Cover page

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Fiscal year	26th term (from April 1, 2021 to March 31, 2022)
Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
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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	22nd term	23rd term	24th term	25th term	26th term
Fiscal year-end	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Net sales (Thousands of yen)	9,494,658	14,710,520	17,282,086	12,851,060	10,307,741
Ordinary profit (loss) (Thousands of yen)	1,258,729	905,628	537,598	452,810	(2,128,061)
Profit (loss) attributable to owners of parent (Thousands of yen)	1,261,194	615,880	224,940	191,101	(3,502,838)
Comprehensive income (Thousands of yen)	1,261,643	604,704	211,811	270,193	(3,435,064)
Net assets (Thousands of yen)	6,504,101	11,923,437	12,091,788	12,364,664	9,959,260
Total assets (Thousands of yen)	10,250,413	17,398,997	17,029,721	20,331,517	19,981,406
Net assets per share (Yen)	51.92	86.89	87.88	89.63	70.72
Earnings (loss) per share (Yen)	10.18	4.64	1.65	1.40	(25.77)
Diluted earnings per share (Yen)	10.18	4.61	1.64	1.40	–
Equity ratio (%)	62.7	68.0	70.3	60.1	48.0
Return on equity (ROE) (%)	21.4	6.7	1.9	1.6	(32.1)
Price earnings ratio (PER) (Times)	37.8	97.4	176.8	260.2	–
Net cash provided by (used in) operating activities (Thousands of yen)	(181,406)	1,346,083	(1,329,534)	(639,416)	(330,875)
Net cash provided by (used in) investing activities (Thousands of yen)	(1,000,739)	(160,478)	(1,715,545)	(2,755,211)	(2,938,066)
Net cash provided by (used in) financing activities (Thousands of yen)	(607,217)	4,467,982	(602,038)	4,271,099	3,820,313
Cash and cash equivalents at end of period (Thousands of yen)	1,906,252	7,562,192	3,898,678	4,779,954	5,451,092
Number of employees (Persons) [Separately, average number of temporary employees]	133 [6]	141 [4]	139 [2]	146 [3]	143 [7]

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share, earnings (loss) per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 22nd term.

2. Even though the Company has dilutive shares, diluted earnings per share for the 26th term are not presented because a net loss per share was recorded for the term.

3. Price earnings ratio (PER) for the 26th term is not presented because a net loss per share was recorded for the 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 "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other accounting standards have been applied from the beginning of the current fiscal year, and key management indicators for the current fiscal year are those after the application of the said accounting standards and guidance.

(2) Business results of the reporting company

Term		22nd term	23rd term	24th term	25th term	26th term
Fiscal year-end		March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Net sales	(Thousands of yen)	9,359,167	14,708,202	17,404,890	12,915,451	9,929,481
Ordinary profit (loss)	(Thousands of yen)	1,172,406	968,183	1,069,763	727,776	(1,793,463)
Profit (loss)	(Thousands of yen)	1,199,687	733,498	194,924	487,622	(3,293,790)
Capital stock	(Thousands of yen)	1,776,817	3,679,656	3,688,593	3,690,436	3,695,284
Total number of issued shares	(Shares)	63,481,000	136,162,800	136,241,200	136,256,800	136,297,600
Net assets	(Thousands of yen)	6,461,449	12,004,456	12,147,766	12,683,803	9,029,502
Total assets	(Thousands of yen)	10,392,500	17,341,963	17,018,813	20,646,436	18,629,888
Net assets per share	(Yen)	51.58	87.49	88.29	91.97	65.16
Dividends per share [Interim dividends per share]	(Yen)	3.05 [–]	0.68 [–]	0.25 [–]	0.21 [–]	- [–]
Earnings (loss) per share	(Yen)	9.69	5.53	1.43	3.58	(24.23)
Diluted earnings per share	(Yen)	9.68	5.49	1.42	3.57	-
Equity ratio	(%)	61.5	68.7	70.7	60.7	47.4
Return on equity (ROE)	(%)	20.4	8.0	1.6	4.0	(30.8)
Price earnings ratio (PER)	(Times)	39.7	81.8	204.0	102.0	-
Dividend payout ratio	(%)	15.7	12.3	17.5	5.9	-
Number of employees [Separately, average number of temporary employees]	(Persons)	101 [6]	113 [4]	118 [2]	132 [3]	138 [7]
Total shareholder return (Benchmark index: Dividend-included TOPIX)	(%) (%)	271.4 (115.9)	319.3 (110.0)	207.0 (99.6)	258.5 (141.5)	122.8 (144.3)
Highest share price	(Yen)	1,663 (Note 7) (815)	1,547 (Note 8) (760)	598	385	381
Lowest share price	(Yen)	461 (Note 7) (502)	721 (Note 8) (442)	211	241	142

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018, and again on December 1, 2018. Accordingly, net assets per share, earnings (loss) per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 22nd term.

2. Even though the Company has dilutive shares, diluted earnings per share for the 26th term are not presented because a net loss per share was recorded for the term.

3. Price earnings ratio and dividend payout ratio for the 26th term are not presented because a net loss per share was recorded for the 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).

9. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other accounting standards have been applied from the beginning of the current fiscal year, and key management indicators for the current fiscal year are those after the application of the said accounting standards and guidance.

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 (currently ZERO Virus Security), 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 (currently ZERO Super Security), 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.)
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
July 2021	Dissolved a subsidiary, EUS Co., Ltd. (formerly FUDEMAME CO., LTD.)
February 2022	Established a subsidiary, POCKETALK CORPORATION through a company split (simplified incorporation type)
April 2022	Transferred to the Prime Market

3. Description of business

   The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise four consolidated subsidiaries and two associates accounted for using the equity method. The business of SOURCENEXT Group (the Group; the Company and its subsidiaries and associates) constitutes a single business segment of the planning, development and sales of software and hardware, and other services.

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

   Our three sales channels comprise direct sales through our online shop, wholesale distribution to consumer electronics retailers, etc., and providing products and content to corporations including smartphone carriers.

   For direct sales through our online shop 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 various products of the Company and of other companies, leading to stabilization of sales.

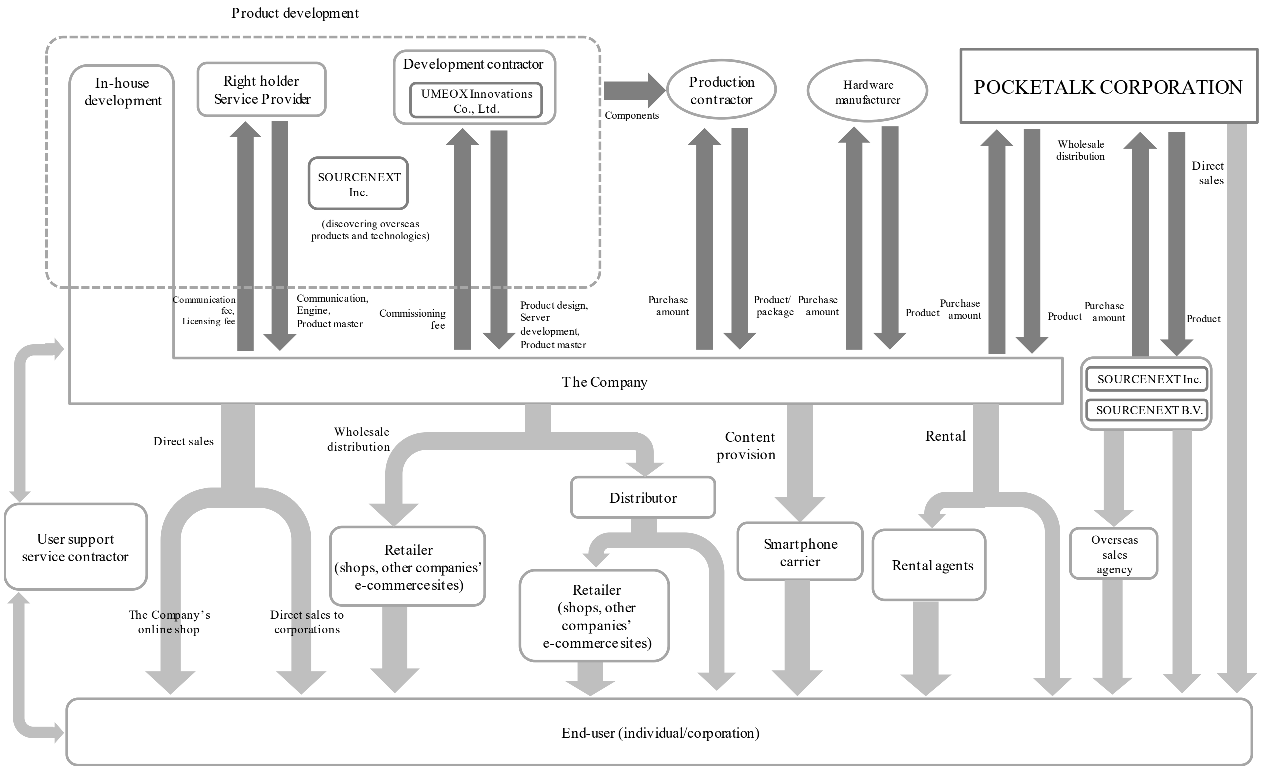
   With regard to the provision of content to corporate customers such as smartphone carriers (carriers), in addition to “all-you-can-use” application subscription services offered by carriers, including “Sugo Toku Contents service” by NTT DOCOMO, INC., we sell and rent IoT products such as an AI translation device, POCKETALK, and telework-related hardware.

   IoT products such as POCKETALK are produced by an overseas company on consignment 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 selling our products abroad 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



Note: SOURCENEXT Inc. changed its name to POCKETALK Inc. in May 2022. Sourcenext B.V. is in the process of changing its name to POCKETALK B.V.

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 speak 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 70 languages and to text in 12 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 900,000 units. The Group also launched the business of POCKETALK Pair, which is a software program that translates what the speaker says and instantaneously displays subtitles on the screen, and AI-powered translation app POCKETALK (iOS/Android). Going forward, the Group will work to increase the percentage of the subscription-type business model.
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 engine has since continuously won annual awards from AV-Comparatives (Austria) and AV-test (Germany), international evaluation organizations for security products. The cumulative number of user registrations for the Virus Security series has exceeded 12.5 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 19 years in a row. Now used by over 10,000 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. Since its launch in July 2020, cumulative shipments (excluding samples) have exceeded 20,000 units. (As of March 2022)
AutoMemo	This is an AI voice-to-text recorder. AI converts recorded voice into text, which can be read and searched. Recorded data is stored in the cloud. The product has the No. 1 market share in terms of cumulative sales volume and value by product.
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 10.0 million units reflecting its popularity.

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. (Note 1)	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.	93.4 (Indirect ownership)	Signed consulting agreement Sells the Company's finished goods One interlocking Director or Auditor
Rosetta Stone Japan, Inc.	Minato-ku, Tokyo	10,000	Selling the language learning software ROSETTA STONE	100.0	One interlocking Director or Auditor
Sourcenext B.V. (Note 2)	Amsterdam, Netherlands	3,000 (Thousands of euro)	Planning, development and distribution of software and hardware products	93.4 (Indirect ownership)	Sells the Company's finished goods Borrows funds from the Company One interlocking Director or Auditor
POCKETALK CORPORATION (Note 3)	Minato-ku, Tokyo	1,195,000	All businesses related to the planning, development, manufacture, licensing, and sale of translation devices and translation-related software	93.4	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
One other company					

Notes: 1. SOURCENEXT Inc. changed its name to POCKETALK Inc. in May 2022.
2. Sourcenext B.V. is in the process of changing its name to POCKETALK B.V.
3. POCKETALK CORPORATION is classified as a specified subsidiary.

5. Information about employees

(1) Consolidated companies

As of March 31, 2022

Segment name	Number of employees (Persons)
Software-related business	143 [7]
Total	143 [7]

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) Information about Reporting company

As of March 31, 2022

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
138 [7]	37.5	7.1	7,516,450

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. Furthermore, POCKETALK Pair became available in January 2022, and the AI-powered translation app POCKETALK (iOS/Android) was launched in April 2022.

In February 2022, the Company established POCKETALK CORPORATION as its consolidated subsidiary through a simplified incorporation-type split, aiming to improve the global recognition of the POCKETALK brand and accelerate its global development, while raising funds from external sources.

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 expand the AI-powered translation device POCKETALK overseas, we will actively develop sales channels in Asia as well as further strengthen its sales 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.

v) Business and organizational structure at POCKETALK CORPORATION

POCKETALK CORPORATION was established through a simplified incorporation-type split in February 2022. The Company will actively expand its business in Japan and overseas with product lineup of POCKETALK devices, POCKETALK Pair, and POCKETALK Apps. For POCKETALK Pair, in particular, which is a subscription-type business model for corporate users, we recognize that an increase in the number of its users after the start of fee-based service will be crucial for the POCKETALK CORPORATION's corporate value, therefore, we will focus on this as our priority. In addition, we will actively recruit personnel needed to expand the sales of POCKETALK in Japan and overseas aggressively.

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 currently stagnant due to a sharp decline in the number of foreigners visiting Japan and Japanese visiting overseas as a result of COVID-19, but the market is expected to recover as cross-border travel resumes. We also believe the market will expand as the number of foreign visitors and residents in Japan increases. Currently, many of our competitors have withdrawn from the market under the influence of COVID-19. However, if competing products reemerge in Japan or overseas and we were to significantly lose our distinctiveness, or if there is a delay in the recovery of cross-border travel, the Group's business performance could be impacted.

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 73.5% of all sales for the fiscal year ended March 31, 2022. With respect to the overseas business, we also expect to expand sales channels in Asia, as well as further strengthen sales 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 ZERO Virus Security, which was launched in 2006 and requires no annual renewal fees. The second is ZERO Super Security, 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 and 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. 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. Although we view advertising expenses and promotion expenses 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, 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.
Fiscal year ended March 31, 2022 (Consolidated)	Due to the prolonged impact of the COVID-19 pandemic, cross-border travel has not recover, and demand for AI-Powered Translation Device POCKETALK was slow in Japan, which had a significant impact on the Company's business performance. The prolonged impact, a decline in PC shipments and other related markets, and a drop in demand following the special demand for telework-related products in the previous fiscal year had a major impact on the performance through the consumer electronics retailers channel and the Company's online shop channel. As a result, net sales fell below the previous year's level. The Company also recognized valuation loss on finished goods and impairment losses on investment securities and posted an operating loss, ordinary loss, and loss for the fiscal 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, the Group does not recognize sales and cost of sales for products that are expected to be returned, but instead records refund liabilities and return assets. The Group's business performance may be impacted 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 toward maintaining the 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 core 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. After registering trademarks, we use an external system to properly manage the duration of the registered trademark rights, geographical scope, and classification of designated goods and services, etc. We regularly review the use of registered trademarks and strive to manage the adequate use of trademark rights.

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. The laws and regulations that may apply to the Group 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 the prevention of transfer of proceeds from crime; those related to national security, and those related to imports and exports. The Company's legal department takes the lead in monitoring revision to various laws or regulations and guidelines based on such laws and regulations on a regular basis with assistance from outside experts. However, it is sometimes difficult to keep track of all revisions to laws, regulations and guidelines and to prevent all violations of laws and regulations. For example, 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 personal information such as member information and credit card information, and other confidential information. The Company appoints a privacy officer and institutes privacy policies, privacy rules, and other detailed rules, and strictly manages workflows that involve the handling of personal information. In Japan, in response to the revision to the Act on the Protection of Personal Information in 2020, the Group reexamined the content of personal information that it obtained and retained, developed a legal compliance system, and established a company-wide Security Committee to improve in-house education for employees and to raise their awareness of the entire information management, including handling of not only personal information but also other confidential information. We reinforced 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 and confidential 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 GDPR (the EU's General Data Protection Regulation) that went into effect in May 2018. In the US, it was announced that "POCKETALK" is compliant with the HIPAA (Health Insurance Portability and Accountability Act) in August 2021.

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 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 150 employees (as of March 31, 2022; including seven 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, infectious diseases, etc.

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 in the regions in which the Group companies operate due to natural disasters, such as large earthquakes, tsunami, and floods, accidents and disasters, such as fires, pandemics of infectious diseases, terrorism, wars and other unexpected factors, the Group's business performance could be impacted.

COVID-19 is dragging on 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.

(12) Environmental and social risks

From the viewpoint of sustainability, the Group has positioned addressing and resolving global issues on Environment and Society as one of its key management issues and is working to identify material issues on Sustainability as well as formulate a basic sustainability policy. For specific operations, the Group has established a committee for sustainability promotion, and plans to promote initiatives such as formulating and reviewing sustainability policies. If environmental pollution or other environmental or social problems occur as a result of the Group’s business activities, it may lead to delays or suspension of business, the occurrence of costs for countermeasures, or damage on the social reputation, which could have a significant impact on the Group’s financial position and business performance in the future.

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 10,307 million yen, down 19.8% year-on-year. The main factors behind the sales decline are a drop in over-the-counter sales in the consumer electronics retailers' channel due to the prolonged impact of COVID-19 and a decrease in demand for the Group's mainstay product, AI-powered translation device POCKETALK, from overseas travelers and inbound businesses due to the lack of recovery in cross-border travel, which resulted in a drop in sales of POCKETALK. In addition, sales were negatively affected by a decline in PC shipments and other related markets and a drop in demand following the special demand for telework-related products in the previous fiscal year. As a result of these factors, sales declined from the previous fiscal year.

Assuming that the economic situation would remain uncertain, we selected the products that we wanted to focus on for sales in order to fundamentally review our company-wide strategy. We have been exploring the sales potential of various products centering on IoT products before and after the impact of the spread of COVID-19. Some products grew in sales as expected and showed market potential, but others did not grow as much as expected. As overseas and domestic economic activities are on the road to recovery, we have reviewed products that we should select and focus on, taking into consideration the future allocation of management resources. Then, we recorded an accelerated amortization of software and a product valuation loss for IoT products that we decided not to sell during the next fiscal year. As a result, cost of sales stood at 5,677 million yen, up 3.6% year on year.

Selling, general and administrative expenses decreased 2.3% year on year to 6,890 million yen due to a significant reduction in the advertising expenses and promotion expenses, resulting in operating loss of 2,259 million yen (operating profit in the previous fiscal year was 540 million yen).

While expenses related to the financing of POCKETALK CORPORATION were incurred during the current fiscal year, dividends from companies we invest in and foreign exchange gains due to the depreciating yen were recognized. As a result, ordinary loss stood at 2,128 million yen (ordinary profit in the previous fiscal year was 452 million yen). In addition, we determined that excess earning power at multiple investment locations decreased compared to when shares were acquired during the COVID-19 pandemic, and therefore recorded these as impairment loss on investment securities. We also reviewed the recoverability of deferred tax assets and recorded a valuation allowance for deferred tax assets that exceeded the range of taxable income before adding or deducting temporary differences based on earning capacity in reasonably estimated future periods.

As a result, loss attributable to owners of parent was 3,502 million yen (profit attributable to owners of parent in the previous fiscal year was 191 million yen).

(Financial position)

Total assets as of the end of the current fiscal year stood at 19,981 million yen, a decrease of 350 million yen compared with the end of the previous fiscal year. Main factors were an increase in cash and deposits of 671 million yen, and a decrease of 573 million yen in accounts receivable.

Total liabilities as of the end of the current fiscal year stood at 10,022 million yen, an increase of 2,055 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 2,300 million yen associated with the production and purchase of IoT products.

Net assets as of the end of the current fiscal year stood at 9,959 million yen, a decrease of 2,405 million yen compared with the end of the previous fiscal year. This decrease was due mainly to a decrease in retained earnings of 3,778 million yen, which offsets an increase in capital surplus of 1,238 million yen resulting from third-party allocation of shares in consolidated subsidiaries and other factors.

ii) Cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 5,451 million yen, an increase of 671 million yen compared with the end of the previous fiscal year.

Net cash used in operating activities amounted to 330 million yen, a decrease in cash used of 308 million yen year on year. The main factors were a decrease of 323 million yen in expenditures as a result of a decrease in unearned revenue, and a decrease of 610 million yen in payments such as for corporate income taxes.

Net cash used in investing activities amounted to 2,938 million yen, an increase of 182 million yen in outflows compared to the previous fiscal year. This was mainly due to an increase of 337 million yen in spending for software acquisition.

Net cash provided by financing activities amounted to 3,820 million yen, a decrease in cash provided of 450 million yen year on year. This was mainly due to 1,000 million yen decrease in net increase for short-term borrowings, and income of 1,382 million yen from payments by non-controlling shareholders via third-party allocation of shares for consolidated subsidiaries.

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	779,508	(33.7)
Postcards	1,384,259	(21.2)
Hard and other	1,764,122	(31.3)
POCKETALK	2,088,440	(8.7)
Soft and other	4,291,410	(15.2)
Total	10,307,741	(19.8)

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
The Company's online shop	4,380,175	(21.2)
Consumer electronics retailers	2,731,843	(35.3)
Corporate Sales	2,464,196	(13.0)
Other	731,525	208.6
Total	10,307,741	(19.8)

2. Sales by major transaction partner have been omitted because the ratio of such sales to total sales is less than 10/100.

(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 on March 31, 2022, the Japanese economy remained in a difficult situation in which economic activities were restrained due to frequent declarations of a state of emergency and strong measures to prevent the spread of infection, which were issued in response to the resurgence of infection caused by a series of new variants of COVID-19. With the progress of vaccination, economic activities in Japan have been gradually reopened, and restrictions are on the way to easing. However, the situation still has not recovered to the level before COVID-19, and the outlook remains uncertain. In other countries, there have been moves toward deregulation of domestic economic activities and reopening of countries, and signs for future recovery are beginning to emerge, including a gradual recovery in cross-border travel. On the other hand, the outlook around the global economy is becoming increasingly uncertain, as evidenced by the recent rise in raw material prices due to the escalation of the situation in Ukraine and fluctuations in the financial and capital markets.

With regard to the business environment surrounding the Group, PC shipments in the current fiscal year (April 2021 to March 2022) remained at 59.3% of the previous fiscal year (April 2022, based on the research by JEITA). Meanwhile, international travel for tourism purposes continued to be restricted, with the number of foreign visitors to Japan from April 2021 to March 2022 totaling 280,275 (down 99.0% from two years ago, before the impact of COVID-19, and up 15.7% year-on-year) and the number of Japanese leaving Japan totaling 602,464 (down 96.7% from two years ago, before the impact of COVID-19, and up 96.4% year-on-year) (April 2022, based on data from the Japan National Tourist Organization, compiled by the Company).

Under these circumstances, the domestic sales environment for the Group's AI-powered translation device POCKETALK remained challenging, but we have been engaged in activities aimed at steady marketing and sales as well as the creation of future demand. As a result, POCKETALK was adopted in financial institutions, nursery schools and kindergartens, which are increasingly catering to foreign residents in Japan, as well as by the Japan Pavilion at the Dubai International Expo 2020 (Dubai Expo) held in the United Arab Emirates (UAE) as a hospitality tool. Sales performance of POCKETALK in foreign countries, especially in the U.S., remained robust, and the actual sales volume of POCKETALK in the U.S. grew strongly with a 234.9% increase over the previous fiscal year. While the sales environment in Japan remained difficult due to a decline in outbound/inbound demand impacted by COVID-19, the growth of the POCKETALK business in the U.S. was driven by domestic demand backed by the needs of educational institutions, medical institutions, public institutions, and other businesses to respond to non-native speakers.

With the PC software POCKETALK Pair launched in December 2021, which instantly translates what people say during web conferences and displays it as subtitles on the screen, the use of POCKETALK has been expanded from face-to-face use to online use. From April 2022, as a subscription-type business model, we will expand the sales of POCKETALK Pair not only in Japan but also on a global scale to increase profitability.

To increase global awareness of the POCKETALK brand, we established POCKETALK CORPORATION as a new consolidated subsidiary of the Company through a company split (simplified incorporation-type) as of February 1, 2022 to accelerate global business expansion by acquiring necessary management resources and creating a quick decision-making system, and raised funds of 1.41 billion yen by the end of March (the valuation amount of the shares before the fundraising was 20 billion yen).

In April 2022, we released POCKETALK Apps as a new product lineup under the POCKETALK brand. At the same time, we concluded a business alliance with SoftBank Corp. for a campaign that offers Softbank and Y!mobile users to use the POCKETALK app (iOS/Android) free of charge for six months.

Meanwhile, Japan has started to accept Ukrainian refugees following Russia's invasion of Ukraine. We donated 1,000 units of POCKETALK to the Embassy of Ukraine and 100 units to Hyogo Prefecture in Japan, in order to assist in "breaking down language barriers" for the Ukrainian refugees and people who support them.

As for other IoT products, we launched a new brand KAIGIO as an IoT product for telework and remote meetings. KAIGIO MeePet was released in August 2021, and AutoMemo S, the latest version of a voice recorder that automatically transcribes voice using AI, was introduced in December 2021. Holding our brand mission "Redefining Meetings," we pushed forward the development of markets with our product lineup designed for improving the environment for meetings, including these products and Meeting Owl Pro, which is our 360-degree webcam for meetings. In April 2022, we launched a new lineup of KAIGIO series products, a 360-degree camera "KAIGIO CAM360." With high product quality and pricing that meets the needs of the domestic market, we will continue to develop the conference-related products market further.

In software, we promoted sales expansion of our three mainstay postcard creation software brands, FUDEMAME, FUDEOH and ATENA SHOKUNIN. We also released new products for several existing products including ezPDF and B's Recorder, which are our mainstay software products. Security products were impacted by a drop in demand following the special demand for telework-related products in the previous fiscal year, but sales in February and March achieved a similar level with the previous fiscal year due to the launch of ZERO Super Security for Windows and a promotion campaign at the Company's online shop.

As a result, although overseas sales of the Group's mainstay product POCKETALK grew compared to the previous fiscal year driven by the domestic demand, sales for the current fiscal year decreased by 19.8% year on year to 10.307 billion yen as demand in Japan for overseas travelers and inbound businesses did not recover, Meeting OWL sales were lower than expected, and there was a reactionary decline following the special demand for telework in the previous fiscal year.

Assuming that the economic situation would remain uncertain, we selected the products that we wanted to focus on for sales in order to fundamentally review our company-wide strategy. We have been exploring the sales potential of various products centering on IoT products before and after the impact of the spread of COVID-19. Some products grew in sales as expected and showed market potential, but others did not grow as much as expected. As overseas and domestic economic activities are on the road to recovery, we have reviewed products that we should select and focus on, taking into consideration the future allocation of management resources. Then, we recorded an accelerated amortization of software and a product valuation loss for IoT products that we decided not to sell during the next fiscal year. As a result, cost of sales stood at 5,677 million yen (up 3.6% year on year), with gross profit of 4,630 million yen (down 37.2% year on year).

Regarding selling, general, and administrative expenses, personnel expenses and recruitment expenses increased for future business expansion, and expenses for system replacement and renewal of our online shop increased. On the other hand, we made efforts to curb expenses for advertising and sales promotion while taking into account the scope and impact of sales activities, which resulted in selling, general and administrative expenses of 6,890 million yen (down 2.3%). As a result, operating loss for the current fiscal year stood at 2,259 million yen (operating profit in the previous fiscal year was 540 million yen).

As for non-operating income and expenses, while expenses related to the financing of POCKETALK CORPORATION were incurred during the current fiscal year, we recorded foreign exchange gains due to the depreciating yen. As a result, ordinary loss for the current fiscal year stood at 2,128 million yen (ordinary profit in the previous fiscal year was 452 million yen) Regarding extraordinary gains and losses, we determined that excess earning power at multiple investment locations decreased compared to when shares were acquired during the COVID-19 pandemic, and therefore recorded these as impairment loss on investment securities, resulting in extraordinary losses of 1,203 million yen (extraordinary loss in the previous fiscal year was 35 million yen). We also reviewed the recoverability of deferred tax assets and recorded a valuation allowance for deferred tax assets that exceeded the range of taxable income before adding/deducting temporary differences based on earning capacity in reasonably estimated future periods, resulting in income taxes of 171 million yen (income taxes in the previous fiscal year was 227 million yen).

As a result, loss attributable to owners of parent was 3,502 million yen (profit attributable to owners of parent in the previous fiscal year was 191 million yen).

The business of the Group consists of a single segment of planning, development and sales of IoT products and software as well as other services. An overview of operations of each sales channel is provided below.

a) The Company's online shop

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

The sales environment remained severe, as cross-border travel has been restricted due to the worldwide spread of COVID-19, which led to a significant decline and slow recovery in inbound demand and outbound demand from Japanese travelers for POCKETALK. Beyond that, the Tokyo Olympic and Paralympic Games were held without spectators and there was no Olympics-related demand. Under these circumstances, we worked on various campaign measures to maintain POCKETALK sales.

Regarding software products, updates to the postcard creation software FUDEOH, FUDEMAME, and ATENA SHOKUNIN were released, and sales of upgrades from the old version were good. As a result, sales of postcard creation software, centered on the three brands of New Year's greeting card creation software, were at the same level as the previous fiscal year. As for security software and other software products, despite sales promotion activities through various campaigns, the overall sales declined in the current fiscal year as the impact of stay-at-home demand and the special demand for telework-related products in the previous fiscal year subsided, and domestic PC shipments declined significantly compared to the previous fiscal year.

As a result, net sales stood at 4,380 million yen, down 21.2% 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.

Due to the impact of long-term restrictions on outings as a result of the spread of COVID-19, there was a decline in sales performance at stores in the current fiscal year. In addition, both hardware and software products continued to face difficult conditions due to the continued decline in inbound demand and overseas travel demand as well a drop in demand following the special demand for telework-related products in the previous year. Despite these circumstances, we implemented measures to increase the number of orders received, including the Hybrid Work Support Campaign to boost sales of Meeting OWL. As a result, net sales stood at 2,731 million yen, down 35.3% 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.

Although existing contracts for POCKETALK with corporations continued, the acquiring of new corporate customers was less successful than expected due to a decrease in the number of overseas travelers, resulting in a decline in orders received. With regard to providing and selling content for the all-you-can-use app subscription services with a fixed fee for major mobile carriers, advertising measures remained strong with some carriers, but our sales fell from the previous fiscal year due to a decline in advertising and the termination of services with some carriers. Meeting OWL, which enjoyed strong sales in the second half of the previous fiscal year, continued to be impacted by consumers who hold off purchases due to the long-term stay-at-home restrictions following the spread of COVID-19, but, after the lifting of the declaration of the state of emergency, inquiries for the product began to increase as hybrid work style (defined as a work style that combines in-person and remote work) gradually became more prevalent in society. In addition, the number of orders increased after we launched the Hybrid Work Support Campaign in December 2021 aimed at increasing sales. However, since sales were made at a reduced price, the contribution to profit was limited, resulting in net sales in this channel of 2,464 million yen, down 13.0% year on year.

d) Other

We are expanding overseas sales of POCKETALK mainly through Amazon in the US and Europe. Although sales of POCKETALK declined due to the COVID-19 pandemic, orders and sales have been recovering with the reopening of economic activities mainly in the U.S. Especially in the U.S., after it was announced in August 2021 that POCKETALK is compliant with the HIPAA (Health Insurance Portability and Accountability Act), the awareness of its high-level security increased, which led to large-scale corporate transactions in the current fiscal year. The declaration of HIPAA compliance has been highly effective, and we have continued to receive inquiries and orders for large-scale corporate transactions since then. Beyond the HIPAA compliance effects, Newsweek selected us as one of the "In Good Company: 50 U.S. Businesses That Stood Out During the Pandemic" last fiscal year. Since then, sales on Amazon reached a record high as organic demand from individuals and corporations increased against the backdrop of the growing brand recognition of POCKETALK itself. Sales in the U.S. for the current fiscal year greatly exceeded those of the previous fiscal year, with net sales of 608 million yen (up 266.9% year on year). As a result, net sales in “Other” stood at 731 million yen, up 208.6% year on year.

In addition, in response to Russia’s invasion of Ukraine, our subsidiaries in Europe donated over 300 units of POCKETALK to Poland to support Ukrainian refugees.

(Financial position)

Total assets as of the end of the current fiscal year stood at 19,981 million yen, a decrease of 350 million yen compared with the end of the previous fiscal year. Main factors were an increase in cash and deposits of 671 million yen, and a decrease of 573 million yen in accounts receivable.

Total liabilities as of the end of the current fiscal year stood at 10,022 million yen, an increase of 2,055 million yen compared with the end of the previous fiscal year. Main factor was the increase in short-term borrowing of 2.3 billion yen related to the production and purchase of IoT products.

Net assets as of the end of the current fiscal year stood at 9,959 million yen, a decrease of 2,405 million yen compared with the end of the previous fiscal year. This decrease was due mainly to a decrease in retained earnings of 3,778 million yen, which offsets an increase in capital surplus of 1,238 million yen resulting from third-party allocation of shares in consolidated subsidiaries and other factors.

(Cash flows)

(Thousands of yen)

	Full year		Change
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	
Cash flows from operating activities	(639,416)	(330,875)	308,541
Cash flows from investing activities	(2,755,211)	(2,938,066)	(182,855)
Cash flows from financing activities	4,271,099	3,820,313	(450,786)
Cash and cash equivalents at end of period	4,779,954	5,451,092	671,137

Cash and cash equivalents as of the end of the current fiscal year amounted to 5,451 million yen, an increase of 671 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 330 million yen, a decrease in cash used of 308 million yen year on year.

The main factors were a decrease of 323 million yen in expenditures as a result of a decrease in unearned revenue, and a decrease of 610 million yen in payments such as for corporate income taxes.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 2,938 million yen, an increase of 182 million yen in outflows compared to the previous fiscal year.

This was mainly due to an increase of 337 million yen in spending for software acquisition.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 3,820 million yen, a decrease in cash provided of 450 million yen year on year.

This was mainly due to 1,000 million yen decrease in net increase for short-term borrowings, and income of 1,382 billion yen from payments by non-controlling shareholders via third-party allocation of shares for consolidated subsidiaries.

(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 7,940 million yen. Also, cash and cash equivalents at the end of the current fiscal year amounted to 5,451 million yen.

As the equity ratio, an indicator of financial stability, decreased by 12.1 percentage points from the previous fiscal year to 48.0% 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 7 million 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 1,341 million yen. This consisted mainly of 891 million yen for improvements to and purchases of software programs for sale, and 305 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2022

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	29,595	67,898	975,779	1,156,093	2,229,367	138〔7〕

Notes: 1. All amounts for the buildings above are for interior equipment, etc. in offices currently being leased.
2. No facility is currently out of service.
3. The number of employees indicates the number of working employees.
4. The number in the bracket in the “Number of employees” column refers to the yearly average number of temporary employees.
5. The business of the Group consists of a single segment.
6. 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, 2022

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	769,892	–	Own funds	April 2022	March 2023	-

Notes: 1. Increase in capacity after completion is not presented as a reasonable calculation is difficult.
2. 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

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

ii) Issued shares

Type	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2022)	Number of issued shares as of the date of filing (Shares) (June 21, 2022)	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	136,297,600	136,297,600	Listed on the First Section of the Tokyo Stock Exchange (as of the end of the fiscal year) Prime Market (as of the filling date)	The number of shares per share unit is 100 shares.
Total	136,297,600	136,297,600	–	–

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, 2022 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, 2022	As of May 31, 2022
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)	385 (Note 1)	376 (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)	154,000 (Note 1)	150,400 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	225 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	August 30, 2015 – August 29, 2023	Same as left
Issue price of shares and amount to be included in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 225 yen Amount to be included in capital: 113 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 5)	Same as left

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

	As of March 31, 2022	As of May 31, 2022
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, 2022	As of May 31, 2022
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)	602 (Note 1)	592 (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)	240,800 (Note 1)	236,800 (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, 2022	As of May 31, 2022
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, 2022	As of May 31, 2022
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)	1,147 (Note 1)	1,147 (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)	458,800 (Note 1)	458,800 (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, 2022	As of May 31, 2022
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)	329 (Note 2)	324 (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)	65,800 (Note 2)	64,800 (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, 2022	As of May 31, 2022
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)	1,001 (Note 3)	976 (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)	100,100 (Note 3)	97,600 (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, 2022	As of May 31, 2022
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)	1,275 (Note 3)	1,241 (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)	127,500 (Note 3)	124,100 (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, 2022	As of May 31, 2022
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)	503 (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)	50,300 (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, 2022	As of May 31, 2022
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)	1,288 (Note 3)	1,245 (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)	128,800 (Note 3)	124,500 (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

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, 2022	As of May 31, 2022
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

Resolved at the Board of Directors meeting held on June 17, 2021 (15th series)

	As of March 31, 2022	As of May 31, 2022
Category and number of people to whom stock options are granted (Persons)	3 Directors and 107 employees of the Company	Same as left
Number of share acquisition rights (Units)	4,311 (Note 3)	4,213 (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)	431,100 (Note 3)	421,300 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	333 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 18, 2023 – June 17, 2031	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: 333 yen Amount to be included in capital: 167 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 17, 2021 (1st series share-based remuneration)

	As of March 31, 2022	As of May 31, 2022
Category and number of people to whom stock options are granted (Persons)	4 Directors of the Company	Same as left
Number of share acquisition rights (Units)	1,406 (Note 3)	1,406 (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)	140,600 (Note 3)	140,600 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	1 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 18, 2024 – June 17, 2031	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: 1 yen Amount to be included in capital: 1 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 17, 2021 (3rd series US-JP tax-qualified share acquisition rights)

	As of March 31, 2022	As of May 31, 2022
Category and number of people to whom stock options are granted (Persons)	2 Directors of SOURCENEXT Inc. 5 employees of SOURCENEXT Inc.	Same as left
Number of share acquisition rights (Units)	985 (Note 3)	946 (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)	98,500 (Note 3)	94,600 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	333 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	June 18, 2023 – June 17, 2031	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: 333 yen Amount to be included in capital: 167 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 30, 2021 (16th series)

	As of March 31, 2022	As of May 31, 2022
Category and number of people to whom stock options are granted (Persons)	3 employees of the Company	Same as left
Number of share acquisition rights (Units)	113 (Note 3)	65 (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)	11,300 (Note 3)	6,500 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	324 yen per share (Note 4)	Same as left
Exercise period of share acquisition rights	July 31, 2023 – July 30, 2031	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: 324 yen Amount to be included in capital: 162 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 5)	Same as left

Notes: 1. The number of shares to be issued upon exercise of one share acquisition rights shall be 400.

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

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

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

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

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

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

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

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

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

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

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

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

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

   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
April 1, 2021 – March 31, 2022 (Note 1)	40,800	136,297,600	4,848	3,695,284	4,848	3,535,284

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, 2022

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)	–	11	37	186	45	92	48,190	48,561	–
Number of shares held (Units)	–	165,579	13,592	176,314	33,868	2,293	970,818	1,362,464	51,200
Shareholding ratio (%)	–	12.15	0.99	12.94	2.48	0.16	71.25	100.00	–

Note: 800,024 shares of treasury shares include 800,000 shares under “Individuals, etc.” and 24 shares under “Fractional shares.”

(6) Major shareholders

As of March 31, 2022

Name	Address	Number of Shares Held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	35,663,200	26.32
Yodobashi Camera Co., Ltd.	5-3-1 Shinjuku, Shinjuku-ku, Tokyo	14,438,400	10.65
The Master Trust Bank of Japan, Ltd. (Held in trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	13,733,800	10.13
Satomi Matsuda	Minato-ku, Tokyo	3,696,000	2.72
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	1,200,000	0.88
JP JPMSE LUX RE NOMURA INT PLC 1 EQ CO	1 ANGEL LANE LONDON-NORTH OF THE THAMES UNITED KINGDOM EC4R 3AB	884,000	0.65
SOURCENEXT Employee Stock Holding Partnership	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo	879,700	0.64
Custody Bank of Japan, Ltd. (Held in trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	760,000	0.56
Resource Co., Ltd.	9-7-7 Akasaka, Minato-ku, Tokyo	680,000	0.50
Custody Bank of Japan, Ltd. (Held in pension trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	527,500	0.38
Total	–	72,462,600	53.47

Notes:
1. The Company holds 800,024 shares of treasury shares but they are excluded from the above list of major shareholders.
2. 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 13,733,800 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 1,279,600 shares.
3. Resource Co., Ltd. is an asset management company in which Noriyuki Matsuda, Founder & CEO, Representative Director of the Company, and his relatives hold shares.

(7) Voting rights

i) Issued shares

As of March 31, 2022

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.)	Common shares 800,000	–	Standard shares without any limitations on the shareholders' rights
Shares with full voting rights (Other)	Common shares 135,446,400	1,354,464	Same as above
Fractional shares	Common shares 51,200	–	Same as above
Total number of issued shares	136,297,600	–	–
Total number of voting rights	–	1,354,464	–

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

ii) Treasury shares, etc.

As of March 31, 2022

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 (%)
SOURCENEXT Corporation	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo	800,000	–	800,000	0.58
Total	–	800,000	–	800,000	0.58

2. Acquisitions, etc. of treasury shares

Classes of shares, etc. Acquisition of common shares that falls under Article 155, item 3 of the Companies Act

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Acquisition under the provisions of Article 156 of the Companies Act as applied by replacing the provision of Article 165, paragraph 3 of the said act.

Category	Number of shares (Shares)	Total value (Yen)
Resolutions adopted by the Board of Directors (October 27, 2021) (Acquisition period: October 28, 2021 – November 2, 2021)	800,000	200,000,000
Treasury shares acquired prior to the current fiscal year	–	–
Treasury shares acquired during the current fiscal year	800,000	163,118,900
Total number and value of remaining shares under resolution	–	36,881,100
Ratio of exercisable shares as of the final day of the current fiscal year (%)	–	–
Treasury shares acquired during the period from April 1, 2022 until the filing date of this Annual Securities Report	–	–
Ratio of exercisable shares as of the filing date of this Annual Securities Report (%)	–	–

(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, 2022		From April 1, 2022 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	800,024	–	800,024	–

Note: The number of treasury shares held in the period “From April 1, 2022 until the filing date of this Annual Securities Report” does not include shares through purchase or sale of fractional shares from June 1, 2022 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 regrettably decided to suspend dividend payouts for the fiscal year ended March 31, 2022, as the Company recorded a net loss for the year.

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

4. Explanation about corporate governance, etc.

(1) Overview of corporate governance

i) Basic philosophy on corporate governance

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

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

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

The Board of Directors is composed of eight Directors. It is designated as the organizational structure which deliberates on and determines matters provided for by the Companies Act and key issues, etc. related to the management of the Company. As a rule, meetings of the Board of Directors are held once a month. Auditors attend all meetings of the Board of Directors and provide their opinions. The Board of Auditors is designated as the organizational structure which comprehensively checks the legality and efficiency of management. As a rule, meetings of the Board of Auditors are held once a month. Two of the 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, four of the eight Directors are Outside Directors. The objective of this is to bring in perspectives from outside of management, strengthen corporate governance even more, and further reinforce the function of supervising the execution of operations.

The 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.

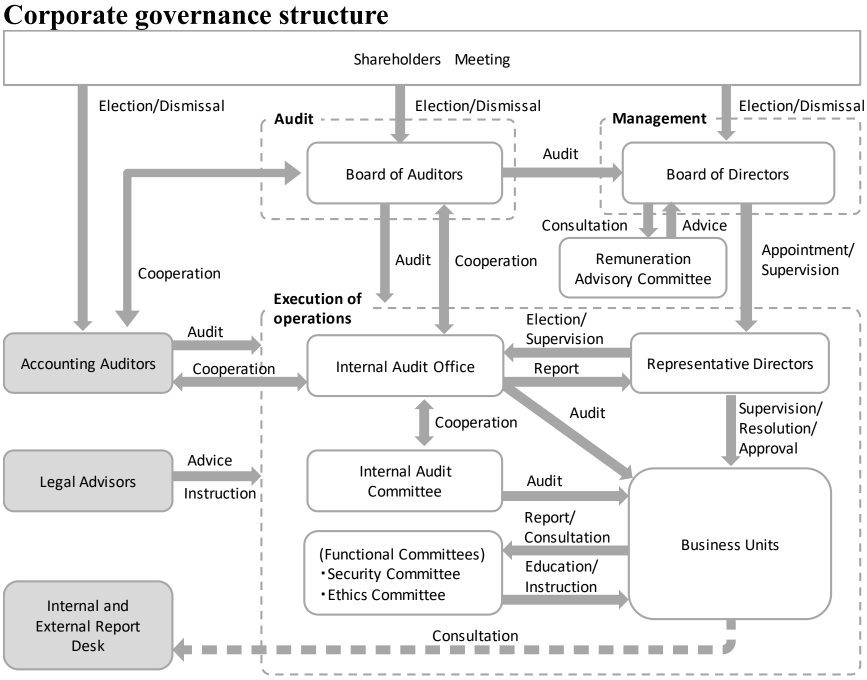
Members of each organizational body are as below.

(◎ 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	○		○
Outside Director (Independent Director)	Aiko Oue	○		○
Auditor	Masaaki Hirose	□	◎	
Outside Auditor (Independent Director)	Tetsuya Kobayashi	□	○	
Outside Auditor (Independent Director)	Maho Kinami	□	○	

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 (excluding Outside Directors) and all employees of the Group, which we offered on a total of six 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 twice a year.

The Company has also established an Internal Reporting System under which employees (including former employees who have resigned from the Company within one year) may, under their own names or anonymously, report any violations of laws, regulations, or internal rules, or any suspected violations of such laws, regulations, or internal rules to an independent third party who has no vested interest in the Company, or to the Company through the internal report desk. The Internal Reporting System has been widely publicized in order to ensure that the compliance function works adequately and effectively. The Company has also established a new internal report desk with a Standing Auditor as a contact person, and developed a system for receiving reports and investigating and correcting violations while securing its independence from senior management, thereby strengthening the compliance system.

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 is drawn up for each fiscal year by the Internal Audit Office, and is finalized upon obtaining the approval of the Board of Directors. Internal audit results overview is reported to the Board of Directors twice a 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 and evaluate these risks based on the two-axis assessment as to probability of occurrence and severity of loss. Items exposed to higher risk based on the risk evaluation 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, and Ikeda &Someya law firm, 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 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 six 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, Nobuhide Nakaido and Aiko Oue, and with the Auditors, Masaaki Hirose, Tetsuya Kobayashi and Maho Kinami, 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: 9, Female: 2 (Percentage of female Directors and Auditors: 18%)

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)	35,663,200
			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, the Company (current position)		
			Feb. 2022	President and CEO, POCKETALK CORPORATION (current position)		
President & COO (Representative Director)	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001	Joined the Company	(Note 5)	99,800
			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, US Co., Ltd. (formerly FUDEMAME Co., Ltd., liquidated in Nov. 2021)		
			Jan. 2019	Managing Director, Sourcenext B.V.		
			Apr. 2020	CEO, Sourcenext B.V. (current position)		
			Feb. 2021	President & COO, the Company (current position)		
Director & CSO	Kousuke Fujimoto	Sep. 9, 1964	Oct. 1988	Joined Recruit Co., Ltd.	(Note 5)	147,600
			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	Senior Managing Director, the Company		
			Apr. 2022	Director & CSO, the Company (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Director & CFO	Fumihiko Aoyama	Aug. 3, 1967	Oct. 1991	Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC)	(Note 5)	243,100
			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, EUS Co., Ltd. (formerly FUDEMAME Co., Ltd., liquidated in Nov. 2021)		
			Feb. 2021	Managing Director & CFO, the Company		
			Apr. 2022	Director & CFO, the Company (current position)		
Director	Hideaki Kubori	Aug. 29, 1944	Apr. 1971	Registered as Attorney-at-Law Joined Mori Sogo	(Note 5)	42,300
			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.) Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)		
			Jun. 2014	Outside Director, the Company (current position)		
			Apr. 2015	Professor, Toin Law School		
			Apr. 2018	Outside Director, Coincheck, Inc. (current position)		
			Apr. 2021	Visiting professor, Graduate School of Law, Toin University of Yokohama/Head of Toin Compliance Research Education Center (current position)		

Title and Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Director	Kunitake Ando	Jan. 1, 1942	Apr. 1969	Joined Sony Corporation (currently Sony Group Corporation)	(Note 5)	24,600
			Aug. 1979	Representative Director, Sony Prudential Life Insurance Co., Ltd.		
			Apr. 1990	President, Sony Corporation of America President, Sony Engineering and Manufacturing of America		
			Apr. 2000	Representative Director and President, Sony Corporation (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)
Director	Nobuhide Nakaido	Nov. 1, 1946	Apr. 1971	Joined Sumitomo Corporation	(Note 5)	7,800
			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)		
			Mar. 2022	External Director, JAC Recruitment Co., Ltd. (current position)		

<table>
<tr><th>Title and Position</th><th>Name</th><th>Date of Birth</th><th colspan="2">Career Summary</th><th>Term</th><th>Number of Shares Held (Shares)</th></tr>
<tr><td>Director</td><td>Aiko Oue</td><td>Aug. 23, 1975</td><td>Jan. 2017
Apr. 2017
Jan. 2020
May 2020
Jan. 2022
Jun. 2022</td><td>Registered as Attorney-at-Law Joined Nakamoto Law Office
Part-time officer, Secretariat, Public Interest Corporation Commission, Cabinet Office, Government of Japan
Joined Kaikai kiki Co., Ltd.
Outside Director, Kakiyasu Honten Co., Ltd. (current position)
Returned to Nakamoto Law office (current position)
Outside Director, the Company (current position)</td><td>(Note 5)</td><td>–</td></tr>
<tr><td>Standing Auditor</td><td>Masaaki Hirose</td><td>Aug. 26, 1948</td><td>Apr. 1971
Apr. 2005
Jun. 2008
Jun. 2016
Jun. 2017
Mar. 2018</td><td>Joined Suruga Bank Ltd.
Managing Executive Officer, Suruga Bank Ltd.
Standing Auditor, Suruga Bank Ltd.
Senior Executive Advisor, Suruga Bank Ltd.
Full-time Auditor, the Company (current position)
Auditor, Solve Co., Ltd. (current position)</td><td>(Note 6)</td><td>49,100</td></tr>
</table>

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)		
			Jun. 2021	Outside Director, Toyo Suisan Kaisha,Ltd. (current position)		
Auditor	Maho Kinami	Feb. 14, 1976	Apr. 1998	Joined Starbucks Coffee Japan	(Note 7)	–
			Dec. 2010	Registered as Attorney-at-Law Joined Zaoo Law Office		
			Dec. 2017	Outside Director, Noevir Holdings Co., Ltd. (current position) Representative of Kinami Law Office (current position)		
			Jun. 2019	Outside Director, Advanex Inc.		
			Jun. 2022	Outside Auditor, the Company (current position)		
Total						36,277,500

Notes: 1. Directors, Hideaki Kubori, Kunitake Ando, Nobuhide Nakaido and Akiko Oue, are Outside Directors.

2. Auditors, Tetsuya Kobayashi and Maho Kinami, are Outside Auditors.

3. The Company introduced the CXO system as of April 1, 2022, to strengthen the business execution system in preparation for future global expansion. There are four Directors serving concurrently as CXOs, and six CXOs.

4. At the Annual Shareholders Meeting on June 20, 2022, 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.	
		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 of Sophia Law School (current position) Outside Director, Noevir Holdings Co., Ltd. (current position)	
		Dec. 2021	Outside Corporate Auditor, Noevir Holdings Co., Ltd.	

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, 2022 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2023.
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, 2022 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2026.
8. Number of shares held is as of March 31, 2022.

ii) Information about Outside Directors and Auditors

The Company has four 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 four 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. He also serves as Outside Director of 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, Outside Director of eSOL Co., Ltd. and External Director of JAC Recruitment Co., Ltd. There are no capital or business relationships between any of these companies and the Company.

Aiko Oue is an attorney-at-law and has no business relationships with or interests in the Company. She serves as Outside Director of Kakiyasu Honten Co., Ltd. There are no capital or business relationships between the company 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. He serves as Outside Director of Toyo Suisan Kaisha,Ltd. There are no capital or business relationships between the company and the Company.

Maho Kinami is an attorney-at-law and has no business relationships with or interests in the Company. She also serves as Outside Director of Noevir Holdings Co., Ltd. There are no capital or business relationships between the company and 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
Masaaki Hirose	13	13
Tetsuya Kobayashi	13	13
Kakuji Takano	13	13

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	3 years
Designated Partner Engagement Partner	Tetsuro Iwase	PricewaterhouseCoopers Kyoto	1 year

B. Number of terms of continuous auditing

3 years

C. Breakdown of auditing assistants who executed the audit duties

Certified Public Accountants	5 persons
Other	9 persons

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

D. 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.

E. Audit firm evaluation by Auditors and Board of Auditors

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

iv) Details of audit fee, etc.

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

Category	Fiscal year ended March 31, 2021		Fiscal year ended March 31, 2022	
	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	26,000	–	27,000	–
Consolidated subsidiaries	–	–	–	–
Total	26,000	–	27,000	–

B. Remuneration to organizations that belong to the same network of certified public accountants, etc. for audits (excluding remuneration described in the item A. 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 Company has resolved at the Board of Directors meeting to adopt a "Policy for determining the details of remuneration, etc. for individual Directors" (hereinafter referred to as the "Determination Policy"). The details of the Determination Policy

1. 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.

   a. Basic remuneration

   The basic remuneration is established, within the total amount of remuneration resolved at the General Meeting of Shareholders, as an amount in accordance with the scope of responsibility or duties of each Director. The amount is reviewed annually based on factors such as business performance and level of contribution, and ability to drive strategy and planning.

   b. Performance-based compensation

In order to provide an incentive to improve business performance for each fiscal year, performance-based remuneration is provided to Directors who execute the Company's business operations. Performance-based compensation is calculated based on profit attributable to owners of parent for each fiscal year as a performance indicator and using a coefficient.

c. Stock options

In order to increase the linkage between Directors' remuneration and medium- to long-term business performance and to provide appropriate motivation for the sustainable enhancement of corporate value, stock options are granted to Directors who execute the Company's business operations. The number of shares to be granted shall be calculated by the Board of Directors in accordance with the policy for determining the ratio of each type of compensation described below, based on factors such as position, duties, and stock price.

2. A guide for the allocation ratio is 50% for fixed compensation, 20% for performance-based compensation and 30% for stock options, and appropriate amounts are granted to each Director according to his/her position and achievement of targets.
3. Basic remuneration is paid every month. Performance-based compensation and stock options are granted at a certain time each year after the Board of Directors determines the amount and the number of share acquisition rights to be granted at a meeting held after the conclusion of Annual Shareholders Meeting.
4. Upon resolution at the Board of Directors, the Company has established the Remuneration Advisory Committee. The details of remuneration, etc. for Directors are resolved at the Board of Directors based on the deliberations and decisions of the Remuneration Advisory Committee.

B. Reasons why the Board of Directors has determined that the details of remuneration, etc. for individual Directors for the current fiscal year are in line with the Determination Policy

The Remuneration Advisory Committee, the majority of which are composed of Outside Directors, determined the draft amount of remuneration for each Director for the current fiscal year based on the Determination Policy, comprehensively taking into consideration the scope of responsibility or duties of each Director, business performance and level of contribution. The draft was deliberated and resolved at the Board of Directors meeting. Since the amount of remuneration was determined through these procedures, the Board of Directors has determined that the amount of remuneration for each Director for the current fiscal year is in line with the Determination Policy.

C. Remuneration, etc. for Auditors

The structure of remuneration, etc. for Auditors is made of basic remuneration only.

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	Performance-based compensation	Non-monetary compensation, etc.	
Directors (excluding Outside Directors)	105,641	83,722	–	21,919	4
Auditors (excluding Outside Auditors)	9,600	9,600	–	–	1
Outside Directors and Auditors	40,800	40,800	–	–	5

Note: Non-monetary compensation, etc. consist of stock options for three Directors and share-based-remuneration-type stock options for four Directors.

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	10	1,591,605
Stocks other than unlisted stocks	2	26,380

(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	2	1,146,268	To maintain and strengthen business relationships
Stocks other than unlisted stocks	–	–	–

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

	Number of issues (Issue)	Total sales proceeds associated with decrease in shares (Thousands of yen)
Unlisted stocks	–	–
Stocks other than unlisted stocks	–	–

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

Issue	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021	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)		
JNS HOLDINGS INC.	39,000	39,000	To maintain and strengthen business relationships	No
	16,770	23,088		
Joshin Denki Co., Ltd.	5,000	5,000	To maintain and strengthen business relationships	No
	9,610	15,800		

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, 2021 to March 31, 2022 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.

1. Consolidated financial statements, etc.

(1) Consolidated financial statements

i) Consolidated balance sheet

(Thousands of yen)

		Previous fiscal year (As of March 31, 2021)		Current fiscal year (As of March 31, 2022)
Assets				
Current assets				
Cash and deposits		4,779,954		5,451,092
Accounts receivable - trade		2,023,666		1,449,992
Merchandise and finished goods		4,330,530		4,246,913
Raw materials and supplies		162,184		114,632
Advance payments to suppliers		1,086,338		1,090,203
Income taxes refund receivable		295,454		28,155
Other		787,674		465,457
Total current assets		13,465,804		12,846,446
Non-current assets				
Property, plant and equipment				
Buildings		179,751		163,323
Accumulated depreciation		(142,747)		(133,345)
Buildings, net		37,004		29,977
Vehicles		7,291		8,060
Accumulated depreciation		(6,635)		(7,698)
Vehicles, net		655		362
Tools, furniture and fixtures		209,285		220,557
Accumulated depreciation		(141,851)		(151,379)
Tools, furniture and fixtures, net		67,434		69,177
Total property, plant and equipment		105,094		99,517
Intangible assets				
Software		1,427,821		1,293,786
Goodwill		154,062		14,425
Contract based intangible assets		1,233,597		1,156,093
Other		115,311		551,570
Total intangible assets		2,930,793		3,015,876
Investments and other assets				
Investment securities	*	3,047,842	*	3,306,741
Deferred tax assets		604,625		535,605
Other		177,356		177,218
Total investments and other assets		3,829,824		4,019,565
Total non-current assets		6,865,712		7,134,959
Total assets		20,331,517		19,981,406

(Thousands of yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	784,398	430,515
Short-term borrowings	3,300,000	5,600,000
Current portion of long-term borrowings	722,000	691,080
Accounts payable - other	741,953	774,939
Income taxes payable	625	23,418
Unearned revenue	613,039	389,972
Provision for bonuses	48,064	82,587
Provision for sales returns	91,889	–
Provision for point card certificates	43,160	–
Other	193,647	263,688
Total current liabilities	6,538,779	8,256,202
Non-current liabilities		
Long-term borrowings	1,296,000	1,649,900
Long-term unearned revenue	132,073	116,043
Total non-current liabilities	1,428,073	1,765,943
Total liabilities	7,966,852	10,022,145
Net assets		
Shareholders’ equity		
Share capital	3,690,436	3,695,284
Capital surplus	4,270,463	5,509,249
Retained earnings	4,191,998	413,880
Treasury shares	(3)	(163,122)
Total shareholders’ equity	12,152,894	9,455,292
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	41,403	61,232
Foreign currency translation adjustment	18,569	66,515
Total accumulated other comprehensive income	59,972	127,747
Share acquisition rights	151,797	200,159
Non-controlling interests	–	176,061
Total net assets	12,364,664	9,959,260
Total liabilities and net assets	20,331,517	19,981,406

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

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2020 to March 31, 2021)		Current fiscal year (From April 1, 2021 to March 31, 2022)
Net sales		12,851,060	*1	10,307,741
Cost of sales	*2	5,479,211	*2	5,677,287
Gross profit		7,371,848		4,630,453
Provision for sales returns		91,889		–
Reversal of provision for sales returns		314,416		–
Gross profit - net		7,594,375		4,630,453
Selling, general and administrative expenses				
Promotion expenses		722,692		403,379
Salaries		905,530		987,464
Provision for bonuses		48,064		82,587
Outsourcing expenses		2,058,806		2,107,271
Advertising expenses		1,077,224		1,104,240
Other	*3	2,241,795	*3	2,205,175
Total selling, general and administrative expenses		7,054,114		6,890,118
Operating profit (loss)		540,260		(2,259,664)
Non-operating income				
Interest income		20,685		23,207
Dividend income		740		87,690
Foreign exchange gains		2,079		155,569
Gain on investments in silent partnerships		–		29,149
Other		2,788		8,610
Total non-operating income		26,293		304,227
Non-operating expenses				
Interest expenses		8,817		21,060
Share of loss of entities accounted for using equity method		86,908		111,234
Share issuance costs		–		27,360
Loss on investments in silent partnerships		17,818		–
Other		199		12,970
Total non-operating expenses		113,743		172,624
Ordinary profit (loss)		452,810		(2,128,061)
Extraordinary income				
Gain on reversal of share acquisition rights		625		1,005
Total extraordinary income		625		1,005
Extraordinary losses				
Loss on valuation of investment securities		–		1,203,866
Business restructuring expenses	*4	35,274		–
Total extraordinary losses		35,274		1,203,866
Profit (loss) before income taxes		418,161		(3,330,921)
Income taxes - current		8,820		2,785
Income taxes - refund		(16,987)		–
Income taxes - deferred		235,226		169,131
Total income taxes		227,059		171,916
Profit (loss)		191,101		(3,502,838)
Profit (loss) attributable to owners of parent		191,101		(3,502,838)

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Profit (loss)	191,101	(3,502,838)
Other comprehensive income		
Valuation difference on available-for-sale securities	45,732	19,828
Foreign currency translation adjustment	33,359	47,945
Total other comprehensive income	* 79,091	* 67,774
Comprehensive income	270,193	(3,435,064)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	270,193	(3,435,064)
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

Previous 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

Current fiscal year (From April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,690,436	4,270,463	4,191,998	(3)	12,152,894
Cumulative effects of changes in accounting policies			(246,664)		(246,664)
Restated balance	3,690,436	4,270,463	3,945,333	(3)	11,906,229
Changes during period					
Issuance of new shares - exercise of share acquisition rights	4,848	4,848			9,696
Dividends of surplus			(28,613)		(28,613)
Loss attributable to owners of parent			(3,502,838)		(3,502,838)
Purchase of treasury shares				(163,118)	(163,118)
Change in ownership interest of parent due to transactions with non-controlling interests		1,233,938			1,233,938
Net changes in items other than shareholders' equity					–
Total changes during period	4,848	1,238,786	(3,531,452)	(163,118)	(2,450,937)
Balance at end of period	3,695,284	5,509,249	413,880	(163,122)	9,455,292

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	41,403	18,569	59,972	151,797	–	12,364,664
Cumulative effects of changes in accounting policies						(246,664)
Restated balance	41,403	18,569	59,972	151,797	–	12,117,999
Changes during period						
Issuance of new shares - exercise of share acquisition rights						9,696
Dividends of surplus						(28,613)
Loss attributable to owners of parent						(3,502,838)
Purchase of treasury shares						(163,118)
Change in ownership interest of parent due to transactions with non-controlling interests						1,233,938
Net changes in items other than shareholders' equity	19,828	47,945	67,774	48,362	176,061	292,198
Total changes during period	19,828	47,945	67,774	48,362	176,061	(2,158,738)
Balance at end of period	61,232	66,515	127,747	200,159	176,061	9,959,260

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Profit (loss) before income taxes	418,161	(3,330,921)
Depreciation	412,975	409,091
Amortization of software	517,429	695,983
Amortization of goodwill	139,637	139,637
Share-based payment expenses	34,877	52,505
Amortization of trademark right	24,320	4,803
Increase (decrease) in provision for bonuses	22,472	28,621
Interest and dividend income	(21,425)	(110,897)
Interest expenses	8,817	21,060
Share of loss (profit) of entities accounted for using equity method	86,908	111,234
Share issuance costs	–	27,360
Gain on reversal of share acquisition rights	(625)	(1,005)
Loss (gain) on valuation of investment securities	–	1,203,866
Business restructuring expenses	35,274	–
Decrease (increase) in trade receivables	339,311	578,726
Decrease (increase) in inventories	(1,270,963)	156,180
Decrease (increase) in advance payments to suppliers	470,392	(3,864)
Increase (decrease) in trade payables	363,427	(353,858)
Increase (decrease) in accounts payable - other	(2,413)	135,015
Increase (decrease) in unearned revenue	(546,359)	(223,066)
Increase (decrease) in long-term unearned revenue	(227,329)	(16,030)
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	(497,904)	230,718
Other, net	(333,282)	(427,693)
Subtotal	(26,298)	(672,535)
Interest and dividends received	26,176	84,100
Interest paid	(10,383)	(23,363)
Income taxes paid	(628,911)	(18,083)
Income taxes refund	–	299,007
Net cash provided by (used in) operating activities	(639,416)	(330,875)
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,347)	(60,933)
Purchase of software	(1,046,552)	(1,383,951)
Purchase of other intangible assets	(12,220)	–
Purchase of investment securities	(1,680,090)	(1,493,181)
Net cash provided by (used in) investing activities	(2,755,211)	(2,938,066)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,300,000	2,300,000
Proceeds from long-term borrowings	1,500,000	1,100,000
Repayments of long-term borrowings	(497,000)	(777,020)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,490	6,558
Purchase of treasury shares	–	(163,118)
Proceeds from share issuance to non-controlling shareholders	–	1,382,640
Dividends paid	(34,390)	(28,746)
Net cash provided by (used in) financing activities	4,271,099	3,820,313
Effect of exchange rate change on cash and cash equivalents	4,804	119,766
Net increase (decrease) in cash and cash equivalents	881,275	671,137
Cash and cash equivalents at beginning of period	3,898,678	4,779,954
Cash and cash equivalents at end of period	* 4,779,954	* 5,451,092

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 POCKETALK CORPORATION
SOURCENEXT Inc.
Sourcenext B.V.
Rosetta Stone Japan, Inc.

Of the above, POCKETALK CORPORATION was included in the scope of consolidation because it was newly established through an incorporation-type split during the current fiscal year.

EUS Co., Ltd., which was a consolidated subsidiary in the previous fiscal year, was excluded from the scope of consolidation following its liquidation.

SOURCENEXT Inc. changed its name to POCKETALK Inc. in May 2022. Sourcenext B.V. is in the process of changing its name to POCKETALK B.V.

(2) Names of non-consolidated subsidiaries

Not applicable.

2. Application of equity method

Number of associates accounted for using the equity method 2 companies

Name of associate UMEOX Innovations Co., Ltd.
PB Inc.

Of the above, PB Inc. was included in the scope of associate accounted for using the equity method because SOURCENEXT Inc. acquired the shares of PB Inc., during the current fiscal year. The deemed acquisition date is the end of the current fiscal year.

3. Fiscal years, etc. of consolidated subsidiaries

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

Company name	Balance sheet date
POCKETALK CORPORATION	December 31 *
SOURCENEXT Inc.	December 31 *
Sourcenext B.V.	December 31 *
Rosetta Stone Japan, Inc.	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 other than stocks without market prices

Stated at fair value (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).

Stocks without market prices

Stated at cost using the moving-average method.

Investments in limited liability investment partnerships and other similar partnerships, which are deemed as investment securities under Article 2, paragraph 2 of the Financial Instruments and Exchange Act, are recorded at the amount equivalent to its equity in such partnerships based on the most recent financial statements available depending on the report date stipulated in the partnership agreement.

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 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) Accounting policy for significant revenue and expenses

The Group plans, develops, and sells software products, including security software and postcard creation software, and hardware products such as POCKETALK, as well as provides other services, and acquires customers primarily through sales channels such as consumer electronics retailers, its own e-commerce site and corporate sales. The Group identifies performance obligation primarily as the delivery of products to customers and the provision of services over a certain period of time. The recognition criteria for significant revenues and expenses are as follows.

The consideration for the transaction is received generally within three months from the time when the performance obligation is satisfied and does not include a significant financial component.

1. Sale of finished goods

   For transactions in which finished goods are sold to customers, the Company has a performance obligation to deliver the finished goods based on a contract with the customer. For such transactions, revenue is recognized at the time when the finished goods are shipped, as the period from the time of shipment to the time when control of the products is transferred to the customer is a normal period of time.

2. Provision of services

   The Company provides communication services for POCKETALK and extended warranty services for finished goods, and has performance obligations to provide services over a certain period of time based on contracts with its customers. For such transactions, the Company recognizes revenue in equal amounts over the period during which the services are provided, as the performance obligation is satisfied over a certain period of time.

   When finished goods and services are sold together to customers, each good and service is treated as a separate performance obligation, and the transaction price is allocated based on the stand-alone selling price.

3. Sale with a right of return

   The Company sells its finished goods with a right of return primarily in transactions with consumer electronics retailers. For transactions with a right of return, the Company does not recognize revenue for the portion expected to be refunded to the customer.

4. Rebates

   The Company occasionally pays rebates to consumer electronics retailers and corporate customers in corporate sales. Revenue is calculated as the consideration promised in the contract with the customer, less rebates.

5. Point card certificates

   The Company provides the SOURCENEXT ePoint service on its own e-commerce site. When points are granted to customers, the Company identifies the portion for such point as a separate performance obligation and allocates the transaction price based on the stand-alone selling price calculated by taking into account the expected future expiration and other factors.

6. Proxy transactions

   Some sales transactions of certain finished goods, such as security, involve transactions in which the Group's role in providing goods or services to customers constitutes those of an agent. For transactions in which the Group acts as an agent, revenue is recognized at the amount of the gross consideration less amounts paid to third parties.

(5) 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.

(6) 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.

(Significant accounting estimates)

1. Valuation of unlisted stocks, etc.

(1) Amount recorded on the consolidated financial statements for the current fiscal year

(Thousands of yen)

	Previous fiscal year	Current fiscal year
Investment securities (Unlisted stocks, etc.)	2,238,918	1,591,605

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

The Company holds investment securities such as unlisted stocks without market prices.

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 recognized impairment loss on invested companies that had reduced excess earning power in the current fiscal year.

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. Recoverability of deferred tax assets

(1) Amount recorded on the consolidated financial statements for the current fiscal year

(Thousands of yen)

	Previous fiscal year	Current fiscal year
Deferred tax assets	604,625	535,605

(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.

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 as the impacts of COVID-19 will subside in the fiscal year ending March 31, 2023.

These estimates may be affected by the future situation of COVID-19 as well as 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.

Change in accounting policy

(Application of Accounting Standard for Revenue Recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, referred to as the "Revenue Recognition Standard"), etc. have been adopted from the beginning of the current fiscal year. Consequently, revenue is recognized when control of promised goods or services has been transferred to the customer at the amount expected to be received in exchange for those goods or services.

The main changes resulting from the application of Revenue Recognition Standard, and other accounting standards are as follows

1. Allocation of transaction price to performance obligations

   For finished goods that are sold together with communication service, transaction prices were previously allocated based on a reasonable standard, but this has been changed to a method whereby transaction prices are allocated based on the ratio of the stand-alone selling price.

2. Consideration paid to customer

   Rebates and other consideration paid to customers were previously accounted for as selling, general and administrative expenses, but this has been changed to a method whereby these are deducted from transaction price.

3. Extended warranty service

   For Extended warranty service, revenue was previously recognized at the time of sale, but this has been changed to a method whereby revenue is recognized over the warranty period.

4. Sale with a right of return

   "Provision for sales returns" was previously recorded in current liabilities based on the amount equivalent to profit on sales, but this has been changed to a method whereby the Company does not recognize the amounts equivalent to net sales and cost of sales of finished goods expected to be returned, but instead, presents refund liabilities and return assets in "Other" under current liabilities and "Other" under current assets, respectively.

5. The Company's point system

   To prepare for the use of loyalty points given to customers, the Company previously recorded "Provision for point card certificates" at the amount expected to be used in the future, and deducted the amount of the said provision from revenue. However, this has been changed to a method whereby the points granted are identified as performance obligations and the transaction price is allocated based on the stand-alone selling price calculated by taking into account the expected future expiration and other factors, and point liabilities are included in "Other" under current liabilities.

6. Proxy transactions

   Revenue for the ZERO series products was previously recognized at the gross amount of consideration received from customers, but this has been changed to a method whereby revenue is recognized at the amount of the gross consideration less amounts paid to third parties.

The application of the Revenue Recognition Standard and other accounting standards is in accordance with the transitional treatment provided for in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effects of retrospective application of new accounting policies prior to the beginning of the current fiscal year have been adjusted in retained earnings at the beginning of the current fiscal year, and the new accounting policy has thereby been reflected in the said beginning balance.

As a result, in the consolidated statement of income for the current fiscal year, net sales decreased by 125,217 thousand yen, cost of sales decreased by 2,657 thousand yen, selling, general and administrative expenses decreased by 331,875 thousand yen, and operating loss, ordinary loss and loss before income taxes each decreased by 209,315 thousand yen, compared with those before the application of the Revenue Recognition Standard and other accounting standards. The beginning balance of retained earnings in the consolidated statements of changes in equity decreased by 246,664 thousand yen due to the cumulative effects reflected in net assets at the beginning of the current fiscal year.

The impact on per share information is stated in the relevant section.

In accordance with the transitional treatment provided for in paragraph 89-3 of the Accounting Standard for Revenue Recognition, notes to "Revenue recognition" for the previous fiscal year are not presented.

(Application of Accounting Standard for Fair Value Measurement)

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, referred to as the "Fair Value Measurement Standard") and other accounting standards have been applied from the beginning of the current fiscal year. In accordance with the transitional treatment provided for in paragraph 19 of the Fair Value Measurement Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company decided to prospectively apply the new accounting policies prescribed by the Fair Value Measurement Standard and other accounting standards. This change has no impact on the consolidated financial statements.

In the notes to "Financial instruments," the Company provides notes on items such as the breakdown of the fair value of financial instruments by the levels of fair value. However, in accordance with the transitional treatment stipulated in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), the said notes do not include information related to the previous fiscal year.

(New accounting standards to be applied)

- "Revised Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued by the Accounting Standards Board of Japan on June 17, 2021)

(1) Overview

"Revised Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) includes revisions to provisions that were, at the time of its release on July 4, 2019, set to be examined for around one year after the release of Accounting Standard for Fair Value Measurement, because a certain period of time is required for discussion, among other things, with related parties to study "calculation of the fair value of investment trusts," and a certain amount of study is also required on notes to the fair value of "investments in partnerships, etc., recorded on the balance sheet at the net amount equivalent to the ownership percentage."

(2) Scheduled date of application

The ASBJ Guidance will be applied at the start of the fiscal year beginning on April 1, 2022.

(3) Impacts of application of the accounting standards

The impact of the application of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" on the consolidated financial statements is currently under evaluation.

(Changes in presentation)

(Consolidated Balance Sheets)

"Accounts receivable - other," which was independently presented in the previous fiscal year, is included in "Other" under "Current assets" in the current fiscal year because it has become insignificant in terms of amount. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, in the consolidated balance sheets for the previous fiscal year, "Accounts receivable - other" of 96,948 thousand yen and "Other" of 690,726 thousand yen under "Current assets" have been reclassified to "Other" of 787,674 thousand yen under "Current assets."

(Consolidated Statements of Cash Flows)

In the previous fiscal year, "Increase (decrease) in provision for sales returns," "Increase (decrease) in provision for point card certificates" and "Provision for after cost periods adjustment" under "Cash flows from operating activities" were independently presented, but in the current fiscal year, they are included in "Other" because they have become insignificant in terms of amount. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, in the consolidated statements of cash flows for the previous fiscal year, “Increase (decrease) in provision for sales returns” of (222,527) thousand yen, “Increase (decrease) in provision for point card certificates” of (121,844) thousand yen and “Provision for after cost periods adjustment” of (18,799) thousand yen under “Cash flows from operating activities” have been reclassified to “Other.”

Consolidated balance sheet

* The item related to associates is as follows:

(Thousands of yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Investment securities (shares)	770,035	1,060,759

Consolidated statement of income

*1. Revenue from contracts with customers

Revenues are not broken down into revenues arising from contracts with customers and other revenues. The amount of revenue arising from contracts with customers is presented in “Notes (Revenue recognition), 1. Information on revenue broken down from contracts with customers.”

*2. 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, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Valuation loss on finished goods	51,278	501,934
Loss on abandonment of finished goods	29,901	7,670

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

(Thousands of yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Research and development expenses	14,543	7,943

*4. Business restructuring expenses

During the previous 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, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Valuation difference on available-for-sale securities		
Amount arising during the year	65,915	58,180
Reclassification adjustments	–	(29,599)
Before tax effects adjustments	65,915	28,580
Tax effects	(20,183)	(8,751)
Valuation difference on available-for-sale securities	45,732	19,828
Foreign currency translation adjustment		
Amount arising during the year	33,359	47,945
Reclassification adjustments	–	-
Before tax effects adjustments	33,359	47,945
Tax effects	–	-
Foreign currency translation adjustment	33,359	47,945
Total other comprehensive income	79,091	67,774

Consolidated statement of changes in equity

Previous 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, 14th series share acquisition rights, and 1st 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
June 18, 2020 Annual Shareholders Meeting	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

Current fiscal year (From April 1, 2021 to March 31, 2022)

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

Class of shares	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Issued shares				
Common shares (Note 1) (Shares)	136,256,800	40,800	–	136,297,600
Total	136,256,800	40,800	–	136,297,600
Treasury shares				
Common shares (Note 2) (Shares)	24	800,000	–	800,024
Total	24	800,000	–	800,024

Notes: 1. The increase of 40,800 shares in the total number of common shares issued resulted from the exercise of share acquisition rights as stock options.

2. The increase of 800,000 shares in the total number of treasury shares resulted from the acquisition of treasury shares based on resolution of the Board of Directors.

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, 2022 (Thousands of yen)
			As of April 1, 2021	Increase	Decrease	As of March 31, 2022	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	21,906
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	22,093
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	10,288
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	27,413
	11th series share acquisition rights as 2018 stock options	–	–	–	–	–	14,903
	12th series share acquisition rights as 2019 stock options	–	–	–	–	–	16,416
	13th series share acquisition rights as 2019 stock options	–	–	–	–	–	22,567
	1st series US-JP tax-qualified share acquisition rights as 2019 stock options	–	–	–	–	–	9,451
	14th series share acquisition rights as 2020 stock options	–	–	–	–	–	12,573
	2nd series US-JP tax-qualified share acquisition rights as 2020 stock options	–	–	–	–	–	5,417
	15th series share acquisition rights as 2021 stock options	–	–	–	–	–	20,835
	1st series share-based-remuneration-type share acquisition rights as 2021 stock options	–	–	–	–	–	10,535
	3rd series US-JP tax-qualified share acquisition rights as 2021 stock options	–	–	–	–	–	4,760
	16th series share acquisition rights as 2021 stock options	–	–	–	–	–	282
Total			–	–	–	–	200,159

Note: The first day of the exercise period has not arrived for the 14th, 15th, and 16th series share acquisition rights, 1st series share-based-remuneration-type and 2nd and 3rd 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 17, 2021	Common shares	28,613	0.21	March 31, 2021	June 18, 2021

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

Not applicable.

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, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Cash and deposits	4,779,954	5,451,092
Cash and cash equivalents	4,779,954	5,451,092

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

Because the calculation of fair values of financial instruments 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.

Previous fiscal year (As of March 31, 2021)

(Thousands of yen)

	Carrying amount	Fair value	Difference
Investment securities (*2)	38,888	38,888	–
Total assets	38,888	38,888	–
Long-term loans payable (*3)	2,018,000	2,018,097	97
Total liabilities	2,018,000	2,018,097	97

Current fiscal year (As of March 31, 2022)

(Thousands of yen)

	Carrying amount	Fair value	Difference
Investment securities (*2)	26,380	26,380	–
Total assets	26,380	26,380	–
Long-term loans payable (*3)	2,340,980	2,328,832	(12,147)
Total liabilities	2,340,980	2,328,832	(12,147)

(*1) “Cash and deposits,” “Accounts receivable-trade,” “Income taxes receivable,” “Accounts payable-trade,” “Short-term loans payable,” “Accounts payable-other” and “Income taxes payable” are omitted given that they are cash, and their fair value approximates their book value, as they are settled in a short time.

(*2) Stocks without market prices are not included in the above table. The consolidated balance sheet amounts of such financial instruments are as follows

(Thousands of yen)

Category	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Unlisted stocks, etc.	3,008,954	2,652,365

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

Notes: 1. Repayment schedule for long-term loans payable after the consolidated balance sheet date

Previous 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	–

Current fiscal year (As of March 31, 2022)

(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	691,080	520,080	520,080	445,080	164,660	–
Total	691,080	520,080	520,080	445,080	164,660	–

2. Matters regarding the breakdown of financial instruments by each fair value level

The fair value of financial instruments are categorized into the following three levels, in accordance with the observability and importance of the inputs used for the fair value measurement.

Level 1 fair value: Fair value measured based on the market price of assets or liabilities subjects to the measurement of such fair values formed in the active market, among the inputs concerning the measurement of observable fair value.

Level 2 fair value: Fair value measured using inputs related to the measurement of fair values other than the Level 1 inputs, among the inputs concerning the measurement of observable fair value.

Level 3 fair value: Fair value measured using inputs related to the measurement of unobservable fair value.

In cases where multiple inputs which have a material effect on the measurement of the fair value are used, the fair value is categorized at the level with the lowest priority in the fair value measurement, among the levels to which the respective input belongs.

(1) Financial instruments with the carrying amount recorded using the fair value

Current fiscal year (As of March 31, 2022)

Category	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Stocks	26,380	-	-	26,380
Total assets	26,380	-	-	26,380

(2) Financial instruments other than those with the carrying amount recorded using the fair value

Current fiscal year (As of March 31, 2022)

Category	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities Other securities Bonds	-	627,996	-	627,996
Total assets	-	627,996	-	627,996
Long-term loans payable	-	2,328,832	-	2,328,832
Total liabilities	-	2,328,832	-	2,328,832

Note: Explanation of the valuation methods and inputs used for the fair value measurement

Investment securities

Listed shares are measured using the market price. Because listed shares are traded on active markets, their fair value is categorized as a level 1 fair value. Meanwhile, bonds held by the Company are classified as Level 2 fair value because they are traded infrequently in the market and their market prices are not considered to be formed in an active market.

Long-term loans payable

The fair value is measured using the discounted present value method, whereby the total amount of principal and interests is discounted by the assumed interest rate that would be applied if the same loan were to be borrowed anew. Therefore, the fair value of long-term loans payable are classified as Level 2 fair value.

Securities

1. Other securities

Previous 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.

Current fiscal year (As of March 31, 2022)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	26,380	15,356	11,023
	(2) Bonds	–	–	–
	(3) Other	627,996	554,796	73,200
	Subtotal	654,376	570,152	84,223
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		654,376	570,152	84,223

Note: Unlisted stocks, etc. (carrying amount: 2,652,365 thousand yen) are not included in "Other" in the above table because they have no market prices.

2. Other securities sold

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

Not applicable.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Not applicable.

3. Securities for which impairment losses were recognized

In the current fiscal year, impairment loss of 1,203,866 thousand yen was recognized for available-for-sale securities.

For impairment treatment for stocks without market prices, 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.

Derivatives

Not applicable.

Retirement benefits

Not applicable.

Stock options, etc.

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

(Thousands of yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Selling, general and administrative expenses (Other)	34,877	52,505

2. Amount recognized as profit due to forfeited unexercised rights.

(Thousands of yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Gain on reversal of share acquisition rights	625	1,005

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

(1) Details of stock options

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

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)	2021 Stock Options (15th series)
Category and number of people to whom stock options are granted	3 employees of SOURCENEXT Inc.	3 Directors and 107 employees of the Company
Number of stock options by class of shares	Common shares: 55,500 shares	Common shares: 446,400 shares
Grant date	July 17, 2020	July 16, 2021
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 19, 2022 – June 18, 2030	June 18, 2023 – June 17, 2031

	2021 Stock Options (1st series share-based-remuneration-type)	2021 Stock Options (3rd series US-JP tax-qualified share acquisition rights)
Category and number of people to whom stock options are granted	4 Directors	2 Directors of SOURCENEXT Inc. 5 employees of SOURCENEXT Inc.
Number of stock options by class of shares	Common shares: 140,600 shares	Common shares: 98,500 shares
Grant date	July 16, 2021	July 16, 2021
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 18, 2024 – June 17, 2031	June 18, 2023 – June 17, 2031

	2021 Stock Options (16th series)
Category and number of people to whom stock options are granted	3 employees of the Company
Number of stock options by class of shares	Common shares: 15,200 shares
Grant date	August 27, 2021
Vesting conditions	Holders of the share acquisition rights are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.
Exercise period	July 31, 2023 – July 30, 2031

(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, 2022). 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, 2021			
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2021	160,000	4,800	247,200
Vested	–	–	–
Exercised	6,000	–	6,400
Forfeited	–	–	–
Exercisable	154,000	4,800	240,800

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, 2021	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2021	144,400	487,200	69,400
Vested	–	–	–
Exercised	–	28,400	–
Forfeited	–	–	3,600
Exercisable	144,400	458,800	65,800

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, 2021	104,100	132,600	53,400
Granted	–	–	–
Forfeited	700	900	–
Vested	103,400	131,700	53,400
Unvested	–	–	–
After vested (Shares)			
As of March 31, 2021	–	–	–
Vested	103,400	131,700	53,400
Exercised	–	–	–
Forfeited	3,300	4,200	–
Exercisable	100,100	127,500	53,400

	2020 Stock Options (14th series)	2020 Stock Options (2nd series US-JP tax-qualified share acquisition rights)	2021 Stock Options (15th series)
Before vested (Shares)			
As of March 31, 2021	141,100	55,500	–
Granted	–	–	446,400
Forfeited	12,300	–	15,300
Vested	–	–	–
Unvested	128,800	55,500	431,100
After vested (Shares)			
As of March 31, 2021	–	–	–
Vested	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Exercisable	–	–	–

	2021 Stock Options (1st series share-based-remuneration-type)	2021 Stock Options (3rd series US-JP tax-qualified share acquisition rights)	2021 Stock Options (16th series)
Before vested (Shares)			
As of March 31, 2021	–	–	–
Granted	140,600	98,500	15,200
Forfeited	–	–	3,900
Vested	–	–	–
Unvested	140,600	98,500	11,300
After vested (Shares)			
As of March 31, 2021	–	–	–
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)	231	–	232
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)	–	193	–
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)	2021 Stock Options (15th series)
Exercise price (Yen)	317	317	333
Average price per share upon exercise (Yen)	–	–	–
Fair value per share at grant date (Yen)	110.00	110.00	131.00

	2021 Stock Options (1st series share-based-remuneration-type)	2021 Stock Options (3rd series US-JP tax-qualified share acquisition rights)	2021 Stock Options (16th series)
Exercise price (Yen)	1	333	324
Average price per share upon exercise (Yen)	–	–	–
Fair value per share at grant date (Yen)	309.00	131.00	81.00

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2022

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

	2021 Stock Options (15th series)	2021 Stock Options (1st series share-based-remuneration-type)	2021 Stock Options (3rd series US-JP tax-qualified share acquisition rights)	2021 Stock Options (16th series)
Volatility of share price (Note 1)	48.70%	50.88%	48.70%	49.24%
Estimated exercisable period (Note 2)	5.93 years	2.93 years	5.93 years	5.93 years
Estimated dividend (Note 3)	0.21 yen per share	0.21 yen per share	0.21 yen per share	0.21 yen per share
Risk-free interest rate (Note 4)	(0.130)%	(0.141)%	(0.130)%	(0.119)%

Notes: 1. Calculated based on the actual share price in the period from August 14, 2015 to July 16, 2021 for the 15th series and the 3rd series US-JP tax-qualified share acquisition rights; from August 13, 2018 to July 16, 2021 for the 1st series share-based-remuneration-type stock options; and from September 24, 2015 to August 27, 2021 for the 16 the series.

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 0.21 yen based on the actual dividends paid for the fiscal year ended March 31, 2021.

4. Risk-free interest rates for the 15th and 16th series, and the 3rd series US-JP tax-qualified share acquisition rights are the yield of Japanese Government bonds on the redemption date of June 20, 2027, the measurement record date; and that for the 1st series share-based-remuneration-type stock options is the yield of Japanese Government bonds on the redemption date of June 20, 2024, the measurement record date.

5. Method for estimating the number of stock options vested

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

Tax effect accounting

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

(Thousands of yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Deferred tax assets		
Valuation loss on finished goods	30,947	166,848
Enterprise tax payable	–	4,769
Provision for sales returns	28,136	-
Provision for point card certificates	13,215	-
Depreciation	67,561	77,251
Amortization of software	13,820	39,432
Amortization of trademark right	21,309	15,962
Recognized value of tax sales	225,307	144,241
Tax loss carried forward (Note 2)	762,886	1,201,598
Loss on valuation of investment securities	–	368,623
Other	72,457	63,401
Subtotal deferred tax assets	1,235,643	2,082,130
Valuation allowance for tax loss carried forward (Note 2)	(591,513)	(1,118,695)
Valuation allowance for total of deductible temporary differences and others	(14,627)	(391,184)
Subtotal valuation allowance (Note 1)	(606,141)	(1,509,880)
Total deferred tax assets	629,501	572,249
Deferred tax liabilities		
Income taxes receivable	(6,603)	-
Valuation difference on available-for-sale securities	(18,272)	(27,023)
Other	–	(9,620)
Total deferred tax liabilities	(24,876)	(36,644)
Net deferred tax assets	604,625	535,605

Note: 1. The amount deducted from deferred tax assets (i.e. valuation allowance) has changed materially, mainly due to an increase in tax loss carried forward.

Note: 2. The amounts of tax loss carried forward and corresponding deferred tax assets by year of expiration

Previous 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

Current fiscal year (As of March 31, 2022)

	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 (*)	113,519	184,437	17,895	36,617	-	849,128	1,201,598
Valuation allowance	(112,468)	(182,829)	(16,287)	(36,617)	-	(770,492)	(1,118,695)
Deferred tax assets	1,051	1,608	1,608	-	-	78,636	82,903

(*) 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, 2021)	Current fiscal year (As of March 31, 2022)
Effective statutory tax rate	30.6	–
(Reconciliation)		
Permanently non-deductible items including entertainment expense	2.9	–
Per capita inhabitant taxes	1.0	–
Amortization of goodwill	10.2	–
Share of profit (loss) of entities accounted for using equity method	6.4	–
Elimination of dividend income	1.9	–
Income taxes - refund	(4.1)	–
Valuation allowance	5.3	–
Other	0.1	–
Effective tax rate after applying tax effect accounting	54.3	–

Note: For the current fiscal year, information is omitted because the Company posted a loss before income taxes for the period.

Business combination, etc.

Transactions under common control, etc.

(Company split)

Effective February 1, 2022, the Company spun off the Company’s AI-powered translation device and the POCKETALK brand business, which provides translation services, and transferred said businesses to the newly established POCKETALK CORPORATION.

1. Outline of transaction

(1) Name and description of the businesses subject to the Company split

All businesses related to the Company’s AI-powered translation device and POCKETALK, which provides translation services (planning, development, manufacture, licensing, sales, etc. of translation device and translation-related software)

(2) Date of company split

February 1, 2022

(3) Legal form of company split

A simplified incorporation-type company split in which the Company is the splitting company and the new company is the incorporated company.

(4) Name of company after company split

POCKETALK CORPORATION (the Company’s consolidated subsidiary)

(5) Other matters related to the outline of transaction

The incorporation-type company split aims to strengthen the POCKETALK business and increase the corporate value of the Group as a whole by building a decision-making structure for the future POCKETALK business that facilitates our response to customer needs globally, quickly, and flexibly.

2. Summary of accounting procedures

In accordance with the "Accounting Treatment for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," the company split was treated as a transactions under common control.

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.

Revenue recognition

1. Information on revenue broken down from contracts with customers

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. Information on revenue broken down from contracts with customers is provided below.

(1) By product category

(Thousands of yen)

	Current fiscal year (From April 1, 2021 to March 31, 2022)
POCKETALK	2,088,440
Security	779,508
Postcards	1,384,259
Soft and other	4,291,410
Hard and other	1,764,122
Total	10,307,741

(2) By sales channel

(Thousands of yen)

	Current fiscal year (From April 1, 2021 to March 31, 2022)
The Company's online shop	4,380,175
Consumer electronics retailers	2,731,843
Corporate Sales	2,464,196
Other	731,525
Total	10,307,741

2. Information that provides a basis for understanding revenue from contracts with customers

   The same as stated in the "Significant matters forming the basis of preparing the consolidated financial statements, 4. Accounting policies, (5) Accounting policy for significant revenue and expenses."

3. Relation between the fulfillment of performance obligations based on contracts with customers and cash flows arising from such contracts, as well as information on the amount and timing of revenue expected to be recognized in the following fiscal year and onwards based on contracts with customers existing as of the end of the current fiscal year

(1) Contract assets and contract liabilities

(Thousands of yen)

	Current fiscal year
Contract liabilities (as of April 1, 2021)	1,192,634
Contract liabilities (as of March 31, 2022)	527,265

Contract liabilities consist primarily of unearned revenues from customers for telecommunication services. Contract liabilities are reversed when recognizing revenue. Contract assets have been omitted because the balance amount is immaterial and no significant changes have occurred.

(2) Transaction price allocated to remaining performance obligations

There are no material contracts with an initial expected contract term of more than one year. Therefore, a practical expedient method has been applied to omit information. In addition, consideration arising from contracts with customers does not include material amounts excluded from the transaction price.

Segment information, etc.

Segment information

Previous 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.

Current fiscal year (From April 1, 2021 to March 31, 2022)

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, 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.

Current fiscal year (From April 1, 2021 to March 31, 2022)

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
97,760	1,757	99,517

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, 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.

Current fiscal year (From April 1, 2021 to March 31, 2022)

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, 2020 to March 31, 2021)

Not applicable.

Current fiscal year (From April 1, 2021 to March 31, 2022)

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, 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)	16,200	–	–

Current fiscal year (From April 1, 2021 to March 31, 2022)

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, 2022 (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)	16,200	–	–

Note: 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, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Net assets per share	89.63	70.72
Earnings (loss) per share	1.40	(25.77)
Diluted earnings per share	1.40	–

Note: 1. Even though the Company has dilutive shares, diluted earnings per share for the current fiscal year is not presented because a net loss per share was recorded for the period.

2. As stated in "Change in accounting policy," the "Accounting Standard for Revenue Recognition," and other accounting standards have been adopted. As a result, net assets per share and net loss per share for the current fiscal year decreased by 0.28 yen and 1.54 yen, respectively.

3. The basis for calculation of earnings (loss) per share and diluted earnings per share is as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Earnings (loss) per share		
Profit (loss) attributable to owners of parent (Thousands of yen)	191,101	(3,502,838)
Amounts not attributable to common shareholders (Thousands of yen)	–	-
Profit (loss) attributable to owners of parent related to common stock (Thousands of yen)	191,101	(3,502,838)
Average number of common shares outstanding during the period (Shares)	136,246,539	135,943,327
Diluted earnings per share		
Increase in number of common shares(Shares)	477,644	-
[Number of share acquisition rights included] (Shares)	(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): 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

Not applicable.

v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable.

Annexed consolidated detailed schedule of borrowings

Category	Balance as of April 1, 2021 (Thousands of yen)	Balance as of March 31, 2022 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	3,300,000	5,600,000	0.51	–
Current portion of long-term loans payable	722,000	691,080	0.41	–
Long-term loans payable (excluding current portion)	1,296,000	1,649,900	0.47	2026
Total	5,318,000	7,940,980	–	–

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	520,080	520,080	445,080	164,660

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, 2022

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	2,183,051	4,996,643	7,800,976	10,307,741
Profit (loss) before income taxes (Thousands of yen)	(623,560)	(511,717)	(852,534)	(3,330,921)
Loss attributable to owners of parent (Thousands of yen)	(468,789)	(413,683)	(759,406)	(3,502,838)
Earnings (loss) per share (Yen)	(3.44)	(3.04)	(5.58)	(25.77)

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share (Yen)	(3.44)	0.40	(2.55)	(20.25)

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

25 the term (From April 1, 2020 to March 31, 2021) Filed to Director-General of Kanto Local Finance Bureau on June 18, 2021.

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 18, 2021.

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 26th term (from April 1, 2021 to June 30, 2021)
Filed to Director-General of Kanto Local Finance Bureau on August 13, 2021.

2nd quarter of the 26th term (from July 1, 2021 to September 30, 2021)
Filed to Director-General of Kanto Local Finance Bureau on November 10, 2021.

3rd quarter of the 26th term (from October 1, 2021 to December 31, 2021)
Filed to Director-General of Kanto Local Finance Bureau on February 14, 2022.

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 18, 2021.

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

Filed to Director-General of Kanto Local Finance Bureau on June 24, 2021.

Extraordinary Securities Report based on Article 19, paragraph 2, item 2-2 (Issuance of New Share Subscription Rights as Stock Options) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on December 28, 2021.

Extraordinary Securities Report based on Article 19, paragraph 2, item 7-2 (Determination on Incorporation-type Company Split) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on January 25, 2022.

Extraordinary Securities Report based on Article 19, paragraph 2, item 3 (Changes Affecting the Status of Specified Subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(5) Amendment report of Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on July 19, 2021.

Amendment report of Extraordinary Securities Reports (Issuance of New Share Subscription Rights as Stock Options) filed on June 24, 2021.

(6) Share Buyback Report

Reporting period (from October 1, 2021 to October 31, 2021)
Filed to Director-General of Kanto Local Finance Bureau on November 15, 2021.

Reporting period (from November 1, 2021 to November 30, 2021)
Filed to Director-General of Kanto Local Finance Bureau on December 3, 2021.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 21, 2022

SOURCENEXT Corporation
The Board of Directors

PricewaterhouseCoopers Kyoto
Tokyo Office

Katsuhiko Saito
Certified Public Accountants
Designated Partner
Engagement Partner

Tetsuro Iwase
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, 2021 through March 31, 2022.

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, 2022, 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.

Application of Revenue Recognition Standards	
Content of key audit matters and grounds for decision	How these matters were addressed in the audit
As described in Notes on "Change in accounting policy," the Company has adopted ASBJ Statement No. 29 "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30 "Implementation Guidance on Accounting Standard for Revenue Recognition" (hereinafter collectively referred to as the "Revenue Recognition Standards") from the current fiscal year. In applying the Revenue Recognition Standards, the Company internally conducted a study to assess the impact of the adoption	In examining whether the Revenue Recognition Standards have been properly applied, we mainly conducted the following audit procedures. (1) Assessments of internal control We evaluated the effectiveness of the development and operational status of major internal controls related to revenue recognition. This included review of reviewing and approving processes by management of materials that show

by identifying discussion points by business line and product and then formulated and applied new accounting policies.

The newly formulated accounting policies are as follows:
(The impact amount in retained earnings at the beginning of the fiscal year: (246,664) thousand yen, net sales: (125,217) thousand yen, cost of sales: (2,657) thousand yen, selling, general and administrative expenses: (331,875) thousand yen, and operating loss: (209,315) thousand yen.)

1. Allocation of transaction price to performance obligations
   For finished goods that are sold together with communication service, transaction prices were previously allocated based on a reasonable standard, but this has been changed to an allocation based on the ratio of the stand-alone selling price.

2. Accounting for rebates and other consideration paid to customers
   Rebates and other consideration paid to customers were previously accounted for as selling, general and administrative expenses, but this has been changed to a method whereby these are deducted from transaction price.

3. Extended warranty service
   For Extended warranty service, revenue was previously recognized at the time of sale, but this has been changed to a method whereby revenue is recognized over the warranty period.

4. Sale with a right of return
   "Provision for sales returns" was previously recorded in current liabilities based on the amount equivalent to profit on sales, but this has been changed to a method whereby the Company does not recognize the amounts equivalent to net sales and cost of sales of finished goods expected to be returned.

5. The Company's point system
   To prepare for the use of loyalty points given to customers, the Company previously recorded "Provision for point card certificates" at the amount expected to be used in the future, and deducted the amount of the said provision from revenue. However, this has been changed to a method whereby the points granted are identified as performance obligations and the transaction price is allocated based on the stand-alone selling price calculated by taking into account the expected future expiration and other factors.

6. Proxy transactions
   Revenue for the ZERO series products was previously recognized at the gross amount of consideration received from customers, but this has been changed to a method whereby revenue is recognized at the amount of the gross consideration less amounts paid to third parties.

The Company conducted a study to assess the impact of the Revenue Recognition Standards, identified discussion points, and carried out considerations in light of the Revenue Recognition Standards. As a result, the Company has made changes to the accounting policies and related disclosure mentioned above.

Although the Company has formulated the accounting policies of said standards and has established and put in place internal control to ensure the appropriate treatment of the accounting policies, the timing and method of revenue recognition differed depending on the goods and services provided to customers, which required careful review for making the judgment.

the completion of the transfer of the control of goods or services.

(2) Verification of sales transactions

i) We reviewed the materials of the study to assess the impact that was conducted by the Company and examined whether the materials comprehensively included significant revenue recognition transactions.

ii) We reviewed the accuracy of the adjustments to the retained earnings made at the beginning of the fiscal year.

iii) We reviewed the accounting policies prepared by the Company by applying the steps to verify the accounting standards for revenue recognition by each major transaction.

iv) Based on certain criteria, we selected sales transactions for each business line by sampling and performed the following procedures to examine whether revenue was properly recognized in accordance with the accounting policies established by the Company and the Revenue Recognition Standards. We also questioned the managers of each business department and others as necessary.

- Review of contracts
- Verification of performance obligations
- Verification of transaction prices
- Verification of calculation of allocating transaction price
- Verification of sales recorded

v) Based on certain criteria, we selected the balances of accounts receivable - trade from the specific customers of each business line by sampling, and reviewed the outstanding balances and examined the responded amounts.

(3) Verification of disclosure
We reviewed and discussed with the Company the accuracy of the details stated in "Significant matters forming the basis of preparing the consolidated financial statements," "Change in accounting policy" and "Revenue recognition" in the "Notes."

In addition, because of the broad effect on the consolidated financial statements, the materiality of adjustment amount to retained earnings at the beginning of the fiscal year, and the amount affecting revenue recorded in the current period, we concluded that this constitutes a significant audit matter.	

Other statements

Other statements consist of information contained in the Annual Securities Report other than consolidated financial statements, non-consolidated financial statements and the audited reports thereof. Management's responsibility is the preparation and disclosure of the other statements. The responsibility of the Standing Auditors and the Board of Auditors is to monitor the Directors' execution of duties in the development and operation of the reporting process of the other statements.

The other statements are not included in the scope of our audit opinion on the consolidated financial statements, and we express no opinion on the other statements.

As the auditor of the consolidated financial statements, our responsibility is to read the other statements carefully, and in the course of that reading, to consider whether there are material differences between the other statements and the consolidated financial statements or our knowledge obtained in the audit, and to pay attention to whether there is any indication of material errors in the other statements other than such material differences.

Based on the work we have performed, if we determine that there are material errors in other statements, we are required to report such facts.

We found nothing that should be reported on the other statements.

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. This includes establishing and operating internal control that the management judged 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 is solely responsible for its 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, 2022 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, 2022 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 is solely responsible for its audit opinion.

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

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

Conflicts of Interest

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

End

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

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