Cover page

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Fiscal year	25th term (from April 1, 2020 to March 31, 2021)
Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
Title and name of representative	Tomoaki Kojima, President & COO
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Place for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

A. Company information

I. Overview of the Company

1. Summary of business results

(1) Business results of the Group

Term	21st term	22nd term	23rd term	24th term	25th term
Fiscal year-end	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Net sales (Thousands of yen)	9,340,988	9,494,658	14,710,520	17,282,086	12,851,060
Ordinary profit (Thousands of yen)	1,593,034	1,258,729	905,628	537,598	452,810
Profit attributable to owners of parent (Thousands of yen)	1,070,828	1,261,194	615,880	224,940	191,101
Comprehensive income (Thousands of yen)	1,072,918	1,261,643	604,704	211,811	270,193
Net assets (Thousands of yen)	5,409,474	6,504,101	11,923,437	12,091,788	12,364,664
Total assets (Thousands of yen)	9,873,006	10,250,413	17,398,997	17,029,721	20,331,517
Net assets per share (Yen)	43.20	51.92	86.89	87.88	89.63
Earnings per share (Yen)	8.58	10.18	4.64	1.65	1.40
Diluted earnings per share (Yen)	–	10.18	4.61	1.64	1.40
Equity ratio (%)	54.2	62.7	68.0	70.3	60.1
Return on equity (ROE) (%)	21.0	21.4	6.7	1.9	1.6
Price earnings ratio (PER) (Times)	16.6	37.8	97.4	176.8	260.2
Net cash provided by (used in) operating activities (Thousands of yen)	1,402,465	(181,406)	1,346,083	(1,329,534)	(639,416)
Net cash provided by (used in) investing activities (Thousands of yen)	(2,235,055)	(1,000,739)	(160,478)	(1,715,545)	(2,755,211)
Net cash provided by (used in) financing activities (Thousands of yen)	1,353,545	(607,217)	4,467,982	(602,038)	4,271,099
Cash and cash equivalents at end of period (Thousands of yen)	3,699,654	1,906,252	7,562,192	3,898,678	4,779,954
Number of employees (Persons) [Separately, average number of temporary employees]	104 [5]	133 [6]	141 [4]	139 [2]	146 [3]

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 21st term.
3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 21st term.
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		21st term	22nd term	23rd term	24th term	25th term
Fiscal year-end		March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Net sales	(Thousands of yen)	9,320,435	9,359,167	14,708,202	17,404,890	12,915,451
Ordinary profit	(Thousands of yen)	1,629,528	1,172,406	968,183	1,069,763	727,776
Profit	(Thousands of yen)	1,107,367	1,199,687	733,498	194,924	487,622
Capital stock	(Thousands of yen)	1,771,226	1,776,817	3,679,656	3,688,593	3,690,436
Total number of issued shares	(Shares)	31,732,000	63,481,000	136,162,800	136,241,200	136,256,800
Net assets	(Thousands of yen)	5,425,807	6,461,449	12,004,456	12,147,766	12,683,803
Total assets	(Thousands of yen)	9,870,847	10,392,500	17,341,963	17,018,813	20,646,436
Net assets per share	(Yen)	43.34	51.58	87.49	88.29	91.97
Dividends per share [Interim dividends per share]	(Yen)	6.19 [–]	3.05 [–]	0.68 [–]	0.25 [–]	0.21 [–]
Earnings per share	(Yen)	8.87	9.69	5.53	1.43	3.58
Diluted earnings per share	(Yen)	–	9.68	5.49	1.42	3.57
Equity ratio	(%)	54.4	61.5	68.7	70.7	60.7
Return on equity (ROE)	(%)	21.7	20.4	8.0	1.6	4.0
Price earnings ratio (PER)	(Times)	16.0	39.7	81.8	204.0	102.0
Dividend payout ratio	(%)	17.4	15.7	12.3	17.5	5.9
Number of employees [Separately, average number of temporary employees]	(Persons)	101 [4]	101 [6]	113 [4]	118 [2]	132 [3]
Total shareholder return (Benchmark index: Dividend-included TOPIX)	(%) (%)	125.3 (114.7)	337.8 (132.9)	397.2 (126.2)	258.0 (114.2)	321.8 (162.3)
Highest share price	(Yen)	717	1,663 (Note 7) (815)	1,547 (Note 8) (760)	598	385
Lowest share price	(Yen)	382	461 (Note 7) (502)	721 (Note 8) (442)	211	241

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 21st term.

3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 21st term.

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)
December 2019	Launched POCKETALK S, AI translation device equipped with a camera translator
April 2020	Acquired the exclusive sales rights of “Meeting Owl” from U.S.-based Owl Labs Inc. (“Owl”) in Japan and underwrote convertible bonds issued by Owl
May 2020	Acquired the exclusive sales rights of an air purifier “Molekule Air Mini+” in Japan from U.S.-based Molekule, Inc. (“Molekule”) and shares of Molekule through subscription for a third-party allotment.

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 site, wholesale distribution to consumer electronics retailers, etc., and providing products and content to corporations including smartphone carriers.

For direct sales through our site and wholesale distribution to consumer electronics retailers, etc., we conduct marketing activities through e-mails and other means for customers who purchase our products and register as users. In addition to upgraded products, we provide information on discount sales of our products and various products of other companies, leading to stabilization of sales.

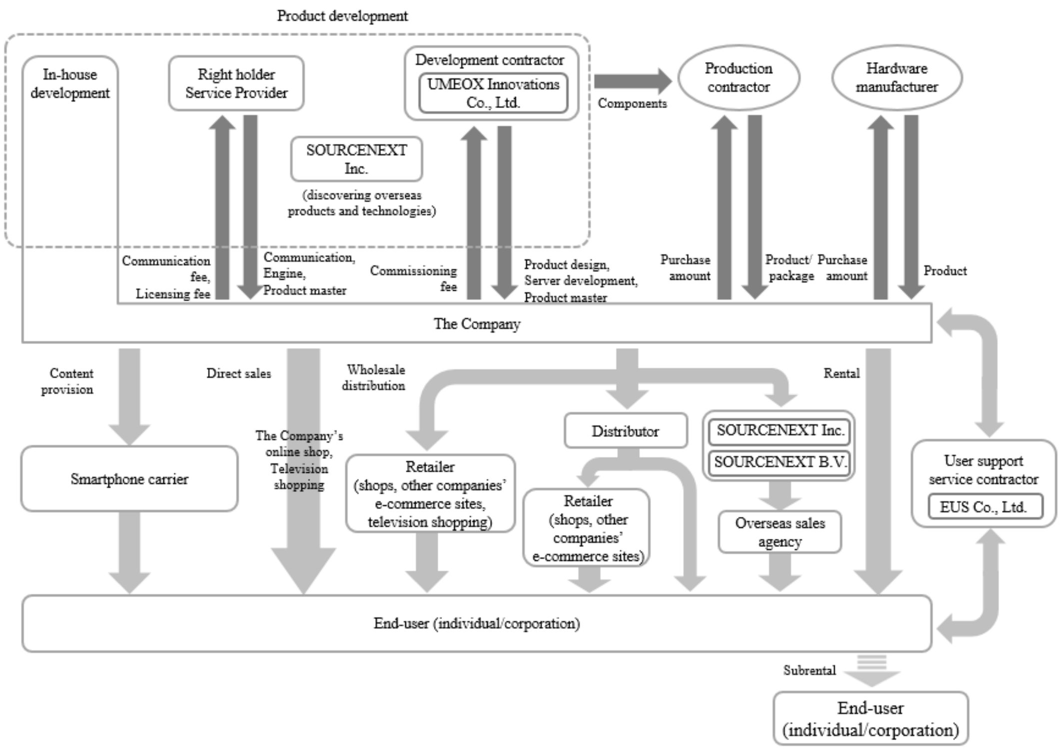
With regard to the provision of content to corporate customers such as smartphone carriers (carriers), in addition to "all-you-can-use" application subscription services offered by carriers, including "au SmartPass" by KDDI, we sell and rent IoT products such as an AI translation device, POCKETALK, and telework-related hardware.

IoT products such as POCKETALK are procured from overseas production contractors and distributed to consumer electronics retailers and other retail stores nationwide, as well as being sold directly through our online shop. In addition, we are offering products for rental to corporates where there is a high level of inbound travel demand, such as airline and railway companies, and major commercial facilities, and expanding overseas sales through subsidiaries in the U.S. and Europe.

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. POCKETALK W, POCKETALK S, and POCKETALK S Plus supports translation to audio and text in 61 languages and to text in 21 languages. The latest models, POCKETALK S and POCKETALK S Plus, are equipped with camera translation functions. The English and Chinese conversation lesson functions are also popular, and the cumulative series shipments (excluding samples, etc.) exceeded 800,000 units. (*Including the first generation, POCKETALK W, POCKETALK S, and POCKETALK S Plus.)
Postcards	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.
Security	The Company has offered the Virus Security series as its own-brand security software since 2003. ZERO Virus Security, antivirus software with no annual renewal fees was launched in 2006, and ZERO Super Security equipped with the world's best performance engine produced by BidDefender was launched in 2011. The cumulative number of user registrations for the Virus Security series has exceeded 11 million.
PDF	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 bestseller, selling more than any other domestic software in its category for 18 years in a row. Now used by over 9,800 companies and other organizations, the PDF series helps increase document-management efficiency, reduce costs, and expand Telework.
The Meeting Owl	A conference web camera equipped with a 360° camera, echo canceling microphones, and speakers. The camera captures the whole image, while AI recognizes the voice and movement in a wide range of 360°, and automatically focuses on the speaker. As of February 2021, cumulative shipments (excluding samples) have exceeded 10,000 units since its launch in July 2020.
B's Recorder	It is a standard CD/DVD writing software. Since its launch in 1994, the software has been steadily upgraded and expanded easy-to-use tools as the B's series. The new software "B's Video Recorder" that can record web conferences is also popular, and the total shipments of the entire series exceeded 9.8 million units reflecting its popularity.
Rosetta Stone	This world-renowned language software covers 24 languages, including English and Chinese, and is used by 5 million people worldwide. The software is available on smartphones and tablets, and can be linked to a language app "POCKETALK Link" that links "POCKETALK" and" Rosetta Stone."

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.	Yokohama, Kanagawa	100,000	User support service for PC software and hardware	100.0	Engages in user support service contracted out by the Company
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	3,000 (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, 2021

Segment name	Number of employees (Persons)
Software-related business	146 [3]
Total	146 [3]

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, 2021

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
132 [3]	36.8	7.6	7,329,196

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

The Japanese economy is likely to remain uncertain due to the impact of the novel coronavirus disease (COVID-19) and fluctuations in financial and capital markets. In contrast, the consumer software and hardware industry, in which the Company operates, is expected to grow further due to factors such as progress in technological innovation, prevalence of telework and the accompanying increase in information security awareness including personal information, expansion of the scope of application of AI technology, and penetration of IoT products into consumers. As a result, competition may further increase.

Under this business environment, the issues to be addressed by the Company are summarized as follows:

(5) Operational and financial issues to be prioritized

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.

In addition, as the environment changes dramatically in the short term due to the factors including the prevalence of telework in Japan, we will plan, develop, and quickly provide products required in the market.

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 the timing of when COVID-19 will end remain uncertain and sales of the Group's products at consumer electronics retailers are expected to continue to be affected, we will focus more on expanding and selling the products on our online shop and strengthening corporate sales. 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, etc., and sales to corporations. 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 such as mobile carriers, telecommunications carriers other than mobile carriers (ISPs, etc.), and sales agents for corporate customers nationwide. 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. With regard to sales expansion, in addition to the conventional sell-off type, we will build a stable earnings base by expanding the subscription-type revenue model. 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. 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.

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. 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.

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 67.1% of all sales for the fiscal year ended March 31, 2021. 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 IoT products, PC software, and smartphone application, 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 demanded 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 and a hardware manufacturer by making effective use of advertising that includes online advertisements, television commercials, and magazine ads. In recent years, we are also using taxi advertisements and ad serving that match the target customers. Such advertisements, as is the entry point to attract customers, have allowed us to lock in a variety of consumers by offering a wide range of products. As of May 2021, the Group has more than 18 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, 2021 were 1,077 million yen and promotion expenses were 722 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 Smartphone Apps 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, anti-corruption, anti-competitive conduct, environmental protection, privacy, data protection, content and broadcasting, taxation, and foreign exchange controls, as well as those on collection, use, retention, safeguard and transfer of personal information. Compliance with these laws and regulations may be onerous and expensive. These laws and regulations continue to develop and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and business operations. Any such developments could make the Group's products less attractive to its customers, delay introduction of new products, or cause the Group to change or limit its business operations.

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

Violation of applicable laws or regulations by the Group, its employees, business partners, and third-party suppliers may subject the Company to fines, penalties, and legal judgments, as well as restrictions on the Group's business operations and reputational damage. Additionally, given the recent trend of regulatory authorities and consumers across the world paying increasingly closer attention to corporate social responsibility and sourcing practices, the Group is facing more stringent legal regulations on disclosure of these matters. 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 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, 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 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.
Fiscal year ended March 31, 2021 (Consolidated)	Due to the impact of the COVID-19 pandemic, demand for POCKETALK from overseas travelers and inbound tourists decreased, and sales were also significantly affected. We switched to POCKETALK's appeal as a language learning tool and urgently expanded the handling of telework-related products such as the Meeting Owl and PC software in an effort to diversify the business, which led to an increase in operating profit year on year. Meanwhile, due to an investment loss incurred by an associate accounted for using the equity method in China, ordinary profit and profit for the current fiscal year decreased year on year.

(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 workflow, 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) Cybersecurity

The Company acquires important user information including location information and usage history through IoT products sold by the Company for the purpose of improving the quality of the Company's products and analyzing customer trends. In order to provide users with services that can be used safely and securely, the Group is making a concerted effort to improve information security from a medium- to long-term perspective. However, if these efforts fail to prevent information leakage, data destruction or falsification, service outages, etc. caused by operational human errors, intentional torts, system failures due to disasters, cyberattacks such as malware infections and targeted attacks, vulnerabilities in systems and products, etc., this would affect the Group's business performance and could lead to a loss of trust in the Group.

The Company supports the information security of the Group companies. Specifically, the Company shares information security measures and provides consultation on information security measures at the request of each company. However, if a threat such as a cyberattack occurs more than expected, additional costs may be incurred and may affect the Group's business performance.

The Group strives to secure sufficient expenses to take necessary measures in preparation for increasingly sophisticated cyberattacks and other threats. However, if a threat such as a cyberattack occurs more than expected, additional costs may be incurred and may affect the Group's business performance.

(10) Our management system

i) Our internal control system

The Group is an organization comprised of a total of 10 Directors and Auditors as well as 149 employees (as of March 31, 2021; including three 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.

(11) 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 adversely affecting sales of the Group's products at consumer electronics retailers and other retail stores. The timing of when COVID-19 will end remain uncertain. If the infection expands and prolongs further, and the global economy and the Company's business activities stagnate, or if the Company's business activities are restricted at the request of the government, the Group's business performance and financial condition may continue to be adversely affected.

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 12,851 million yen, down 25.6% year-on-year. The main factor behind this was a decrease in demand for our flagship product AI-powered translation device POCKETALK from overseas travelers and inbound businesses, which reflects the impact of COVID-19 pandemic. We switched to POCKETALK’s appeal as a language learning tool, and while pushing for the development of new functions, we donated our products to medical institutions and public health centers nationwide. In addition, the sale of telework-related products such as the Meeting Owl in response to the Cabinet Office’s telework promotion greatly captured domestic demand and strongly supported the sales base.

Selling, general and administrative expenses decreased 27.4% year on year to 7,054 million yen due to a significant reduction in the advertising expenses of POCKETALK, resulting in operating profit of 540 million yen (up 13.8% year on year).

Ordinary profit was 452 million yen (down 15.8% year on year) due to an investment loss incurred by an associate accounted for using the equity method in China that suffered from a decrease in sales. In addition, expenses were incurred for improving the business structure of subsidiaries. As a result of these factors, profit attributable to owners of parent stood at 191 million yen (down 15.0% year on year).

(Financial position)

Total assets as of the end of the current fiscal year stood at 20,331 million yen, an increase of 3,301 million yen compared with the end of the previous fiscal year. This increase was due mainly to increases in cash and deposits of 881 million yen, merchandise and finished goods of 1,237 million yen, and investment securities of 1,665 million yen.

Total liabilities as of the end of the current fiscal year stood at 7,966 million yen, an increase of 3,028 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in short-term loans payable of 3,300 million yen associated with the production and purchase of IoT products.

Net assets as of the end of the current fiscal year stood at 12,364 million yen, an increase of 272 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in retained earnings of 157 million yen.

ii) Cash flows

Cash and cash equivalents as of March 31, 2021 amounted to 4,779 million yen, an increase of 881 million yen compared with the end of the previous fiscal year.

Net cash used in operating activities amounted to 639 million yen, a decrease in cash used of 690 million yen year on year. The main factors behind this were a decrease in advance payments - trade of 470 million yen compared with an increase of 701 million yen a year earlier, a decrease in unearned revenue of 546 million yen compared with an increase of 459 million a year earlier, and a decrease in outflows due to a decrease in accounts payable - other of 834 million yen.

Net cash used in investing activities amounted to 2,755 million yen, an increase in cash used of 1,039 million yen year on year. The main factors behind this were an increase of 683 million yen in outflows for purchase of investment securities and an increase of 237 million yen in outflows for purchase of software.

Net cash provided by financing activities amounted to 4,271 million yen, compared with 602 million yen used in the previous fiscal year. The main factors behind this were a net increase in short-term loans payable of 3,300 million yen compared to a net decrease of 100 million yen in the previous fiscal year, and proceeds from long-term loans payable of 1,500 million yen compared to no proceeds 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 (%)
Security	1,175,942	121.0
Postcards	1,755,738	97.5
Hard and other	2,569,285	241.6
POCKETALK	2,287,469	25.4
Soft and other	5,062,624	114.0
Total	12,851,060	74.4

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
The Company's online shop	5,558,449	100.7
Consumer electronics retailers	4,223,083	49.4
Corporate Sales	2,832,491	96.1
Other	237,035	92.9
Total	12,851,060	74.4

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

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

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

i) Significant accounting policies and estimates

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

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

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

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

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

(Operating results)

During the current fiscal year ended March 31, 2021, the Japanese economy remained in a severe situation due to the impact of the COVID-19 pandemic. While the economy is expected to recover supported by a series of measures to prevent the spread of infection implemented in and outside Japan, the economic activities, which temporarily recovered following the redeclaration of the state of emergency, are sluggish again, making the business environment uncertain. As the timing of when the COVID-19 will end remains uncertain, personal consumption is currently weakening and expected to remain slow over the long term.

With regard to the business environment surrounding the Group, PC shipments in the current fiscal year represented strong growth with a 27.5% increase year-on-year (April 2021, based on the research by JEITA). The number of foreign visitors to Japan in March 2021 decreased to 12,300 (down 93.6% year on year) due to continued restrictions on international travel for tourism, among others (according to the Japan National Tourism Organization in April 2021).

The POCKETALK series of AI-powered translation device, our flagship product, also saw a decrease in demand from overseas travelers and inbound businesses, and experienced a significant decrease in net sales from 9,003 million yen to 2,286 million yen (down 74.6% year on year).

Under these circumstances, aiming to promote language learning using "POCKETALK," we have added translation languages and developed an additional pronunciation practice function that is useful for language learning. We have also developed a new feature of "Hands-free translation (beta version)" against the background of increasing translation needs in remote meetings which are on the rise in the telework environment. In addition, we donated our products to medical institutions and public health centers nationwide, and pushed for the introduction to educational institutions promoting remote classes.

Other measures include introduction of numerous new IoT products, such as POCKETALK S Plus, which is a sister product of POCKETALK S, an AI voice-to-text device TABLET mimi, and a voice-to-text recorder AutoMemo. In addition, we also acquired the exclusive sales rights of an air purifier "Molekule" in Japan from U.S.-based Molekule, Inc. and sold the products.

Moreover, the sale of telework-related products in response to the Cabinet Office's telework promotion greatly captured domestic demand. The Meeting Owl, a conference room web camera, performed particularly well, and became a popular product with cumulative shipments exceeding 10,000 units in February 2021. As for PC software, we also expanded our product lineup for teleworking and enhanced sales offices and promotions to strongly support our sales base. As a result of making up for the decline in sales of POCKETALK due to the decline in the number of foreign visitors to Japan by introducing new products and expanding existing products, net sales for fiscal year ended March 31, 2021, amounted to 12,851 million yen (down 25.6% year on year) with gross profit - net of 7,594 million yen (down 25.4% year on year). With regard to selling, general and administrative expenses, we worked to effectively reduce expenses, taking into account the scope of and impact on our sales activities. In particular, in light of the decrease in the number of overseas travelers and foreign visitors to Japan, we have significantly reduced advertising and sales promotion expenses related to POCKETALK.

Consequently, selling, general and administrative expenses decreased 27.4% year on year to 7,054 million yen, resulting in operating profit of 540 million yen (up 13.8% year on year) for the current fiscal year.

Meanwhile, sales of IoT products did not grow as initially expected against the background of a decrease in orders to an associate accounted for using the equity method in China, resulting in investment losses of 86 million yen with ordinary profit of 452 million yen (down 15.8% year on year). In addition, expenses were incurred for improving the business structure of subsidiaries. As a result of these factors, profit attributable to owners of parent stood at 191 million yen (down 15.0% year on year).

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.
Since the fiscal year ended March 31, 2021, the segmentation of sales channels has been changed. Corporate sales, which had been previously included in "Others," has been added under "Smartphone Businesses (Mobile Carriers), which has changed the name to "Corporate sales." Comparisons with the previous fiscal year are thus based on values recalculated for the reorganized categories.

a) The Company’s online shop

In this channel, we sell IoT products, software and the like through the online shop on our website.

TABLET mimi was promoted as a mimi series together with its sister product POCKETALK mimi. We worked to expand product awareness by implementing the award point plan for “Ears Day” on March 3, and creating a special page on our online shop accessible from information printed on flyers.

We renewed the brand site for Molekule and made it easier to understand the functions of each product, including the added lineup. Since it is a high-priced product, we also conducted a “trial campaign” so that people can feel free to try it.

The Meeting Owl and AutoMemo also recorded strong sales. We held a campaign for the Meeting Owl to celebrate winning awards. As for AutoMemo, we achieved revenue growth by launching dedicated cases and adding a new web conference recording function and customer feedback content.

With regard to POCKETALK, various measures were implemented in line with its product lineup to make up for demand decreased from the previous fiscal year. We also started to offer a service to switch over from POCKETALK, the first generation, to W, S, and S Plus.

Besides these, as people refrained from going out due to the impact of COVID-19, sales of PC software continued to grow, driven by a rise in stay-at-home demand among people who enjoy online shopping and entertainment at home and the increasing demand for teleworking. We also launched XSplit VCam, a new software enabling a web camera to change the background image of pictures, and B’s recorder, new software to record web conferences. In addition to these products, the existing products also supported the sale, resulting in recording net sales of 5,558 million yen (up 0.7% year on year).

b) Consumer electronics retailers

In this sales channel, we sell IoT products, PC software, etc., for individual users at consumer electronics retailers nationwide.

Although the demand for POCKETALK decreased compared to the previous fiscal year, we took the advantage of an increase in the number of people studying languages at home and changed to over-the-counter POPs such as “Learning English with POCKETALK,” etc. to promote POCKETALK as a language learning tool.

We promoted the development of new sales channels for TABLET mimi. In addition to consumer electronics retailers throughout Japan, eyeglasses dealer “Aigan Co., Ltd.,” which handles hearing aids, also started to sell TABLET mimi. As for Auto Memo, we expanded the demonstration of the product at mass retailers.

We strengthened the in-store marketing for the Meeting Owl by installing samples to make it easier to imagine the usage and using POP to show the awards winning history and the introduction record. As a result, we achieved sales growth of the Meeting Owl.

Sales of AutoMemo increased following the installation of prototype products so that customers visiting the store could actually try it out.

With regard to PC software, three brands of postcard software, “FUDEOH,” “FUDEMAME,” and “ATENA SHOKUNIN,” released for the New Year greeting card season, expanded their sales. Without this year’s change in the Japanese traditional era name, which has been changed to Reiwa since last year, we struggled to expand over-the-counter sales. We worked to secure sales places during the season and expand in-store marketing.

Besides these, security software such as “ZERO Virus Security” and “ZERO Super Security” and a typing software series, “TOKU-UCHI,” were sold following the increase in demand for telework and online learning. However, the sales did not exceed the level of the last year, when the rush-in demand for POCKETALK and PC software before the consumption tax hike boosted sales, and net sales stood at 4,223 million yen (down 50.6% year-on-year).

c) Corporate Sales

In this sales channel, we sell and rent IoT products such as POCKETALK for corporations and telework-related hardware and provide all-you-can-use service for PC software and smartphone apps.

As is the case for consumer electronics retailers channel, POCKETALK saw a decrease in demand for new purchases and rentals; however, the sales are robust with constant needs from corporations embracing the demands from foreigners staying in Japan.

Toward the end of the fiscal year, orders for Meeting Owl from major companies increased and revenue grew. In addition, not only corporations but also universities have promoted the introduction of Meeting Owl to be used for hybrid courses of remote and in-person classes.

As for “TABLET mimi” and “POCKETALK mimi,” we strived to develop new customers. The Company promoted these products that facilitate smooth communication between supervisors, who provide instructions, and employees with hearing impairments at special subsidiaries, and communication between nursing staff, who provide care, and users who have difficulty in hearing at nursing care facilities, introducing the products to more than 20 companies nationwide.

With regard to providing and selling content for the all-you-can-use app subscription services with a fixed fee for major mobile carriers, the sales increased as advertising measures had a positive impact on boosting the number of subscribers of some mobile carriers.

In addition, we saw a strong increase in monthly subscriptions for services provided to low-cost smartphone operators and SIM operators, including the Smart RUSUDEN, an application that allows users to read voice message, and Apps CHOU HODAI. Corporation license, etc., of PC software decreased overall without demand surge for PC replacements this year, unlike the last year that saw the demand surge following a halt to Microsoft’s Windows 7 support, although the demand for security software increased due to the prevalence of teleworking.

As a result, net sales stood at 2,832 million yen, down 3.9% year on year.

d) Other

We are expanding overseas sales of POCKETALK mainly through Amazon in the US and Europe. In 2020, sales diminished due to the global pandemic of COVID-19, but we were nominated to be one of the “In Good Company: 50 U.S. Businesses That Stood Out During the Pandemic” by Newsweek in response to our donation of 850 POCKETALK devices to medical institutions through our U.S. subsidiary, Sourcenext Inc. In the fourth quarter, consumer online shopping through Amazon remained steady even after the holiday season ended, with Amazon’s sales growing 2.6 times in the fourth quarter compared to last year and sales in March at 9.3 times higher than last year.

In other regions, promotional activities, mainly in Asia and Thailand, progressed. In Malaysia, pop-up stores were launched, and they sold products mainly to Japanese expatriates.

As a result, net sales stood at 237 million yen, down 7.1% year on year.

(Financial position)

Total assets as of the end of the current fiscal year stood at 20,331 million yen, an increase of 3,301 million yen compared with the end of the previous fiscal year.

Current assets saw an increase in merchandise and finished goods as a result of the production of POCKETALK and other IoT products and the purchase of Meeting Owl and Molekule. Also, cash and deposits increased due to an increase in loans payable intended to invest in Owl Labs Inc. and Molekule, Inc. in the U.S. Consequently, current assets amounted to 13,465 million yen, an increase of 1,947 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, including those of the above two companies. Consequently, non-current assets amounted to 6,865 million yen, an increase of 1,354 million yen from the end of the previous fiscal year.

Total liabilities amounted to 7,966 million yen, an increase of 3,028 million yen from the end of the previous fiscal year.

Current liabilities saw an increase in short-term loans payable intended to invest in Owl Labs Inc. and Molekule, Inc. in the U.S., as well as current portion of long-term loans payable. Also, accounts payable - trade increased as a result of the purchase of IoT products such as POCKETALK and products imported from overseas. Consequently, current liabilities amounted to 6,538 million yen, an increase of 2,553 million yen from the end of the previous fiscal year.

Non-current liabilities saw an increase in long-term loans payable for investment purposes as mentioned above. Consequently, non-current liabilities amounted to 1,428 million yen, an increase of 475 million yen from the end of the previous fiscal year.

Net assets amounted to 12,364 million yen, an increase of 272 million yen from the end of the previous fiscal year. This increase was due mainly to an increase in retained earnings of 157 million yen.

(Cash flows)

(Thousands of yen)

	Full year		Change
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	
Cash flows from operating activities	(1,329,534)	(639,416)	690,117
Cash flows from investing activities	(1,715,545)	(2,755,211)	(1,039,666)
Cash flows from financing activities	(602,038)	4,271,099	4,873,138
Cash and cash equivalents at end of period	3,898,678	4,779,954	881,275

Cash and cash equivalents as of the end of the current fiscal year amounted to 4,779 million yen, an increase of 881 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 639 million yen, a decrease in cash used of 690 million yen year on year. The main factors were a 470 million yen decrease in advance payments to suppliers because of the decrease in POCKETALK purchases, a 546 million yen decrease in unearned revenue because of the decrease in POCKETALK sales, and an 834 million yen decrease in accounts payable outflows because of the reduced advertising expenses.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 2.755 million yen, an increase of 1.039 million yen in outflows compared to the previous fiscal year.

The main factors were an increase of 683 million yen in outflows for purchase of investment securities and an increase of 237 million yen in outflows for purchase of software.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 4,271 million yen, compared with 602 million yen used in the previous fiscal year.

The main factors were increases in the purchases of telework-related goods and IoT products and borrowing for investment. Short-term loans payable saw a net increase of 3,300 million yen compared to a net decrease of 100 million yen in the previous fiscal year, and proceeds from long-term loans payable amounted to 1,500 million yen compared to no proceeds 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 5,318 million yen. Also, cash and cash equivalents at the end of the current fiscal year amounted to 4,779 million yen.

As the equity ratio, an indicator of financial stability, decreased by 10.2 percentage points from the previous fiscal year to 60.1% 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 14million 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 1,048 million yen. This consisted mainly of 708 million yen for improvements to and purchases of software programs for sale, and 310 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2021

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	36,327	65,783	1,427,821	1,233,597	2,763,529	132 [3]

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, 2021

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	733,000	–	Own funds	April 2021	March 2022	–

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, 2021)	Number of issued shares as of the date of filing (Shares) (June 18, 2021)	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	136,256,800	136,256,800	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	136,256,800	136,256,800	–	–

Note: "Number of issued shares as of the date of filing" does not include shares issued upon exercise of share acquisition rights from June 1, 2021 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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	79 employees of the Company	Same as left
Number of share acquisition rights (Units)	400 (Note 1)	400 (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)	160,000 (Note 1)	160,000 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	6 employees of the Company	Same as left
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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	2 Directors and 90 employees of the Company	Same as left
Number of share acquisition rights (Units)	618 (Note 1)	618 (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)	247,200 (Note 1)	247,200 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	2 Directors and 12 employees of the Company	Same as left
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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	2 Directors and 89 employees of the Company	Same as left
Number of share acquisition rights (Units)	1,218 (Note 1)	1,218 (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)	487,200 (Note 1)	487,200 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	3 Directors and 26 employees of the Company	Same as left
Number of share acquisition rights (Units)	347 (Note 2)	347 (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)	69,400 (Note 2)	69,400 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	3 Directors and 92 employees of the Company	Same as left
Number of share acquisition rights (Units)	1,041 (Note 3)	1,041 (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)	104,100 (Note 3)	104,100 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	3 Directors and 92 employees of the Company	Same as left
Number of share acquisition rights (Units)	1,326 (Note 3)	1,326 (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)	132,600 (Note 3)	132,600 (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, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	6 employees of SOURCENEXT Inc.	Same as left
Number of share acquisition rights (Units)	534 (Note 3)	534 (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)	53,400 (Note 3)	53,400 (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

Resolved at the Board of Directors meeting held on June 18, 2020 (14th series)

	As of March 31, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	3 Directors and 36 employees of the Company	Same as left
Number of share acquisition rights (Units)	1,411 (Note 3)	1,411 (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)	141,100 (Note 3)	141,100 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	317 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 19, 2022 – June 18, 2030	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 317 yen Amount to be included in capital: 159 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 18, 2020 (2nd series US-JP tax-qualified share acquisition rights)

	As of March 31, 2021	As of May 31, 2021
Category and number of people to whom stock options are granted (Persons)	3 employees of SOURCENEXT Inc.	Same as left
Number of share acquisition rights (Units)	555 (Note 3)	555 (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)	55,500 (Note 3)	55,500 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	317 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 19, 2022 – June 18, 2030	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: 317 yen Amount to be included in capital: 159 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.

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

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

2. The number of shares to be issued upon exercise of one share acquisition rights shall be 200.

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

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

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

3. 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
April 1, 2020 – March 31, 2021 (Note 1)	15,600	136,256,800	1,842	3,690,436	1,842	3.530,436

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, 2021

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)	1	19	35	161	97	68	45,492	45,873	–
Number of shares held (Units)	5	155,960	24,985	171,462	90,183	2,177	917,363	1,362,135	43,300
Shareholding ratio (%)	0.00	11.44	1.83	12.58	6.62	0.15	67.34	100.00	–

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

(6) Major shareholders

As of March 31, 2021

Name	Address	Number of Shares Held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	36,343,200	26.67
Yodobashi Camera Co., Ltd.	5-3-1 Shinjuku, Shinjuku-ku, Tokyo	14,438,400	10.59
The Master Trust Bank of Japan, Ltd. (Held in trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	6,844,700	5.02
Satomi Matsuda	Minato-ku, Tokyo	3,696,000	2.71
Custody Bank of Japan, Ltd. (Held in trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	2,060,500	1.51
Custody Bank of Japan, Ltd. (Held in trust account 5)	1-8-12 Harumi, Chuo-ku, Tokyo	1,425,000	1.04
Custody Bank of Japan, Ltd. (Held in trust account 6)	1-8-12 Harumi, Chuo-ku, Tokyo	1,265,000	0.92
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	1,200,000	0.88
THE BANK OF NEW YORK 134088 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	RUE MONTOYERSTRAAT 46, 1000 BRUSSELS, BELGIUM (2-15-1 Konan, Minato-ku, Tokyo)	1,191,700	0.87
Custody Bank of Japan, Ltd. (Held in trust account 1)	1-8-12 Harumi, Chuo-ku, Tokyo	1,179,100	0.86
Total	–	69,643,600	51.11

Notes: 1. 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 6,844,700 shares. Of the above-mentioned number of shares held by Custody Bank of Japan, Ltd., the number of shares related to the trust business is 5,920,600 shares.

2. The number of shares held by Mr. Noriyuki Matsuda, as described in "Major shareholders" above, is the number of shares that he holds in real terms, including 680,000 shares held by Resource Co., Ltd., an asset management company in which he and his relatives hold shares.

(7) Voting rights

i) Issued shares

As of March 31, 2021

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 136,213,500	1,362,135	Same as above
Fractional shares	Common shares 43,300	–	Same as above
Total number of issued shares	136,256,800	–	–
Total number of voting rights	–	1,362,135	–

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

ii) Treasury shares, etc.

As of March 31, 2021

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, 2021		From April 1, 2021 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 issuance and company split	–	–	–	–
Other (-)	–	–	–	–
Treasury shares held	24	–	24	–

Note: The number of treasury shares held in the period “From June 1, 2021 until the filing date of this Annual Securities Report” does not include shares through purchase or sale of fractional shares from June 1, 2021 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 0.21 yen per share.

With regards to the dividend for the fiscal year ending March 31, 2022, taking business conditions into account, the Company plans to pay a dividend of 0.41 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 17, 2021	28,613	0.21

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 Remuneration Advisory Committee, established in 2020, also deliberates mainly with Outside Directors on the details of remuneration for Managing Directors and reports to the Board of Directors, aiming to ensure transparency and objectivity of the remuneration for Managing Directors.

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.

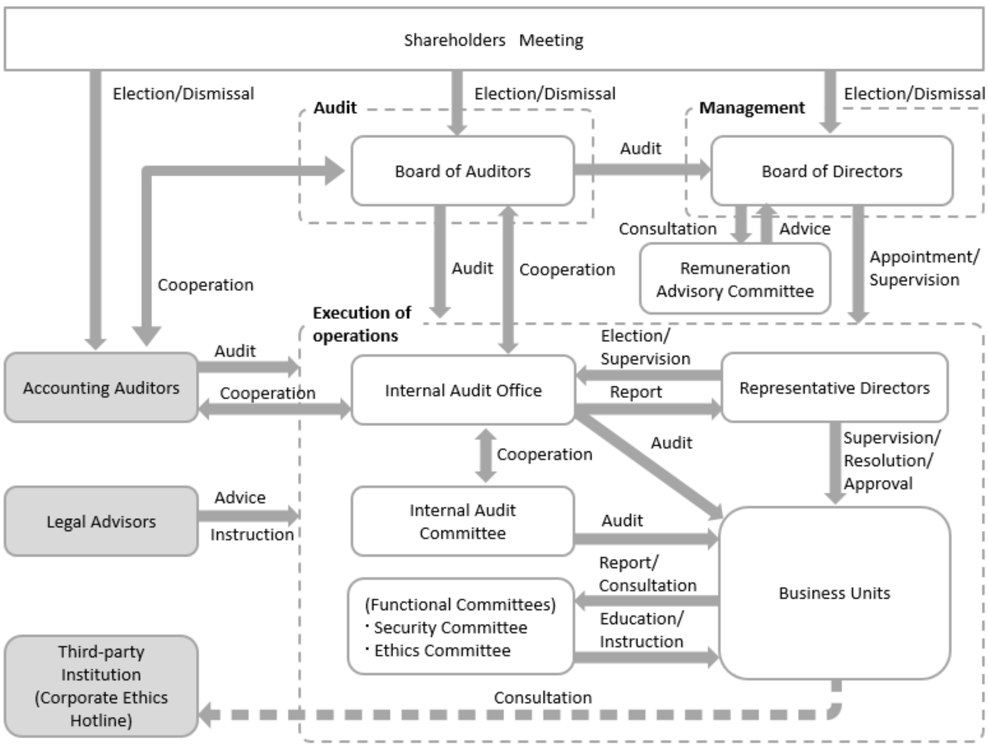
Members of each organizational body are as below.

(◎ indicates the chairman or the committee chair, ○ indicates the members, and □ indicates the attendees.)

Title and Position	Name	The Board of Directors	The Board of Auditors	The Remuneration Advisory Committee
Founder & CEO (Representative Director)	Noriyuki Matsuda	○		○
President & CEO (Representative Director)	Tomoaki Kojima	◎		
Director	Kousuke Fujimoto	○		
Director	Fumihiko Aoyama,	○		
Outside Director	Hideaki Kubori	○		○
Outside Director (Independent Director)	Kunitake Ando	○		◎
Outside Director (Independent Director)	Nobuhide Nakaido	○		○
Standing Auditor	Masaaki Hirose	□	◎	
Outside Director (Independent Director)	Tetsuya Kobayashi	□	○	
Outside Director (Independent Director)	Kakuji Takano	□	○	

The outline 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 on a timely basis 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, Ikeda &Someya law firm and saku 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, Kunitake Ando, and Nobuhide Nakaido, 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) Overview of the directors and officers liability insurance policy

The Company has entered into a directors and officers liability insurance policy with an insurance company. The policy covers damages arising from liability borne by the insured officers in the course of execution of their duties or claims pertaining to the pursuit of such liability. However, there are certain reasons for coverage exclusion of liability for damages such as resulting from an illegal act with full knowledge of its illegality.

vi) Number of Directors

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

vii) 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.

viii) 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.

ix) 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)
Founder & CEO (Representative Director)	Noriyuki Matsuda	May 28, 1965	Apr. 1989	Joined IBM Japan	(Note 5)	36,343,200
			Sep. 1993	Established AAA, Ltd., Representative Director and President, AAA, Ltd.		
			Aug. 1996	Established the Company, President and CEO, the Company		
			Sep. 2012	President & CEO, SOURCENEXT Inc. (current position)		
			Jun. 2017	President and CEO, Rosetta Stone Japan, Inc. (current position)		
			Feb. 2021	Founder & CEO, Representative Director, the Company (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
President & COO (Representative Director)	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001	Joined the Company	(Note 5)	97,100
			Jun. 2006	Executive Officer, the Company		
			Jun. 2008	Managing Director, the Company		
			Jan. 2009	Executive Director, the Company		
			Jun. 2012	Managing Director, the Company		
			May 2017	Managing Director, FUDEMAME Co., Ltd. (currently EUS Co., Ltd.)		
			Jan. 2019	Managing Director, Sourcenext B.V.		
			Apr. 2020	CEO, Sourcenext B.V. (current position)		
			Feb. 2021	President and Representative Director & COO, the Company (current position)		
Managing Director, Senior Executive Officer	Kousuke Fujimoto	Sep. 9, 1964	Oct. 1988	Joined Recruit Co., Ltd.	(Note 5)	136,800
			Nov. 1999	Joined the Company		
			Dec. 1999	Managing Director, the Company		
			Oct. 2009	Executive Officer, the Company		
			Jul. 2013	Managing Executive Officer, the Company		
			Apr. 2015	Senior Executive Officer, the Company		
			Jun. 2018	Managing Director, Senior Executive Officer, the Company (current position)		
Managing Director, Managing Executive Officer & CFO	Fumihiko Aoyama,	Aug. 3, 1967	Oct. 1991	Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC)	(Note 5)	237,700
			Jul. 1999	Joined Deloitte Tohmatsu Consulting		
			Apr. 2000	Joined the Company		
			Apr. 2002	Executive Officer, the Company		
			Jun. 2004	Managing Director, the Company		
			Jan. 2009	Executive Director, the Company		
			Jun. 2012	Managing Director, the Company		
			May 2017	Managing Director, FUDEMAME Co., Ltd. (currently EUS Co., Ltd.)		
			Feb. 2021	Managing Director, Managing Executive Officer & CFO, the Company (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	Hideaki Kubori	Aug. 29, 1944	Apr. 1971	Registered as Attorney-at-Law Joined Mori Sogo	(Note 5)	36,800
			Apr. 1998	Representative, HIBIYA PARK LAW OFFICES (current position)		
			Apr. 2001	President, Daini Tokyo Bar Association, and Vice President, Japan Federation of Bar Associations		
			Oct. 2001	Outside Director, Nomura Holdings, Inc.		
			Feb. 2003	Outside Auditor, the Company		
			Jun. 2008	Member of the Supervisory Committee, The Norinchukin Bank		
			Jun. 2011	Outside Director, Tokyo Stock Exchange Group, Inc. (currently Japan Exchange Group, Inc.) (current position) Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)		
			Jun. 2014	Outside Director, the Company (current position)		
			Apr. 2015	Professor, Toin Law School (current position)		
			Apr. 2018	Outside Director, Coincheck, Inc. (current position)		
Managing Director	Kunitake Ando	Jan. 1, 1942	Apr. 1969	Joined Sony Corporation (currently Sony Group Corporation)	(Note 5)	16,400
			Aug. 1979	Representative Director, Sony Prudential Life Insurance Co., Ltd.		
			Apr. 1990	President, Sony Corporation of America President, Sony Engineering and Manufacturing of America		
			Apr. 2000	Representative Director and President, Sony Corporation (currently Sony Group 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)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	Nobuhide Nakaido	Nov. 1, 1946	Apr. 1971	Joined Sumitomo Corporation	(Note 5)	4,500
			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)	46,400
			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	Registered as Attorney-at-Law (Daini Tokyo Bar Association)	(Note 7)	–
			Apr. 2003	Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology		
			Apr. 2004	Vice President, Daini Tokyo Bar Association		
			Jan. 2006	Established Kobayashi Sogo Law Office		
			Jun. 2006	Outside Auditor, the Company (current position)		
			May 2007	Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education		
			Apr. 2008	Part-time instructor, Faculty of Law, Keio University		
			May 2010	Auditor, Utsunomiya Hotoku Hospital (current position)		
			Jun. 2011	Outside Auditor, MOCHIDA PHARMACEUTICAL CO., LTD.		
			Apr. 2012	Executive Governor, Japan Federation of Bar Associations		
			May 2016	Committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Auditor	Kakuji Takano	Apr. 7, 1940	Apr. 1963	Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION)	(Note 7)	–
			May 1968	Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC)		
			May 1981	Established Takano Sogo Accounting Firm		
			Dec. 1996	Representative Partner, Audit Corporation Ota Showa Century (currently Ernst & Young ShinNihon LLC)		
			Apr. 2007	Outside Auditor, MARUZEN CO., LTD.		
			Jun. 2007	Outside Auditor, NIPPON SHUPPAN HANBAI INC.		
			Oct. 2008	Councilor, Kanagawa Institute of Technology (current position)		
			Jul. 2010	Managing Partner, Takano Sogo Accounting Firm (current position)		
			May 2014	Auditor, Tokyo Medical and Dental Cooperative		
			Jun. 2014	Outside Auditor, the Company (current position)		
			Jun. 2016	Outside Audit & Supervisory Board Member, KDDI CORPORATION		
Total						36,918,900

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 ten Executive Officers.

4. At the Annual Shareholders Meeting on June 17, 2021, the Company appointed one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. The career summary of the Substitute Auditor is as shown below.

Name	Date of Birth	Career Summary		Number of Shares Held (Shares)
Ryo Tsuchida (Registered name: Ryo Teranishi)	Jul. 4, 1968	Apr. 1998	Assistant, Faculty of Law, Sophia University	–
		Apr. 2000	Full-time instructor, Faculty of Law, University of East Asia	
		Apr. 2002	Assistant Professor, Faculty of Law, University of East Asia	
		Apr. 2003	Assistant Professor, Faculty of Law, Meijo University Part-time instructor, Division of Laws, Total Academic Graduate Course, Correspondence Graduate School, University of East Asia (current position)	
		Apr. 2008	Associate Professor, Judicial Affairs Course, Omiya Law School Part-time instructor, Faculty of Law, Meijo University	
		Jan. 2010	Registered as Attorney-at-Law (Daini Tokyo Bar Association) Joined Frontier-Law	
		Apr. 2011	Professor, Judicial Affairs Course, Omiya Law School	
		Apr. 2012	Part-time instructor, Meiji Gakuin University Graduate Law School	
		Apr. 2014	Professor, Department of Law, School of Law, Senshu University Part-time Instructor, Judicial Affairs Course, Omiya Law School	
		Apr. 2015	Part-time lecturer, Faculty of Law, Komazawa University	
		Jun. 2015	Outside Auditor, Resona Bank, Limited	
		Nov. 2017	Outside Director, UPR Corporation (current position)	
		Apr. 2018	Part-time instructor, College of Economics, Rikkyo University	
		Dec. 2018	Outside Corporate Auditor, Noevir Holdings Co., Ltd. (current position)	
		Jun. 2019	Outside Director, Audit and Supervisory Committee Member, Resona Bank, Limited (current position)	
		Jan. 2020	Outside Director, Audit and Supervisory Committee Member, Resona Asset Management Co., Ltd. (current position)	
		Apr. 2020	Professor at 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, 2021 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2022.
6. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2021 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2025.
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, 2021.
9. The number of shares held by Noriyuki Matsuda, Founder & CEO, Representative Director, is the number of shares that he holds in real terms, including shares held by Resource Co., Ltd., an asset management company in which he and his relatives hold shares.

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. 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	4	4
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, evaluation of Accounting Auditor and discussion of their reelection, 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, and attend the Board of Directors' meeting. In addition, Standing Auditor performs 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., attending internal audit as an observer, and hearing from contractors.

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	2 years
Designated Partner Engagement Partner	Hitoshi Tamura	PricewaterhouseCoopers Kyoto	2 years

B. Breakdown of auditing assistants who executed the audit duties

Certified Public Accountants	2 persons
Other	7 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, 2020		Fiscal year ended March 31, 2021	
	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	25,000	–	26,000	–
Consolidated subsidiaries	–	–	–	–
Total	25,000	–	26,000	–

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. The Remuneration Advisory Committee makes decisions on the following matters starting with Directors' remuneration for the fiscal year ending March 31, 2022.

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 April 22, 2021, the Company resolved again the policy for determining the remuneration for the Company's Directors in line with the revision in the Companies Act. The outline is as follows. As a means of appropriately motivating executives to commit to sustained enhancement of the Group's corporate value, the executive remuneration of the Company shall consist of (1) fixed compensation as basic remuneration, (2) performance-based compensation that reflects the consolidated performance of the relevant fiscal year, and (3) stock options intended to be linked to medium- to long-term performance. When determining the content of individual remuneration for Directors, appropriate measures shall be taken to ensure transparency, fairness, and rationality. With regard to Outside Directors, their remuneration is composed of fixed compensation only.

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	
Director, (excluding Outside Directors)	101,837	96,621	5,215	–	–	4
Auditor (excluding Outside Auditors)	11,814	11,814	–	–	–	2
Outside Directors and Auditors	40,836	40,836	–	–	–	6

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	1,669,322
Stocks other than unlisted stocks	2	38,888

(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	1	1,095,294	To maintain and strengthen business relationships
Stocks other than unlisted stocks	1	–	Share exchange from unlisted stocks to listed 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, 2021	Fiscal year ended March 31, 2020	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
	15,800	10,390		
JNS HOLDINGS INC.	39,000	–	To maintain and strengthen business relationships	None
	23,088	–		

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

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, 2020 to March 31, 2021 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, 2020)		Current fiscal year (As of March 31, 2021)
Assets				
Current assets				
Cash and deposits		3,898,678		4,779,954
Accounts receivable - trade		2,362,790		2,023,666
Merchandise and finished goods		3,092,616		4,330,530
Raw materials and supplies		123,189		162,184
Advance payments to suppliers		1,556,730		1,086,338
Accounts receivable - other		28,033		96,948
Income taxes receivable		–		295,454
Other		456,341		690,726
Total current assets		11,518,380		13,465,804
Non-current assets				
Property, plant and equipment				
Buildings		210,376		179,751
Accumulated depreciation		(136,078)		(142,747)
Buildings, net		74,297		37,004
Vehicles		7,167		7,291
Accumulated depreciation		(6,200)		(6,635)
Vehicles, net		967		655
Tools, furniture and fixtures		219,683		209,285
Accumulated depreciation		(137,826)		(141,851)
Tools, furniture and fixtures, net		81,856		67,434
Total property, plant and equipment		157,121		105,094
Intangible assets				
Software		1,146,007		1,427,821
Goodwill		293,700		154,062
Contract based intangible assets		1,311,100		1,233,597
Other		176,514		115,311
Total intangible assets		2,927,322		2,930,793
Investments and other assets				
Investment securities	*	1,382,432	*	3,047,842
Deferred tax assets		860,035		604,625
Other		184,428		177,356
Total investments and other assets		2,426,896		3,829,824
Total non-current assets		5,511,341		6,865,712
Total assets		17,029,721		20,331,517

(Thousands of yen)

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	420,982	784,398
Short-term borrowings	–	3,300,000
Current portion of long-term borrowings	422,000	722,000
Accounts payable - other	739,018	741,953
Income taxes payable	377,248	625
Unearned revenue	1,159,398	613,039
Provision for bonuses	24,472	48,064
Provision for sales returns	314,416	91,889
Provision for point card certificates	165,004	43,160
Provision for after service cost	18,799	–
Other	344,187	193,647
Total current liabilities	3,985,529	6,538,779
Non-current liabilities		
Long-term borrowings	593,000	1,296,000
Long-term unearned revenue	359,403	132,073
Total non-current liabilities	952,403	1,428,073
Total liabilities	4,937,933	7,966,852
Net assets		
Shareholders' equity		
Share capital	3,688,593	3,690,436
Capital surplus	4,268,620	4,270,463
Retained earnings	4,034,956	4,191,998
Treasury shares	(3)	(3)
Total shareholders' equity	11,992,168	12,152,894
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(4,329)	41,403
Foreign currency translation adjustment	(14,789)	18,569
Total accumulated other comprehensive income	(19,118)	59,972
Share acquisition rights	118,739	151,797
Total net assets	12,091,788	12,364,664
Total liabilities and net assets	17,029,721	20,331,517

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

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2019 to March 31, 2020)		Current fiscal year (From April 1, 2020 to March 31, 2021)
Net sales		17,282,086		12,851,060
Cost of sales	*1	6,903,187		5,479,211
Gross profit		10,378,898		7,371,848
Provision for sales returns		314,416		91,889
Reversal of provision for sales returns		120,858		314,416
Gross profit - net		10,185,340		7,594,375
Selling, general and administrative expenses				
Promotion expenses		1,577,599		722,692
Salaries		857,487		905,530
Provision for bonuses		24,472		48,064
Outsourcing expenses		2,355,721		2,058,806
Advertising expenses		2,215,798		1,077,224
Other	*2	2,679,653		2,241,795
Total selling, general and administrative expenses		9,710,732		7,054,114
Operating profit		474,608		540,260
Non-operating income				
Interest income		353		20,685
Dividend income		277		740
Share of profit of entities accounted for using equity method		69,709		–
Foreign exchange gains		–		2,079
Other		3,017		2,788
Total non-operating income		73,359		26,293
Non-operating expenses				
Interest expenses		4,225		8,817
Share of loss of entities accounted for using equity method		–		86,908
Loss on investments in silent partnerships		3,533		17,818
Foreign exchange losses		2,382		–
Other		228		199
Total non-operating expenses		10,369		113,743
Ordinary profit		537,598		452,810
Extraordinary income				
Gain on reversal of share acquisition rights		–		625
Gain on sale of shares of subsidiaries and associates		28,273		–
Total extraordinary income		28,273		625
Extraordinary losses				
Business restructuring expenses		–	*3	35,274
Total extraordinary losses		–		35,274
Profit before income taxes		565,871		418,161
Income taxes - current		652,828		8,820
Income taxes - refund		–		(16,987)
Income taxes - deferred		(311,897)		235,226
Total income taxes		340,930		227,059
Profit		224,940		191,101
Profit attributable to owners of parent		224,940		191,101

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Profit	224,940	191,101
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,550)	45,732
Foreign currency translation adjustment	(9,577)	33,359
Total other comprehensive income	* (13,128)	* 79,091
Comprehensive income	211,811	270,193
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	211,811	270,193
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

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

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,679,656	4,259,683	3,898,004	(3)	11,837,340
Changes 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 in items other than shareholders' equity					–
Total changes during period	8,937	8,937	136,952	–	154,827
Balance at end of 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 period	(778)	(5,211)	(5,989)	92,087	11,923,437
Changes 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 in items other than shareholders' equity	(3,550)	(9,577)	(13,128)	26,651	13,522
Total changes during period	(3,550)	(9,577)	(13,128)	26,651	168,350
Balance at end of period	(4,329)	(14,789)	(19,118)	118,739	12,091,788

Current fiscal year (From April 1, 2020 to March 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,688,593	4,268,620	4,034,956	(3)	11,992,168
Changes during period					
Issuance of new shares - exercise of share acquisition rights	1,842	1,842			3,684
Dividends of surplus			(34,060)		(34,060)
Profit attributable to owners of parent			191,101		191,101
Net changes in items other than shareholders' equity					–
Total changes during period	1,842	1,842	157,041	–	160,726
Balance at end of period	3,690,436	4,270,463	4,191,998	(3)	12,152,894

	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 period	(4,329)	(14,789)	(19,118)	118,739	12,091,788
Changes during period					
Issuance of new shares - exercise of share acquisition rights			–		3,684
Dividends of surplus			–		(34,060)
Profit attributable to owners of parent			–		191,101
Net changes in items other than shareholders' equity	45,732	33,359	79,091	33,058	112,149
Total changes during period	45,732	33,359	79,091	33,058	272,875
Balance at end of period	41,403	18,569	59,972	151,797	12,364,664

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities		
Profit before income taxes	565,871	418,161
Depreciation	378,012	412,975
Amortization of software	435,987	517,429
Amortization of goodwill	151,070	139,637
Share-based payment expenses	32,314	34,877
Amortization of trademark right	23,089	24,320
Increase (decrease) in allowance for doubtful accounts	(1,800)	–
Increase (decrease) in provision for bonuses	964	22,472
Increase (decrease) in provision for sales returns	193,558	(222,527)
Increase (decrease) in provision for point card certificates	165,004	(121,844)
Provision for after cost periods adjustment	4,397	(18,799)
Interest and dividend income	(631)	(21,425)
Interest expenses	4,225	8,817
Share of loss (profit) of entities accounted for using equity method	(69,709)	86,908
Gain on reversal of share acquisition rights	–	(625)
Loss (gain) on sale of shares of subsidiaries and associates	(28,273)	–
Business restructuring expenses	–	35,274
Decrease (increase) in trade receivables	550,153	339,311
Decrease (increase) in inventories	(1,732,821)	(1,270,963)
Decrease (increase) in advance payments to suppliers	(701,541)	470,392
Increase (decrease) in trade payables	(143,065)	363,427
Increase (decrease) in accounts payable - other	(836,459)	(2,413)
Increase (decrease) in unearned revenue	459,464	(546,359)
Increase (decrease) in long-term unearned revenue	(13,727)	(227,329)
Decrease/increase in consumption taxes receivable/payable	134,462	(497,904)
Other, net	(195,128)	29,889
Subtotal	(624,581)	(26,298)
Interest and dividends received	631	26,176
Interest paid	(4,269)	(10,383)
Income taxes paid	(701,315)	(628,911)
Net cash provided by (used in) operating activities	(1,329,534)	(639,416)
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,330)	(16,347)
Purchase of software	(809,231)	(1,046,552)
Purchase of other intangible assets	–	(12,220)
Purchase of investment securities	(996,269)	(1,680,090)
Proceeds from sale of investment securities	35,000	–
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	60,841	–
Payments of leasehold and guarantee deposits	(5,552)	–
Payments from collection of lease and guarantee deposits	20,996	–
Net cash provided by (used in) investing activities	(1,715,545)	(2,755,211)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(100,000)	3,300,000
Proceeds from long-term borrowings	–	1,500,000
Repayments of long-term borrowings	(422,000)	(497,000)

(Thousands of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	12,212	2,490
Dividends paid	(92,251)	(34,390)
Net cash provided by (used in) financing activities	(602,038)	4,271,099
Effect of exchange rate change on cash and cash equivalents	(16,395)	4,804
Net increase (decrease) in cash and cash equivalents	(3,663,513)	881,275
Cash and cash equivalents at beginning of period	7,562,192	3,898,678
Cash and cash equivalents at end of period	* 3,898,678	* 4,779,954

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.

(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.

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 collectability 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.

(Significant accounting estimates)

1. Unlisted stocks, etc.

(1) Amount recorded on the consolidated financial statements for the current fiscal year 2,238,918 thousand yen

(2) Information on the contents of significant accounting estimates related to identified items

The Company holds unlisted stocks, etc. among investment securities that are deemed to be extremely difficult to measure the market value.

While investing in companies with strengths in the fields of overseas travel and English conversation learning with an eye to generate synergies with the mainstay product, POCKETALK, the AI-powered translation device, we are also forging capital alliances for the purpose of introducing innovative overseas products to the Japanese market, all of which aim to maximize the corporate value.

However, the profitability of some invested companies has temporarily declined due to the recent COVID-19 pandemic. We acquired unlisted stocks, etc., at a higher price, reflecting their earning power in excess of their net assets per share based on the financial statements of the invested companies. If the excess earning power of the investee company has decreased or if the real value of the stock becomes less than 50% of the acquisition cost, we will consider recoverability and perform impairment treatment. With regard to excess earning power, we determine whether it is lower than initial projection by grasping the status of the achievement of the business plan for about five years at the time of acquisition of the stocks.

We examined the impairment of unlisted stocks, etc., in accordance with the above policy and found that no invested companies had reduced excess earning power in the current fiscal year; thus, the Company has not recognized impairment loss.

Under the business plan formulated at the time of acquiring unlisted stocks, which we expected to have potential excess earning power, we made an important assumption on a certain growth to be achieved in their net sales. However, any change in the circumstances of each investment due to unpredictable changes in economic and business assumptions may affect the valuation and the consolidated financial statements for the next consolidated fiscal year and beyond.

2. Deferred tax assets

(1) Amount recorded on the consolidated financial statements for the current fiscal year 604,625 thousand yen

(2) Information on the contents of significant accounting estimates related to identified items

In examining the recoverability of deferred tax assets at the end of the current fiscal year, we reasonably estimate taxable income before adjusting temporary differences based on business results, taxable income, and medium-term business plans for the past three years in addition to the current fiscal year, and we classify companies in accordance with “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26). Then, we make up a schedule for reversal of temporary differences and determine the recoverability of deferred tax assets.

Deferred tax assets related to tax loss carried forward was recorded at 171,372 thousand yen in the consolidated financial statements.

Of these, 166,890 thousand yen is related to the Company, and we estimate that it will be fully recoverable. The tax loss carried forward mainly resulted from the fact that, given the Company’s net income of 487,622 thousand yen, a significant increase in tax deduction compared to the taxable amount due to a decrease in sales of our flagship product AI-powered translation device, POCKETALK, reflecting the effects of the COVID-19 pandemic. As the medium-term business plan formulated is based on the key assumption of the recovery and growth in POCKETALK’s net sales, the Company expects that demand for POCKETALK will start to pick up and the sales will recover to the same level as that in the fiscal year ended March 31, 2020, by the fiscal year ending March 31, 2024, if not earlier as the impacts of COVID-19 will subside in the fiscal year ending March 31, 2022.

These estimates may be affected by changing economic situations with uncertain prospects. The difference between the actual results and the estimates may affect the amounts of deferred tax assets and income taxes - deferred that will be recognized in the consolidated financial statements for the following fiscal years.

(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 26, 2021)
- “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) Impacts 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 is immaterial.

(Changes in presentation)

(Consolidated Statements of Cash Flows)

“Decrease/increase in consumption taxes receivable/payable,” which was included in “Other” under cash flows from operating activities in the previous fiscal year, is presented separately for the current fiscal year because it has become more material.

The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of negative 60,665 thousand yen presented as “Other” under cash flows from operating activities in the consolidated statement of cash flows in the previous fiscal year has been reclassified as 134,462 thousand yen in “Decrease/increase in consumption taxes receivable/payable,” and negative 195,128 thousand yen in “Other.”

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Group has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) since the end of the current fiscal year and presented the notes for significant accounting estimates in the consolidated financial statements.

However, the notes do not provide the content of estimates made for the previous fiscal year in accordance with transitional treatments stipulated in proviso of paragraph 11 of the ASBJ Statement No. 31.

Consolidated balance sheet

* The item related to associates is as follows:

(Thousands of yen)

	Previous fiscal year (As of March 31, 2020)	Current fiscal year (As of March 31, 2021)
Investment securities (shares)	832,814	770,035

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, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Valuation loss on finished goods	188,673	51,278
Loss on abandonment of finished goods	101,448	29,901

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

(Thousands of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Research and development expenses	13,081	14,543

*3. Business restructuring expenses

During the current fiscal year, we recorded expenses incurred in the business structure improvement of subsidiaries, such as additional retirement payments, payment for paid leave, and expenses for outplacement support, as business restructuring expenses under extraordinary losses.

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Valuation difference on available-for-sale securities		
Amount arising during the year	(5,118)	65,915
Reclassification adjustments	–	–
Before tax effects adjustments	(5,118)	65,915
Tax effects	1,567	(20,183)
Valuation difference on available-for-sale securities	(3,550)	45,732
Foreign currency translation adjustment		
Amount arising during the year	(9,577)	33,359
Reclassification adjustments	–	–
Before tax effects adjustments	(9,577)	33,359
Tax effects	–	–
Foreign currency translation adjustment	(9,577)	33,359
Total other comprehensive income	(13,128)	79,091

Consolidated statement of changes in equity

Previous 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

Current fiscal year (From April 1, 2020 to March 31, 2021)

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

Class of shares	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Issued shares				
Common shares (Shares)	136,241,200	15,600	–	136,256,800
Total	136,241,200	15,600	–	136,256,800
Treasury shares				
Common shares (Shares)	24	–	–	24
Total	24	–	–	24

Note: The increase of 15,600 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, 2021 (Thousands of yen)
			As of April 1, 2020	Increase	Decrease	As of March 31, 2021	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	22,760
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	22,680
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	10,288
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	29,110
	11th series share acquisition rights as 2018 stock options	–	–	–	–	–	15,719
	12th series share acquisition rights as 2019 stock options	–	–	–	–	–	14,962
	13th series share acquisition rights as 2019 stock options	–	–	–	–	–	19,687
	1st series US-JP tax-qualified share acquisition rights as 2019 stock options	–	–	–	–	–	7,928
	14th series share acquisition rights as 2020 stock options	–	–	–	–	–	5,704
	2nd series US-JP tax-qualified share acquisition rights as 2020 stock options	–	–	–	–	–	2,243
Total			–	–	–	–	151,797

Note: The first day of the exercise period has not yet arrived for the 12th, 13th, 1st series US-JP tax-qualified share acquisition rights, 14th and 2nd 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 18, 2020	Common shares	34,060	0.25	March 31, 2020	June 19, 2020

(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 17, 2021	Common shares	28,613	Retained earnings	0.21	March 31, 2021	June 18, 2021

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, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Cash and deposits	3,898,678	4,779,954
Cash and cash equivalents	3,898,678	4,779,954

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, 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.

Current fiscal year (As of March 31, 2021)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	4,779,954	4,779,954	–
(2) Accounts receivable - trade	2,023,666	2,023,666	–
(3) Accounts receivable - other	96,948	96,948	–
(4) Income taxes receivable	295,454	295,454	–
(5) Investment securities	38,888	38,888	–
Total assets	7,234,912	7,234,912	–
(1) Accounts payable - trade	784,398	784,398	–
(2) Short-term loans payable	3,300,000	3,300,000	–
(3) Accounts payable - other	741,953	741,953	–
(4) Income taxes payable	625	625	–
(5) Long-term loans payable (*)	2,018,000	2,018,097	97
Total liabilities	6,844,977	6,845,074	97

(*) 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, (4) Income taxes receivable

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.

(5) 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, 2020)	Current fiscal year (As of March 31, 2021)
Unlisted stocks, etc.	1,372,042	3,008,954

These items are not included in "(5) 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, 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	–	–	–

Current fiscal year (As of March 31, 2021)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	4,779,954	–	–	–
Accounts receivable - trade	2,023,666	–	–	–
Accounts receivable - other	96,948	–	–	–
Income taxes receivable	295,454	–	–	–
Total	7,196,024	–	–	–

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, 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	171,00	–	–	–
Total	422,000	422,000	171,00	–	–	–

Current fiscal year (As of March 31, 2021)

(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	722,000	471,000	300,000	300,000	225,000	–
Total	722,000	471,000	300,000	300,000	225,000	–

Securities

1. Other securities

Previous 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.

Current fiscal year (As of March 31, 2021)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	38,888	15,356	23,531
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	38,888	15,356	23,531
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		38,888	15,356	23,531

Note: Unlisted stocks, etc. (carrying amount: 3,008,954 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, 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	–	–

Current fiscal year (From April 1, 2020 to March 31, 2021)

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

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 5,240 thousand yen for the previous fiscal year and 2,789 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, 2020)	Current fiscal year (As of March 31, 2021)
Selling, general and administrative expenses (Other)	32,314	34,877

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)	2020 Stock Options (14th series)
Category and number of people to whom stock options are granted	6 employees of SOURCENEXT Inc.	3 Directors and 36 employees of the Company
Number of stock options by class of shares	Common shares: 68,400 shares	Common shares: 146,800 shares
Grant date	August 27, 2019	July 17, 2020
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	July 26, 2021 – July 24, 2029	June 19, 2022 – June 18, 2030

	2020 Stock Options (2nd series US-JP tax-qualified share acquisition rights)
Category and number of people to whom stock options are granted	3 employees of SOURCENEXT Inc.
Number of stock options by class of shares	Common shares: 55,500 shares
Grant date	July 17, 2020
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	June 19, 2022 – June 18, 2030

(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, 2021). 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, 2020			
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2020	162,400	4,800	251,200
Vested	–	–	–
Exercised	2,400	–	2,000
Forfeited	–	–	2,000
Exercisable	160,000	4,800	247,200

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, 2020	–	–	70,400
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	70,400
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2020	144,400	502,000	–
Vested	–	–	70,400
Exercised	–	11,200	–
Forfeited	–	3,600	1,000
Exercisable	144,400	487,200	69,400

Notes: 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, 2020	106,700	135,700	68,400
Granted	–	–	–
Forfeited	2,600	3,100	15,000
Vested	–	–	–
Unvested	104,100	132,600	53,400
After vested (Shares)			
As of March 31, 2020	–	–	–
Vested	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Exercisable	–	–	–

	2020 Stock Options (14th series)	2020 Stock Options (2nd series US-JP tax-qualified share acquisition rights)
Before vested (Shares)		
As of March 31, 2020	–	–
Granted	146,800	55,500
Forfeited	5,700	–
Vested	–	–
Unvested	141,100	55,500
After vested (Shares)		
As of March 31, 2020	–	–
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)	294	–	294
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)	–	313	–
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

	2020 Stock Options (14th series)	2020 Stock Options (2nd series US-JP tax-qualified share acquisition rights)
Exercise price (Yen)	317	317
Average price per share upon exercise (Yen)	–	–
Fair value per share at grant date (Yen)	110.00	110.00

3. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2021

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

	2020 Stock Options (14th series)	2020 Stock Options (2nd series US-JP tax-qualified share acquisition rights)
Volatility of share price (Note 1)	48.80%	48.80%
Estimated exercisable period (Note 2)	5.93 years	5.93 years
Estimated dividend (Note 3)	0.25 yen per share	0.25 yen per share
Risk-free interest rate (Note 4)	(0.130)%	(0.130)%

Notes: 1. Calculated based on the stock market performance in the period from August 15, 2014 to July 17, 2020 for the 14th series and the 2nd series US-JP tax-qualified share acquisition rights.

2. With a difficulty in reasonably estimating the exercisable period due to insufficient data, the exercisable 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 0.25 yen based on the actual dividends paid for the fiscal year ended March 31, 2020.

4. This is the yield of Japanese Government bonds on June 20, 2026, 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, 2020)	Current fiscal year (As of March 31, 2021)
Deferred tax assets		
Valuation loss on finished goods	58,517	30,947
Enterprise tax payable	25,159	–
Provision for sales returns	96,274	28,136
Provision for point card certificates	50,524	13,215
Depreciation	52,679	67,561
Amortization of software	20,997	13,820
Amortization of trademark right	20,190	21,309
Recognized value of tax sales	466,407	225,307
Tax loss carried forward (Note)	555,700	762,886
Valuation difference on available-for-sale securities	1,910	–
Other	67,726	72,457
Subtotal deferred tax assets	1,416,087	1,235,643
Valuation allowance for tax loss carried forward (Note)	(552,615)	(591,513)
Valuation allowance for total of deductible temporary differences and others	(3,437)	(14,627)
Subtotal of valuation allowance	(556,052)	(606,141)
Total deferred tax assets	860,035	629,501
Deferred tax liabilities		
Income taxes receivable	–	(6,603)
Valuation difference on available-for-sale securities	–	(18,272)
Total deferred tax liabilities	–	(24,876)
Net deferred tax assets	860,035	604,625

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

Previous 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

Current fiscal year (As of March 31, 2021)

	Within one year (Thousands of yen)	Over one year within two years (Thousands of yen)	Over two years within three years (Thousands of yen)	Over three years within four years (Thousands of yen)	Over four years within five years (Thousands of yen)	Over five years (Thousands of yen)	Total (Thousands of yen)
Tax loss carried forward (*)	112,050	113,519	190,765	17,895	36,617	292,037	762,886
Valuation allowance	(110,784)	(111,911)	(189,157)	(17,895)	(36,617)	(125,147)	(591,513)
Deferred tax assets	1,266	1,608	1,608	–	–	166,890	171,372

(*) 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, 2020)	Current fiscal year (As of March 31, 2021)
Effective statutory tax rate	30.6	30.6
(Reconciliation)		
Permanently non-deductible items including entertainment expense	2.4	2.9
Per capita inhabitant taxes	0.8	1.0
Amortization of goodwill	8.2	10.2
Tax rate difference of overseas subsidiaries	0.3	–
Share of profit of entities accounted for using equity method	(3.8)	6.4
Elimination of dividend income	–	1.9
Income taxes - refund	–	(4.1)
Valuation allowance	25.2	5.3
Other	(3.5)	0.1
Effective tax rate after applying tax effect accounting	60.2	54.3

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, 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.

Current fiscal year (From April 1, 2020 to March 31, 2021)

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, 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.

Current fiscal year (From April 1, 2020 to March 31, 2021)

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
102,247	2,846	105,094

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, 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.

Current fiscal year (From April 1, 2020 to March 31, 2021)

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 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, 2019 to March 31, 2020)

Not applicable.

Current fiscal year (From April 1, 2020 to March 31, 2021)

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, 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, 2020 (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	–	–

Current fiscal year (From April 1, 2020 to March 31, 2021)

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, 2021 (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	–	–

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, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Net assets per share	87.88 yen	89.63 yen
Earnings per share	1.65 yen	1.40 yen
Diluted earnings per share	1.64 yen	1.40 yen

Note: The basis for calculation of earnings per share and diluted earnings per share is as follows:

	Previous fiscal year (From April 1, 2019 to March 31, 2020)	Current fiscal year (From April 1, 2020 to March 31, 2021)
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	224,940	191,101
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	224,940	191,101
Average number of common shares outstanding during the period (Shares)	136,186,344	136,246,539
Diluted earnings per share		
Increase in number of common shares(Shares)	712,759	477,644
[Number of share acquisition rights included] (Shares)	(712,759)	(477,644)
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 (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	Stock options resolved at the Board of Directors meeting held on June 26, 2018 (11th series share acquisition rights): 69,400 common shares Stock options resolved at the Board of Directors meeting held on June 26, 2019 (12th series share acquisition rights): 104,100 common shares Stock options resolved at the Board of Directors meeting held on July 25, 2019 (13th series share acquisition rights): 132,600 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): 53,400 common shares Stock options resolved at the Board of Directors meeting held on June 18, 2020 (14th series share acquisition rights): 141,100 common shares Stock options resolved at the Board of Directors meeting held on June 18, 2020 (2nd series US-JP tax-qualified share acquisition rights): 55,500 common shares

Significant events after reporting period

1. On June10, the Company resolved to acquire shares of SORACOM, INC., that was held by KDDI Corporation, and concluded a share transfer agreement.

   Overview of contract

   (1) Reasons for the share acquisition

   SORACOM, INC. is a platform company that provides IoT wireless communication globally. SORACOM, INC. supplies eSIM to our IoT products including POCKETALK and is an important development partner.

   Our products are expected to expand further going forward with the corporate mission of "creating products that inspire joy and move the world." We have decided to acquire the shares of SORACOM, INC. with the hope of building a strong cooperative relationship with the company to become an even more important partner for the development of IoT-related products.

   (2) Overview of share acquisition

   We will acquire 320,800 shares equivalent to a 2.5% stake through the acquisition of common shares held by KDDI Corporation, a shareholder of SORACOM, INC.

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

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

   ii) Number of shares acquired 320,800 shares
   (Number of voting rights: 320,800 rights)

   iii) Acquisition value In accordance with the confidentiality obligations under the share transfer agreement, the information is not disclosed.

   iv) Number of shares held after share transfer 320,800 shares
   (Number of voting rights: 320,800 rights)
   (Ratio of voting rights holding: 2.5%)

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, 2020 (Thousands of yen)	Balance as of March 31, 2021 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	–	3,300,000	0.26	–
Current portion of long-term loans payable	422,000	722,000	0.32	–
Long-term loans payable (excluding current portion)	593,000	1,296,000	0.32	2025
Total	1,015,000	5,318,000	–	–

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	471,000	300,000	300,000	225,000

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, 2021

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	2,540,154	5,788,263	9,514,631	12,851,060
Profit before income taxes (Thousands of yen)	53,051	243,145	369,924	418,161
Profit attributable to owners of parent (Thousands of yen)	6,666	124,927	196,594	191,101
Earnings per share (Yen)	0.05	0.92	1.44	1.40

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share (Yen)	0.05	0.87	0.53	(0.04)

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.

Notes: 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

24th term (from April 1, 2019 to March 31, 2020) Filed to Director-General of Kanto Local Finance Bureau on June 19, 2020.

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 19, 2020.

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 25th term (from April 1, 2020 to June 30, 2020)
Filed to Director-General of Kanto Local Finance Bureau on August 6, 2020.

2nd quarter of the 25th term (from July 1, 2020 to September 30, 2020)
Filed to Director-General of Kanto Local Finance Bureau on November 12, 2020.

3rd quarter of the 25th term (from October 1, 2020 to December 31, 2020)
Filed to Director-General of Kanto Local Finance Bureau on February 10, 2021.

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 19, 2020.

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.

Filed to Director-General of Kanto Local Finance Bureau on February 5, 2021.

Extraordinary Securities Report based on Article 19, paragraph 2, item 9 (Change to the representative director) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs.

(5) Amendment Report for Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on October 6, 2020.

Amendment Report for the Extraordinary Securities Reports filed on June 19, 2020.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 17, 2021

SOURCENEXT Corporation
The Board of Directors

PricewaterhouseCoopers Kyoto
Tokyo Office

Katsuhiko Saito
Certified Public Accountants
Designated Partner
Engagement Partner

Hitoshi Tamura
Certified Public Accountants
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, 2020 through March 31, 2021.

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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in auditors' professional judgment, were of most significance in the audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of unlisted stock	
Content of key audit matters and grounds for decision	How the matter was addressed in the audit
As of March 31, 2021, the Company has invested in 13 companies, including associates, and recorded investment securities of 3,047,842 thousand yen on the consolidated balance sheet. The investment includes 2,238,918 thousand yen of unlisted stocks, etc. excluding those of associates (of which, 1,669,322 thousand yen is for stocks) as described in "Significant accounting estimates, 1. Unlisted stocks, etc." in the notes to the consolidated financial statements section.	In examining the valuation of unlisted stocks, we mainly conducted the following audit procedures. 1. Assessments of internal control We assessed the status of development and operation of internal controls related to the valuation of unlisted stocks. The assessment focused specifically on controls implemented by management to prevent or detect incorrect assessments on important assumptions (prospects of growth in net sales) in the

While investing in companies with strengths in the fields of overseas travel and English conversation learning with an eye to generate synergies with the mainstay product, POCKETALK, the AI-powered translation device, the Company is also forging capital alliances for the purpose of introducing innovative overseas products to the Japanese market, all of which aim to maximize the corporate value. However, the profitability of some invested companies has temporarily declined due to the recent COVID-19 pandemic. Some unlisted stocks were acquired at a higher price reflecting their earning power in excess of their net assets per share based on the financial statements of the invested companies. If the excess earning power projected at the time of acquisition becomes no longer expected, or if the real value of the stock reflecting the excess earning power is less than 50% of the acquisition cost, the Company will consider recoverability and apply impairment treatment. With regard to excess earning power, the Company determines whether it is lower than initially expected by grasping the status of achievement of the business plan for about five years at the time of acquisition of the stocks. In accordance with the above policy, the Company examined impairment of unlisted stocks, etc., and judged that there were no invested companies whose excess earning power had declined in the current fiscal year, and there was no sign of impairment; thus, the Company has not applied impairment treatment. Key assumptions were made that the remaining balance of unlisted stocks is quantitatively material, and the business plan at the time of the acquisition of the stocks factors in certain net sales growth. With these as a basis, whether excess earning power is maintained at the end of the current fiscal year shall be determined by the management, and uncertainty about the estimates is considered to be high. Thus, as the auditor, we judged that the valuation of unlisted stocks falls under the scope of major audit matters.	business plan that serves as basis for the calculation of excess earning power. 2. Valuation of unlisted stocks (1) Assessment of impairment judgments for each invested company We calculated the real value of each invested company by adjusting the amount of net assets based on the latest financial statements with excess earning power and compared it with the acquisition cost to confirm whether there were signs of impairment. (2) Assessment of decline in excess earning power In order to confirm whether excess earning power declined, important assumptions made in formulating the business plan (growth prospects of net sales) were examined by the following procedures. 〇 Examination of important assumptions ・We reviewed the minutes of the Board of Directors meeting and approval documents and asked management questions as necessary in order to examine if there were any events that were likely to affect the growth prospects of net sales. We asked invested companies through the Company about the prospects of net sales growth projected by the Company and obtained and confirmed related documents. ・We conducted the comparative analysis on the business plan at the time of acquisition of the stocks, which were the basis for calculating excess earning power, against the actual results. ・We conducted a comparative analysis on the business plan formulated when acquiring the stocks against the performance outlook of invested companies' industry peers for the following fiscal year and reports issued by external organizations and examined the consistency between the two.

Assessment of the recoverability of deferred tax assets	
Content of Key audit matters and grounds for decision	How the matter was addressed in the audit
As of March 31, 2021, the Company recorded deferred tax assets of 604,625 thousand yen on the consolidated balance sheet. As described in "Significant accounting estimates, 2. Deferred tax assets" in the notes to the consolidated financial statements section, deferred tax assets related to tax loss carried forward was recorded at 171,372 thousand yen. Of these, 166,890 thousand yen is related to the Company, and the company has not provided a valuation allowance for it. The tax loss carried forward resulted from the fact that the deductible tax amount significantly exceeded the taxable amount due to a decrease in sales of the flagship product, the AI-powered translation device, POCKETALK, impacted by the COVID-19 pandemic, despite the Company's net income of 487,622 thousand yen. Concerning the future deductible temporary difference and the tax loss carried forward, the Company recorded the amount expected to reduce the future tax burden in deferred tax assets by taking into consideration the schedule for reversal of future taxable temporary difference, the estimated taxable income before adjusting temporary differences given future profitability and tax planning, and determining the classification of companies in accordance with "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26.)	In examining the recoverability of deferred tax assets by the management, we mainly conducted the following audit procedures. 1. Assessments of internal control We assessed the effectiveness of development and operation of internal controls related to the determination of the recoverability of deferred tax assets, including the determination of the growth prospects of POCKETALK's net sales and the classification of companies. 2. Assessments of rationality of estimated future taxable income In order to assess the management's estimation of taxable income before adjusting temporary differences based on future profitability, the following procedures were implemented. ・With regard to the Company's classification of companies conducted by the management in assessing the recoverability of deferred tax assets, we examined whether the classification is compliant with the accounting standards. ・We examined the consistency between the future business plan, which is the basis for the estimated taxable income before

The estimated taxable income before adjusting temporary differences based on future earning power is calculated based on the future business plan. The important assumption of the future business plan is the growth prospects of POCKETALK's net sales. The Company expects that the impacts of COVID-19 will subside in the fiscal year ending March 31, 2022, and that demand for POCKETALK will start to pick up and the sales will recover to the same level as the fiscal year ended March 31, 2020, by the fiscal year ending March 31, 2024. The recoverability of deferred tax assets is assessed based on the estimated taxable income before adjusting temporary differences given the future earning power, and the above important assumptions are used for formulating the underlying future business plan. Since important assumptions involve high uncertainty over the estimates and subjective judgments by the management, we judged that the assessment of the recoverability of deferred tax assets falls under the scope of key audit matters.	adjusting temporary differences based on future profitability, and the latest budget approved by the management. ・We asked the management about the cause of the tax loss carried forward recorded in the current fiscal year, and examined the Company's factor analysis. In addition, we reviewed and examined the related documents with regard to the balances of the temporary difference and tax loss carried forward. ・In order to examine the appropriateness of scheduling for reversal of future deductible temporary difference and future taxable temporary difference at the end of the fiscal year and offsetting them, we asked questions to the management and reviewed the minutes of meeting bodies such as the Board of Directors. ・We examined the appropriateness of the scheduling for the estimated fiscal years and estimated amounts of tax deduction related to tax loss carried forward. ・We compared the forecasts and actual results of the previous fiscal years, examined the reasons for the failure to meet the forecasts, and examined whether these were reflected in the estimated taxable income before adjusting temporary differences recorded in the current fiscal year. ・We independently estimated the amount of taxable income before adjusting temporary differences taking into consideration uncertainty in the future business plan and examined the impact on the Company's determination of the recoverability of deferred tax assets. ・We examined, by following procedures, the appropriateness of the growth prospects of POCKETALK's net sales (mainly when demand for POCKETALK recovers), which is an important assumption made in formulating the future business plan. ○ Examination of important assumptions ・We reviewed the minutes of the Board of Directors meeting and approval documents and asked management questions as necessary in order to examine if there were any events that were likely to affect the growth prospects of POCKETALK's net sales. ・We conducted the comparative analysis of POCKETALK's net sales results for the last three months before the end of the fiscal year against the sales plan. ・We conducted the trend analysis on the growth prospects of POCKETALK's net sales from the past results and compared the prospects with available external data.

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.

The auditor determines key audit matters from the matters that the auditor discusses with the Auditors and the Board of Auditors and judges as particularly important in auditing the consolidated financial statements for the current fiscal year, and describes them in the auditor report. However, if laws and regulations preclude public disclosure about the matters, or if the auditor determines, in extremely rare circumstances, that the matters should not be communicated in the auditor report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest, the auditor would not describe such matters.

<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, 2021 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, 2021 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

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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.