Cover page

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Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
Title and name of representative	Noriyuki Matsuda, President and CEO
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Place for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

A. Company information

I. Overview of the Company

1. Summary of business results

(1) Business results of the Group

Term	19th term	20th term	21st term	22nd term	23rd term
Fiscal year-end	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Net sales (Thousands of yen)	6,088,755	7,025,334	9,340,988	9,494,658	14,710,520
Ordinary profit (Thousands of yen)	1,312,133	1,463,657	1,593,034	1,258,729	905,628
Profit attributable to owners of parent (Thousands of yen)	1,214,426	990,867	1,070,828	1,261,194	615,880
Comprehensive income (Thousands of yen)	1,218,778	988,061	1,072,918	1,261,643	604,704
Net assets (Thousands of yen)	4,022,659	4,905,978	5,409,474	6,504,101	11,923,437
Total assets (Thousands of yen)	5,044,766	6,047,929	9,873,006	10,250,413	17,398,997
Net assets per share (Yen)	31.69	38.32	43.20	51.92	86.89
Earnings per share (Yen)	9.57	7.81	8.58	10.18	4.64
Diluted earnings per share (Yen)	–	–	–	10.18	4.61
Equity ratio (%)	79.2	80.4	54.2	62.7	68.0
Return on equity (ROE) (%)	35.8	22.4	21.0	21.4	6.7
Price earnings ratio (PER) (Times)	20.2	14.7	16.6	37.8	97.4
Net cash provided by (used in) operating activities (Thousands of yen)	1,649,378	1,623,937	1,402,465	(181,406)	1,346,083
Net cash provided by (used in) investing activities (Thousands of yen)	(645,228)	(600,503)	(2,235,055)	(1,000,739)	(160,478)
Net cash provided by (used in) financing activities (Thousands of yen)	(539,808)	(121,137)	1,353,545	(607,217)	4,467,982
Cash and cash equivalents at end of period (Thousands of yen)	2,278,689	3,176,956	3,699,654	1,906,252	7,562,192
Number of employees (Persons) [Separately, average number of temporary employees]	84 [2]	100 [3]	104 [5]	133 [6]	141 [4]

Notes: 1. Net sales do not include consumption taxes.

2. The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share, earnings per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 19th term.

3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 19th, 20th and 21st terms.

4. The number of employees indicates the number of working employees.

5. The number in the bracket in the "Number of employees" row refers to the yearly average number of temporary employees.

(2) Business results of the reporting company

Term		19th term	20th term	21st term	22nd term	23rd term
Fiscal year-end		March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019
Net sales	(Thousands of yen)	6,088,755	7,025,334	9,320,435	9,359,167	14,708,202
Ordinary profit	(Thousands of yen)	1,295,050	1,453,999	1,629,528	1,172,406	968,183
Profit	(Thousands of yen)	1,209,573	981,208	1,107,367	1,199,687	733,498
Capital stock	(Thousands of yen)	1,771,226	1,771,226	1,771,226	1,776,817	3,679,656
Total number of issued shares	(Shares)	31,732,000	31,732,000	31,732,000	63,481,000	136,162,800
Net assets	(Thousands of yen)	4,010,138	4,885,999	5,425,807	6,461,449	12,004,456
Total assets	(Thousands of yen)	5,030,937	6,023,934	9,870,847	10,392,500	17,341,963
Net assets per share	(Yen)	31.59	38.17	43.34	51.58	87.49
Dividends per share	(Yen)	3.83	4.68	6.19	3.05	0.68
[Interim dividends per share]		[–]	[–]	[–]	[–]	[–]
Earnings per share	(Yen)	9.53	7.73	8.87	9.69	5.53
Diluted earnings per share	(Yen)	–	–	–	9.68	5.49
Equity ratio	(%)	79.2	80.4	54.4	61.5	68.7
Return on equity (ROE)	(%)	35.8	22.2	21.7	20.4	8.0
Price earnings ratio (PER)	(Times)	20.3	14.8	16.0	39.7	81.8
Dividend payout ratio	(%)	10.0	15.1	17.4	15.7	12.3
Number of employees	(Persons)	84	100	101	101	113
[Separately, average number of temporary employees]		[2]	[3]	[4]	[6]	[4]
Total shareholder return	(%)	104.1	62.6	78.1	208.7	245.2
(Benchmark index: Dividend-included TOPIX)	(%)	(130.7)	(116.5)	(133.7)	(154.9)	(147.1)
Highest share price	(Yen)	967	910	717	1,663 (Note 7) (815)	1,547 (Note 8) (760)
Lowest share price	(Yen)	536	411	382	461 (Note 7) (502)	721 (Note 8) (442)

Notes: 1. Net sales do not include consumption taxes.

2. The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share, earnings per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 19th term.

3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 19th, 20th and 21st terms.

4. The number of employees indicates the number of working employees.

5. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.

6. The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

7. Figures show the ex-rights share price due to a share split (February 1, 2018, 1 share: 2 shares).

8. Figures show the ex-rights share price due to a share split (December 1, 2018, 1 share: 2 shares).

2. Company history

Date	Event
August 1996	Established SOURCE CORPORATION (2-6-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo; 10 million yen in paid-in capital) to plan, develop, and sell consumer software
November 1996	Relocated head office to 1-3-3 Shinkawa, Chuo-ku, Tokyo
November 1996	Took over all operations pertaining to software-related business from ssitristar Corp. (formerly AAA, Ltd., dissolved in October, 1998)
December 1996	Launched KYOUSOKU 95, utility software to increase hard disk drive speed
June 1997	Launched typing software TOKU-UCHI
October 1999	Company name changed to SOURCENEXT Corporation from SOURCE CORPORATION
June 2000	Entered into e-commerce business by opening an own online shop
February 2003	Started the “commoditization strategy” for consumer software by setting a price range centered on 1,980 yen
March 2003	Launched ezPDF, PDF creation, conversion, and editing software
September 2003	Relocated head office to 6-10-1 Roppongi, Minato-ku, Tokyo
July 2006	Launched Virus Security ZERO, antivirus software with no annual renewal fees
December 2006	Listed on Tokyo Stock Exchange Mothers
March 2007	Acquired program copyright and trademark rights for FUDEOH, postcard creation software
November 2007	Acquired program copyright and trademark rights for the B’s Recorder GOLD series of CD/DVD writing software
June 2008	Listed on the First Section of the Tokyo Stock Exchange
November 2009	Relocated head office to 3-8-21 Toranomon, Minato-ku, Tokyo
December 2011	Launched security software Super Security ZERO, made using Bitdefender, SRL’s engine and involving no annual renewal fees
March 2012	Began providing applications for KDDI CORPORATION’s au Smart Pass
September 2012	Established a subsidiary, SOURCENEXT Inc., in California, U.S. (currently a consolidated subsidiary)
May 2013	Began providing applications for NTT DOCOMO, INC.’s Sugo Toku Contents service
June 2014	Launched CHOU HODAI, an all-you-can-use fixed-price PC software service
August 2014	Started providing applications for App Pass service of SoftBank Mobile Corp. (currently SoftBank Corp.)
October 2014	Launched Apps CHOU HODAI, an all-you-can-use fixed-price application service
April 2016	Acquired program copyright and trademark rights for ATENA SHOKUNIN, postcard creation software
July 2016	Relocated head office to 1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo
March 2017	Acquired the trademark rights, sales right, and right to modify download products in Japan for RosettaStone, a language learning program
May 2017	Acquired all shares of FUDEMAME CO., LTD. (currently a consolidated subsidiary)
June 2017	Acquired all shares of Rosetta Stone Japan, Inc. (currently a consolidated subsidiary)
December 2017	Launched POCKETALK, an AI-powered IoT translation device
September 2018	Launched POCKETALK W, a next-generation AI translation device
January 2019	Established a subsidiary, Sourcenext B.V., in Netherlands (currently a consolidated subsidiary)

3. Description of business

The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise five consolidated subsidiaries. The business of SOURCENEXT Group (the Group: the Company and its consolidated subsidiaries) constitutes a single business segment of the planning, development and sales of software and hardware, and other services.

Concerning our software development method, there are three scenarios under which we plan products: conducting development in-house, outsourcing to domestic or overseas development companies, and acquiring licenses for products copyrighted to other companies. When outsourcing to domestic or overseas development companies, the Company generally retains full or partial copyright for that product.

Our three sales channels comprise direct sales through our online shop, wholesale distribution to consumer electronics retailers and other companies' e-commerce sites, and providing content to smartphone carriers.

In direct sales through the Company's online shop and wholesale sales to consumer electronics retailers and other companies' e-commerce sites, we make customers who purchase products into members by encouraging them to register as online users and receive e-mail newsletters. To improve sales stability, we take measures that include selling the Company's products and other companies' hardware products to our members.

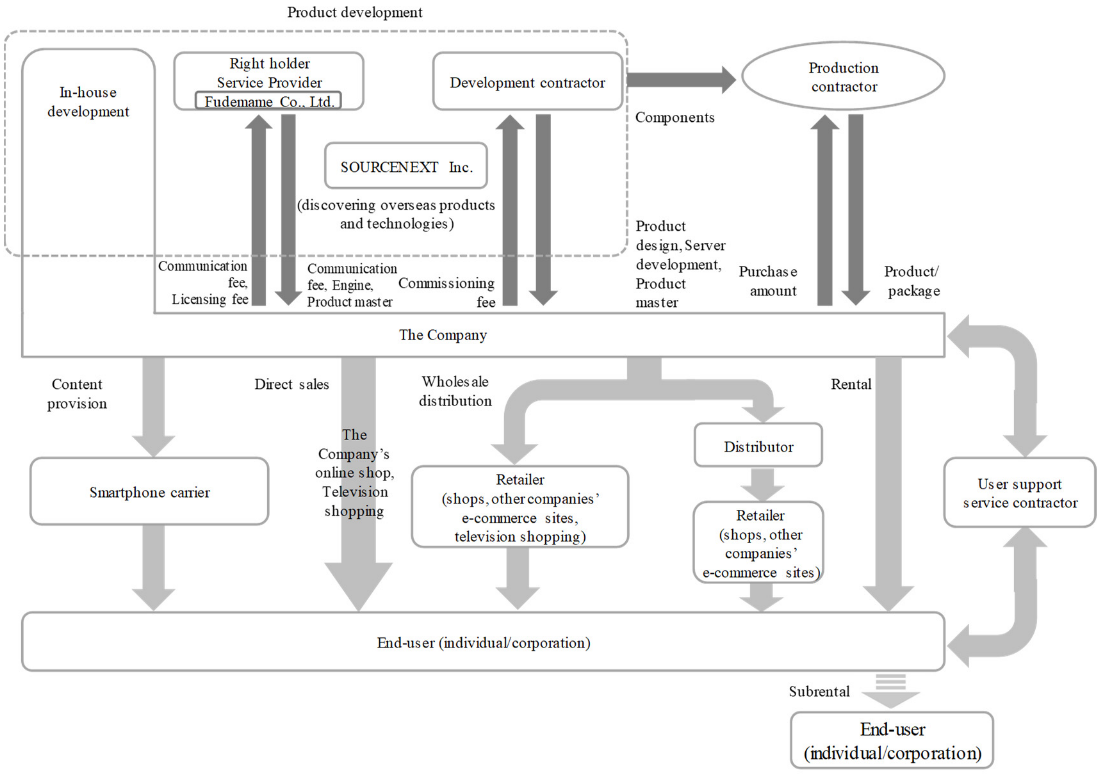
Concerning the provision of content to smartphone carriers, we provide many software titles for KDDI CORPORATION's au Smart Pass and other all-you-can-use application services operated by carriers.

In addition, the POCKETALK AI translation device, an IoT (Internet of Things) product, is procured from overseas production contractors, and is distributed to consumer electronics retailers nationwide and to other companies' e-commerce sites, as well as being sold directly through our online shop. In addition to these traditional sales channels, we are offering the product for rental to corporates where there is a high level of inbound travel demand, such as airline and railway companies, and major commercial facilities.

We use questionnaires and other means to gather comments and requests from users through user support service contractors, then use that feedback to improve the quality of products and services.

The business activities diagram below shows the abovementioned points.

Business activities diagram



As the business of the Group consists of a single segment, segment information is not provided. An overview of the major brands of the Group's principal offerings is as follows.

POCKETALK	The Company launched POCKETALK in 2017, a palm-sized AI translation device that enables people to communicate by simply speaking as if there was an interpreter between them. The latest model POCKETALK W is an inhouse-developed product that supports 74 languages and can be used in 126 countries and territories, with a built-in, 4G-capable global SIM card. The model is well received in the market with cumulative shipments exceeding 400,000 units as of April 2019.	
Android App	The Company provides Apps CHOU HODAI, an all-you-can-use fixed-price service with over 100 popular titles across all genres, including the "Smart RUSUDEN" next-generation voice message service that transcribes messages to text, the "KYOUSOKU Memory" storage optimizer that lightens the load for smartphones lagging with cumulated data, and the "Super Tools" application equipped with numerous useful tools.	
Security	ZERO Virus Security	The Company has offered the Virus Security series as its own-brand security software since 2003. Since the launch of Virus Security ZERO with no annual renewal fees in 2006, the cumulative number of user registrations for the entire series has exceeded 10 million.
	ZERO Super Security	Super Security ZERO, launched in 2011, is the world's leading performance security software. The product uses the same engine as Bitdefender's Bitdefender Internet Security, which won three awards for two consecutive years in the international performance test AV-TEST, including the Best Protection 2018 award.
Postcards	"FUDEOH," "FUDEMAME" and "ATENA SHOKUNIN"	These three address book and postcard creation software packages are characterized by their ease-of-use even for first-time users. The Company's lineup includes the industry's share leader FUDEMAME, FUDEOH with excellent cost performance, and ATENA SHOKUNIN for Mac users, to meet a wide range of customer needs.
PDF	ezPDF series	The ezPDF series is a staple software product that provides users with a simple and quick way of creating, converting, and editing PDFs. This product is a long-term best seller, selling more than any other domestic software in its category for 16 years in a row. Now used by over 6,000 corporations, ezPDF helps increase document-management efficiency while reducing costs.
Language learning	RosettaStone	This world-renowned language learning software covers 24 languages, including English and Chinese, and is used by 5 million people worldwide. The software is available on smartphones and tablets, and can be linked to POCKETALK with an app called POCKETALK Link.

4. Overview of subsidiaries and associates

Name	Address	Capital stock (Thousands of yen)	Principal contents of business	Ratio of voting rights holding (held) (%)	Relationship
(Consolidated subsidiary)					
SOURCENEXT Inc.	California, United States	100 (Thousands of dollars)	Discovering and engaging in contract negotiations for overseas software and technologies, and selling the Company's products in the U.S.	100.0	Signed consulting agreement Sales of the Company's finished goods Two interlocking Directors or Auditors
FUDEMAME CO., LTD.	Minato-ku, Tokyo	100,000	Planning, development, and sales of software such as the postcard and address book software FUDEMAME	100.0	License contracts Three interlocking Directors or Auditors
Rosetta Stone Japan, Inc.	Minato-ku, Tokyo	10,000	Sales of the language learning software ROSETTA STONE	100.0	One interlocking Director or Auditor
Solve Co., Ltd.	Minato-ku, Tokyo	125,000	Import/export, planning, manufacturing and distribution of clothing and fashion goods	100.0	Two interlocking Directors or Auditors
Sourcenext B.V.	Amsterdam, Netherlands	1,000 (Thousands of euro)	Planning, development and distribution of software and hardware products	100.0	Sales of the Company's finished goods One interlocking Director or Auditor

5. Information about employees

(1) Consolidated companies

As of March 31, 2019

Segment name	Number of employees (Persons)
Software-related business	141 [4]
Total	141 [4]

Notes: 1. The number of employees indicates the number of working employees.
2. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
3. The business of the Group consists of a single segment.

(2) Reporting company

As of March 31, 2019

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
113 [4]	36.3	7.2	7,440,772

Notes: 1. The number of employees indicates the number of working employees.
2. Average annual salary includes bonuses and surplus wages.
3. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
4. The business of the Company consists of a single segment.

(3) Status of labor union

No labor unions have been formed, but labor-management relations are amicable.

II. Overview of business

1. Management policy, management environment, issues to be addressed, etc.

   Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) Management policy

The Company was established in 1996 as a specialist in planning, development, and sales of software for consumers, with the Company name, SOURCENEXT incorporating the meaning “We source what’s next.” The Company’s corporate mission is “Creating products that inspire joy and move the world.” To achieve this, the Company aims to create a new software market by identifying useful, high quality smartphone applications and PC software, etc. from around the world and make it available to anyone at an affordable price. In December 2017, we launched the Company’s first IoT product, the POCKETALK AI translation device, and then in September 2018 we launched the next-generation model POCKETALK W. We will further promote planning and development of IoT products for consumers and strive to become a global manufacturer of IoT products, providing innovative products across the world.

(2) Management strategies

The Company’s current focus is on gaining new users for IoT products, smartphone applications and PC software, as well as expansion of those markets. We will continue to work on planning and development of IoT products, leveraging our experience in development and distribution of software for more than 20 years, to provide “amazing, easy to use and useful” products of value at “affordable” prices. Meanwhile, we are pushing forward to further expand our software business, propelled by acquisition of high-quality and useful content from around the world, including major brands overseas such as Dropbox and Corel, as well as by M&A activities and acquisition of IPs (Intellectual Properties) of major brands. The Company also focuses on the security market, which has a significant scale, where it aims to expand the share of its ZERO Virus Security and ZERO Super Security anti-virus products that allow installation in only one device but with no expiration by increasing their recognition and reliability. The Company’s policy going forward is to expand into the global market by developing POCKETALK and other IoT products as well as highly original software and providing them in diverse delivery formats.

(3) Objective indicators to assess performance versus management targets

As a market leader in the industry for consumer software, and as an IoT manufacturer, the Company is driving further market expansion by supplying products with high added value, as well as creating new markets with IoT products. Accordingly, the management indicators that the Company focuses in line with its policy are 1) net sales, 2) ordinary profit, and 3) ordinary profit to net sales ratio.

(4) Business environment

The Japanese economy is expected to maintain moderate recovery backed by resilient domestic demand. The consumer software industry in which the Company operates is also expected to remain solid thanks to robust market needs.

The Company predicts further business growth in smartphone/tablet market due to factors that include the rapid expansion of the market, a trend toward lower-priced and higher performance PCs, greater adoption of digital consumer electronics, and greater demands for security concerning personal information, etc. Moreover, as AI, IoT and other technologies keep on evolving day by day, we are witnessing the emergence of new technological innovations in all kinds of industries. The AI translation device market is no exception. The Company’s POCKETALK AI translation device is followed by new products released one after another, by major players at home and abroad, and we foresee that translation devices using the automated translation technology will create a huge market in the future. Under this business environment, the issues to be addressed by the Company are summarized as follows:

(5) Operational and financial issues to be addressed

i) Planning and developing new products

The Company is planning and developing software tailored to devices such as smartphones and tablets, as well as PC software. Our software title expansion involves maintaining a balance among quality, cost, and development time. It also involves various strategies such as developing the Company's products and acquiring intellectual property rights from multiple development firms in and outside Japan in order to develop products for best-selling genres. With regard to the development of new IoT products, we expect the ability of these devices to connect to the internet to lead to the creation of a new market that did not previously exist. In addition to next-generation models of POCKETALK, we will strengthen the IoT business in areas other than AI translation devices by fusing hardware with software, leveraging the Company's experience in software development, which stretches back more than 20 years.

ii) Expanding sales channels

In Japan, the Company is working to maintain and further expand sales channels by promoting sales in partnership with major consumer electronics retailers and carriers. Furthermore, the Company is expanding its sales into other countries by having its products localized into multiple languages and so forth. To expand the translation device business overseas, we will develop distribution channels in Europe with our overseas subsidiaries serving as a hub as well as in the United States where we already started selling the products. We will expand our distribution channels overseas to further enhance our business performance.

iii) Diversifying our customer base

The Company's product sales consist largely of our online shop sales and over-the-counter package software sales at consumer electronics retailers and other retail stores. For reasons that include long-term brand building, we continue to view these channels as very important. At the same time, it is also essential that we build new channels by working with other companies to sell to corporations, mobile carriers, and telecommunications carriers other than mobile carriers (ISPs, etc.). We will be actively pursuing these types of partnerships while considering diversifying our customer base not only by expanding sales channels, but also through M&A, etc.

iv) Improving earning power

The Company sees it as critical to conduct ongoing and effective cost management alongside efforts to expand sales. We intend to further improve earning power by continuing to commit ourselves to companywide budget control and achieve cost reductions while ensuring effective selling, general and administrative expenses.

2. Business risks

Of the items relating to the overview of business, financial information, etc. as described in the Annual Securities Report, those that may materially affect the decisions of investors are provided below.

Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) The Group's business environment

i) Markets targeted by the Group

a. Smartphone market expansion

Telecommunications carriers are releasing a steady stream of new products for smartphones, and going forward, the smartphone market is expected to continue on a sustained growth. The Group is developing and selling its own Android GENSEN Apps series and other smartphone applications. However, the Group's business performance could be impacted in the event that smartphone market development is impeded due to unforeseen factors including new regulations, delays in technological innovation, and trends concerning telecommunications firms, which include revisions to usage fees.

b. Impact from PC unit sales to individual customers

A large proportion of the Group's product sales consists of PC software for individual customers. As such, sales are strongly affected by changes in consumer spending, PC adoption rates, and particularly by the number of PC units sold to individual customers. This creates a situation where stagnant growth in units sold to individual customers and drop-offs in consumer spending can affect the Group's business performance.

c. Translation device market

With regard to the translation device market, which is relevant to POCKETALK, the AI-powered IoT translation device, it is expected that the number of people visiting Japan will reach more than 40 million annually by 2020, and more than 60 million by 2030. This trend is expected to continue going forward. In this market, new products are being announced one after the other, not only by large companies in Japan, but also globally. The Group's business performance could be impacted if we were to obviously lose our distinctiveness.

ii) Diversification of sales channels and sales models

To accommodate changes involving consumption styles driven by increased Internet penetration, broadband adoption, and delivery of software through application stores, the Group is focused on diversifying its sales channels. This includes sales of applications through its online shop as well as carriers such as smartphone carriers, in addition to over-the-counter sales. Sales through such non-over-the-counter channels comprised 58.5% of all sales for the fiscal year ended March 31, 2019. We also expect to expand overseas sales channels, primarily in the U.S. and Europe, through our overseas subsidiaries. This diversification of sales channels and models could impact the Group's business performance if the anticipated results are not achieved.

iii) Speed of technological innovation for products

Technological innovation for things such as OSs, web services, devices and communications technology is progressing quickly. To continue to succeed in such areas as PC software, smartphone application and IoT products, we will need to continue developing technologies and enhancing functions while staying ahead of other companies in marketing new products and version upgrades. As we do not anticipate the speed of technological innovation will abate, the Group's business performance may be impacted in the event that the functions of the Group's products become obsolete or we are not able to respond quickly enough to technological innovation, regardless of efforts made to develop technologies or acquire licenses.

iv) OS trends

PC software can be categorized into OS software and application software, and the majority of the Group's product sales consists of application software. As a large part of these requires Microsoft's Windows OS, Windows version upgrades can prompt new demand and cause people to refrain from buying our products before the upgrades, affecting our business performance. Additionally, the Group's business operations and business performance could be impacted in the event that the appearance of alternative OSs causes a drop in the market share of Windows, which currently commands an overwhelming portion of the OS market.

For smartphone applications, many of the Group's products require Google's OS Android. As there is a tendency for Android OS version upgrades to be released more frequently than PC OS upgrades, the Group's business performance could be impacted if there are delays in adapting our applications to the new OS.

v) Intense competition

Competition is intense in the PC software market and the markets for translation devices and other IoT products, and the Company may lose market share to other companies in the short term.

To remain competitive, we will need to continuously offer upgrades to existing products to respond to market changes, plan and develop unique and differentiated products, and expand profits by creating and fragmenting markets through the use of effective advertising. Security software, one of the Group's core products, is a fiercely competitive category. Two products demonstrate the Group's success in creating a new market and differentiating itself from other companies. The first is Virus Security ZERO, which was launched in 2006 and requires no annual renewal fees. The second is Super Security ZERO, which was launched in 2011, requires no annual renewal fees, and is powered by the world-class technologies of Bitdefender, SRL. However, the Group's business performance may be impacted in the event that it is unable to adequately respond to markets for existing products or create new markets or fragment existing markets with new products.

Regarding the sales price of PC software for individual customers, the Group has been an industry leader in launching products at low price points ranging from 1,980 yen to 4,980 yen, including tax. However, new adopters of this pricing scheme are beginning to appear, and we may need to lower our products' prices in response to increasing competition among PC software manufacturers and among over-the-counter vendors, including consumer electronics retailers. The Group's business performance may be impacted if we are forced to lower the sales prices of products due to this kind of price competition.

For smartphone applications, such applications are now generally distributed via application stores operated by OS vendors and carriers. We may therefore be unable to achieve success with marketing strategies so far employed, making it difficult to maintain a competitive edge while differentiating ourselves from other companies. Such situations could impact the Group's business performance. With regard to IoT products, including translation devices, this new market is developing on a global scale with the participation of a variety of companies from diverse industries, as well as major domestic companies, and the Group's business performance may be impacted if we are unable to develop products, expand sales channels and maintain our superiority in advertising, etc. over other companies.

(2) The Group's management policy

i) The importance of marketing

Marketing that targets individual consumption is vital in the market for software and hardware targeting individuals. The below describes the characteristics of the Group's marketing strategies.

a. Package design

The Group places a prime emphasis on package design as a part of its over-the-counter marketing strategies. We handle all package design in-house, and make decisions about flyers, advertisements, promotional materials, web design, and other things in a holistic approach centered on package design. The Group recognizes the importance of and focuses on finding top-level designers capable of creating package designs effective in marketing operations. An inability to keep such designers could disrupt our marketing operations and affect the Group's business performance.

b. Large-scale sales promotion in the over-the-counter market

The Group views the improvement of over-the-counter exposure for its products as an important marketing strategy, and, therefore, seeks to establish specially-built areas for its products in over-the-counter spaces such as at consumer electronics retailers. Although we view this marketing involving the use of over-the-counter space as having some measure of effect, there is no guarantee of expected effect. Should such effect fail to be achieved, the Group's business performance may be impacted.

c. Brand assets and customer assets

The Group has worked to establish its brand as a software manufacturer by making effective use of advertising that includes online advertisements, television commercials, and magazine ads. Such advertisements have allowed us to lock in a variety of consumers by offering a wide range of products. As of May 2019, the Group has more than 17 million registered users.

The Group expects to make its marketing operations more effective by using such intangible assets as brand and customer assets. Nevertheless, our marketing activities may not always achieve the desired effect. Our advertising expenses in the fiscal year ended March 31, 2019 were 2,150 million yen and promotion expenses were 951 million yen. Although we view these expenditures as contributing to our bottom line, there is no guarantee that we will achieve our intended effect and, if we do not, the Group’s business performance may be impacted.

ii) The importance of corporate and product image

Due to the importance of corporate and product image in the market for software and hardware targeting individuals, we see effective advertising and the improvement of customer support functions as critical. In the event that a problem or defect is discovered in a product, or if a user starts a legal dispute or issues a complaint that cannot be predicted at present, the resulting blemish to corporate or product image may impact the Group’s business performance.

iii) Group strategies for the ZERO series

The Group’s core product, ZERO is an anti-virus product that allows installation in only one device but with no expiration. The product comes in ZERO Virus Security and ZERO Super Security versions to suit different applications and budgets. The Company provides the latest version until the device on which the software is first installed becomes broken, or the software ceases to meet the required specifications of the OS. However, if after-sales costs exceed the Company’s expectations, it could have an adverse impact on profits.

iv) Hardware products

We expect the cost of manufacturing parts, etc. for hardware products, including POCKETALK, will be high compared to the software products that the Company has traditionally dealt in. Accordingly, if the Company’s forecasts were to misread demand significantly compared to the initial forecasts, this could result in a negative impact to profits through such factors as increases in production and scrapping costs.

If a defective hardware product should cause a quality problem such as an unsafe accident to occur, the Group may be liable for damages, including incidental damages, that cannot fully be covered by product liability insurance, or bear the significant amount of costs for taking remedial measures. If such a problem should occur, the Group’s corporate image and reputation may be damaged, which may cause a loss of customers and adversely affect the Group’s business, operating results and financial position.

v) Overseas operations

The Group has so far endeavored to discover stand-out technologies and products in and outside of Japan, and has planned, developed, and sold PC software and Android applications primarily in the Japanese market.

In 2012 we established an overseas subsidiary in Silicon Valley, and another one in Netherlands in January 2019 to propel the expansion of global distribution channels for POCKETALK.

However, in the course of conducting our overseas operations, there are numerous potential risks posed by each country’s laws and regulations, institutions, politics, economics, exchange rates, and other factors. In Europe, among others, a growing consumer concern for corporate social responsibility may trigger significant changes in applicable laws and regulations and consumer concern itself, leading to an increase in the costs of the Group’s operations, a curtailment of its operations, and an adverse effect on its reputation.

In addition, as the Group is to further develop the business of POCKETALK and other IoT products on a global scale going forward, it is subject to the laws and regulations of many countries that affect its existing businesses in a number of areas as well as its online business. Specifically, such laws and regulations include those pertaining to advertising, sales promotion, consumer protection, import and export requirements, anti-corruption, anti-competitive conduct, environmental protection, privacy, data protection, content and broadcasting, taxation, and foreign exchange controls, as well as those on collection, use, retention, safeguard and transfer of personal information. Compliance with these laws and regulations may be onerous and expensive. These laws and regulations continue to develop and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and business operations. Any such developments could make the Group’s products less attractive to its customers, delay introduction of new products, or cause the Group to change or limit its business operations.

As the Group manufactures and develops IoT products in China and other countries and territories where the Company and its business partners have the manufacturing sites, any changes in labor policies as well as labor and other laws and regulations in these countries and territories could cause interruption of manufacturing and shipment of its products, a sharp rise in personnel costs in the said territories, or shortage of skilled workers, leading to an adverse effect on the Group's business performance.

Violation of applicable laws or regulations by the Group, its employees, business partners, and third-party suppliers may subject the Company to fines, penalties, and legal judgments, as well as restrictions on the Group's business operations and reputational damage. Additionally, given the recent trend of regulatory authorities and consumers across the world paying increasingly closer attention to corporate social responsibility and sourcing practices, the Group is facing more stringent legal regulations on disclosure of these matters. The strengthened regulations or a surge in consumer concern in these territories could cause the Group's compliance costs to increase, particularly because, for many parts and materials to manufacture POCKETALK and other IoT products to be launched in the future, the Group relies on third-party suppliers and does not have direct control over their procurement or employment practices.

A finding of non-compliance to regulations of these countries, or the perception that the Group has not responded appropriately to the growing consumer concern for such issues, whether or not it is legally required to do so, may adversely affect the Company's reputation, operating results and financial condition.

(3) Factors behind business performance fluctuations over the last five fiscal years

Business performance over the last five fiscal years for the Group has seen dramatic fluctuations in net sales, ordinary profit and loss, and profit and loss. The primary factors behind these fluctuations in profit and loss for each fiscal year are as follows.

Fiscal year ended March 31, 2015 (Consolidated)	In the area of smartphone applications, we have succeeded in providing applications to all three major Japanese mobile carriers. We also launched Apps CHOU HODAI, our own all-you-can-use fixed-price service with over 100 smartphone application titles. At the same time, we launched CHOU HODAI, our own all-you-can-use service for over 120 PC software titles, and CHOU HODAI Business, our all-you-can-use service of business software titles for corporations. As a result of these activities, sales remained strong, and operating profit and ordinary profit recorded all-time highs for the second year in a row.
Fiscal year ended March 31, 2016 (Consolidated)	In the area of smartphone applications, we have succeeded in providing applications of over 20 titles to all three major Japanese mobile carriers. Moreover, since Microsoft Corporation's new Windows 10 has been released, Windows-related products, including core products, have made a significant contribution to sales. Our online shop sales rose steadily, and ordinary profit and operating profit marked new all-time highs for the third year in a row.
Fiscal year ended March 31, 2017 (Consolidated)	In PC software, we focused on releasing products that support the new OS, such as our core security software products, in conjunction with the shift to Windows 10. At the end-of-year New Year greeting card season, we saw a new contribution to earnings from exclusive sales in the over-the-counter market of our postcard creation software products ATENA SHOKUNIN for Mac, acquired in April 2016, and the industry-share leader FUDEMAME, in addition to the core product FUDEOH. Our smartphone applications and online shop sales rose steadily, and ordinary profit and operating profit marked new all-time highs for the fourth year in a row.
Fiscal year ended March 31, 2018 (Consolidated)	In May 2017 we made FUDEMAME CO., LTD., the vendor of FUDEMAME, a subsidiary, and in June of the same year made Rosetta Stone Japan, Inc., a subsidiary. In December 2017, we launched the Company's first IoT product, the AI translation device POCKETALK, which recorded strong sales. However, due to increases in costs caused by such factors as personnel expenses and amortization of goodwill related to the subsidiaries, and higher advertising expenses associated with media events for new products, operating profit and ordinary profit declined year on year. In addition, due to the sale of investment securities, profit reached a new high.
Fiscal year ended March 31, 2019 (Consolidated)	In September 2019, we launched POCKETALK W, a new model of the AI translation device. Since the launch, the product has been well received as a result of being covered by magazines, TV networks and a lot of other media, which contributed to the growth of sales. The growth rate of selling, general and administrative expenses exceeded that of net sales because we substantially increased advertising expenses for train and taxi advertisements, TV commercials, infomercials, and other forms of media as an investment towards making the "POCKETALK" brand the de facto standard in the translating device industry. As a result, we reported year-on-year decreases in operating profit, ordinary profit and profit.

(4) Reliance on certain suppliers, etc.

Reliance on certain contractors

The Group contracts operations that include development, production, logistics, and customer support to certain third-party organizations. Although we practice operational management that includes progress, quality, and cost management for contracted operations in order to maintain the integrity of services entrusted to contractors, such efforts may be insufficient due to the indirect nature of these methods. Although we believe we will continue to be able to maintain contractual relationships with existing contractors, in the event that this becomes untenable and costs related to contracting increase, the Group's business operations and performance could be impacted.

a. Reliance on other companies for development operations

The Group relies on the development capabilities of other companies for part of the manufacture and development of POCKETALK and other IoT products to be launched going forward as well as the program development for some of its products. In the Group, we select development contractors capable of delivering quality services with short development times. However, there are a limited number of development contractors who satisfy these conditions. Each development contractor has different technical strengths, and combining these effectively to create products is important. Although we intend to continue strengthening relationships with development contractors while securing new partners who can satisfy the conditions of the Group, failure to find and create combinations of development contractors like the ones we have now could impact our product development framework and business performance.

b. Reliance on other companies for production and logistics operations

The Group contracts production and logistics operations to other companies it deems suitable in order to achieve a balance among development and annual production schedules and costs, etc. Although we have the option of replacing the contractors currently performing these operations, such replacement requires a certain amount of time and costs. We are therefore focused on finding and developing new contractors. Despite these efforts, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

c. Reliance on other companies for customer support operations

For its customer support services, the Group responds to inquiries concerning how to use products and product defects via a special helpline and via e-mail. We contract a portion of these services to external parties and have preparations in place to replace contractors currently conducting these operations in the event such need arises, but such replacement requires a certain amount of time and costs. As such, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

(5) Returned products and inventory

To the extent provided for in a contract and under certain conditions, the Group accepts returns of the Group's products from consumer electronics retailers and other retail stores and distributors. Although the rate of product return is currently low due to efforts to track actual sales and ensure proper shipments, this rate might increase sharply if the Group's products become obsolete as a result of technological innovations and version upgrades or other such factors. Furthermore, shifts in policy concerning inventory levels at consumer electronics retailers and other retail stores and distributors could result in an unexpectedly high volume of returns. We prepare for losses arising from returned goods after the last day of the fiscal year by recording a provision for sales returns based on past returns data. However, the Group's business performance may be impacted when the provision for sales returns increases in the event that we accept returns beyond original estimates. For inventory of Group products, including returns, we work towards and are currently achieving appropriate inventory levels. However, losses could be incurred due to product obsolescence and the Group's business performance may be impacted should a related incident occur.

(6) Intellectual property rights

i) Usage of rights belonging to third parties

In addition to products for which the Group holds all copyrights, the Group also provides products for which licenses are acquired from third parties that permit full or partial usage of things such as programs and characters.

As standard license contracts and sales contracts have an expiration, licenses and distribution rights may be withdrawn at contract end. Furthermore, the Group may decide not to renew such contracts for reasons related to things such as increasing royalties at the time of renewal. In such cases, there is also the possibility that development or sales plans created based on these contracts will be changed or scrapped, which could impact the Group's business performance. Regarding the acquisition of licenses, we use a fully pay-as-you-go system wherein royalties are paid based on sales volume. In some cases, however, we may pay a certain amount of royalties as a minimum guarantee prior to product launch. In such cases, these amounts are capitalized as advance payments - trade when paying royalties and are amortized based on estimated sales volume. Consequently, when there is a significant difference between estimated sales volume and actual sales volume, a loss due to additional amortization may be incurred and the Group's business performance may be affected.

ii) Acquisition of intellectual property rights

We register trademarks for the names of nearly all the products we market. The Group views trademark rights as exceedingly important to better differentiating our products from competitors' and improving the effectiveness of advertising and other marketing initiatives.

We must also protect patent rights, utility model rights, trademark rights, design rights, and copyrights for other technologies and business models, as well. Although we aim to acquire such rights for all products for which this may apply, this may not always be possible. When the Group's technologies or expertise are not protected by patent or other such rights and are patented by a competitor, this can disrupt the development or sale of the Group's products and impact our business performance.

iii) Violation of a third party's intellectual property rights

The Group utilizes a system for ensuring that third parties' rights are not violated. This involves heeding the advice of experts such as legal advisors and patent attorneys in conducting trademark investigations for product names and patent/design investigations for product functions and designs, etc. The Group is not aware of any violations of third parties' intellectual property rights for any current Group products. However, this does not preclude the possibility of future lawsuits or complaints brought against us citing intellectual property right infringement. Possible outcomes should such incidents occur include being requested to pay damages, suffering a loss of credit worthiness, and being compelled to discontinue sale of products, etc., all of which could impact the Group's business performance.

(7) Related laws and regulations

The Group operates its business complying with laws and regulations in countries and territories overseas as well as in Japan. These laws and regulations include those related to commercial transactions, antitrust practices, intellectual property rights, product liability, environmental protection, consumer protection, labor-management relations, financial transactions, internal control, and business taxation; those related to telecommunications business, radio waves, and safety of electronic products; those related to national security, and those related to imports and exports. If more stringent laws or regulations are imposed or if these regulations become more strictly interpreted by the authorities concerned, the Group may find it difficult to comply with such regulations, and determine it difficult to continue business operations, thus restricting the Group's business. Another possible risk is an increase in costs the Group will incur to comply with such laws and regulations.

In addition, as one of the methods of selling its products, the Group sells directly to consumers over the internet. This method is regulated by laws and regulations, and the policies and guidelines of regulatory agencies. These include the Act on Prohibition of Unauthorized Computer Access, the Consumer Contract Act, the Act on Specified Commercial Transactions, the Act on Special Provisions to the Civil Code Concerning Electronic Consumer Contracts and Electronic Acceptance Notice, and the Act on Regulation of Transmission of Specified Electronic Mail. The enactment or revision of such laws and regulations, or the creation of new guidelines and voluntary rules or revisions thereto, can place new restrictions on the Group's business. Additionally, the tightening of existing regulations can make it difficult to comply with such regulations and affect the Group's business operations, operating results, and financial standing.

In addition, if the authorities find that the Group violates such laws and regulations or determines as such, the Group could be subject to administrative punishment (such as administrative direction, publication, and surcharges), administrative penalty, or damage compensation. This also could result in a loss of the Group's trust from society.

(8) Personal information protection

i) Risks of personal information leaks in the course of providing services

In order to provide services, the Group collects and uses member information, credit card information, and other such personal information. We are therefore obligated to protect personal information under the Act on the Protection of Personal Information. We appoint a privacy officer and institute privacy policies, privacy rules, and other guidelines, and strictly manage workflows that involve the handling of personal information. We have also established a Security Committee to improve in-house education for employees and to raise awareness concerning the handling of not only personal information, but all information management companywide. We reinforce security initiatives pertaining to the Group's online systems, which handle a particularly large volume of personal information, and related departments, and we receive reviews from independent organizations and have obtained ISO 27001 certification (see note). However, serious incidents including the leak of personal information could result in claims for damages and a loss of credit worthiness, among other outcomes that could impact the Group's business operations and business performance.

Note: SO 27001 is a standard that forms the basis of third-party conformity assessment systems aimed at building a security system to protect all information assets, including personal information, and earn the trust of stakeholders.

ii) Risks of confidential information and personal information leaks by certain contractors

For operations where confidential information is handled, the Group signs confidentiality contracts with contractors it has deemed trustworthy. In the event of the leak or unauthorized usage, etc. of confidential information by a contractor despite our rigorous efforts to manage such information, the resulting loss of credibility could impact the Group's business operations and performance. Furthermore, the Group utilizes a strict system that prevents the leak of personal information for operations that involve entrusting customers' personal information to contractors for the sake of providing customer support, shipping products, or other such operations. In principle, this includes selecting only contractors who are Privacy Mark certified and conducting regular security audits of these contractors. However, should any leaks of personal information by contractors occur despite our rigorous efforts to manage such information, the resulting claims for damages and a loss of credit worthiness, among other outcomes could impact the Group's business operations and business performance.

(9) Our management system

i) Our internal control system

The Group is an organization comprised of 12 Directors and Auditors as well as 145 employees (as of March 31, 2019; includes four temporary employees), and its management system is appropriate for the organization's current size. We plan to expand our workforce and further strengthen our management system in preparation for future business growth and increased business volume. In the event that human resource recruiting and developing and the strengthening of our management system do not go as planned, the organization will be unable to take appropriate action and business operations could be disrupted.

ii) Recruiting human resources

The Group's competitive strength relies on product planning and marketing. To achieve continued growth, it is important to recruit and develop highly-capable planning and marketing personnel. However, recruiting these kinds of personnel is proving difficult due to their scarcity value in the labor market. Moreover, our system for developing human resources is not as robust as it could be due to the relatively small size of the organization. Thus, although we will continue to focus efforts on recruiting and developing human resources as a key management concern, if such efforts fail to keep up with the rate of change in the market, the Group's business performance may be impacted.

iii) Risks related to information security

In the course of conducting its operations, the Group is often in the position of handling a variety of confidential information pertaining to its customers. We therefore work to strengthen the security of information systems such as the computer networks needed to provide our services. However, losses may occur due to the leak of or damage to important data or the illegal modification, etc. of computer programs, which can result from such things as third-party intrusions into computer systems using unauthorized means, computer viruses, natural disasters, or by suddenly flooding the network. To prevent these kinds of incidents, the Group's systems department has put in place an information security management system (ISMS) to build information security and strengthen its information management system through efforts that include the provision of server load balancing to cope in times of concentrated access, which can be achieved by putting the servers in the cloud. The Group's business operations and business performance may, however, be impacted in the event that an unplanned incident occurs.

3. Management analysis of financial position, operating results and cash flows

(1) Summary of operating results, etc.

The financial position, operating results and cash flows (hereinafter, the “operating results, etc.”) of the Group (the Company and its subsidiaries) for the current fiscal year are summarized as follows:

i) Financial position and operating results

(Operating results)

The consolidated net sales for the current fiscal year stood at 14,710 million yen, up 54.9% year-on-year. The main factor behind this was continued strong sales at home and abroad of the AI translation device POCKETALK W launched in September 2018. Since the launch, the product has been well received and sold very well as a result of being covered by magazines, TV networks and a lot of other media. POCKETALK W won many prestigious awards including Grand Prize at the Nikkei Product and Service Excellence Awards 2018, awarded in January 2019, and Unique Home Electronics Award at the Generic Home Electronics Grand Prix certified by JGHEP.

However, the growth rate of selling, general and administrative expenses exceeded that of net sales because advertising expenses incurred were substantially increased for train and taxi advertisements, TV commercials, infomercials, and other forms of media as an investment towards making the “POCKETALK” brand the de facto standard in the translating device industry, alongside promotion expenses incurred for expanding sales in domestic electronics retail stores, and outsourcing costs incurred in relation to developing and improving internal systems.

Consequently, operating profit for the current fiscal year was 859 million yen (down 30.5% year-on-year), and ordinary profit was 905 million yen (down 28.1%).

Profit attributable to owners of parent was 615 million yen (down 51.2% year-on-year) due to an increase in income taxes - current caused by the reversal of loss carried forward of subsidiaries, which was partially offset by gain on sales of investment securities.

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,398 million yen, an increase of 7,148 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in cash and deposits of 5,655 million yen and an increase in finished goods of 1,027 million yen.

Total liabilities as of the end of the current fiscal year stood at 5,475 million yen, an increase of 1,729 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in accounts payable - other of 962 million yen caused by increases in advertising and other selling, general and administrative expenses.

Net assets as of the end of the current fiscal year stood at 11,923 million yen, an increase of 5,419 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in capital stock of 1,902 million yen and an increase in capital surplus of 2,642 million yen as a result of the exercise of the 9th and 10th series share acquisition rights.

ii) Cash flows

Cash and cash equivalents as of March 31, 2019 amounted to 7,562 million yen, an increase of 5,655 million yen compared with the end of the previous fiscal year.

Net cash provided by operating activities amounted to 1,346 million yen, compared with 181 million yen used in the previous fiscal year. The main factors behind this were an increase in accounts payable - other of 1,008 million yen compared with a decrease of 92 million yen a year earlier, a decrease in advance payments - trade of 176 million yen compared with an increase of 770 million a year earlier, an increase in unearned revenue of 508 million yen, which were partially offset by an increase in inventories of 991 million yen and an increase in notes and accounts receivable - trade of 520 million yen.

Net cash used in investing activities decreased by 840 million yen from the previous fiscal year to 160 million yen. The main factors behind this were purchase of contract based intangible assets of 395 million yen in the previous fiscal year, compared with proceeds from sales of investment securities of 810 million in the current fiscal year, as well as year-on-year increases in purchase of software by 256 million yen and purchase of investment securities by 115 million yen.

Net cash provided by financing activities amounted to 4,467 million yen, compared with 607 million yen used in the previous fiscal year. The main factors behind this were net decrease in short-term loans payable of 2,070 million yen and proceeds from long-term loans payable of 2,110 million yen in the previous fiscal year, compared with proceeds from issuance of shares resulting from the exercise of share acquisition rights of 3,785 million yen and proceeds from disposal of treasury shares from the exercise of share acquisition rights of 1,172 million yen in the current fiscal year.

iii) Production, orders received and sales

a. Production

Production results are not presented as the Group has no production operations.

b. Orders received

Orders received are not presented as the Group has no built-to-order production operations.

c. Sales

As the business of the Group consists of a single segment, sales results are presented based on product categories. Sales results by product category and overall sales results for the current fiscal year are shown below.

Product category	Sales (Thousands of yen)	Year-on-year comparison (%)
Security	584,861	53.3
Android App	1,454,155	91.9
Postcard creation	1,515,886	93.6
RosettaStone	184,020	40.2
Other	10,971,598	231.6
Total	14,710,520	154.9

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
The Company’s online shop	6,299,197	143.5
Consumer electronics retailers and other companies’ e-commerce sites	6,103,587	190.4
Smartphone carriers	828,534	68.6
Other	1,479,202	214.0
Total	14,710,520	154.9

2. Sales by major transaction partner have been omitted because the ratio of such sales to total sales is less than 10/100.
3. Consumption taxes are not included in the amounts above.

(2) Management’s analysis and discussion of operating results, etc.

Management’s perception, analysis and discussion of the Group’s operating results, etc. are as follows:

i) Significant accounting policies and estimates

The Group’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan.

The preparation of the consolidated financial statements requires selection and application of accounting policies based on management’s judgment and accounting estimates that affect the reported amounts and disclosures of assets, liabilities, revenues and expenses.

While these estimates are reasonably made considering the past results and other factors, actual results may differ due to the inherent uncertainty of estimation.

The significant accounting policies for preparation of the Group's consolidated financial statements are described in "Significant matters forming the basis of preparing the consolidated financial statements" in "V. Financial Information, 1 Consolidated financial statements, etc., (1) Consolidated financial statements, Notes"

ii) Perception, analysis and discussion of operating results, etc. for the current fiscal year

(Operating results)

During the current fiscal year ended March 31, 2019, the Japanese economy saw a gradual recovery of consumer spending, whereas cautious forecasts are expected to linger due to a sign of a stall primarily in the manufacturing sector, in line with the slowdown of the Chinese economy.

With regard to the business environment surrounding the Group, PC shipments in the current fiscal year represented strong growth with a 9.3% increase year-on-year (April 2019, based on the research by JEITA).

In other areas, the number of visitors to Japan in March 2019 rose 5.8% year-on-year to 2,760 thousand. It was approximately 150 thousand more than 2,608 thousand in March 2018, marking a record high as the number of visitors to Japan in March. (April 2019, based on the research by Japan National Tourism Organization).

In these conditions, the Group worked on to acquire new users for its IoT products, smartphone applications and PC software, and to expand its markets.

Since the launch in September 2018, "POCKETALK® W" AI translation device has been well received, getting covered by magazines, TV networks and a lot of other media. POCKETALK W won many prestigious awards including Grand Prize at the Nikkei Product and Service Excellence Awards 2018, awarded in January 2019, and Unique Home Electronics Award at the Generic Home Electronics Grand Prix certified by JGHEP.

We have been improving exposure of the product through train and taxi advertisements, TV commercials, infomercials, and other forms of media to enhance product awareness. The product has been well received by many consumers as a result of communicating its features of high translation accuracy and fast transmission speed. Consequently, its sales grew steadily.

We have aggressively expanded distribution channels, and the products are now available in Japan at public transportation operators, local governments and tourist associations as well as consumer electronics retailers and our own online store. Furthermore, we entered the U.S. and European markets in the second half of the fiscal year. The number of cumulative shipments exceeded 300,000 units in February 2019, and merely two months later in April 2019, it exceeded 400,000 units.

As a result, net sales for the current fiscal year were 14.710 billion yen (54.9% increase from the previous fiscal year).

We substantially increased advertising expenses for train and taxi advertisements, TV commercials, infomercials, and other forms of media as an investment towards making the "POCKETALK" brand the de facto standard in the translating device industry.

In addition, we also increased promotion expenses incurred for expanding sales in major electronics retailers across Japan, outsourcing costs incurred in relation to developing and improving internal systems, and personnel expenses owing to project development and additional sales staff. For these reasons, selling, general and administrative expenses increased 62.7% year-on-year to 8,322 million yen.

Consequently, operating profit and ordinary profit for the current fiscal year were 859 million yen (down 30.5% year-on-year), and 905 million yen (down 28.1%), respectively.

Profit attributable to owners of parent was 615 million yen (down 51.2% year-on-year) due to an increase in income taxes - current caused by the reversal of loss carried forward of subsidiaries, which was partially offset by gain on sales of investment securities.

The business of the Group consists of a single segment. An overview of operations of each sales channel is provided below.

a) The Company’s online shop

In this channel, we mainly focus on selling POCKETALK and software, as well as IoT and hardware products, through the online shop on our website.

POCKETALK W infomercials started to air in October 2018. Well received by a new user segment that we have never reached before, the infomercials have been aired with more airtime since the fourth quarter, resulting in further enhanced awareness and sales growth. As services offered exclusively through our online shop, we implemented “Name printing service” and “Product trial campaign.” We sold out all 30,000 units of LIMITED RED model.

Upgrades of software performed well, such as postcard creation software “FUDEOH,” “FUDEMAME” and “ATENA SHOKUNIN,” as well as popular products including “SAYONARA TEGAKI 5,” which neatly adjusts letters for printing on paper-based documents.

As a result of these activities, net sales stood at 6,299 million yen, up 43.5% year-on-year.

b) Electronic Retail Stores and Other EC Sites

In this sales channel, we mainly focus on selling IoT products, PC software, etc., for individual users at electronics retail stores around Japan and also on E-commerce sites run by other companies.

We expanded sales of POCKETALK W at retail stores thanks to a synergistic effect from the new selling channel—direct response TV on major home-shopping shows including Japanet Takata, and TV commercials aired during New Year holidays. We strengthened promotions focusing on sales floors in electronic retail stores located in midtown areas. Sales in suburban stores also increased thanks to a training program we conducted for sales staff across the country. Furthermore, we broadened sales networks to new channels such as Don Quijote, one of the largest general discount chain-stores in Japan, and duty-free shops.

Sales increase was also contributed by core products including security software as well as the three brands of postcard creation software “FUDEOH,” “FUDEMAME” and “ATENA SHOKUNIN.”

As a result of these activities, net sales stood at 6,103 million yen, up 90.4% year-on-year.

c) Smartphone Businesses (Mobile Carriers)

In this channel, we focused on the provision and sales of content for all-you-can-use fixed-price application services provided by three major Japanese mobile carriers (au Smart Pass by KDDI, App Pass by SoftBank, and Sugo Toku Contents by NTT DoCoMo).

For au Smart Pass, we currently provide 35 apps, mostly popular apps from overseas (41 apps in the previous fiscal year).

For App Pass, we currently provide 34 apps (28 apps in the previous fiscal year).

For Sugo Toku Contents, we currently provide five websites and 25 apps (5 websites and 24 apps in the previous fiscal year).

For the core apps, we attempted to increase the number of users by adding resident functions, and functions to link to other products. However, the reduced number of subscribers to the “all-you-can-use” application subscription services provided by the respective carriers has led to a decline in revenue. As a result, net sales have decreased to 828 million yen (31.4% decrease from the previous fiscal year).

d) Other

In addition to above, we offer POCKETALK for corporate users (both for purchase and rental), as well as services such as “all-you-can-use” subscription service for computer software and smartphone apps.

Since the initial release of POCKETALK for corporate users, many companies have made inquiries about it. In the second half of the fiscal year, we participated in trade shows and exhibitions across the country to improve awareness of the purchase and rental services of POCKETALK for corporate users. This contributed to making people aware of needs for translation devices, especially those involved in the inbound tourism business such as members of chambers of commerce and industry and shopping district associations in various regions. As a result of a surge in demand for the product, we have been invited to deliver a product briefing session or a speech more frequently than before Furthermore, large-scale adoption by major corporate groups that operate airports and railways boosted earnings. Among others, POCKETALK has been used as a customer service tool by railway and bus operators including Japan Railways Group companies.

Among the existing products and services, a continued increase in monthly subscriptions for services provided to low-cost smartphone operators and SIM operators, including the Smart RUSUDEN voice message transcribing service, contributed to earnings.

In February 2019, the Group passed the resolution to subscribe for shares of INFORICH Inc., through a third-party allotment of newly issued shares, and subsequently concluded the contract. As a result of this, the Company started handling INFORICH's portable battery charger sharing service chargeSPOT. This service has been well received with more than 1,400 outlets in locations such as the vicinities of Shibuya station.

As a result, with the addition of sales in subsidiaries, net sales increased to 1,479 million yen (114.0% increase from the previous fiscal year).

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,398 million yen, an increase of 7,148 million yen compared with the end of the previous fiscal year.

Current assets saw an increase in cash and deposits as a result of issuance of shares resulting from the exercise of share acquisition rights, and an increase in POCKETALK product inventory. Consequently, current assets amounted to 13,084 million yen, an increase of 6,964 million yen from the end of the previous fiscal year.

Non-current assets saw an increase in investments and other assets due to purchase of investment securities. Consequently, non-current assets amounted to 4,314 million yen, an increase of 183 million yen from the end of the previous fiscal year.

Total liabilities amounted to 5,475 million yen, an increase of 1,729 million yen from the end of the previous fiscal year.

Current liabilities saw an increase in unearned revenue and also an increase in accounts payable-other as a result of a substantial increase in advertising expenses, as well as increases in promotion expenses and outsourcing costs. Consequently, current liabilities amounted to 4,087 million yen, an increase of 1,837 million yen from the end of the previous fiscal year.

Non-current liabilities decreased year-on-year due to the progress in repayment of long-term loans payable. Consequently, non-current liabilities amounted to 1,388 million yen, a decrease of 108 million yen from the end of the previous fiscal year.

Net assets amounted to 11,923 million yen, an increase of 5,419 million yen from the end of the previous fiscal year.

In shareholders' equity, the exercise of the 9th and 10th series share acquisition rights (moving strike warrants through third party allotment) increased capital stock and capital surplus. Consequently, shareholders' equity amounted to 11,837 million yen, an increase of 5,411 million yen from the end of the previous fiscal year.

(Cash flows)

(Thousands of yen)

	Full year		Change
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	
Cash flows from operating activities	(181,406)	1,346,083	1,527,489
Cash flows from investing activities	(1,000,739)	(160,478)	840,260
Cash flows from financing activities	(607,217)	4,467,982	5,075,199
Cash and cash equivalents at end of period	1,906,252	7,562,192	5,655,939

Cash and cash equivalents as of the end of the current fiscal year amounted to 7,562 million yen, an increase of 5,655 million yen compared with the end of the previous fiscal year. This increase can be explained by recording of profit before income taxes of 1,016 million yen (down 44.1% year-on-year), proceeds from issuance of shares resulting from the exercise of share acquisition rights, and an increase in inventories.

Cash flows during the current fiscal year and their causes are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 1,346 million yen compared with 181 million yen used in the previous fiscal year. The main factors behind this increase were recording of profit before income taxes of 1,016 million yen and an increase in accounts payable - other of 1,008 million yen as a result of a substantial increase in advertising expenses and also increases in promotion expenses and outsourcing costs, which were partially offset by an increase in POCKETALK W and other inventories by 1,142 million yen and income taxes paid of 573 million yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 160 million yen compared with 1,000 million yen used in the previous fiscal year. The main factors were a cash inflow of 810 million yen from sale of some investment securities to improve the portfolio efficiency, which were more than offset by cash outflows of 750 million yen for purchase of new software as well as for replacement investments in line with progress in amortization of software for commercial sale and for internal use, and 186 million yen for the initial purchase of investment securities.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 4,467 million yen compared with 607 million yen used in the previous fiscal year. The main factors were cash inflows of 3,785 million yen due to the issuance of shares from the exercise of share acquisition rights, 1,172 million yen due to the disposal of treasury shares from the exercise of share acquisition rights, which were partially offset by a cash outflow of 422 million yen due to repayment of long-term loans payable.

(Liquidity and capital resources)

The Company's primary source of liquidity and capital resources are internally generated funds from operations. The Company also uses external financing sources as necessary.

As for the major changes in financial position during the current fiscal year, on the assets side, current assets increased 6,964 million yen from the end of the previous fiscal year to 13,084 million yen at the end of the current fiscal year primarily due to an increase in cash and deposits as a result of the issuance of shares from the exercise of share acquisition rights.

On the liabilities side, current liabilities increased 1,837 million yen from the end of the previous fiscal year to 4,087 million yen at the end of the current fiscal year primarily due to an increase in accounts payable - other in line with an increase in advertising and promotional activities for POCKETALK. Meanwhile, net assets increased 5,419 million yen from the end of the previous fiscal year to 11,923 million yen at the end of the current fiscal year primarily due to increases in capital stock and capital surplus from the exercise of the 9th and 10th series share acquisition rights

As the equity ratio, an indicator of financial stability, increased by 5.3 percentage points from the previous fiscal year to 68.0% for the current fiscal year, we believe that our financial stability is well maintained.

The Company will use funds raised in the current fiscal year to growth further and build a stable financial base, thereby maximizing profit through creating products that inspire joy and move the world.

4. Critical contracts for operation

   Not applicable.

5. Research and development activities

The Group develops new software for PCs and for devices such as smartphones and tablets, as well as hardware by utilizing the IoT technology.

Our research and development system involves developing and selling products in a wide variety of categories, each of which is populated with programmers who specialize in their field and use different development languages. We are therefore focused on building flexible development systems on a per project basis by creating partnerships with multiple external partners, rather than directly hiring a number of in-house programmers.

The Company recorded research and development expenses of 22 million yen, primarily for POCKETALK W, an AI translation device which was developed in-house for the first time as a next-generation model of the POCKETALK series.

As the business of the Group consists of a single segment, segment information has been omitted.

III. Information about facilities

1. Overview of capital expenditures, etc.

   The total amount of capital expenditures made for the current fiscal year stood at 720 million yen. This consisted mainly of 484 million yen for improvements to and purchases of software programs for sale, and 216 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2019

Office name (Location)	Segment name	Facilities	Book value (Thousands of yen)					Number of employees (Persons)
			Buildings	Tools, furniture and fixtures	Software	Contract based intangible assets	Total	
Head office (Minato-ku, Tokyo)	Software-related business	Office equipment for development and management, and EC systems	94,964	91,332	1,013,280	1,388,604	2,588,182	113 [4]

Notes. 1. Consumption taxes are not included in the amounts above.
2. All amounts for the buildings above are for interior equipment, etc. in offices currently being leased.
3. No facility is currently out of service.
4. The number of employees indicates the number of working employees.
5. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
6. The business of the Group consists of a single segment.
7. Head office building space is being leased. Annual leasing fees are 198,563 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions, etc. of significant facilities

As of March 31, 2019

Company name	Office name (Location)	Segment name	Facilities	Planned investment amount		Funds procurement method	Start	Scheduled completion	Increase in capacity after completion
				Total amount (Thousands of yen)	Amount already paid (Thousands of yen)				
Reporting company	Head office (Minato-ku, Tokyo)	Software-related business	Business systems	339,300	–	Own funds	April 2019	March 2020	–

Notes. 1. Consumption taxes are not included in the amounts above.
2. Increase in capacity after completion is not presented as a reasonable calculation is difficult.
3. The business of the Group consists of a single segment.

(2) Retirements, etc. of significant facilities

There are no planned retirements of significant facilities except for retirements for renewal of facilities.

IV. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

i) Total number of shares

Class	Total number of authorized shares (Shares)
Common shares	361,120,000
Total	361,120,000

Note: Upon resolution at the Board of Directors meeting held on October 25, 2018, the Articles of Incorporation was amended on December 1, 2018, to reflect the effect of the share split, increasing the total number of authorized shares by 180,560,000 shares to 361,120,000 shares.

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2019)	Number of issued shares as of the date of filing (Shares) (June 27, 2019)	Name of financial instruments exchange where the shares of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Common shares	136,162,800	136,162,800	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	136,162,800	136,162,800	–	–

Note: "Number of issued shares as of the date of filing" does not include shares issued upon exercise of share acquisition rights from June 1, 2019 until the filing date of this Annual Securities Report.

(2) Share acquisition rights, etc.

i) Details of employee stock option program

The Company issues stock options based on provisions of Articles 236, 238 and 240 of the Companies Act. An overview of this system is provided below.

Resolved at the Board of Directors meeting held on August 29, 2013 (4th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	424 (Note 1)	424 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	169,600 (Note 1)	169,600 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	225 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	August 30, 2015 - August 29, 2023	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 225 yen Additional paid-in capital: 113 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Resolved at the Board of Directors meeting held on August 28, 2014 (5th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	12 (Note 1)	12 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	4,800 (Note 1)	4,800 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	239 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	August 29, 2016 - August 28, 2024	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 239 yen Additional paid-in capital: 120 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Resolved at the Board of Directors meeting held on June 25, 2015 (6th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	658 (Note 1)	658 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	263,200 (Note 1)	263,200 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	197 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	June 26, 2017 - June 25, 2025	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 197 yen Additional paid-in capital: 99 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Resolved at the Board of Directors meeting held on June 27, 2016 (7th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	361 (Note 1)	361 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	144,400 (Note 1)	144,400 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	147 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	June 28, 2018 - June 27, 2026	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 147 yen Additional paid-in capital: 74 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Resolved at the Board of Directors meeting held on August 30, 2017 (8th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	1,438 (Note 1)	1,423 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	575,200 (Note 1)	569,200 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	139 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	August 31, 2019 - August 30, 2027	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 139 yen Additional paid-in capital: 70 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Resolved at the Board of Directors meeting held on June 26, 2018 (11th series)

	As of March 31, 2019	As of May 31, 2019
Number of share acquisition rights (Rights)	359 (Note 2)	359 (Note 2)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	71,800 (Note 2)	71,800 (Note 2)
Amount to be paid in upon exercise of share acquisition rights (Yen)	445 yen per share (Note 3)	Same as left
Exercise period of share acquisition rights	June 27, 2020 - June 26, 2028	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 445 yen Additional paid-in capital: 223 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 4)	Same as left

Notes: 1. The number of shares to be issued upon exercise of one share acquisition rights shall be 400. In the event that the Company conducts a share split (includes an allotment of the Company’s common shares without contribution, the same applies below) or a share consolidation after the date of allotment of share acquisition rights, an adjustment shall be made using the formula below. Notwithstanding, said adjustment shall be made only with respect to the number of shares to be issued upon exercise of those share acquisition rights remaining unexercised as of the relevant date, and any fractions of less than one share that arise as a result of adjustment shall be rounded down.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of split (or consolidation)}$$

Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of capital or in equivalent cases necessitating an adjustment to the number of shares granted after the date of allotment of share acquisition rights, the number of shares granted shall be adjusted appropriately to the extent reasonable.

2. The number of shares to be issued upon exercise of one share acquisition rights shall be 200. In the event that the Company conducts a share split (includes an allotment of the Company’s common shares without contribution, the same applies below) or a share consolidation after the date of allotment of share acquisition rights, an adjustment shall be made using the formula below. Notwithstanding, said adjustment shall be made only with respect to the number of shares to be issued upon exercise of those share acquisition rights remaining unexercised as of the relevant date, and any fractions of less than one share that arise as a result of adjustment shall be rounded down.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of split (or consolidation)}$$

Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of capital or in equivalent cases necessitating an adjustment to the number of shares granted after the date of allotment of share acquisition rights, the number of shares granted shall be adjusted appropriately to the extent reasonable.

3. In the event that the Company conducts a share split or a share consolidation after the date of allotment of share acquisition rights, an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of stock split (or reverse split)}}$$

Additionally, in the event that the Company issues new shares or disposes of treasury shares at a price below the market value of the Company's common shares after the date of allotment of share acquisition rights (excludes issuance of new shares and disposal of treasury shares based on the exercise of share acquisition rights and the transfer of treasury shares due to the share exchange), an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\text{Adjusted Exercise Price} = \text{Exercise Price before adjustment} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of shares newly issued} \times \text{Amount to be paid in per share}}{\text{Market value per share before new issuance}}}{\text{Number of shares already issued} + \text{Number of shares newly issued}}$$

In the formula above, "Number of shares already issued" shall be the number obtained by subtracting the number of treasury shares (common shares) from the total number of issued shares (common shares). In the event that the Company disposes of treasury shares (common shares), "Number of shares newly issued" shall read "Number of treasury shares to be disposed." In addition, "Market value" in the formula above shall be the average value of the closing price (includes indicative quote, the same applies below) in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for 30 trading days (excludes days with no closing price) starting on the 45th trading day prior to the day following the effective date (the payment date for said issue or disposal (where a payment period is set out, the final day of said payment period)) (when there is a record date, from the day following said record date). Note that the "average value" shall be calculated in yen to two decimal places and rounded to one decimal place.

Additionally, aside from the aforementioned, in the event that the Company merges with another company, implements a company split, or in equivalent cases necessitating an adjustment to the exercise price after the date of allotment of share acquisition rights, the exercise price shall be adjusted appropriately to the extent reasonable.

4. In the event that the Company implements a merger (limited to a case in which the Company ceases to exist due to the merger), absorption-type split, incorporation-type split, share exchange or share transfer (hereinafter collectively referred to as "act of organizational restructuring"), the Company shall grant share acquisition rights of a company specified in (a) through (e) under Article 236, paragraph 1, item 8 of the Companies Act (hereinafter, "the restructured company") to owners of share acquisition rights on the effective date of the act of organizational restructuring in accordance with the conditions below. This shall be limited to the case where the grant of share acquisition rights of the restructured company is stipulated in the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan.

(1) The number of share acquisition rights in the restructured company to be granted

The same number of share acquisition rights as the number of share acquisition rights owned by respective holders shall be granted.

(2) The class of shares of the restructured company to be issued upon exercise of share acquisition rights

The class of shares shall be common shares of the restructured company.

(3) The number of shares of the restructured company to be issued upon exercise of share acquisition rights

The number of shares of the restructured company to be issued upon exercise of share acquisition rights shall be determined in accordance with the aforementioned Note 1, taking into consideration the conditions of the act of organizational restructuring.

(4) The amount of assets to be contributed upon exercise of share acquisition rights

The amount of assets to be contributed upon exercise of each subscription right to shares granted shall be the amount obtained by multiplying the post restructuring exercise price obtained after adjusting the exercise price by taking into consideration the conditions and other factors of the act of organizational restructuring, by the number of shares of the restructured company to be issued upon exercise of the said share acquisition rights determined in accordance with the aforementioned Note 4 (3).

(5) Exercise period of share acquisition rights

The exercise period of share acquisition rights shall begin on the date of commencement of the exercise period stipulated above or the effective date of the act of organizational restructuring, whichever is later, and end on the closing date of the exercise period stipulated above.

(6) Matters concerning increase in capital stock and legal capital surplus in the event of issuance of shares upon exercise of share acquisition rights

i) The amount of increase in capital stock in the event of issuance of shares upon exercise of share acquisition rights shall be an amount that is half of the upper limit for an increase in capital stock to be calculated in accordance with Article 17, paragraph 1 of the Regulation on Accounting of Companies. Any fractions of less than one yen arising as a result of the calculation shall be rounded up to the nearest one yen.

ii) The amount of increase in legal capital surplus in the event of issuance of shares upon exercise of share acquisition rights shall be the upper limit for an increase in capital stock stated in i) above less the amount of increase in capital stock stipulated therein.

(7) Restriction on the acquisition of share acquisition rights by transfer

Any acquisition of share acquisition rights by transfer shall be subject to approval by the resolution of the board of directors of the restructured company.

(8) Other conditions for the exercise of share acquisition rights

To be determined in accordance with "Conditions for exercising share acquisition rights" above.

(9) Reasons and conditions for acquisition of share acquisition rights

i) In the event of approval for a merger agreement under which the Company ceases to exist, a split agreement or split plan for a company split under which the Company is the splitting company, or a share exchange agreement or a share transfer plan under which the Company becomes a wholly-owned subsidiary by the shareholders meeting (the resolution of the Board of Directors in the event that approval of the shareholders meeting is not required), the Company may acquire all share acquisition rights for no consideration on arrival of the date stipulated separately by the Company's Board of Directors.

ii) In the event that share acquisition rights can no longer be exercised under the provisions stipulated in Note 4 (8) above before the holders of share acquisition rights exercise such rights, the Company may acquire share acquisition rights for no consideration.

(10) Other conditions shall be determined in accordance with the conditions of the restructured company.

ii) Description of rights plan

Not applicable.

iii) Other information about share acquisition rights, etc.

Not applicable.

(3) Exercises, etc. of moving strike convertible bonds, etc.

9th series share acquisition rights (moving strike warrants)

	4th quarter of 23rd term (from January 1, 2019 to March 31, 2019)	23rd term (from April 1, 2018 to March 31, 2019)
Number of moving strike convertible bonds, etc. exercised during the period (Unit)	–	51,200
Number of shares delivered upon exercise during the period (Share)	–	5,120,000
Average exercise price upon exercise during the period (Yen)	–	765.84
Amount of funds raised upon exercise during the period (Thousands of yen)	–	3,921,095
Cumulative number of moving strike convertible bonds, etc. exercised at the end of the period (Unit)	–	51,200
Cumulative number of shares delivered for moving strike convertible bonds, etc. at the end of the period (Share)	–	5,120,000
Cumulative average exercise price for moving strike convertible bonds, etc. at the end of the period (Yen)	–	765.84
Cumulative amount of funds raised from moving strike convertible bonds, etc. at the end of the period (Thousands of yen)	–	3,921,095

Note: The 9th series share acquisition rights were fully exercised on July 6, 2018.

10th series share acquisition rights (moving strike warrants)

	4th quarter of 23rd term (from January 1, 2019 to March 31, 2019)	23rd term (from April 1, 2018 to March 31, 2019)
Number of moving strike convertible bonds, etc. exercised during the period (Unit)	–	10,000
Number of shares delivered upon exercise during the period (Share)	–	1,000,000
Average exercise price upon exercise during the period (Yen)	–	1,027.19
Amount of funds raised upon exercise during the period (Thousands of yen)	–	1,027,190
Cumulative number of moving strike convertible bonds, etc. exercised at the end of the period (Unit)	–	10,000
Cumulative number of shares delivered for moving strike convertible bonds, etc. at the end of the period (Share)	–	1,000,000
Cumulative average exercise price for moving strike convertible bonds, etc. at the end of the period (Yen)	–	1,027.19
Cumulative amount of funds raised from moving strike convertible bonds, etc. at the end of the period (Thousands of yen)	–	1,027,190

Note The 10th series share acquisition rights were fully exercised on October 1, 2018.

(4) Changes in the number of issued shares, capital stock, etc.

Date	Change in the total number of issued shares (Shares)	Balance of the total number of issued shares (Shares)	Change in capital stock (Thousands of yen)	Balance of capital stock (Thousands of yen)	Change in legal capital surplus (Thousands of yen)	Balance of legal capital surplus (Thousands of yen)
December 1, 2017 – January 31, 2018 (Note 1)	4,800	31,736,800	3,065	1,774,292	3,065	1,614,292
February 1, 2018 (Note 2)	31,736,800	63,473,600	–	1,774,292	–	1,614,292
February 1, 2018 – February 28, 2018 (Note 1)	7,400	63,481,000	2,525	1,776,817	2,525	1,616,817
April 1, 2018 – July 6, 2018 (Note 3)	3,576,000	67,057,000	1,381,598	3,158,416	1,381,598	2,998,416
August 1, 2018 – August 31, 2018 (Note 1)	3,200	67,060,200	767	3,159,183	767	2,999,183
September 11, 2018 – October 1, 2018 (Note 4)	1,000,000	68,060,200	513,945	3,673,128	513,945	3,513,128
October 1, 2018 – November 30, 2018 (Note 1)	8,000	68,068,200	2,229	3,675,357	2,229	3,515,357
December 1, 2018 – (Note 2)	68,068,200	136,136,400	–	3,675,357	–	3,515,357
February 1, 2019 – March 31, 2019 (Note 1)	26,400	136,162,800	4,298	3,679,656	4,298	3,519,656

Notes: 1. This increase was the result of the exercise of share acquisition rights as stock options.
2. The Company implemented a 1:2 share split on common shares.
3. This increase was the result of the exercise of the 9th series share acquisition rights (moving strike warrants).
4. This increase was the result of the exercise of the 10th series share acquisition rights (moving strike warrants).

(5) Shareholding by shareholder category

As of March 31, 2019

Category	Shareholding status (Number of shares per share unit: 100 shares)								Fractional shares (Shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors, etc.		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Persons)	–	24	26	165	101	44	43,224	43,584	–
Number of shares held (Units)	–	110,856	19,412	168,915	53,887	2,124	1,006,286	1,361,480	14,800
Shareholding ratio (%)	–	8.14	1.42	12.40	3.95	0.15	73.91	100.00	–

Note: 24 shares of treasury shares are included under “Fractional shares.”

(6) Major shareholders

As of March 31, 2019

Name	Address	Number of Shares Held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	35,563,200	26.12
Yodobashi Camera Co., Ltd.	3-20-1 Kita-shinjuku, Shinjuku-ku, Tokyo	14,438,400	10.60
Satomi Matsuda	Minato-ku, Tokyo	3,696,000	2.71
Japan Trustee Services Bank, Ltd. (Held in trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	2,663,400	1.95
The Master Trust Bank of Japan, Ltd. (Held in trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	1,733,600	1.27
Japan Trustee Services Bank, Ltd. (Held in trust account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	1,436,400	1.05
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	1,200,000	0.88
Japan Trustee Services Bank, Ltd. (Held in trust account 1)	1-8-11 Harumi, Chuo-ku, Tokyo	1,001,200	0.73
SOURCENEXT Employee Shareholding Association	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo	956,400	0.70
Daiwa Securities Co. Ltd.	1-9-1 Marunouchi, Chiyoda-ku, Tokyo	939,700	0.69
Total	–	63,628,300	46.73

Note: 5,084,000 of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd. relate to the trust business. 1,715,600 of the number of shares held by The Master Trust Bank of Japan, Ltd. relate to the trust business.

(7) Voting rights

i) Issued shares

As of March 31, 2019

Category	Number of shares (Shares)	Number of voting rights (Rights)	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	–	–	Standard shares without any limitations on the shareholders' rights
Shares with full voting rights (Other)	Common shares 136,148,000	1,361,480	Same as above
Fractional shares	Common shares 14,800	–	Same as above
Total number of issued shares	136,162,800	–	–
Total number of voting rights	–	1,361,480	–

Notes: 1. The "Fractional shares" row includes 24 treasury shares.

2. The Company implemented a 1:2 share split on common shares on December 1, 2018. Consequently, the total number of issued shares increased by 68,068,200 shares to 136,136,400 shares.

ii) Treasury shares, etc.

As of March 31, 2019

Name of shareholder	Address of shareholder	Number of shares held under own name (Shares)	Number of shares held under the name of others (Shares)	Total number of shares held (Shares)	Shareholding ratio (%)
–	–	–	–	–	–
Total	–	–	–	–	–

2. Acquisitions, etc. of treasury shares

Classes of shares, etc. Common shares

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Not applicable.

(3) Acquisitions not based on resolution of shareholders meeting or Board of Directors meeting

Not applicable.

(4) Disposals or holding of acquired treasury shares

Category	Fiscal year ended March 31, 2019		From April 1, 2019 until the filing date of this Annual Securities Report	
	Number of shares (Shares)	Total disposal value (Thousands of yen)	Number of shares (Shares)	Total disposal value (Yen)
Acquired treasury shares offered for subscription	–	–	–	–
Acquired treasury shares that were disposed	–	–	–	–
Acquired treasury shares transferred for merger, share exchange and company split	–	–	–	–
Other (exercise of share acquisition rights)	1,544,000	1,172,203	–	–
Treasury shares held	24	–	24	–

Notes: 1. The number of treasury shares held in the “From April 1, 2019 until the filing date of this Annual Securities Report” column does not include shares through purchase or sale of fractional shares from June 1, 2019 until the filing date of this Annual Securities Report.

2. The Company implemented a 1:2 share split on common shares on December 1, 2018. The number of shares in Other (exercise of share acquisition rights) for the fiscal year ended March 31, 2019 is the number before the share split.

3. Dividend policy

The Company believes that improving performance into the future will increase corporate value and result in meeting the expectations of shareholders. The basic dividend policy is to implement the distribution of profits with comprehensive consideration of performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. Moreover, while the Company's basic policy on dividend of surplus is to pay a dividend once a year, as a rule, in the form of the year-end dividend, the Articles of Incorporation stipulate that the Company may pay an interim dividend, pursuant to the provisions of Article 454, paragraph 5 of the Companies Act. The organizational bodies that determine dividends are the Board of Directors for the interim dividend and the Shareholders Meeting for the year-end dividend.

Based on this policy, the Company has set a dividend payout ratio of 15% (dividend payout ratio for the previous fiscal year: 15%), and has decided to pay a dividend of 0.68 yen per share.

With regards to the dividend for the fiscal year ending March 31, 2020, taking business conditions into account, the Company plans to pay a dividend of 1.23 yen per share, giving a forecast dividend payout ratio of 15%.

Going forward, the Company is committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account.

The distribution from surplus for the current fiscal year is as below.

Resolution date	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)
Annual Shareholders Meeting held on June 26, 2019	92,590	0.68

4. Explanation about corporate governance, etc.

(1) Overview of corporate governance

i) Basic philosophy on corporate governance

The Company's vision is one of "Creating products that inspire joy and move the world, in order to become the most exciting company in the world," which clearly indicates the direction that the Company should take. The Company also recognizes that strengthening and enhancing corporate governance is a key managerial challenge for maintaining and increasing its competitive edge in the long-term. While fulfilling our social responsibility to all stakeholders, including shareholders, consumers, and business partners, we are promoting efficient management and striving to increase corporate value, aiming for a high profit structure.

ii) Overview of corporate governance structure and reason for adopting such structure

The Company has adopted an auditor system, and the Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

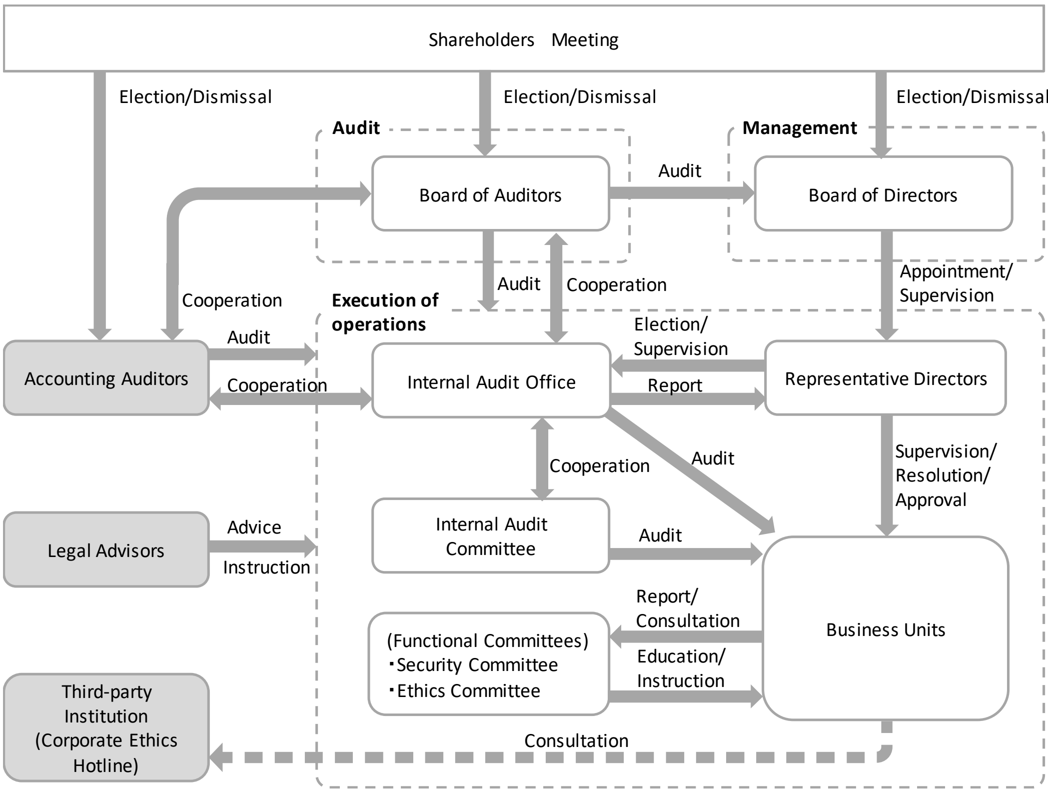
The Board of Directors is composed of eight Directors. It is designated as the organizational structure which deliberates on and determines matters provided for by the Companies Act and key issues, etc. related to the management of the Company. As a rule, meetings of the Board of Directors are held once a month. Auditors attend all meetings of the Board of Directors and provide their opinions. The Board of Auditors is designated as the organizational structure which comprehensively checks the legality and efficiency of management. As a rule, meetings of the Board of Auditors are held once a month. Two of the four Auditors are independent Outside Auditors. The objective of this is to ensure the soundness of management through the implementation of auditors' audits from a neutral and objective perspective by people with ample knowledge and experience in a variety of fields.

Additionally, three of the eight Directors are Outside Directors. The objective of this is to bring in perspectives from outside of management, strengthen corporate governance even more, and further reinforce the function of supervising the execution of operations.

The Company aims for effective governance, combining auditors' audits implemented through the active collaboration of the Board of Auditors, which includes a number of independent Outside Auditors with expert legal and other knowledge, with the Accounting Auditors and the internal audit departments, and planning of management strategy and supervision of execution of operations by the Board of Directors, which includes independent Outside Directors with high levels of management experience and insight. The aforementioned structures of the Company have been deemed effective in achieving and ensuring corporate governance, and capable of implementing appropriate and efficient corporate management. Consequently, the Company has adopted the said system of governance.

The status of the Company's corporate governance is as follows.

Corporate governance structure



iii) Other matters on corporate governance

A. Internal control system

The Company ensures compliance and constantly strives to improve and enhance the internal control system in order to promote operations effectively and efficiently.

a. Basic philosophy on the internal control system

The Company has explicitly stipulated “being genuinely good” as a condition for “EXCITING,” which is our ultimate strategy. Our basic policy is that every single Director, Auditor and employee not only complies with the laws and regulations inside and outside Japan, but also acts in accordance with corporate ethics to fulfill the Company’s social role and responsibility. In addition, in accordance with this basic policy, the Company believes that it is necessary to pursue the optimal corporate governance at all times, and to continually work on initiatives to further enhance corporate governance. In order for corporate governance to function effectively, every fiscal year the Board of Directors itself analyzes and evaluates the effectiveness of the Board of Directors as a whole, by verifying the contribution the Board of Directors is making, identifying the issues involved, working to improve them, and disclosing a summary of the result.

b. Compliance system

We provide training on compliance, and the Company’s regulations and other rules for all Directors and all employees of the Group through e-learning (online testing) implemented by the legal department and the Security Committee. Moreover, we also conduct group training in the form of lectures for all Directors and all employees of the Group, which we offered on a total of seven themes in the current fiscal year.

In addition, the internal audit departments audit the status of compliance in operational audits. These activities are regularly reported to the Board of Auditors and the summary of the activities is reported to the Board of Directors once a year.

Apart from this, the Company has established and operates the Corporate Ethics Hotline to which employees can anonymously report legally questionable conduct to the Company through an independent third-party institution with no interests in the Company.

c. Internal audit system

The Company recognizes that the internal audit function performs a vital role in internal control. The Internal Audit Office and the Internal Audit Committee, with one member and eight members respectively, are designated as the departments with responsibility for implementing internal audits. The Internal Audit Office is a department that was newly established in July 2007 as an organizational structure directly under the Representative Director in order to further strengthen the internal control environment, and the Company has assigned one employee to it. The Internal Audit Committee is composed of a Committee chair selected by the Internal Audit Office and Committee members who are chosen by the Committee chair. The principal duties of the Internal Audit Office are formulating the fiscal year internal auditing plan, establishing the priority issues for auditing, producing the final audit report, and taking responsibility for other extraordinary audits. The Internal Audit Office implements highly independent and neutral audit operations in collaboration with the Internal Audit Committee.

Also, the internal auditing plan for the following fiscal year is drawn up by the final day of each fiscal year by the Internal Audit Office, and is finalized upon obtaining the approval of the Board of Directors. The same Board of Directors then compiles an internal audit outcome overview report, in accordance with the internal auditing plan for the current fiscal year. Reports on the results of audits are submitted in writing to its supervising officer, the Representative Director. The internal control system is further strengthened by the process of providing audited departments with instructions for improvements based on the results of auditing and ensuring that they report on the status of improvements afterwards, without delay, to assure the effectiveness of internal audits.

Reports on the status of internal auditing are issued monthly in collaboration with the Board of Auditors.

d. Internal control in order to eliminate anti-social forces

The Company’s basic policy is to block any relationships, including provision of funds, with anti-social forces that threaten the order and safety of society as a whole and to respond, with measures including both civil and criminal legal responses, to any unreasonable demands made by such anti-social forces, standing resolute as an entire organization and cooperating closely with the specialist external organizations, including the police and attorneys.

In terms of arrangements aimed at eliminating anti-social forces, the departments in charge of responding have established internal structures, employee education through once-yearly compliance training, and a response manual. In addition, the Company is a member of Tokubouren (the Special Anti-Violence Countermeasures Federation of the Metropolitan Police Department) and strives to gather information about anti-social forces and develop close cooperative relationships, by participating in training sessions and seminars, etc. organized by the Federation.

Moreover, as well as conducting an investigation into affiliations for all transactions with our business partners, we establish a clause in agreements for termination with immediate effect that allows us to terminate agreements without notification in the event that a business partner is an anti-social force or has engaged in transactions with an anti-social force. This provides a structure that allows an agreement to be terminated based on the clause in the event that these grounds become known.

e. Disclosure system

With regard to the disclosure system, we will consider with great care the effect on stakeholders, including investors, and independently disclose, as necessary, financial information and non-financial information, appropriately, and in accordance with laws and regulations and the regulations of the Tokyo Stock Exchange, and even information that is not necessarily required to be disclosed under laws and regulations and the regulations of the Tokyo Stock Exchange. Going forward we will work to strengthen this even further, enhancing the information that we provide via the Internet, etc., and taking pains to implement timely and accurate disclosure.

B. Establishment of risk management system

The Company, primarily the Internal Audit Office, identifies internal and external risks once a year, as a rule, and prepares a list of company-wide risks based on the two-axis assessment as to probability of occurrence and severity of loss. Items exposed to higher risk based on the list of risks and divisions involved are reflected in the internal audit plan as priority risks, and the establishment and operation of preventive measures and crisis management measures are checked through auditing.

In addition, the Company has established the Security Committee as an internal, functional committee related to the protection of personal information, prevention of leakage of confidential information, and information security, and it provides security training and guidance for employees.

The Company's legal advisors include HIBIYA PARK LAW OFFICES to which Hideaki Kubori, an Outside Director of the Company, belongs, Murata Tamami Law Firm, CITY-YUWA PARTNERS, Oasis Law Office and Veritas General Law Office, and the Company requests advice whenever it is needed.

C. Status of system for ensuring the appropriateness of business operations at subsidiaries

To ensure the appropriateness of business operations at the Company's subsidiaries, the Company's Board of Directors monitors subsidiaries by receiving regular reports on their operating results and status of business execution, and by requesting reports, and providing guidance and supervision commensurate with the degree of risk. Important matters at subsidiaries are discussed beforehand between the subsidiary and the Company, and important matters that are judged to have a significant impact on the subsidiary's finances and profit and loss must receive approval from the Company's Board of Directors.

Moreover, the Group works together as one to maintain and improve its internal controls to ensure compliance and so forth, and the Company's Internal Audit Committee conducts regular audits of subsidiaries.

a. System for reporting to the Company matters related to the performance of duties of Directors, etc. of subsidiaries

In accordance with the basic policy related to management of affiliated companies with the objective of developing the Group as a whole and improving performance, affiliated companies deliberate with, or provide reports to, the Company.

b. System to manage the risk of losses at subsidiaries

In accordance with the Company's risk management policy, risks intrinsic to the Group are managed, and risk management is also implemented at Group companies in ways appropriate to the scale and nature of the business.

c. System to ensure that duties are being performed efficiently by Directors, etc. of subsidiaries

Within the Group, in addition to setting out decision-making rules and clarifying authority in accordance with the scale and nature of the business, discussions are held and reports made on important matters related to the business operations of the Group as a whole.

d. System to ensure that duties of Directors, etc. and employees of subsidiaries are performed in conformance with laws and regulations, and the articles of incorporation

The Group has drawn up a unified ethics policy, and has put in place initiatives aimed at ensuring that Group companies are in compliance with ethics laws and regulations. In addition, in the event that problems are found that affect upper management, Directors in charge of subsidiaries submit reports to the Company in a timely fashion, and the Company provides appropriate guidance, etc. on how to respond, as necessary.

e. Compliance system for subsidiaries

As described in iii) A. b. above, training on compliance and on the Company's rules, etc. is implemented for all Directors and employees of subsidiaries. The Company also implements lecture-style group training sessions for all Directors and employees of its subsidiaries, and completed training sessions on seven themes during the current fiscal year.

f. System to ensure the appropriateness of operations

Transactions with the parent company that depart from common practice are inspected by the legal department of the Company. In addition, the Internal Audit Committee conducts audits that cover subsidiaries and affiliates, and take the steps to understand and evaluate the state of internal control at the companies in question, as required.

iv) Overview of the contracts for limitation of liability

The Company has concluded contracts for limitation of liability for damages with the Outside Directors Masaharu Ikuta, Hideaki Kubori, and Kunitake Ando, and with the Auditors Shozaburo Takano, Masaaki Hirose, Tetsuya Kobayashi, and Kakuji Takano, pursuant to the provision of Article 427, paragraph 1 of the Companies Act.

An overview of these contracts is as below.

- In the event that the Outside Director or Auditor is liable for damages to the Company due to the neglect of duties, the Outside Director or Auditor will bear the liability limited to the minimum amount prescribed in laws and regulations.
- Recognition of the above-mentioned limitation of liability shall be restricted to when the Outside Director or Auditor acted in good faith and without gross negligence in the execution of the duties that led to the liability.

v) Number of Directors

The Articles of Incorporation stipulate that the Company shall have no more than ten Directors.

vi) Requirements of resolutions for the appointment and dismissal of Directors

The Articles of Incorporation stipulate that a resolution to appoint a Director of the Company shall require a majority of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The Articles of Incorporation also stipulate that a resolution to appoint a Director shall not be held by cumulative voting.

The Articles of Incorporation further stipulate that a resolution to dismiss a Director of the Company shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance.

vii) Method for an extraordinary resolution of the shareholders meeting

The Articles of Incorporation stipulate that a resolution provided for under Article 309, paragraph 2 of the Companies Act shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The objective of this is to ensure a quorum at the shareholders meeting to provide for its reliable and smooth operation.

viii) Matters for resolution by the shareholders meeting that can be resolved by the Board of Directors

The Articles of Incorporation stipulate that the Board of Directors can resolve the following without a resolution of the shareholders meeting.

A. Exemption from liability of Directors and Auditors

Pursuant to the provision of Article 426, paragraph 1 of the Companies Act, the Articles of Incorporation of the Company stipulate that a resolution by the Board of Directors may exempt Directors and Auditors (including former Directors and Auditors) from liability for damages due to neglect of duties within the limit provided for by laws and regulations when there is good faith and no gross negligence. The objective of this is for Directors and Auditors to adequately fulfill their expected duties without the chilling effect due to the possibility of bearing excessive liability.

B. Acquisition of treasury shares

Pursuant to the provision of Article 165, paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that the Company may acquire treasury shares in market and other transactions based on the resolution of the Board of Directors. The objective of this is the flexible implementation of capital strategy in response to changes in economic and other conditions.

C. Interim dividends

As prescribed in the Articles of Incorporation, the Company has adopted an interim dividend system, as provided for by the provisions of Article 454, paragraph 5 of the Companies Act, and the Board of Directors is the organizational body that determines the interim dividend. The objective of this is the flexible payment of dividends.

(2) Information about Directors and Auditors

i) List of Directors and Auditors

Men: 11, Women: 1 (Percentage of female Directors and Auditors: 8%)

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
President and CEO (Representative Director)	Noriyuki Matsuda	May 28, 1965	Apr. 1989 Sep. 1993 Aug. 1996 Sep. 2012 Jun. 2017	Joined IBM Japan Established AAA, Ltd., Representative Director and President, AAA, Ltd. Established the Company, President and CEO, the Company (current position) President & CEO, SOURCENEXT Inc. (current position) President and CEO, Rosetta Stone Japan, Inc. (current position)	(Note 6)	35,563,200

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	Satomi Matsuda	Jul. 5, 1965	Aug. 1990 Jan. 1992 Jan. 1994 Aug. 1996 May 2002 Sep. 2012 Jun. 2014 Mar. 2018 Jun. 2019	Joined KITAGAWA INDUSTRIES CO., LTD. Joined TFC Corporation Joined AAA, Ltd., Senior Managing Director, AAA, Ltd. Senior Managing Director, the Company Executive Managing Director, the Company Secretary, SOURCENEXT Inc. (current position) Executive Vice President, the Company President and CEO, Solve Co., Ltd. (current position) Managing Director, the Company (current position)	(Note 6)	3,696,000
Senior Managing Director, Senior Executive Officer, In charge of Sales Group	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001 Jun. 2006 Jun. 2008 Jan. 2009 Jun. 2012 May 2017 Jan. 2019	Joined the Company Executive Officer, the Company Managing Director, the Company Executive Director, the Company Managing Director, the Company (current position) Managing Director, FUDEMAME CO., LTD. (current position) Managing Director, SOURCENEXT Inc. (current position)	(Note 6)	93,800
Managing Director, Senior Executive Officer, In charge of the Business Development Group	Kousuke Fujimoto	Sep. 9, 1964	Oct. 1988 Nov. 1999 Dec. 1999 Oct. 2009 Jul. 2013 Apr. 2015 Jun. 2018	Joined Recruit Co., Ltd. Joined the Company Managing Director, the Company Executive Officer, the Company Managing Executive Officer, the Company Senior Executive Officer, the Company Managing Director, the Company (current position)	(Note 6)	123,500
Managing Director, Managing Executive Officer, In charge of Operations Group	Fumihiko Aoyama	Aug. 3, 1967	Oct. 1991 Jul. 1999 Apr. 2000 Apr. 2002 Jun. 2004 Jan. 2009 Jun. 2012 May 2017	Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC) Joined Deloitte Tohmatsu Consulting Joined the Company Executive Officer, the Company Managing Director, the Company Executive Director, the Company Managing Director, the Company (current position) Managing Director, FUDEMAME CO., LTD. (current position)	(Note 6)	231,000

<table>
<tr><th>Title and Position</th><th>Name</th><th>Date of Birth</th><th colspan="2">Career Summary</th><th>Term</th><th>Number of Shares Held (Shares)</th></tr>
<tr><td rowspan="12">Managing Director</td><td rowspan="12">Masaharu Ikuta</td><td rowspan="12">Jan. 19, 1935</td><td>Apr. 1957</td><td>Joined Mitsui Steamship Co., Ltd. (currently Mitsui O.S.K. Lines, Ltd.)</td><td rowspan="12">(Note 6)</td><td rowspan="12">92,000</td></tr>
<tr><td>Jun. 1994</td><td>Representative Director and President, Mitsui O.S.K. Lines, Ltd.</td></tr>
<tr><td>Jun. 2000</td><td>Representative Director and Chairman, Mitsui O.S.K. Lines, Ltd.</td></tr>
<tr><td>Apr. 2003</td><td>President, Japan Post (currently Japan Post Group)</td></tr>
<tr><td>Mar. 2007</td><td>Resigned as President, Japan Post</td></tr>
<tr><td>Apr. 2007</td><td>Corporate Advisor, Mitsui O.S.K. Lines, Ltd.</td></tr>
<tr><td>Jun. 2008</td><td>Outside Director, Terumo Corporation
Outside Director, the Company (current position)</td></tr>
<tr><td>May 2009</td><td>Outside Director, Aeon Co., Ltd.</td></tr>
<tr><td>Feb. 2010</td><td>Senior Counselor, Mitsui O.S.K. Lines, Ltd.</td></tr>
<tr><td>Jun. 2014</td><td>President, Nagoya Port Terminal Corporation</td></tr>
<tr><td>May 2017</td><td>Representative Director and President, Nagoya-Yokkaichi International Port</td></tr>
<tr><td>Jul. 2018</td><td>Corporation Advisor, Nagoya-Yokkaichi International Port Corporation (current position)</td></tr>
<tr><td rowspan="10">Managing Director</td><td rowspan="10">Hideaki Kubori</td><td rowspan="10">Aug. 29, 1944</td><td>Apr. 1971</td><td>Registered as Attorney-at-Law
Joined Mori Sogo</td><td rowspan="10">(Note 6)</td><td rowspan="10">30,200</td></tr>
<tr><td>Apr. 1998</td><td>Representative, HIBIYA PARK LAW OFFICES (current position)</td></tr>
<tr><td>Apr. 2001</td><td>President, Daini Tokyo Bar Association, and Vice President, Japan Federation of Bar Associations</td></tr>
<tr><td>Oct. 2001</td><td>Outside Director, Nomura Holdings, Inc.</td></tr>
<tr><td>Feb. 2003</td><td>Outside Auditor, the Company</td></tr>
<tr><td>Jun. 2008</td><td>Member of the Supervisory Committee, The Norinchukin Bank (current position)</td></tr>
<tr><td>Jun. 2011</td><td>Outside Director, Tokyo Stock Exchange Group, Inc. (currently Japan Exchange Group, Inc.) (current position)
Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)</td></tr>
<tr><td>Jun. 2014</td><td>Outside Director, the Company (current position)</td></tr>
<tr><td>Apr. 2015</td><td>Professor, Toin Law School (current position)</td></tr>
<tr><td>Apr. 2018</td><td>Outside Director, Coincheck, Inc. (current position)</td></tr>
</table>

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	Kunitake Ando	Jan. 1, 1942	Apr. 1969	Joined Sony Corporation	(Note 6)	6,400
			Aug. 1979	Representative Director, Sony Prudential Life Insurance Co., Ltd.		
			Apr. 1990	President, Sony Corporation of America President, Sony Engineering and Manufacturing of America		
			Apr. 2000	Representative Director and President, Sony Corporation		
			Jun. 2005	Chairman, Representative Director, Sony Financial Holdings Inc.		
			Jun. 2007	Chairman, Director, Sony Life Insurance Co., Ltd.		
			Mar. 2012	Director, Japan Center for International Exchange (current position)		
			Jul. 2013	Director, Japan Innovation Network (current position)		
			Jun. 2017	Outside Director, the Company (current position)		
			Apr. 2018	Chairman, The University of Nagano (current position)		
Standing Auditor	Shozaburo Takano	Jan. 11, 1938	Jan. 1968	Joined Fuji Heavy Industries Ltd.	(Note 7)	260,000
			Sep. 1980	Joined Japan Data General Co., Ltd.		
			Mar. 1991	Joined Nippon Computer Systems Corporation		
			Dec. 1999	Advisor, the Company		
			Jun. 2000	Full-time Auditor, the Company (current position)		
			May 2017	Auditor, FUDEMAME CO., LTD. (current position)		
Standing Auditor	Masaaki Hirose	Aug. 26, 1948	Apr. 1971	Joined Suruga Bank Ltd.	(Note 8)	43,100
			Apr. 2005	Managing Executive Officer, Suruga Bank Ltd.		
			Jun. 2008	Audit & Supervisory Board Member (Full-time), Suruga Bank Ltd.		
			Jun. 2016	Senior Executive Advisor, Suruga Bank Ltd.		
			Jun. 2017	Full-time Auditor, the Company (current position)		
			Mar. 2018	Auditor, Solve Co., Ltd. (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Auditor	Tetsuya Kobayashi	Sep. 5, 1958	Apr. 1991	Registered as Attorney-at-Law (Daini Tokyo Bar Association)	(Note 9)	—
			Apr. 2003	Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology		
			Apr. 2004	Vice President, Daini Tokyo Bar Association		
			Jan. 2006	Established Kobayashi Sogo Law Office		
			Jun. 2006	Outside Auditor, the Company (current position)		
			May 2007	Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position)		
			Apr. 2008	Part-time instructor, Faculty of Law, Keio University		
			May 2010	Auditor, Utsunomiya Hotoku Hospital (current position)		
			Jun. 2011	Outside Auditor, Mochida Pharmaceutical Co., Ltd. (current position)		
			Apr. 2012	Executive Governor, Japan Federation of Bar Associations		
			May 2016	Committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position)		
Auditor	Kakuji Takano	Apr. 7, 1940	Apr. 1963	Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION)	(Note 9)	–
			May 1968	Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC)		
			May 1981	Established Takano Sogo Accounting Firm		
			Dec. 1996	Representative Partner, Audit Corporation Ota Showa Century (currently Ernst & Young ShinNihon LLC)		
			Apr. 2007	Outside Auditor, MARUZEN CO., LTD.		
			Jun. 2007	Outside Auditor, NIPPON SHUPPAN HANBAI INC.		
			Oct. 2008	Councilor, Kanagawa Institute of Technology (current position)		
			Jul. 2010	Managing Partner, Takano Sogo Accounting Firm (current position)		
			May 2014	Auditor, Tokyo Medical and Dental Cooperative (current position)		
			Jun. 2014	Outside Auditor, the Company (current position)		
			Jun. 2016	Outside Audit & Supervisory Board Member, KDDI CORPORATION (current position)		
Total						40,139,200

Notes: 1. Managing Director Satomi Matsuda is the spouse of President and CEO Noriyuki Matsuda.

2. Managing Directors Masaharu Ikuta, Hideaki Kubori, and Kunitake Ando are Outside Directors.
3. Auditors Tetsuya Kobayashi and Kakuji Takano are Outside Auditors.
4. The Company adopted an executive officer system in June 2006 in order to revitalize the Board of Directors and increase management efficiency. The person with responsibility for each group is designated as the Executive Officer. There are three Directors serving concurrently as Executive Officers, and seven full-time Executive Officers.
5. At the Annual Shareholders Meeting on June 26, 2019, the Company appointed one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. The career summary of the Substitute Auditor is as shown below.

Name	Date of Birth	Career Summary		Number of Shares Held (Shares)
Ryo Tsuchida (Registered name: Ryo Teranishi)	Jul. 4, 1968	Apr. 1998	Assistant, Faculty of Law, Sophia University	–
		Apr. 2000	Full-time instructor, Faculty of Law, University of East Asia	
		Apr. 2002	Assistant Professor, Faculty of Law, University of East Asia	
		Apr. 2003	Assistant Professor, Faculty of Law, Meijo University Part-time instructor, Division of Laws, Total Academic Graduate Course, Correspondence Graduate School, University of East Asia (current position)	
		Apr. 2008	Associate Professor, Judicial Affairs Course, Omiya Law School Part-time instructor, Faculty of Law, Meijo University	
		Jan. 2010	Registered as Attorney-at-Law (Daini Tokyo Bar Association) Joined Frontier-Law	
		Apr. 2011	Professor, Judicial Affairs Course, Omiya Law School	
		Apr. 2012	Part-time instructor, Meiji Gakuin University Graduate Law School Professor, Department of Law, School of Law, Senshu University (current position)	
		Apr. 2014	Professor, Department of Law, School of Law, Senshu University (current position) Part-time instructor, Judicial Affairs Course, Omiya Law School	
		Apr. 2015	Part-time lecturer, Faculty of Law, Komazawa University	
		Jun. 2015	Outside Auditor, Resona Bank, Limited (current position)	
		Nov. 2017	Outside Director, UPR Corporation (current position)	
		Apr. 2018	Part-time instructor, College of Economics, Rikkyo University (current position)	

Ryo Tsuchida, Substitute Auditor, meets the requirements for Outside Auditor.

6. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2019 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2020.
7. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2016 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2020.
8. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2017 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2021.
9. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2018 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2022.
10. Number of shares held is as of March 31, 2019.

ii) Information about Outside Directors and Auditors

The Company has three Outside Directors. There are also two Outside Auditors.

Of the three Outside Directors, Masaharu Ikuta is Advisor at Nagoya-Yokkaichi International Port Corporation. There are no capital relationships, business relationships, and interests between Nagoya-Yokkaichi International Port Corporation and the Company.

Hideaki Kubori serves concurrently as Representative of HIBIYA PARK LAW OFFICES, and the Company has concluded an advisory agreement with HIBIYA PARK LAW OFFICES. The Outside Director himself has no direct interest in this transaction. Hideaki Kubori is also Outside Director at Japan Exchange Group, Inc., Member of the Supervisory Committee at The Norinchukin Bank, and Outside Director at Coincheck, Inc. There are no capital or business relationships between any of these companies and the Company.

Kunitake Ando is Director at Japan Center for International Exchange, Director at Japan Innovation Network, and Chairman at the University of Nagano. There are no capital or business relationships between any of these companies and the Company.

Of the two Outside Auditors, Tetsuya Kobayashi is an attorney-at-law and has no business relationships with or interests in the Company. Tetsuya Kobayashi is also Outside Auditor at Mochida Pharmaceutical Co., Ltd. There are no capital or business relationships between Mochida Pharmaceutical Co., Ltd. and the Company.

Kakuji Takano is a certified public accountant and has no business relationships with or interests in the Company. Kakuji Takano is also Outside Audit & Supervisory Board Member at KDDI CORPORATION. Transactions between KDDI CORPORATION and the Company include sales of the Company's products. Sales of the Company's products are determined in accordance with ordinary transaction conditions.

The Outside Directors serve a role as an advisory function for the Company's management from an external perspective and further strengthen the management supervisory function of the Board of Directors by participating from a standpoint that is independent of the execution of operations. The Outside Directors also exchange opinions with the Board of Auditors whenever necessary, increasing coordination between them.

The Outside Auditors, together with the Standing Auditor, ensure the effectiveness of audits through close collaboration with the Internal Audit Office and the Accounting Auditors, including regularly exchanging information on audit plans and audit results and holding hearings on reports concerning the establishment of internal control and the results of assessments.

Moreover, as the policy concerning the independence of Outside Directors and Outside Auditors from the Company, we focus on independence when making appointments to enable each of them to provide supervision, auditing, advice and recommendations from a perspective outside of the Company utilizing their expert knowledge and experience based on a neutral and objective standpoint with no possibility of a conflict of interest with ordinary shareholders.

(3) Status of Audit

i) Status of auditors' audit

The Company has adopted an auditor system, and there are four Auditors, including two Outside Auditors. In addition to attending meetings of the Board of Directors, the Auditors perform tasks that include hearing about the execution of operations directly from Directors and others, attending important meetings, hearing reports on business operations, inspecting materials for key resolutions, etc.

Additionally, the Company has appointed an Auditor with a considerable degree of knowledge concerning finance and accounting as outlined below.

Shozaburo Takano, the Standing Auditor, was engaged in financial accounting for over 15 years in total, having been involved in financial accounting operations, including U.S. accounting, in the management department at Japan Data General Co., Ltd. and accounting and finance operations in the accounting department at Nippon Computer Systems Corporation. Also, Full-time Auditor Masaaki Hirose served in the roles of Managing Executive Officer and Audit & Supervisory Board Member (Full-time) at Suruga Bank Ltd. for a total of more than 11 years.

At the Annual Shareholders Meeting held on June 26, 2019, the Company elected one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations.

ii) Status of internal audit

The Internal Audit Office and the Internal Audit Committee, which are composed of one and eight members respectively, verify the legality and propriety of operations in operational audits and report the results to the Representative Directors. The Internal Audit Office and the Internal Audit Committee implement assessments of internal control related to financial reporting. The Internal Audit Office reports the content of internal audit implementation and the status of improvements directly to the Board of Auditors in a timely manner. The Accounting Auditors regularly exchange opinions with the Auditors and the Internal Audit Office and aim for coordination with internal audits and auditors' audits.

Moreover, the Auditors, Accounting Auditors, and the Internal Audit Office exchange information on every occasion relating to assessments of internal control, forming a framework that enables them to collaborate and identify common issues.

iii) Status of accounting audit

A. Names of certified public accountants who executed the audit duties, name of audit firm to which they belong, and number of years of auditing in the event that the certified public accountant has been continuously engaged in audit duties related to the reporting company's financial documents

Certified public accountants who executed the audit duties		Audit firm to which they belong	Number of years of continuous auditing
Designated Limited Liability Partner Engagement Partner	Naoko Kimura	Deloitte Touche Tohmatsu LLC	3 years
Designated Limited Liability Partner Engagement Partner	Kazuyoshi Kuramoto	Deloitte Touche Tohmatsu LLC	3 years

B. Breakdown of auditing assistants who executed the audit duties

Certified Public Accountants	6 persons
Others	9 persons

Note: "Other" above are people who have passed the Certified Public Accountants Examination and systems auditors, etc.

C. Policies and reasons for selecting Accounting Auditor

Provided that Accounting Auditor is determined to meet any of the items set forth in Article 340, paragraph 1 of the Companies Act, the Board of Auditors shall, upon the consent of all Auditors, accordingly dismiss Accounting Auditor. In such a case, Auditor selected by the Board of Auditors shall report the dismissal of Accounting Auditor and the reason for it at the first General Meeting of Shareholders convened after the dismissal.

In addition to the case above, the Board of Auditors shall also determine the proposals related to non-reappointment of Accounting Auditor if deemed necessary after comprehensively considering their independence, audit quality, quality control, comprehensive ability, and other statuses of their execution of duties. The Board of Auditors shall annually deliberate on dismissal or non-reappointment of Accounting Auditor based on the policies above.

The Board of Auditors selected Deloitte Touche Tohmatsu LLC (Hereinafter "Tohmatsu") because it determined that Tohmatsu has a sound basis for ensuring its audits are carried out appropriately. This decision was made taking into account the fact that Tohmatsu can provide us with a wide range of information as well as its independence, expertise, audit-activity related appropriateness, validity, and efficiency, and other statuses of their execution of duties.

D. Audit firm evaluation by Auditors and Board of Auditors

The Company's Auditors and the Board of Auditors evaluate the audit firm according to the "Standards for Evaluating Accounting Auditor." The "Standards for Evaluating Accounting Auditor" was developed by the Board of Auditors with reference to the "Evaluation Standards on External Accounting Auditors" established by Japan Audit & Supervisory Board Members Association. The standards evaluate audit firms based on items such as audit firms' quality control, audit team's job performance, audit fees, commutations with

Auditors and management, and fraud risk management. Reappointment of Accounting Auditor for the current fiscal year was also resolved by the Board of Auditors based on the applicable evaluation results.

iv) Details of audit fee, etc.

A. Details of remuneration to certified public accountants, etc. for audits

Category	Fiscal year ended March 31, 2018		Fiscal year ended March 31, 2019	
	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)
Reporting company	23,000	–	22,000	–
Consolidated subsidiaries	–	–	–	–
Total	23,000	–	22,000	–

B. Remuneration to organizations that belong to the same network of certified public accountants, etc. for audits (excluding remuneration described in the item i) above)

Not applicable.

C. Details of remuneration for other significant audit certification services

Not applicable.

D. Policy on determining audit fee

The Company gives full consideration to the audit plan, audit details and time required for audits by certified public accountants, etc. for audits, and determines an appropriate audit fee, having first obtained the approval of the Board of Auditors.

E. Reasons why the Board of Auditors has consented to remuneration for Accounting Auditor

The Company's Board of Auditors agreed to remuneration for Accounting Auditor as stipulated in Article 399, paragraph 1 of the Companies Act, after conducting evaluations necessary to determine the appropriateness of the Accounting Auditor’s audit plans, status of its execution of duties, the basis of calculation of audit fee estimate, and other matters.

(4) Remuneration, etc. for Directors and Auditors

i) Policy on determination of remuneration, etc. for Directors and Auditors

A. Remuneration, etc. for Directors

The structure of remuneration, etc. for Directors excluding Outside Directors is made up of three components-basic remunerations, bonuses, and stock options. The remuneration paid to Outside Directors comprises basic remuneration only.

The basic remuneration is established, within the total amount of remuneration resolved at the General Meeting of Shareholders, as a base amount in accordance with the scope of responsibility of each Director. However, the amount is variable within a certain range according to factors such as level of contribution and ability to drive strategy and planning. Bonuses are determined as an amount allocated separately depending on each Director’s achievement of targets, ability to drive strategy and planning, etc. The specific amounts of basic remuneration and bonuses for each Director shall be determined by President and CEO in consultation with Outside Directors and Auditors. Stock options shall be vested within the total amount of remuneration resolved at the General Meeting of Shareholders. The specific number to be vested for each Director shall be determined by the Board of Directors.

B. Remuneration, etc. for Auditors

The structure of remuneration, etc. for Auditors is made up of basic remuneration and bonuses.

The amount of remuneration, etc. shall be a specific amount within the total amount of remuneration resolved at the General Meeting of Shareholders to ensure that the amount for each Auditor is fair and to make the auditing function operate effectively. The specific amount for each Auditor shall be determined through consultation among Auditors taking into account the duties allocated to each Auditor, level of knowledge, work experience, and other factors.

ii) Total amount of remuneration, etc. by each category of Directors, Auditors, and Outside Directors and Auditors, total amount of remuneration, etc. by type, and number of Directors, Auditors, and Outside Directors and Auditors to be paid

Category	Total amount of remuneration (Thousands of yen)	Total amount of remuneration, etc. by type (Thousands of yen)				Number to be paid (Persons)
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding Outside Directors)	87,520	81,207	6,312	–	–	5
Auditors (excluding Outside Auditors)	19,680	19,680	–	–	–	2
Outside Directors and Auditors	40,560	40,560	–	–	–	5

iii) Total amount of consolidated remuneration, etc. per Director and Auditor

Omitted as there is no Director or Auditor for whom the total amount of consolidated remuneration, etc. is 100 million yen or more.

iv) Significant employee salary for employees serving concurrently as Directors or Auditors

Total amount (Thousands of yen)	Number to be paid (Persons)	Details
7,350	2	Amount corresponding to employee salary (includes bonuses) for employees of the reporting company serving concurrently as Directors or Auditors

(5) Ownership of shares

i) Classification criteria and approaches for investment shares

The Company shall hold shares of other companies only in cases where it believes these holdings contribute to the Company’s corporate value for reasons such as business strategic benefits as well as maintenance and strengthening of long and stable business relations with the invested companies.

ii) Investment shares held for any purpose other than pure investment

A. Holding policy and the method to verify the reasonableness of the holding, as well as details of such verification by the Board of Directors concerning the appropriateness of the holding of the respective stocks

The Group evaluates each share it holds for the significance and economic rationale in medium- to long-term perspectives such as growth, profitability, and business relationships with the invested companies. We evaluate the economic rationale concerning whether holding the shares is an appropriate way to use the Group's fund by measuring the benefits that can be obtained quantitatively and qualitatively. The evaluation is performed in accordance with the following criteria:

- The purpose of holding the shares is appropriate,
- The benefits and risks associated with holding the shares are worth to the Group's capital cost,
- The Group has continuous business relations with the invested companies and business expansion opportunities with them in the future,
- The Group has reasonable reasons for holding the shares to maintain business relations with the

companies and expand business with them,
- The risk of holding shares due to business performance or stock price movement of the invested companies is not significantly high, and
- Holding the shares does not have a marked influence on the capital demand on other business investment.

The decision of whether to continue holding the shares shall be made every year at the Board of Directors meeting. At the meeting, each share is evaluated whether to meet the criteria above. When the criteria are met, the Company continues to hold the shares. When this is not the case, the Company considers reducing the shares after sufficient discussions with the invested companies.

B. Number of issues and carrying amount

	Number of issues (Issue)	Total carrying amount (Thousands of yen)
Unlisted stocks	6	315,346
Stocks other than unlisted stocks	1	12,755

(Issues whose number of shares increased during the current fiscal year)

	Number of issues (Issue)	Total acquisition costs associated with increase in shares (Thousands of yen)	Reason for increase in number of shares
Unlisted stocks	4	188,546	To improve profitability and strengthen development capabilities for the Company's products through more efficient use of development outsourcing costs
Stocks other than unlisted stocks	0	0	–

(Issues whose number of shares decreased during the current fiscal year)

	Number of issues (Issue)	Total sales proceeds associated with decrease in shares (Thousands of yen)
Unlisted stocks	1	140,742
Stocks other than unlisted stocks	0	0

C. Information on the number of shares and carrying amount by issue of specified investment shares and shares subject to deemed shareholding

Issue	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2018	Holding purpose, quantitative effect of holding and reason for increased number of shares	Holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Carrying amount (Thousands of yen)	Carrying amount (Thousands of yen)		
Joshin Denki Co., Ltd.	5,000	5,000	To maintain and strengthen business relationships	None
	12,755	19,425		

Note: The Company has difficulty describing quantitative effect of holding. Reasonableness of holding has been verified as described in 2) ii).

iii) Investment shares held for the purpose of pure investment

Not applicable.

V. Financial information

1. Preparation policy of the consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) The financial statements of the Company are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ordinance of the Ministry of Finance No. 59 of 1963, hereinafter, “Ordinance of Financial Statements”).

The Company meets the criteria of a company allowed to file specified financial statements under the Financial Instruments and Exchange Act and prepares financial statements pursuant to the provisions of Article 127 of Ordinance of Financial Statements.

2. Audit certification

The consolidated financial statements for the fiscal year from April 1, 2018 to March 31, 2019 were audited by Deloitte Touche Tohmatsu LLC in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

3. Remarkable efforts to ensure fair presentation of consolidated financial statements, etc.

The Company takes remarkable efforts to ensure fair presentation of consolidated financial statements, etc. Specifically, to ensure correct understanding of accounting standards, etc. and organize the system capable of responding to these accounting standards, the Company has acquired membership in the Financial Accounting Standards Foundation, has a subscription to specialized magazines explaining accounting standards and systems, and attends training seminars held by external institutions including audit firms on changes of accounting standards and other topics.

Consolidated financial statements, etc.

(1) Consolidated financial statements

i) Consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	1,906,252	7,562,192
Accounts receivable - trade	2,031,188	2,918,567
Merchandise and finished goods	300,849	1,328,078
Raw materials and supplies	42,122	155,905
Advance payments - trade	1,031,642	855,189
Accounts receivable - other	679,510	6,677
Other	127,909	257,835
Total current assets	6,119,477	13,084,446
Non-current assets		
Property, plant and equipment		
Buildings	209,127	220,919
Accumulated depreciation	(79,301)	(111,636)
Buildings, net	129,826	109,282
Vehicles	6,997	7,309
Accumulated depreciation	(5,423)	(5,994)
Vehicles, net	1,573	1,315
Tools, furniture and fixtures	205,838	209,375
Accumulated depreciation	(89,641)	(116,047)
Tools, furniture and fixtures, net	116,197	93,327
Total property, plant and equipment	247,597	203,926
Intangible assets		
Software	1,061,937	1,096,757
Goodwill	599,651	444,770
Contract based intangible assets	1,466,107	1,388,604
Other	96,644	93,142
Total intangible assets	3,224,340	3,023,274
Investments and other assets		
Investment securities	179,826	328,101
Deferred tax assets	266,802	546,570
Other	214,170	214,479
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	658,999	1,087,350
Total non-current assets	4,130,936	4,314,550
Total assets	10,250,413	17,398,997

(Thousands of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	396,830	567,660
Short-term loans payable	—	100,000
Current portion of long-term loans payable	422,000	422,000
Accounts payable - other	541,977	1,504,917
Income taxes payable	305,597	438,380
Unearned revenue	139,988	699,934
Provision for bonuses	30,962	23,318
Provision for sales returns	200,704	120,858
Provision for after service cost	20,393	14,402
Other	191,251	195,956
Total current liabilities	2,249,705	4,087,428
Non-current liabilities		
Long-term loans payable	1,437,000	1,015,000
Long-term unearned revenue	59,606	373,131
Total non-current liabilities	1,496,606	1,388,131
Total liabilities	3,746,311	5,475,559
Net assets		
Shareholders' equity		
Capital stock	1,776,817	3,679,656
Capital surplus	1,616,817	4,259,683
Retained earnings	3,471,031	3,898,004
Treasury shares	(438,355)	(3)
Total shareholders' equity	6,426,311	11,837,340
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,345	(778)
Foreign currency translation adjustment	841	(5,211)
Total accumulated other comprehensive income	5,186	(5,989)
Share acquisition rights	72,603	92,087
Total net assets	6,504,101	11,923,437
Total liabilities and net assets	10,250,413	17,398,997

ii) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2017 to March 31, 2018)		Current fiscal year (From April 1, 2018 to March 31, 2019)
Net sales		9,494,658		14,710,520
Cost of sales	*1	3,214,408	*1	5,608,362
Gross profit		6,280,249		9,102,158
Provision for sales returns		200,704		120,858
Reversal of provision for sales returns		271,951		200,704
Gross profit - net		6,351,496		9,182,004
Selling, general and administrative expenses				
Promotion expenses		498,580		951,951
Salaries		740,505		795,770
Provision for bonuses		20,335		23,318
Business consignment expenses		1,326,003		1,971,724
Advertising expenses		580,464		2,150,473
Other	*2	1,947,664	*2	2,428,981
Total selling, general and administrative expenses		5,113,554		8,322,219
Operating profit		1,237,942		859,784
Non-operating income				
Interest income		266		214
Dividend income		160		249
Foreign exchange gains		18,516		32,024
Contribution for development		5,833		18,347
Gain on redemption of investment securities		2,745		―
Other		1,850		1,463
Total non-operating income		29,372		52,298
Non-operating expenses				
Interest expenses		7,908		5,277
Loss on investments in silent partnership		―		785
Other		676		392
Total non-operating expenses		8,585		6,455
Ordinary profit		1,258,729		905,628
Extraordinary income				
Gain on sales of investment securities		570,292		110,742
Gain on reversal of share acquisition rights		985		―
Total extraordinary income		571,278		110,742
Extraordinary losses				
Loss on valuation of advance payments		12,062		―
Total extraordinary losses		12,062		―
Profit before income taxes		1,817,945		1,016,370
Income taxes - current		547,044		677,990
Income taxes - deferred		9,705		(277,500)
Total income taxes		556,750		400,489
Profit		1,261,194		615,880
Profit attributable to owners of parent		1,261,194		615,880

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Profit	1,261,194	615,880
Other comprehensive income		
Valuation difference on available-for-sale securities	2,971	(5,123)
Foreign currency translation adjustment	(2,522)	(6,053)
Total other comprehensive income	* 448	* (11,176)
Comprehensive income	1,261,643	604,704
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,261,643	604,704
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2017 to March 31, 2018)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	2,401,478	(438,355)	5,345,576
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	5,591	5,591			11,182
Dividends of surplus			(191,642)		(191,642)
Profit attributable to owners of parent			1,261,194		1,261,194
Net changes of items other than shareholders' equity					–
Total changes of items during period	5,591	5,591	1,069,552	–	1,080,734
Balance at end of current period	1,776,817	1,616,817	3,471,031	(438,355)	6,426,311

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	1,373	3,364	4,737	59,159	5,409,474
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights			–		11,182
Dividends of surplus			–		(191,642)
Profit attributable to owners of parent			–		1,261,194
Net changes of items other than shareholders' equity	2,971	(2,522)	448	13,443	13,892
Total changes of items during period	2,971	(2,522)	448	13,443	1,094,627
Balance at end of current period	4,345	841	5,186	72,603	6,504,101

Current fiscal year (From April 1, 2018 to March 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,776,817	1,616,817	3,471,031	(438,355)	6,426,311
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	1,902,838	1,902,838			3,805,676
Dividends of surplus			(188,907)		(188,907)
Profit attributable to owners of parent			615,880		615,880
Disposal of treasury shares		740,027		438,351	1,178,379
Net changes of items other than shareholders' equity					—
Total changes of items during period	1,902,838	2,642,865	426,973	438,351	5,411,028
Balance at end of current period	3,679,656	4,259,683	3,898,004	(3)	11,837,340

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	4,345	841	5,186	72,603	6,504,101
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights			—		3,805,676
Dividends of surplus			—		(188,907)
Profit attributable to owners of parent			—		615,880
Disposal of treasury shares			—		1,178,379
Net changes of items other than shareholders' equity	(5,123)	(6,053)	(11,176)	19,483	8,307
Total changes of items during period	(5,123)	(6,053)	(11,176)	19,483	5,419,335
Balance at end of current period	(778)	(5,211)	(5,989)	92,087	11,923,437

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	1,817,945	1,016,370
Depreciation	350,510	365,124
Amortization of software	388,732	421,746
Amortization of goodwill	140,455	154,881
Share-based compensation expenses	18,437	24,508
Amortization of trademark right	27,757	23,171
Increase (decrease) in provision for bonuses	(8,978)	(7,643)
Increase (decrease) in provision for sales returns	(71,247)	(79,846)
Provision for after cost periods adjustment	1,591	(5,991)
Gain on reversal of share acquisition rights	(985)	—
Interest and dividend income	(426)	(464)
Interest expenses	7,908	5,277
Loss (gain) on sales of investment securities	(570,292)	(110,742)
Loss (gain) on redemption of investment securities	(2,745)	—
Decrease (increase) in notes and accounts receivable - trade	(367,376)	(887,494)
Decrease (increase) in inventories	(150,867)	(1,142,124)
Decrease (increase) in advance payments	(770,096)	176,452
Increase (decrease) in notes and accounts payable - trade	(9,977)	170,827
Increase (decrease) in accounts payable - other	(92,018)	1,008,278
Increase (decrease) in unearned revenue	51,756	559,945
Increase (decrease) in long-term unearned revenue	10,885	313,524
Other, net	(189,317)	(81,693)
Subtotal	581,650	1,924,110
Interest and dividend income received	426	464
Interest expenses paid	(7,519)	(5,326)
Income taxes paid	(755,964)	(573,164)
Net cash provided by (used in) operating activities	(181,406)	1,346,083
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	10,000	—
Purchase of property, plant and equipment	(14,492)	(18,301)
Purchase of software	(493,618)	(750,152)
Purchase of contract based intangible assets-InvCF	(395,640)	—
Purchase of investment securities	(70,513)	(186,451)
Proceeds from sales of investment securities	—	810,027
Proceeds from redemption of investment securities	36,558	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(74,939)	—
Payments for leasehold and guarantee deposits	(457)	(15,600)
Payments from collection of lease and guarantee deposits	2,363	—
Net cash provided by (used in) investing activities	(1,000,739)	(160,478)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,070,000)	100,000
Proceeds from long-term loans payable	2,110,000	—
Repayments of long-term loans payable	(463,229)	(422,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	7,173	3,785,648
Proceeds from issuance of disposal of treasury stock from exercise of share acquisition rights	—	1,172,203
Proceeds from issuance of share acquisition rights	—	21,180

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Cash dividends paid	(191,161)	(189,048)
Net cash provided by (used in) financing activities	(607,217)	4,467,982
Effect of exchange rate change on cash and cash equivalents	(4,038)	2,352
Net increase (decrease) in cash and cash equivalents	(1,793,401)	5,655,939
Cash and cash equivalents at beginning of period	3,699,654	1,906,252
Cash and cash equivalents at end of period	* 1,906,252	* 7,562,192

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 5 companies

Names of consolidated subsidiaries:
SOURCENEXT Inc.
FUDEMAME CO., LTD.
Rosetta Stone Japan, Inc.
Solve Co., Ltd.
Sourcenext B.V.

Among the above subsidiaries, Sourcenext B.V. is newly included in the scope of consolidation as it was established in the fiscal year.

(2) Names of non-consolidated subsidiaries

Not applicable.

2. Application of equity method

Not applicable.

3. Fiscal years, etc. of consolidated subsidiaries

The consolidated subsidiary whose balance sheet date is different from the consolidated balance sheet date is as follows:

Company name	Balance sheet date
SOURCENEXT Inc.	December 31 *
Rosetta Stone Japan, Inc.	December 31 *
Sourcenext B.V.	December 31 *

* The financial data is based on the financial statements that were prepared on the basis of a provisional closing of its accounts as of the consolidated balance sheet date pursuant to procedures for the fiscal year-end closing.

4. Accounting policies

(1) Valuation bases and methods for significant assets

i) Securities

Other securities

Securities with available fair market values

Stated at fair value based on the market price or the like on the balance sheet date (unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method).

Securities without available fair market values

Stated at cost using the moving-average method.

ii) Inventories

Merchandise and finished goods

Stated at cost using the gross average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

Supplies

Stated at cost using the last purchase cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

(2) Depreciation and amortization methods for significant depreciable and amortizable assets

i) Property, plant and equipment

Depreciated using the straight-line method.

The estimated useful lives of major items are as follows:

Buildings	six years
Tools, furniture and fixtures	five to eight years

ii) Intangible assets

Software for commercial sale

Amortized at either the amortization amount based on projected sales profit, or the equally allocated amount based on the residual estimated useful life (three years), whichever is larger.

Software for internal use

Amortized using the straight-line method over the estimated useful life as internally determined (five years).

Contract based intangible assets

Amortized using the straight-line method over the economic useful life.

Trademark right

Amortized mainly using the straight-line method over five years.

(3) Accounting policy for significant provisions

i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

ii) Provision for sales returns

To prepare for losses from sales returns, provision for sales returns is provided based on the historical rate of sales returns.

iii) Provision for bonuses

To prepare for the payment of bonuses to employees, the amount based on the historical record and expected amount to be paid is provided.

iv) Provision for after-sale services

To prepare for the provision of after-sale update services for the ZERO series of products for free, provision for after-sale services is provided based on estimated expenses for those services expected to be incurred in the period that can be reasonably estimated, according to the sales performance, so that the expenses correspond to each product’s sales amount that is planned in the period.

(4) Method and period for amortization of goodwill

The Company reasonably estimates the period for which the effects of goodwill are expected to emerge and amortizes the goodwill on a straight-line basis over the estimated period.

(5) Scope of cash and cash equivalents in consolidated statement of cash flows

The funds (cash and cash equivalents) consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(6) Other significant matters for preparing the consolidated financial statements

Accounting policy for consumption taxes

Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

New accounting standards to be applied

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2021.

(3) Effects of application of the accounting standards

The impact of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

Changes in presentation

(Consolidated balance sheet)

“Unearned revenue,” which was included in “Other” under current liabilities in the previous fiscal year, is presented separately for the current fiscal year because it has become more material. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 331,239 thousand yen presented as “Other” under current liabilities in the previous fiscal year has been reclassified as 139,988 thousand yen in “Unearned revenue” and 191,251 thousand yen in “Other.”

“Long-term unearned revenue,” which was included in “Other” under non-current liabilities in the previous fiscal year, is presented separately for the current fiscal year because it has become more material. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 59,606 thousand yen presented as “Other” under non-current liabilities in the previous fiscal year has been reclassified as “Long-term unearned revenue.”

(Consolidated Statements of Cash Flows)

“Increase (decrease) in unearned revenue,” which was included in “Other” under cash flows from operating activities in the previous fiscal year, is presented separately for the current fiscal year because it has become more material. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of negative 126,675 thousand yen presented as “Other” under cash flows from operating activities in the previous fiscal year has been reclassified as 51,756 thousand yen in “Increase (decrease) in unearned revenue,” 10,885 thousand yen in “Increase (decrease) in long-term unearned revenue,” and negative 189,317 thousand yen in “Other.”

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances)

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018; hereinafter, "Partial Amendments to Tax Effect Accounting Standard") since the beginning of the current fiscal year. Accordingly, deferred tax assets (if any) were presented under "Investments and other assets" and deferred tax liabilities (if any) were presented under "Non-current liabilities." In line with this change, the notes on the tax effect accounting has also been changed.

As a result, an amount of 183,548 thousand yen presented as "Deferred tax assets" under "Current assets" in the previous fiscal year has been included in the 266,802 thousand yen presented as "Deferred tax assets" under "Investments and other assets" for the fiscal year under review.

Note 8 to the "Accounting Standard for Tax Effect Accounting" (excluding the total amount of the valuation allowance) and Note 9 to said standard as stipulated in Paragraphs 3-5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" have been reflected in the notes on the tax effect accounting.

Consolidated balance sheet

Not applicable.

Consolidated statement of income

*1. The book value write-down, etc. of inventories held for ordinary sale due to their decreased profitability is as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Valuation loss on finished goods	13,486	53,108
Loss on abandonment of finished goods	24,547	8,163

*2. Research and development expenses included in general and administrative expenses are as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Research and development expenses	9,147	22,702

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Valuation difference on available-for-sale securities		
Amount arising during the year	574,570	(7,391)
Reclassification adjustments	(570,292)	–
Before tax effects adjustments	4,277	(7,391)
Tax effects	(1,306)	2,268
Valuation difference on available-for-sale securities	2,971	(5,123)
Foreign currency translation adjustment		
Amount arising during the year	(2,522)	(6,053)
Reclassification adjustments	–	–
Before tax effects adjustments	(2,522)	(6,053)
Tax effects	–	–
Foreign currency translation adjustment	(2,522)	(6,053)
Total other comprehensive income	448	(11,176)

Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2017 to March 31, 2018)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Issued shares				
Common shares (Note 2) (Shares)	31,732,000	31,749,000	–	63,481,000
Total	31,732,000	31,749,000	–	63,481,000
Treasury shares				
Common shares (Note 3) (Shares)	772,006	772,006	–	1,544,012
Total	772,006	772,006	–	1,544,012

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018.

2. The 31,749,000-share increase in the total number of issued shares of common shares was the result of a share split, which gave rise to a 31,736,800-share increase, and of an increase of 12,200 shares resulting from the exercise of share acquisition rights as stock options.

3. The increase of 772,006 shares in the number of treasury shares of common shares was caused by the share split.

2. Share acquisition rights and treasury share acquisition rights

Category	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights (Shares)				Balance as of March 31, 2018 (Thousands of yen)
			As of April 1, 2017	Increase	Decrease	As of March 31, 2018	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	26,174
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	26,497
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	9,545
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	9,675
Total			–	–	–	–	72,603

Note: The first day of the exercise period has not yet arrived for the 7th and 8th series share acquisition rights as stock options.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 28, 2017	Common shares	191,642	6.19	March 31, 2017	June 29, 2017

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 26, 2018	Common shares	188,907	Retained earnings	3.05	March 31, 2018	June 27, 2018

Current fiscal year (From April 1, 2018 to March 31, 2019)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2018	Increase	Decrease	As of March 31, 2019
Issued shares				
Common shares (Note 2) (Shares)	63,481,000	72,681,800	–	136,162,800
Total	63,481,000	72,681,800	–	136,162,800
Treasury shares				
Common shares (Note 3, 4) (Shares)	1,544,012	12	1,544,000	24
Total	1,544,012	12	1,544,000	24

Notes: 1. The Company implemented a 1:2 share split on common shares on December 1, 2018.

2. The increase of 72,681,800 shares in the total number of issued shares of common shares was the result of increases of 68,068,200 shares due to the share split, 37,600 shares due to the exercise of share acquisition rights as stock options, and 4,576,000 shares due to the exercise of share acquisition rights.

3. The increase of 12 shares in the number of treasury shares of common shares was caused by the share split.

The decrease of 1,544,000 shares in the number of treasury shares of common shares was caused by the disposal of treasury shares due to the exercise of share acquisition rights.

2. Share acquisition rights and treasury share acquisition rights

Category	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights (Shares)				Balance as of March 31, 2019 (Thousands of yen)
			As of April 1, 2018	Increase	Decrease	As of March 31, 2019	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	24,125
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	24,148
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	10,288
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	27,006
	11th series share acquisition rights as 2018 stock options	–	–	–	–	–	5,806
Total			–	–	–	–	92,087

Note: The first day of the exercise period has not yet arrived for the 8th and 11th series share acquisition rights as stock options.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 26, 2018	Common shares	188,907	3.05	March 31, 2018	June 27, 2018

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 26, 2019	Common shares	92,590	Retained earnings	0.68	March 31, 2019	June 27, 2019

Consolidated statement of cash flows

* Reconciliation of cash and cash equivalents at end of period and the amount recorded in the consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Cash and deposits	1,906,252	7,562,192
Cash and cash equivalents	1,906,252	7,562,192

Financial instruments

1. Status of financial instruments

(1) Policy for financial instruments

The Group limits the fund management method to short-term deposits, etc. The policy for financial instruments is to raise funds through bank loans.

(2) Content and risks of financial instruments and risk management system therefor

Accounts receivable - trade, which are operating receivables, are exposed to credit risks of customers. To control these risks, in accordance with the Company's credit management regulations, payment dates and balances are managed for each customer, and information on the credit status of major customers is obtained where appropriate.

Since accounts receivable - other is mainly resulting from sales of investment securities and settled in a short period, the risk is considered low.

Investment securities are mainly stocks and exposed to credit risks of the issuers and market price fluctuation risks, but information on financial conditions of the issuers and the fair values of those securities are obtained periodically.

Most of accounts payable - trade and accounts payable - other, which are operating debts, become due within one year. Most of income taxes payable become due within two months.

Loans payable are mainly for raising funds for acquisition of IPs (Intellectual Properties), capital investment, investment in development of products, and operating funds.

Accounts payable, income taxes payable, and loans payable are exposed to liquidity risks, but the Company manages these liabilities by formulating a funding plan where appropriate and other methods.

(3) Supplementary remarks on fair values, etc. of financial instruments

Fair values of financial instruments include values based on market prices as well as values that are reasonably calculated if there is no market price. Because the calculation of such values incorporates variable factors, the values may vary in case where different assumptions, etc. are used.

2. Fair values, etc. of financial instruments

Carrying amounts, fair values and their differences are as follows. The amounts shown in the following tables do not include financial instruments whose fair values are deemed to be extremely difficult to determine (see Note 2).

Previous fiscal year (As of March 31, 2018)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,906,252	1,906,252	–
(2) Accounts receivable - trade	2,031,188	2,031,188	–
(3) Accounts receivable - other	679,510	679,510	–
(4) Investment securities	19,425	19,425	–
Total assets	4,636,377	4,636,377	–
(1) Accounts payable - trade	396,830	396,830	–
(2) Short-term loans payable	–	–	–
(3) Accounts payable - other	541,977	541,977	–
(4) Income taxes payable	305,597	305,597	–
(5) Long-term loans payable (*)	1,859,000	1,859,782	782
Total liabilities	3,103,405	3,104,187	782

(*) The amount includes current portion of long-term loans payable.

Current fiscal year (As of March 31, 2019)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	7,562,192	7,562,192	–
(2) Accounts receivable - trade	2,918,567	2,918,567	–
(3) Accounts receivable - other	6,677	6,677	–
(4) Investment securities	12,755	12,755	–
Total assets	10,500,192	10,500,192	–
(1) Accounts payable - trade	567,660	567,660	–
(2) Short-term loans payable	100,000	100,000	–
(3) Accounts payable - other	1,504,917	1,504,917	–
(4) Income taxes payable	438,380	438,380	–
(5) Long-term loans payable (*)	1,437,000	1,437,473	473
Total liabilities	4,047,958	4,048,432	473

(*) The amount includes current portion of long-term loans payable.

Notes: 1. Methods of fair value measurement of financial instruments and matters relating to securities

Assets

(1) Cash and deposits, (2) Accounts receivable - trade, (3) Accounts receivable - other

The book value is used as the fair value of these assets, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(4) Investment securities

Fair values of shares in investment securities are based on the prices on exchanges.

Liabilities

(1) Accounts payable - trade, (2) Short-term loans payable, (3) Accounts payable - other, (4) Income taxes payable

The book value is used as the fair value of these liabilities, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(5) Long-term loans payable

The fair value of long-term loans payable is calculated using the current value derived by discounting the total amount of principal and interest by the assumed interest rate that would be applied if the same loan were to be borrowed anew.

2. Financial instruments whose fair values are deemed to be extremely difficult to determine

(Thousands of yen)

Category	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Unlisted stocks, etc.	160,401	315,346

These items are not included in "(4) Investment securities" because they have no market prices and their fair values are deemed to be extremely difficult to determine.

3. Redemption schedule for monetary receivables and securities with maturity after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2018)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	1,906,252	–	–	–
Accounts receivable - trade	2,031,188	–	–	–
Accounts receivable - other	679,510	–	–	–
Total	4,616,952	–	–	–

Current fiscal year (As of March 31, 2019)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	7,562,192	–	–	–
Accounts receivable - trade	2,918,567	–	–	–
Accounts receivable - other	6,677	–	–	–
Total	10,487,437	–	–	–

4. Repayment schedule for long-term loans payable and other interest-bearing debts after the consolidated balance sheet date
Previous fiscal year (As of March 31, 2018)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term loans payable	422,000	422,000	422,000	422,000	171,000	–
Total	422,000	422,000	422,000	422,000	171,000	–

Current fiscal year (As of March 31, 2019)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term loans payable	422,000	422,000	422,000	171,000	–	–
Total	422,000	422,000	422,000	171,000	–	–

Securities

1. Other securities

Previous fiscal year (As of March 31, 2018)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	19,425	9,356	10,068
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	19,425	9,356	10,068
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		19,425	9,356	10,068

Note: Unlisted stocks, etc. (carrying amount: 160,401 thousand yen) are not included in “Other securities” in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

Current fiscal year (As of March 31, 2019)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	12,755	9,356	3,398
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	12,755	9,356	3,398
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		12,755	9,356	3,398

Note: Unlisted stocks, etc. (carrying amount: 315,346 thousand yen) are not included in “Other securities” in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

2. Other securities sold

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Type	Sales amount (Thousands of yen)	Total gain on sales (Thousands of yen)	Total loss on sales (Thousands of yen)
(1) Stocks	669,285	570,292	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	669,285	570,292	–

Current fiscal year (From April 1, 2018 to March 31, 2019)

Type	Sales amount (Thousands of yen)	Total gain on sales (Thousands of yen)	Total loss on sales (Thousands of yen)
(1) Stocks	140,742	110,742	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	140,742	110,742	–

Derivatives

Not applicable.

Retirement benefits

1. Overview of the retirement benefit plans being used

   Some consolidated subsidiaries use defined contribution pension plans.

2. Defined contribution pension plans

   The required amounts of contribution to the consolidated subsidiaries' defined contribution pension plans were 6,990 thousand yen for the previous fiscal year and 5,599 thousand yen for the current fiscal year.

Stock options, etc.

1. Account title and amount of stock options charged as expenses

(Thousands of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Selling, general and administrative expenses (Other)	18,437	24,508

2. Amounts recognized as gain due to vested stock options unexercised

(Thousands of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Gain on reversal of share acquisition rights	985	–

3. Details, size and changes in the number of stock options

(1) Details of stock options

	2013 Stock Options (4th series)	2014 Stock Options (5th series)
Category and number of people to whom stock options are granted	79 employees of the Company	6 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 257,600 shares	Common shares: 15,200 shares
Grant date	September 20, 2013	September 19, 2014
Vesting conditions	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.	Not specified.
Exercise period	August 30, 2015 – August 29, 2023	August 29, 2016 – August 28, 2024

	2015 Stock Options (6th series)	2016 Stock Options (7th series)
Category and number of people to whom stock options are granted	2 Directors and 90 employees of the Company	2 Directors and 12 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 332,400 shares	Common shares: 153,200 shares
Grant date	July 24, 2015	July 27, 2016
Vesting conditions	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.	Not specified.
Exercise period	June 26, 2017 – June 25, 2025	June 28, 2018 – June 27, 2026

	2017 Stock Options (8th series)	2018 Stock Options (11th series)
Category and number of people to whom stock options are granted	2 Directors and 89 employees of the Company	3 Directors and 26 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 625,600 shares	Common shares: 72,800 shares
Grant date	September 27, 2017	July 24, 2018
Vesting conditions	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.	Not specified.
Exercise period	August 31, 2019 – August 30, 2027	June 27, 2020 – June 26, 2028

Note: The number of stock options is translated into the number of shares. The number of shares presented here assumes the share splits that were implemented on February 1, 2018 and December 1, 2018 (both at a ratio of two shares for every one share of common shares) have taken place.

(2) Size and changes in the number of stock options

The following describes the number of stock options that existed during the current fiscal year (fiscal year ended March 31, 2019). The number of stock options is translated into the number of shares.

i) Number of stock options

	2013 Stock Options (4th series)	2014 Stock Options (5th series)	2015 Stock Options (6th series)
Before vested (Shares)			
As of March 31, 2018			
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2018	184,000	4,800	288,800
Vested	–	–	–
Exercised	14,400	–	25,600
Forfeited	–	–	–
Exercisable	169,600	4,800	263,200

	2016 Stock Options (7th series)	2017 Stock Options (8th series)	2018 Stock Options (11th series)
Before vested (Shares)			
As of March 31, 2018	153,200	611,200	–
Granted	–	–	72,800
Forfeited	–	36,000	1,000
Vested	153,200	–	–
Unvested	–	575,200	71,800
After vested (Shares)			
As of March 31, 2018	–	–	–
Vested	153,200	–	–
Exercised	8,800	–	–
Forfeited	–	–	–
Exercisable	144,400	–	–

Note: The number of shares presented here assumes the share splits that were implemented on February 1, 2018 and December 1, 2018 (both at a ratio of two shares for every one share of common shares) have taken place.

ii) Per share price

	2013 Stock Options (4th series)	2014 Stock Options (5th series)	2015 Stock Options (6th series)
Exercise price (Yen) (Note)	225	239	197
Average price per share upon exercise (Yen)	540	–	563
Fair value per share at grant date (Yen)	142.25	148.25	91.75

	2016 Stock Options (7th series)	2017 Stock Options (8th series)	2018 Stock Options (11th series)
Exercise price (Yen) (Note)	147	139	445
Average price per share upon exercise (Yen)	519	–	–
Fair value per share at grant date (Yen)	71.25	59.75	226.50

Note: The number of shares presented here assumes the share splits that were implemented on February 1, 2018 and December 1, 2018 (both at a ratio of two shares for every one share of common shares) have taken place.

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2019

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

Volatility of share price (Note 1)	58.52%
Estimated remaining outstanding period (Note 2)	5.93 years
Estimated dividend (Note 3)	3.05 yen per share
Risk-free interest rate (Note 4)	(0.05)%

Notes: 1. Calculated based on the stock market performance in the period from August 19, 2012 to July 24, 2018.

2. With difficulty in reasonable estimation due to insufficient data, the remaining outstanding period is estimated based on the assumption that stock options would be exercised at a midpoint of exercise period.

3. Dividend was estimated to be 3.05 yen based on the actual dividends for the fiscal year ended March 31, 2018.

4. This is the yield of Japanese Government bonds on June 20, 2024, the redemption date, on the base date for valuation.

5. Method for estimating the number of stock options vested

As it is difficult, in principle, to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Thousands of yen)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Deferred tax assets		
Valuation loss on finished goods	24,126	17,863
Enterprise tax payable	18,005	30,911
Provision for sales returns	61,808	37,844
Depreciation	26,980	40,057
Amortization of software	12,414	21,950
Amortization of trademark right	17,941	19,054
Recognized value of tax sales	47,609	326,459
Tax loss carried forward (Note)	463,366	461,433
Valuation difference on available-for-sale securities	–	343
Other	40,989	43,610
Subtotal deferred tax assets	713,243	999,529
Valuation allowance for tax loss carried forward (Note)	(444,517)	(452,959)
Total deferred tax assets	268,726	546,570
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,924)	–
Total deferred tax liabilities	(1,924)	–
Net deferred tax assets	266,802	546,570

Changes in presentation

"Provision for after-sales services" and "Loss on valuation of advance payments," which were presented separately in the breakdown of deferred tax assets in the previous fiscal year, are now included in "Other" in the current fiscal year because they have become less material. The notes of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, the amounts of 6,244 thousand yen, 5,243 thousand yen and 29,501 thousand yen in "Provision for after-sales services," "Loss on valuation of advance payments" and "Other," respectively, have been reclassified as 40,989 thousand yen in "Other."

Note: The amounts of tax loss carried forward and corresponding deferred tax assets by year of expiration

Previous fiscal year (As of March 31, 2018)

	Within one year (Thousands of yen)	Over one year within two years (Thousands of yen)	Over two years within three years (Thousands of yen)	Over three years within four years (Thousands of yen)	Over four years within five years (Thousands of yen)	Over five years (Thousands of yen)	Total (Thousands of yen)
Tax loss carried forward (*)	–	–	–	112,023	108,083	243,259	463,366
Valuation allowance	–	–	–	(108,925)	(108,083)	(227,508)	(444,517)
Deferred tax assets	–	–	–	3,098	–	15,751	18,849

(*) Tax loss carried forward represents the amounts multiplied by the effective statutory tax rate.

Current fiscal year (As of March 31, 2019)

	Within one year (Thousands of yen)	Over one year within two years (Thousands of yen)	Over two years within three years (Thousands of yen)	Over three years within four years (Thousands of yen)	Over four years within five years (Thousands of yen)	Over five years (Thousands of yen)	Total (Thousands of yen)
Tax loss carried forward (*)	–	–	110,480	108,083	181,268	61,600	461,433
Valuation allowance	–	–	(107,669)	(108,083)	(175,605)	(61,600)	(452,959)
Deferred tax assets	–	–	2,810	–	5,663	–	8,473

(*) Tax loss carried forward represents the amounts multiplied by the effective statutory tax rate.

2. Breakdown of the main items that caused differences between the normal effective statutory tax rate and the actual effective tax rate after tax effect accounting

(%)

	Previous fiscal year (As of March 31, 2018)	Current fiscal year (As of March 31, 2019)
Effective statutory tax rate	–	30.6
(Reconciliation)		
Permanently non-deductible items including entertainment expense	–	1.0
Per capita inhabitant taxes	–	0.4
Amortization of goodwill	–	4.7
Tax rate difference of overseas subsidiaries	–	1.7
Valuation allowance	–	1.5
Other	–	(0.5)
Effective tax rate after applying tax effect accounting	–	39.4

Note: The note has been omitted for the previous fiscal year as the difference between the effective statutory tax rate and the actual effective tax rate after applying the tax effect accounting is 5% or less of the effective statutory tax rate.

Business combination, etc.

Not applicable.

Asset retirement obligations

The Company recognized obligations to restore the property to its original condition at the time of leaving it as asset retirement obligations under the real estate leasing agreement for the head office.

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities.

Segment information, etc.

Segment information

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Information associated with reportable segments

Previous fiscal year (From April 1, 2017 to March 31, 2018)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
243,798	3,798	247,597

3. Information by major customer

   Not applicable.

Current fiscal year (From April 1, 2018 to March 31, 2019)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
189,454	14,471	203,926

3. Information by major customer

   Not applicable.

Information on impairment loss on non-current assets by reportable segment

Not applicable.

Information on amortization and unamortized balance of goodwill by reportable segment

Previous fiscal year (From April 1, 2017 to March 31, 2018)

The information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Current fiscal year (From April 1, 2018 to March 31, 2019)

The information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Information on gain on bargain purchase by reportable segment

Not applicable.

Related parties

1. Transactions with related parties

(1) Transactions between the company submitting consolidated financial statements and related parties

i) Parent company and major shareholders (limited to companies, etc.) of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2018 (Thousands of yen)
Major shareholder	Yodobashi Camera Co., Ltd.	Shinjuku-ku, Tokyo	30,000	Sales of PC/office automation equipment, etc.	(Held) Direct 11.65	Sales of the Group's finished goods	Sales of the Group's finished goods (Note 2)	440,587	Accounts receivable - trade	175,540

Notes: 1. The transaction amount does not include consumption taxes while the balance as of the fiscal year end does.

2. For sales of the Group's finished goods, we take into account the market price or the like, and decide the price after negotiation.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Not applicable.

ii) Directors and Auditors, and major shareholders (limited to individuals) of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2017 to March 31, 2018)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2018 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	16,200	–	–

Current fiscal year (From April 1, 2018 to March 31, 2019)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2019 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	16,200	–	–

Notes: 1. The transaction amount does not include consumption taxes while the balance as of the fiscal year end does.

2. Attorney's fees are determined under the same conditions as fees for other attorneys by reference to the previous compensation standards regulations established by the Japan Federation of Bar Associations.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties

Not applicable.

2. Notes on the parent company and significant associates

Not applicable.

Special purpose entities subject to disclosure

Not applicable.

Per share information

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Net assets per share	51.92 yen	86.89 yen
Earnings per share	10.18 yen	4.64 yen
Diluted earnings per share	10.18 yen	4.61 yen

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share, earnings per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the previous fiscal year.

2. The basis for calculation of earnings per share is as follows:

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	1,261,194	615,880
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	1,261,194	615,880
Average number of common shares outstanding during the period (Shares)	123,847,408	132,702,964
Diluted earnings per share		
Increase in number of common shares(Shares)	59,060	828,858
[Number of share acquisition rights included] (Shares)	(59,060)	(828,858)
Potential shares excluded from the calculation of diluted earnings per share because they do not have dilutive effects	Stock options resolved at the Board of Directors meeting held on August 29, 2013 Common shares: 184,000 shares Stock options resolved at the Board of Directors meeting held on August 28, 2014 Common shares: 4,800 shares Stock options resolved at the Board of Directors meeting held on August 30, 2017 Common shares: 611,200 shares	Stock options resolved at the Board of Directors meeting held on June 26, 2018 Common shares: 71,800 shares

Note: The average number of common shares during the period and the number of potential shares excluded from the calculation of diluted earnings per share because they do not have dilutive effect assumes the share splits that were implemented on February 1, 2018 and December 1, 2018 (both at a ratio of two shares for every one share of common shares) have taken place.

Significant events after reporting period

Not applicable.

v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable.

Annexed consolidated detailed schedule of borrowings

Category	Balance as of April 1, 2018 (Thousands of yen)	Balance as of March 31, 2019 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	–	100,000	0.21	–
Current portion of long-term loans payable	422,000	422,000	0.32	–
Long-term loans payable (excluding current portion)	1,437,000	1,015,000	0.32	2022
Total	1,859,000	1,537,000	–	–

Notes: 1. The average interest rates show weighted average interest rates with respect to loan closing balances.

2. Repayment schedule for long-term loans payable (excluding current portion) during the five years after the consolidated balance sheet date is as follows.

	Over one year within two years (Thousands of yen)	Over two years within three years (Thousands of yen)	Over three years within four years (Thousands of yen)	Over four years within five years (Thousands of yen)
Long-term loans payable	422,000	422,000	171,000	–

Annexed consolidated detailed schedule of asset retirement obligations

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities. Thus, there is nothing to be reported in this section.

(2) Other information

Quarterly information for the fiscal year ended March 31, 2019

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	2,435,503	5,743,224	10,240,694	14,710,520
Profit before income taxes (Thousands of yen)	85,032	627,181	979,360	1,016,370
Profit attributable to owners of parent (Thousands of yen)	49,278	398,863	624,439	615,880
Earnings per share (Yen)	0.40	3.09	4.75	4.64

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share (Yen)	0.40	2.60	1.66	(0.06)

Note: The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share and earnings (loss) per share are calculated on the assumption that the said share splits were implemented at the beginning of the previous fiscal year.

VI. Overview of operational procedures for shares

Fiscal year	From April 1 to March 31
Annual Shareholders Meeting	Within three months after the closing of the fiscal year
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Purchase of fractional shares	
Office for handling business	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited
Shareholder register administrator	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	–
Handling charge for purchase	No charge
Method of public notice	The public notices of the Company shall be given by electronic means. Provided, however, in case of unavoidable circumstances such as an accident which prevent the use of the public notice by electronic means, they shall be placed in the Nihon Keizai (Nikkei) Shimbun. The electronic public notices are presented at the following website: http://www.sourcenext.com.
Special benefits for shareholders	Not applicable.

Note: According to the Company's Articles of Incorporation, the holders of fractional shares shall not be entitled to exercise the rights of shareholders in connection with such fractional shares other than those rights listed below:

- Right set forth in items of Article 189, paragraph 2 of the Companies Act
- Right to make requests pursuant to the provisions of Article 166, paragraph 1 of the Companies Act
- Right to receive an allotment of shares for subscription or an allotment of share acquisition rights for subscription in accordance with the number of shares held by the shareholder

VII. Reference information of reporting company

1. Information about parent company, etc. of reporting company

   The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

   From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

22nd term (from April 1, 2017 to March 31, 2018) Filed to Director-General of Kanto Local Finance Bureau on June 27, 2018

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 27, 2018

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 23rd term (from April 1, 2018 to June 30, 2018)

Filed to Director-General of Kanto Local Finance Bureau on August 9, 2018

2nd quarter of the 23rd term (from July 1, 2018 to September 30, 2018)

Filed to Director-General of Kanto Local Finance Bureau on November 12, 2018

3rd quarter of the 23rd term (from October 1, 2018 to December 31, 2018)

Filed to Director-General of Kanto Local Finance Bureau on February 14, 2019

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 27, 2018

Extraordinary Securities Report based on Article 19, paragraph 2, item 9-2 (Results of exercise of voting rights at the Shareholders Meeting) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on May 27, 2019

Extraordinary Securities Report based on Article 19, paragraph 2, item 9-4 (Changes to the Certified Public Accountant, etc. for Audits) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 26, 2019

The Board of Directors
SOURCENEXT Corporation

Deloitte Touche Tohmatsu LLC

Naoko Kimura
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

Kazuyoshi Kuramoto
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

<Audit of Financial Statements>

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements presented in "Financial information," which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the significant matters forming the basis of preparing the consolidated financial statements, other notes and the annexed consolidated detailed schedules of SOURCENEXT Corporation applicable to the fiscal year from April 1, 2018 through March 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SOURCENEXT Corporation and its consolidated subsidiaries as of March 31, 2019, and their financial performance and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

<Audit of Internal Control>

Pursuant to Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act, we have audited the Internal Control Report as of March 31, 2019 of SOURCENEXT Corporation.

Management's Responsibility for the Internal Control Report

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Internal Control Report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Internal control over financial reporting may not fully prevent or detect misstatements.

Auditor's Responsibility

Our responsibility is to express an opinion on the Internal Control Report based on our internal control audit as independent auditor. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the internal control audit to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in the Internal Control Report. The procedures selected and applied depend on the auditor's judgment, including the significance of effects on the reliability of financial reporting. An internal control audit also includes evaluating disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting, as well as evaluating the overall presentation of the Internal Control Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Internal Control Report referred to above, which represents that internal control over financial reporting as of March 31, 2019 is effective, presents fairly, in all material respects, the result of the management's assessment on internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Conflicts of Interest

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

End

* 1. The above report is the electronic version of the original audit report. The original version is separately retained by the reporting company of the Annual Securities Report.

2. The associated XBRL data was not included in the scope of the audit.