

**Summary of Consolidated Financial Results for the Third Quarter
of the Fiscal Year Ending March 31, 2022
(Nine Months Ended December 31, 2021)**

[Japanese GAAP]

Company name: NIHON TRIM CO., LTD.

Listing: Tokyo Stock Exchange, First Section

Securities code: 6788

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Scheduled date of filing of Quarterly Report:

February 10, 2022

Scheduled date of dividend payment:

-

Supplementary materials for quarterly results:

None

Holding of quarterly financial results meeting:

None

*(All amounts are rounded down to the nearest million yen)***1. Consolidated Financial Results for the Nine Months Ended December 31, 2021****(April 1, 2021 – December 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 | |
|---------------------------------|-------------|--------|------------------|--------|-----------------|-------|---|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Nine months ended Dec. 31, 2021 | 12,512 | 12.0 | 1,712 | (1.8) | 1,779 | (3.0) | 1,762 | 47.1 |
| Nine months ended Dec. 31, 2020 | 11,174 | (10.4) | 1,744 | (12.8) | 1,835 | (0.8) | 1,198 | (0.6) |

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2021: 1,911 (up 57.9%)

Nine months ended Dec. 31, 2020: 1,211 (up 1.7%)

| | Net income per share | Diluted net income per share |
|---------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Nine months ended Dec. 31, 2021 | 227.04 | - |
| Nine months ended Dec. 31, 2020 | 153.68 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Dec. 31, 2021 | 26,327 | 20,681 | 75.0 | 2,561.25 |
| As of Mar. 31, 2021 | 24,931 | 17,822 | 69.8 | 2,239.70 |

Reference: Shareholders' equity (million yen)

As of Dec. 31, 2021: 19,743

As of Mar. 31, 2021: 17,414

2. Dividends

| | Dividend per share | | | | |
|--|--------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended Mar. 31, 2021 | - | 0.00 | - | 60.00 | 60.00 |
| Fiscal year ending Mar. 31, 2022 | - | 0.00 | - | | |
| Fiscal year ending Mar. 31, 2022 (forecasts) | | | | 60.00 | 60.00 |

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share | |
|-----------|-------------|------|------------------|------|-----------------|------|---|------|----------------------|--|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen | |
| Full year | 17,580 | 17.9 | 2,700 | 23.4 | 2,800 | 18.8 | 2,100 | 37.9 | 270.09 | |

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

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: -

Excluded: -

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

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

- (i) Changes in accounting policies due to revisions in accounting standards, others: Yes
- (ii) Changes in accounting policies other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

(4) Number of outstanding shares (common shares)

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

As of Dec. 31, 2021: 8,656,780 shares

As of Mar. 31, 2021: 8,656,780 shares

- (ii) Number of treasury shares at end of period

As of Dec. 31, 2021: 948,276 shares

As of Mar. 31, 2021: 881,527 shares

- (iii) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2021: 7,765,241 shares

Nine months ended Dec. 31, 2020: 7,798,135 shares

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

* Cautionary statement with respect to forward-looking statements, and other special items

Earnings forecasts regarding future performance in this material are based on assumptions judged to be valid and information currently available to the Company, and the Company does not in any way guarantee the achievement of the forecasts. Actual results may differ significantly from these forecasts for a number of factors. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of the Future Outlook, including Consolidated Performance Forecasts” on page 4 of the attachments for assumptions for forecasts and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The Nihon Trim Group pursues dynamic growth as a global medical company under the corporate philosophy of “contributing to the creation of healthy and comfortable lives.” In the water healthcare business, we have applied scientific methods to the study of water, aiming to contribute to a variety of sectors including healthcare, agriculture, and industrial sectors through the delivery of electrolyzed hydrogen water (EHW), a type of functional water. Our EHW Apparatus is a medical device for home use with recognized efficacy in improving gastrointestinal symptoms. In fact, the Group has been engaged in a variety of industrial-academic research projects focused on the anti-oxidant properties of hydrogen contained in EHW. While the measures for staying healthy are wide-ranging, including diet, exercise, and quality sleep, many find it difficult to make these measures a daily habit and tend to quit them halfway. Meanwhile, as people drink water every day, we have been spearheading a new initiative of water-focused healthcare, which is achievable just by changing drinking water to more healthy water, and thus, easier to make it a habit. By spreading the use of our EHW apparatus, we provide preventive healthcare, which helps reduce the risk of developing a disease, to ultimately contribute to cutting down on healthcare expenditures. In the medical business, we provide electrolyzed water hemodialysis using the functional water, which has drawn attention as a new method of hemodialysis. Both quantitative and qualitative analyses show that the electrolyzed water hemodialysis is effective in improving the QOL of dialysis patients and helping them get ready for returning home and to work. In the field of regenerative medicine, StemCell Institute Inc., which operates the largest private cord blood bank in Japan, has aimed to offer new methods of treatment to patients who suffer from diseases that have had no cure and contribute to the development of healthcare under the slogan of “Delivering new medical options to all lives.” These philosophies and initiatives have a high affinity for the United Nations Sustainable Development Goals (SDGs), and as such, we believe we can contribute to achieving SDGs through our business activities. Upon the market restructuring of the Tokyo Stock Exchange scheduled for April 4 this year, the Group will transition to the Prime Market. We recognize that, as a company listed on the Prime Market, we are required to work on SDGs and ESG initiatives. Specifically, we will earnestly promote concrete measures and disseminate related information.

During the first nine months of the current fiscal year, the Group’s net sales increased 12.0% year-on-year to 12,512 million yen, operating profit decreased 1.8% to 1,712 million yen, ordinary profit decreased 3.0% to 1,779 million yen, and profit attributable to owners of parent increased 47.1% to 1,762 million yen.

In the water healthcare business, sales of EHW apparatus did not improve enough to return to normal, since workplace seminars and storefront events were strictly restricted under the prolonged state of emergency during the first half. Since October, after the emergency declaration was lifted, the sales environment, including the number of seminars held, recovered gradually but fell short of returning to normal. Overseas, sales from the bottled water business in Indonesia have continued to renew record highs backed by a steady growth of its home delivery of beverages in gallon bottles.

In the medical business, the segment profit grew as StemCell Institute reported increased net sales.

Results by business segment were as follows.

[Water Healthcare Business]

In this business segment, during the nine months ended December 31, 2021, net sales of EHW apparatus amounted to 5,698 million yen (up 17.4% year on year) in Japan. For the workplace sales division, the number of seminars held recovered temporarily after the number of COVID-19 cases peaked out in October. However, the number of units sold fell behind the forecast, as we limited the number of participants in the seminars as part of our efforts to implement prudent health and sanitary measures. TRIM ION Refine, a new product launched in June last year, is well-received in the market and now accounts for more than 80% of our overall direct sales. The installation and referral sales division has continued to strengthen its customer follow-up service as the division’s sales performance depends heavily on referrals from its loyal customers, which is the core competitive advantage for the division, although sales opportunities such as events decreased amid the COVID-19 crisis.

Since the beginning of the fourth quarter, however, the rapid spread of the highly infectious Omicron COVID-19 variant has materially affected its performance, although the state of emergency is not declared. In fact, face-to-

face sales opportunities such as seminars have been postponed. While continuing to focus on driving sales to small- and medium-sized enterprises and through referrals from users, we will strive to increase personnel and strengthen our sales structure in a bid to achieve workplace sales (by DS Division) of 5,000 units per month and installation and referral sales (by HS Division) of 1,700 units per month. In addition, we have worked on measures to improve sales pitches to customers and allow anyone to easily brush up their skills, with the aim of boosting our sales force and getting new recruits on board as early as possible.

The OEM and wholesale sales division newly signed contracts with two major domestic customers and has been negotiating with multiple companies over potential OEM contracts with a view to expanding business overseas after the COVID-19 pandemic is contained.

Looking ahead to the post-COVID-19 pandemic world, we have focused on web marketing since the previous fiscal year. Specifically, we implemented initiatives to put in place our selling environment such as streamlining a user flow of purchase and payment and enriching e-commerce sites. As a result, sales through web marketing have been growing steadily. In the years ahead, we will drive web marketing to make it one of our core sales channels, while taking into consideration its cost efficiency.

During the nine months ended December 31, 2021, net sales of water purification cartridges, which generate a consistent revenue stream once an EHW apparatus is installed, amounted to 3,752 million yen (up 0.6% year on year). The overall sales during the first nine months of the current fiscal year increased year-on-year thanks to year-on-year increases in the second quarter and later despite a 4.0% year-on-year decrease of net sales in the first quarter due in part to a temporary surge in sales of the cartridges a year before backed by stronger demand from users staying home amid the COVID-19 crisis. We expect net sales of the cartridges to continue to grow in the fourth quarter.

Overseas, net sales from the bottled water business in Indonesia amounted to 984 million yen (up 20.2% year on year, actual net sales from January through September 2021). Sales of plastic bottled beverages to in-store sales agents declined at the beginning of the current fiscal year under the influence of restrictions on outings. However, sales volume increased in line with decreases in COVID-19 cases. As a result, during the nine months ended December 31, 2021, overall net sales recorded a year-on-year increase. Sales from the home delivery of beverages in gallon bottles also have been on the steady rise. In the local market in Indonesia, the Omicron pandemic could temporarily affect the business. However, we expect the market to grow over the medium to long term in the post-coronavirus world as the potential demand is large. Accordingly, we will remain committed to expanding the business in full collaboration with the Sinar Mas Group, a local partner.

In the field of research and development, we published a joint research paper with Waseda University about "How drinking electrolyzed hydrogen water helps reduce acetaldehyde, a cause of hangover, and protect hepatocytes" on *Antioxidants*, a scientific journal, in May 2021. We also published a joint paper with Tohoku University titled "How drinking electrolyzed hydrogen water helps improve high insulin resistance in type 2 diabetes" on *Diabetology International*, a western language academic journal issued by the Japan Diabetes Society in July 2021. This way, during the nine months ended December 31, 2021, we have made great progress in research on the efficacy of drinking electrolyzed hydrogen water. In 2022, we plan to publish a total of seven research papers and posts, including a joint research paper with Riken, a national research and development agency. In the years ahead, we will strive to strengthen our research and development system with a view to obtaining certification for the new efficacy and effects of drinking electrolyzed hydrogen water.

As a result of the above, the water healthcare business recorded net sales of 11,099 million yen (up 11.8% year-on-year) with segment profit of 1,585 million yen (down 4.4% year-on-year).

[Medical Business]

In the electrolyzed water hemodialysis business, more than about 2,400 patients are currently treated with electrolyzed water hemodialysis on 799 beds at 27 facilities. Of these facilities, three have been certified with JCI (Joint Commission International), known as the world's most rigorous evaluation standard. This suggests that the efficacy of electrolyzed water hemodialysis has been increasingly recognized in medical settings which demand the highest level of safety. In the field of research and development, at the Annual Meeting of the Japanese Society for Dialysis Therapy held in June 2021, the results of observation research were presented; the results showed that the

annual crude death rate (CDR) of patients treated with electrolyzed water hemodialysis was as low as 3.7%, markedly lower than the overall CDR of patients treated with hemodialysis of 10.1% on average. In October 2021, we published the results of a joint research with partner institutions, such as St. Luke's International Hospital and Tohoku University Hospital, on *Renal Replacement Therapy*, an English journal, showing that electrolyzed water hemodialysis alleviates the severe fatigue a dialysis patient usually suffers. All these suggest that the research on the efficacy and mechanism of electrolyzed water hemodialysis has progressed. During the nine months ended December 31, 2021, although certain restrictions were placed on sales activities under the repeated state of emergency, electrolyzed water hemodialysis attracted a great deal of attention for its substantial benefits, given that the therapy not only alleviates the burden on dialysis patients and improves their QOL but also helps them get ready for returning home and to work. In fact, we have been negotiating with an increased number of facilities. More specifically, we are currently negotiating with 57 facilities that will likely introduce our electrolyzed water hemodialysis systems within two years (worth a total of 1.1 billion yen in sales) and have submitted quotations to these facilities. Going forward, we will focus on publishing the results of our research and strengthening sales activities.

In the regenerative medicine business segment, StemCell Institute Inc. has announced its earnings results for the third quarter of the fiscal year ending March 31, 2022 on February 8, as we have on the same date. For details, please refer to the Summary of Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022 of StemCell Institute.

As for the hospital business in China, the number of outpatients has been increasing steadily since the hospital started to provide the treatment covered by public insurance in February 2021. In order to turn the business profitable on monthly basis, we will continue efforts to enhance the hospital business in China in cooperation with our partners.

As a result of the above, the medical business recorded net sales of 1,412 million yen (up 13.6% year-on-year) with segment profit of 126 million yen (up 48.5% year-on-year).

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the current fiscal year on a consolidated basis increased 1,395 million yen, or 5.6%, from the end of the previous fiscal year to 26,327 million yen. The main factor is an increase of 1,251 million yen in cash and deposits.

Total liabilities decreased 1,463 million yen, or 20.6%, from the end of the previous fiscal year to 5,645 million yen. The main factor is decreases of 1,003 million yen in current portion of long-term borrowings and 480 million yen in notes and accounts payable-trade.

Net assets increased 2,859 million yen, or 16.0%, from the end of the previous fiscal year to 20,681 million yen. The main factors are recordings of profit attributable to owners of parent of 1,762 million yen, non-controlling interests of 417 million yen following a capital increase of a subsidiary and partial sale of subsidiary shares, and capital surplus of 1,555 million yen, which were partially offset by payment of dividends of 466 million yen and purchase of treasury shares of 228 million yen.

(3) Explanation of the Future Outlook, including Consolidated Performance Forecasts

There are no revisions to the full-year consolidated forecast for the fiscal year ending March 31, 2022, which was announced in the "Notice of Upward Revision to Consolidated Forecasts and Recognition of Deferred Income Tax Benefit" (Japanese version only) dated August 5, 2021.

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

| | (Thousands of yen) | FY3/21 (As of Mar. 31, 2021) | Third quarter of FY3/22 (As of Dec. 31, 2021) |
|--|--------------------|---------------------------------|--|
| Assets | | | |
| Current assets | | | |
| Cash and deposits | 10,427,024 | 11,678,349 | |
| Notes and accounts receivable-trade | 1,947,502 | 1,618,572 | |
| Accounts receivable-installment | 2,582,333 | 2,353,442 | |
| Securities | 300,335 | 505,427 | |
| Finished goods | 291,322 | 529,190 | |
| Raw materials and supplies | 685,695 | 751,860 | |
| Other | 231,179 | 525,386 | |
| Allowance for doubtful accounts | (23,634) | (20,678) | |
| Total current assets | 16,441,758 | | 17,941,551 |
| Non-current assets | | | |
| Property, plant and equipment | | | |
| Land | 2,465,454 | 2,467,898 | |
| Other, net | 1,754,220 | 1,812,778 | |
| Total property, plant and equipment | 4,219,674 | | 4,280,676 |
| Intangible assets | | | |
| Goodwill | 460,268 | 432,429 | |
| Other | 246,370 | 304,627 | |
| Total intangible assets | 706,638 | | 737,056 |
| Investments and other assets | | | |
| Investment securities | 2,594,034 | 2,072,090 | |
| Other | 1,019,433 | 1,345,911 | |
| Allowance for doubtful accounts | (49,698) | (49,698) | |
| Total investments and other assets | 3,563,769 | | 3,368,303 |
| Total non-current assets | 8,490,083 | | 8,386,036 |
| Total assets | 24,931,841 | | 26,327,588 |
| Liabilities | | | |
| Current liabilities | | | |
| Notes and accounts payable-trade | 846,867 | 366,071 | |
| Current portion of long-term borrowings | 1,007,350 | 4,200 | |
| Income taxes payable | 577,471 | 299,464 | |
| Advances received | 2,399,395 | 2,689,740 | |
| Provision for bonuses | 163,408 | 60,308 | |
| Provision for product warranties | 45,000 | 53,000 | |
| Provision for sales returns | 13,000 | - | |
| Provision for loss on contract | 55,272 | 9,297 | |
| Other | 1,225,436 | 1,297,444 | |
| Total current liabilities | 6,333,201 | | 4,779,526 |
| Non-current liabilities | | | |
| Long-term borrowings | 11,930 | 4,200 | |
| Provision for retirement benefits for directors (and other officers) | 227,645 | 239,957 | |
| Retirement benefit liability | 301,791 | 320,705 | |
| Other | 234,786 | 301,424 | |
| Total non-current liabilities | 776,153 | | 866,286 |
| Total liabilities | 7,109,355 | | 5,645,813 |

| | FY3/21 (As of Mar. 31, 2021) | Third quarter of FY3/22 (As of Dec. 31, 2021) | (Thousands of yen) |
|---|---------------------------------|--|--------------------|
| Net assets | | | |
| Shareholders' equity | | | |
| Share capital | 992,597 | 992,597 | |
| Capital surplus | 645,814 | 2,201,238 | |
| Retained earnings | 19,329,963 | 20,296,246 | |
| Treasury shares | (3,473,417) | (3,701,864) | |
| Total shareholders' equity | <u>17,494,956</u> | <u>19,788,217</u> | |
| Accumulated other comprehensive income | | | |
| Valuation difference on available-for-sale securities | 2,194 | 2,138 | |
| Foreign currency translation adjustment | (77,320) | (42,923) | |
| Remeasurements of defined benefit plans | (5,600) | (4,027) | |
| Total accumulated other comprehensive income | <u>(80,726)</u> | <u>(44,812)</u> | |
| Share acquisition rights | 28,720 | 28,720 | |
| Non-controlling interests | 379,535 | 909,650 | |
| Total net assets | <u>17,822,486</u> | <u>20,681,775</u> | |
| Total liabilities and net assets | <u>24,931,841</u> | <u>26,327,588</u> | |

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

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

| | (Thousands of yen) | |
|---|---|---|
| | First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020) | First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021) |
| Net sales | 11,174,074 | 12,512,101 |
| Cost of sales | 3,231,117 | 3,803,510 |
| Gross profit | 7,942,957 | 8,708,591 |
| Selling, general and administrative expenses | 6,198,473 | 6,996,380 |
| Operating profit | 1,744,483 | 1,712,211 |
| Non-operating income | | |
| Interest and dividend income | 15,476 | 16,016 |
| Share of profit of entities accounted for using equity method | - | 182 |
| Rental income from real estate | 58,766 | 59,374 |
| Foreign exchange gains | 1,801 | 1,058 |
| Other | 48,905 | 26,245 |
| Total non-operating income | 124,949 | 102,878 |
| Non-operating expenses | | |
| Interest expenses | 8,865 | 3,223 |
| Share of loss of entities accounted for using equity method | 2,022 | - |
| Depreciation of assets for rent | 11,768 | 11,053 |
| Provision of allowance for doubtful accounts | 7,945 | 632 |
| Share issuance costs | - | 6,219 |
| Going public expenses | - | 9,378 |
| Other | 3,790 | 5,485 |
| Total non-operating expenses | 34,393 | 35,993 |
| Ordinary profit | 1,835,039 | 1,779,096 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 2,658 | - |
| Gain on sale of investment securities | 10,193 | - |
| Total extraordinary income | 12,851 | - |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 1,373 | - |
| Total extraordinary losses | 1,373 | - |
| Profit before income taxes | 1,846,517 | 1,779,096 |
| Income taxes-current | 559,071 | (54,528) |
| Income taxes-deferred | 41,634 | (27,522) |
| Total income taxes | 600,705 | (82,050) |
| Profit | 1,245,811 | 1,861,146 |
| Profit attributable to non-controlling interests | 47,362 | 98,148 |
| Profit attributable to owners of parent | 1,198,449 | 1,762,998 |

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

| | First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020) | First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021) | (Thousands of yen) |
|---|---|---|--------------------|
| Profit | 1,245,811 | 1,861,146 | |
| Other comprehensive income | | | |
| Valuation difference on available-for-sale securities | (4,564) | (55) | |
| Foreign currency translation adjustment | (32,430) | 48,648 | |
| Remeasurements of defined benefit plans, net of tax | 2,275 | 1,467 | |
| Share of other comprehensive income of entities accounted for using equity method | 48 | 688 | |
| Total other comprehensive income | <u>(34,670)</u> | <u>50,749</u> | |
| Comprehensive income | 1,211,141 | 1,911,896 | |
| Comprehensive income attributable to: | | | |
| Owners of parent | 1,179,245 | 1,798,911 | |
| Non-controlling interests | 31,896 | 112,984 | |

(3) Notes to Quarterly Consolidated Financial Statements

Assumption for Going Concern

Not applicable.

Significant Changes in Shareholders' Equity

As part of its IPO on Mothers of the Tokyo Stock Exchange on June 25, 2021, StemCell Institute Inc., a consolidated subsidiary of Nihon Trim, issued new shares to sell in a primary offering. In addition, as part of the IPO, Trim Medical Holdings Inc., another consolidated subsidiary of Nihon Trim, sold part of its shareholding in StemCell Institute in a secondary offering. As a result, during the first nine months of the fiscal year ending March 31, 2022, capital surplus increased 1,555,423 thousand yen to 2,201,238 thousand yen at the end of the third quarter of the current fiscal year.

Changes in Accounting Policies

Application of the Accounting Standard for Revenue Recognition

Nihon Trim has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the promised goods and services is transferred to customers. Following the changes in accounting policies, sales of EHW apparatus and water purification cartridges, which were recognized together with repair and warranty services and recognized upon shipment, will be recognized upon fulfillment of relevant obligations when products are received by customers or installation of products is completed, independently of the obligations relevant to the repair and warranty services for EHW apparatus. Revenues from the repair and warranty services for EHW apparatus will be recognized over the warranty period. In addition, for some transactions with sales agents, although we had traditionally recognized the amount of payment by customers less the amount of commissions to sales agents as revenues, we changed the method to recognize the gross amount of payment by customers as revenues and recognize the amount of commissions to sales agents as expense. Also, with StemCell Institute, the split fees, which were traditionally recognized upon cell separation, will be recognized over the period of installment payment.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures prescribed in the proviso of Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting policies, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new accounting policies are then applied beginning with this amount of retained earnings.

As a result, net sales increased 485,380 thousand yen, cost of sales increased 37,438 thousand yen, and selling, general and administrative expenses increased 327,758 thousand yen. Operating profit, ordinary profit and profit before income taxes increased 120,183 thousand yen each in the first nine months of the current fiscal year. In addition, there was a decrease of 330,199 thousand yen in retained earnings at the beginning of the current fiscal year.

Application of the Accounting Standard for Fair Value Measurement

Nihon Trim has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policies set forth by the Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There is no effect of the application of these standards on the quarterly consolidated financial statements.

Segment and Other Information

1. Overview of reportable segment

The Group's reportable segment is a component of the Group for which discrete financial information is available and which is regularly reviewed by the Group's highest decision-making body to make decisions about management resources to be allocated to the segment and assess its performance.

There are two reportable operating segments: the water healthcare business and the medical business.

The water healthcare business includes EHW apparatus sales and associated operations. The medical business includes business operations in the fields of medical and preventive healthcare and regenerative medicine.

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

First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)

(Thousands of yen)

| | Reportable segment | | | Adjustments | Amounts recorded in quarterly consolidated statement of income (Note) |
|-----------------------------------|--------------------|-----------|------------|-------------|---|
| | Water Healthcare | Medical | Subtotal | | |
| Net sales | | | | | |
| Sales to external customers | 11,099,579 | 1,412,522 | 12,512,101 | - | 12,512,101 |
| Inter-segment sales and transfers | - | - | - | - | - |
| Total | 11,099,579 | 1,412,522 | 12,512,101 | - | 12,512,101 |
| Segment profit | 1,585,967 | 126,243 | 1,712,211 | - | 1,712,211 |

Note: The segment profit subtotal is consistent with the operating profit of the quarterly consolidated statement of income.

Business Combinations

Transaction under common control

Issuance of new shares by way of primary offering by a consolidated subsidiary and sale of shareholding in the subsidiary by another consolidated subsidiary

As part of its IPO on Mothers of the Tokyo Stock Exchange on June 25, 2021, StemCell Institute Inc., a consolidated subsidiary of Nihon Trim, issued new shares (256,200 shares of common stock) to sell in a primary offering. In addition, as part of the IPO, Trim Medical Holdings Inc., another consolidated subsidiary of Nihon Trim, sold part of its shareholding (664,000 shares of common stock) in StemCell Institute in a secondary offering.

(1) Summary of transaction

1) Main purpose of transaction

The main purpose of the transaction is to increase awareness and creditworthiness of StemCell Institute Inc., diversify the methods of funding its capital investments, R&D, etc., on its own for further expanding its business, and ultimately improve the corporate value of the Nihon Trim Group.

2) Name and content of business of the company party to business combination

Name of the company party to the business combination:

StemCell Institute Inc. (a consolidated subsidiary of Nihon Trim)

Content of business: Cell banking business, engaged in treatment and storage of perinatal tissue-derived stem cells

3) Date of business combination

June 25, 2021, July 27, 2021 and November 15, 2021

4) Legal method of combination

Issuance of new shares by way of primary offering and sales of part of shares in a subsidiary to a non-controlling shareholder resulting in no changes in the scope of consolidation

5) Name of the company after combination

Unchanged

(2) Summary of accounting treatment

The transaction was treated as a transaction with a non-controlling shareholder among transactions under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

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.