | 2,134,396 | 2,121,682 |
| Share acquisition rights | 150 | - |
| Non-controlling interests | 316,706 | 319,491 |
| Total net assets | 2,451,252 | 2,441,173 |
| Total liabilities and net assets | 4,120,656 | 3,866,115 |

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

| | (Thousands of yen) | |
|---|--------------------------------|--------------------------------|
| | FY6/22 | FY6/23 |
| | (Jul. 1, 2021 – Jun. 30, 2022) | (Jul. 1, 2022 – Jun. 30, 2023) |
| Net sales | 3,805,373 | 3,873,348 |
| Cost of sales | 2,518,519 | 2,589,025 |
| Gross profit | 1,286,854 | 1,284,323 |
| Selling, general and administrative expenses | 1,301,937 | 1,359,230 |
| Operating loss | (15,083) | (74,907) |
| Non-operating income | | |
| Interest income | 14 | 21 |
| Subsidy income | 27,134 | 3,461 |
| Penalty income | 2,919 | 3,807 |
| Other | 2,605 | 1,225 |
| Total non-operating income | 32,673 | 8,514 |
| Non-operating expenses | | |
| Interest expenses | 6,058 | 7,493 |
| Amortization of share issuance costs | 849 | 1,499 |
| Amortization of organization expenses | 118 | 141 |
| Settlement payments | 1,500 | - |
| Other | 835 | 150 |
| Total non-operating expenses | 9,361 | 9,285 |
| Ordinary profit (loss) | 8,228 | (75,678) |
| Extraordinary income | | |
| Gain on reversal of share acquisition rights | - | 36 |
| Total extraordinary income | - | 36 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 0 | 247 |
| Total extraordinary losses | 0 | 247 |
| Profit (loss) before income taxes | 8,228 | (75,889) |
| Income taxes-current | 8,612 | 8,427 |
| Income taxes-deferred | (23,338) | 26,813 |
| Total income taxes | (14,726) | 35,240 |
| Profit (loss) | 22,954 | (111,130) |
| Profit (loss) attributable to non-controlling interests | 21,874 | (62,605) |
| Profit (loss) attributable to owners of parent | 1,080 | (48,525) |

Consolidated Statement of Comprehensive Income

(Thousands of yen)

| | FY6/22 (Jul. 1, 2021 – Jun. 30, 2022) | FY6/23 (Jul. 1, 2022 – Jun. 30, 2023) |
|--|--|--|
| Profit (loss) | 22,954 | (111,130) |
| Comprehensive income | 22,954 | (111,130) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,080 | (48,525) |
| Comprehensive income attributable to non-controlling interests | 21,874 | (62,605) |

(3) Consolidated Statement of Changes in Equity

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

(Thousands of yen)

| | Shareholders' equity | | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | | | |
| Balance at beginning of period | 959,454 | 949,720 | 334,392 | (125,810) | 2,117,756 | 157 | - | 2,117,913 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | (80,295) | | (80,295) | | | (80,295) |
| Profit attributable to owners of parent | | | 1,080 | | 1,080 | | | 1,080 |
| Disposal of treasury shares | | (638) | | 1,324 | 686 | | | 686 |
| Transfer of loss on disposal of treasury shares | | 638 | (638) | | - | | | - |
| Change in ownership interest of parent due to transactions with non-controlling interests | | 95,168 | | | 95,168 | | | 95,168 |
| Net changes in items other than shareholders' equity | | | | | | (7) | 316,706 | 316,698 |
| Total changes during period | - | 95,168 | (79,853) | 1,324 | 16,639 | (7) | 316,706 | 333,338 |
| Balance at end of period | 959,454 | 1,044,888 | 254,539 | (124,485) | 2,134,396 | 150 | 316,706 | 2,451,252 |

FY6/23 (Jul. 1, 2022 – Jun. 30, 2023)

(Thousands of yen)

| | Shareholders' equity | | | | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | | | |
| Balance at beginning of period | 959,454 | 1,044,888 | 254,539 | (124,485) | 2,134,396 | 150 | 316,706 | 2,451,252 |
| Changes during period | | | | | | | | |
| Issuance of new shares | 85,490 | 85,490 | | | 170,980 | | | 170,980 |
| Dividends of surplus | | | (80,314) | | (80,314) | | | (80,314) |
| Loss attributable to owners of parent | | | (48,525) | | (48,525) | | | (48,525) |
| Purchase of treasury shares | | | | (50,331) | (50,331) | | | (50,331) |
| Disposal of treasury shares | | (9,538) | | 20,406 | 10,868 | | | 10,868 |
| Transfer of loss on disposal of treasury shares | | 9,538 | (9,538) | | - | | | - |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (15,390) | | | (15,390) | | | (15,390) |
| Net changes in items other than shareholders' equity | | | | | - | (150) | 2,785 | 2,635 |
| Total changes during period | 85,490 | 70,099 | (138,377) | (29,925) | (12,713) | (150) | 2,785 | (10,078) |
| Balance at end of period | 1,044,944 | 1,114,988 | 116,161 | (154,411) | 2,121,682 | - | 319,491 | 2,441,173 |

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

| | FY6/22 (Jul. 1, 2021 – Jun. 30, 2022) | FY6/23 (Jul. 1, 2022 – Jun. 30, 2023) |
|--|--|--|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | 8,228 | (75,889) |
| Depreciation | 121,714 | 130,354 |
| Amortization of goodwill | 16,242 | 16,242 |
| Increase (decrease) in allowance for doubtful accounts | 79 | (84) |
| Increase (decrease) in provision for bonuses | 1,236 | 2,593 |
| Interest and dividend income | (14) | (21) |
| Interest expenses | 6,058 | 7,493 |
| Loss on retirement of non-current assets | 0 | 247 |
| Decrease (increase) in trade receivables and contract assets | 126,921 | (48,948) |
| Decrease (increase) in inventories | 46,689 | (4,967) |
| Increase (decrease) in trade payables | (5,421) | 4,457 |
| Increase (decrease) in accounts payable-other | (24,527) | (9,616) |
| Increase (decrease) in accrued consumption taxes | 79,795 | (79,791) |
| Increase (decrease) in deposits received | (6,915) | 65,597 |
| Other, net | 30,212 | (2,748) |
| Subtotal | 400,298 | 4,918 |
| Interest and dividends received | 14 | 21 |
| Interest paid | (6,767) | (7,320) |
| Income taxes paid | (5,051) | (18,702) |
| Income taxes refund | 208,240 | - |
| Net cash provided by (used in) operating activities | 596,735 | (21,083) |
| Cash flows from investing activities | | |
| Payments into time deposits | (1,100,000) | - |
| Purchase of property, plant and equipment | (13,323) | (16,890) |
| Purchase of intangible assets | (64,292) | (35,828) |
| Payments of leasehold and guarantee deposits | (4,335) | (12,692) |
| Proceeds from refund of leasehold and guarantee deposits | 6,245 | 11,036 |
| Other, net | - | (338) |
| Net cash provided by (used in) investing activities | (1,175,706) | (54,713) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 628,000 | (139,440) |
| Proceeds from long-term borrowings | 358,000 | - |
| Repayments of long-term borrowings | (6,664) | (91,114) |
| Proceeds from issuance of shares | - | 167,532 |
| Proceeds from share issuance to non-controlling shareholders | 386,689 | 49,582 |
| Purchase of treasury shares | - | (50,331) |
| Proceeds from disposal of treasury shares | 679 | 10,754 |
| Repayments of lease liabilities | (13,498) | (15,085) |
| Repayments of installment payables | (688) | (110) |
| Dividends paid | (80,526) | (80,384) |
| Net cash provided by (used in) financing activities | 1,271,990 | (148,598) |
| Net increase (decrease) in cash and cash equivalents | 693,018 | (224,395) |
| Cash and cash equivalents at beginning of period | 770,682 | 1,463,701 |
| Cash and cash equivalents at end of period | 1,463,701 | 1,239,306 |

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Segment and Other Information

Segment Information

1. Overview of reportable segments

(1) Method of determining reportable segments

Segments used for financial reporting are the Smartvalue Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Smartvalue Group has business divisions based on the products and services. Each division determines comprehensive strategies and conducts business operations for its products and services.

Accordingly, the Smartvalue Group has three reportable segments that are classified by products or services and based on the business divisions: Digital Government, Mobility Services and Smart Venues.

(2) Products and services by each reportable segment

The Digital Government Business provides Gabukura, a cloud suite for local governments that is designed to increase transparency, participation and linkage of local government digital transformation open government.

Gabukura is structured for the digitalization of government services that will lead to a new concept for public services. Gabukura has three components. First is Smart-L-Gov, a cloud solution for the distribution of local government information in order to increase the transparency of open governments. Second is GaaS for increasing participation and linkage for online ties between governments and the people they serve. Third is the Open-gov Platform, which is a data utilization platform (city OS) for "smart areas" of communities. With these capabilities, Gabukura can be used for community creation in a sustainable and democratic manner.

The Mobility Services Business includes the car solutions business, which dates back to Smartvalue's establishment, involves the sale of safety assistance equipment and information devices placed in automobiles. These devices target opportunities created by the growing use of electrical equipment in automobiles, often viewed as an automobile industry revolution on a scale that happens only once in a century. There are also the diverse activities of the mobility IoT business that include the CiEMS Series, which is a connected car service, the provision of platforms and software products for the utilization of automobile data, and Kuruma Base, which is a platform that supports car sharing and other car-as-a-service applications.

The Smart Venues Business has the goal of creating sports, entertainment and other content that can be a source of enjoyment and excitement for many people. Activities are centered on stadiums and arenas that can be a symbol for an entire region. In addition, this business is using fully digital customer experiences for the creation of smart cities that use data to become integral components of society.

(3) Information related to revisions for reportable segments

In prior years, the Smartvalue Group operated in the business domains of digital government and mobility services. Due to activities currently under way centered on the planned opening of the Kobe Arena in April 2025, the group's businesses have been reorganized into three reportable segments beginning with FY6/23 by making consolidated subsidiaries One Bright KOBE Co., Ltd. and Storks Co., Ltd., which were in the Digital Government segment, the new Smart Venues segment. The other two reportable segments are Digital Government and Mobility Services.

Reportable segment information for FY6/22 has been restated to conform with the new reportable segments.

2. Calculation method for net sales, profit or loss, assets, liabilities and other items for each reportable segment

The accounting methods for reportable segments are the same as the methods used for preparing the consolidated financial statements.

Profits for reportable segments are generally operating profit.

3. Information related to net sales, profit or loss, assets, liabilities and other items for reportable segments and breakdown of revenue

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

(Thousands of yen)

| | Reportable segment | | | | Adjustment (Note 1) | Amounts shown on consolidated financial statements (Note 2) |
|---|-----------------------|----------------------|--------------|-----------|------------------------|--|
| | Digital Government | Mobility Services | Smart Venues | Total | | |
| Net sales | | | | | | |
| Goods or services that are transferred at a point in time | 27,799 | 840,721 | 198,031 | 1,066,552 | - | 1,066,552 |
| Goods or services that are transferred over a certain period of time | 1,760,609 | 715,453 | 262,758 | 2,738,821 | - | 2,738,821 |
| Revenue from contracts with customers | 1,788,409 | 1,556,174 | 460,790 | 3,805,373 | - | 3,805,373 |
| Other revenue | - | - | - | - | - | - |
| External sales | 1,788,409 | 1,556,174 | 460,790 | 3,805,373 | - | 3,805,373 |
| Inter-segment sales and transfers | - | - | - | - | - | - |
| Total | 1,788,409 | 1,556,174 | 460,790 | 3,805,373 | - | 3,805,373 |
| Segment profit (loss) | 317,524 | 233,098 | (89,497) | 461,125 | (476,209) | (15,083) |
| Segment assets | 678,135 | 395,358 | 1,796,963 | 2,870,457 | 1,250,198 | 4,120,656 |
| Other items | | | | | | |
| Depreciation | 98,963 | 15,624 | - | 114,588 | 7,125 | 121,714 |
| Amortization of goodwill | - | - | 16,242 | 16,242 | - | 16,242 |
| Increase in property, plant and equipment and intangible assets | 47,283 | 27,646 | - | 74,929 | - | 74,929 |

Notes: 1. Adjustments are as follows.

- (1) The negative adjustment of 476 million yen to segment profit (loss) includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses that belong to the administrative division of Smartvalue.
- (2) The 1,250 million yen adjustment to segment assets includes corporate assets that are not allocated to any of the reportable segments and mainly include cash and deposits and assets related to the administrative division of Smartvalue.
- (3) The 7 million yen adjustment to depreciation includes depreciation of corporate assets that are not allocated to any of the reportable segments.

2. Segment profit (loss) is adjusted to be consistent with operating loss in the consolidated financial statements.

FY6/23 (Jul. 1, 2022 – Jun. 30, 2023)

(Thousands of yen)

| | Reportable segment | | | | Adjustment (Note 1) | Amounts shown on consolidated financial statements (Note 2) |
|---|-----------------------|----------------------|--------------|-----------|------------------------|--|
| | Digital Government | Mobility Services | Smart Venues | Total | | |
| Net sales | | | | | | |
| Goods or services that are transferred at a point in time | 23,575 | 703,535 | 110,842 | 837,952 | - | 837,952 |
| Goods or services that are transferred over a certain period of time | 1,925,402 | 851,809 | 258,183 | 3,035,396 | - | 3,035,396 |
| Revenue from contracts with customers | 1,948,978 | 1,555,345 | 369,025 | 3,873,348 | - | 3,873,348 |
| Other revenue | - | - | - | - | - | - |
| External sales | 1,948,978 | 1,555,345 | 369,025 | 3,873,348 | - | 3,873,348 |
| Inter-segment sales and transfers | - | - | - | - | - | - |
| Total | 1,948,978 | 1,555,345 | 369,025 | 3,873,348 | - | 3,873,348 |
| Segment profit (loss) | 406,901 | 288,212 | (268,216) | 426,898 | (501,805) | (74,907) |
| Segment assets | 673,824 | 455,397 | 1,674,881 | 2,804,102 | 1,062,012 | 3,866,115 |
| Other items | | | | | | |
| Depreciation | 97,531 | 25,261 | 188 | 122,981 | 7,372 | 130,354 |
| Amortization of goodwill | - | - | 16,242 | 16,242 | - | 16,242 |
| Increase in property, plant and equipment and intangible assets | 31,589 | 19,589 | 20,497 | 71,676 | 1,010 | 72,686 |

Notes: 1. Adjustments are as follows.

- (1) The negative adjustment of 501 million yen to segment profit (loss) includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses that belong to the administrative division of Smartvalue.
- (2) The 1,062 million yen adjustment to segment assets includes corporate assets that are not allocated to any of the reportable segments and mainly include cash and deposits and assets related to the administrative division of Smartvalue.
- (3) The 7 million yen adjustment to depreciation includes depreciation of corporate assets that are not allocated to any of the reportable segments.
- (4) The 1 million yen adjustment to the increase in property, plant and equipment and intangible assets is the sum of corporate assets that are not allocated to any of reportable segments, including software that is used by the administrative division of Smartvalue.

2. Segment profit (loss) is adjusted to be consistent with operating loss in the consolidated financial statements.

Information related to impairment loss of non-current assets for each reportable segment

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

Not applicable.

FY6/23 (Jul. 1, 2022 – Jun. 30, 2023)

Not applicable.

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

(Thousands of yen)

| | Reportable segment | | | | Adjustment | Amounts shown on consolidated financial statements |
|--------------------------|-----------------------|----------------------|-----------------|---------|------------|--|
| | Digital Government | Mobility Services | Smart Venues | Total | | |
| Balance at end of period | - | - | 142,122 | 142,122 | - | 142,122 |

Note: Goodwill amortization is omitted because the same information is presented in segment information.

FY6/23 (Jul. 1, 2022 – Jun. 30, 2023)

(Thousands of yen)

| | Reportable segment | | | | Adjustment | Amounts shown on consolidated financial statements |
|--------------------------|--------------------|-------------------|--------------|---------|------------|--|
| | Digital Government | Mobility Services | Smart Venues | Total | | |
| Balance at end of period | - | - | 125,880 | 125,880 | - | 125,880 |

Note: Goodwill amortization is omitted because the same information is presented in segment information.

Information related to gain on bargain purchase for each reportable segment

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

Not applicable.

FY6/23 (Jul. 1, 2022 – Jun. 30, 2023)

Not applicable.

Per-share Information

(Yen)

| | FY6/22 (Jul. 1, 2021 – Jun. 30, 2022) | FY6/23 (Jul. 1, 2022 – Jun. 30, 2023) |
|------------------------------|--|--|
| Net assets per share | 212.60 | 204.16 |
| Net income (loss) per share | 0.11 | (4.80) |
| Diluted net income per share | 0.11 | - |

Notes: 1. Diluted net income per share for FY6/23 is not presented, because net loss was posted despite the existence of latent shares with a dilution effect.

2. The basis of calculating net income (loss) per share and diluted net income per share is as follows:

(Thousands of yen)

| | FY6/22 (Jul. 1, 2021 – Jun. 30, 2022) | FY6/23 (Jul. 1, 2022 – Jun. 30, 2023) |
|---|--|--|
| Net income per share | | |
| Profit (loss) attributable to owners of parent | 1,080 | (48,525) |
| Amounts not attributable to common shareholders | - | - |
| Profit (loss) attributable to common shareholders of parent | 1,080 | (48,525) |
| Average number of common shares outstanding during the period (shares) | 10,039,238 | 10,111,524 |
| Diluted net income per share | | |
| Adjustment to profit attributable to owners of parent | - | - |
| Increase in the number of common shares (shares) | 24,688 | - |
| [of which share acquisition rights (shares)] | [24,688] | - |
| Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect | - | - |

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.