

**Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2021
(Nine Months Ended March 31, 2021)**

[Japanese GAAP]

April 23, 2021

Company name: HOPE, INC.

Listing: TSE-Mothers/FSE Q-Board

Stock code: 6195

URL: <https://www.zaigenkakuho.com/>

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Scheduled date of filing of Quarterly Report:

May 10, 2021

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: None

None

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

**1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2021
(July 1, 2020 to March 31, 2021)**

(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 | % |
| Nine months ended Mar. 31, 2021 | 21,810 | - | (7,276) | - | (7,295) | - | (7,313) | - |
| Nine months ended Mar. 31, 2020 | - | - | - | - | - | - | - | - |

Note: Comprehensive income (millions of yen)

Nine months ended Mar. 31, 2021: (7,312) (-%)

Nine months ended Mar. 31, 2020: - (-%)

| | Net income per share | Diluted net income per share |
|---------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Nine months ended Mar. 31, 2021 | (1,196.57) | - |
| Nine months ended Mar. 31, 2020 | - | - |

Notes: 1. Diluted net income per share is not presented because net loss was posted although there were outstanding dilutive shares.

2. Year-on-year changes and figures for the nine months ended March 31, 2020 are not presented because HOPE started preparing consolidated financial statements from the second quarter of the fiscal year ending June 30, 2021.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of Mar. 31, 2021 | 7,352 | (4,514) | (61.7) |
| As of Jun. 30, 2020 | - | - | - |

Reference: Shareholders' equity (millions of yen)

As of Mar. 31, 2021: (4,533)

As of Jun. 30, 2020: -

Note: Figures as of June 30, 2020 are not presented because HOPE started preparing consolidated financial statements from the second quarter of the fiscal year ending June 30, 2021.

2. Dividends

| | Dividend per share | | | | |
|---|--------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended Jun. 30, 2020 | - | 0.00 | - | 15.00 | 15.00 |
| Fiscal year ending Jun. 30, 2021 | - | 0.00 | - | - | - |
| Fiscal year ending Jun. 30, 2021 (forecast) | - | - | - | - | - |

Notes: 1. Revisions to the most recently announced dividend forecast: None

2. Breakdown of year-end dividend for the fiscal year ended June 30, 2020: Commemorative dividend of 15.00 yen

3. The dividend forecast for the fiscal year ending June 30, 2021 is to be determined.

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

(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 |
| Full year | 34,084 | - | (5,914) to (5,038) | - | (5,937) to (5,061) | - | (5,964) to (5,087) | - | (969.19) to (826.80) |

Notes: 1. Revisions to the most recently announced earnings forecast: None

2. Year-on-year changes are not presented because HOPE started preparing consolidated financial statements from the second quarter of the fiscal year ending June 30, 2021.

*** Notes**

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

Newly added: 1 (HOPE ENERGY, INC.) Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting 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 estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

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

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Mar. 31, 2021: | 6,302,800 shares | As of Jun. 30, 2020: | 6,002,800 shares |
|----------------------|------------------|----------------------|------------------|

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

| | | | |
|----------------------|---------------|----------------------|---------------|
| As of Mar. 31, 2021: | 24,981 shares | As of Jun. 30, 2020: | 24,960 shares |
|----------------------|---------------|----------------------|---------------|

3) Average number of outstanding shares during the period

| | | | |
|----------------------------------|------------------|----------------------------------|------------------|
| Nine months ended Mar. 31, 2021: | 6,112,400 shares | Nine months ended Mar. 31, 2020: | 5,576,001 shares |
|----------------------------------|------------------|----------------------------------|------------------|

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

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

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the management of HOPE at the time these materials were prepared. Actual results of operations may differ from forecasts due to uncertainty involving these judgments and assumptions or to changes in business operations and market conditions. HOPE does not guarantee the certainty of any forward-looking statements.

- Please refer to the section "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 4 of the attachments regarding preconditions or other related matters for the forecasts.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The COVID-19 pandemic severely restricted economic activity in Japan and other countries in the first nine months of the fiscal year ending June 30, 2021 and the outlook for the Japanese economy remains unclear.

All business activities are based on the HOPE corporate philosophy of “providing new forms of value to citizens through local governments and aiming for more growth of our business and our people.” Since HOPE’s establishment, cumulative additional local government revenue generated by the advertising business is about 8,440 million yen as of the end of the third quarter and the energy business has reduced expenses of local governments by about 32,000 million yen (estimate of saving during the entire length of all contracts received since the energy business started). These savings have made a significant contribution to local governments throughout Japan as well as the residents of these communities.

On August 11, 2020, HOPE announced HOPE NEXT 3, a three-year medium-term management plan beginning in the current fiscal year. To accomplish the goals of this plan, many business activities with the aim of medium-term growth are under way. Between the middle of December 2020 and late January 2021, the price of electricity on the Japan Electric Power Exchange (JEPX) was very high. This big increase in the cost of electricity had an enormous negative impact on the performance of the energy business, which is HOPE’s largest business segment. A number of organizations made announcements concerning the probable causes of this sharp increase in the price of electricity. According to the Ministry of Economy, Trade and Industry, the primary causes are a big increase in demand for electricity due to several cold waves and limitations on the output of liquefied natural gas (LNG) power plants due to a decline in the inventory of LNG, which was partially the result of problems involving gas liquefaction plants. According to a Comprehensive Renewable Energy Regulations Inspection Task Force, the problem began with an unusually magnitude and length of restrictions on LNG and petroleum, which account for a large share of electricity generated in Japan. This situation created a big gap at JEPX between the volume of bids to buy and sell electricity, resulting in an unprecedented surge in the price of electricity.

Reference: “Examination of Electricity Supply and Demand and the Wholesale Electricity Market during the Past Winter” (March 26, 2021)

Agency for Natural Resources and Energy, the Ministry of Economy, Trade and Industry
https://www.meti.go.jp/shingikai/enecho/denryoku_gas/denryoku_gas/pdf/032_07_00.pdf

Reference: “Opinion concerning Problems concerning the Output Capacity Market, Grid Restrictions and the Rapid Increase in Spot Prices” (March 29, 2021)

Comprehensive Renewable Energy Regulations Inspection Task Force, Cabinet Office
<https://www8.cao.go.jp/kisei-kaikaku/kisei/conference/energy/20210329/210329energy09.pdf>

The high cost of wholesale electricity significantly raised the cost of electricity purchased by HOPE. As a result, January 2021 imbalance fees (see note) were about 6,500 million yen, including taxes, and there was a large operating loss in the third quarter. We are confident that we can continue to maintain sound relationships with financial institutions, primarily our main banks, in order to continue receiving assistance. We plan to continue examining many ways to procure funds and will make an announcement promptly in accordance with disclosure rules if there is information that requires disclosure.

HOPE has several core strengths. One is the expertise to reproduce new businesses in a broad range of fields based on a large number of relationships with local governments established over many years of business operations and legal frameworks consisting of new and amended laws and regulations. Another is the expertise to easily reproduce business expansion in the local government business domain. Our objective is to use these two phases for growth of the three existing businesses and creation of new businesses. Making advertising a profit-generating business is one goal. We are continuing to improve profitability by making changes to achieve the proper size of this business and working on reducing over the next several years the high percentage of fiscal year earnings of this business in the fourth quarter. These steps are aimed at making this business more cost efficient and increasing the rates we charge for advertising services. In the energy business, which we position as a driver of growth, our goals are more growth in the scale of this business and consistent profitability. Our short and medium-term strategy has two elements. First is to continue existing measures for growth centered on using

competitive bids to capture new contracts. Second is to reduce vulnerability to the price volatility risk involving the cost of electricity we purchase. This involves achieving the most suitable combination of fixed-price procurement using one-to-one transactions and the purchase of electricity at current market prices on the JEPX. However, the sharp increase in the price of electricity on the JEPX forced us to alter this strategy. In the media business, the market for promotions targeting local governments still has much potential for more public-private sector collaboration and measures to become more competitive. Our goal is to position ourselves at the very top of upstream information flows in order to capitalize on opportunities involving this potential. This business is upgrading content, strengthening information dissemination capabilities and reinforcing the ability to keep up with the latest information. The objective is firmly establishing the value of the Jichitai Works brand in order to stimulate more growth of the market for promotions targeting local governments. In addition, we believe that these activities will make possible even more public-private sector collaboration based on government information circulation centered on HOPE as well as the use of local government information databases for strengthening, supporting and creating business activities. We will use many activities to accomplish these goals. These measures will include upgrading and expanding our content production capabilities, increasing B-to-G marketing activities and making extensive use of Jichitai Works HA×SH, which is an internet platform for supporting public-private sector collaboration.

In the first nine months of the fiscal year ending June 30, 2021, net sales were 21,810 million yen. The operating loss was 7,276 million yen, the ordinary loss was 7,295 million yen, and there was a loss attributable to owners of parent of 7,313 million yen.

Note: An imbalance fee is paid when a company selling electricity is unable to supply the required amount of electricity over any 30-minute period and must purchase electricity from a utility to cover the shortfall. This fee is included in the cost of sales of the energy business.

Business segment performance was as follows.

1) Advertising Business

In this business, the Smart Resource service purchases a variety of advertising space from local governments by submitting competitive bids and then sells this space to companies. The Machilet service jointly produces with local governments publications for residents at no cost and sells advertising space in these publications to companies. During the first nine months, there were measures to achieve the proper size of the Machilet service. Machilet, which is the primary medium of the advertising business, is operating in all areas of Japan while concentrating on six themes: marriage, raising children, senior nursing care, measures involving vacant houses, end-of-life messages, and condolence messages. There are also many activities for creating new media. In the third quarter, through a joint program with Ota ward in Tokyo, we issued in February 2021 Japan's first Residence Assistance Conference Guide. The goal of this publication is communities where apartment tenants, apartment owners and real estate companies can coexist in a mutually beneficial manner.

Segment sales were 1,030 million yen and segment profit was 82 million yen.

2) Energy Business

This business, which uses the Genewat brand for the retail of electricity, has the goal of reducing the expenses of local governments by providing new forms of value based on the concept of electricity as a generic product. On October 22, 2020, Hope Energy, Inc. was established as a wholly owned subsidiary of HOPE. Preparations have been largely completed for the transfer of part of the energy business to Hope Energy and this subsidiary was able to start business operations on April 1, 2021. As was explained earlier, the sharp increase in the cost of purchasing electricity due to the higher cost of electricity on the JEPX had a significant negative impact on the energy business. In February and March, when this spike in the cost of electricity had largely ended, we established measures for the stability of energy business earnings, stronger governance and other revisions to the framework for operating this business. In addition, spring is customarily a season when JPEX prices are stable. Consequently, the energy business conducted business as usual from January to March. Furthermore, in part because there is normally a large number of electricity contracts submitted for bids in the third quarter of every year, the energy business added a record-high 426 new electricity supply contracts during the third quarter.

Segment sales were 20,660 million yen and the segment loss was 7,122 million yen.

3) Media Business

One element of this business is extensive B-to-G marketing activities aimed at matching the needs of local governments and companies. These activities leverages our relationships with local governments. This business also includes the Jichitai Works magazine, which contains ideas, examples of local government innovations and other useful information for government employees. In the third quarter, we started the Jichitai Works Ambassador program in February for the purpose of strengthening the Jichitai Works brand. We selected as the first ambassador Yuto Yoshida, a former mayor of the city of Yokosuka. On March 30, we issued a Government Employee Edition of Jichitai Works that contains information for the employees of local governments. Furthermore, we greatly increased the number of these publications from the usual 70,000 to 200,000 in order to give this special edition exposure to a large number of government employees. Strengthening activities to provide information for employees is speeding up progress involving our government employee platform concept.

Segment sales were 117 million yen and segment profit was 13 million yen.

4) Other businesses

Other businesses include Machihiro, Jichitai Works HA×SH and other services that are not part of the reportable segments. In prior years, Jichitai Works HA×SH was included in the media business. Beginning with the current fiscal year, this activity is included in this category because Jichitai Works HA×SH is still in the investment phase.

Segment sales were 2 million yen and the segment loss was 25 million yen.

(2) Explanation of Financial Position

Assets

Total assets amounted to 7,352 million yen at the end of the third quarter of the current fiscal year. Current assets amounted to 6,752 million yen. Major items are cash and deposits of 1,018 million yen, accounts receivable-trade of 4,599 million yen and other under current assets of 859 million yen. Non-current assets amounted to 599 million yen. Major items are intangible assets of 73 million yen and leasehold and guarantee deposits of 476 million yen.

Liabilities

Liabilities totaled 11,866 million yen. Current liabilities amounted to 11,212 million yen. Major items are accounts payable-trade of 9,729 million yen and short-term borrowings of 950 million yen. Non-current liabilities amounted to 654 million yen. Major items are bonds payable of 100 million yen and long-term borrowings of 554 million yen.

Net assets

At the end of the third quarter, there were negative net assets of 4,514 million yen because of loss attributable to owners of parent of 7,313 million yen in the first nine months of the fiscal year. Shareholders' equity was negative 4,533 million yen and major items include share capital of 1,125 million yen, capital surplus of 1,079 million yen and retained earnings of negative 6,668 million yen.

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

There are no revisions to the forecast for the current fiscal year that was announced in the press release concerning revision of consolidated forecasts (Japanese version only), which was announced on April 19, 2021.

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

| | (Thousands of yen) |
|---|--|
| | Third quarter of FY6/21 (As of Mar. 31, 2021) |
| Assets | |
| Current assets | |
| Cash and deposits | 1,018,085 |
| Accounts receivable-trade | 4,599,455 |
| Merchandise and finished goods | 268,660 |
| Work in process | 8,686 |
| Supplies | 179 |
| Other | 859,583 |
| Allowance for doubtful accounts | (1,812) |
| Total current assets | <u>6,752,839</u> |
| Non-current assets | |
| Property, plant and equipment | 16,307 |
| Intangible assets | 73,804 |
| Investments and other assets | |
| Leasehold and guarantee deposits | 476,331 |
| Other | 44,456 |
| Allowance for doubtful accounts | (11,521) |
| Total investments and other assets | <u>509,266</u> |
| Total non-current assets | <u>599,378</u> |
| Total assets | <u>7,352,218</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable-trade | 9,729,499 |
| Short-term borrowings | 950,000 |
| Current portion of long-term borrowings | 386,952 |
| Advances received | 56,123 |
| Other | 90,017 |
| Total current liabilities | <u>11,212,592</u> |
| Non-current liabilities | |
| Bonds payable | 100,000 |
| Long-term borrowings | 554,396 |
| Total non-current liabilities | <u>654,396</u> |
| Total liabilities | <u>11,866,988</u> |
| Net assets | |
| Shareholders' equity | |
| Share capital | 1,125,712 |
| Capital surplus | 1,079,512 |
| Retained earnings | (6,668,143) |
| Treasury shares | (70,902) |
| Total shareholders' equity | <u>(4,533,821)</u> |
| Accumulated other comprehensive income | |
| Valuation difference on available-for-sale securities | (74) |
| Total accumulated other comprehensive income | <u>(74)</u> |
| Share acquisition rights | 19,126 |
| Total net assets | <u>(4,514,769)</u> |
| Total liabilities and net assets | <u>7,352,218</u> |

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

| | (Thousands of yen) |
|--|---|
| | First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021) |
| Net sales | 21,810,472 |
| Cost of sales | 28,358,013 |
| Gross loss | (6,547,541) |
| Selling, general and administrative expenses | 729,057 |
| Operating loss | (7,276,599) |
| Non-operating income | |
| Interest income | 22 |
| Dividend income | 5 |
| Subsidy income | 1,451 |
| Penalty income | 3,719 |
| Other | 275 |
| Total non-operating income | 5,474 |
| Non-operating expenses | |
| Interest expenses | 6,796 |
| Commission expenses | 2,072 |
| Share issuance costs | 13,165 |
| Other | 2,762 |
| Total non-operating expenses | 24,797 |
| Ordinary loss | (7,295,921) |
| Loss before income taxes | (7,295,921) |
| Income taxes-current | 19,965 |
| Income taxes-deferred | (1,983) |
| Total income taxes | 17,981 |
| Loss | (7,313,903) |
| Loss attributable to owners of parent | (7,313,903) |

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

| | (Thousands of yen) |
|--|---|
| | First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021) |
| Loss | (7,313,903) |
| Other comprehensive income | |
| Valuation difference on available-for-sale securities | 1,814 |
| Total other comprehensive income | 1,814 |
| Comprehensive income | (7,312,088) |
| Comprehensive income attributable to | |
| Comprehensive income attributable to owners of parent | (7,312,088) |
| Comprehensive income attributable to non-controlling interests | - |

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

There are reasons for significant doubts concerning the going concern assumption due to consistently negative cash flows in prior years. In addition, due to a very large increase in the JEPX price of electricity between the middle of December 2020 and late January 2021, there was a 7,276 million yen operating loss, 7,295 million yen ordinary loss and 7,313 million yen loss attributable to owners of parent in the first nine months of the fiscal year. Furthermore, net assets were negative 4,514 million yen at the end of the third quarter.

HOPE, which is a company that prepares quarterly consolidated financial statements, is taking the following actions to end these problems.

1. Stabilize earnings of business operations

(1) Management of risk involving volatility of market prices

The HOPE Group has no electricity generation facilities and therefore purchases most of the electricity sold to its customers by using the JEPX. As a result, this business is vulnerable to changes in the cost of electricity. Many actions have been taken in order to reduce exposure to this price volatility risk. Major initiatives include establishing new risk management policies and adjusting the amount of electricity purchased by using the JEPX and one-to-one transactions for each area and season.

(2) Payment in installments of the January 2021 imbalance fees associated with the insufficient supply of electricity

On January 29, 2021, the Ministry of Economy, Trade and Industry announced that companies meeting certain requirements will be allowed to pay January 2021 imbalance fees in equal installments over a period of up to five months. (On March 19, 2021, the ministry increased the maximum number of these installments from five to nine.) HOPE applied for the use of this installment payment program and, after receiving permission from every electricity distribution company involved, made the first of nine equal installment payments in April 2021.

2. Stabilize cash flows

(1) Financial covenants

HOPE continues to hold discussions with financial institutions in order to prevent the exercise of the acceleration clause, which would require the immediate repayment of all applicable debt, due to HOPE's inability to continue to fulfill the obligations of its debt covenants.

(2) Procurement of funds

HOPE is maintaining sound relationships with financial institutions, primarily its main banks, and management believes these institutions will continue to provide assistance. However, we are also continuing to consider many methods for procuring funds.

The goal of these actions is the stabilization of the earnings of business operations and of cash flows. However, we are only at the beginning of these actions. Moreover, there is a limit to the degree to which we can reduce our vulnerability to the volatility of the price of electricity. Consequently, there are significant uncertainties concerning the going concern assumption.

The going concern assumption was used as the basis for the quarterly consolidated financial statements and these statements do not reflect the significant uncertainties concerning this assumption.

Significant Changes in Shareholders' Equity

Between November 11, 2020 and December 11, 2020, Mizuho Securities Co., Ltd. purchased share acquisition rights issued by HOPE and sold through a third-party allotment. In the first half, share capital and capital surplus increased by 810 million yen each. As a result, share capital was 1,125 million yen and capital surplus was 1,079 million yen at the end of the second quarter.

In the first nine months, there was a loss attributable to owners of parent of 7,313 million yen because of the enormous negative impact of the sharp increase in the JEPX price of electricity. As a result, net assets were negative 4,514 million yen at the end of the third quarter.

Additional Information

(Significant Accounting Policies for the Preparation of Quarterly Consolidated Financial Statements)

HOPE started preparing quarterly consolidated financial statements from the second quarter of the fiscal year ending June 30, 2021. Basis of preparation of the quarterly consolidated financial statements is as follows.

1. Matters concerning the scope of consolidation

Number of consolidated subsidiaries: 1

Name of principal consolidated subsidiary: HOPE ENERGY, INC.

2. Matters concerning application of the equity method

Not applicable.

3. Matters concerning accounting period of consolidated subsidiary

The fiscal year of consolidated subsidiary ends on the quarterly consolidated balance sheet date.

4. Accounting standards

(1) Valuation criteria and methods for marketable securities

Other securities

Securities with market quotations

Stated at market value at the accounting closing date (valuation difference is comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)

Securities without market quotations

Stated at cost by the moving-average method.

(2) Valuation criteria and methods for inventories

a. Merchandise and finished goods and work in process

Stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

b. Supplies

Stated at cost, cost being determined by the last purchased cost method (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

(3) Depreciation and amortization methods for non-current assets

a. Property, plant and equipment

Declining-balance method except for buildings (excluding attached structures) acquired on or after April 1, 1998, which are accounted for by the straight-line method.

Useful lives of principle assets are as follows:

Buildings: 10 years

Vehicles: 5 to 6 years

Tools, furniture and fixtures: 2 to 8 years

b. Intangible assets

The straight-line method. Software for internal use is amortized over an expected useful life of five years.

(4) Recognition of allowances

Allowance for doubtful accounts

To prepare for losses on doubtful accounts such as notes and account receivables-trade and loans receivable, allowances equal to the estimated amount of uncollectible receivables are booked for general receivables based on the historical write-off ratio, and bad receivables based on case-by-case determination of collectibility.

(5) Cash and cash equivalents in the Consolidated Statement of Cash Flows

Cash and cash equivalents consist of cash on hand, bank deposits which can be withdrawn at any time, and short-term investments with the duration of three months or less which can be easily converted to cash and are exposed to little risk of change in value.

(6) Other significant accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes

National and local consumption taxes are accounted by the tax-exclusion method. Non-deductible national and local consumption taxes are charged to expenses for the fiscal year when they were incurred.

Segment Information

1. Overview of reportable segment

(1) Method for identifying reportable segments

Segments used for financial reporting are HOPE'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.

There are three reportable segments: advertising, energy, and media, which are based on HOPE's core advertising, energy, and media businesses.

(2) Information related to changes in reportable segments, etc.

Change in method for measuring profit (loss) of reportable segments

Beginning in the first quarter of FY6/21, the standards used for the allocation of corporate expenses have been revised for the purpose of more accurately showing the actual profitability of each segment.

(3) Types of products and services in each reportable segment

Products and services in the reportable segments are as follows.

| Reportable segments | Products and services |
|---------------------|---|
| Advertising | Smart Resource service Ads in public info publications, banner ads, etc. |
| | Smart Creation service Machilet |
| Energy | Genewat |
| Media | Jichitai Works, B-to-G marketing |

2. Information related to net sales and profit or loss for each reportable segment

First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)

(Thousands of yen)

| | Reportable segment | | | | Other (Note 1) | Total | Adjustment (Note 2) | Amounts shown on quarterly consolidated statement of income (Note 3) |
|--------------------------------------|--------------------|-------------|---------|-------------|-------------------|-------------|------------------------|---|
| | Advertising | Energy | Media | Subtotal | | | | |
| Net sales | | | | | | | | |
| External sales | 1,030,037 | 20,660,313 | 117,184 | 21,807,535 | 2,936 | 21,810,472 | - | 21,810,472 |
| Inter-segment sales and transfers | - | - | - | - | - | - | - | - |
| Total | 1,030,037 | 20,660,313 | 117,184 | 21,807,535 | 2,936 | 21,810,472 | - | 21,810,472 |
| Segment profit (loss) | 82,463 | (7,122,359) | 13,595 | (7,026,301) | (25,955) | (7,052,255) | (224,343) | (7,276,599) |

Notes: 1. Other consists of the businesses which are not included in any of the reportable segments and mainly includes Machihiro and Jichitai Works HA×SH services.

2. The negative 224,343 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

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.