Cover page

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Fiscal year	24th term (from April 1, 2019 to March 31, 2020)
Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
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Telephone number	+81-3-6254-5231 (Main)
Name of contact person	Fumihiko Aoyama, Managing Director, Managing Executive Officer, In charge of Operations Group
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	20th term	21st term	22nd term	23rd term	24th term
Fiscal year-end	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net sales (Thousands of yen)	7,025,334	9,340,988	9,494,658	14,710,520	17,282,086
Ordinary profit (Thousands of yen)	1,463,657	1,593,034	1,258,729	905,628	537,598
Profit attributable to owners of parent (Thousands of yen)	990,867	1,070,828	1,261,194	615,880	224,940
Comprehensive income (Thousands of yen)	988,061	1,072,918	1,261,643	604,704	211,811
Net assets (Thousands of yen)	4,905,978	5,409,474	6,504,101	11,923,437	12,091,788
Total assets (Thousands of yen)	6,047,929	9,873,006	10,250,413	17,398,997	17,029,721
Net assets per share (Yen)	38.32	43.20	51.92	86.89	87.88
Earnings per share (Yen)	7.81	8.58	10.18	4.64	1.65
Diluted earnings per share (Yen)	–	–	10.18	4.61	1.64
Equity ratio (%)	80.4	54.2	62.7	68.0	70.3
Return on equity (ROE) (%)	22.4	21.0	21.4	6.7	1.9
Price earnings ratio (PER) (Times)	14.7	16.6	37.8	97.4	176.8
Net cash provided by (used in) operating activities (Thousands of yen)	1,623,937	1,402,465	(181,406)	1,346,083	(1,329,534)
Net cash provided by (used in) investing activities (Thousands of yen)	(600,503)	(2,235,055)	(1,000,739)	(160,478)	(1,715,545)
Net cash provided by (used in) financing activities (Thousands of yen)	(121,137)	1,353,545	(607,217)	4,467,982	(602,038)
Cash and cash equivalents at end of period (Thousands of yen)	3,176,956	3,699,654	1,906,252	7,562,192	3,898,678
Number of employees (Persons)	100	104	133	141	139
[Separately, average number of temporary employees]	[3]	[5]	[6]	[4]	[2]

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 20th term.
3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 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		20th term	21st term	22nd term	23rd term	24th term
Fiscal year-end		March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net sales	(Thousands of yen)	7,025,334	9,320,435	9,359,167	14,708,202	17,404,890
Ordinary profit	(Thousands of yen)	1,453,999	1,629,528	1,172,406	968,183	1,069,763
Profit	(Thousands of yen)	981,208	1,107,367	1,199,687	733,498	194,924
Capital stock	(Thousands of yen)	1,771,226	1,771,226	1,776,817	3,679,656	3,688,593
Total number of issued shares	(Shares)	31,732,000	31,732,000	63,481,000	136,162,800	136,241,200
Net assets	(Thousands of yen)	4,885,999	5,425,807	6,461,449	12,004,456	12,147,766
Total assets	(Thousands of yen)	6,023,934	9,870,847	10,392,500	17,341,963	17,018,813
Net assets per share	(Yen)	38.17	43.34	51.58	87.49	88.29
Dividends per share	(Yen)	4.68	6.19	3.05	0.68	0.25
[Interim dividends per share]		[–]	[–]	[–]	[–]	[–]
Earnings per share	(Yen)	7.73	8.87	9.69	5.53	1.43
Diluted earnings per share	(Yen)	–	–	9.68	5.49	1.42
Equity ratio	(%)	80.4	54.4	61.5	68.7	70.7
Return on equity (ROE)	(%)	22.2	21.7	20.4	8.0	1.6
Price earnings ratio (PER)	(Times)	14.8	16.0	39.7	81.8	204.0
Dividend payout ratio	(%)	15.1	17.4	15.7	12.3	17.5
Number of employees	(Persons)	100	101	101	113	118
[Separately, average number of temporary employees]		[3]	[4]	[6]	[4]	[2]
Total shareholder return	(%)	59.9	74.9	200.9	236.1	153.6
(Benchmark index: Dividend-included TOPIX)	(%)	(89.2)	(102.3)	(118.5)	(112.5)	(101.8)
Highest share price	(Yen)	910	717	1,663 (Note 7) (815)	1,547 (Note 8) (760)	598
Lowest share price	(Yen)	411	382	461 (Note 7) (502)	721 (Note 8) (442)	211

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 20th term.

3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 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 EUS Co., Ltd., 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)
September 2019	Acquired shares of UMEOX Innovations Co., Ltd. (China) (currently an associate accounted for using the equity method)

3. Description of business

The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise four consolidated subsidiaries and one associate accounted for using the equity method. The business of SOURCENEXT Group (the Group; the Company and its subsidiaries and associates) 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.

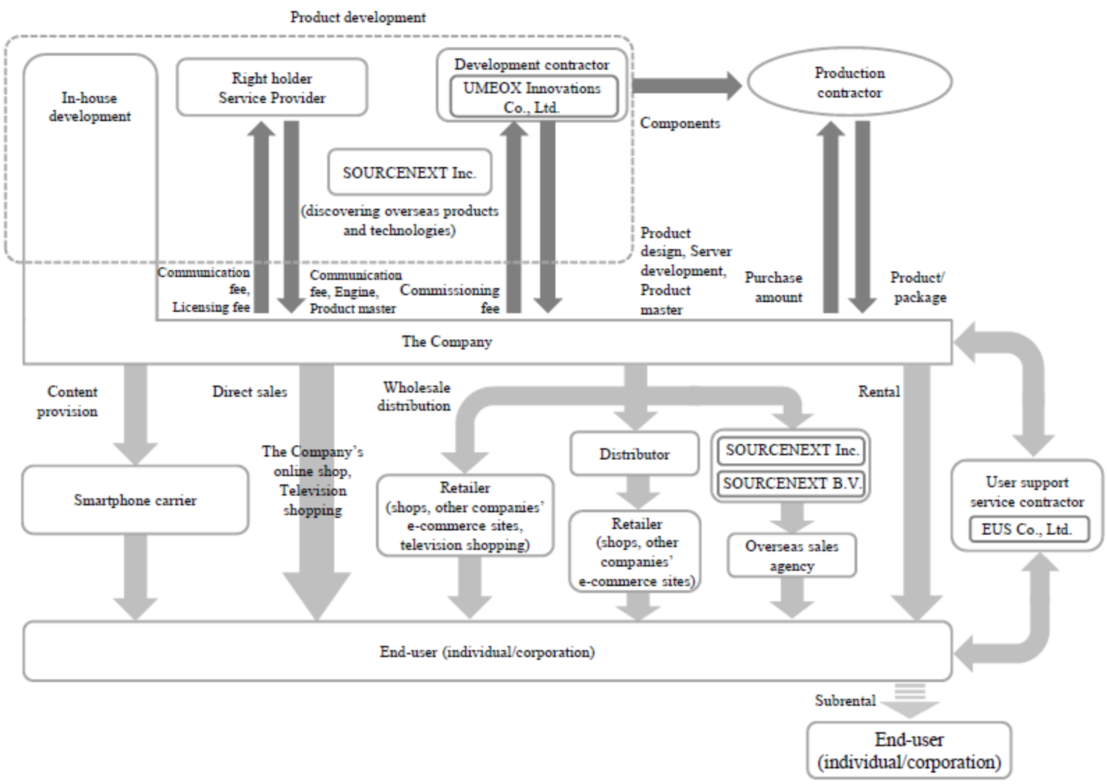
Concerning the provision of content to smartphone carriers, we provide many software titles for KDDI CORPORATION's au Smart Pass and other all-you-can-use application services operated by carriers.

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 an airline company 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	POCKETALK is an AI-powered translation device that allows people who do not speck each other's languages to communicate in their mother tongue. It supports translation to audio and text in 55 languages and to text in 20 languages. It is featured by its high translation accuracy, using the latest and optimum engines in the cloud and AI technology, which can even translate long sentences. The latest version of POCKETALK S is business card sized with camera translation function and AI-based conversation lesson function. The cumulative shipments of the POCKETALK series since its release in 2017 exceeded 700,000 units as at February 25, 2020.	
Android App	The Company provides popular software across all genres as Android apps, including "Smart RUSUDEN" next-generation voice message service that transcribes messages to text, "KYOUSOKU Memory" storage optimizer that lightens the load for smartphones lagging with cumulated data, and "Super Tools," an application equipped with numerous useful tools. "Apps CHOU HODAI," an all-you-can-use fixed-price service with well-selected, popular fee-based Android apps, has also been well received by customers.	
Security	ZERO Virus Security	The Company provides this security suite, featured with "affordable price" and "light CPU load," with no annual renewal fees. It is thus suitable for users who want to save on costs for their sub-PCs at the lowest possible or want to make their older PCs run smoothly. The cumulative number of user registrations for the entire series has exceeded 10 million.
	ZERO Super Security	ZERO Super Security is a security suite using a Bitdefender's engine that boasts world-class performance. The Company provides the product with no annual renewal fees. The available features include behavior detection, payment browser, parental control, password management, and web camera protection functions.
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 17 years in a row. Now used by over 6,000 companies and other organizations, ezPDF helps increase document-management efficiency while reducing costs.

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 Sells the Company's finished goods One interlocking Director or Auditor
EUS Co., Ltd. (formerly FUDEMAME CO., LTD.)	Yokohama, Kanagawa	100,000	User support service for PC software and hardware	100.0	Engages in user support service contracted out by the Company One interlocking Director or Auditor
Rosetta Stone Japan, Inc.	Minato-ku, Tokyo	10,000	Selling the language learning software ROSETTA STONE	100.0	One interlocking Director or Auditor
Sourcenext B.V.	Amsterdam, Netherlands	1,000 (Thousands of euro)	Planning, development and distribution of software and hardware products	100.0	Sells the Company's finished goods Borrows funds from the Company One interlocking Director or Auditor
(Associate accounted for using the equity method) UMEOX Innovations Co., Ltd.	Shenzhen, China	6,250 (Thousands of Chinese yuan)	Planning and development of AI-equipped IoT devices	35.0	Engages in product development contracted out by the Company One interlocking Director or Auditor

5. Information about employees

(1) Consolidated companies

As of March 31, 2020

Segment name	Number of employees (Persons)
Software-related business	139 [2]
Total	139 [2]

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, 2020

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
118 [2]	36.6	7.6	7,335,668

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. We launched the POCKETALK AI-powered translation device, our first IoT product, in December 2017, and then POCKETALK S, the third-generation model, in December 2019. 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. Furthermore, in response to the rapid increase in adoption of telework in Japan, we pursue greater product diversification so that we can make telework-related products available for sale. 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

During the current fiscal year ended March 31, 2020, the Japanese economy is likely to experience a temporary slump due to the impact of the new coronavirus disease (COVID-19). In contrast, the consumer software industry, in which the Company operates, is 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 PCs. 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. Furthermore, given the expectation that connecting products with the internet will create a new market that didn't exist before, we will strengthen our IoT business to develop new IoT products in areas other than AI-powered translation devices, let alone to roll out POCKETALK, by aligning our over 20 years' experience in software development with hardware products. Moreover, in response to the rapid increase in adoption of telework in Japan, the Company will promptly provide telework-related software services and hardware.

ii) Expanding sales channels

In Japan, the Company is working to maintain or expand sales channels by promoting sales in partnership with major consumer electronics retailers and mobile carriers as well as adoption of IoT products, including POCKETALK, by corporate customers. Since over-the-counter sales are expected to decline temporarily due to the impact of COVID-19, we will further put our efforts to enhance product lineup and sales at our online shop. Furthermore, the Company is expanding its business overseas by making its products compatible with multiple languages and so forth. To expend the AI-powered translation device business overseas, we will actively develop sales channels in Asia as well as in the United States and Europe. As such, we believe that expanding our sales channels overseas is key to further enhancing 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&As and other means.

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 smartphone applications, including "Smart RUSUDEN," "Apps CHOU HODAI" and those provided for mobile carriers. 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

The translation device market, which is relevant to the IoT products including the AI-powered translation device POCKETALK, is expected to expand even more in the future as the numbers of foreign visitors and residents in Japan increase. 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 significantly lose our distinctiveness, if the number of Japanese tourists traveling abroad decreased, or if the increase in foreign visitors to Japan slowed down.

ii) Diversification of sales channels and sales models

To accommodate changes in consumption styles, the Group is working on diversifying its sales channels. This includes sales through its online shop and sales to corporate customers as well as sales of applications through carriers such as smartphone carriers, in addition to over-the-counter sales. Sales through such non-over-the-counter channels comprised 59.3% of all sales for the fiscal year ended March 31, 2020. With respect to the overseas business, we also expect to expand sales channels in Asia, as well as in the United States 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. The Group have secured a product development system, with contracted developers involved, which is required for 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 2020, 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, 2020 were 2,215 million yen and promotion expenses were 1,577 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. The Group strives to prevent a problem or defect from occurring through thorough inspections at each process of product development and manufacturing.

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. We provide 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 our 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. The Group endeavors to maintain appropriate inventory levels of its in-house products.

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, business performance and financial position. The Group strives to prevent a quality problem from occurring through thorough inspections at each process of product development and manufacturing.

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, the United States 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, anticorruption, 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. While we must procure numerous parts and materials supplied by third-party suppliers to manufacture POCKETALK and other IoT products to be launched in the future, we do not have direct control over their sourcing or employment practices. Therefore, the strengthened regulations or a surge in consumer concern in areas relevant to sourcing and environment could result in an increase in the Group's compliance costs, which could eventually impact the Group's business performance.

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, business performance 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, 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 2018, 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.
Fiscal year ended March 31, 2020 (Consolidated)	In December 2019, we launched POCKETALK S, a new POCKETALK model. The product featuring camera translation and other new functions has gained increasing recognition both at home and abroad, resulting in an increase in sales. Sales of PC software hit a record high since the inception of the Company thanks to strong sales of New Year greeting card software as the imperial era had changed from "Heisei" to "Reiwa." However, we reported year-on-year decreases in operating profit, ordinary profit and profit due to the recording of provision for sales returns and increases in promotion and other expenses due to the exclusive sales of POCKETALK W at our online shop.

(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. In the event that insufficient cost control causes a rise in costs related to contracted-out operations due to the indirect nature of the way the costs are controlled, or it becomes unable to maintain existing contractual relationships, the Group's business operations and performance could be impacted. We believe that we will continue to be able to maintain contractual relationships with the existing contractors. To this end, the Group strives to manage costs and maintain the integrity of services by practicing thorough operational management that includes progress, quality and cost management for contracted operations.

a. Reliance on other companies for development operations

The Group partially relies on the development capabilities of other companies for the manufacturing and development of POCKETALK and other IoT products as well as the program development for 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. If we fail to secure and create combinations of contracted developers like the ones we have now, our product development system and business performance could be impacted. The Group endeavors to find, select and secure new partners who can satisfy the demand of the Group while striving to strengthen relationships with development contractors.

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. Accordingly, 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 the current contractors. The Group practices thorough progress management of contracted operations to ensure a system that can respond to such immediate need for contracted services. We are working on finding, selecting and securing new partners who can satisfy the demand of the Group as well as preparing for fostering such partners while continuing to strive to strengthen relationships with the existing 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. As we contract a portion of these services to external parties, the replacement of contractors currently conducting these operations requires a certain amount of time and costs. In addition, 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 the current contractors. The Group practices thorough progress management of contracted operations to ensure a system that can respond to such immediate need for contracted services. We have preparations in place to replace contractors currently conducting these operations while continuing to strive to strengthen relationships with the existing 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. Accordingly, to prepare for losses arising from returned goods after the closing day of the fiscal year, provision for sales returns is provided based on the historical sales returns. The Group's business performance may be impacted when provision for sales returns increases in the event that we accept returns beyond original estimates due to shifts in a policy concerning inventory levels at consumer electronics retailers and other stores. The Group's rate of product return currently remains low due to efforts to track actual sales and ensure proper shipments. Nevertheless, valuation loss on finished goods or loss on abandonment of finished goods might be incurred if the Group's products become obsolete due to technological innovations and version upgrades or other such factors. As a result, the Group's business performance could be impacted. For inventory of Group products, including returns, we work towards and are currently achieving appropriate inventory levels.

(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 (including engines used in products) 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.

When concluding a license contract or a sales contract, we enter contract negotiations by assessing material contract terms and conditions including contract period as well as royalty, sales volume and whether the contract is exclusive or non-exclusive. Even after the conclusion of contracts, the Company checks, whenever necessary, the matters such as whether royalties are calculated and paid in accordance with the contract; and whether there are any events (including deficiency in contracts and inadequacy in the internal management system) that could impede an appropriate report on royalties for license contracts. For sales contracts, the Company checks matters such as whether rebates, special discounts, inventory management and product returns are in compliance with the contract terms and conditions.

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. As such, when registering trademarks, we go through the processes of selecting several candidate product names at the commercialization stage of the product, taking into account an opinion from the brand department; checking the possibility of trademark registration; and determining the product name.

For IoT products, we receive supervision concerning intellectual property rights from patent attorneys and other experts from the stages of product design and development. We go through the application procedures if the need arises to consider filing or actually file an application for registration of patent, utility model or design right through brainstorming meetings.

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.

At the compliance training session held once a year, the Company provides education and administers a test on relevant laws and regulations and other related topics to all employees. In addition to the test, the legal department hosts study sessions on relevant laws and regulations lectured by attorneys at law as needed.

Moreover, when implementing a new work flow, we consult with attorneys and other experts as well as contact persons at public offices beforehand so as not to violate laws and regulations and other rules. Through these measures, we strive to reduce the probability that our employees will violate laws and regulations, or social norms.

(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. We are taking necessary measures to respond to laws and regulations applicable to protect personal information in foreign countries, including the EU's General Data Protection Regulation (GDPR) that went into effect in May 2018.

Note: ISO 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 a total of 11 Directors and Auditors as well as 141 employees (as of March 31, 2020; including two temporary employees), with its management system appropriate for the organization's current size. In the event that we cannot secure and foster employees as well as strengthen our management system as planned, we may be unable to take appropriate organizational actions, resulting in disruption of business operations. The Group plans to expand its workforce and further strengthen its management system in preparation for future business growth and increased business volume.

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 such personnel is proving difficult due to their scarcity in the labor market. Moreover, our system for developing human resources may not be as robust as it could be due to the relatively small size of the organization. The Group's business performance may be impacted if efforts on recruiting and fostering human resources fail to keep up with the rapid change in the market. The Group will continue to focus efforts on recruiting and fostering human resources as a key management issue.

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. The Group's businesses and business performance may be impacted in the event that an unexpected incident occurs. 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 distribution of server load balancing to cope in times of concentrated access, which can be achieved by putting the servers in the cloud.

(10) Natural disasters and infectious diseases

In the event of an incident that causes a suspension of business activities of the Group or its major business partners or a hindrance to their business continuity resulting from the occurrence of social turmoil due to natural disasters, such as large earthquakes, tsunami, and floods, accidents and disasters, such as fires, pandemics of infectious diseases and other unexpected factors, the Group's business performance could be impacted.

COVID-19 is currently spreading around the world and it may affect the Group's business performance. However, it is difficult to objectively estimate the impact as of the filing date.

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 (the "operating results, etc.") of the Group 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 17,282 million yen, up 17.5% year on year. The main factor behind this was a continued rise in sales of POCKETALK S, a new model of AI-powered translation device, launched in December 2019, in addition to POCKETALK W released in 2018. POCKETALK S features various new functions including a camera translation function that automatically identifies languages and an AI-based conversation lesson function. Both products were adopted in large scale one after another by corporate customers, including an airline company and several railway companies, in addition to sales to private consumers at our online shop and consumer electronics retailers around Japan. We strove to further increase sales by participating many exhibitions around Japan to provide visitors with hands-on experience of our products.

However, as a result of the change in policy to sell POCKETALK W exclusively through our online shop because of its higher margin and therefore to collect the product from stores in a phased manner, we posted provision for sales returns that we had initially not expected. Selling, general and administrative expenses increased due to increases in promotion expenses related to a large-scale sales promotion of POCKETALK, as well as in business consignment and other expenses resulting from the addition of dedicated POCKETALK support service.

Consequently, operating profit for the current fiscal year was 474 million yen (down 44.8% year on year) with ordinary profit of 537 million yen (down 40.6%) and profit attributable to owners of parent of 224 million yen (down 63.5% year on year).

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,029 million yen, a decrease of 369 million yen compared with the end of the previous fiscal year. This decrease was due mainly to a decrease in cash and deposits of 3,663 million yen, which was partially offset by increases in merchandise and finished goods of 1,764 million yen and investment securities of 1,054 million yen.

Total liabilities as of the end of the current fiscal year stood at 4,937 million yen, a decrease of 537 million yen compared with the end of the previous fiscal year. This decrease was due mainly to a decrease in accounts payable - other of 765 million yen caused by decreases in advertising and other selling, general and administrative expenses.

Net assets as of the end of the current fiscal year stood at 12,091 million yen, an increase of 168 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in retained earnings of 136 million yen.

ii) Cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 3,898 million yen, a decrease of 3,663 million yen compared with the end of the previous fiscal year.

Net cash used in operating activities amounted to 1,329 million yen, compared to 1,346 million yen in cash provided in the previous fiscal year. The main factors behind this were a decrease in profit before income taxes of 450 million yen, a decrease in accounts payable - other of 836 million yen compared with an increase of 1,008 million yen a year earlier, a decrease in notes and accounts receivable - trade of 550 million yen compared with an increase of 887 million yen a year earlier, an increase in advance payments - trade of 701 million yen compared with a decrease of 176 million yen a year earlier and an increase in inventories of 590 million yen.

Net cash used in investing activities increased by 1,555 million yen from the previous fiscal year to 1,715 million yen. The main factors behind this were an increase in purchase of investment securities of 809 million yen and a decrease in proceeds from sales of investment securities of 775 million yen.

Net cash used in financing activities amounted to 602 million yen, compared to 4,467 million yen in cash provided in the previous fiscal year. The main factors behind this were a net decrease in short-term loans payable of 200 million yen, a decrease in proceeds from issuance of shares resulting from exercise of share acquisition rights of 3,773 million yen and no proceeds from disposal of treasury shares resulting from exercise of share acquisition rights compared to the proceeds of 1,172 million yen in the previous 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 (%)
POCKETALK	9,028,336	131.5
Postcard creation	1,780,268	117.4
Android App	1,139,311	78.3
Security	815,495	139.4
Other	4,518,674	105.3
Total	17,282,086	117.5

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
The Company's online shop	7,055,012	112.0
Consumer electronics retailers and other companies' e-commerce sites	7,023,307	115.1
Smartphone carriers	605,143	73.0
Other	2,598,623	175.6
Total	17,282,086	117.5

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, 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, 2020, the Japanese economy experienced an across-the-board fall in economic indicators after the consumption tax hike, which had been implemented as planned amid increasing concerns over a slowdown in the global economy mainly due to the prolonged U.S.-China trade conflict, as the tax hike dampened consumer confidence more than expected. In addition, the COVID-19 pandemic has made the outlook extremely uncertain and hard to predict.

With regard to the business environment surrounding the Group, the number of foreign visitors to Japan between January and March 2020 amounted to 3.93 million (down 51.1% year on year) (according to March 2020 report issued by Japan National Tourism Organization).

Meanwhile, PC shipments in the current fiscal year represented strong growth with a 28.1% increase year on year (April 2020, based on the research by JEITA).

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.

Regarding the POCKETALK® series of AI-powered translation devices, our flagship product, we launched a new model POCKETALK S in December 2019. Compared with the previous model POCKETALK W, this product is business card sized — smaller in size and lighter in weight — with a 1.3 times larger screen and a new, easier-to-use, one-button design. POCKETALK S features various new functions, including a camera translation function that automatically identifies languages, a conversation lesson function useful for many situations, for instance at an airport or a hotel, and a currency and unit conversion function. During the current fiscal year, we focused our efforts on selling these products in domestic and foreign markets, with a view to raising awareness of these products as de facto standards for translation devices.

With regard to PC software, we drove forward sales promotion activities for our core postcard creation software products "FUDEOH," "FUDEMAME" and "ATENA SHOKUNIN," in advance of the arrival of the New Year greeting card season at the end of the year. Their sales grew steadily due partially to the change of the imperial era from "Heisei" to "Reiwa."

In addition, with the background of the Cabinet's promotion of telework, we have decided to set out a policy of promptly providing telework-related software services and hardware. In March 2020, the Company released a web page "TELEWORK COLLECTION" on its website to introduce useful products for telework and sell various telework-related products including a call noise-canceling service "Krisp Pro" developed by V-cube, Inc.

As a result, net sales for the current fiscal year hit a record high of 17,282 million yen (up 17.5% year on year) since the inception of the Company with gross profit of 10,378 million yen (up 14.0%).

However, as a result of the change in policy to sell POCKETALK W exclusively through our online shop because of its higher margin and therefore to collect the product from stores in a phased manner, we posted provision for sales returns that we had initially not expected.

Selling, general and administrative expenses increased due to year-on-year increases in promotion expenses related to fixtures and trial devices used for a large-scale sales promotion of new POCKETALK S at consumer electronics retailers around Japan, as well as in business consignment and other expenses resulting from the addition of dedicated POCKETALK support service.

Consequently, selling, general and administrative expenses increased 16.7% year on year to 9,710 million yen. Also, operating profit, ordinary profit and profit attributable to owners of parent were 474 million yen (down 44.8% year on year), 537 million yen (down 40.6% year on year) and 224 million yen (down 63.5% year on year), respectively.

The business of the Group consists of a single segment of planning, development and sales of IoT products and software as well as other services. 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.

As for POCKETALK, we opened a dedicated website on our online shop to gain recognition and promote sales. Furthermore, we achieved revenue growth by offering a "name engraving service" and a wider range of color variations, as wells as releasing a special set with a design featuring a widely popular cartoon character "Doraemon," as online shop-limited editions.

With regard to PC software, sales of three brands of postcard creation software "FUDEOH," "FUDEMAME" and "ATENA SHOKUNIN," released for the New Year greeting card season, remained strong due partially to the change of the imperial era. Additionally, sales of security software increased reflecting a rise in replacement demand for PCs due to the end of support for Microsoft's "Windows7."

Beside these, we launched the "SOURCENEXT ePoint" service to reward loyalty points to customers according to the amount spent at the Company's website. This service has been well received by users as the points not only can be used for purchase at the Company's website but will also eventually become convertible into other companies' loyalty points.

Furthermore, in March 2020, we released a web page "TELEWORK COLLECTION" introducing useful products for telework to sell various telework-related products including "Krisp Pro," "V-CUBE Meeting" and "Xsplit."

As a result of these activities, sales stood at 7,055 million yen, up 12.0% year on year.

b) Consumer electronics retailers

In this sales channel, we mainly focus on selling IoT products, PC software, etc. for individual users at consumer electronics retailers around Japan.

In the first half of this fiscal year, we strengthened the large-scale rollout of POCKETALK W at consumer electronics retailers across the country. We achieved a substantial increase in sales as a result of a series of large-scale roll-outs at distributors, including especially an in-store commercial and flyers for products covered by BIC CAMERA's large-scale sales promotion.

In the latter half of this fiscal year, we announced a price revision for POCKETALK W in conjunction with the release of a new model POCKETALK S in November 2019. We achieved a substantial increase in sales through efforts to increase the sales floor area by selling both POCKETALK W and S and to install more trial devices for quick and easy trial by customers at consumer electronics retailers around Japan.

In addition, we steadily increased sales by launching new versions of security software series "Virus Security" and "Super Security" one after another, in addition to three brands of postcard creation software "FUDEOH," "FUDEMAME" and "ATENA SHOKUNIN" released for the New Year greeting card season.

As a result of these activities, net sales stood at 7,023 million yen, up 15.1% year on year.

c) Smartphone Businesses (Mobile Carriers)

In this sales channel, we focus on providing and selling content intended for the "all-you-can-use" application subscription services offered by three major Japanese mobile carries ("au SmartPass" by KDDI, "App Pass" by SoftBank Mobile and "SugoToku Contents" by NTT DoCoMo).

In the current fiscal year, we provided "Sweet Snap" for "au SmartPass."

We worked to increase the number of users by strengthening the promotion of our core apps. 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 of the source of revenue sharing to content providers. As a result, sales decreased to 605 million yen (down 27.0% year on year).

d) Other

We mainly offer POCKETALK to corporate users for purchase and rental, as well as services such as "all-you-can-use" application subscription service for PC software and smartphone apps.

POCKETALK for corporate users was adopted in large scale one after another by an airline company and railway companies before the arrival of travel seasons such as Golden Week and summer vacation, resulting in sales growth. The product adoption was driven especially by cases where the device was adopted as an information service tool by SEIBU RAILWAY and in ANA's airport lobby.

Beside these, we exhibited our products at the G20 Tourism Ministers' Meeting and many other exhibitions across the country such as the "Multi-lingual & ICT Forum" to further gain recognition by providing visitors with hands-on experience of our products.

As for PC software, sales of PDF conversion software ezPDF and other licenses increased amid the increasing replacement demand for PCs due to the end of support for Microsoft's Windows 7, contributing to revenue growth.

In addition, we achieved an expansion in overseas sales of POCKETALK, especially through Amazon in the United States and Europe. As a result, sales increased to 2,598 million yen (up 75.6% year on year).

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,029 million yen, a decrease of 369 million yen compared with the end of the previous fiscal year.

Current assets saw a decrease in cash and deposits as a result of acquisitions of investment securities in UMEOX Innovations Co., Ltd., which newly became an associate accounted for using the equity method, and other entities as well as increases in advance payments - trade and finished goods of POCKETALK products resulting from their production. Consequently, current assets amounted to 11,518 million yen, a decrease of 1,566 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 5,511 million yen, an increase of 1,196 million yen from the end of the previous fiscal year.

Total liabilities amounted to 4,937 million yen, a decrease of 537 million yen from the end of the previous fiscal year.

Current liabilities saw a decrease in accounts payable - other due to increases in payments of advertising expenses as a result of a large-scale sale promotion of the POCKETALK series and promotion and other expenses related to promotional fixtures and trial devices for consumer electronics retailers and others. Also, unearned revenue increased as a result of a rise in sales of POCKETALK to corporate customers. Consequently, current liabilities amounted to 3,985 million yen, a decrease of 101 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 952 million yen, a decrease of 435 million yen from the end of the previous fiscal year.

Net assets amounted to 12,091 million yen, an increase of 168 million yen from the end of the previous fiscal year. This increase was due mainly to an increase in retained earnings of 136 million yen.

(Cash flows)

(Thousands of yen)

	Full year		Change
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	
Cash flows from operating activities	1,346,083	(1,329,534)	(2,675,617)
Cash flows from investing activities	(160,478)	(1,715,545)	(1,555,066)
Cash flows from financing activities	4,467,982	(602,038)	(5,070,020)
Cash and cash equivalents at end of period	7,562,192	3,898,678	(3,663,513)

Cash and cash equivalents as of the end of the current fiscal year amounted to 3,898 million yen, a decrease of 3,663 million yen compared with the end of the previous fiscal year.

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

(Cash flows from operating activities)

Net cash used in operating activities amounted to 1,329 million yen compared with 2,675 million yen used in the previous fiscal year. The main factors were a 1,844 million yen decrease in accounts payable - other due to increases in payments of advertising expenses, promotion expenses and business consignment expenses, a 1,468 million yen increase in advance payments - trade and inventories resulting from the production of POCKETALK products and a 450 million yen decrease in profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 1,715 million yen compared with 1,555 million yen used in the previous fiscal year. The main factors were an increase of 809 million yen in purchase of investment securities of UMEOX Innovations Co., Ltd., which newly became an associate accounted for using the equity method, and other entities and a decrease of 775 million yen in proceeds from sales of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 602 million yen compared with 5,070 million yen used in the previous fiscal year. The main factors were a decrease in short-term loans payable of 200 million yen, a decrease in proceeds from issuance of shares resulting from exercise of share acquisition rights of 3,773 million yen and a decrease of 1,172 million yen in proceeds from disposal of treasury shares resulting from exercise of share acquisition rights, which we received in the previous fiscal year.

(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.

Interest-bearing debt including loans payable at the end of the current fiscal year amounted to 1,015 million yen. Also, cash and cash equivalents at the end of the current fiscal year amounted to 3,898 million yen.

As the equity ratio, an indicator of financial stability, increased by 2.3 percentage points from the previous fiscal year to 70.3% for the current fiscal year, we believe that our financial stability is well maintained.

The Company will grow further and build a stable financial base, thereby maximizing profit by providing products that inspire joy and emotions to people around 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.

   Research and development expenses of 13million yen were recorded for the current fiscal year.

   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 911 million yen. This consisted mainly of 553 million yen for improvements to and purchases of software programs for sale, and 202 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2020

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	65,645	77,484	1,145,965	1,311,100	2,600,196	118 [2]

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 261,125 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions, etc. of significant facilities

As of March 31, 2020

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	772,320	–	Own funds	April 2020	March 2021	–

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

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2020)	Number of issued shares as of the date of filing (Shares) (June 19, 2020)	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	136,241,200	136,241,200	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	136,241,200	136,241,200	–	–

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, 2020 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, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	406 (Note 1)	406 (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)	162,400 (Note 1)	162,400 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	225 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	August 30, 2015 – August 29, 2023	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 225 yen Amount to be included 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 5)	Same as left

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

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	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 4)	Same as left
Exercise period of share acquisition rights	August 29, 2016 – August 28, 2024	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 239 yen Amount to be included 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 5)	Same as left

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

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	628 (Note 1)	628 (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)	251,200 (Note 1)	251,200 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	197 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 26, 2017 – June 25, 2025	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 197 yen Amount to be included 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 5)	Same as left

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

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	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 4)	Same as left
Exercise period of share acquisition rights	June 28, 2018 – June 27, 2026	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 147 yen Amount to be included 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 5)	Same as left

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

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	1,255 (Note 1)	1,255 (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)	502,000 (Note 1)	502,000 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	139 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	August 31, 2019 – August 30, 2027	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 139 yen Amount to be included 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 5)	Same as left

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

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	352 (Note 2)	352 (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)	70,400 (Note 2)	70,400 (Note 2)
Amount to be paid in upon exercise of share acquisition rights (Yen)	445 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 27, 2020 – June 26, 2028	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 445 yen Amount to be included 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 5)	Same as left

Resolved at the Board of Directors meeting held on June 26, 2019 (12th series)

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	1,067 (Note 3)	1,067 (Note 3)
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)	106,700 (Note 3)	106,700 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	437 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 27, 2021 – June 26, 2029	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 437 yen Amount to be included in capital: 219 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 5)	Same as left

Resolved at the Board of Directors meeting held on July 25, 2019 (13th series)

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	1,357 (Note 3)	1,357 (Note 3)
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)	135,700 (Note 3)	135,700 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	436 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	July 26, 2021 – July 25, 2029	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 436 yen Amount to be included in capital: 218 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 5)	Same as left

Resolved at the Board of Directors meeting held on July 25, 2019 (1st series US-JP tax-qualified share acquisition rights)

	As of March 31, 2020	As of May 31, 2020
Number of share acquisition rights (Units)	684 (Note 3)	684 (Note 3)
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)	68,400 (Note 3)	68,400 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	436 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	July 26, 2021 – July 24, 2029	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 436 yen Amount to be included in capital: 218 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 5)	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.

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

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.

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

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. The number of shares to be issued upon exercise of one share acquisition rights shall be 100.

   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.

4. 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, prior to 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.

5. 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.

Not applicable.

(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
April 1, 2019 – March 31, 2020 (Note 1)	78,400	136,241,200	8,937	3,688,593	8,937	3,528,593

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, 2020

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)	–	19	27	169	96	46	47,278	47,635	–
Number of shares held (Units)	–	120,977	32,882	169,240	45,653	1,972	991,402	1,362,126	28,600
Shareholding ratio (%)	–	8.88	2.41	12.42	3.35	0.14	72.78	100.00	–

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

(6) Major shareholders

As of March 31, 2020

Name	Address	Number of Shares Held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	35,663,200	26.17
Yodobashi Camera Co., Ltd.	5-3-1 Shinjuku, Shinjuku-ku, Tokyo	14,438,400	10.59
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	3,606,200	2.64
The Master Trust Bank of Japan, Ltd. (Held in trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	2,373,400	1.74
Japan Trustee Services Bank, Ltd. (Held in trust account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	1,892,700	1.38
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000 (Standing proxy: Mizuho Bank, Ltd.)	EUROPEAN BANK AND BUSINESS CENTER 6, ROUTE DE TREVES, L-2633 SENNINGERBERG, LUXEMBOURG (2-15-1 Konan, Minato-ku, Tokyo)	1,409,531	1.03
Nomura Securities Co., Ltd. (Standing proxy: Sumitomo Mitsui Banking Corporation)	1-9-1 Nihonbashi, Chuo-ku, Tokyo (1-3-2 Marunouchi, Chiyoda-ku, Tokyo)	1,242,838	0.91
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	977,000	0.71
Total	–	66,499,269	48.80

Notes: 1. Of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd., the number of shares related to the trust business is 6,455,300 shares. Of the above-mentioned number of shares held by The Master Trust Bank of Japan, Ltd., the number of shares related to the trust business is 2,373,400 shares.

(7) Voting rights

i) Issued shares

As of March 31, 2020

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 136,212,600	1,362,126	Same as above
Fractional shares	Common shares 28,600	–	Same as above
Total number of issued shares	136,241,200	–	–
Total number of voting rights	–	1,362,126	–

Note: The number of "Fractional shares" includes 24 treasury shares.

ii) Treasury shares, etc.

As of March 31, 2020

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, 2020		From April 1, 2020 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 (-)	–	–	–	–
Treasury shares held	24	–	24	–

Note: The number of treasury shares held in the period “From April 1, 2020 until the filing date of this Annual Securities Report” does not include shares through purchase or sale of fractional shares from June 1, 2020 until the filing date of this Annual Securities Report.

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 0.25 yen per share.

With regards to the dividend for the fiscal year ending March 31, 2021, taking business conditions into account, the Company plans to pay a dividend of 0.46 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 18, 2020	34,060	0.25

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.

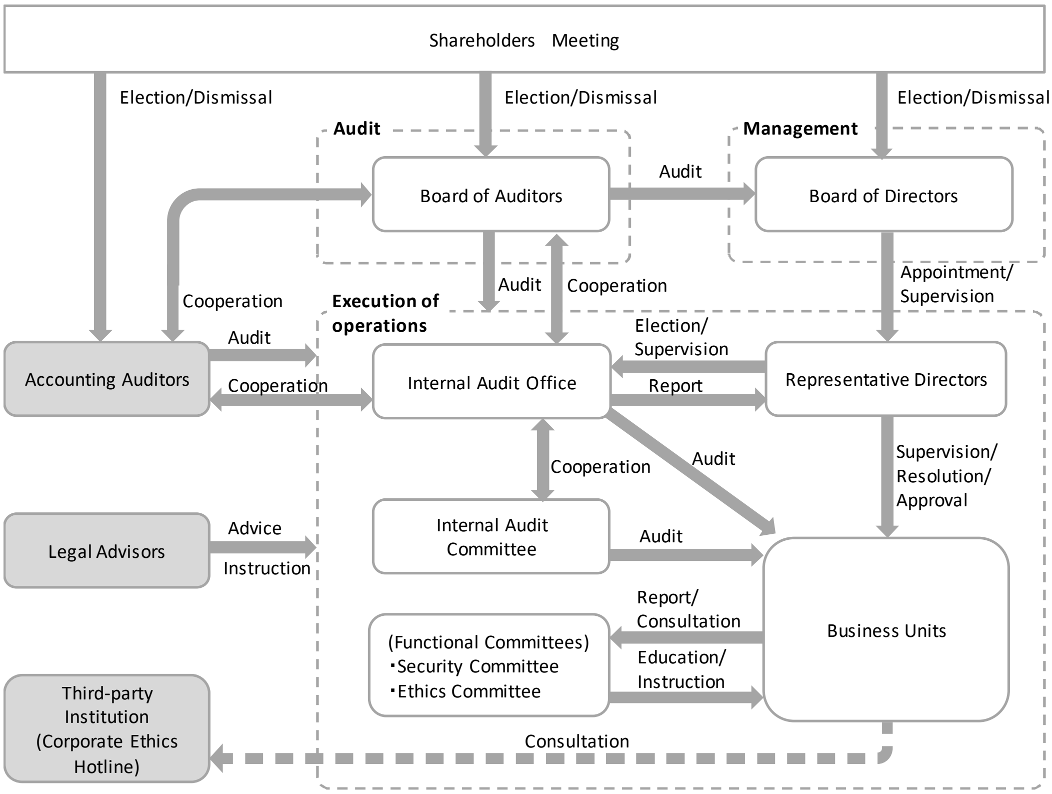
The Board of Directors is composed of seven Directors. It is designated as the organizational structure which deliberates on and determines matters provided for by the Companies Act and key issues, etc. related to the management of the Company. As a rule, meetings of the Board of Directors are held once 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 three 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 seven 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 Hideaki Kubori and Kunitake Ando, and with the Auditors 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

Male: 10, Female: 0 (Percentage of female Directors and Auditors: 0%)

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	Joined IBM Japan	(Note 5)	35,663,200
			Sep. 1993	Established AAA, Ltd., Representative Director and President, AAA, Ltd.		
			Aug. 1996	Established the Company, President and CEO, the Company (current position)		
			Sep. 2012	President & CEO, SOURCENEXT Inc. (current position)		
			Jun. 2017	President and CEO, Rosetta Stone Japan, Inc. (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director, Senior Executive Officer	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001 Jun. 2006 Jun. 2008 Jan. 2009 Jun. 2012 May 2017 Jan. 2019 Apr. 2020	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. (currently EUS Co., Ltd.) Managing Director, Sourcenext B.V. CEO, Sourcenext B.V. (current position)	(Note 5)	95,200
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 5)	129,000
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. (currently EUS Co., Ltd.)	(Note 5)	233,800
Managing Director	Hideaki Kubori	Aug. 29, 1944	Apr. 1971 Apr. 1998 Apr. 2001 Oct. 2001 Feb. 2003 Jun. 2008 Jun. 2011 Jun. 2014 Apr. 2015 Apr. 2018	Registered as Attorney-at-Law Joined Mori Sogo Representative, HIBIYA PARK LAW OFFICES (current position) President, Daini Tokyo Bar Association, and Vice President, Japan Federation of Bar Associations Outside Director, Nomura Holdings, Inc. Outside Auditor, the Company Member of the Supervisory Committee, The Norinchukin Bank (current position) Outside Director, Tokyo Stock Exchange Group, Inc. (currently Japan Exchange Group, Inc.) (current position) Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation) Outside Director, the Company (current position) Professor, Toin Law School (current position) Outside Director, Coincheck, Inc. (current position)	(Note 5)	33,000

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 5)	10,600
			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.		
			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)		
Managing Director	Nobuhide Nakaido	Nov. 1, 1946	Apr. 1971	Joined Sumitomo Corporation	(Note 5)	–
			Apr. 1998	Corporate Officer, Sumitomo Corporation		
			Jun. 1998	Director, Sumitomo Corporation		
			Apr. 2002	Representative Director, Managing Director, Sumitomo Corporation		
			Apr. 2004	Representative Director, Senior Managing Executive Officer, Sumitomo Corporation		
			Apr. 2005	Representative Director, Executive Vice President, Sumitomo Corporation		
			Jun. 2009	Chairman and President, Sumisho Computer Systems Corporation (currently SCSK Corporation)		
			Oct. 2011	President and Representative Director, SCSK Corporation		
			Jun. 2013	Chairman and Representative Director, SCSK Corporation		
			Apr. 2016	Director and Corporate Adviser, SCSK Corporation		
			Jun. 2016	Corporate Adviser, SCSK Corporation		
			May 2017	Independent Outside Director, Ichigo Inc. (current position)		
			Oct. 2018	Chairman, Japan Association for Chief Human Resource Officers (current position)		
			Mar. 2019	Outside Director, eSOL Co., Ltd. (current position)		
			Jun. 2020	Outside Director, the Company (current position)		
Standing Auditor	Masaaki Hirose	Aug. 26, 1948	Apr. 1971	Joined Suruga Bank Ltd.	(Note 6)	44,400
			Apr. 2005	Managing Executive Officer, Suruga Bank Ltd.		
			Jun. 2008	Standing Auditor, 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 Apr. 2003 Apr. 2004 Jan. 2006 Jun. 2006 May 2007 Apr. 2008 May 2010 Jun. 2011 Apr. 2012 May 2016	Registered as Attorney-at-Law (Daini Tokyo Bar Association) 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 Vice President, Daini Tokyo Bar Association Established Kobayashi Sogo Law Office Outside Auditor, the Company (current position) Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education Part-time instructor, Faculty of Law, Keio University Auditor, Utsunomiya Hotoku Hospital (current position) Outside Auditor, MOCHIDA PHARMACEUTICAL CO., LTD. Executive Governor, Japan Federation of Bar Associations Committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position)	(Note 7)	–
Auditor	Kakuji Takano	Apr. 7, 1940	Apr. 1963 May 1968 May 1981 Dec. 1996 Apr. 2007 Jun. 2007 Oct. 2008 Jul. 2010 May 2014 Jun. 2014 Jun. 2016	Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION) Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC) Established Takano Sogo Accounting Firm Representative Partner, Audit Corporation Ota Showa Century (currently Ernst & Young ShinNihon LLC) Outside Auditor, MARUZEN CO., LTD. Outside Auditor, NIPPON SHUPPAN HANBAI INC. Councilor, Kanagawa Institute of Technology (current position) Managing Partner, Takano Sogo Accounting Firm (current position) Auditor, Tokyo Medical and Dental Cooperative Outside Auditor, the Company (current position) Outside Audit & Supervisory Board Member, KDDI CORPORATION	(Note 7)	–
Total						36,209,200

Notes 1. Managing Directors Hideaki Kubori, Kunitake Ando and Nobuhide Nakaido are Outside Directors.

2. Auditors Tetsuya Kobayashi and Kakuji Takano are Outside Auditors.

3. 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 nine Executive Officers.
4. At the Annual Shareholders Meeting on June 18, 2020, 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 Apr. 2000 Apr. 2002 Apr. 2003 Apr. 2008 Jan. 2010 Apr. 2011 Apr. 2012 Apr. 2014 Apr. 2015 Jun. 2015 Nov. 2017 Apr. 2018 Dec. 2018 Jun. 2019 Jan. 2020 Apr. 2020	Assistant, Faculty of Law, Sophia University Full-time instructor, Faculty of Law, University of East Asia Assistant Professor, Faculty of Law, University of East Asia 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) Associate Professor, Judicial Affairs Course, Omiya Law School Part-time instructor, Faculty of Law, Meijo University Registered as Attorney-at-Law (Daini Tokyo Bar Association) Joined Frontier-Law Professor, Judicial Affairs Course, Omiya Law School Part-time instructor, Meiji Gakuin University Graduate Law School Professor, Department of Law, School of Law, Senshu University Part-time Instructor, Judicial Affairs Course, Omiya Law School Part-time lecturer, Faculty of Law, Komazawa University Outside Auditor, Resona Bank, Limited Outside Director, UPR Corporation (current position) Part-time instructor, College of Economics, Rikkyo University Outside Corporate Auditor, Noevir Holdings Co., Ltd. (current position) Outside Director, Audit and Supervisory Committee Member, Resona Bank, Limited (current position) Outside Director, Audit and Supervisory Committee Member, Resona Asset Management Co., Ltd. (current position) Professor of Sophia Law School (current position)	–

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

5. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2020 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2021
6. 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
7. 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
8. Number of shares held is as of March 31, 2020.

ii) Information about Outside Directors and Auditors

The Company has three Outside Directors and two Outside Auditors. Their ownership of shares of the Company is described in "i) List of Directors and Auditors." In relationships with the Company, they have no human relationships, significant capital relationships, business relationships, or any other interests.

Of the three Outside Directors, 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 Innovation Network, and Chairman at the University of Nagano. There are no capital or business relationships between any of these companies and the Company.

Nobuhide Nakaido is Independent Outside Director of Ichigo Inc., Chairman of Japan Association for Chief Human Resource Officers and Outside Director of eSOL Co., Ltd. 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.

Kakuji Takano is a certified public accountant and has no business relationships with or interests in the Company.

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

Standing 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.

In the current fiscal year, the Company held meetings of the Board of Auditors once a month. The attendance of each Auditor at the Board of Auditors meetings is as follows.

Name	Number of Meetings Held	Number of Meetings Attended
Shozaburo Takano	13	13
Masaaki Hirose	13	13
Tetsuya Kobayashi	13	13
Kakuji Takano	13	12

Notes Shozaburo Takano retired from office at the conclusion of the 24th Annual Shareholders Meeting held on June 18, 2020.

The main agenda items of the Board of Auditors include consent to a proposal for election of Auditors, details of a proposal for election of Accounting Auditor, preparation of an audit report, development of audit policy and plan and consent to remuneration for Accounting Auditor.

In conformity with the auditing standards specified by the Board of Auditors, each Auditor endeavors to collect information and improve the auditing environment through communication with Directors, the Internal Audit Committee members and other employees in accordance with the audit policy and division of duties. Auditors also 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., in addition to attending meetings of the Board of Directors.

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 Partner Engagement Partner	Katsuhiko Saito	PricewaterhouseCoopers Kyoto	1 year
Designated Partner Engagement Partner	Hitoshi Tamura	PricewaterhouseCoopers Kyoto	1 year

B. Breakdown of auditing assistants who executed the audit duties

Certified Public Accountants	4 persons
Others	8 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 has selected PricewaterhouseCoopers Kyoto (hereinafter "PwC Kyoto") because it has determined that PwC Kyoto has a sound basis for ensuring that accounting audits are carried out appropriately. This decision was made taking comprehensively into account the fact that PwC Kyoto can provide us with a wide range of information as well as its independence, expertise, appropriateness of audit activities, validity, and efficiency, and other statuses of its 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.

E. Change of audit firm

The Company's audit firm has changed as follows.

Fiscal year ended March 31, 2019	Deloitte Touche Tohmatsu LLC
Fiscal year ended March 31, 2020	PricewaterhouseCoopers Kyoto

The matters reported in the Extraordinary Securities Report are as follows.

(1) Names of certified public accountants, etc. for audits involved in the change

i) Name of certified public accountant, etc. for audits to be appointed

PricewaterhouseCoopers Kyoto

ii) Name of retiring certified public accountant, etc. for audits

Deloitte Touche Tohmatsu LLC

(2) Date of change

June 26, 2019 (date of the 23rd Annual Shareholders Meeting)

(3) Date of most recent appointment of the retiring certified public accountant, etc. for audits as certified public accountant, etc. for audits

June 26, 2018

(4) Matters relating to opinions, etc., in the audit report, etc., created by the retiring certified public accountant, etc. for audits in the past three years

Not applicable.

(5) Reason and background to the decision to make the change, and to the change

The term of office of Deloitte Touche Tohmatsu LLC (hereinafter “Tohmatsu”), which had been Accounting Auditor of the Company, expired at the conclusion of the 23rd Annual Shareholders Meeting of the Company.

The Company received a request from Tohmatsu stating that it wished not to renew the contract with the Company due to difficulty in securing time for auditing required to maintain its quality with limited human resources available, commensurate with the previous audit fee. As a result of careful consideration on ensuring a sufficient audit system and appropriate level of efforts to make to cope with audits for the size of Company’s operations, the Company accepted the request and newly appointed PricewaterhouseCoopers Kyoto (hereinafter “PwC Kyoto”) as the new Accounting Auditor.

The Board of Auditors has selected PwC Kyoto as a candidate for Accounting Auditor because it has determined that PwC Kyoto has a sound basis for ensuring that accounting audits of the Company are carried out appropriately, as well as expertise, independence and ability to perform duties that the Company requires Accounting Auditor to have.

(6) Opinions of the retiring certified public accountant, etc. for audits regarding matters included in the audit report, etc. on the reason and background described in item (5) above
The retiring certified public accountant, etc. for audits has replied that they have no opinion in particular.

iv) Details of audit fee, etc.

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

Category	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	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	22,000	–	25,000	–
Consolidated subsidiaries	–	–	–	–
Total	22,000	–	25,000	–

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.

Upon resolution at the Board of Directors meeting held on May 13, 2020, the Company has established the Remuneration Advisory Committee. The Remuneration Advisory Committee is a voluntary advisory board consisting of all three Outside Directors of the Company and Directors separately appointed by resolution of the Board of Directors. The Committee chair is appointed from among Independent Outside Directors. The Remuneration Advisory Committee deliberates and makes decisions on the following items so as to ensure objectivity and transparency in the process of determining remuneration.

a. Policy for determining remuneration, etc. for Directors, remuneration system and remuneration levels

b. Drafts of proposals regarding remuneration, etc. for Directors to be submitted to the shareholders meeting

c. Details of remuneration, etc. for individual Directors to be submitted to the Board of Directors

d. Other important management matters deemed necessary by the Board of Directors

At the Board of Directors meeting held on June 18, 2020, the Company resolved to appoint members (four members in total) of the Remuneration Advisory Committee. The details of remuneration, etc. for Directors from the fiscal year ending March 31, 2021 onwards will be resolved by the Board of Directors, taking into account deliberations and reports at the above-mentioned Remuneration Advisory Committee.

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)	104,476	96,035	8,440	–	–	5
Auditors (excluding Outside Auditors)	19,680	19,680	–	–	–	2
Outside Directors and Auditors	40,800	40,800	–	–	–	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

Not applicable.

(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	9	539,228
Stocks other than unlisted stocks	1	10,390

(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	3	226,409	To strengthen development capabilities for the Company's products
Stocks other than unlisted stocks	–	–	–

(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	–	–
Stocks other than unlisted stocks	–	–

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, 2020	Fiscal year ended March 31, 2019	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
	10,390	12,755		

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, 2019 to March 31, 2020 were audited by PricewaterhouseCoopers Kyoto 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, 2019)	Current fiscal year (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	7,562,192	3,898,678
Accounts receivable - trade	2,918,567	2,362,790
Merchandise and finished goods	1,328,078	3,092,616
Raw materials and supplies	155,905	123,189
Advance payments - trade	855,189	1,556,730
Accounts receivable - other	6,677	28,033
Other	257,835	456,341
Total current assets	13,084,446	11,518,380
Non-current assets		
Property, plant and equipment		
Buildings	220,919	210,376
Accumulated depreciation	(111,636)	(136,078)
Buildings, net	109,282	74,297
Vehicles	7,309	7,167
Accumulated depreciation	(5,994)	(6,200)
Vehicles, net	1,315	967
Tools, furniture and fixtures	209,375	219,683
Accumulated depreciation	(116,047)	(137,826)
Tools, furniture and fixtures, net	93,327	81,856
Total property, plant and equipment	203,926	157,121
Intangible assets		
Software	1,096,757	1,146,007
Goodwill	444,770	293,700
Contract based intangible assets	1,388,604	1,311,100
Other	93,142	176,514
Total intangible assets	3,023,274	2,927,322
Investments and other assets		
Investment securities	* 328,101	* 1,382,432
Deferred tax assets	546,570	860,035
Other	214,479	184,428
Allowance for doubtful accounts	(1,800)	－
Total investments and other assets	1,087,350	2,426,896
Total non-current assets	4,314,550	5,511,341
Total assets	17,398,997	17,029,721

(Thousands of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	567,660	420,982
Short-term loans payable	100,000	—
Current portion of long-term loans payable	422,000	422,000
Accounts payable - other	1,504,917	739,018
Income taxes payable	438,380	377,248
Unearned revenue	699,934	1,159,398
Provision for bonuses	23,318	24,472
Provision for sales returns	120,858	314,416
Provision for point card certificates	—	165,004
Provision for after service cost	14,402	18,799
Other	195,956	344,187
Total current liabilities	4,087,428	3,985,529
Non-current liabilities		
Long-term loans payable	1,015,000	593,000
Long-term unearned revenue	373,131	359,403
Total non-current liabilities	1,388,131	952,403
Total liabilities	5,475,559	4,937,933
Net assets		
Shareholders' equity		
Capital stock	3,679,656	3,688,593
Capital surplus	4,259,683	4,268,620
Retained earnings	3,898,004	4,034,956
Treasury shares	(3)	(3)
Total shareholders' equity	11,837,340	11,992,168
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(778)	(4,329)
Foreign currency translation adjustment	(5,211)	(14,789)
Total accumulated other comprehensive income	(5,989)	(19,118)
Share acquisition rights	92,087	118,739
Total net assets	11,923,437	12,091,788
Total liabilities and net assets	17,398,997	17,029,721

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

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2018 to March 31, 2019)		Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales		14,710,520		17,282,086
Cost of sales	*1	5,608,362	*1	6,903,187
Gross profit		9,102,158		10,378,898
Provision for sales returns		120,858		314,416
Reversal of provision for sales returns		200,704		120,858
Gross profit - net		9,182,004		10,185,340
Selling, general and administrative expenses				
Promotion expenses		951,951		1,577,599
Salaries		795,770		857,487
Provision for bonuses		23,318		24,472
Business consignment expenses		1,971,724		2,355,721
Advertising expenses		2,150,473		2,215,798
Other	*2	2,428,981	*2	2,679,653
Total selling, general and administrative expenses		8,322,219		9,710,732
Operating profit		859,784		474,608
Non-operating income				
Interest income		214		353
Dividend income		249		277
Share of profit of entities accounted for using equity method		–		69,709
Foreign exchange gains		32,024		–
Contribution for development		18,347		–
Other		1,463		3,017
Total non-operating income		52,298		73,359
Non-operating expenses				
Interest expenses		5,277		4,225
Foreign exchange losses		–		2,382
Loss on investments in silent partnership		785		3,533
Other		392		228
Total non-operating expenses		6,455		10,369
Ordinary profit		905,628		537,598
Extraordinary income				
Gain on sales of investment securities		110,742		–
Gain on sales of shares of subsidiaries and associates		–		28,273
Total extraordinary income		110,742		28,273
Profit before income taxes		1,016,370		565,871
Income taxes - current		677,990		652,828
Income taxes - deferred		(277,500)		(311,897)
Total income taxes		400,489		340,930
Profit		615,880		224,940
Profit attributable to owners of parent		615,880		224,940

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit	615,880	224,940
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,123)	(3,550)
Foreign currency translation adjustment	(6,053)	(9,577)
Total other comprehensive income	* (11,176)	* (13,128)
Comprehensive income	604,704	211,811
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	604,704	211,811
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

Previous 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

Current fiscal year (From April 1, 2019 to March 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,679,656	4,259,683	3,898,004	(3)	11,837,340
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	8,937	8,937			17,875
Dividends of surplus			(92,590)		(92,590)
Profit attributable to owners of parent			224,940		224,940
Change in scope of consolidation			4,602		4,602
Net changes of items other than shareholders' equity					–
Total changes of items during period	8,937	8,937	136,952	–	154,827
Balance at end of current period	3,688,593	4,268,620	4,034,956	(3)	11,992,168

	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	(778)	5,211	(5,989)	92,087	11,923,437
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights			–		17,875
Dividends of surplus			–		(92,590)
Profit attributable to owners of parent			–		224,940
Change in scope of consolidation			–		4,602
Net changes of items other than shareholders' equity	(3,550)	(9,577)	(13,128)	26,651	13,522
Total changes of items during period	(3,550)	(9,577)	(13,128)	26,651	168,350
Balance at end of current period	(4,329)	(14,789)	(19,118)	118,739	12,091,788

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before income taxes	1,016,370	565,871
Depreciation	365,124	378,012
Amortization of software	421,746	435,987
Amortization of goodwill	154,881	151,070
Share-based compensation expenses	24,508	32,314
Amortization of trademark right	23,171	23,089
Increase (decrease) in allowance for doubtful accounts	–	(1,800)
Increase (decrease) in provision for bonuses	(7,643)	964
Increase (decrease) in provision for sales returns	(79,846)	193,558
Increase (decrease) in provision for point card certificates	–	165,004
Provision for after cost periods adjustment	(5,991)	4,397
Interest and dividend income	(464)	(631)
Interest expenses	5,277	4,225
Loss (gain) on sales of investment securities	(110,742)	–
Loss (gain) on sales of shares of subsidiaries and associates	–	(28,273)
Share of loss (profit) of entities accounted for using equity method	–	(69,709)
Decrease (increase) in notes and accounts receivable - trade	(887,494)	550,153
Decrease (increase) in inventories	(1,142,124)	(1,732,821)
Decrease (increase) in advance payments - trade	176,452	(701,541)
Increase (decrease) in notes and accounts payable - trade	170,827	(143,065)
Increase (decrease) in accounts payable - other	1,008,278	(836,459)
Increase (decrease) in unearned revenue	559,945	459,464
Increase (decrease) in long-term unearned revenue	313,524	(13,727)
Other, net	(81,693)	(60,665)
Subtotal	1,924,110	(624,581)
Interest and dividend income received	464	631
Interest expenses paid	(5,326)	(4,269)
Income taxes paid	(573,164)	(701,315)
Net cash provided by (used in) operating activities	1,346,083	(1,329,534)
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,301)	(21,330)
Purchase of software	(750,152)	(809,231)
Purchase of investment securities	(186,451)	(996,269)
Proceeds from sales of investment securities	810,027	35,000
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	60,841
Payments for leasehold and guarantee deposits	(15,600)	(5,552)
Payments from collection of lease and guarantee deposits	–	20,996
Net cash provided by (used in) investing activities	(160,478)	(1,715,545)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	100,000	(100,000)
Repayments of long-term loans payable	(422,000)	(422,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	3,785,648	12,212

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Proceeds from disposal of treasury shares resulting from exercise of share acquisition rights	1,172,203	—
Proceeds from issuance of share acquisition rights	21,180	—
Cash dividends paid	(189,048)	(92,251)
Net cash provided by (used in) financing activities	4,467,982	(602,038)
Effect of exchange rate change on cash and cash equivalents	2,352	(16,395)
Net increase (decrease) in cash and cash equivalents	5,655,939	(3,663,513)
Cash and cash equivalents at beginning of period	1,906,252	7,562,192
Cash and cash equivalents at end of period	* 7,562,192	* 3,898,678

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries 4 companies

Names of consolidated subsidiaries SOURCENEXT Inc.
EUS Co., Ltd. (formerly FUDEMAME CO., LTD.)
Rosetta Stone Japan, Inc.
Sourcenext B.V.

The Company has excluded Solve Co., Ltd. from the scope of consolidation as it sold the shares of Solve Co., Ltd. in the current fiscal year.

(2) Names of non-consolidated subsidiaries

Not applicable.

2. Application of equity method

Number of associates accounted for using the equity method 1 company

Name of associate UMEOX Innovations Co., Ltd.

The Company has included UMEOX Innovations Co., Ltd. in the scope of the application of the equity method as it subscribed the third-party allotment in the current fiscal year.

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 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 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 service cost

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.

v) Provision for point card certificates

Following the launch of the "SOURCENEXT ePoint" service, provision for point card certificates is provided to prepare for the use of loyalty points given to customers at the amount expected to be used in the future.

(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 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 31, 2020)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(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" (IFRS 15 in IASB and ASC Topic 606 in FASB) in May 2014. Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and ASC 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.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, issued by the Accounting Standards Board of Japan on July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued by the Accounting Standards Board of Japan on July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued by the Accounting Standards Board of Japan on July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan on July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

IASB and FASB have established detailed guidance on fair value measurement with almost the same content (IFRS 13 "Fair Value Measurement" in International Financial Reporting Standards and Accounting Standards Codification Topic 820 "Fair Value Measurement" at FASB). In light of such circumstances, the ASBJ issued the “Accounting Standard for Fair Value Measurement” and other standards and guidance as a result of initiatives to facilitate consistency of Japanese GAAP with international accounting standards mainly concerning guidance on fair value of financial instruments and required disclosures.

The ASBJ established the accounting standard on fair value remeasurement by following the basic policies in developing it. The basic policies were: incorporating, in principle, all provisions of IFRS 13 from the perspective of improving comparability of financial statements between domestic and overseas companies by using unified measurement methods; and specifying other treatments for individual items, but to the extent not substantially impairing comparability between different financial statements, giving consideration 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 Fair Value Measurement” and other standards and guidance on the consolidated financial statements has not yet been determined at this time.

• “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

The paragraph 125 of IAS 1 “Presentation of Financial Statements” (hereinafter “IAS 1,” issued by IASB in 2003) requires disclosure of information about “sources of estimation uncertainty.” In this regard, there has been a request that the major sources of estimation uncertainty should be disclosed as the notes to financial statements under the Japan GAAP in terms of providing highly useful information to users of financial statements. In response to this request, the ASBJ developed and issued the (hereinafter the “Accounting Standard”).

The ASBJ’s basic policy for the development of the Accounting Standard is to provide the principles (disclosure objectives) instead of enhancing individual notes, and determine specific items to be disclosed should be decided by an entity in light of the disclosure objectives. The ASBJ used the provisions of paragraph 125 of IAS 1 as a reference for developing the Accounting Standard.

(2) Scheduled date of application

This ASBJ statement will be applied at the end of the fiscal year ending March 31, 2021.

• “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No.24, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Overview

After receiving proposals for considering the enhancement of information in notes on “accounting policies and procedures adopted in cases where the relevant provisions set forth in accounting standards and other regulations are not clear,” the ASBJ made necessary amendments to ASBJ Statement No. 24, including renaming it, and issued the revised accounting standard as Accounting Standards for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

It is also stated that the provisions of the Annotations on the Corporate Accounting Principles (Annotation No. 1-2) should be continued to follow when enhancing information in notes to “accounting principles and procedures adopted in the cases where the relevant provisions set forth in accounting standards and other regulations are not clear,” in order not to conflict with the practice having been used where the relevant accounting standards are definitive.

(2) Scheduled date of application

This ASBJ statement will be applied at the end of the fiscal year ending March 31, 2021.

Changes in presentation

Not applicable.

Additional information

As a result of the spread of COVID-19, we have seen changes in sales to the Group's main sales channels, including consumer electronics retailers, as well as in product sales trends in Europe.

Such reduced sales activities will affect the Group's business performance going forward. However, we have made accounting estimates related to the recoverability of deferred tax assets and other matters based on our assumption that such impact will largely be recovered by the end of 2020 or thereabout.

Consolidated balance sheet

* The item related to associates is as follows:

(Thousands of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Investment securities (shares)	–	832,814

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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Valuation loss on finished goods	53,108	188,673
Loss on abandonment of finished goods	8,163	101,448

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

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Research and development expenses	22,702	13,081

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Valuation difference on available-for-sale securities		
Amount arising during the year	(7,391)	(5,118)
Reclassification adjustments	–	–
Before tax effects adjustments	(7,391)	(5,118)
Tax effects	2,268	1,567
Valuation difference on available-for-sale securities	(5,123)	(3,550)
Foreign currency translation adjustment		
Amount arising during the year	(6,053)	(9,577)
Reclassification adjustments	–	–
Before tax effects adjustments	(6,053)	(9,577)
Tax effects	–	–
Foreign currency translation adjustment	(6,053)	(9,577)
Total other comprehensive income	(11,176)	(13,128)

Consolidated statement of changes in equity

Previous 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.

4. The decrease of 1,544,000 shares in the number of treasury shares of common shares resulted from the disposal of treasury shares upon 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

Current fiscal year (From April 1, 2019 to March 31, 2020)

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

Class of shares	As of April 1, 2019	Increase	Decrease	As of March 31, 2020
Issued shares				
Common shares (Shares)	136,162,800	78,400	–	136,241,200
Total	136,162,800	78,400	–	136,241,200
Treasury shares				
Common shares (Shares)	24	–	–	24
Total	24	–	–	24

Note: The increase of 78,400 shares in the total number of common shares issued resulted from the exercise of share acquisition rights as stock options.

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, 2020 (Thousands of yen)
			As of April 1, 2019	Increase	Decrease	As of March 31, 2020	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	23,101
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	23,047
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	10,288
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	29,994
	11th series share acquisition rights as 2018 stock options	–	–	–	–	–	13,975
	12th series share acquisition rights as 2019 stock options	–	–	–	–	–	6,272
	13th series share acquisition rights as 2019 stock options	–	–	–	–	–	7,544
	1st series US-JP tax-qualified share acquisition rights as 2019 stock options	–	–	–	–	–	3,802
Total			–	–	–	–	118,739

Note: The first day of the exercise period has not yet arrived for the 11th, 12th and 13th series share acquisition rights and 1st series US-JP tax-qualified 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, 2019	Common shares	92,590	0.68	March 31, 2019	June 27, 2019

(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 18, 2020	Common shares	34,060	Retained earnings	0.25	March 31, 2020	June 19, 2020

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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash and deposits	7,562,192	3,898,678
Cash and cash equivalents	7,562,192	3,898,678

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.

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, 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.

Current fiscal year (As of March 31, 2020)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	3,898,678	3,898,678	–
(2) Accounts receivable - trade	2,362,790	2,362,790	–
(3) Accounts receivable - other	28,033	28,033	–
(4) Investment securities	10,390	10,390	–
Total assets	6,299,893	6,299,893	–
(1) Accounts payable - trade	420,982	420,982	–
(2) Short-term loans payable	–	–	–
(3) Accounts payable - other	739,018	739,018	–
(4) Income taxes payable	377,248	377,248	–
(5) Long-term loans payable (*)	1,015,000	1,015,218	218
Total liabilities	2,552,249	2,552,468	218

(*) 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 present 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, 2019)	Current fiscal year (As of March 31, 2020)
Unlisted stocks, etc.	315,346	1,372,042

These items are not included in "(3) 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, 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	–	–	–

Current fiscal year (As of March 31, 2020)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	3,898,678	–	–	–
Accounts receivable - trade	2,362,790	–	–	–
Accounts receivable - other	28,033	–	–	–
Total	6,289,503	–	–	–

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, 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	–	–

Current fiscal year (As of March 31, 2020)

(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	171,000	–	–	–
Total	422,000	422,000	171,000	–	–	–

Securities

1. Other securities

Previous 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.

Current fiscal year (As of March 31, 2020)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	10,390	9,356	1,033
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	10,390	9,356	1,033
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		10,390	9,356	1,033

Note: Unlisted stocks, etc. (carrying amount: 1,372,042 thousand yen) are not included in "Other" 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, 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	–

Current fiscal year (From April 1, 2019 to March 31, 2020)

Type	Sales amount (Thousands of yen)	Total gain on sales (Thousands of yen)	Total loss on sales (Thousands of yen)
(1) Stocks	35,000	–	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	35,000	–	–

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 5,599 thousand yen for the previous fiscal year and 5,240 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, 2019)	Current fiscal year (As of March 31, 2020)
Selling, general and administrative expenses (Other)	24,508	32,314

2. 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

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.

	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

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.

	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.

	2019 Stock Options (12th series)	2019 Stock Options (13th series)
Category and number of people to whom stock options are granted	3 Directors and 92 employees of the Company	3 Directors and 92 employees of the Company
Number of stock options by class of shares	Common shares: 109,400 shares	Common shares: 139,000 shares
Grant date	July 24, 2019	August 27, 2019
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 27, 2021 – June 26, 2029	July 26, 2021 – July 25, 2029

	2019 Stock Options (1st series US-JP tax-qualified share acquisition rights)
Category and number of people to whom stock options are granted	6 employees of SOURCENEXT Inc.
Number of stock options by class of shares	Common shares: 68,400 shares
Grant date	August 27, 2019
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.
Vesting period	Not specified.
Exercise period	July 26, 2021 – July 24, 2029

(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, 2020). 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, 2019			
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2019	169,600	4,800	263,200
Vested	–	–	–
Exercised	7,200	–	12,000
Forfeited	–	–	–
Exercisable	162,400	4,800	251,200

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.

	2016 Stock Options (7th series)	2017 Stock Options (8th series)	2018 Stock Options (11th series)
Before vested (Shares)			
As of March 31, 2019		575,200	71,800
Granted	–	–	–
Forfeited	–	14,000	1,400
Vested	–	561,200	–
Unvested	–	–	70,400
After vested (Shares)			
As of March 31, 2019	144,400	–	–
Vested	–	561,200	–
Exercised	–	59,200	–
Forfeited	–	–	–
Exercisable	144,400	502,000	–

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.

	2019 Stock Options (12th series)	2019 Stock Options (13th series)	2019 Stock Options (1st series US-JP tax-qualified share acquisition rights)
Before vested (Shares)			
As of March 31, 2019	–	–	–
Granted	109,400	139,000	68,400
Forfeited	2,700	3,300	–
Vested	–	–	–
Unvested	106,700	135,700	68,400
After vested (Shares)			
As of March 31, 2019	–	–	–
Vested	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Exercisable	–	–	–

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)	490	–	465
Fair value per share at grant date (Yen)	142.25	148.25	91.75

Note: The price 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.

	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)	–	484	–
Fair value per share at grant date (Yen)	71.25	59.75	226.50

Note: The price 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.

	2019 Stock Options (12th series)	2019 Stock Options (13th series)	2019 Stock Options (1st series US-JP tax-qualified share acquisition rights)
Exercise price (Yen)	437	436	436
Average price per share upon exercise (Yen)	–	–	–
Fair value per share at grant date (Yen)	164.00	177.00	177.00

3. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2020

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

	2019 Stock Options (12th series)	2019 Stock Options (13th series)	2019 Stock Options (1st series US-JP tax-qualified share acquisition rights)
Volatility of share price (Note 1)	48.18%	46.59%	46.59%
Estimated remaining outstanding period (Note 2)	5.93 years	5.92 years	5.92 years
Estimated dividend (Note 3)	0.68 yen per share	0.68 yen per share	0.68 yen per share
Risk-free interest rate (Note 4)	(0.241)%	(0.379)%	(0.379)%

Notes: 1. Calculated based on the stock market performance in the period from August 19, 2013 to July 24, 2019 for the 12th series, and based on the stock market performance in the period from September 27, 2013 to August 27, 2019 for the 13th series and the 1st series US-JP tax-qualified share acquisition rights.

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 0.68 yen based on the actual dividends for the fiscal year ended March 31, 2019.

4. This is the yield of Japanese Government bonds on June 20, 2025, the redemption date, on the base date for valuation.

4. 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, 2019)	Current fiscal year (As of March 31, 2020)
Deferred tax assets		
Valuation loss on finished goods	17,863	58,517
Enterprise tax payable	30,911	25,159
Provision for sales returns	37,844	96,274
Provision for point card certificates	–	50,524
Depreciation	40,057	52,679
Amortization of software	21,950	20,997
Amortization of trademark right	19,054	20,190
Recognized value of tax sales	326,459	466,407
Tax loss carried forward (Note)	461,433	555,700
Valuation difference on available-for-sale securities	343	1,910
Other	43,610	67,726
Subtotal deferred tax assets	999,529	1,416,087
Valuation allowance for tax loss carried forward (Note)	(452,959)	(552,615)
Valuation allowance for total of deductible temporary differences and others	–	(3,437)
Subtotal of valuation allowance	(452,959)	(556,052)
Total deferred tax assets	546,570	860,035
Deferred tax liabilities		
Valuation difference on available-for-sale securities	–	–
Total deferred tax liabilities	–	–
Net deferred tax assets	546,570	860,035

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

Previous 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)	(452,95)
Deferred tax assets	–	–	2,810	–	5,663	–	8,473

Current fiscal year (As of March 31, 2020)

	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 (*)	–	108,540	108,083	181,933	17,038	140,105	555,700
Valuation allowance	–	(105,454)	(108,083)	(181,933)	(17,038)	(140,105)	(552,615)
Deferred tax assets	–	3,085	–	–	–	–	3,085

(*) 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 effective statutory tax rate and the actual effective tax rate after tax effect accounting

(%)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Effective statutory tax rate	30.6	30.6
(Reconciliation)		
Permanently non-deductible items including entertainment expense	1.0	2.4
Per capita inhabitant taxes	0.4	0.8
Amortization of goodwill	4.7	8.2
Tax rate difference of overseas subsidiaries	1.7	0.3
Share of profit of entities accounted for using equity method	–	(3.8)
Valuation allowance	1.5	25.2
Other	(0.5)	(3.5)
Effective tax rate after applying tax effect accounting	39.4	60.2

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, 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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

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

Information associated with reportable segments

Previous 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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

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
146,415	10,706	157,121

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, 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.

Current fiscal year (From April 1, 2019 to March 31, 2020)

The information has been omitted since the Group operates a single segment of the planning, development and sales of IoT products, 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, 2018 to March 31, 2019)

Not applicable.

Current fiscal year (From April 1, 2019 to March 31, 2020)

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, 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 4)	16,200	–	–

Current fiscal year (From April 1, 2019 to March 31, 2020)

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)
Director, Auditor, his or her close family member	Satomi Matsuda	Minato-ku, Tokyo	–	President and CEO, Solve Co., Ltd.	(Held) Direct 2.71	Managing Director, the Company (Note 2)	Sale of shares of subsidiaries and associates (Note 3)	250,000	–	–
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 4)	16,200	–	–

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

2. Satomi Matsuda resigned as Managing Director of the Company on November 30, 2019.

3. The Company transferred a part of shares of its subsidiary Solve Co., Ltd. to Satomi Matsuda, President and CEO of the subsidiary, in June 2019. As a result, Solve Co., Ltd. ceased to be a subsidiary of the Company. Additionally, the Company transferred all the remaining shares of Solve Co., Ltd. it held to Satomi Matsuda, President and CEO of the company, in November 2019.

The share transfer price was determined through consultations between both parties.

4. 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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net assets per share	86.89 yen	87.88 yen
Earnings per share	4.64 yen	1.65 yen
Diluted earnings per share	4.61 yen	1.64 yen

Notes: 1. The Company implemented a 1:2 share split on common shares 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, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	615,880	224,940
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	615,880	224,940
Average number of common shares outstanding during the period (Shares)	132,702,964	136,186,344
Diluted earnings per share		
Increase in number of common shares (Shares)	828,858	712,759
[Number of share acquisition rights included] (Shares)	(828,858)	(712,759)
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 June 26, 2018 Common shares: 71,800 shares	Stock options resolved at the Board of Directors meeting held on June 26, 2018 (11th series share acquisition rights): 70,400 common shares Stock options resolved at the Board of Directors meeting held on June 26, 2019 (12th series share acquisition rights): 106,700 common shares Stock options resolved at the Board of Directors meeting held on July 25, 2019 (13th series share acquisition rights): 135,700 common shares Stock options resolved at the Board of Directors meeting held on July 25, 2019 (1st series US-JP tax-qualified share acquisition rights): 68,400 common shares

Note: The average number of common shares outstanding during the period and the number of potential shares, excluded from the calculation of diluted earnings per share because they do not have dilutive effects, reflect the numbers of shares assuming the share split that was implemented on December 1, 2018 (at a ratio of two shares for every one share of common shares) has taken place.

Significant events after reporting period

1. On April 23, 2020, the Company and U.S.-based Owl Labs Inc. entered into a contract on acquisition of the exclusive sales rights of "Meeting Owl" in Japan and underwriting of convertible bonds issued by Owl Labs Inc.

   Overview of contract

   (1) Name and business description of alliance partner

Name of company	Owl Labs Inc.
Description of business	Development and sales of AI-driven hardware products to improve an environment for remote work and meetings including "Meeting Owl"

   (2) Reasons for alliance

   As part of countermeasures against the COVID-19 pandemic, which is feared to be greater in scale, the Japanese government has established the Novel Coronavirus Response Headquarters in the Cabinet and pushed forward the promotion of proactive adoption of telework whenever possible from the perspective of reducing contact with patients and infected persons. In response to such background, we have decided to set out a policy of finding telework-related software services and hardware both in Japan and abroad and providing such products in a speedy manner.

   This time, the Company has decided to start the exclusive sales of "Meeting Owl," an AI-driven web conference camera owned by Owl labs, as its telework-related tool in Japan. In addition, the Company decided to underwrite convertible bonds issued by Owl Labs and form a capital alliance with the company. We believe that the formation of a strategic partnership with Owl Labs to jointly work together to promote our business will contribute to growth and medium- to long-term revenue generation of both companies.

   (3) Underwriting amount of convertible bonds and financing method

   Underwriting amount: USD5 million

   Method of financing fund for payment: bank loans

2. On May 22, 2020, the Company and U.S.-based Molekule, Inc. entered into a contract on acquisition of the exclusive sales rights of an air purifier "Molekule Air Mini+" in Japan and subscription for a third-party allotment conducted by Molekule, Inc.

   Overview of contract

   (1) Name and business description of alliance partner

Name of company	Molekule, Inc.
Description of business	Development and sales of air purifiers using Photo Electrochemical Oxidation (PECO) technology

   (2) Reasons for alliance

   In the wake of the COVID-19 pandemic, there has been an increasing awareness among the public about air quality in all sorts of places including home, work place, hospitals and public facilities. Accordingly, we believe that demand for air purifiers will continue to grow going forward. "Molekule Air Mini+," an air purifier owned by Molekule, adopts filters developed with PECO technology (patented in the United States), a proprietary purification method to destroy hazardous materials in the air taken in inside the device.

   The Company resolved to acquire shares of Molekule by subscribing for a third-party allotment in order to jointly promote and expand our business by forming a strategic partnership with the company, in conjunction with exclusively selling Molekule Air Mini+ in Japan. Molekule's business is highly compatible with the Company's hardware business. We therefore believe that maintaining our close partnership will contribute to growth and medium- to long-term revenue generation of both companies.

   (3) Overview of share acquisition

   The Company subscribed for shares issued through a third-party allotment.

(4) Number of shares acquired, acquisition value, number of shares held before and after acquisition

i) Number of shares held before acquisition 0 shares
(Number of voting rights: 0 rights)
(Ratio of voting rights holding: 0%)

ii) Number of shares acquired 3,205,128 shares
(Number of voting rights: 3,205,128 rights)

iii) Acquisition value Preferred shares of Molekule, Inc.: USD10 million (approx. 1,079 million yen)
Advisory fee, etc.: approx. 15 million yen
Approx. 1,094 million yen in total

iv) Number of shares held after acquisition 3,205,128 shares
(Number of voting rights: 3,205,128 rights)

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, 2019 (Thousands of yen)	Balance as of March 31, 2020 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	100,000	–	–	–
Current portion of long-term loans payable	422,000	422,000	0.32	–
Long-term loans payable (excluding current portion)	1,015,000	593,000	0.31	2022
Total	1,537,000	1,015,000	–	–

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	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, 2020

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	4,638,664	8,683,016	13,089,232	17,282,086
Profit before income taxes (Thousands of yen)	113,394	381,978	536,135	565,871
Profit attributable to owners of parent (Thousands of yen)	55,750	197,107	264,471	224,940
Earnings per share (Yen)	0.41	1.45	1.94	1.65

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share (Yen)	0.41	1.04	0.49	(0.29)

2. Financial statements, etc.

(1) Financial statements

i) Balance sheet

(Thousands of yen)

		Previous fiscal year (As of March 31, 2019)		Current fiscal year (As of March 31, 2020)
Assets				
Current assets				
Cash and deposits		6,639,782		3,463,569
Accounts receivable - trade	*	2,955,545	*	2,597,807
Merchandise and finished goods		1,295,933		2,938,233
Raw materials and supplies		155,905		124,120
Advance payments - trade		844,186		1,555,343
Prepaid expenses		191,516		336,268
Accounts receivable - other	*	123	*	2,031
Other	*	10,605	*	63,934
Total current assets		12,093,599		11,081,309
Non-current assets				
Property, plant and equipment				
Buildings		94,964		65,645
Tools, furniture and fixtures		91,332		77,484
Total property, plant and equipment		186,297		143,130
Intangible assets				
Software		1,013,280		1,145,965
Goodwill		11,432		—
Contract based intangible assets		1,388,604		1,311,100
Other		93,142		176,514
Total intangible assets		2,506,459		2,633,580
Investments and other assets				
Investment securities		328,101		549,618
Shares of subsidiaries and associates		1,526,926		1,492,168
Long-term loans receivable	*	—	*	119,550
Deferred tax assets		509,029		820,411
Other		193,349		179,043
Allowance for doubtful accounts		(1,800)		—
Total investments and other assets		2,555,607		3,160,792
Total non-current assets		5,248,364		5,937,503
Total assets		17,341,963		17,018,813

(Thousands of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	* 549,457	* 424,054
Short-term loans payable	100,000	—
Current portion of long-term loans payable	422,000	422,000
Accounts payable - other	* 1,481,503	* 722,540
Accrued expenses	28,187	19,186
Income taxes payable	410,875	376,747
Advances received	39,475	33,936
Deposits received	22,976	43,672
Unearned revenue	682,241	1,141,883
Provision for bonuses	9,392	1,329
Provision for sales returns	99,763	314,416
Provision for point card certificates	—	165,004
Provision for after service cost	14,402	18,799
Other	90,713	235,629
Total current liabilities	3,950,989	3,919,202
Non-current liabilities		
Long-term loans payable	1,015,000	593,000
Long-term unearned revenue	371,517	358,844
Total non-current liabilities	1,386,517	951,844
Total liabilities	5,337,507	4,871,046
Net assets		
Shareholders’ equity		
Capital stock	3,679,656	3,688,593
Capital surplus		
Legal capital surplus	3,519,656	3,528,593
Other capital surplus	740,027	740,027
Total capital surpluses	4,259,683	4,268,620
Retained earnings		
Legal retained earnings	18,200	18,200
Other retained earnings		
Retained earnings brought forward	3,955,611	4,057,944
Total retained earnings	3,973,811	4,076,144
Treasury shares	(3)	(3)
Total shareholders’ equity	11,913,147	12,033,356
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(778)	(4,329)
Total valuation and translation adjustments	(778)	(4,329)
Share acquisition rights	92,087	118,739
Total net assets	12,004,456	12,147,766
Total liabilities and net assets	17,341,963	17,018,813

ii) Statement of income

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales	*1 14,708,202	*1 17,404,890
Cost of sales	*1 5,913,033	*1 7,067,285
Gross profit	8,795,168	10,337,605
Provision for sales returns	99,763	314,416
Reversal of provision for sales returns	192,275	99,763
Gross profit - net	8,887,679	10,122,952
Selling, general and administrative expenses	*1, *2 7,959,994	*1, *2 9,046,159
Operating profit	927,685	1,076,793
Non-operating income		
Interest income	110	*1 137
Dividend income	210	250
Foreign exchange gains	25,939	–
Contribution for development	18,347	–
Other	*1 2,046	*1 1,496
Total non-operating income	46,654	1,883
Non-operating expenses		
Interest expenses	5,277	3,987
Foreign exchange losses	—	1,391
Loss on investments in silent partnership	785	3,533
Other	93	—
Total non-operating expenses	6,156	8,912
Ordinary profit	968,183	1,069,763
Extraordinary income		
Gain on sales of investment securities	110,742	—
Total extraordinary income	110,742	—
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	—	535,888
Total extraordinary losses	—	535,888
Profit before income taxes	1,078,925	533,875
Income taxes - current	628,025	648,765
Income taxes - deferred	(282,598)	(309,814)
Total income taxes	345,427	338,950
Profit	733,498	194,924

iii) Statement of changes in equity

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

(Thousands of yen)

	Shareholders' equity						
		Capital surplus			Retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	1,776,817	1,616,817	–	1,616,817	18,200	3,411,020	3,429,220
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights	1,902,838	1,902,838		1,902,838			–
Dividends of surplus				–		(188,907)	(188,907)
Profit				–		733,498	733,498
Disposal of treasury shares			740,027	740,027			–
Net changes of items other than shareholders' equity				–			–
Total changes of items during period	1,902,838	1,902,838	740,027	2,642,865	–	544,590	544,590
Balance at end of current period	3,679,656	3,519,656	740,027	4,259,683	18,200	3,955,611	3,973,811

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(438,355)	6,384,501	4,345	4,345	72,603	6,461,449
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights		3,805,676				3,805,676
Dividends of surplus		(188,907)				(188,907)
Profit		733,498				733,498
Disposal of treasury shares	438,351	1,178,379				1,178,379
Net changes of items other than shareholders' equity		–	(5,123)	(5,123)	19,483	14,360
Total changes of items during period	438,351	5,528,646	(5,123)	(5,123)	19,483	5,543,006
Balance at end of current period	(3)	11,913,147	(778)	(778)	92,087	12,004,456

Current fiscal year (From April 1, 2019 to March 31, 2020)

(Thousands of yen)

	Shareholders' equity						
		Capital surplus			Retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings	Total retained earnings
						Retained earnings brought forward	
Balance at beginning of current period	3,679,656	3,519,656	740,027	4,259,683	18,200	3,955,611	3,973,811
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights	8,937	8,937		8,937			–
Dividends of surplus				–		(92,590)	(92,590)
Profit				–		194,924	194,924
Net changes of items other than shareholders' equity				–			–
Total changes of items during period	8,937	8,937	–	8,937	–	102,333	102,333
Balance at end of current period	3,688,593	3,528,593	740,027	4,268,620	18,200	4,057,944	4,076,144

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(3)	11,913,147	(778)	(778)	92,087	12,004,456
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights		17,875				17,875
Dividends of surplus		(92,590)				(92,590)
Profit		194,924				194,924
Net changes of items other than shareholders' equity		–	(3,550)	(3,550)	26,651	23,100
Total changes of items during period	–	120,208	(3,550)	(3,550)	26,651	143,309
Balance at end of current period	(3)	12,033,356	(4,329)	(4,329)	118,739	12,147,766

Notes

Significant accounting policies

1. Valuation bases and methods for securities

(1) Shares of subsidiaries

Stated at cost using the moving-average method.

(2) Other securities

Securities with available fair 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 values

Stated at cost using the moving-average method.

2. Valuation bases and methods for inventories

(1) 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).

(2) 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).

3. Depreciation methods for non-current assets

(1) Property, plant and equipment

Straight-line method

The estimated useful lives of major items are as follows:

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

(2) 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).

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.

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.

4. Accounting policy for provisions

(1) 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.

(2) 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.

(3) 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.

(4) Provision for after service cost

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.

(5) Provision for point card certificates

Following the launch of the "SOURCENEXT ePoint" service, provision for point card certificates is provided to prepare for the use of loyalty points given to customers at the amount expected to be used in the future.

5. Other significant matters forming basis of preparing the financial statements

Accounting policy for consumption taxes

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

Changes in presentation

Not applicable.

Additional information

The note has been omitted as the information is described in "Notes (Additional information)" in the consolidated financial statements.

Balance sheet

* Monetary receivables from and payables to subsidiaries and associates

Monetary receivables from and payables to subsidiaries and associates, other than those separately presented, are as follows:

(Thousands of yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Shot-term monetary receivables	64,496	279,131
Long-term monetary receivables	–	119,550
Short-term monetary payables	20,971	15,981

Statement of income

*1 Transactions with subsidiaries and associates

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Volume of operating transactions		
Net sales	93,284	378,021
Operating expenses	830,940	442,726
Volume of non-operating transactions	600	136

*2 Of selling, general and administrative expenses for the previous fiscal year, about 48% were attributable to selling expenses and the remaining 52% were attributable to general and administrative expenses, whereas, for the current fiscal year, about 50% were attributable to selling expenses and the remaining 50% were attributable to general and administrative expenses.

The major expense items and amounts of selling, general and administrative expenses are as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Promotion expenses	897,145	1,431,443
Salaries	661,314	700,054
Provision for bonuses	9,392	1,329
Depreciation	272,295	259,746
Business consignment expenses	2,313,314	2,584,639
Advertising expenses	2,134,687	2,177,149

Securities

Shares of subsidiaries and associates

There are no shares of subsidiaries and associates with market prices.

Note: Carrying amounts of shares of subsidiaries and associates whose fair values are deemed to be extremely difficult to determine

(Thousands of yen)

Category	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Shares of subsidiaries	1,526,926	726,068
Shares of associates	–	766,100

Their fair values and differences are not presented because they have no market prices and their fair values are deemed to be extremely difficult to determine.

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, 2019)	Current fiscal year (As of March 31, 2020)
Deferred tax assets		
Valuation loss on finished goods	17,298	58,517
Enterprise tax payable	29,421	25,159
Provision for sales returns	30,547	96,274
Provision for point card certificates	–	50,524
Depreciation	36,700	52,679
Amortization of software	21,950	20,997
Amortization of trademark right	19,054	20,190
Recognized value of tax sales	326,459	466,407
Loss on valuation of shares of subsidiaries and associates	–	164,089
Valuation difference on available-for-sale securities	343	1,910
Other	27,253	27,751
Subtotal deferred tax assets	509,029	984,500
Valuation allowance	–	(164,089)
Total deferred tax assets	509,029	820,411
Deferred tax liabilities		
Valuation difference on available-for-sale securities	–	–
Total deferred tax liabilities	–	–
Net deferred tax assets	509,029	820,411

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

(%)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Effective statutory tax rate	–	30.6
(Reconciliation)		
Permanently non-deductible items including entertainment expense	–	2.6
Valuation allowance	–	30.7
Other	–	(0.5)
Effective tax rate after applying tax effect accounting	–	63.5

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 not more than 5% of the effective statutory tax rate.

Business combination, etc.

Not applicable.

Significant events after reporting period

The Company entered into a contract on acquisition of the exclusive sales rights of "Meeting Owl" in Japan and underwriting of convertible bonds with U.S.-based Owl Labs Inc. on April 23, 2020. Meanwhile the Company also entered into a contract on acquisition of the exclusive sales rights of "Molekule Air Mini+" in Japan and subscription for a third-party allotment with U.S.-based Molekule, Inc. on May 22, 2020.

The details are described in "Significant events after reporting period" in "1 Consolidated financial statements, etc., (1) Consolidated financial statements, Notes."

iv) Annexed detailed schedules

Annexed detailed schedule of property, plant and equipment, etc.

(Thousands of yen)

Categories	Types of assets	Balance as of April 1, 2019	Increase	Decrease	Depreciation and amortization	Balance as of March 31, 2020	Accumulated depreciation
Property, plant and equipment	Buildings	94,964	–	–	29,318	65,645	126,086
	Tools, furniture and fixtures	91,332	14,751	–	28,599	77,484	132,617
	Total	186,297	14,751	–	57,918	143,130	258,704
Intangible assets	Software	1,013,280	754,382	3,166	618,531	1,145,965	–
	Goodwill	11,432	–	–	11,432	–	–
	Contract based intangible assets	1,388,604	–	–	77,503	1,311,100	–
	Other	93,142	179,323	42,666	53,283	176,514	–
	Total	2,506,459	933,706	45,833	760,751	2,633,580	–

Notes: 1. The increase during period is mainly attributable to the following:

Software	Software for in-house use, etc.	160,195 thousand yen
	Software programs for sale, etc.	594,187 thousand yen
Other	Software in progress	134,220 thousand yen

2. The decrease during period is mainly attributable to the following:

Other	Transfer from software in progress to software	42,666 thousand yen

Annexed detailed schedule of provisions

(Thousands of yen)

Account title	Balance as of April 1, 2019	Increase	Decrease	Balance as of March 31, 2020
Allowance for doubtful accounts	1,800	–	1,800	–
Provision for bonuses	9,392	1,329	9,392	1,329
Provision for sales returns	99,763	314,416	99,763	314,416
Provision for point card certificates	–	165,004	–	165,004
Provision for after service cost	14,402	18,799	14,402	18,799

(2) Components of major assets and liabilities

This information has been omitted as the consolidated financial statements have been prepared.

(3) Other information

Not applicable.

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

23rd term (from April 1, 2018 to March 31, 2019)
Filed to Director-General of Kanto Local Finance Bureau on June 27, 2019.

(2) Internal Control Report and Appendices

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

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 24th term (from April 1, 2019 to June 30, 2019)
Filed to Director-General of Kanto Local Finance Bureau on August 8, 2019.

2nd quarter of the 24th term (from July 1, 2019 to September 30, 2019)
Filed to Director-General of Kanto Local Finance Bureau on November 11, 2019.

3rd quarter of the 24th term (from October 1, 2019 to December 31, 2019)
Filed to Director-General of Kanto Local Finance Bureau on February 13, 2020.

(4) Extraordinary Securities Reports

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

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.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor’s Audit Report and Internal Control Audit Report

June 18, 2020

The Board of Directors
SOURCENEXT Corporation

PricewaterhouseCoopers Kyoto
Tokyo Office

Katsuhiko Saito Seal
Certified Public Accountant
Designated Partner
Engagement Partner

Hitoshi Tamura Seal
Certified Public Accountant
Designated Partner
Engagement Partner

<Audit of Financial Statements>

Opinion

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, 2019 through March 31, 2020.

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, 2020, and their financial performance and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in “Auditor’s Responsibility for the Audit of the Consolidated Financial Statements.” We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

The consolidated financial statements for the fiscal year ended March 31, 2019 were audited by the previous auditor. The previous auditor expressed an unqualified opinion regarding the consolidated financial statements on June 26, 2019.

Responsibilities of Management, Auditors, and the Board of Auditors 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.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Auditors and the Board of Auditors are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

The auditor's responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the consolidated financial statements from an independent standpoint in an audit report, based on its audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

The auditor makes professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and performs the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a qualified opinion with exceptions on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the consolidated financial statements including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. The auditor is responsible for instructing, supervising, and implementing the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

The auditor reports to the Auditors and the Board of Auditors regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to the Auditors and the Board of Auditors that provisions on professional ethics in Japan were observed concerning the auditor's independence and communicates matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles thereto.

<Audit of Internal Control>

Opinion

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, 2020 of SOURCENEXT Corporation.

In our opinion, the Internal Control Report referred to above, which represents that internal control over financial reporting as of March 31, 2020 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.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are stated in "Auditor's Responsibility for the Audit of the Internal Control." We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Auditors, and the Board of Auditors 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.

The Auditors and the Board of Auditors are responsible for monitoring and verifying the design and operation of internal control over financial reporting.

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

Auditor's Responsibility for the Audit of the Internal Control

The auditor's responsibility is to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement and to express an opinion on the Internal Control Report from an independent standpoint in an internal control audit report, based on its internal control audit.

The auditor makes professional judgment in the audit process in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, and performs the following while maintaining professional skepticism.

- Implement audit procedures to obtain audit evidence regarding the results of the management's assessment on 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.

- Evaluate 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.

- Obtain sufficient and appropriate audit evidence regarding the results of the management's assessment on internal control over financial reporting in the Internal Control Report. The auditor is responsible for instructing, supervising, and implementing the audit of the Internal Control Report, and is solely responsible for the audit opinion.

The auditor reports to the Auditors and the Board of Auditors regarding the scope and timing of implementation of the planned internal control audit, result of the internal control audit, including any identified material weaknesses in internal control which should be disclosed and the results of their remediation, and other matters required under the auditing standards for internal control.

The auditor reports to the Auditors and the Board of Auditors that provisions on professional ethics in Japan were observed concerning the auditor's independence and communicates matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles thereto.

Conflicts of Interest

Our firm and engagement partners have no interest in the Company and its consolidated subsidiaries 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 Company (the reporting company of the Annual Securities Report).
  2. The associated XBRL data was not included in the scope of the audit.

Independent Auditor's Audit Report

June 18, 2020

The Board of Directors
SOURCENEXT Corporation

PricewaterhouseCoopers Kyoto
Tokyo Office

Katsuhiko Saito Seal
Certified Public Accountant
Designated Partner
Engagement Partner

Hitoshi Tamura Seal
Certified Public Accountant
Designated Partner
Engagement Partner

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the financial statements presented in "Financial information," which comprise the balance sheet, the statement of income, the statement of changes in equity, the significant accounting policies, other notes and the annexed detailed schedules of SOURCENEXT Corporation applicable to the fiscal year from April 1, 2019 through March 31, 2020.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SOURCENEXT Corporation as of March 31, 2020, and its financial performance for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "Auditor's Responsibility for the Audit of the Financial Statements." We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

The financial statements for the fiscal year ended March 31, 2019 were audited by the previous auditor. The previous auditor expressed an unqualified opinion regarding the financial statements on June 26, 2019.

Responsibilities of Management, Auditors, and the Board of Auditors for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing whether it is appropriate to prepare the financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Auditors and the Board of Auditors are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

The auditor's responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the financial statements from an independent standpoint in an audit report, based on its audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the financial statements.

The auditor makes professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and performs the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the financial statements in the audit report, or if the notes to the financial statements pertaining to the significant uncertainty are inappropriate, issue a qualified opinion with exceptions on the financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the financial statements including related notes, and whether the financial statements fairly present the transactions and accounting events on which they are based.

The auditor reports to the Auditors and the Board of Auditors regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to the Auditors and the Board of Auditors that provisions on professional ethics in Japan have been observed concerning the auditor's independence and communicates matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles thereto.

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

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

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