Cover page

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Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT Corporation
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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		25th term	26th term	27th term	28th term	29th term
Fiscal year-end		March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024	March 31, 2025
Net sales	(Thousands of yen)	12,851,060	10,307,741	10,347,679	11,334,366	11,455,896
Ordinary profit (loss)	(Thousands of yen)	452,810	(2,128,061)	(2,537,807)	(2,239,511)	(3,925,974)
Profit (loss) attributable to owners of parent	(Thousands of yen)	191,101	(3,502,838)	(2,303,834)	(2,169,984)	(3,896,757)
Comprehensive income	(Thousands of yen)	270,193	(3,435,064)	(2,427,895)	(1,703,436)	(5,502,891)
Net assets	(Thousands of yen)	12,364,664	9,959,260	9,903,032	8,389,563	9,354,476
Total assets	(Thousands of yen)	20,331,517	19,981,406	19,639,337	16,811,498	17,209,423
Net assets per share	(Yen)	89.63	70.72	67.92	59.56	53.97
Earnings (loss) per share	(Yen)	1.40	(25.77)	(17.00)	(16.01)	(28.65)
Diluted earnings per share	(Yen)	1.40	–	–	–	–
Equity ratio	(%)	60.1	48.0	46.9	48.0	43.4
Return on equity (ROE)	(%)	1.6	(32.1)	(24.5)	(25.1)	(50.2)
Price earnings ratio (PER)	(Times)	260.2	–	–	–	–
Net cash provided by (used in) operating activities	(Thousands of yen)	(639,416)	(330,875)	170,943	(765,031)	(1,857,805)
Net cash provided by (used in) investing activities	(Thousands of yen)	(2,755,211)	(2,938,066)	(999,341)	(1,501,862)	(1,215,560)
Net cash provided by (used in) financing activities	(Thousands of yen)	4,271,099	3,820,313	1,609,350	(1,163,530)	5,778,374
Cash and cash equivalents at end of period	(Thousands of yen)	4,779,954	5,451,092	6,484,572	3,130,636	5,858,654
Number of employees [Separately, the average number of temporary employees]	(Persons)	146 [3]	143 [7]	150 [7]	158 [5]	161 [7]

Notes:
1. Even though the Company has dilutive shares, diluted earnings per share for the 26th, 27th, 28th, and 29th terms are not presented because a net loss per share was recorded for the term.
2. Price earnings ratio (PER) for the 26th, 27th, 28th, and 29th terms is not presented because a net loss per share was recorded for the term.
3. The number of employees indicates the number of working employees.
4. The number in the brackets in the “Number of employees” row refers to the yearly average number of temporary employees.
5. 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 26th term, and key management indicators for the 26th and subsequent terms are those after the application of the said accounting standards.

(2) Business results of the reporting company

Term		25th term	26th term	27th term	28th term	29th term
Fiscal year-end		March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024	March 31, 2025
Net sales	(Thousands of yen)	12,915,451	9,929,481	9,413,907	9,367,405	8,383,928
Ordinary profit (loss)	(Thousands of yen)	727,776	(1,793,463)	(486,709)	168,039	(1,268,812)
Profit (loss)	(Thousands of yen)	487,622	(3,293,790)	(364,605)	(111,813)	(2,121,599)
Capital stock	(Thousands of yen)	3,690,436	3,695,284	3,701,935	3,703,401	4,009,050
Total number of issued shares	(Shares)	136,256,800	136,297,600	136,349,600	136,358,300	139,110,300
Net assets	(Thousands of yen)	12,683,803	9,029,502	8,800,689	9,452,836	6,962,631
Total assets	(Thousands of yen)	20,646,436	18,629,888	17,622,707	16,942,544	13,693,333
Net assets per share	(Yen)	91.97	65.16	63.02	67.40	47.29
Dividends per share [Interim dividends per share]	(Yen)	0.21 [–]	– [–]	– [–]	– [–]	– [–]
Earnings (loss) per share	(Yen)	3.58	(24.23)	(2.69)	(0.82)	(15.60)
Diluted earnings per share	(Yen)	3.57	–	–	–	–
Equity ratio	(%)	60.7	47.4	48.5	53.9	47.8
Return on equity (ROE)	(%)	4.0	(30.8)	(4.2)	(1.3)	(27.1)
Price earnings ratio (PER)	(Times)	102.0	–	–	–	–
Dividend payout ratio	(%)	5.9	–	–	–	–
Number of employees [Separately, the average number of temporary employees]	(Persons)	132 [3]	138 [7]	130 [7]	123 [5]	102 [7]
Total shareholder return (Benchmark index: Dividend-included TOPIX)	(%) (%)	125.1 [142.1]	59.0 [145.0]	75.1 [153.4]	79.5 [216.8]	74.4 [213.4]
Highest share price	(Yen)	385	381	340	308	252
Lowest share price	(Yen)	241	142	158	120	156

Notes:
1. Even though the Company has dilutive shares, diluted earnings per share for the 26th, 27th, 28th, and 29th terms are not presented because a net loss per share was recorded for the term.
2. Price earnings ratio and dividend payout ratio for the 26th, 27th, 28th, and 29th terms are not presented because a net loss per share was recorded for the term.
3. The number of employees indicates the number of working employees.
4. The number in the brackets in the “Number of employees” row refers to the yearly average number of temporary employees.
5. The highest and lowest share prices are those on the Tokyo Stock Exchange Prime Market since April 4, 2022. Previous share prices are from the First Section of the Tokyo Stock Exchange.
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 26th term, and key management indicators for the 26th and subsequent terms are those after the application of the said accounting standards.

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 its 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
September 2012	Established a subsidiary, SOURCENEXT Inc., in California, U.S. (currently POCKETALK Inc., 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
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, exclusive sales rights of products and services, and right to modify download products in Japan for Rosetta Stone, a language learning program
May 2017	Acquired all shares of FUDEMAME CO., LTD. (liquidated in November 2021)
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 the Netherlands (currently POCKETALK B.V., 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, an AI translation device equipped with a camera translator
April 2020	Acquired the exclusive sales rights of Meeting Owl in Japan from U.S.-based Owl Labs Inc. ("Owl") and underwrote convertible bonds issued by Owl
May 2020	Acquired the exclusive sales rights of the 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
February 2022	Established a subsidiary, POCKETALK CORPORATION, through a company split (simplified incorporation type)
April 2022	Transferred to the Prime Market
April 2022	Launched KAIGIO CAM360, an all-in-one 360° webcam for meetings
December 2022	Cumulative shipments of the AI translation device POCKETALK exceeded 1 million units
March 2023	Launched POCKETALK for Business, a business series for corporate customers
July 2023	POCKETALK CORPORATION (a consolidated subsidiary) and SoftBank Corp. signed a comprehensive business alliance agreement for the deployment of POCKETALK
August 2023	Launched AutoMemo Home, a web browser version of AutoMemo
September 2023	Launched AutoMemo R, a new product in the AutoMemo series
September 2023	Total number of AutoMemo account registrations exceeded 100,000

Date	Event
November 2023	Launched the web browser version of POCKETALK for Business Simultaneous Translation (currently POCKETALK Live Interpretation)
June 2024	Launched Backbone One, a game controller for smartphones
August 2024	Relocated head office to 1-14-14 Akasaka, Minato-ku, Tokyo
September 2024	Launched BirdieTalk, an interactive golf AI device
October 2024	Launched POCKETALK S2, a next-generation AI-powered translation device
December 2024	Launched Pebblebee, a smart tag

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 include online shops like our direct-sales website and domestic websites such as Amazon, wholesale distribution to consumer electronics retailers, etc., and provision of products and content to corporations including smartphone carriers.

For sales through online shops 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. We provide information on upgraded software products and discount sales of other products to stabilize sales revenue.

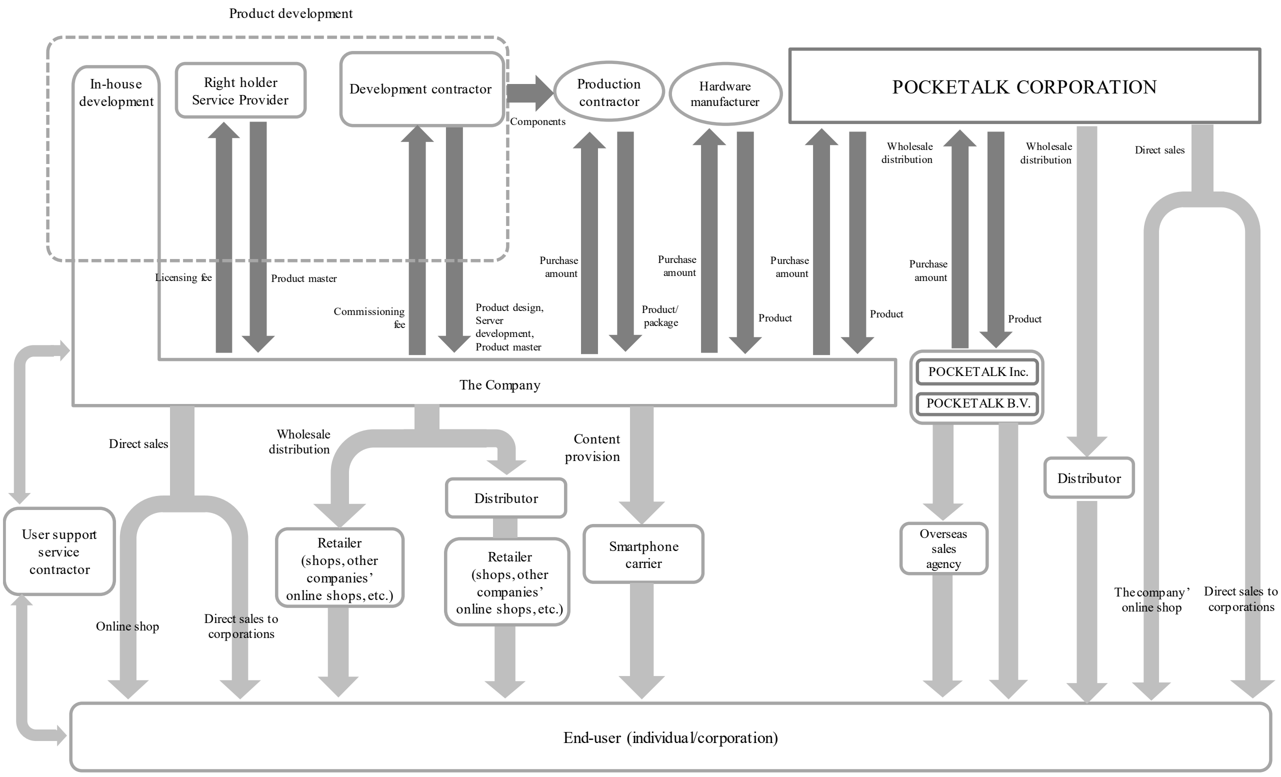
With regard to the provision of content to corporate customers such as smartphone carriers, in addition to all-you-can-use application services offered by smartphone carriers, including the Sugo Toku Contents service by NTT DOCOMO, INC., we sell and rent IoT products such as the AI-powered translation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

IoT products such as POCKETALK and AutoMemo are produced by an overseas company on consignment and distributed wholesale to consumer electronics retailers and other retail stores nationwide, as well as sold directly through our online shop. We are expanding the overseas sales of POCKETALK through our second-tier subsidiaries in the U.S. and Europe.

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

The business activities diagram below shows the abovementioned points.

Business activities diagram



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

POCKETALK	POCKETALK is an AI-powered translation device that allows people who do not speak each other's languages to communicate in their mother tongue. In October 2024, we began selling POCKETALK S2, our first next-generation model in about five years. This product supports translation to audio and text in 90 languages and to text in 2 languages. The cumulative series shipments (excluding samples, etc.) exceeded 1.2 million units. In addition to the dedicated terminals, we also offer the AI-powered simultaneous interpretation service POCKETALK Live Interpretation and software such as POCKETALK for Schools, POCKETALK for Tours, and POCKETALK for Conferences that can be used according to different scenarios, as well as the AI-powered translation app POCKETALK (iOS/Android version). In Japan, corporate use of our dedicated terminals and software series has been performing well. In the U.S. market, in addition to corporate clients, our products are also widely used in public institutions such as government offices, schools, and hospitals.
Postcards	Our address book and postcard creation software packages include 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. Each of these is characterized by their ease-of-use even for first-time users. While their main sales channel used to be consumer electronics retailers, direct sales through the Company's own e-commerce channels are now expanding, and we have achieved a stable earnings base through automatic annual billing.
Security	As our own-brand security software, we sell ZERO Virus Security with no annual renewal fees and ZERO Super Security equipped with the world's best performance engine produced by Bitdefender. In addition, the Company provides Super Security for Business, an endpoint security product for corporations, as part of the efforts to attract demand from corporations.
ezPDF	The ezPDF series is a staple software product that provides users with a simple way of creating, converting and editing PDFs at affordable prices. This product is a long-term bestseller, selling more than any other domestic software in its category for 15 years in a row. Now used by over 10,000 companies and other organizations, the PDF series helps corporations increase efficiency in document management and voucher processing and reduce costs in their efforts for digital transformation (DX) and transition to paperless. With the revision of the Electronic Record Retention Law, sales to corporations are expanding further.
360° Webcam	Meeting Owl, which holds the number one spot in market share as a 360° camera, and our self-developed KAIGIO CAM360 are conference web cameras equipped with a 360° camera, echo canceling microphones, and speakers. The camera captures the whole image, while AI recognizes voices and movement in a wide range of 360°, and automatically focuses on the speaker. They have tapped into demand from corporate customers that use them for their remote meetings and other uses, and have posted strong sales.
AutoMemo	This is our text transcription service powered by AI. This service uses AI to convert a recorded voice into text, which can be read and searched. Recorded data is stored in the cloud. By continuously integrating the latest, high-quality AI models, we are expanding functionalities for quicker and easier creation of meeting minutes, such as automatic summarization of transcribed content and a "Speaker-by-Speaker Summary" that identifies speakers based on their voices. The number of registered accounts (total number of members with or without a membership fee) grew to 180,000 at the end of March 2025, and the number of subscribers to text conversion services is also increasing steadily.

4. Overview of subsidiaries and associates

Name	Address	Capital stock	Principal contents of business	Ratio of voting rights holding (%)	Relationship
(Consolidated subsidiary) POCKETALK Inc.	California, United States	100 (Thousands of dollars)	Sells POCKETALK products in North America	100.0 [100.0]	Sells the Group's finished goods Borrows funds from the Company One interlocking Director or Auditor
Rosetta Stone Japan, Inc.	Minato-ku, Tokyo	10,000 (Thousands of yen)	Sells the language learning software Rosetta Stone	100.0	One interlocking Director or Auditor
POCKETALK B.V.	Amsterdam, the Netherlands	3,000 (Thousands of euro)	Sells POCKETALK products in Europe	100.0 [100.0]	Sells the Group's finished goods
POCKETALK CORPORATION (Note 1)	Minato-ku, Tokyo	6,034,900 (Thousands of yen)	All businesses related to the planning, development, manufacture, licensing, and sale of translation devices and translation-related software	69.2	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 IoT devices	35.0	Engages in product development contracted out by the Group One interlocking Director or Auditor
PB Inc.	Washington, United States	5,358 (Thousands of dollars)	Planning, development, and distribution of IoT devices	22.0 [22.0]	–

Notes: 1. POCKETALK CORPORATION is classified as a specified subsidiary.
2. Figures in brackets under "Ratio of voting rights holding" are indirect ownership ratios and are included in the total.

5. Information about employees

(1) Consolidated companies

As of March 31, 2025

Segment name	Number of employees (Persons)
Software-related business	161 [7]
Total	161 [7]

Notes: 1. The number of employees indicates the number of working employees.
2. The yearly average number of temporary employees is shown in brackets.
3. The business of the Group consists of a single segment.

(2) Information about reporting company

As of March 31, 2025

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
102 [7]	40.3	9.4	7,970,138

Notes: 1. The number of employees indicates the number of working employees.
2. Average annual salary includes bonuses and surplus wages.
3. The yearly average number of temporary employees is shown in brackets.
4. As the Company's business segment consists of a single segment that is software-related business, the number of employees by segment is omitted.
5. Compared to the previous fiscal year-end, the number of employees decreased by 21, mainly due to transfers to POCKETALK CORPORATION, a consolidated subsidiary.

(3) Status of labor union

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

(4) Percentage of female workers in management positions, percentage of male workers taking childcare leave, and wage gap between male and female workers at the reporting company

As of March 31, 2025

Fiscal year ended March 31, 2025				
Percentage of female workers in management positions (%) (Note 1)	Percentage of male workers taking childcare leave (%) (Note 2)	Wage gap between male and female workers (%) (Note 1)		
		All workers (Note 3)	Permanent, full-time workers	Part-time and fixed-term workers (Note 3)
25.0	–	71.4	83.5	36.1

Notes: 1. Calculated in accordance with the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).

2. Childcare leave uptake, etc. calculated as in Article 71-6, item 1 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991) in accordance with the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

3. The wage gap between male and female part-time and fixed-term workers shows a significant divergence due to differences in employment status and contracted hours among job-based, contract, and part-time workers.

(Supplementary explanation)

The Company does not make any gender-based distinctions in its grading, evaluations, or remuneration systems or their operations.

II. Overview of business

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

The Group's management policy, management environment, and issues to be addressed, etc. are as follows. 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," and it aims to create new markets by identifying high-quality and convenient smartphone applications and PC software, etc. from around the world and making them available to anyone at affordable prices.

We launched the AI-powered translation device POCKETALK, our first IoT product, in 2017, and since then, we have continued to improve it by incorporating user feedback, leading to the development of POCKETALK W, POCKETALK S, and POCKETALK S2. We also provide software for corporations, such as POCKETALK Live Interpretation, POCKETALK for Schools, and POCKETALK for Tours.

In February 2022, we established POCKETALK CORPORATION as a consolidated subsidiary through a simplified incorporation-type split. To achieve a world free of language barriers, we will continue to improve the global recognition of the POCKETALK brand and accelerate its global expansion.

In addition, we will draw on our over 20 years of expertise in software development to work in IoT fields other than AI translation devices, thereby promoting product development that leverages our strengths. We will continue to plan and develop superior products for growing markets, or identify and promptly provide such products from Japan and overseas, with the aim of developing a stable management foundation while flexibly responding to changes in the evolving market environment.

(2) Management strategies

In order to realize the above management policy, the Company seeks to maximize profits by focusing on the planning and development of products that utilize AI technology and strengthening its existing business of IoT products and software products.

In the area of products applying AI technology, we are promoting the development of new products that incorporate rapidly evolving AI technology by drawing on the Company's strength of "making the latest technology accessible and available to our customers." This will allow us to provide excitement and joy to our customers, differentiate ourselves from other companies, and build a sustainable pillar of revenue.

Furthermore, we will accurately ascertain new needs in growing markets, identify superior products from Japan and overseas, and introduce them to the domestic market. This will allow us to respond flexibly and promptly in a rapidly evolving market environment and to expand our lineup of competitive products.

In the software business, we will further expand our product lineup, while also aiming to expand the sales of our core products, including security software, ezPDF, and New Year's greeting card software, in anticipation of the replacement demand for PCs following the end of support for Windows 10 scheduled for October 2025. In addition, the Company aims to build a stable earnings base by focusing on subscription-based products such as New Year's greeting card software and AutoMemo.

We will continue to accelerate our business development in Japan and overseas by developing new products that utilize AI technology and strengthening our existing businesses, and by creating a product lineup that meets market needs and providing the products in diverse delivery formats.

(3) Objective indicators to assess performance versus management targets

As a market leader in the industry for consumer and corporate 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 on in line with its policy are (i) net sales, (ii) ordinary profit, and (iii) ordinary profit to net sales ratio.

(4) Business environment

The Japanese economy during the current fiscal year showed a moderate recovery, with increased inbound tourism demand and improvements in employment and real wages. However, the outlook remains uncertain amid the impact of trade friction due to U.S. tariff policy and other factors, coupled with soaring raw material and energy prices, concerns about the future of China’s economy, heightening tensions in the Middle East, and Russia’s protracted aggression against Ukraine. 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 and the increase in information security awareness including personal information, expansion of the scope of application of AI technology, penetration of IoT products among consumers, and the increased demand for software due to the replacement of PCs following the end of support for Windows 10, alongside the rapid expansion of the smartphone and tablet market. 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 will focus on planning and developing products applying AI technology, which are expected to be in further demand, as well as strengthen our existing IoT products and software products. Products applying AI technology will be made into a new pillar of revenue. To this end, we will develop new products that leverage rapidly evolving AI technology to provide products that move customers and inspire joy, drawing on the Company’s strength of “making worldwide technology accessible and available to our customers,” in addition to our efforts to differentiate ourselves from other companies. The expansion of our software product lineup 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. We will further strengthen our IoT business by not only developing new models of POCKETALK but also new IoT products other than AI-powered translation devices by aligning our over 20 years’ experience in software development with hardware products.

ii) Expanding sales channels

In Japan, the Company is working to further 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 and the 360° camera series, by corporate customers. In addition, we will further focus on expanding the product lineup and sales of online shops and on strengthening corporate sales. Furthermore, the Company is expanding its business to overseas markets by making its products compatible with multiple languages and so forth. To expand the AI-powered translation device POCKETALK business overseas, we will actively develop sales channels in Asia as well as further strengthen its sales in the United States and Europe, given the strong performance of POCKETALK Inc. (United States), which is a subsidiary of a subsidiary of the Company. 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 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, we also recognize the need to build new channels by working with other companies such as mobile carriers and sales agents for corporate customers nationwide. We will be actively pursuing these types of partnerships while looking to diversify our customer base not only by expanding sales channels, but also through M&As and other means.

iv) Improving earning power

The Company recognizes the importance of ongoing and effective cost management alongside efforts to expand sales. With regard to sales expansion, in addition to the conventional perpetual license type selling method, we will build a stable earnings base by developing and expanding a subscription-type revenue model. Moreover, we will further improve earning power by committing ourselves to company-wide budget control and achieving cost reductions while ensuring effective selling, general and administrative expenses.

v) Business and organizational structure at POCKETALK CORPORATION

Through our product lineup that includes POCKETALK terminals, POCKETALK Live Interpretation, and POCKETALK applications, we will further focus on increasing terminal sales by capturing inbound demand, along with increasing visibility and increasing sales to educational institutions and corporations in the United States where our business is rapidly growing. Furthermore, for our software products such as POCKETALK Live Interpretation, POCKETALK for Schools, and POCKETALK for Tours, which are expected to generate stable revenue, we will accelerate business growth by actively investing in the development of new functions, advertising, and sales promotion, and by securing funds quickly. In addition, we will hire professionals highly skilled in international business, which is indispensable for aggressively pursuing the POCKETALK business at home and overseas, and promote product development and the building of our sales structure.

2. Sustainability philosophy and initiatives

Since its founding, in upholding our corporate mission of “Creating products that inspire joy and move the world,” the Group has launched numerous products that link advanced overseas technologies to the issues our customers face and offer them simple solutions. As companies assume greater social responsibility, the Group recognizes that addressing sustainability issues is an important management theme that leads to not only reductions in business risk but also the creation of revenue opportunities.

The Group will promote more cross-sectional initiatives through dialogues with wide-ranging stakeholders to improve the workplace environment, including ensuring workforce diversity, and tackling environmental issues, such as climate change, and social issues, such as human rights. Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) Governance

We have established a Sustainability Promotion Committee chaired by the CFO & Director in charge of Administration, which identifies and reviews sustainability issues, as well as formulates strategies, makes policy decisions, and checks and evaluates the progress of initiatives on climate change and human rights on an ongoing basis. The Committee meets once a week in principle and has a system in place to incorporate advice from outside experts as necessary to ensure more effective deliberations.

The content of the Committee’s discussions and important matters related to sustainability are regularly submitted and reported to the CXO Meeting or Management Committee for deliberation and decision-making by management, and then reported to or submitted for approval to the Board of Directors. Accordingly, sustainability initiatives are strategically driven through continuous monitoring and feedback at both the management and Board of Directors levels.

The Board of Directors is responsible for overseeing and supervising sustainability-related initiatives as a whole, including providing direction and response policy as necessary, based on deliberations and progress reports at the management level.

(2) Risk management

We are enhancing risk and opportunity management to ensure risk reduction and business opportunity creation. The Internal Audit Office plays a central role in risk management by identifying all internal and external risks, including those related to sustainability, based on interviews with each organization and a two-axis assessment as to probability of occurrence and severity of loss. This risk assessment is regularly reported to the Board of Directors and serves as the basis for company-wide risk response regarding sustainability.

Proposed measures for sustainability-related risks and opportunities identified and evaluated by the Sustainability Promotion Committee are discussed and debated at the CXO Committee or the Management Committee as necessary before being submitted and reported to the Board of Directors. The Board of Directors checks the progress of the measures and gives other necessary directions.

Going forward, we will identify and periodically review material sustainability issues (materiality), with weight given to the viewpoints of our stakeholders and with input from outside experts, taking into account such perspectives as strengthening our business foundation and increasing our corporate value. We will continue to implement a business process that reflects these issues as part of our long-term vision and medium-term business plan.

In this way, we will promote sustainability management in a manner that integrates both financial and non-financial considerations into management to achieve both a sustainable society and corporate growth.

(3) Addressing material sustainability issues

In light of our governance and risk management efforts described above, we recognize the Group's material sustainability issues to be the following.

- Responsible corporate activities
- Climate change action
- Human capital (see (4) below)

Our "philosophy and initiatives for responsible corporate activities" and "philosophy and initiatives for climate change action" are as follows.

i) Philosophy and initiatives for responsible corporate activities

We recognize that respect for human rights is one of the most important management issues, and we formulated and announced the following three new policies in fiscal year 2024. All policies are positioned as important policies for establishing a transparent, fair, and reliable system for business operations in the Group and for enhancing sustainable corporate value.

- Tax Policy (established on November 13, 2024)

https://sourcenext.co.jp/sustainability/tax-policy

We have expressed our commitment to highly transparent corporate management through proper tax payment and tax planning in compliance with domestic and foreign tax laws. This policy also encompasses international transaction compliance in accordance with the OECD Transfer Pricing Guidelines and the Arm's Length Principle.

- Anti-Bribery and Corruption Policy (established on November 13, 2024)

https://sourcenext.co.jp/sustainability/anti-bribery-policy

This basic policy seeks to eliminate corrupt practices, including bribery, throughout the Group and to ensure sound business operations. The Group will work to prevent risks through compliance with laws and regulations, in-house education, and the development of an internal reporting system.

- AI Ethics Basic Policy (established on March 27, 2025)

https://sourcenext.co.jp/sustainability/ai-ethics

These guidelines seek to promote the responsible use of AI based on human-oriented values, with an emphasis on transparency, fairness, safety, and privacy protection in the development and use of AI technology. This policy conforms to the OECD AI Principles, a set of international standards.

We have internally established AI Utilization Guidelines consistent with this policy, and we also conduct compliance training for employees. Accordingly, the Group is building a system that seeks to balance the promotion of innovation through the active utilization of AI with the management of ethical and legal risks.

Furthermore, in accordance with the SOURCENEXT Group Business Partner Code of Conduct (https://sourcenext.co.jp/sustainability/partnership-guidelines) established on December 6, 2023, the Group has requested and received responses from key suppliers of the Company's products for our survey on conflict minerals.

ii) Philosophy and initiatives for climate change

Under the premise that addressing global environmental issues, including climate change and environmental pollution, is a common issue worldwide, the Group expressed its support for the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2023. We are committed to measuring, disclosing, and reducing greenhouse gas emissions to counter climate change, and are taking steps to improve the efficiency of our energy use throughout the life cycle of our business activities and promote the use of renewable energy.

In order to contain the impact of climate change, the Group has set a goal of reducing the Group's entire greenhouse gas emissions (Scope 1+2) to virtually zero by fiscal year 2030. The Group will continue to advance initiatives to mitigate climate change issues, taking into account environmental risks and opportunities.

a. Greenhouse gas emissions disclosure basis

The Group has been calculating its greenhouse gas emissions (Scope 1, 2, and 3) since the fiscal year ended March 31, 2022, and the greenhouse gas emissions for each fiscal year are listed on the Company's website (https://sourcenext.co.jp/sustainability/environmental-policy/co2/?i=rd). The results of greenhouse gas emissions for the current fiscal year will be disclosed on the website in a timely manner.

In addition, with the aim of increasing the transparency and credibility of our greenhouse gas emissions, sustainability, and non-financial information, as well as to raise awareness of the Group's climate change-related issues and help formulate effective strategies for emissions reduction, the Group has begun obtaining third-party assurance of its greenhouse gas emissions since fiscal year 2023.

b. External evaluation results

As the Group strengthens its response to climate change and other sustainability issues, it also places importance on feedback from external evaluation agencies on the effectiveness of its information disclosures and strategic initiatives.

Since the previous fiscal year, the Group has been voluntarily responding to the climate change questionnaire of CDP, an international environmental non-governmental organization (NGO), and our score improved to a "B" rating (corresponding to the third highest rating out of eight possible ratings) in fiscal year 2024 from a "C" rating in the previous year. The "B" rating is given to companies that accurately ascertain, strategically manage, and respond to their own environmental risks and impacts, an indication that our ability to respond to climate change and the quality of our disclosures have improved.

Since CDP's evaluation is structured based on the TCFD recommendations and is highly consistent with the information disclosure standards required of companies listed on the Prime Market, the Group aims to improve its ability to respond to climate change and achieve higher ratings from CDP and other external evaluation agencies by enhancing its governance structure and risk analysis related to climate change, and by strengthening its management and disclosure system for greenhouse gas emissions.

Please refer to the following for more information on CDP's evaluation.

https://sourcenext.co.jp/sustainability/recognition/

c. Scenario analysis and risk severity assessment

In anticipation of the uncertain future associated with the transition to a decarbonized society, the Group has created a task force that includes outside experts for predicting the business challenges and opportunities that may emerge, and is conducting appropriate information disclosures based on the TCFD framework. Specifically, we divide our business into the “hardware business” and “software business” and analyze scenarios based on the below 1.5°C scenario and the 4°C scenario, respectively. In the below 1.5°C scenario, we expect increased sales of products made available online and increased sales of environmentally conscious products as opportunities, while we recognize risks to include rising costs associated with climate change and related regulatory revisions, higher energy prices due to the shift to renewable energy, and reduced sales due to delays in adapting to environmentally conscious products. In the 4°C scenario, opportunities include those mentioned above as well as increased demand for disaster-related products, while risks include rising costs associated with shutdowns and relocation of manufacturing sites due to an increase in natural disasters, and supply chain disruptions. The identified risks and opportunities are evaluated in an integrated manner with other risks and opportunities after they have been discussed with management and approved by the Board of Directors.

In fiscal year 2024, the content of TCFD disclosures was revised to reflect the latest external and internal environment. The previous disclosure of risks and opportunities in the below 1.5°C and 4°C scenarios for the “hardware business” and “software business” has been changed to a format in which risks and opportunities are organized by item and listed by scenario, regardless of business segment.

Please refer to the following for more information on the content of disclosures made under TCFD.

https://sourcenext.co.jp/sustainability/environmental-policy/tcfd/?i=rd

(4) Human capital strategy

The reporting company’s policies on human resource development, ensuring diversity of human resources, and the development of the corporate environment are as follows.

i) Policy on human resource development

We have established SOURCENEXT’s Ultimate Strategy as an immutable corporate goal to work towards and share it within the Company at every opportunity.

“SOURCENEXT’s Ultimate Strategy”

<Corporate Mission>

Creating products that inspire joy and move the world

<Corporate Vision>

To become the most exciting company in the world

To realize this strategy, we have introduced an evaluation system based on a fair and transparent meritocracy in order to provide equal opportunities to those who are capable and motivated while respecting the diverse individuality and values of each employee. Through a quarterly goal-setting and evaluation cycle that encourages prompt feedback and continuous improvement, we strive to foster a corporate culture in which employees can continue to take on challenges while experiencing personal growth.

We are also promoting the following initiatives so that each and every employee can maximize their own abilities while mobilizing the power of the organization as a whole with the same goals in mind.

a. Strategic human resource development and appointment through human resource development meetings

CXOs gather regularly for human resource development meetings, where they engage in discussions and promote activities to develop successor human resources in each area and carry out bold promotions and appointments, with the aim of realizing strategic human resource development.

During the current fiscal year, 25 employees, representing 24.5% of the workforce, were promoted. Of these, two employees were promoted by two grades, three were promoted in a shorter period of time than that stipulated in the rules, three were newly promoted to management positions, and two were nurtured as certified highly-skilled professionals.

In promoting our strategic vision of "creating innovative new markets through our products," we have established the new position of Chief Product Officer (CPO), who will be responsible for product discovery and strategic development, and appointed one of our employees to this position.

b. Onboarding new graduates

- Basic philosophy

  We uphold meritocracy, which pays no regard to age, sex, academic background, or nationality, and provide an environment in which even new graduate employees can be entrusted with tasks of responsibility and given the discretion to play active roles and grow.

  We promote various measures to enable employees in their first year of work to adapt to our environment and work independently.

- Rotational training

  After new graduates join the Company, a three-month training period is set aside for them to acquire basic skills as a member of the workforce and to learn about our business on a hands-on basis through rotational training. By having them understand everything from the planning of products to post-sales support, the axis of our strategies, including back-office operations, they will be able to gain a head start after receiving their assignment.

  We have also established training programs that are directly conducted by Directors, including the Chairman and President, to promote a systematic understanding of our mission, vision, and values, and to deepen understanding of our strategies.

- Essay contest for new graduate employees

  We hold a contest for first-year employees to reflect on their work experience and lessons learned over the past year and summarize them in an essay. This is intended to provide opportunities to take stock of their own growth and to cultivate their thinking ability through the writing of structured prose. In addition, an exceptional essay is selected from the submitted essays and its writer recognized as the "New Employee of the Year." By encouraging friendly competition among peers, an environment can be created where new graduate employees mutually inspire each other and achieve faster growth.

- Second-year training

  Second-year training for new graduate employees is conducted one year after they have received their assignment. The purpose of this training is to help them think about their future career from an early stage and have a clear idea of their own goals, and to encourage a change in their mindset toward day-to-day work and learning. We believe that elucidating the purpose behind the work they are currently doing will lead to a more proactive approach to work and accelerate their growth. The training also involves having them create an action plan based on their career direction. This will support the systematic development of skills and experience and encourage autonomous growth.

c. Strengthening management

- Basic philosophy

  In response to the question of what management practices should be emphasized in an organization in which “capable, motivated, and autonomous people can play an active role and continue to strive toward the achievement of our Ultimate Strategy,” we are establishing a common understanding of the importance of “freedom and self-responsibility management.” We have also established a Management Policy that specifically outlines what should be emphasized in our management, and we are promoting various measures that allow this management policy to be implemented.

  <Management Policy>

  Create a relationship of security and trust

  Elicit vision and goals

  Demonstrate ownership

- 360-degree survey

  In order to measure the degree to which the management policy is being implemented, a 360-degree survey system has been introduced for personnel at the managerial and management candidate levels. Once a year, using this survey, we conduct a training program for employees to take stock of their own behavior from multiple perspectives and make positive changes.

	Results for fiscal year ended March 31, 2025	Targets for fiscal year ending March 31, 2026
Number of eligible employees	9 persons	13 persons
Implementation rate	100%	100%

- Management meetings

  Management meetings are held regularly as a learning opportunity for management personnel. Their aim is to improve the management quality of the Company as a whole by having management learn and share knowledge from work assignments in the departments that they are in charge of, and from goal setting, evaluation, and review with department members.

  The topics covered are not limited to management, and the participants’ knowledge is deepened through various discussions, such as the pursuit of unique qualities for the Company.

d. Strengthening expertise

- Basic philosophy

  We recognize that as our business becomes increasingly sophisticated and complex, the source of our competitiveness lies in the expertise of our human resources. The presence of highly knowledgeable and skilled human resources is essential for sustainable growth, as it directly leads to our differentiation from other companies and the creation of new products. We also deem it important to create an environment in which each employee can build a career while enhancing their expertise, and we are actively developing systems to make this possible.

- Establishment of job descriptions

  To enable each employee to proactively cultivate expertise, we have established internal job descriptions and a system that allows employees to understand the concept of professional expertise for their job scope and to set goals based on the enhancement of their expertise.

- Professionalization of creative positions

  We have had in-house creative functions since the early days of the Company, and we have continuously hired employees to handle all aspects of creative work, such as package production, naming, and web page production.

  In October 2024, we introduced full remote work for creative positions. We believe that professionals with superior expertise can maximize their individual abilities if provided an environment in which they can focus and produce results without being constrained by location or time. While allowing flexibility in work styles, we will promote both professional growth and commensurate remuneration by establishing a system that clearly evaluates advanced professional skills and the quality of output.

- Recruitment of specialists

  We are proactively hiring external personnel with advanced expertise. This allows us to grow our business, while also enabling existing employees to directly imbibe new skills and perspectives through collaboration and knowledge sharing with these specialists, thereby contributing to the professional development of each individual. The hired specialists also work to further enhance their expertise by engaging in work that is unique to the Company in accordance with our job description. We will continue to actively pursue this initiative to both secure a ready workforce and nurture employees.

Hired positions	Results for fiscal year ended March 31, 2025
Digital marketing	1 manager, 2 leaders
Sales	2 managers, 1 leader
Customer support	1 leader

ii) Ensuring diversity of human resources

To realize SOURCENEXT's Ultimate Strategy, we aim to create an organization in which people in all positions are respected, and where each employee can approach work opportunities fairly and enjoy equal access to results. We provide an environment where everyone is given fair opportunities to work and demonstrate their talents, regardless of their background of where they were born and brought up, and regardless of whether they are a young employee, a new graduate, or a mid-career worker.

As part of our efforts to achieve this goal, we have established a flat organizational climate that is not bound by hierarchical relationships or the seniority system and where everyone calls each other by using the polite honorific "-san." Regardless of position, all employees are to address each other by using "-san," and are not allowed to address each other by name only or by using the casual honorifics of "-kun" or "-chan." This eliminates fixed hierarchical relationships and promotes personnel management based on meritocracy.

In our recruitment activities, we welcome people who can demonstrate their ability to realize our Ultimate Strategy, regardless of their age, sex, academic background, or nationality. Given that diversity of human resources is an essential quality for demonstrating management responsiveness in the rapidly changing IT industry and diverse global market, we will continuously develop an environment in which each employee can demonstrate their abilities and in which talented external personnel can participate in management more than ever before.

We have achieved the following results and set the following targets in view of our commitment to meritocracy.

	Results for fiscal year ended March 31, 2025	Targets for fiscal year ending March 31, 2030
Gender ratio of employees	Male: 52.0%, Female: 48.0%	Male: 50.0%, Female: 50.0%
Gender ratio of management	Male: 75.0%, Female: 25.0%	Male: 50.0%, Female: 50.0%
Gender ratio of CXOs	Male: 66.7%, Female: 33.3%	Male: 50.0%, Female: 50.0%
Childcare leave utilization rate	100%	100%
Rate of employees returning to work after childcare leave	100%	100%
Retention rate after childcare leave	100%	100%

Generally speaking, for women returning to work after taking maternity or childcare leave, returning to the same workplace as before taking the leave allows them to continue to find fulfillment in their work, as well as to develop their own abilities and utilize them for career continuity and advancement. Employees may also choose shorter working hours based on their childcare or nursing care needs. We have established a company-wide teleworking environment that allows employees to telework from home, and we have also created an environment that facilitates balancing work and childcare, etc., according to individual family situations.

In addition, in order to expand the possibility of hiring highly skilled professionals with diverse backgrounds who have built and continue to grow their careers in a variety of fields, we have introduced a job-based employee system. Under our job-based employee system, each individual is responsible for the execution of their own job (mission), with the location and working hours left to the discretion of the individual. In addition, we now allow employees who can perform at a high level autonomously to take on skill-enhancing and career-enhancing side/concurrent jobs to improve their skills.

iii) Development of the corporate environment

In accordance with the SOURCENEXT Human Rights Policy, we respect the human rights of our employees and reject forced labor or child labor. We have employees in a variety of situations, including those with small children and those in charge of highly specialized tasks. We respect each of these employees and are working to create an environment that accommodates work styles that cater to individual needs so that they can maximize their abilities.

First, we have introduced a flextime system, making it possible for employees to flexibly adjust their work schedules based on their individual circumstances. In addition, we have established a system that allows all employees to telework, while hybrid work involving those present at the office working with teleworking employees is carried out on a regular basis. Third-place work (working outside one's home) allows employees to work outside their home and the office based on their lifestyle needs, including working during a temporary visit to their parents' home.

While we seek to ensure flexibility through these work styles, we also recognize the challenges of poor communication due to reduced opportunities for face-to-face interactions. To this end, we are working to revitalize communication among employees through communication revitalization measures such as setting days for each department to come to work, and by creating opportunities for workshops and discussions led by the human resources department.

We believe that taking appropriate time off is also important for employees to maximize their abilities. We encourage employees to take five consecutive days off (exciting vacations) and will continue to encourage the use of leave so that each employee can flexibly take time off as needed to refresh themselves and improve their individual skills.

Our employees are a mix of unlimited-term employees, limited-term employees, and post-retirement rehires, but we do not differentiate between these employees in terms of their benefits. We will continue to strive to enable each and every one of our employees to maximize their own abilities through flexible work styles and time off, as well as our common benefit system.

To ensure that employees can work safely and healthily, the Safety and Health Committee holds regular discussions and ensures safety in the workplace, and provides information to employees on a regular basis. Although our sales employees engage in activities outside of our business sites, we are committed to ensuring their safety by providing them with training in driving and other relevant matters.

The metrics and targets for our corporate environment are as follows.

	Results for fiscal year ended March 31, 2025	Targets for fiscal year ending March 31, 2030
Telework implementation rate	100%	100%
Annual paid leave utilization rate	59.5%	70.0%
“Exciting vacations” utilization rate	19.8%	50.0%
Number of cases of discrimination	0	0
Number of cases of occupational injury	0	0

3. 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 related to the AI-powered translation device POCKETALK, an IoT product, is on a recovery trend owing to a surge in the number of foreigners visiting Japan as inbound and outbound tourism continues to recover. In addition, in overseas markets, as a result of the increasing demand for multilingual solutions for non-native speakers in the United States, the adoption of POCKETALK in educational and medical institutions, public agencies, and other companies is growing, and the market is anticipated to keep growing. However, a variety of translation applications and devices are being introduced into the translation device market. If we were to significantly lose our distinctiveness, the Group's business performance could be impacted. The Group provides its POCKETALK Live Interpretation, POCKETALK for Schools, and POCKETALK for Tours services mainly to corporations, and strives to diversify these risks by approaching various customer segments.

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.

In addition, the need for various types of software, including security software, is expected to increase due to the replacement demand for PCs as support for Windows 10 is scheduled to end in October 2025.

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 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 online shops and sales targeting corporate customers as well as sales of applications through carriers such as smartphone carriers, in addition to over-the-counter sales. 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 applications, 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.

As mentioned above, the need for various types of software, including security software, is expected to increase due to the replacement demand for PCs following the end of support for Windows 10 scheduled for October 2025.

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 has 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 market for IoT products, including translation devices, and the Company may lose market share to other companies in the short term.

To remain competitive, we will need to continuously upgrade existing products and introduce them in the market, 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 an engine made by Bitdefender that possesses world-class technologies. 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.

With regard to IoT products, including translation devices, this 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 characteristics of the Group’s marketing strategies are described below.

a. Package design

The Group places emphasis on package design as a part of its over-the-counter marketing strategies. We handle all package designs 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 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 20 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. Therefore, 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 problems or defects 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 antivirus software 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) IoT products

The cost of manufacturing parts, etc. for IoT 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, storage, and scrapping costs. The Group endeavors to maintain appropriate inventory levels of its in-house products.

If a defective IoT 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 quality problems 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 the United States and another one in the Netherlands in January 2019 to propel the expansion of global distribution channels for POCKETALK.

However, in the course of conducting operations overseas, 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, due to a growing tendency to demand social responsibility from companies, consumer concern and changes in applicable laws and regulations may lead 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 and territories. 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 more expensive than expected. These laws and regulations may continue to develop, 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 policy.

Furthermore, as the Group manufactures and develops IoT products in China and other countries and territories where the Company and its business partners have 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.

Regarding recent U.S. tariff policy, we have already shipped one year's stock of POCKETALK to be sold in the United States from China to the United States prior to the Trump administration taking over, in view of possibly higher tariffs under the Trump administration. In order to minimize the impact of the tariff measures and to keep sales prices reasonable, we have decided to establish a new production base in Vietnam. Shipments from Vietnam to the United States will be possible from September 2025 onward.

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 also 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, 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 compliance costs and damage to the Group's reputation. The Group endeavors to ensure that these issues do not arise by requiring its key suppliers to sign a document that asks for their agreement to and compliance with the Group's Code of Conduct, which stipulates respect for human rights and appropriate environmental measures.

(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, 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 decreased year on year.
Fiscal year ended March 31, 2022 (Consolidated)	Due to the prolonged impact of the COVID-19 pandemic, cross-border traffic did 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 of the pandemic, 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 fiscal 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.
Fiscal year ended March 31, 2023 (Consolidated)	Despite the prolonged impact of the COVID-19 pandemic, the gradual easing of various restrictions and expectations for further demand recovery in the future led to an increase in sales volume of the AI translation device POCKETALK. In addition, net sales of our 360° webcams and AutoMemo, for which we have cultivated markets outside of our core software business, also grew steadily. Despite efforts to increase net sales and optimize existing costs, expenses from investment in personnel and advertising in anticipation of future economic recovery resulted in an operating loss, ordinary loss, and loss for the fiscal year.
Fiscal year ended March 31, 2024 (Consolidated)	The COVID-19 pandemic was brought under control, leading to a recovery in the number of foreign visitors to Japan and to a rapid increase in inbound demand. As a result, the sales volume of AI-powered translation device POCKETALK increased year on year. In addition, due to increasing demand for multilingual solutions for non-native speakers in the United States and other factors, POCKETALK Inc. (United States) achieved a quarterly operating profit. Software and IoT products also remained strong due to factors including enhanced functions and increased corporate sales, and achieved an operating profit on a non-consolidated basis. However, as the Company was making investments to expand the POCKETALK business in the future, it posted an operating loss, ordinary loss, and loss for the consolidated business performance.
Fiscal year ended March 31, 2025 (Consolidated)	For the first time in approximately five years, we launched a new model of our AI-powered translation device POCKETALK, POCKETALK S2. In the United States, sales of POCKETALK to educational and medical institutions, public agencies, and other companies expanded rapidly, leading to an increase in net sales year on year. On the other hand, operating profit decreased year on year due to the posting of valuation loss on old finished goods returned following the launch of POCKETALK S2 and the reinforcement of systems to increase sales mainly in the United States. The Company also posted a loss on valuation of investment securities on investments in partner companies.

(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 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 net 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, a large number of returns and 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 to suppliers 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, 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 for 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 opinions from the brand department; checking the possibility of trademark registration; and determining the product name. After registering trademarks, we 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 third party, 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. For example, with the remarkable technological innovations in recent times, the Group's products may inadvertently infringe upon third parties' intellectual property rights due to the establishment of such rights that the Group was unaware of. 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 for technical, economic, or other reasons, 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 determine as such, the Group could be subject to administrative direction, administrative punishment (such as 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 creating 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 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 addition, the Company has developed a legal compliance system centered on the Security Committee for laws and regulations including the Act on the Protection of Personal Information to improve in-house education for employees and to raise their awareness of information management as a whole, including the handling of not only personal information but also other confidential information. In particular, we undergo reviews by third-party organizations and have obtained ISO 27001 certification (see note) for the development of PC/smartphone software and hardware products, as well as for the operation and support of our e-commerce site. As 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 will continue to take the necessary measures and action in this regard. We are also adopting the necessary measures to respond to laws and regulations applicable to the protection of personal information in foreign countries.

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. This includes selecting only contractors who manage personal information properly and conducting regular security audits of these contractors using a check sheet. 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) 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. As recruiting such personnel is proving difficult due to their scarcity in the labor market, we are striving to foster human resources so that each employee can play an active role as a professional with advanced expertise. Nevertheless, 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.

ii) 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 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.

(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 sustainability issues and engage in activities aimed at rectifying and addressing these issues, as well as to establish related sustainability policies (human rights policy, environmental policy, as well as the SOURCENEXT Group Business Partner Code of Conduct, AI Ethics Basic Policy, etc.).

Specifically, the Group has established the Sustainability Promotion Committee to address sustainability issues with a focus on the environment, society, and governance. However, if these efforts are inadequate or merely deemed so, they may lead to a decline in public reputation, which may adversely affect the financial position and business performance of the Group in the future.

(13) Litigation and related risks

While the Group places importance on legal compliance in its business activities, there is a possibility that we may become a party to various claims, lawsuits, or disputes with our suppliers or other companies, as well as claims for damages arising from them. The Group may incur substantial expenses in connection with these legal proceedings, which may also hinder its business activities. In the unlikely event that a judicial decision is made against the Group, there is a risk that the Group's operating results and social credibility may be adversely affected. For this reason, the Group has established internal rules and is working to strengthen and promote its compliance system and reduce the possibility of various claims, lawsuits, and disputes. In addition, the legal department conducts checks when concluding various contracts, and we have established a system that allows us to promptly consult our legal advisors as needed.

4. 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)

For the Group's operating results for the current fiscal year, net sales for the current fiscal year stood at 11,455 million yen (up 1.1% year on year), with gross profit of 5,336 million yen (down 12.6% year on year). While net sales increased by 121 million yen year on year mainly due to strong sales of POCKETALK in the United States, gross profit decreased by 767 million yen year on year due to the posting of valuation loss on devices requiring repair due to their age among the old finished goods returned following the launch of POCKETALK S2.

Regarding selling, general and administrative expenses, there were increases in personnel expenses and outsourcing expenses for the expansion of the POCKETALK business. As a result, selling, general and administrative expenses stood at 8,816 million yen (up 5.3% year on year). As a result, operating loss for the current fiscal year stood at 3,480 million yen (operating loss in the previous fiscal year was 2,271 million yen).

Non-operating expenses totaled 470 million yen (up 78.9% year on year), mainly due to the impact of share of loss of entities accounted for using equity method of 325 million yen posted for some of our entities accounted for using equity method. As a result, ordinary loss for the current fiscal year stood at 3,925 million yen (ordinary loss in the previous fiscal year was 2,239 million yen).

In addition, the Company recorded a gain on the sale of a portion of investment securities held and a valuation loss on investment securities held. As a result, loss before income taxes for the current fiscal year stood at 4,234 million yen (loss before income taxes in the previous fiscal year was 2,158 million yen). The Company posted income taxes - deferred of 203 million yen and a loss attributable to non-controlling interests of 547 million yen.

As a result, loss attributable to owners of parent was 3,896 million yen (loss attributable to owners of parent in the previous fiscal year was 2,169 million yen).

Furthermore, with regard to performance on a non-consolidated basis for the current fiscal year, net sales stood at 8,383 million yen (down 10.5% year on year), with gross profit of 3,785 million yen (down 30.0% year on year). Selling, general and administrative expenses stood at 5,024 million yen (down 6.3% year on year) due to a decrease in outsourcing expenses incurred on a one-time basis resulting from system modifications carried out in the previous year, as well as the optimization of other expenses. As a result, operating loss was 1,238 million yen (operating profit in the previous fiscal year was 41 million yen). Our consolidated subsidiary POCKETALK CORPORATION is in the business growth phase, and is actively investing to expand its market share and maximize sales and profits. Additionally, by securing funds for these investments, it is accelerating its business growth.

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,209 million yen, an increase of 397 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in cash and deposits of 2,726 million yen and a decrease in investment securities of 2,123 million yen.

Total liabilities stood at 7,854 million yen, a decrease of 566 million yen compared with the end of the previous fiscal year. Main factors were a decrease of 225 million yen in short-term borrowings due to their repayment and a decrease of 351 million yen in long-term borrowings (including the current portion).

Net assets stood at 9,354 million yen, an increase of 964 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in share capital of 305 million yen, an increase in capital surplus of 4,050 million yen, a decrease in retained earnings of 3,896 million yen, a decrease in valuation difference on available-for-sale securities of 1,086 million yen and an increase in non-controlling interests of 1,467 million yen.

ii) Cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 5,858 million yen, an increase of 2,728 million yen compared with the end of the previous fiscal year.

Net cash used in operating activities amounted to 1,857 million yen, an increase of 1,092 million yen in outflows compared to the previous fiscal year. This was mainly due to an increase in loss before income taxes of 2,076 million yen, as well as net cash provided in the current fiscal year due to a decrease in trade receivables of 434 million yen, whereas net cash was used in the previous fiscal year due to an increase in trade receivables of 697 million yen.

Net cash used in investing activities amounted to 1,215 million yen, a decrease of 286 million yen in outflows compared to the previous fiscal year. This was mainly due to a decrease in spending for software acquisition of 309 million yen.

Net cash provided by financing activities amounted to 5,778 million yen in the current fiscal year, compared with 1,163 million yen used in the previous fiscal year. This was mainly due to an increase in proceeds from share issuance to non-controlling shareholders of 5,594 million yen.

iii) Production, orders received and sales

a. Production

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

b. Orders received

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

c. Sales

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

Product category	Sales (Thousands of yen)	Year-on-year comparison (%)
POCKETALK	3,979,444	10.1
Postcards	1,179,929	(13.4)
Security	708,960	(7.7)
Other software	3,717,321	(6.0)
Other hardware	1,870,241	14.5
Total	11,455,896	1.1

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
Online shops	5,231,026	4.4
Corporate sales	2,323,010	(21.9)
Overseas sales, etc.	2,301,246	55.1
Consumer electronics retailers	1,600,613	(14.2)
Total	11,455,896	1.1

2. Due to the increasing importance of overseas sales, the sales channel name previously referred to as “Other” was changed to “Overseas sales, etc.” starting from the current fiscal year. This is a name change only and does not affect the content.
3. 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)

The Japanese economy during the current fiscal year showed a moderate recovery, with increased inbound tourism demand and improvements in employment and real wages. However, the outlook remains uncertain amid the impact of trade friction due to U.S. tariff policy and other factors, coupled with soaring raw material and energy prices, concerns about the future of China's economy, heightening tensions in the Middle East, and Russia's protracted aggression against Ukraine.

With regard to the business environment surrounding the Group, PC shipments from April 2024 to March 2025 remained at 124.3% of the previous fiscal year (April 2025, based on research by JEITA). Meanwhile, inbound and outbound travel continued to recover, with the number of foreign visitors to Japan from April 2024 to March 2025 totaling 38,848,731 (up 34.7% year on year) and the number of Japanese leaving Japan totaling 13,486,778 (up 22.8% year on year) (April 2025, based on data from the Japan National Tourist Organization, compiled by the Company).

In this environment, the Company is working to increase revenue from existing products as well as create new businesses by planning and developing products that meet customer needs, based on our corporate mission of "Creating products that inspire joy and move the world."

By product, sales of the Group's core product, the AI-powered translation device POCKETALK, have grown in overseas markets. In the United States, the adoption of POCKETALK in educational and medical institutions, public agencies, and other companies is growing as a result of the increasing demand for multilingual solutions for non-native speakers. Demand is particularly high among educational institutions, and compliance with U.S. privacy protection laws has been a success, leading to further acceleration of its adoption. In addition, in October 2024 we launched the next-generation POCKETALK S2, the first model upgrade in five years.

The adoption of POCKETALK Live Interpretation, an AI-powered simultaneous interpretation service under the POCKETALK brand, is growing, especially among corporate customers. In view of the language barrier in education in Japan, we launched a new product for educational institutions, POCKETALK for Schools, and announced its adoption by the Kobe City Board of Education. As this product is a high profit margin software product and a subscription-based product, it contributes to the formation of a stable revenue base. We will be focusing on this product as a pillar of our future growth.

We launched another new service, POCKETALK for Tours, in February 2025. This service is an AI-powered interpretation service that provides simultaneous interpretation of Japanese spoken by the tour guide into the native language of each tour participant in real time and delivers it directly to the participant's smartphone. Neither the tour guide nor the tour participants need to install any software in advance, making the service easy to use even for first-time users. Through this service, we will contribute to the development of Japan's tourism industry and increase the satisfaction of foreign tourists visiting Japan during their stay in Japan.

As for other IoT products, the AI-powered voice-to-text recorder AutoMemo has seen a surge in the number of registered accounts since its launch in December 2020, with the total number (the combined total of paying and non-paying users) exceeding 180,000 as of March 31, 2025. In addition to the AI-powered automatic summarization function for transcribed data, we announced in May 2024 the addition of a function to extract to-do items that are mentioned at meetings. By enhancing functions that enable quick and easy creation of meeting minutes, the number of subscribers to our subscription-based text conversion services has risen steadily.

As for new hardware products, in June 2024, we became the sole distributor in Japan for Backbone One, a game controller for smartphones, and began selling the product at consumer electronics retailers and online shops nationwide. In-store sales have been robust, and we will continue to work on further sales expansion.

In December 2024, we started selling Pebblebee smart tags (clip and card versions) from PB Inc. (United States), a pioneer in the smart tracking industry, through online shops. We are the first company to carry this product in Japan. Sales have been strong since its launch, and in January 2025, we began carrying tag versions of the product. Going forward, we will work to further expand sales to corporate customers.

In the software business, net sales for FUDEMAME, FUDEOH, and ATENA SHOKUNIN, the three brands of New Year's greeting card software that constitute our core products, decreased year on year. However, the decrease in net sales for our New Year's greeting card software was moderate compared to the extent to which the New Year's greeting card market shrank as scaling down of the market continues to take place due to postal rate hikes and other factors. As for ezPDF, sales to corporate customers were strong, resulting in an increase in net sales year on year. On the other hand, net sales for software as a whole decreased year on year mainly due to the weak sales of security software.

We will continue to offer advanced AI technology, etc., in the form of easy-to-understand products to increase our revenue.

As a result, for the Group's operating results for the current fiscal year, net sales stood at 11,455 million yen (up 1.1% year on year), with gross profit of 5,336 million yen (down 12.6% year on year). While net sales increased by 121 million yen year on year mainly due to strong sales of POCKETALK in the United States, gross profit decreased by 767 million yen year on year due to the posting of valuation loss on devices requiring repair due to their age among the old finished goods returned following the launch of POCKETALK S2.

Regarding selling, general and administrative expenses, there were increases in personnel expenses and outsourcing expenses for the expansion of the POCKETALK business. As a result, selling, general and administrative expenses stood at 8,816 million yen (up 5.3% year on year). As a result, operating loss for the current fiscal year stood at 3,480 million yen (operating loss in the previous fiscal year was 2,271 million yen).

Non-operating expenses totaled 470 million yen (up 78.9% year on year), mainly due to the impact of share of loss of entities accounted for using equity method of 325 million yen posted for some of our entities accounted for using equity method. As a result, ordinary loss for the current fiscal year stood at 3,925 million yen (ordinary loss in the previous fiscal year was 2,239 million yen).

In addition, the Company recorded a gain on the sale of a portion of investment securities held and a valuation loss on investment securities held. As a result, loss before income taxes for the current fiscal year stood at 4,234 million yen (loss before income taxes in the previous fiscal year was 2,158 million yen). The Company posted income taxes - deferred of 203 million yen and a loss attributable to non-controlling interests of 547 million yen.

As a result, loss attributable to owners of parent was 3,896 million yen (loss attributable to owners of parent in the previous fiscal year was 2,169 million yen).

Furthermore, with regard to performance on a non-consolidated basis for the current fiscal year, net sales stood at 8,383 million yen (down 10.5% year on year), with gross profit of 3,785 million yen (down 30.0% year on year). Selling, general and administrative expenses stood at 5,024 million yen (down 6.3% year on year) due to a decrease in outsourcing expenses incurred on a one-time basis resulting from system modifications carried out in the previous year, as well as the optimization of other expenses. As a result, operating loss was 1,238 million yen (operating profit in the previous fiscal year was 41 million yen). Our consolidated subsidiary POCKETALK CORPORATION is in the business growth phase, and is actively investing to expand its market share and maximize sales and profits. Additionally, by securing funds for these investments, it is accelerating its business growth.

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) Online shops

This channel sells IoT products such as POCKETALK and AutoMemo as well as software products such as New Year's greeting card software and security software through direct sales on our online shop and online shops on domestic websites such as Amazon.

In the current fiscal year, net sales for hardware products increased year on year due to the expansion of the number of products carried. Net sales for software products increased year on year as well due to the robust sales of security software and ezPDF.

As a result, net sales in this channel stood at 5,231 million yen, up 4.4% year on year.

b) Corporate sales

In this sales channel, we sell and rent IoT products such as POCKETALK and web conference-related hardware as well as sell security products, ezPDF, and other PC software to corporations. The Company has also focused on providing subscription-based services of smartphone applications, particularly Smart RUSUDEN.

In the current fiscal year, our core security software products performed well, and demand for ezPDF has continued to grow due to the promotion of paperless operations by corporations. On the other hand, net sales decreased year on year, mainly due to the weak sales of unlimited app usage services by mobile carriers.

As a result, net sales in this channel stood at 2,323 million yen, down 21.9% year on year.

c) Overseas sales, etc.

In this sales channel, we sell POCKETALK at our subsidiaries of subsidiaries in the United States and Europe.

In the current fiscal year, net sales for overseas sales of POCKETALK increased year on year due to the rapid growth in sales to educational and medical institutions, public agencies, and other companies in the United States. In addition, sales of the subscription-based software product POCKETALK Analytics (U.S. name: Ventana), an analysis and management tool, are improving, and we expect it to generate ongoing revenue going forward.

As a result, net sales in this channel stood at 2,301 million yen, up 55.1% year on year.

d) Consumer electronics retailers

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

In the current fiscal year, sales were robust for hardware products such as the 360° webcam Meeting OWL and Backbone One, a game controller for smartphones. In addition, with the next-generation POCKETALK S2 launched in October 2024, net sales for POCKETALK increased year on year due to stronger in-store exposure as well as in-store promotional events held mainly in Tokyo and Osaka. On the other hand, sales of software continue to be sluggish, but we will strive to expand sales by increasing exposure given the replacement demand for PCs following the end of support for Windows 10.

As a result, net sales in this channel stood at 1,600 million yen, down 14.2% year on year.

(Financial position)

Total assets as of the end of the current fiscal year stood at 17,209 million yen, an increase of 397 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in cash and deposits of 2,726 million yen and a decrease in investment securities of 2,123 million yen.

Total liabilities stood at 7,854 million yen, a decrease of 566 million yen compared with the end of the previous fiscal year. Main factors were a decrease of 225 million yen in short-term borrowings due to their repayment and a decrease of 351 million yen in long-term borrowings (including the current portion).

Net assets stood at 9,354 million yen, an increase of 964 million yen compared with the end of the previous fiscal year. This increase was due mainly to an increase in share capital of 305 million yen, an increase in capital surplus of 4,050 million yen, a decrease in retained earnings of 3,896 million yen, a decrease in valuation difference on available-for-sale securities of 1,086 million yen and an increase in non-controlling interests of 1,467 million yen.

(Cash flows)

(Thousands of yen)

	Full year		Change
	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025	
Cash flows from operating activities	(765,031)	(1,857,805)	(1,092,774)
Cash flows from investing activities	(1,501,862)	(1,215,560)	286,302
Cash flows from financing activities	(1,163,530)	5,778,374	6,941,904
Cash and cash equivalents at end of period	3,130,636	5,858,654	2,728,017

Cash and cash equivalents as of the end of the current fiscal year amounted to 5,858 million yen, an increase of 2,728 million yen compared with the end of the previous fiscal year.

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

(Cash flows from operating activities)

Net cash used in operating activities amounted to 1,857 million yen, an increase of 1,092 million yen in outflows compared to the previous fiscal year.

This was mainly due to an increase in loss before income taxes of 2,076 million yen, as well as net cash provided in the current fiscal year due to a decrease in trade receivables of 434 million yen, whereas net cash was used in the previous fiscal year due to an increase in trade receivables of 697 million yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 1,215 million yen, a decrease of 286 million yen in outflows compared to the previous fiscal year.

This was mainly due to a decrease in spending for software acquisition of 309 million yen.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 5,778 million yen in the current fiscal year, compared with 1,163 million yen provided by the previous fiscal year.

This was mainly due to an increase in proceeds from share issuance to non-controlling shareholders of 5,594 million yen.

(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 borrowings at the end of the current fiscal year amounted to 5,378 million yen. Also, cash and cash equivalents at the end of the current fiscal year amounted to 5,858 million yen.

As the equity ratio, an indicator of financial stability, decreased by 4.6 percentage points from the previous fiscal year to 43.4% for the current fiscal year, we believe that our financial stability is well maintained.

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

5. Critical contracts, etc.

Not applicable.

6. 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 26 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 1,349 million yen. This consisted mainly of 330 million yen for improvements to and purchases of software programs for sale, and 953 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2025

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	12,078	57,500	1,472,822	923,583	2,465,984	102 [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 102,353 thousand yen.

3. Planned additions, retirements, etc. of facilities

   (1) Additions, etc. of significant facilities

As of March 31, 2025

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	174,538	–	Own funds	April 2025	December 2025	–

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

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

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2025)	Number of issued shares as of the date of filing (Shares) (June 19, 2025)	Name of financial instruments exchange where the shares of the Company are listed or the name of authorized financial instruments firms association where the Company is registered	Details
Common shares	139,110,300	139,110,300	Tokyo Stock Exchange (Prime Market)	The number of shares per share unit is 100 shares.
Total	139,110,300	139,110,300	–	–

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, 2025 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. The information listed below is as of March 31, 2025 (the end of the current fiscal year). For any items that changed between March 31, 2025 and May 31, 2025 (the end of the month prior to the filing date), the figures as of May 31, 2025 are indicated in parentheses.

	6th series	7th series	8th series
Resolution date	June 25, 2015	June 27, 2016	August 30, 2017
Category and number of people to whom stock options are granted (Persons)	2 Directors and 90 employees of the Company	2 Directors and 12 employees of the Company	2 Directors and 89 employees of the Company
Number of share acquisition rights (Units)	510 (505) (Note 1)	325 (Note 1)	990 (980) (Note 1)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 204,000 (202,000) (Note 1)	Common shares 130,000 (Note 1)	Common shares 396,000 (392,000) (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	197 yen per share (Note 4)	147 yen per share (Note 4)	139 yen per share (Note 4)
Exercise period of share acquisition rights	June 26, 2017 – June 25, 2025	June 28, 2018 – June 27, 2026	August 31, 2019 – August 30, 2027
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	Issue price: 147 yen Amount to be included in capital: 74 yen	Issue price: 139 yen Amount to be included in capital: 70 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

	11th series	12th series	13th series
Resolution date	June 26, 2018	June 26, 2019	July 25, 2019
Category and number of people to whom stock options are granted (Persons)	3 Directors and 26 employees of the Company	3 Directors and 92 employees of the Company	3 Directors and 92 employees of the Company
Number of share acquisition rights (Units)	300 (Note 2)	805 (798) (Note 3)	1,027 (1,018) (Note 3)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 60,000 (Note 2)	Common shares 80,500 (79,800) (Note 3)	Common shares 102,700 (101,800) (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	445 yen per share (Note 4)	437 yen per share (Note 4)	436 yen per share (Note 4)
Exercise period of share acquisition rights	June 27, 2020 – June 26, 2028	June 27, 2021 – June 26, 2029	July 26, 2021 – July 25, 2029
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	Issue price: 437 yen Amount to be included in capital: 219 yen	Issue price: 436 yen Amount to be included in capital: 218 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

	1st series US-JP tax-qualified type	14th series	2nd series US-JP tax-qualified type
Resolution date	July 25, 2019	June 18, 2020	June 18, 2020
Category and number of people to whom stock options are granted (Persons)	6 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)	3 Directors and 36 employees of the Company	3 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)
Number of share acquisition rights (Units)	503 (Note 3)	1,092 (Note 3)	555 (Note 3)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 50,300 (Note 3)	Common shares 109,200 (Note 3)	Common shares 55,500 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	436 yen per share (Note 4)	317 yen per share (Note 4)	317 yen per share (Note 4)
Exercise period of share acquisition rights	July 26, 2021 – July 24, 2029	June 19, 2022 – June 18, 2030	June 19, 2022 – June 18, 2030
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	Issue price: 317 yen Amount to be included in capital: 159 yen	Issue price: 317 yen Amount to be included in capital: 159 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

	15th series	1st series share-based remuneration type	3rd series US-JP tax-qualified type
Resolution date	June 17, 2021	June 17, 2021	June 17, 2021
Category and number of people to whom stock options are granted (Persons)	3 Directors and 107 employees of the Company	4 Directors of the Company	2 Directors of SOURCENEXT Inc. (currently POCKETALK Inc.) 5 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)
Number of share acquisition rights (Units)	3,477 (3,455) (Note 3)	1,406 (Note 3)	946 (Note 3)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 347,700 (345,500) (Note 3)	Common shares 140,600 (Note 3)	Common shares 94,600 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	333 yen per share (Note 4)	1 yen per share (Note 4)	333 yen per share (Note 4)
Exercise period of share acquisition rights	June 18, 2023 – June 17, 2031	June 18, 2024 – June 17, 2031	June 18, 2023 – June 17, 2031
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	Issue price: 1 yen Amount to be included in capital: 1 yen	Issue price: 333 yen Amount to be included in capital: 167 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

	17th series	2nd series share-based remuneration type	18th series
Resolution date	June 20, 2022	June 20, 2022	June 19, 2023
Category and number of people to whom stock options are granted (Persons)	3 Directors and 48 employees of the Company	4 Directors of the Company	3 Directors and 88 employees of the Company
Number of share acquisition rights (Units)	3,311 (3,290) (Note 3)	1,781 (Note 3)	6,232 (Note 3)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 331,100 (329,000) (Note 3)	Common shares 178,100 (Note 3)	Common shares 623,200 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	259 yen per share (Note 4)	1 yen per share (Note 4)	213 yen per share (Note 4)
Exercise period of share acquisition rights	June 21, 2024 – June 20, 2032	June 21, 2025 – June 20, 2032	June 20, 2025 – June 19, 2033
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: 259 yen Amount to be included in capital: 130 yen	Issue price: 1 yen Amount to be included in capital: 1 yen	Issue price: 213 yen Amount to be included in capital: 107 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

	3rd series share-based remuneration type	19th series	4th series share-based remuneration type
Resolution date	June 19, 2023	June 19, 2024	June 19, 2024
Category and number of people to whom stock options are granted (Persons)	4 Directors of the Company	3 Directors and 42 employees of the Company	4 Directors of the Company
Number of share acquisition rights (Units)	2,610 (Note 3)	4,706 (4,675) (Note 3)	2,636 (Note 3)
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 261,000 (Note 3)	Common shares 470,600 (467,500) (Note 3)	Common shares 263,600 (Note 3)
Amount to be paid in upon exercise of share acquisition rights (Yen)	1 yen per share (Note 4)	230 yen per share (Note 4)	1 yen per share (Note 4)
Exercise period of share acquisition rights	June 20, 2026 – June 19, 2033	June 20, 2026 – June 19, 2034	June 20, 2027 – June 19, 2034
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	Issue price: 230 yen Amount to be included in capital: 115 yen	Issue price: 1 yen Amount to be included in capital: 1 yen
Conditions for exercising share acquisition rights	(Note 5)		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 6)		

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

In the event that the Company conducts a share split (including 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.

Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of split (or consolidation)

Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of share 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 right shall be 200.

   In the event that the Company conducts a share split (including 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.

   Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of split (or consolidation)

   Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of share 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 right shall be 100.

   In the event that the Company conducts a share split (including 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.

   Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of split (or consolidation)

   Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of share 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 (excluding 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.

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

   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 of." In addition, "Market value" in the formula above shall be the average value of the closing price (including indicative quote, the same applies below) in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for 30 trading days (excluding 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 Company may adjust the exercise price appropriately to the extent reasonable.

5. 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.

6. 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

This 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 share acquisition right 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 6 (3).

(5) The period during which share acquisition rights can be exercised

The period 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 share capital and legal capital surplus in the event of issuance of shares upon exercise of share acquisition rights

i) The amount of increase in share capital 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 share capital 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 share capital stated in (i) above less the amount of increase in share capital 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 6 (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.

Share acquisition rights issued in accordance with the Companies Act are as follows.

	20th series	21st series	22nd series
Resolution date	October 2, 2024		
Number of share acquisition rights (Units)	86,137 (Note)	57,143 (Note)	33,334 (Note)
Number of treasury share acquisition rights out of share acquisition rights (Units)	–		
Class, description and number of shares to be issued upon exercise of share acquisition rights (Shares)	Common shares 8,613,700 (Note)	Common shares 5,714,300 (Note)	Common shares 3,333,400 (Note)
Amount to be paid in upon exercise of share acquisition rights (Yen)	220 yen per share	350 yen per share	450 yen per share
Exercise period of share acquisition rights	October 21, 2024 – October 20, 2027		
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: 220 yen Amount to be included in capital: 110 yen	Issue price: 350 yen Amount to be included in capital: 175 yen	Issue price: 450 yen Amount to be included in capital: 225 yen
Conditions for exercising share acquisition rights	Partial exercise of share acquisition rights is not permitted.		
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.		
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	In the event that the Company implements an act of organizational restructuring, after providing notification in accordance with the provisions of Article 273 of the Companies Act, the Company shall acquire all such share acquisition rights held by the owners of such share acquisition rights (excluding the Company) for a price equivalent to the amount to be paid for each share acquisition right prior to the effective date of such act of organizational restructuring and on the acquisition date specified by the Board of Directors of the Company.		

Note: Information as of March 31, 2025 (the end of the current fiscal year) is stated. As of May 31, 2025 (the end of the month prior to the filing date), there was no change in information to be stated from information as of March 31, 2025 (the end of the current fiscal year). Therefore, statements of information as of May 31, 2025 have been omitted.

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

Not applicable.

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

Date	Change in the total number of issued shares (Shares)	Balance of the total number of issued shares (Shares)	Change in share capital (Thousands of yen)	Balance of share capital (Thousands of yen)	Change in legal capital surplus (Thousands of yen)	Balance of legal capital surplus (Thousands of yen)
April 1, 2020 – March 31, 2021 (Note)	15,600	136,256,800	1,842	3,690,436	1,842	3,530,436
April 1, 2021 – March 31, 2022 (Note)	40,800	136,297,600	4,848	3,695,284	4,848	3,535,284
April 1, 2022 – March 31, 2023 (Note)	52,000	136,349,600	6,651	3,701,935	6,651	3,541,935
April 1, 2023 – March 31, 2024 (Note)	8,700	136,358,300	1,466	3,703,401	1,466	3,543,401
April 1, 2024 – March 31, 2025 (Note)	2,752,000	139,110,300	305,648	4,009,050	305,648	3,849,050

Note: This increase was the result of the exercise of share acquisition rights.

(5) Shareholding by shareholder category

As of March 31, 2025

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)	–	8	33	188	51	138	43,838	44,256	–
Number of shares held (Units)	–	103,077	43,612	192,104	90,098	846	960,906	1,390,643	46,000
Shareholding ratio (%)	–	7.41	3.13	13.81	6.47	0.06	69.09	100.00	–

Note: 800,112 treasury shares are included in 8,001 units under “Individuals, etc.” and 12 shares under “Fractional shares.”

(6) Major shareholders

As of March 31, 2025

Name	Address	Number of shares held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	36,443,200	26.34
Yodobashi Camera Co., Ltd.	5-3-1 Shinjuku, Shinjuku-ku, Tokyo	14,438,400	10.43
The Master Trust Bank of Japan, Ltd. (Held in trust account)	1-8-1 Akasaka, Minato-ku, Tokyo	9,101,400	6.58
Satomi Matsuda	Minato-ku, Tokyo	3,696,000	2.67
J.P. MORGAN SECURITIES PLC (Standing proxy: JPMorgan Securities Japan Co., Ltd.)	LONDON, 25 BANK STREET, CANARY WHARF, E14 5JP, UNITED KINGDOM (2-7-3 Marunouchi, Chiyoda-ku, Tokyo)	1,450,936	1.04
BNY GCM CLIENT ACCOUNT JPRD AC ISG(FE-AC) (Standing proxy: MUFG Bank, Ltd.)	PETERBOROUGH COURT 133 FLEET STREET LONDON EC4A 2BB UNITED KINGDOM (1-4-5 Marunouchi, Chiyoda-ku, Tokyo)	1,436,601	1.03
SBI SECURITIES Co., Ltd.	1-6-1 Roppongi, Minato-ku, Tokyo	1,398,454	1.01
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE (Standing proxy: MUFG Bank, Ltd.)	2 KING EDWARD STREET, LONDON EC1A 1HQ UNITED KINGDOM (1-4-5 Marunouchi, Chiyoda-ku, Tokyo)	1,301,226	0.94
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	1,200,000	0.86
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (Standing proxy: MUFG Bank, Ltd.)	ONE CHURCHILL PLACE, LONDON, E14 5HP UNITED KINGDOM (1-4-5 Marunouchi, Chiyoda-ku, Tokyo)	1,173,338	0.84
Total	–	71,639,555	51.79

Notes:
1. Of the above-mentioned number of shares held by the Master Trust Bank of Japan, Ltd., the number of shares related to the trust business is 9,101,400 shares.
2. The number of shares held by Mr. Noriyuki Matsuda, as described in “Major shareholders” above, is the number of shares that he holds in real terms, including 680,000 shares held by Resource Co., Ltd., an asset management company in which he and his relatives hold shares.
3. In a change report made available for public inspection as of March 31, 2025, it is stated that UBS AG (bank) and its joint holder respectively hold the below stocks as of March 24, 2025. However, as it is not possible for the Company to verify the number of shares held in real terms as of March 31, 2025, they have not been included in the “Major shareholders” above.

Name	Address	Number of stocks, etc. held (Shares)	Holding ratio of share certificates, etc. (%)
UBS AG (bank)	Otemachi One Tower, 1-2-1 Otemachi, Chiyoda-ku, Tokyo	18,097,477	11.58
UBS Securities Japan Co., Ltd.	Otemachi One Tower, 1-2-1 Otemachi, Chiyoda-ku, Tokyo	0	0.00
Total	–	18,097,477	11.58

(7) Voting rights

i) Issued shares

As of March 31, 2025

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	800,100	–	Standard shares without any limitations on the shareholders' rights
Shares with full voting rights (Other)	Common shares	138,264,200	1,382,642	Same as above
Fractional shares	Common shares	46,000	–	Same as above
Total number of issued shares		139,110,300	–	–
Total number of voting rights		–	1,382,642	–

Note: The "Fractional shares" row includes 12 treasury shares.

ii) Treasury shares, etc.

As of March 31, 2025

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	1-14-14 Akasaka, Minato-ku, Tokyo	800,100	–	800,100	0.57
Total	–	800,100	–	800,100	0.57

2. Acquisitions, etc. of treasury shares

Classes of shares, etc.: Common shares

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Not applicable.

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

Category	Number of shares (Shares)	Total value (Thousands of yen)
Treasury shares acquired during the current fiscal year	88	20
Treasury shares acquired during the period from April 1, 2025 until the filing date of this Annual Securities Report	–	–

Notes: 1. Treasury shares acquired denotes the acquisition of treasury shares through requests for the purchase of fractional shares.

2. Treasury shares acquired during the period from April 1, 2025 until the filing date of this Annual Securities Report does not include treasury shares acquired through requests for the purchase of fractional shares from June 1, 2025 until the filing date of this Annual Securities Report (June 19, 2025).

(4) Disposals or holding of acquired treasury shares

Category	Fiscal year ended March 31, 2025		From April 1, 2025 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 canceled	–	–	–	–
Acquired treasury shares transferred for merger, share delivery and company split	–	–	–	–
Other [–]	–	–	–	–
Treasury shares held	800,112	–	800,112	–

Note: The number of treasury shares held in the period “From April 1, 2025 until the filing date of this Annual Securities Report” does not include shares through purchase or sale of fractional shares from June 1, 2025 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 not to make dividend payouts for the fiscal year ended March 31, 2025, as the Company recorded a loss for the year.

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. As of the filing date (June 19, 2025), there are six Directors (of whom three are Outside Directors) and three Auditors (of whom two are Outside Auditors). The Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

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

Additionally, three of the six 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 on the details of remuneration for Managing Directors, with Outside Directors playing a central role, and reports to the Board of Directors, aiming to ensure transparency and objectivity of the remuneration.

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 Auditor 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.)

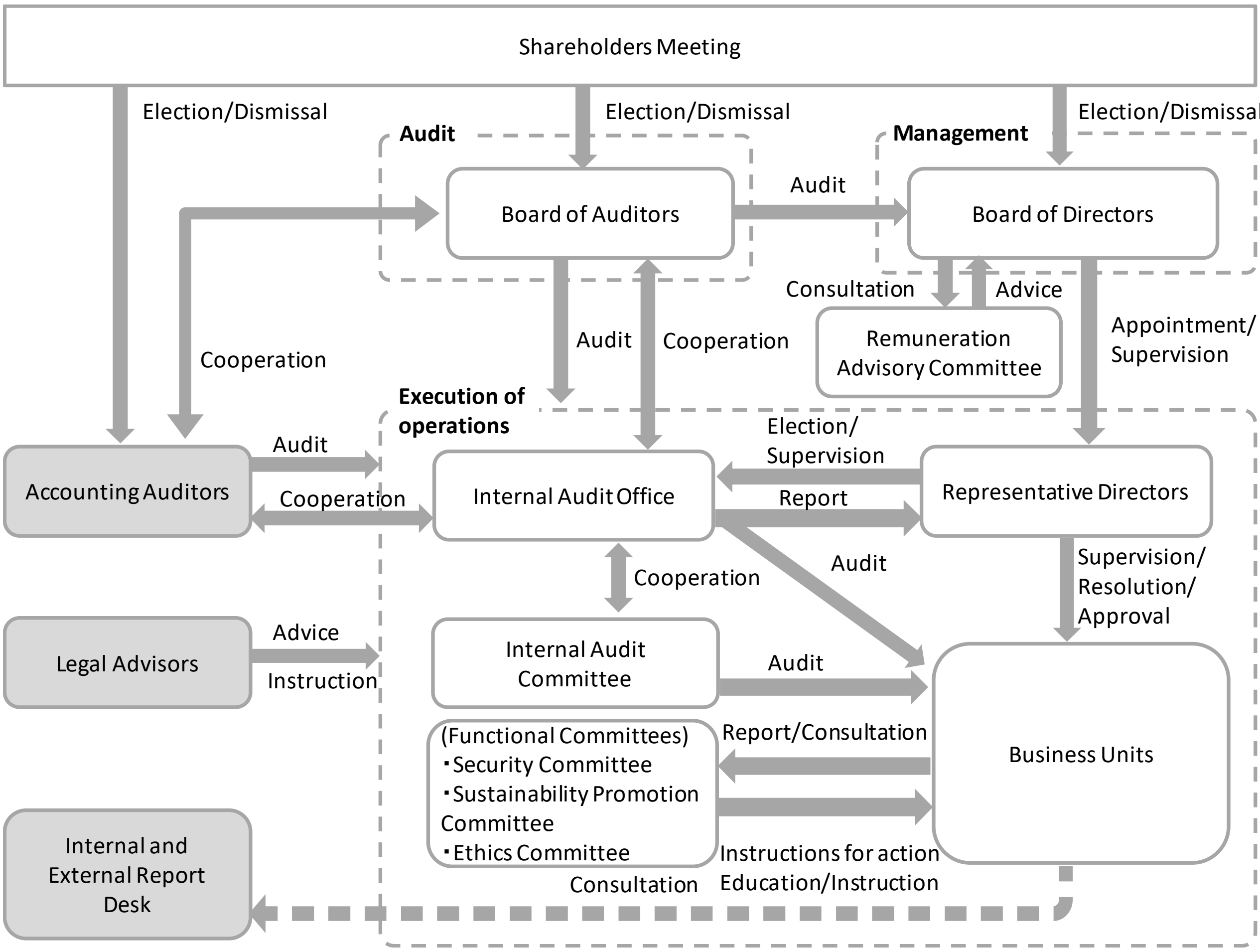
Title and Position	Name	The Board of Directors	The Board of Auditors	The Remuneration Advisory Committee
Founder & CEO (Representative Director)	Noriyuki Matsuda	○		○
President & COO (Representative Director)	Tomoaki Kojima	◎		
Director	Kousuke Fujimoto	○		
Director	Fumihiko Aoyama	○		
Outside Director	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	□	○	

Note: Hideaki Kubori retired from office at the conclusion of the 28th Annual Shareholders Meeting held on June 19, 2024.
Kousuke Fujimoto resigned as of December 31, 2024.

* The Company has submitted "Election of Six (6) Directors" and "Election of One (1) Auditor" as agenda (matters to be resolved) for the Annual Shareholders Meeting scheduled to be held on June 20, 2025. If these proposals are approved and adopted, the Company will have six Directors (of whom three are Outside Directors) and three Auditors (of whom three are Outside Auditors).

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, the Board of Directors analyzes and evaluates its overall effectiveness every fiscal year and discloses a summary of the results to verify its contribution, identify the issues involved, and work to improve them.

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 seven themes in the current fiscal year.

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

The Company has also established and operates 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 Company actively promotes awareness of this system within the organization in order to ensure that the compliance function works adequately and effectively. The Company has also established an 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 six 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 regularly reported to the Board of Directors. Reports on the results of audits are submitted in writing to the 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 to such matters have established internal structures, conducted employee education through once-yearly compliance training, and maintained 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 appropriately disclose both financial and non-financial information in accordance with laws, regulations, and the regulations of the Tokyo Stock Exchange. We will also carefully consider the impact on stakeholders, including investors, and independently disclose, as necessary, even information that is not necessarily required to be disclosed under laws, 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 evaluates these risks based on the two-axis assessment as to probability of occurrence and severity of loss. Based on the risk evaluation, items exposed to higher risk and divisions involved are reflected in the internal audit plan, and the establishment and operation of preventive measures and risk 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, CITY-YUWA PARTNERS, Ikeda & Someya law firm, and LEACT LAW, 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 its subsidiaries, the Company's Board of Directors monitors them by receiving or requesting regular reports on their operating results and status of business execution, and provides 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 assets or profit or loss must receive approval from the Company's Board of Directors.

Moreover, the Group works in a coordinated manner 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 subsidiaries and associates with the objective of developing the Group as a whole and improving performance, subsidiaries and associates 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, decision-making rules are established and authority is defined in accordance with the scale and nature of the business. In addition, discussions are held and reports are 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, Directors in charge at subsidiaries submit reports to the Company in a timely fashion in the event that problems involving upper management are found, and the Company provides appropriate guidance, etc. on how to respond, as necessary.

e. Compliance system for subsidiaries

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

f. Other 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 associates, and take the steps to understand and evaluate the state of internal control at the companies in question, as required.

iv) Activities of the Board of Directors

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

Name	Number of meetings held	Number of meetings attended
Noriyuki Matsuda	12	12
Tomoaki Kojima	12	12
Kousuke Fujimoto	12	9
Fumihiko Aoyama	12	12
Hideaki Kubori	12	2
Kunitake Ando	12	12
Nobuhide Nakaido	12	12
Aiko Oue	12	12

Note: Hideaki Kubori retired from office at the conclusion of the 28th Annual Shareholders Meeting held on June 19, 2024. Kousuke Fujimoto resigned as of December 31, 2024.

The Board of Directors mainly discusses important matters in accordance with the Board of Directors Regulations, determines management strategies, approves budgets and financial statements, and reports on the progress of business performance, the status of business execution in each business department, as well as the formulation and progress of medium-term plans.

v) Overview of the contracts for limitation of liability

The Company has concluded contracts for limitation of liability for damages with the Outside Directors 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.

vi) 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.

vii) Number of Directors

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

viii) Requirements for resolutions on 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.

ix) Requirements 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.

x) 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

a. The status of the Company's Directors as of the filing date (June 19, 2025) of the Annual Securities Report is as follows.

Male: 7, Female: 2 (Percentage of female Directors and Auditors: 22%)

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)	35,763,200
			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. (currently POCKETALK Inc.) (current position)		
			Jun. 2017	President & CEO, Rosetta Stone Japan, Inc.		
			Feb. 2021	Founder & CEO, the Company (current position)		
			Feb. 2022	President & CEO, POCKETALK CORPORATION		
			Jun. 2024	Founder & CEO, POCKETALK CORPORATION		
			Mar. 2025	Chairman, Representative Executive Officer, Director and CEO, POCKETALK CORPORATION		
			Jun. 2025	President, Representative Executive Officer, Director and CEO, POCKETALK CORPORATION (current position)		
President & COO (Representative Director)	Tomoaki Kojima	June 3, 1977	Sep. 2001	Joined the Company	(Note 5)	108,400
			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, EUS Co., Ltd. (formerly FUDEMAME Co., Ltd., liquidated in Nov. 2021)		
			Jan. 2019	Managing Director, Sourcenext B.V. (currently POCKETALK B.V.)		
			Sep. 2019	Director, UMEOX Innovations Co., Ltd. (current position)		
			Apr. 2020	CEO, Sourcenext B.V. (currently POCKETALK B.V.)		
			Feb. 2021	President & COO, the Company (current position)		
			Mar. 2024	President & CEO, Rosetta Stone Japan, Inc. (current position)		
Director & CFO	Fumihiko Aoyama	August 3, 1967	Oct. 1991	Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)	(Note 5)	260,300
			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	Managing Director & CFO, the Company (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Director	Kunitake Ando	January 1, 1942	Apr. 1969	Joined Sony Corporation (currently Sony Group Corporation)	(Note 5)	50,300
			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		
			Oct. 2024	Advisor, The University of Nagano (current position)		
Director	Nobuhide Nakaido	November 1, 1946	Apr. 1971	Joined Sumitomo Corporation	(Note 5)	31,800
			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	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)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Director	Aiko Oue	August 23, 1975	Jan. 2017 Apr. 2017 Jan. 2020 May 2020 Jan. 2022 Jun. 2022 Jun. 2022 Jan. 2023	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 Outside Director, the Company (current position) Outside Corporate Auditor, Foster Electric Company, Limited (current position) Established JLX Partners, Partner (current position)	(Note 5)	11,000
Standing Auditor	Masaaki Hirose	August 26, 1948	Apr. 1971 Apr. 2005 Jun. 2008 Jun. 2016 Jun. 2017 Mar. 2018	Joined Suruga Bank Ltd. Managing Executive Officer, Suruga Bank Ltd. Standing Auditor, Suruga Bank Ltd. Senior Executive Advisor, Suruga Bank Ltd. Standing Auditor, the Company (current position) Auditor, Solve Co., Ltd. (current position)	(Note 6)	57,700
Auditor	Tetsuya Kobayashi	September 5, 1958	Apr. 1991 Apr. 2003 Apr. 2004 Jan. 2006 Jun. 2006 May 2007 Apr. 2008 May 2010 Jun. 2011 Apr. 2012 May 2016 Jun. 2021 Apr. 2023 Dec. 2024	Registered as Attorney-at-Law (Daini Tokyo Bar Association) Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology Vice President, Daini Tokyo Bar Association Established Kobayashi Sogo Law Office Outside Auditor, the Company (current position) Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education Part-time instructor, Faculty of Law, Keio University Auditor, Utsunomiya Hotoku Hospital (current position) Outside Auditor, MOCHIDA PHARMACEUTICAL CO., LTD. Executive Governor, Japan Federation of Bar Associations Committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position) Outside Director, Toyo Suisan Kaisha, Ltd. (current position) Member, Expert Committee on Plan Implementation and Monitoring, Gender Equality Conference, Gender Equality Bureau, Cabinet Office (current position) Member, Expert Committee on Formulating the Sixth Basic Plan, Gender Equality Conference, Gender Equality Bureau, Cabinet Office (current position)	(Note 7)	–

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Auditor	Maho Kinami	February 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)		
			Jun. 2022	Outside Auditor, AGRIMEDIA Co., Ltd. (current position)		
			Jun. 2024	Outside Audit & Supervisory Board Member, KAWADEN CORPORATION (current position)		
			Mar. 2025	Outside Director (Audit and Supervisory Committee Member), Poppins Corporation (current position)		
Total						36,282,700

Notes: 1. Directors Kunitake Ando, Nobuhide Nakaido and Aiko 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 three Directors serving concurrently as CXOs, in addition to five other CXOs.

4. At the Annual Shareholders Meeting on June 19, 2024, 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)	July 4, 1968	Apr. 2000	Full-time instructor, Faculty of Law, University of East Asia	–
		Apr. 2003	Assistant Professor, Faculty of Law, Meijo University	
		Apr. 2008	Associate Professor, Judicial Affairs Course, Omiya Law School	
		Jan. 2010	Registered as Attorney-at-Law (Daini Tokyo Bar Association) Joined Frontier-Law	
		Apr. 2014	Professor, Department of Law, School of Law, Senshu University	
		Jun. 2015	Outside Auditor, Resona Bank, Limited	
		Nov. 2017	Outside Director, UPR Corporation (current position)	
		Dec. 2018	Outside Corporate Auditor, Noevir Holdings Co., Ltd.	
		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)	
		Dec. 2021	Outside Director, Noevir Holdings Co., Ltd. (current position)	
		Jun. 2023	Outside Director, Audit and Supervisory Committee Member, Saitama Resona Bank, Limited (current position)	

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

5. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2024 to the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2025.

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 ended 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, 2025.

b. The Company has submitted "Election of Six (6) Directors" and "Election of One (1) Auditor" as agenda (matters to be resolved) for the Annual Shareholders Meeting scheduled to be held on June 20, 2025. If these proposals are approved and adopted, the composition of the Directors and Auditors of the Company will be as follows.

The matters (including title and position) to be resolved at the Board of Directors meeting scheduled to be held immediately after the Annual Shareholders Meeting are also included.

Male: 7, Female: 2 (Percentage of female Directors and Auditors: 22%)

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)	35,763,200
			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. (currently POCKETALK Inc.) (current position)		
			Jun. 2017	President & CEO, Rosetta Stone Japan, Inc.		
			Feb. 2021	Founder & CEO, the Company (current position)		
			Feb. 2022	President & CEO, POCKETALK CORPORATION		
			Jun. 2024	Founder & CEO, POCKETALK CORPORATION		
			Mar. 2025	Chairman, Representative Executive Officer, Director and CEO, POCKETALK CORPORATION		
			Jun. 2025	President, Representative Executive Officer, Director and CEO, POCKETALK CORPORATION (current position)		
President & COO (Representative Director)	Tomoaki Kojima	June 3, 1977	Sep. 2001	Joined the Company	(Note 5)	108,400
			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, EUS Co., Ltd. (formerly FUDEMAME Co., Ltd., liquidated in Nov. 2021)		
			Jan. 2019	Managing Director, Sourcenext B.V. (currently POCKETALK B.V.)		
			Sep. 2019	Director, UMEOX Innovations Co., Ltd. (current position)		
			Apr. 2020	CEO, Sourcenext B.V. (currently POCKETALK B.V.)		
			Feb. 2021	President & COO, the Company (current position)		
			Mar. 2024	President & CEO, Rosetta Stone Japan, Inc. (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Director & CFO	Fumihiko Aoyama	August 3, 1967	Oct. 1991	Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)	(Note 5)	260,300
			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	Managing Director & CFO, the Company (current position)		
Director	Kunitake Ando	January 1, 1942	Apr. 1969	Joined Sony Corporation (currently Sony Group Corporation)	(Note 5)	50,300
			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		
			Oct. 2024	Advisor, The University of Nagano (current position)		

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Director	Nobuhide Nakaido	November 1, 1946	Apr. 1971	Joined Sumitomo Corporation	(Note 5)	31,800
			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	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)		
Director	Aiko Oue	August 23, 1975	Jan. 2017	Registered as Attorney-at-Law, Joined Nakamoto Law Office	(Note 5)	11,000
			Apr. 2017	Part-time officer, Secretariat, Public Interest Corporation Commission, Cabinet Office, Government of Japan		
			Jan. 2020	Joined Kaikai kiki Co., Ltd.		
			May 2020	Outside Director, Kakiyasu Honten Co., Ltd. (current position)		
			Jan. 2022	Returned to Nakamoto Law Office		
			Jun. 2022	Outside Director, the Company (current position)		
			Jun. 2022	Outside Corporate Auditor, Foster Electric Company, Limited (current position)		
			Jan. 2023	Established JLX Partners, Partner (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 rowspan="13">Standing Auditor</td><td rowspan="13">Kenichi Sugita</td><td rowspan="13">July 31, 1963</td><td>Apr. 1987</td><td>Joined The Norinchukin Bank, International Financing Division</td><td rowspan="13">(Note 6)</td><td rowspan="13">–</td></tr>
<tr><td>Oct. 1993</td><td>Market Group, New York Branch, The Norinchukin Bank</td></tr>
<tr><td>Nov. 1997</td><td>Corporate Finance Div. 1, Head Office, The Norinchukin Bank</td></tr>
<tr><td>Feb. 2002</td><td>Manager, New York Branch (in charge of loans to non-Japanese enterprises), The Norinchukin Bank</td></tr>
<tr><td>Jan. 2005</td><td>Manager, Fixed Income Division (Foreign Securities Group), Head Office, The Norinchukin Bank</td></tr>
<tr><td>Jul. 2008</td><td>Temporarily assigned to, General Manager, Investment Management Division, Norinchukin Zenkyoren Asset Management Co., Ltd.</td></tr>
<tr><td>Jul. 2011</td><td>Joint General Manager, Corporate Finance Div. 2, Head Office, The Norinchukin Bank</td></tr>
<tr><td>Jul. 2014</td><td>General Manager, New York Branch, The Norinchukin Bank</td></tr>
<tr><td>Jun. 2017</td><td>Retired from The Norinchukin Bank</td></tr>
<tr><td>Jun. 2017</td><td>Audit & Supervisory Board Member, Hutech norin Co., Ltd. and Meito Transportation Co., Ltd.</td></tr>
<tr><td>Jun. 2018</td><td>Audit & Supervisory Board Member, Chilled & Frozen Logistics Holdings Co., Ltd.</td></tr>
<tr><td>Jun. 2019</td><td>Full-time Audit & Supervisory Committee Member, Chilled & Frozen Logistics Holdings Co., Ltd.</td></tr>
<tr><td>Nov. 2024
Jun. 2025</td><td>Standing Audit & Supervisory Board Member, Chilled & Frozen Logistics Holdings Co., Ltd.
Outside Auditor, the Company (current position)</td></tr>
</table>

Title and position	Name	Date of birth	Career summary		Term	Number of shares held (Shares)
Auditor	Tetsuya Kobayashi	September 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)		
			Apr. 2023	Member, Expert Committee on Plan Implementation and Monitoring, Gender Equality Conference, Gender Equality Bureau, Cabinet Office (current position)		
			Dec. 2024	Member, Expert Committee on Formulating the Sixth Basic Plan, Gender Equality Conference, Gender Equality Bureau, Cabinet Office (current position)		
Auditor	Maho Kinami	February 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)		
			Jun. 2022	Outside Auditor, AGRIMEDIA Co., Ltd. (current position)		
			Jun. 2024	Outside Audit & Supervisory Board Member, KAWADEN CORPORATION (current position)		
			Mar. 2025	Outside Director (Audit and Supervisory Committee Member), Poppins Corporation (current position)		
Total						36,225,000

Notes: 1. Directors Kunitake Ando, Nobuhide Nakaido and Aiko Oue are Outside Directors.

2. Auditors Kenichi Sugita, 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 three Directors serving concurrently as CXOs, in addition to five other CXOs.
4. The Company has submitted "Election of One (1) Substitute Auditor" as agenda (matter to be resolved) for the Annual Shareholders Meeting scheduled to be held on June 20, 2025, to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. If this proposal is approved and adopted as originally proposed, the career summary of the Substitute Auditor is as follows.

Name	Date of birth	Career summary		Number of shares held (Shares)
Ryo Tsuchida (Registered name: Ryo Teranishi)	July 4, 1968	Apr. 2000	Full-time instructor, Faculty of Law, University of East Asia	–
		Apr. 2003	Assistant Professor, Faculty of Law, Meijo University	
		Apr. 2008	Associate Professor, Judicial Affairs Course, Omiya Law School	
		Jan. 2010	Registered as Attorney-at-Law (Daini Tokyo Bar Association) Joined Frontier-Law	
		Apr. 2014	Professor, Department of Law, School of Law, Senshu University	
		Jun. 2015	Outside Auditor, Resona Bank, Limited	
		Nov. 2017	Outside Director, UPR Corporation (current position)	
		Dec. 2018	Outside Corporate Auditor, Noevir Holdings Co., Ltd.	
		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)	
		Dec. 2021	Outside Director, Noevir Holdings Co., Ltd. (current position)	
		Jun. 2023	Outside Director, Audit and Supervisory Committee Member, Saitama Resona Bank, Limited (current position)	

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

5. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2025 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending December 31, 2025.
6. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2025 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending December 31, 2028.
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 December 31, 2025.
8. Number of shares held is as of March 31, 2025.

ii) Information about Outside Directors and Auditors

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

Of the three Outside Directors, Kunitake Ando is Director at Japan Innovation Network, and Advisor at The University of Nagano. There are no capital or business relationships between any of these companies and the Company.

Nobuhide Nakaido is 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 is also Outside Director of Kakiyasu Honten Co., Ltd. and Outside Corporate Auditor of Foster Electric Company, Limited. There are no capital or business relationships between any of these companies and the Company.

Of the two Outside Auditors, Tetsuya Kobayashi is an attorney-at-law and has no business relationships with or interests in the Company. 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., Outside Auditor of AGRIMEDIA Co., Ltd., Outside Audit & Supervisory Board Member of KAWADEN CORPORATION and Outside Director of Poppins Corporation. There are no capital or business relationships between any of these companies and the Company.

The Company has submitted “Election of One (1) Auditor” as agenda (matter to be resolved) for the Annual Shareholders Meeting scheduled to be held on June 20, 2025. If this proposal is approved and adopted, Kenichi Sugita will assume office as an Outside Auditor, resulting in a total of three Outside Directors and three Outside Auditors.

Kenichi Sugita has no business relationships with or interests in the Company.

The Outside Directors serve a role as an advisory function for the Company’s management from an external perspective and further strengthen the management supervisory function over 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, in addition to exchanging information 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 audits

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 Standing Auditor 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 as a rule. 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
Maho Kinami	13	13

The Board of Auditors passes resolutions regarding proposals for the election of Auditors, evaluation and reappointment of Accounting Auditors, preparation of audit reports, formulation of audit policies, priority audit items, audit assignments, audit plans and methods, the remuneration for Accounting Auditors, and other issues. They also discuss remuneration for Auditors and receive reports from the Standing Auditor, the Internal Audit Office, Accounting Auditors, Directors, and other parties.

In addition, each Auditor exchanges information with the Representative Director, hears updates about the development and operation of internal control systems from Directors and others, attends meetings of the Board of Directors and other meetings, and receives explanations from the

Accounting Auditors and asks them questions regarding audit plans, audit fees, methods and results of quarterly reviews, methods and results of year-end audits, key audit matters (KAM) and other issues. In addition, the Standing Auditor, utilizing online means to work in tandem with the Auditors of subsidiaries, interviews officers and employees of the Company and its subsidiaries regarding priority audit items and other matters, attends internal audits, inspects minutes of meetings, accident reports, requests for approval, expense data, etc., visits and interviews contractors, and attends audits conducted by the Accounting Auditors.

The Company has submitted "Election of One (1) Auditor" as agenda (matter to be resolved) for the Annual Shareholders Meeting scheduled to be held on June 20, 2025. If this proposal is approved and adopted, the Auditors will consist of three members, of whom three are Outside Auditors.

ii) Status of internal audit

The Internal Audit Office and the Internal Audit Committee, which are composed of one and six 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 ensures the effectiveness of audits by reporting directly to the Board of Auditors on the content and results of internal audits in a timely manner and receiving their advice, and by regularly reporting the results of internal audits directly to the Board of Directors and receiving their advice. 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 they have been continuously engaged in audit duties related to the reporting company's financial documents

Certified public accountants who executed the audit duties		Audit firm to which they belong	Number of years of continuous auditing
Designated Limited Liability Partner Engagement Partner	Toshimitsu Wakayama	PricewaterhouseCoopers Japan LLC	2 years
Designated Limited Liability Partner Engagement Partner	Tetsuro Iwase	PricewaterhouseCoopers Japan LLC	4 years

B. Number of terms of continuous auditing

6 years

C. Breakdown of auditing assistants who executed the audit duties

Certified public accountants	4 persons
Other	13 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 the 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 the Accounting Auditor. In such a case, an Auditor selected by the Board of Auditors shall report the dismissal of the Accounting Auditor and the reason for it at the first Shareholders Meeting convened after the dismissal.

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

The Board of Auditors has selected PricewaterhouseCoopers Japan LLC (hereinafter "PwC Japan") because it has determined that PwC Japan 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 Japan can provide us with a wide range of information as well as its independence; expertise; appropriateness, validity, and efficiency of audit activities; and other aspects 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" were developed by the Board of Auditors, taking into account the Company's size and environment, with reference to the "Evaluation Standards on External Accounting Auditors" established by Japan Audit & Supervisory Board Members Association. Our 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. The reappointment of the 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

(Thousands of yen)

Category	Fiscal year ended March 31, 2024		Fiscal year ended March 31, 2025	
	Fees for audit certification services	Fees for non-audit services	Fees for audit certification services	Fees for non-audit services
Reporting company	34,500	–	37,997	–
Consolidated subsidiaries	47,276	350	52,754	–
Total	81,776	350	90,751	–

Notes: 1. The above fees for the Company's audit certification services for the fiscal year ended March 31, 2024, include 2,500 thousand yen of additional compensation.

2. Non-audit services of consolidated subsidiaries for the fiscal year ended March 31, 2024, consisted of tax-related services.

B. Remuneration to organizations that belong to the same network as the certified public accountants, etc. who conducted the 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 proposed by the Board of Directors 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 are as follows.

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 (i) fixed compensation as basic remuneration, (ii) performance-based compensation that reflects the consolidated performance of the relevant fiscal year, and (iii) 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 Shareholders Meeting, 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, the performance-based compensation is provided to Directors who execute the Company's business operations. The performance-based compensation is calculated based on ordinary profit for each fiscal year as a performance indicator and using a coefficient. However, the total amount of performance-based compensation received by Directors shall be limited to 5% of ordinary profit for the current fiscal year.

   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 basic (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 Shareholders Meeting 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)	152,304	82,511	–	69,793	4
Auditors (excluding Outside Auditors)	9,600	9,600	–	–	1
Outside Directors and Auditors	43,200	43,200	–	–	6

Notes: 1. Non-monetary compensation, etc. consist of stock options for three Directors and share-based-remuneration-type stock options for four Directors.

2. The number of Directors and Auditors stated in "IV. Information about reporting company, 4. Explanation about corporate governance, etc., (2) Information about Directors and Auditors" is as of the filing date of this Report, and therefore differs from the number of Directors and Auditors shown in the table.

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, as a policy, shall hold shares of other companies on a limited basis only in cases where it believes these holdings contribute to enhancing the corporate value of both the Group and its business partners, for reasons such as business strategic benefits as well as maintenance and strengthening of long-term 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 the strengthening of 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 grounds 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 (Issues)	Total carrying amount (Thousands of yen)
Unlisted stocks	8	527,361
Stocks other than unlisted stocks	1	872,896

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

	Number of issues (Issues)	Total acquisition costs associated with increase in shares (Thousands of yen)	Reason for increase in number of shares
Unlisted stocks	1	19,800	To maintain and strengthen business relationships
Stocks other than unlisted stocks	1	2,768	Exercise of share acquisition rights

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

	Number of issues (Issues)	Total sales proceeds associated with decrease in shares (Thousands of yen)
Unlisted stocks	2	130,955
Stocks other than unlisted stocks	1	21,707

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, 2025	Fiscal year ended March 31, 2024	Holding purpose, outline of business alliance, etc., 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)		
SORACOM, INC.	962,400	962,400	The Company holds shares to maintain and strengthen the business relationship for its affinity with the Company's existing business.	No
	872,896	2,091,295		

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.

iv) Investment shares whose holding purpose changed from pure investment to a purpose other than pure investment in the current fiscal year

Not applicable.

v) Investment shares whose holding purpose changed from a purpose other than pure investment to pure investment in the four fiscal years preceding the current fiscal year and in the current fiscal year

Not applicable.

V. Financial information

1. Preparation policy of the consolidated and non-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" (Ministry of Finance Order No. 28 of 1976).

   (2) The non-consolidated financial statements of the Company are prepared in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Financial Statements" (Ministry of Finance Order No. 59 of 1963, hereinafter, "Regulation on 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 non-consolidated financial statements pursuant to the provisions of Article 127 of Regulation on Financial Statements.

2. Audit certification

   The consolidated financial statements for the fiscal year from April 1, 2024 to March 31, 2025 were audited by PricewaterhouseCoopers Japan LLC in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

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

   The Company makes 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, 2024)	Current fiscal year (As of March 31, 2025)
Assets		
Current assets		
Cash and deposits	3,282,046	6,008,174
Accounts receivable - trade	1,980,324	1,554,445
Merchandise and finished goods	2,494,996	2,646,768
Raw materials and supplies	76,622	94,715
Advance payments to suppliers	681,883	539,834
Income taxes refund receivable	13,528	626
Other	233,219	499,446
Allowance for doubtful accounts	–	(1,339)
Total current assets	8,762,622	11,342,672
Non-current assets		
Property, plant and equipment		
Buildings	225,842	73,604
Accumulated depreciation	(144,993)	(33,425)
Buildings, net	80,848	40,178
Tools, furniture and fixtures	233,100	190,173
Accumulated depreciation	(173,523)	(129,181)
Tools, furniture and fixtures, net	59,577	60,992
Total property, plant and equipment	140,426	101,170
Intangible assets		
Software	2,333,141	2,570,970
Contract based intangible assets	1,001,086	923,583
Other	208,010	102,780
Total intangible assets	3,542,238	3,597,334
Investments and other assets		
Investment securities	* 4,275,658	* 2,152,084
Deferred tax assets	2,251	964
Other	88,302	15,195
Total investments and other assets	4,366,212	2,168,245
Total non-current assets	8,048,876	5,866,750
Total assets	16,811,498	17,209,423

(Thousands of yen)

	Previous fiscal year (As of March 31, 2024)	Current fiscal year (As of March 31, 2025)
Liabilities		
Current liabilities		
Accounts payable - trade	312,072	379,392
Short-term borrowings	3,825,000	3,600,000
Current portion of long-term borrowings	520,080	519,312
Accounts payable - other	768,911	695,012
Income taxes payable	39,466	29,380
Unearned revenue	529,274	488,540
Provision for bonuses	42,263	45,725
Other	292,021	407,851
Total current liabilities	6,329,090	6,165,215
Non-current liabilities		
Long-term borrowings	1,609,740	1,259,498
Long-term unearned revenue	272,140	409,420
Deferred tax liabilities	164,114	3,644
Other	46,849	17,166
Total non-current liabilities	2,092,845	1,689,730
Total liabilities	8,421,935	7,854,946
Net assets		
Shareholders’ equity		
Share capital	3,703,401	4,009,050
Capital surplus	7,545,969	11,596,166
Retained earnings	(4,059,938)	(7,956,695)
Treasury shares	(163,122)	(163,142)
Total shareholders’ equity	7,026,310	7,485,378
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	829,149	(257,260)
Foreign currency translation adjustment	218,343	236,920
Total accumulated other comprehensive income	1,047,492	(20,339)
Share acquisition rights	315,759	422,287
Non-controlling interests	–	1,467,150
Total net assets	8,389,563	9,354,476
Total liabilities and net assets	16,811,498	17,209,423

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

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2023 to March 31, 2024)		Current fiscal year (From April 1, 2024 to March 31, 2025)
Net sales	*1	11,334,366	*1	11,455,896
Cost of sales	*2	5,230,803	*2	6,119,396
Gross profit		6,103,562		5,336,500
Selling, general and administrative expenses				
Promotion expenses		517,165		612,758
Salaries		1,306,508		1,525,904
Provision for bonuses		42,263		45,725
Outsourcing expenses		2,413,726		2,487,184
Advertising expenses		1,505,431		1,266,501
Other	*3	2,589,921	*3	2,878,908
Total selling, general and administrative expenses		8,375,017		8,816,982
Operating loss		(2,271,454)		(3,480,481)
Non-operating income				
Interest income		3,909		13,054
Dividend income		2,271		500
Foreign exchange gains		249,056		–
Gain on investments in silent partnerships		26,327		1,376
Interest subsidy		8,121		8,191
Other		5,235		1,853
Total non-operating income		294,921		24,975
Non-operating expenses				
Interest expenses		70,189		79,745
Share of loss of entities accounted for using equity method		155,614		294,785
Foreign exchange losses		–		60,910
Loss on investments in silent partnerships		–		5,595
Share issuance costs		514		26,101
Litigation expenses		36,000		–
Other		659		3,330
Total non-operating expenses		262,977		470,468
Ordinary loss		(2,239,511)		(3,925,974)
Extraordinary income				
Gain on sale of investment securities		54,703		135,700
Gain on reversal of share acquisition rights		26,786		8,880
Total extraordinary income		81,489		144,581
Extraordinary losses				
Loss on valuation of investment securities		–		391,265
Loss on retirement of non-current assets		–		23,353
Cancellation penalty fee		–		38,095
Total extraordinary losses		–		452,714
Loss before income taxes		(2,158,021)		(4,234,108)
Income taxes - current		6,219		6,844
Income taxes - deferred		357,220		203,106
Total income taxes		363,440		209,950
Loss		(2,521,461)		(4,444,059)
Loss attributable to non-controlling interests		(351,477)		(547,301)
Loss attributable to owners of parent		(2,169,984)		(3,896,757)

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Loss	(2,521,461)	(4,444,059)
Other comprehensive income		
Valuation difference on available-for-sale securities	703,992	(1,086,410)
Foreign currency translation adjustment	114,032	27,578
Total other comprehensive income	* 818,025	* (1,058,832)
Comprehensive income	(1,703,436)	(5,502,891)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,347,279)	(4,964,589)
Comprehensive income attributable to non-controlling interests	(356,157)	(538,301)

iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,701,935	7,332,327	(1,889,953)	(163,122)	8,981,187
Changes during period					
Issuance of new shares - exercise of share acquisition rights	1,466	1,466			2,932
Loss attributable to owners of parent			(2,169,984)		(2,169,984)
Change in ownership interest of parent due to transactions with non-controlling interests		212,175			212,175
Net changes in items other than shareholders' equity					–
Total changes during period	1,466	213,642	(2,169,984)	–	(1,954,876)
Balance at end of period	3,703,401	7,545,969	(4,059,938)	(163,122)	7,026,310

	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	125,156	99,631	224,788	258,724	438,332	9,903,032
Changes during period						
Issuance of new shares - exercise of share acquisition rights						2,932
Loss attributable to owners of parent						(2,169,984)
Change in ownership interest of parent due to transactions with non-controlling interests						212,175
Net changes in items other than shareholders' equity	703,992	118,712	822,704	57,034	(438,332)	441,407
Total changes during period	703,992	118,712	822,704	57,034	(438,332)	(1,513,469)
Balance at end of period	829,149	218,343	1,047,492	315,759	–	8,389,563

Current fiscal year (From April 1, 2024 to March 31, 2025)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,703,401	7,545,969	(4,059,938)	(163,122)	7,026,310
Changes during period					
Issuance of new shares - exercise of share acquisition rights	305,648	305,648			611,297
Loss attributable to owners of parent			(3,896,757)		(3,896,757)
Purchase of treasury shares				(20)	(20)
Change in ownership interest of parent due to transactions with non-controlling interests		3,744,547			3,744,547
Net changes in items other than shareholders' equity					–
Total changes during period	305,648	4,050,196	(3,896,757)	(20)	459,067
Balance at end of period	4,009,050	11,596,166	(7,956,695)	(163,142)	7,485,378

	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	829,149	218,343	1,047,492	315,759	–	8,389,563
Changes during period						
Issuance of new shares - exercise of share acquisition rights						611,297
Loss attributable to owners of parent						(3,896,757)
Purchase of treasury shares						(20)
Change in ownership interest of parent due to transactions with non-controlling interests						3,744,547
Net changes in items other than shareholders' equity	(1,086,410)	18,577	(1,067,832)	106,527	1,467,150	505,845
Total changes during period	(1,086,410)	18,577	(1,067,832)	106,527	1,467,150	964,913
Balance at end of period	(257,260)	236,920	(20,339)	422,287	1,467,150	9,354,476

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Cash flows from operating activities		
Loss before income taxes	(2,158,021)	(4,234,108)
Depreciation	406,588	426,200
Amortization of software	679,402	843,097
Share-based payment expenses	84,682	96,199
Amortization of trademark right	2,598	3,480
Increase (decrease) in allowance for doubtful accounts	–	1,354
Increase (decrease) in provision for bonuses	11,488	4,295
Interest and dividend income	(6,180)	(13,554)
Interest expenses	70,189	79,745
Share of loss (profit) of entities accounted for using equity method	155,614	294,785
Share issuance costs	514	26,101
Loss (gain) on sale of investment securities	(54,703)	(135,700)
Loss (gain) on valuation of investment securities	–	391,265
Gain on reversal of share acquisition rights	(26,786)	(8,880)
Loss on retirement of non-current assets	–	23,353
Cancellation penalty fee	–	38,095
Decrease (increase) in trade receivables	(697,429)	434,099
Decrease (increase) in inventories	896,863	(182,764)
Decrease (increase) in advance payments to suppliers	178,754	142,048
Increase (decrease) in trade payables	29,938	69,472
Increase (decrease) in accounts payable - other	(123,144)	(101,521)
Increase (decrease) in unearned revenue	89,745	(40,733)
Increase (decrease) in long-term unearned revenue	70,212	137,280
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	(202,900)	(137,187)
Other, net	(91,191)	45,184
Subtotal	(683,766)	(1,798,392)
Interest and dividends received	3,876	14,391
Interest paid	(65,538)	(80,956)
Income taxes paid	(19,603)	(6,378)
Income taxes refund	-	13,528
Net cash provided by (used in) operating activities	(765,031)	(1,857,805)
Cash flows from investing activities		
Payments into time deposits	(217,555)	–
Proceeds from withdrawal of time deposits	73,535	–
Purchase of property, plant and equipment	(20,479)	(99,686)
Purchase of software	(1,562,465)	(1,252,597)
Purchase of investment securities	–	(22,560)
Proceeds from sale of investment securities	225,102	152,662
Payments of leasehold and guarantee deposits	–	(13,549)
Payments from collection of lease and guarantee deposits	–	20,170
Net cash provided by (used in) investing activities	(1,501,862)	(1,215,560)

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(775,000)	(225,000)
Proceeds from long-term borrowings	–	200,000
Repayments of long-term borrowings	(520,080)	(551,010)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,071	605,394
Proceeds from issuance of share acquisition rights	–	25,112
Purchase of treasury shares	–	(20)
Proceeds from share issuance to non-controlling shareholders	129,486	5,723,899
Dividends paid	(8)	0
Net cash provided by (used in) financing activities	(1,163,530)	5,778,374
Effect of exchange rate change on cash and cash equivalents	76,488	23,010
Net increase (decrease) in cash and cash equivalents	(3,353,936)	2,728,017
Cash and cash equivalents at beginning of period	6,484,572	3,130,636
Cash and cash equivalents at end of period	* 3,130,636	* 5,858,654

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

   (1) Number of consolidated subsidiaries: 4

   Names of consolidated subsidiaries: POCKETALK CORPORATION
   POCKETALK Inc.
   POCKETALK B.V.
   Rosetta Stone Japan, Inc.

   (2) Names of non-consolidated subsidiaries

   Not applicable.

2. Application of equity method

   Number of associates accounted for using the equity method: 2

   Names of associates: UMEOX Innovations Co., Ltd.
   PB Inc.

3. Fiscal years, etc. of consolidated subsidiaries

   The consolidated subsidiaries whose balance sheet dates are different from the consolidated balance sheet date are as follows:

Company name	Balance sheet date	
POCKETALK CORPORATION	December 31	*
POCKETALK Inc.	December 31	*
POCKETALK 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

   Available-for-sale 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 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	two years
Tools, furniture and fixtures	four to 15 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 (three or 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 bonuses

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

(4) 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, online shops 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 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 our 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.)	1,147,550	527,361

(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 and 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 stocks of unlisted companies, 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 fiscal year and beyond.

2. Valuation of merchandise and finished goods

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

(Thousands of yen)

	Previous fiscal year	Current fiscal year
Merchandise and finished goods	2,494,996	2,646,768

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

Merchandise and finished goods are principally stated at cost according to 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).

The book value of merchandise and finished goods whose profitability has decreased is written down to an appropriate amount based on past sales performance and future sales plans, and a valuation loss is recorded.

Based on the policy mentioned above, during the current fiscal year, we have recorded in the cost of sales a valuation loss on old products returned following the launch of the “POCKETALK S2,” which required repair due to the passage of time since their manufacture. For other devices, we have determined that recording a valuation loss is unnecessary, as we plan to sell more than the inventory remaining at the end of the current fiscal year.

Such estimates may be affected by uncertain future changes in economic conditions and other factors. For example, the key assumption used in the valuation of our mainstay product, the AI-powered translation device POCKETALK, is future sales volume. If such assumption underlying the estimate changes due to changes in the market environment or other factors, this could affect the consolidated financial statements in the following fiscal year or beyond.

New accounting standards to be applied

- "Accounting Standard for Leases" (ASBJ Statement No. 34, September 13, 2024, Accounting Standards Board of Japan (ASBJ))
- "Implementation Guidance on Accounting Standard for Leases" (ASBJ Guidance No. 33, September 13, 2024, ASBJ), etc.

(1) Overview

As part of its efforts for ensuring that Japanese GAAP is consistent with international accounting standards, the ASBJ conducted a review, taking into consideration international accounting standards, toward the development of the Accounting Standard for Leases for recognizing assets and liabilities for all leases held by a lessee. Accordingly, the ASBJ issued the Accounting Standard for Leases, etc., which were developed under a basic policy with the aim of being simple and highly convenient by incorporating only the key provisions of IFRS 16 instead of all the provisions, despite being based on the single accounting model of IFRS 16, while also making revisions basically unnecessary even when the provisions of IFRS 16 are applied for non-consolidated financial statements.

Regarding the method for allocating the lessee's lease expenses in the lessee's accounting treatment, a single accounting model is applied for recording the depreciation related to right-of-use assets and the amount equivalent to the interest on lease liabilities for all leases regardless of whether a lease is a finance lease or an operating lease. This is the same as under IFRS 16.

(2) Scheduled date of application

The above ASBJ standard and guidance will be applied at the start of the fiscal year ending March 31, 2028.

(3) Impacts of application of the accounting standards

The impact of the application of the Accounting Standard for Leases, etc. on the consolidated financial statements is currently under evaluation.

Changes in presentation

Consolidated statement of income

In the previous fiscal year, "Interest subsidy" included in "Other" under "Non-operating income" exceeded 10% of the total amount of non-operating income. Therefore, it is independently presented from the current fiscal year. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, the amount of 13,356 thousand yen presented as "Other" under "Non-operating income" in the consolidated statement of income for the previous fiscal year has been reclassified to "Interest subsidy" of 8,121 thousand yen and "Other" of 5,235 thousand yen.

Consolidated balance sheet

* The item related to associates is as follows:

(Thousands of yen)

	Previous fiscal year (As of March 31, 2024)	Current fiscal year (As of March 31, 2025)
Investment securities (stocks)	1,036,813	751,826

Consolidated statement of income

*1. Revenue from contracts with customers

Net sales 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, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Cost of sales	8,190	697,298

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

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Research and development expenses	29,785	26,834

Consolidated statement of comprehensive income

* Reclassification adjustments relating to other comprehensive income, and income taxes and tax effects

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Valuation difference on available-for-sale securities		
Amount arising during the year	1,051,920	(1,723,204)
Reclassification adjustments	(37,229)	274,504
Before adjustments for income taxes and tax effects	1,014,690	(1,448,700)
Income taxes and tax effects	(310,698)	362,289
Valuation difference on available-for-sale securities	703,992	(1,086,410)
Foreign currency translation adjustment		
Amount arising during the year	114,032	27,578
Reclassification adjustments	–	–
Before adjustments for income taxes and tax effects	114,032	27,578
Income taxes and tax effects	–	–
Foreign currency translation adjustment	114,032	27,578
Total other comprehensive income	818,025	(1,058,832)

Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2023 to March 31, 2024)

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

Class of shares	As of April 1, 2023	Increase	Decrease	As of March 31, 2024
Issued shares				
Common shares (Shares)	136,349,600	8,700	–	136,358,300
Total	136,349,600	8,700	–	136,358,300
Treasury shares				
Common shares (Shares)	800,024	–	–	800,024
Total	800,024	–	–	800,024

Note: The increase of 8,700 shares in the total number of common shares issued resulted from the exercise of share acquisition rights.

2. Share acquisition rights

Category	Breakdown	Class of shares to be issued	Number of shares to be issued (Shares)				Balance as of March 31, 2024 (Thousands of yen)
			As of April 1, 2023	Increase	Decrease	As of March 31, 2024	
Reporting company (Parent company)	Share acquisition rights as stock options	–	–	–	–	–	315,759
Consolidated subsidiary (POCKETALK CORPORATION)	Share acquisition rights as stock options	–	–	–	–	–	–
Total			–	–	–	–	315,759

Current fiscal year (From April 1, 2024 to March 31, 2025)

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

Class of shares	As of April 1, 2024	Increase	Decrease	As of March 31, 2025
Issued shares				
Common shares (Shares)	136,358,300	2,752,000	–	139,110,300
Total	136,358,300	2,752,000	–	139,110,300
Treasury shares				
Common shares (Shares)	800,024	88	–	800,112
Total	800,024	88	–	800,112

Notes: 1. The increase of 2,752,000 shares in the total number of common shares issued resulted from the exercise of share acquisition rights.

2. The increase of 88 shares of common shares in treasury shares resulted from the purchase of fractional shares.

2. Share acquisition rights

Category	Breakdown	Class of shares to be issued	Number of shares to be issued (Shares)				Balance as of March 31, 2025 (Thousands of yen)
			As of April 1, 2024	Increase	Decrease	As of March 31, 2025	
Reporting company (Parent company)	Share acquisition rights as stock options	–	–	–	–	–	402,894
	Share acquisition rights	Common shares	–	20,411,400	2,750,000	17,661,400	19,392
Consolidated subsidiary (POCKETALK CORPORATION)	Share acquisition rights as stock options	–	–	–	–	–	–
Total			–	20,411,400	2,750,000	17,661,400	422,287

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, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Cash and deposits	3,282,046	6,008,174
Time deposits with maturity over 3 months	(151,410)	(149,520)
Cash and cash equivalents	3,130,636	5,858,654

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.

Borrowings are mainly for raising funds for acquisition of intellectual properties (IPs), capital investment, investment in development of products, and operating funds.

Operating debts, income taxes payable, and borrowings 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, 2024)

(Thousands of yen)

	Carrying amount	Fair value	Difference
Investment securities (*2) (*3)	2,091,295	2,091,295	–
Total assets	2,091,295	2,091,295	–
Long-term borrowings (*4)	2,129,820	2,109,060	(20,759)
Total liabilities	2,129,820	2,109,060	(20,759)

(*1) "Cash and deposits," "Accounts receivable - trade," "Income taxes refund receivable," "Accounts payable - trade," "Short-term borrowings," "Accounts payable - other" and "Income taxes payable" are omitted given that they are cash, or 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	Current fiscal year
Unlisted stocks, etc.	2,184,363

(*3) Investments in partnerships, etc., recorded at the net amount equivalent to the ownership percentage (203,952 thousand yen on the consolidated balance sheets) are not included in "Investment securities."

(*4) The amount includes current portion of long-term borrowings.

Current fiscal year (As of March 31, 2025)

(Thousands of yen)

	Carrying amount	Fair value	Difference
Investment securities (*6)	872,896	872,896	–
Total assets	872,896	872,896	–
Long-term borrowings (*7)	1,778,810	1,748,452	(30,357)
Total liabilities	1,778,810	1,748,452	(30,357)

(*5) "Cash and deposits," "Accounts receivable - trade," "Income taxes refund receivable," "Accounts payable - trade," "Short-term borrowings," "Accounts payable - other" and "Income taxes payable" are omitted given that they are cash, or their fair value approximates their book value, as they are settled in a short time.

(*6) 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	Current fiscal year
Unlisted stocks, etc.	527,361
Stocks of associates	751,826

Investments in partnerships, etc., recorded at the net amount equivalent to the ownership percentage (203,776 thousand yen on the consolidated balance sheets) are not subject to fair value disclosure, pursuant to paragraph 24-16 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021).

(*7) The amount includes current portion of long-term borrowings.

Note: Repayment schedule for long-term borrowings after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2024)

(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 borrowings	520,080	550,242	238,892	474,232	74,232	272,142
Total	520,080	550,242	238,892	474,232	74,232	272,142

Current fiscal year (As of March 31, 2025)

(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 borrowings	519,312	238,892	474,232	274,232	74,232	197,910
Total	519,312	238,892	474,232	274,232	74,232	197,910

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

The fair values 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 subject 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

Previous fiscal year (As of March 31, 2024)

(Thousands of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities Available-for-sale securities Stocks	2,091,295	–	–	2,091,295
Total assets	2,091,295	–	–	2,091,295

Current fiscal year (As of March 31, 2025)

(Thousands of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities Available-for-sale securities Stocks	872,896	–	–	872,896
Total assets	872,896	–	–	872,896

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

Previous fiscal year (As of March 31, 2024)

(Thousands of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	–	2,109,060	–	2,109,060
Total liabilities	–	2,109,060	–	2,109,060

Current fiscal year (As of March 31, 2025)

(Thousands of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	–	1,748,452	–	1,748,452
Total liabilities	–	1,748,452	–	1,748,452

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.

Long-term borrowings

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 obtained anew. Therefore, the fair value of long-term borrowings is classified as a level 2 fair value.

Securities

1. Available-for-sale securities

Previous fiscal year (As of March 31, 2024)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	2,091,295	1,133,508	957,786
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	2,091,295	1,133,508	957,786
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		2,091,295	1,133,508	957,786

Note: Unlisted stocks, etc. (carrying amount: 2,184,363 thousand yen) are not included in “Available-for-sale securities” in the above table because they have no market prices.

Current fiscal year (As of March 31, 2025)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	872,896	1,133,508	(260,612)
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	872,896	1,133,508	(260,612)
Total		872,896	1,133,508	(260,612)

Note: Unlisted stocks, etc. (carrying amount: 1,279,188 thousand yen) are not included in “Available-for-sale securities” in the above table because they have no market prices.

2. Available-for-sale securities sold

Previous fiscal year (From April 1, 2023 to March 31, 2024)

(Thousands of yen)

Type	Amount sold	Total gain on sales	Total loss on sales
(1) Stocks	232,079	54,703	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	232,079	54,703	–

Current fiscal year (From April 1, 2024 to March 31, 2025)

(Thousands of yen)

Type	Amount sold	Total gain on sales	Total loss on sales
(1) Stocks	152,662	135,700	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	152,662	135,700	–

3. Securities for which impairment losses were recognized

In the previous fiscal year, there were no securities for which impairment losses were recognized.

In the current fiscal year, impairment loss of 716,385 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 and 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, 2024)	Current fiscal year (As of March 31, 2025)
Selling, general and administrative expenses (Other)	84,682	96,199

2. Amount recognized as profit due to forfeited unexercised rights

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Gain on reversal of share acquisition rights	26,786	8,880

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

(1) Details of stock options

	5th series	6th series	7th series
Company name	Reporting company		
Category and number of people to whom stock options are granted	6 employees of the Company	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 1)	Common shares: 15,200 shares	Common shares: 332,400 shares	Common shares: 153,200 shares
Grant date	September 19, 2014	July 24, 2015	July 27, 2016
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	August 29, 2016 - August 28, 2024	June 26, 2017 - June 25, 2025	June 28, 2018 - June 27, 2026

	8th series	11th series	12th series
Company name	Reporting company		
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	3 Directors and 92 employees of the Company
Number of stock options by class of shares (Note 1)	Common shares: 625,600 shares	Common shares: 72,800 shares	Common shares: 109,400 shares
Grant date	September 27, 2017	July 24, 2018	July 24, 2019
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	August 31, 2019 - August 30, 2027	June 27, 2020 - June 26, 2028	June 27, 2021 - June 26, 2029

	13th series	1st series US-JP tax-qualified share acquisition rights	14th series
Company name	Reporting company		
Category and number of people to whom stock options are granted	3 Directors and 92 employees of the Company	6 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)	3 Directors and 36 employees of the Company
Number of stock options by class of shares	Common shares: 139,000 shares	Common shares: 68,400 shares	Common shares: 146,800 shares
Grant date	August 27, 2019	August 27, 2019	July 17, 2020
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	July 26, 2021 - July 25, 2029	July 26, 2021 - July 24, 2029	June 19, 2022 - June 18, 2030

	2nd series US-JP tax-qualified share acquisition rights	15th series	3rd series US-JP tax-qualified share acquisition rights
Company name	Reporting company		
Category and number of people to whom stock options are granted	3 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)	3 Directors and 107 employees of the Company	2 Directors of SOURCENEXT Inc. (currently POCKETALK Inc.) 5 employees of SOURCENEXT Inc. (currently POCKETALK Inc.)
Number of stock options by class of shares	Common shares: 55,500 shares	Common shares: 446,400 shares	Common shares: 98,500 shares
Grant date	July 17, 2020	July 16, 2021	July 16, 2021
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	June 19, 2022 - June 18, 2030	June 18, 2023 - June 17, 2031	June 18, 2023 - June 17, 2031

	16th series	1st series share-based remuneration type	17th series
Company name	Reporting company		
Category and number of people to whom stock options are granted	3 employees of the Company	4 Directors of the Company	3 Directors and 48 employees of the Company
Number of stock options by class of shares	Common shares: 15,200 shares	Common shares: 140,600 shares	Common shares: 378,800 shares
Grant date	August 27, 2021	July 16, 2021	July 19, 2022
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	July 31, 2023 - July 30, 2031	June 18, 2024 - June 17, 2031	June 21, 2024 - June 20, 2032

	2nd series share-based remuneration type	18th series	3rd series share-based remuneration type
Company name	Reporting company		
Category and number of people to whom stock options are granted	4 Directors of the Company	3 Directors and 88 employees of the Company	4 Directors of the Company
Number of stock options by class of shares	Common shares: 178,100 shares	Common shares: 679,500 shares	Common shares: 261,000 shares
Grant date	July 19, 2022	July 18, 2023	July 18, 2023
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	June 21, 2025 - June 20, 2032	June 20, 2025 - June 19, 2033	June 20, 2026 - June 19, 2033

	19th series	4th series share-based remuneration type	1st series
Company name	Reporting company		Consolidated subsidiary (POCKETALK CORPORATION)
Category and number of people to whom stock options are granted	3 Directors and 42 employees of the Company	4 Directors of the Company	2 Directors of POCKETALK CORPORATION 5 employees of POCKETALK CORPORATION
Number of stock options by class of shares	Common shares: 484,800 shares	Common shares: 263,600 shares	Common shares: 313 shares
Grant date	July 18, 2024	July 18, 2024	June 13, 2022
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	June 20, 2026 - June 19, 2034	June 20, 2027 - June 19, 2034	June 14, 2024 - June 10, 2032

	1st series US-JP tax-qualified share acquisition rights	2nd series	3rd series
Company name	Consolidated subsidiary (POCKETALK CORPORATION)		
Category and number of people to whom stock options are granted	2 Directors and 6 employees of POCKETALK Inc.	8 employees of POCKETALK CORPORATION	3 Directors of POCKETALK CORPORATION 21 employees of POCKETALK CORPORATION
Number of stock options by class of shares	Common shares: 342 shares	Common shares: 124 shares	Common shares: 598 shares
Grant date	June 13, 2022	December 31, 2022	October 31, 2023
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	June 11, 2024 - June 10, 2032	December 23, 2024 - December 22, 2032	October 27, 2025 - October 26, 2038

	2nd series US-JP tax-qualified share acquisition rights	4th series	5th series
Company name	Consolidated subsidiary (POCKETALK CORPORATION)		
Category and number of people to whom stock options are granted	2 Directors and 10 employees of POCKETALK Inc.	3 Directors of POCKETALK CORPORATION 4 employees of POCKETALK CORPORATION	30 employees of POCKETALK CORPORATION
Number of stock options by class of shares	Common shares: 487 shares	Common shares: 281 shares	Common shares: 334 shares
Grant date	October 31, 2023	April 30, 2024	June 30, 2024
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	October 27, 2025 - October 26, 2033	March 23, 2026 - March 22, 2039	June 1, 2026 - May 31, 2039

	3rd series US-JP tax-qualified share acquisition rights	1st series the Netherlands	6th series
Company name	Consolidated subsidiary (POCKETALK CORPORATION)		
Category and number of people to whom stock options are granted	2 Directors and 14 employees of POCKETALK Inc.	1 employee of POCKETALK B.V.	5 employees of POCKETALK CORPORATION
Number of stock options by class of shares	Common shares: 544 shares	Common shares: 74 shares	Common shares: 32 shares
Grant date	June 30, 2024	June 30, 2024	October 25, 2024
Vesting conditions	(Note 2)		
Vesting period	Not specified.		
Exercise period	June 1, 2026 - May 31, 2034	June 1, 2026 - May 31, 2034	October 10, 2026 - October 9, 2039

	4th series US-JP tax-qualified share acquisition rights
Company name	Consolidated subsidiary (POCKETALK CORPORATION)
Category and number of people to whom stock options are granted	1 employee of POCKETALK Inc.
Number of stock options by class of shares	Common shares: 20 shares
Grant date	October 25, 2024
Vesting conditions	(Note 2)
Vesting period	Not specified.
Exercise period	October 10, 2026 - October 9, 2034

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

2. 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.

(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, 2025). The number of stock options is translated into the number of shares.

i) Number of stock options

	5th series	6th series	7th series	8th series	11th series	12th series
Company name	Reporting company					
Before vested (Shares)						
As of March 31, 2024	–	–	–	–	–	–
Granted	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–
Vested	–	–	–	–	–	–
Unvested	–	–	–	–	–	–
After vested (Shares)						
As of March 31, 2024	2,400	209,600	138,800	396,000	62,400	83,100
Vested	–	–	–	–	–	–
Exercised	–	2,000	–	–	–	–
Forfeited	2,400	3,600	8,800	–	2,400	2,600
Exercisable	–	204,000	130,000	396,000	60,000	80,500

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.

	13th series	1st series US-JP tax-qualified share acquisition rights	14th series	2nd series US-JP tax-qualified share acquisition rights	15th series	3rd series US-JP tax-qualified share acquisition rights
Company name	Reporting company					
Before vested (Shares)						
As of March 31, 2024	–	–	–	–	–	–
Granted	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–
Vested	–	–	–	–	–	–
Unvested	–	–	–	–	–	–
After vested (Shares)						
As of March 31, 2024	105,800	50,300	115,800	55,500	370,100	94,600
Vested	–	–	–	–	–	–
Exercised	–	–	–	–	–	–
Forfeited	3,100	–	6,600	–	22,400	–
Exercisable	102,700	50,300	109,200	55,500	347,700	94,600

	16th series	1st series share-based remuneration type	17th series	2nd series share-based remuneration type	18th series	3rd series share-based remuneration type
Company name	Reporting company					
Before vested (Shares)						
As of March 31, 2024	–	140,600	358,000	178,100	663,300	261,000
Granted	–	–	–	–	–	–
Forfeited	–	–	7,900	–	40,100	–
Vested	–	140,600	350,100	–	–	–
Unvested	–	–	–	178,100	623,200	261,000
After vested (Shares)						
As of March 31, 2024	6,500	–	–	–	–	–
Vested	–	140,600	350,100	–	–	–
Exercised	–	–	–	–	–	–
Forfeited	6,500	–	19,000	–	–	–
Exercisable	–	140,600	331,100	–	–	–

	19th series	4th series share-based remuneration type	1st series	1st series US-JP tax-qualified share acquisition rights	2nd series	3rd series
Company name	Reporting company		Consolidated subsidiary (POCKETALK CORPORATION)			
Before vested (Shares)						
As of March 31, 2024	–	–	290	342	124	590
Granted	484,800	263,600	–	–	–	–
Forfeited	14,200	–	–	–	13	30
Vested	–	–	290	342	111	–
Unvested	470,600	263,600	–	–	–	560
After vested (Shares)						
As of March 31, 2024	–	–	–	–	–	–
Vested	–	–	290	342	111	–
Exercised	–	–	–	–	–	–
Forfeited	–	–	11	–	–	–
Exercisable	–	–	279	342	111	–

	2nd series US-JP tax-qualified share acquisition rights	4th series	5th series	3rd series US-JP tax-qualified share acquisition rights	1st series the Netherlands	6th series
Company name	Consolidated subsidiary (POCKETALK CORPORATION)					
Before vested (Shares)						
As of March 31, 2024	487	–	–	–	–	–
Granted	–	281	334	544	74	32
Forfeited	–	–	30	–	–	5
Vested	–	–	–	–	–	–
Unvested	487	281	304	544	74	27
After vested (Shares)						
As of March 31, 2024	–	–	–	–	–	–
Vested	–	–	–	–	–	–
Exercised	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–
Exercisable	–	–	–	–	–	–

	4th series US-JP tax-qualified share acquisition rights
Company name	Consolidated subsidiary (POCKETALK CORPORATION)
Before vested (Shares)	
As of March 31, 2024	–
Granted	20
Forfeited	–
Vested	–
Unvested	20
After vested (Shares)	
As of March 31, 2024	–
Vested	–
Exercised	–
Forfeited	–
Exercisable	–

ii) Per share price

(Yen)

	5th series	6th series	7th series	8th series	11th series	12th series
Company name	Reporting company					
Exercise price	239	197	147	139	445	437
Average price per share upon exercise	–	224	–	–	–	–
Fair value per share at grant date	148.25	91.75	71.25	59.75	226.50	164.00

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.

(Yen)

	13th series	1st series US-JP tax-qualified share acquisition rights	14th series	2nd series US-JP tax-qualified share acquisition rights	15th series	3rd series US-JP tax-qualified share acquisition rights
Company name	Reporting company					
Exercise price	436	436	317	317	333	333
Average price per share upon exercise	–	–	–	–	–	–
Fair value per share at grant date	177.00	177.00	110.00	110.00	131.00	131.00

(Yen)

	16th series	1st series share-based remuneration type	17th series	2nd series share-based remuneration type	18th series	3rd series share-based remuneration type
Company name	Reporting company					
Exercise price	324	1	259	1	213	1
Average price per share upon exercise	–	–	–	–	–	–
Fair value per share at grant date	81.00	309.00	98.00	230.00	82.00	188.00

(Yen)

	19th series	4th series share-based remuneration type	1st series	1st series US-JP tax-qualified share acquisition rights	2nd series	3rd series
Company name	Reporting company		Consolidated subsidiary (POCKETALK CORPORATION)			
Exercise price	230	1	200,000	200,000	200,000	200,000
Average price per share upon exercise	–	–	–	–	–	–
Fair value per share at grant date	111.00	229.00	–	–	–	–

(Yen)

	2nd series US-JP tax-qualified share acquisition rights	4th series	5th series	3rd series US-JP tax-qualified share acquisition rights	1st series the Netherlands	6th series
Company name	Consolidated subsidiary (POCKETALK CORPORATION)					
Exercise price	200,000	200,000	200,000	200,000	200,000	200,000
Average price per share upon exercise	–	–	–	–	–	–
Fair value per share at grant date	–	–	–	–	–	–

(Yen)

	4th series US-JP tax-qualified share acquisition rights
Company name	Consolidated subsidiary (POCKETALK CORPORATION)
Exercise price	200,000
Average price per share upon exercise	–
Fair value per share at grant date	–

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2025

   Reporting company

   (1) Valuation method: Black-Scholes Model

   (2) Main basic numerical values and estimation method

	19th series	4th series share-based remuneration type
Volatility of share price (Note 1)	51.85%	51.73%
Estimated exercisable period (Note 2)	5.93 years	2.92 years
Estimated dividend (Note 3)	0 yen per share	0 yen per share
Risk-free interest rate (Note 4)	0.617%	0.369%

Notes:
1. Calculated based on the stock market performance in the period from August 16, 2018 to July 18, 2024 for the 19th series stock options, and the stock market performance in the period from August 16, 2021 to July 18, 2024 for the 4th series share-based-remuneration-type stock options.
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 yen based on the actual dividends paid for the fiscal year ended March 31, 2024.
4. The risk-free interest rate for the 19th series stock options is the yield of Japanese Government bonds with a redemption date of June 20, 2030, on the measurement record date; and that for the 4th series share-based-remuneration-type stock options is the yield of Japanese Government bonds with a redemption date of June 20, 2027, on the measurement record date.

Consolidated subsidiary (POCKETALK CORPORATION)

Because such consolidated subsidiary was a private company upon the stock option grant date, the intrinsic value of the fair value per share of stock options is used for the value per share of stock options. Additionally, the discounted cash flow (DCF) method has been adopted as the valuation method for the shares of such company, which form the basis of calculating intrinsic value per share.

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, 2024)	Current fiscal year (As of March 31, 2025)
Deferred tax assets		
Valuation loss on finished goods	81,429	255,285

	Previous fiscal year (As of March 31, 2024)	Current fiscal year (As of March 31, 2025)
Enterprise tax payable	12,953	20,354
Depreciation	44,438	48,401
Amortization of software	18,661	31,202
Amortization of trademark right	7,351	3,926
Sales recognized for tax purposes	120,001	65,238
Tax loss carried forward (Note 2)	2,394,283	3,599,053
Loss on valuation of investment securities	370,567	159,549
loss on valuation of shares of subsidiaries and associates	–	107,285
Stocks of successor company after the company split	–	104,979
Other	45,809	68,286
Subtotal deferred tax assets	3,095,496	4,463,564
Valuation allowance for tax loss carried forward (Note 2)	(2,390,087)	(4,462,599)
Valuation allowance for total of deductible temporary differences and others	(499,112)	(964,800)
Subtotal valuation allowance (Note 1)	(2,889,199)	(4,461,634)
Total deferred tax assets	206,296	964
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(365,934)	(3,644)
Other	(2,225)	–
Total deferred tax liabilities	(368,160)	(3,644)
Net deferred tax assets (liabilities)	(161,863)	(3,644)

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, 2024)

(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	Total
Tax loss carried forward (*)	17,895	36,617	–	–	–	2,339,770	2,394,283
Valuation allowance	(17,032)	(35,492)	–	–	–	(2,337,562)	(2,390,087)
Deferred tax assets	862	1,125	–	–	–	2,207	4,195

Current fiscal year (As of March 31, 2025)

(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	Total
Tax loss carried forward (*)	36,617	–	–	–	31,353	3,531,082	3,599,053
Valuation allowance	(35,653)	–	–	–	(31,353)	(3,531,082)	(3,598,088)
Deferred tax assets	964	–	–	–	–	–	964

(*) 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

Information is omitted because the Company posted a loss before income taxes for the period.

Business combination, etc.

Not applicable.

Asset retirement obligations

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

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

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)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
POCKETALK	3,613,750	3,979,444
Postcards	1,363,027	1,179,929
Security	768,024	708,960
Other software	3,956,368	3,717,321
Other hardware	1,633,195	1,870,241
Total	11,334,366	11,455,896

   (2) By sales channel

(Thousands of yen)

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Online shops	5,008,726	5,231,026
Corporate sales	2,976,059	2,323,010
Overseas sales, etc.	1,483,992	2,301,246
Consumer electronics retailers	1,865,588	1,600,613
Total	11,334,366	11,455,896

Note: Due to the increasing importance of overseas sales, the sales channel name previously referred to as "Other" was changed to "Overseas sales, etc." starting from the current fiscal year. This change is a change of name only, and does not affect the content.

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, (4) 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)

	Previous fiscal year	Current fiscal year
Contract liabilities (balance at beginning of period)	666,732	805,525
Contract liabilities (balance at end of period)	805,525	906,966

Contract liabilities consist primarily of unearned revenues from customers for telecommunication services. Contract liabilities are reversed when revenue is recognized. Of the revenue recognized in the current fiscal year, the amount that was included in balance of contract liabilities at the beginning of the period was 529,274 thousand yen.

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, 2023 to March 31, 2024)

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

Current fiscal year (From April 1, 2024 to March 31, 2025)

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

Information associated with reportable segments

Previous fiscal year (From April 1, 2023 to March 31, 2024)

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

(Thousands of yen)

Japan	United States	Other	Total
9,906,838	1,323,769	103,758	11,334,366

   (2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Other	Total
74,440	65,620	365	140,426

3. Information by major customer

   Not applicable.

Current fiscal year (From April 1, 2024 to March 31, 2025)

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

(Thousands of yen)

Japan	United States	Other	Total
9,200,386	2,110,171	145,339	11,455,896

   (2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Other	Total
73,172	26,525	1,472	101,170

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, 2023 to March 31, 2024)

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

Current fiscal year (From April 1, 2024 to March 31, 2025)

The information has been omitted since the Group operates a single segment of planning, development and sales of IoT products and software as well as 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, 2023 to March 31, 2024)

   Not applicable.

   Current fiscal year (From April 1, 2024 to March 31, 2025)

   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, 2023 to March 31, 2024)

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, 2024 (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)	16,000	–	–

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.

Current fiscal year (From April 1, 2024 to March 31, 2025)

Not applicable.

(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

(Yen)	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Net assets per share	59.56	53.97
Earnings (loss) per share	(16.01)	(28.65)
Diluted earnings per share	–	–

Notes: 1. Even though the Company has dilutive shares, diluted earnings per share are not presented because a net loss per share was recorded for the term.

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

	Previous fiscal year (From April 1, 2023 to March 31, 2024)	Current fiscal year (From April 1, 2024 to March 31, 2025)
Earnings (loss) per share		
(Loss) attributable to owners of parent (Thousands of yen)	(2,169,984)	(3,896,757)
Amounts not attributable to common shareholders (Thousands of yen)	–	–
(Loss) attributable to owners of parent related to common shares (Thousands of yen)	(2,169,984)	(3,896,757)
Average number of common shares outstanding during the period (Shares)	135,553,950	136,017,207

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, 2024 (Thousands of yen)	Balance as of March 31, 2025 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term borrowings	3,825,000	3,600,000	1.82	–
Current portion of long-term borrowings	520,080	519,312	0.76	–
Long-term borrowings (excluding current portion)	1,609,740	1,259,498	1.50	2032
Total	5,954,820	5,378,810	–	–

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

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

(Thousands of yen)

	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term borrowings	238,892	474,232	274,232	74,232

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, 2025

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	2,516,648	5,184,735	8,650,079	11,455,896
Profit (loss) before income taxes (Thousands of yen)	(592,314)	(1,707,084)	(2,065,671)	(4,234,108)
Profit (loss) attributable to owners of parent (Thousands of yen)	(544,644)	(1,681,295)	(1,919,385)	(3,896,757)
Earnings (loss) per share (Yen)	(4.02)	(12.40)	(14.15)	(28.65)

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Earnings (loss) per share	(Yen)	(4.02)	(8.38)	(1.75)	(14.42)

Note: The Company prepares quarterly financial information for the first three months and nine months in accordance with the regulations of the financial instruments exchange, but has not received interim reviews of such quarterly financial information.

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) Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Shareholder register administrator	(Special account) Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
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:
1. 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
2. The Company has proposed "Partial Amendment to the Articles of Incorporation" as a proposal (matters to be resolved) at the Annual Shareholders Meeting scheduled to be held on June 20, 2025. If this proposal is approved, the fiscal year will be as follows:

Fiscal year	From January 1 to December 31
Record date	December 31
Record dates for dividends of surplus	June 30 December 31

The 30th fiscal year will cover the nine months from April 1, 2025 to December 31, 2025.

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

   28th term (From April 1, 2023 to March 31, 2024) Filed to Director-General of Kanto Local Finance Bureau on June 20, 2024.

   (2) Internal Control Report and Appendices

   Filed to Director-General of Kanto Local Finance Bureau on June 20, 2024.

   (3) Semi-annual Securities Report and Written Confirmation

   (First half of the 29th term) (from April 1, 2024 to September 30, 2024)
   Filed to Director-General of Kanto Local Finance Bureau on November 13, 2024.

   (4) Extraordinary Securities Reports

   Filed to Director-General of Kanto Local Finance Bureau on June 20, 2024.

   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 Order on Disclosure of Corporate Affairs.

   Filed to Director-General of Kanto Local Finance Bureau on June 20, 2024.

   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 Order on Disclosure of Corporate Affairs.

   Filed to Director-General of Kanto Local Finance Bureau on May 19, 2025.

   Extraordinary Securities Report based on Article 19, paragraph 2, item 12 and item 19 (occurrence of an event that may have serious effects on the financial position, operating results and cash flow status) of the Cabinet Office Order on Disclosure of Corporate Affairs.

   (5) Amendment Report of Extraordinary Securities Reports

   Filed to Director-General of Kanto Local Finance Bureau on July 19, 2024.

   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 Order on Disclosure of Corporate Affairs.

   (6) Securities Registration Statement and Appendices

   Securities Registration Statement (issuance of new share subscription rights through third-party allotment) and Appendices

   Filed to Director-General of Kanto Local Finance Bureau on October 2, 2024.

   (7) Notification of Amendment to Securities Registration Statement

   Notification of Amendment to the Securities Registration Statement filed on October 2, 2024

   Filed to Director-General of Kanto Local Finance Bureau on October 8, 2024.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 18, 2025

SOURCENEXT Corporation
The Board of Directors

PricewaterhouseCoopers Japan LLC
Tokyo Office

Toshimitsu Wakayama
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

Tetsuro Iwase
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

<Audit of Consolidated 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, 2024 through March 31, 2025.

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, 2025, 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.

<table>
<tr><td colspan="2">Valuation of inventories related to the AI-powered translation device POCKETALK
Notes (Significant accounting estimates)</td></tr>
<tr><td>Content of key audit matters and grounds for decision</td><td>How these matters were addressed in the audit</td></tr>
<tr><td>The Company recorded 2,646,768 thousand yen of merchandise and finished goods on the consolidated balance sheet at the end of the current fiscal year. The Company’s mainstay product is POCKETALK, an AI-powered translation device.

As described in Notes (Significant accounting estimates), in valuing the inventory of POCKETALK, the Company writes down the book value to an appropriate amount based on past sales performance and future sales plans if profitability is deemed to have declined.

During the current fiscal year, the Company recorded, in the cost of sales, a valuation loss on old products which were returned following the launch of the “POCKETALK S2” and required repair due to the passage of time since their manufacture. For other devices, the Company determined that recording a valuation loss is unnecessary, as the Company plans to sell more than the inventory remaining at the end of the current fiscal year.

Although important assumptions in valuing the inventory of POCKETALK are future POCKETALK sales volumes, since they involve uncertainty over the estimates and subjective judgments by the management, we judged that this matter falls under the scope of key audit matters.</td><td>We performed the following procedures, among others, to assess the reasonableness of the valuation of inventories related to POCKETALK.

(1) Assessments of internal control
We evaluated the effectiveness of the development and operational status of internal controls related to the inventory valuation process.

(2) Examination of the reasonableness of the valuation of inventories related to POCKETALK
We performed procedures to verify key assumptions included in the sales plan related to POCKETALK, including the following.

• Questioned management regarding the future POCKETALK sales volumes estimates used in sales plans.

• Ensured that the sales plan used in the inventory valuation of POCKETALK is not unreasonable in light of recent sales.

• Examined the achievement of past sales plans and the causes of differences.</td></tr>
</table>

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 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. 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 the 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.
- Plan and perform audit of the consolidated financial statements to obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to provide a basis for the audit opinion on the consolidated financial statements. The auditor is responsible for directing, supervising, and inspecting the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

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

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

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 audit 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 audit 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, 2025 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, 2025 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.
- Plan and perform internal control audit in order to 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 directing, supervising, and inspecting the audit of the Internal Control Report, and is solely responsible for the audit opinion.

The auditor reports to the Auditors and the Board of Auditors 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 measures in place to eliminate obstacles or any safeguards applied in order to reduce obstacles to an acceptable level.

<Fee-related Information>

The fees for audit certification services and for non-audit services for the Company and its subsidiaries paid to us and persons that belong to the same network of us are stated in "Explanation about corporate governance, etc., (3) Status of Audit" included in "Information about reporting company."

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

Notes: 1. The original of the above audit report 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.