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Annual Securities Report

The 28th Fiscal Year　　From April 1, 2022 to March 31, 2023

Digital Arts Inc.

Annual Securities Report

1. This document is a printed output of the annual securities report under Paragraph 1, Article 24 of the Financial Instruments and Exchange Act with data provided using the Electronic Disclosure for Investors' NETwork (EDINET) as set forth in Article 27-30-2 of the said Act, with the table of contents and page numbers attached.
2. This document includes the Independent Auditors' Audit Report attached to the Annual Securities Report provided using the method described above and the Internal Control Audit Report and the Representation from Management, both of which were provided together with the Annual Securities Report described above, at the end hereof.

Contents

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Part I. Corporate Information

Section I. Corporate Summary

1. Financial Highlights

(1) Consolidated Management Indicators, etc.

Fiscal Year		24th fiscal year	25th fiscal year	26th fiscal year	27th fiscal year	28th fiscal year
Year end		March 2019	March 2020	March 2021	March 2022	March 2023
Net sales	(Million yen)	5,841	5,641	6,825	9,051	10,436
Ordinary profit	(Million yen)	2,630	2,326	2,991	4,135	4,429
Profit attributable to owners of parent	(Million yen)	1,961	1,590	2,059	2,900	3,062
Comprehensive income	(Million yen)	1,977	1,587	2,063	2,910	3,067
Net assets	(Million yen)	7,802	8,680	10,062	12,159	14,173
Total assets	(Million yen)	9,859	10,852	14,856	19,341	21,149
Net assets per share	(Yen)	558.33	617.27	715.79	863.96	1,007.27
Basic profit per share	(Yen)	141.11	113.69	146.90	206.71	218.12
Diluted profit per share	(Yen)	140.80	110.83	143.45	202.03	213.92
Capital ratio	(%)	78.7	79.7	67.6	62.7	66.9
Return on equity	(%)	28.1	19.4	22.0	26.2	23.3
Price earnings ratio	(Times)	64.13	41.08	65.96	35.90	23.38
Cash flows from operating activities	(Million yen)	3,091	2,686	5,221	6,169	3,147
Cash flows from investing activities	(Million yen)	(908)	111	(830)	(978)	(867)
Cash flows from financing activities	(Million yen)	(429)	(709)	(671)	(810)	(1,051)
Cash and cash equivalents at end of period	(Million yen)	5,569	7,651	11,382	15,773	17,018
Number of employees [Average number of part-time employees, etc.]	(Persons)	207 [26]	236 [22]	295 [19]	324 [22]	353 [31]

(Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).

2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. since the beginning of the 27th fiscal year and the accounting standard, etc. are applied to major management indicators, etc. from the 27th fiscal year.

(2) Financial Data of the Reporting Company

Fiscal Year		24th fiscal year	25th fiscal year	26th fiscal year	27th fiscal year	28th fiscal year
Year end		March 2019	March 2020	March 2021	March 2022	March 2023
Net sales	(Million yen)	5,752	5,336	6,074	8,003	8,984
Ordinary profit	(Million yen)	2,777	2,359	2,964	4,052	4,407
Profit	(Million yen)	1,784	1,613	2,044	2,832	3,048
Share capital	(Million yen)	713	713	713	713	713
Number of issued shares	(Shares)	14,133,000	14,133,000	14,133,000	14,133,000	14,133,000
Net assets	(Million yen)	7,804	8,714	10,078	12,097	14,091
Total assets	(Million yen)	9,870	10,839	14,751	19,138	20,780
Net assets per share	(Yen)	559.74	620.45	717.78	860.82	1,002.92
Dividend per share [Interim dividend per share]	(Yen)	48 [18]	50 [25]	55 [25]	70 [30]	75 [35]
Basic profit per share	(Yen)	128.42	115.29	145.81	201.83	217.15
Diluted profit per share	(Yen)	128.14	112.39	142.38	197.26	212.97
Capital ratio	(%)	78.8	80.2	68.3	63.1	67.8
Return on equity	(%)	25.1	19.6	21.8	25.6	23.3
Price earnings ratio	(Times)	70.47	40.51	66.46	36.76	23.49
Dividend payout ratio	(%)	37.4	43.4	37.7	34.7	34.5
Number of employees [Average number of part-time employees, etc.]	(Persons)	201 [26]	214 [21]	236 [19]	254 [22]	246 [31]
Total shareholder return	(%)	221.4	116.0	239.5	186.0	131.3
[Benchmark index: TOPIX (Tokyo Stock Price Index)]	(%)	[95.0]	[85.9]	[122.1]	[124.6]	[131.8]
Year high	(Yen)	9,560	11,240	10,990	10,680	8,140
Year low	(Yen)	3,980	3,625	4,345	5,660	4,940

(Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).

2. Year high and year low indicate stock prices on the First Section of the Tokyo Stock Exchange on or before April 3, 2022 and on the Prime Market of the Tokyo Stock Exchange on or after April 4, 2022.

3. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. since the beginning of the 27th fiscal year and the accounting standard, etc. are applied to major management indicators, etc. from the 27th fiscal year.

2. Corporate History

Month/Year	Description
June 1995	Digital Arts Inc. is incorporated (capital: 10 million yen) in Minato-ku, Tokyo and commences operations to develop and market software for the internet
August 1998	Digital Arts Inc. develops the first web filtering software in Japan and launches initiatives to accumulate information on harmful websites
January 2000	Digital Arts Inc. increases capital to 40 million yen
January 2000	Digital Arts Inc. relocates head office to Kita-Aoyama, Minato-ku, Tokyo
March 2000	Digital Arts Inc. increases capital to 491 million yen
May 2000	Digital Arts Inc. launches NET iScope, an internet monitoring service
September 2002	Digital Arts Inc. is listed on Nasdaq Japan of the Osaka Securities Exchange (currently JASDAQ Standard) Digital Arts Inc. increases capital to 552.2 million yen
September 2004	Digital Arts Inc. transfers NET iScope (internet monitoring service) business to shift corporate focus to filtering software
October 2004	Digital Arts Inc. begins operations at Kyushu Branch Office (currently Kyushu Sales Office)
February 2005	Digital Arts Inc. acquires patent in 22 countries and regions for internet access control involving filtering technology
October 2005	Digital Arts Inc. relocates head office to Nagatacho, Chiyoda-ku, Tokyo
August 2006	Digital Arts Inc. begins operations at Osaka Sales Office (currently Kansai Sales Office)
November 2007	Digital Arts Inc. begins operations at Nagoya Sales Office (currently Chubu Sales Office)
February 2008	Digital Arts Inc. is certified as a Privacy Mark enterprise
January 2009	Digital Arts Inc. begins operations at Sapporo Sales Office (currently Hokkaido Sales Office)
December 2009	Digital Arts Inc. begins operations at Tohoku Sales Office
April 2011	Digital Arts America, Inc. is established as a US subsidiary Digital Arts Europe Ltd. is established as a UK subsidiary
November 2011	Digital Arts Inc. relocates head office to Otemachi, Chiyoda-ku, Tokyo
February 2012	Digital Arts Inc. is listed on the Second Section of the Tokyo Stock Exchange
March 2013	Digital Arts Inc. is listed on the First Section of the Tokyo Stock Exchange
November 2015	Digital Arts Asia Pacific Pte. Ltd. is established as a Singapore subsidiary
February 2016	UK subsidiary changes trade name to FinalCode Europe Ltd. Singapore subsidiary changes trade name to FinalCode Asia Pacific Pte. Ltd.
April 2016	Digital Arts Consulting Inc. is established
October 2016	Digital Arts Inc. begins operations at Chushikoku Sales Office
December 2018	UK subsidiary changes trade name to Digital Arts Europe Limited Singapore subsidiary changes trade name to Digital Arts Asia Pacific Pte. Ltd.
March 2020	Digital Arts Inc. acquires certification for the ISO/IEC 27001:2013 (JIS Q 27001:2014) international standard for information security management systems (ISMS).
November 2020	Digital Arts Inc. acquires certification for the ISO/IEC 27017:2015 (JIS Q 27017:2016) international standard that specializes in cloud security.
December 2021	Digital Arts Inc.'s DigitalArts@Cloud is registered in the "Information system Security Management and Assessment Program" (ISMAP).
April 2022	Moves from the Tokyo Stock Exchange's First Section to the Prime Market as a result of the revision of market segments of the Tokyo Stock Exchange.

3. Business Summary

The Digital Arts Group is comprised of Digital Arts Inc. and its four consolidated subsidiaries and is principally engaged in internet security, email security, the planning, development, sale, etc. of file encryption and tracking solutions, and information security consulting.

Business positioning of Digital Arts Inc. and its consolidated subsidiaries

Company name	Principal business
Digital Arts Inc.	Planning, development and sale of internet security software and appliance products
Digital Arts America, Inc.	Sale of FinalCode (a file encryption and tracking solution)
Digital Arts Asia Pacific Pte. Ltd.	Sale of FinalCode (a file encryption and tracking solution)
Digital Arts Europe Limited	Sale of FinalCode (a file encryption and tracking solution)
Digital Arts Consulting Inc.	Consulting services

In the world of the Internet, we are endlessly inundated with all kinds of information. Although using the Internet has made it much easier to gather information, methods of controlling information posted on the Internet and providing protection from malicious websites have yet to be established and Internet users run a very high risk of unintentionally encountering problematic websites. Meanwhile, email, though an essential business tool, also poses many security challenges, such as data leakage due to transmission errors, spam and spoofed messages, and risks of virus infection resulting from receiving malicious files. Additionally, personal information, data from outsourcing parties and other electronic data, which are now part of important management assets, are also exposed to growing risks of data leaks due to insiders' unauthorized taking-out of information, theft or loss of devices, email transmission errors and other operational errors.

While many companies and other organizations are facing the challenges and risks outlined above, the Digital Arts Group proposes White Operation, which means protecting customers from unknown threats and attacks with a comprehensive database of domestically searchable URLs and information of email messages from senders that are deemed safe. We are thus striving to expand sales with a focus on i-FILTER Ver. 10, m-FILTER Ver. 5 and FinalCode. The first two products are equipped not only with measures against the leakage of insider data but also with original measures against external attacks, whereas FinalCode supports the encryption and traceability of electronic data. Amid the rapid shift of online services and email environments to the cloud following the spread of teleworking among businesses, the Digital Arts Group is working to expand sales of i-FILTER@Cloud, m-FILTER@Cloud and FinalCode@Cloud for offering the secure use of websites and email in the cloud environment and for accelerating the development of products supporting more extensive security measures.

The Digital Arts Group has no business segments that need to be reported on separately and therefore has only one reportable segment: the Security Business.

Main Products

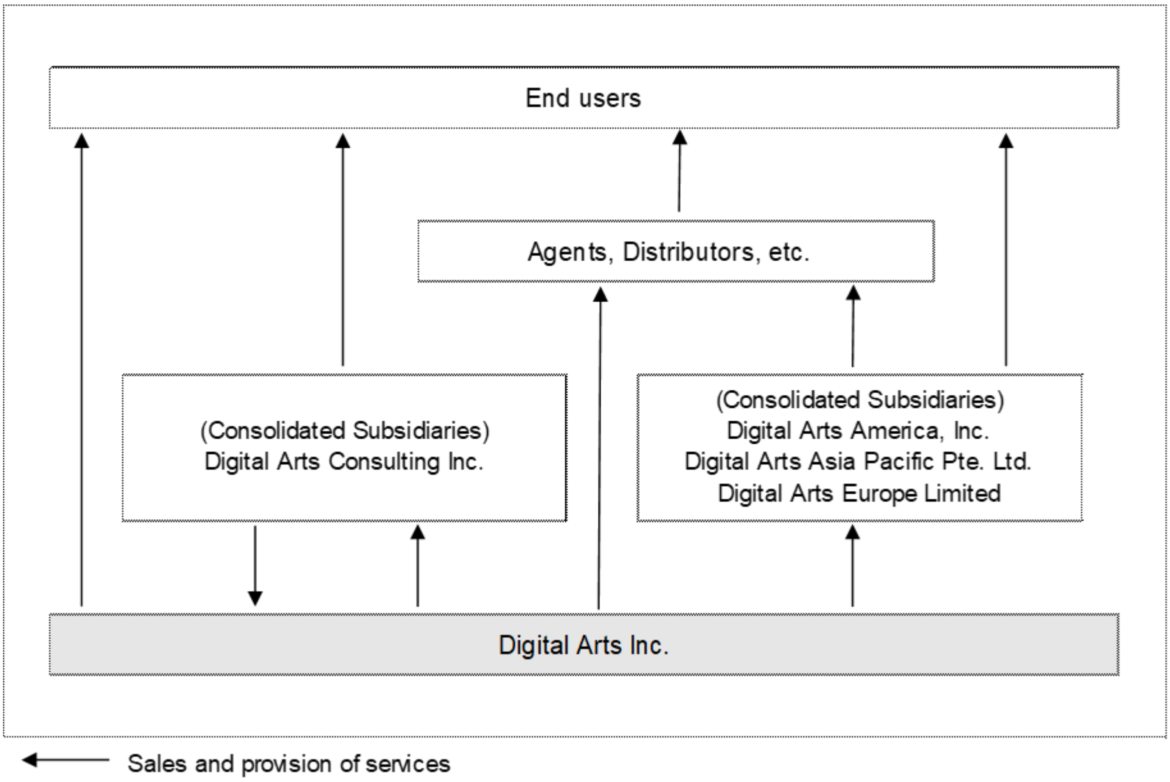
User category	Main products	Company name
Enterprise Sector	- i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution) -DigitalArts@Cloud （(Comprehensive cloud security covering web browsing, email and files) -Desk (Chat/online conference tool), etc.	Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc.
Public Sector	- i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution) -DigitalArts@Cloud （(Comprehensive cloud security covering web browsing, email and files) -Desk (Chat/online conference tool), etc.	Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc.
Consumer Sector	-i-FILTER (Web filtering software)	Digital Arts Inc.

Features of Main Products

Main products	Features
i-FILTER	Web filtering to counter information leaks and targeted attacks Web filtering uses a whitelist database to block access to dangerous URLs not registered in the database. It categorizes adult websites and other websites with inappropriate content for working and learning environments and stops users from viewing them in line with the policy of the organization in question. Main Applications - Protection against targeted attacks - Protection against watering hole attacks - Protection against phishing - Internet access control - Access log monitoring
m-FILTER	m-FILTER possesses email filtering, email archiving and antispam capabilities, protecting against targeted attacks and information leaks such as mis-transmission, promoting internal control through the storage and management of all emails, and improving business efficiency through protection against spam emails. Email filtering is a function that only allows users to receive safe emails, preventing them from receiving targeted emails by storing safe senders in a whitelist database and determining the safety of senders and also identifying fake email attachments and emails. It also stops intentional and accidental information leaks by forwarding messages to a sender’s manager for approval or delaying transmission for a certain period. Main Applications - Protection against targeted emails - Prevention of e-mail mis-transmission - Email archiving - Protection against spam emails

Main products	Features
FinalCode	Password-less encryption service for tracking and remotely controlling files Enables designation of file recipients, configuration of permissions, access log monitoring by file owner, permission changes after file distribution and remote file deletion Main Applications - Protection against leakage of confidential information - Protection against internal fraud - Protection against supply chain attacks - File encryption and access control - File tracking - Remote file deletion
D-SPA	Appliance comprising both hardware and i-FILTER software Pre-built, pre-configured and ready-to-run appliance that saves time and labor by removing the need to select and purchase hardware, operating systems and applications separately
「DigitalArts@Cloud」	Comprehensive cloud security covering web browsing, email, files and communication A solution covering both measures against external attacks and measures against internal leaks and providing automatic encryption of internal business files and control over files offered to outsiders in the form of cloud services. An integrated report screen provides a one-stop comprehensive display about the possibilities of external attacks from web browsing, email and files and internal data leaks. Main Applications - Web Security - Mail Security - File Security
Desk	A chat/online conference/webinar system that allows communication only within a company/organization or with users invited by the user The “comfort/convenience” of being able to communicate wherever there is an Internet environment, and the implementation of communication in a closed environment within the organization eliminates the risk of information leaks due to communication with uninvited users outside the organization. Main Applications - Call - Text chat - Online meetings - Webinar
i-FILTER (Consumer)	Filtering software mainly for families, libraries, internet cafes, etc. Protects users of smartphones, tablets and computers from dangers of the Internet by restricting access to harmful websites. Main Applications - Web filtering - Web usage reporting - Restriction of time spent online

The Group’s business organization chart is as follows



4. Related Companies

Company name	Address	Share capital (Million yen)	Principal business	Percentage of voting rights (%)	Relationship
(Consolidated Subsidiaries)					
Digital Arts America, Inc.	4675 Stevens Creek Blvd. Suite 130 Santa Clara, CA 95051, USA	24	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Asia Pacific Pte. Ltd. (Note) 1	8 Temasek Boulevard #35-02A Suntec Tower Three Singapore 038988	242	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Europe Limited	Centrum House, 36 Station Road, Egham, Surrey TW20 9LF United Kingdom	23	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Consulting Inc. (Note) 1,2	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	73	Security business	91.9	Sale of the Company's products Provision of services Business outsourcing Interlocking directorates

(Notes) 1. Digital Arts Asia Pacific Pte. Ltd. and Digital Arts Consulting Inc. fall under the category of a specified subsidiary.
2. Digital Arts Consulting Inc.'s net sales account for over 10% of consolidated net sales (excluding inter-company net sales between consolidated companies).

Key information on profit and loss and other items of Digital Arts Consulting Inc.

Net sales (Million yen)	Ordinary profit (Million yen)	Profit (Million yen)	Net assets (Million yen)	Total assets (Million yen)
1,663	33	26	254	534

5. Employment Data

(1) Consolidated Basis

As of March 31, 2023

Category	Number of employees
Security business	353 (31)
Total	353 (31)

(Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).
2. Segment information is omitted because the Digital Arts Group operates in one segment only (the security business) and has no other business segments.

(2) The Reporting Company

As of March 31, 2023

Number of employees	Average age	Average length of service in years	Average annual salary (thousand yen)
246 (31)	34.7	6.5	5,686

(Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).
2. Segment information is omitted because the Company operates in one segment only (the security business) and has no other business segments.
3. Average annual salary includes any bonuses and extra wages.

(3) Relationship with Labor Union

A labor union has not been established, but amicable labor-management relations have been maintained.

(4) Percentage of female employees in management positions, percentage of eligible male employees taking childcare leave, and wage gap between male and female employees

Reporting company

Fiscal year under review		
Percentage of female employees in management positions (%) (Note 1)	Percentage of eligible male employees taking childcare leave (%) (Note 2)	Wage gap between male and female regular employees (%) (Note 1)
8.6	0	80.1

(Notes) 1. Calculated based on the provisions of the Act on the Promotion of Female Participation and Career Advancement in the Workplace (Act No. 64 of 2015)

2. Percentage of eligible male employees taking childcare leave under Article 71-4 (i) 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) based on 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).

Section II. Business Summary

1. Management Policy, Operating Environment and Business Issues to Be Considered

Matters concerning the future stated below are based on the Group's assessments as of the end of the fiscal year under review.

(1) Management Policy

With "For Internet convenience, safety and security" as its corporate philosophy, the Digital Arts Group aims to provide peace of mind, safety and comfort as a software maker, to realize an Internet society in which all kinds of people, things and experiences are connected via the Internet, enabling creative and innovative advances that enrich people's lives.

(2) Management Strategies, etc.

In accordance with the corporate philosophy described above, the Group aims to grow into a comprehensive security provider in the medium term and launched a medium-term management plan covering the three years from April 2022 to March 2025. The Group will focus on three initiatives for growth, to meet increasingly diverse and sophisticated security needs and to realize the provision of total security and further brand penetration.

Initiatives for growth

- Steady organic growth
- Expansion of security products and services
- Drawing attention to high expertise (Digital Arts Consulting)

(3) Objective Indicators for Judging Status of Achievement of Management Goals

The Group has formulated a medium-term management plan which terminates in the fiscal year ending March 31, 2025, aiming to grow into a comprehensive security provider in the medium term, and has adopted the contract amount growth rate, the net sales growth rate, the operating margin, and return on equity (ROE) as objective indicators for judging the status of achievement of these management goals. Since our core products have a contract period of one year or longer, the Group and its distributors conduct sales activities with the objective of achieving growth in the contract amount. Accordingly, we attach importance to the contract amount growth rate as well as to other commonly used management indicators.

As for the management indicators under the medium-term management plan, we will work to be able to achieve the following targets.

(Million yen)

	Fiscal Year Ended March 31, 2023 (Results)	Fiscal Year Ended March 31, 2024 (Forecast)	Fiscal Year Ended March 31, 2025 (Forecast)
Consolidated net sales	10,436	11,500	13,000
Consolidated operating profit	4,413	5,150	5,700
Consolidated operating margin	42%	45%	44%

(4) Operating Environment and Business and Financial Issues to Be Addressed

In the security industry, in which the Digital Arts Group (the "Group") operates, the scope of the Internet continues to expand as society becomes increasingly digitalized through more widespread teleworking and home learning and the utilization of various cloud services. The importance of security solutions is growing in response to the risk of information leaks and ever more sophisticated and devious cyber attacks, including targeted attacks against specific enterprises, government agencies and other organizations.

The Group recognizes the following as issues to be addressed for achievement of the medium-term management plan.

(i) Stable and continuous growth of existing business

The Group has maintained long-standing relationships and achieved stable and continuous growth by sincerely addressing and meeting the requirements of its users and distributors. We will continue to put our relationships with our users and distributors first and strive to strengthen our products and improve our services with the aim of achieving stable and continuous growth.

(ii) Identification of new needs

Due to advances in technology such as cloud services, the IoT, AI and ICT, and the expansion of the Internet business domain, security threats are increasing. In this environment, the Group will predict potential future needs through sales and development activities and market research and identify new needs by expanding its product lineup and services through the research and development of new solutions.

(iii) Securing and developing human resources

The Group recognizes that securing and developing talented human resources is important for its growth in the medium and long term. The Group therefore continuously reviews its personnel programs to ensure that it offers attractive levels of pay, a fair evaluation program and a full lineup of employee training programs and we also strive to attract and retain talented human resources by actively engaging in both new graduate and mid-career recruitment. It is also a priority for us that existing employees increase their productivity and acquire knowledge and skills, and we seek to develop human resources by supporting employees to gain qualifications and by providing internal position-based training and training delivered by outside specialists.

(iv) Sustainability initiatives

Based on its corporate philosophy, the Group has established a “Sustainability Committee” for the purpose of preserving the global environment and realizing a sustainable society. It identifies important issues (materiality) and examines efforts to address them based on the Sustainability Policy, and also discloses them on its website. In addition to the mitigation of environmental impacts and the improvement of efficiency in our business activities, we will implement initiatives to address environmental issues such as climate change and pollution through awareness and action on the part of each employee. Further, through our business activities, we will reduce as far as possible economic losses to companies and public bodies resulting from information leakages and also engage in various social contribution activities to realize safe and secure internet usage for children and a satisfying online learning environment.

(v) Promotional and awareness-raising activities

To promote the Group’s products and services, we believe it is important to foster an accurate understanding of security threats associated with the Internet and the importance of security measures to combat them. Accordingly, we offer the “D-Alert Cyber-risk Information Service” free of charge. Using our product functions to detect threats, D-Alert informs Internet users who are suspected to have been infected with malware or shown maliciously falsified web pages. We also disseminate information about the latest security trends based on research and analysis conducted by specialist team in our development division, on the “Digital Arts Security Reports” section of our website, to promote awareness about security threats. In addition, at the request of local governments and schools throughout Japan, the Group holds seminars and lectures and provides information to users of smartphones and other mobile devices to help increase their digital literacy, and also stresses the importance of filtering.

2. Approach to Sustainability and Sustainability Initiatives

Since its establishment, the Group has advocated solutions to social issues and has pursued numerous initiatives as a domestic security software manufacturer to preserve the global environment and realize a sustainable society based on the corporate philosophy of “For Internet convenience, safety and security.”

Further, through our business activities, we reduce as far as possible economic losses to companies and public bodies resulting from information leakages, while addressing global environmental issues such as climate change and environmental pollution and engaging in various social contribution activities to realize safe and secure internet usage for children and a satisfying online learning environment.

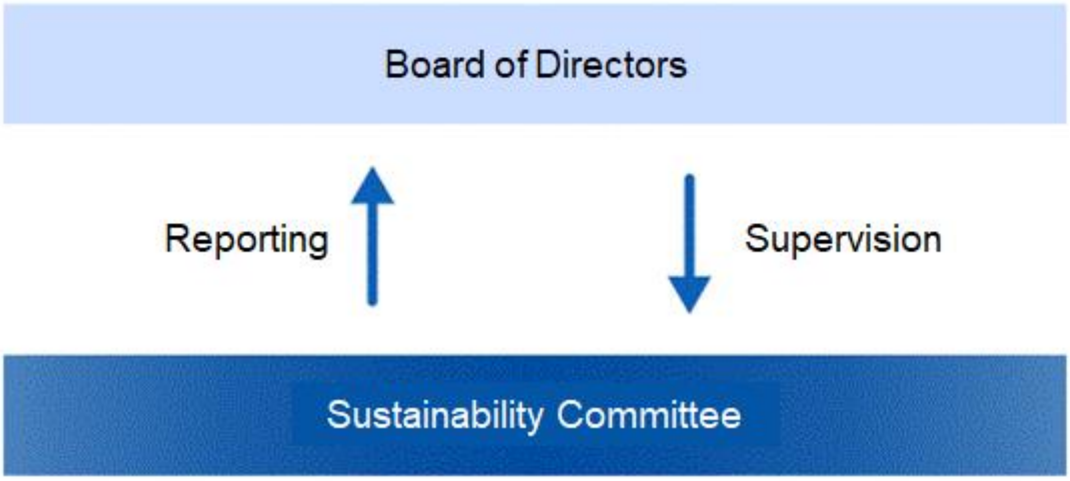
(1) Materiality

Under its corporate philosophy, the Group has identified materiality (important issues) of SDGs and ESG consisting of four groups and 14 items in order to promote sustainability management. Based on the identified materiality, we will conduct company-wide activities to achieve the management plan centered on the information security business. Moreover, through dialogue with our stakeholders, we will improve our company-wide activities and contribute to the realization of a sustainable society.

(2) Governance

The Group established the Sustainability Committee in April 2022 to strengthen its efforts to realize a sustainable society. The Committee is chaired by the President and Representative Director and convenes the heads of major divisions to deliberate and decide on overall sustainability policies, targets and plans, as well as to review and discuss the promotion of these plans. The Board of Directors receives reports from the Committee and monitors and oversees the efforts to address issues and the goals set.

■ Sustainability promotion structure



(3) Environment Initiatives

Recognizing climate change as one of the most important issues in its sustainability management, the Group is working to appropriately address climate change-related risks and seize growth opportunities through dialogue and collaboration with diverse stakeholders in order to contribute to a decarbonized society as outlined in the long-term goals of SDGs and the Paris Agreement.

(i) Strategy

The Group performed a scenario analysis based on risks and opportunities to be created by climate change, which are illustrated by examples in the TCFD recommendations. The Group selected two scenarios for the analysis because it is necessary to select and set scenarios for multiple temperature ranges, including a 2°C or lower scenario. One is the 1.5 °C scenario, in which the impact of the transition is realized. The other is the 4°C scenario, in which the physical impact of climate change is realized.

Key climate change risks and opportunities

	Climate change risks and opportunities		Global change	Conceivable scenario	Risks	Opportunities	Time of occurrence
1.5°C climate change scenario	Transition risks and opportunities	Policies and legal restrictions	Tougher environmental regulations related to GHG emissions	Increase in transition costs due to requirements for switching to renewable energy	△		Medium to long term
			Introduction of carbon taxes and emissions trading	Increase in cost resulting from introduction of carbon taxes and emissions trading	△		Medium to long term
		Markets and technologies	Rapid progress in transition to low-carbon/decarbonization	Increase in capital expenditures for the reduction of power consumption	△		Medium to long term
			Rising electricity prices	Increase in power usage costs and data center outsourcing costs due to the abolishment of coal-fired power and imbalance of power supply and demand	○		Medium to long term
			Cyber risks associated with the proliferation of electronic devices	Increase in demand for security against cyber-attacks due to DX and high-efficiency electronics for decarbonization		○	Medium to long term
		Reputation	Increased environmental awareness among business partners	Decrease in transactions due to lack of efforts to address climate change	○		Medium to long term
4°C climate change scenario	Physical risks and opportunities	Chronic	Changes in precipitation and weather patterns (Rise in average temperatures)	Generation of capital investment costs to strengthen disaster BCPs at key locations	△		Long term
				Decline in data center function due to rising average temperatures	△		Long term
		Acute	Greater seriousness and higher frequency of abnormal weather (typhoons, bush fires, flooding, and rainstorms)	Discontinuation of business activities of the Company and its suppliers due to power outages caused by natural disasters	○		Long term
				Damage to offices and data centers located at low elevations Increased cost of cooling water due to flooding, etc.	○		Long term

◎: Great impact ○: Some impact △: Minor impact

■ Impact of the introduction of carbon taxes

A possible financial impact of climate change risks will be the introduction of carbon taxes, a result of governments tightening their environmental regulations. Therefore, the Company calculated the effect of the introduction of carbon taxes in 2030 and 2050 in the 4°C scenario and 1.5°C or lower scenario by assuming that GHG emissions are equivalent to the fiscal 2021 level. In addition, the Company estimated values using one scenario from the International Energy Agency (IEA), one from the International Renewable Energy Agency (IRENA), and the carbon price as of April 2022 (carbon cap-and-trade system, carbon tax, and energy taxation). In addition, it is expected that the impact will be alleviated at the time the carbon taxes are introduced because the Company plans to reduce its GHG emissions by introducing renewable energy and through other initiatives.

	1.5℃ or lower scenarios		4℃ scenario	
	Carbon tax value (Yen/t-CO2)	Cost increase resulting from the introduction of carbon taxes	Carbon tax value (Yen/t-CO2)	Cost increase resulting from the introduction of carbon taxes
2030	Approx. 10,000 yen	Approx. 2.7 million yen	Approx. 2,000 yen	Approx. 500,000 yen
2050	Approx. 17,000 yen	Approx. 4.5 million yen	Approx. 4,000 yen	Approx. 1.1 million yen

* Assumptions
- Reference scenario: STEPS Scenario (a scenario in which measures already introduced or announced officially are implemented), IEA (2021), World Energy Outlook 2021
- Our greenhouse gas emissions (fiscal 2021): Approx. 258 t-CO2

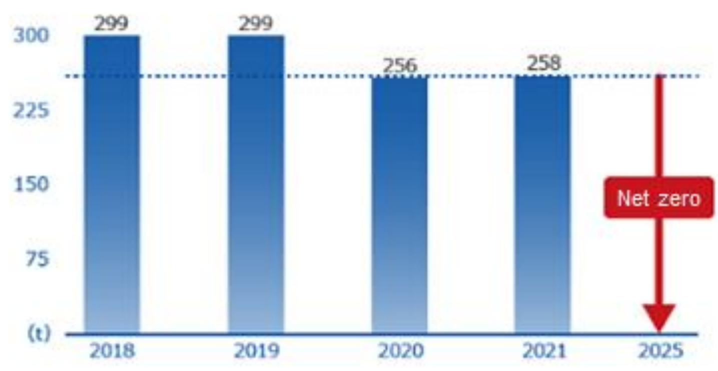
(ii) Risk management

Under its risk management system, the Group exercises integrated management in relation to business risks that might arise as a result of its business activities to prevent risks and deal with any risks that arise, based on the Risk Management Regulations established by the Board of Directors. In addition, the Sustainability Committee formulates basic policies on environmental issues and manages risks associated with climate change, identifies issues for the Group, discusses the necessary measures, and periodically monitors the progress of these measures. For climate change-related risks, we have analyzed scenarios and identified climate change risks and opportunities in order to understand and assess the impact of climate change. The identified risks and opportunities will be discussed and deliberated under the promotion system led by the Sustainability Committee, and reports and recommendations will be made to the Board of Directors regarding the status of risk management and the determination of significant risks.

(iii) Indicators and targets

In fiscal 2021, GHG emissions of the Group were 258 tons (indirect emissions from electricity consumption). In addition, we have calculated Scope 1 (direct emissions from operations) to be zero and set a target for GHG emissions in Scope 2 (indirect emissions from electricity consumption) in fiscal 2025 to be effectively zero. The Group strives to reduce GHG emissions by conserving energy including electricity internally, introducing renewable energy that does not involve the use of fossil fuels, and proactively utilizing the J-Credit Scheme, which is a government certification scheme, with the goal of establishing a carbon-free society.

Reduction target for GHG (greenhouse gas) emissions



* Aggregation period: Fiscal 2018 - Fiscal 2021 (April - March)
Calculated using electricity consumption and the national average coefficient for fiscal 2019 (0.000445 [t-CO2/kWh]) for the headquarters and each sales office.

(4) Initiatives for Society

The Group aims to develop leaders who drive innovation and human resources who demonstrate diverse abilities to solve social issues through its business, and its basic policy is to promote the ability and growth of each and every employee of the Group. In addition, we have set “respect for humanity” as one of our important values, and aim to be a company where diverse human resources with different ways of thinking can fully demonstrate their individuality and abilities, regardless of nationality, religion, marital status, gender, sexual orientation or gender identity, disability, etc.

(i) Strategy

Aiming to build a comprehensive training environment, we are working to launch and enhance in-house training for each job level, training for each skill, and support systems for acquiring qualifications. We strive to create an environment in which employees can steadily improve their skills by implementing an internal training cycle that includes the development and execution of educational plans and individual training and following up on practical implementation in the workplace after training is conducted.

In addition, to further accelerate the growth of our employees, we are working to “develop human resources who are committed to self-growth.” Specifically, we have created a system and culture that encourages proactive career development and skill acquisition by starting career design training and introducing company-wide examples of personal development activities and awards.

(ii) Indicators and targets

Going forward, we will use the newly developed job-specific skill requirements to provide more practical in-house training for each job level and education for each skill, using total training hours and training hours per employee as indicators.

(5) Governance Initiatives

Based on its corporate governance, the Group believes that it is important to “engage in speedy decision-making and clarify the roles and responsibilities incidental to this,” “maintain objective checking systems both internally and externally” and “ensure timely and fair disclosure” in order to gain the support of all stakeholders and realize the sustainable enhancement of corporate value based on its corporate philosophy. The Group will work to ensure sound management under an organizational structure that can flexibly respond to changes in the business environment, ensure thorough compliance, and continuously enhance corporate governance (refer to “Section IV. Information on the Reporting Company - 4. Corporate Governance”).

3. Business and Other Risks

Material risks recognized by management as risks that could materially affect the financial condition, operating results and cash flows of consolidated companies included in the Business Summary, Financial Information and other sections of this Annual Securities Report are as follows. These forward-looking statements are being made at the determination of the Group as of the date of submission of this Annual Securities Report (June 26, 2023).

(a) Risks related to changes in the sales situation and operating environment of major distributors affecting the Group

The Group's products are mostly sold to users through its distributors. Client sales conditions and changes in management climate (such as M&A or bankruptcy) could lead to a significant fluctuation in the Group's net sales. Major distributors also handle the products of the Group's competitors. The Group, therefore, endeavors to expand net sales by reaching out effectively to distributors. However, there is a risk that competitors' products may be given preference over the Group's products. Furthermore, any changes in the sales situation or operating environment (such as M&A or bankruptcy) of major distributors that cause delayed or uncollectable payment of debt could also significantly impact the Group's performance and financial standing.

(b) Risks associated with changes in the national budget and local government policies affecting the Group's product sales to schools and local municipalities

The Group's product sales to public schools and local municipalities may be significantly impacted by fluctuations in the national budget and its distribution to local municipalities, as well as the budget expenditures of these municipalities.

(c) Risks related to internet regulations, free services provided by NPOs and other organizations, and services mounted on future OSs at no cost

In the event internet regulations move forward to allow government or NPOs to offer initiatives similar to the Group's web filtering software at low or no cost, the Group may have no choice but to amend the Group's business model and earning model.

It is also possible that, in the future, services similar to the Group's web filtering software may be mounted on computer OSs at a very low or no cost, and although the quality of such "service" may be inferior to the web filtering solutions offered by the Group, users may actively choose to use these "services." Such instances may significantly impact the Group's performance and financial standing.

(d) Risks of specializing in the security business

The Group is dedicated to the security business, which involves developing and selling web filtering software and email filtering software. Future declines in security market demands due to deteriorating economic climate and other factors may significantly impact the Group's performance and financial standing.

(e) Risks related to fluctuation in the Group's quarterly net sales results

There is an inclination that the Group's fourth quarter earnings are higher compared to other quarters in terms of net sales for the full fiscal year. This is mainly attributable to the common practice by private enterprises and public sectors to place orders for IT products in March, at the end of their fiscal year. The Group takes this seasonal factor into account when making its full year plans and is continuing to pursue to maintain and expand the current sales level. However, the Group's performance and financial standing may see a significant impact if the Group fails to acquire orders as planned for the relevant period for any reason, or experiences delays in receiving orders due to matters related to the client and distributors. If products for which most of the contract price is subject to deferred revenue recognition account for a higher percentage of total sales than products for which the majority of the contract price is recognized at contract inception or if temporary special demand arises as a result of change in the law or government initiatives, there is a risk that the Group's quarterly financial results will fluctuate.

(f) Risks associated with laws and regulations

Although the Group is subject to various laws and regulations governing its corporate activities, we believe that there are no specific legal regulations that have a significant impact on our business continuity as of the date of submission of this document. However, if business development is restricted by amendments to existing laws and regulations or the application of new legal regulations governing our business in the future or if it becomes necessary to take countermeasures, it may have an impact on our business and performance.

(g) Risks associated with the future decline of internet use in business, schools and homes

The internet is a technology that developed rapidly on a global scale, and today, is considered an indispensable form of information infrastructure. Currently, the Group's net sales is mainly composed of products and services related to the internet, therefore, if the existence of the internet fades or the use of internet declines in the Group's target markets of "Business/Enterprise," "School," "Government," and "Home," this may have a significant impact on the Group's performance and financial standing.

(h) Limitation in protecting intellectual property rights (including patents)

The Group takes appropriate measures both domestically and overseas to protect any and all independently developed technology and know-how, however, there are certain areas in the world where the Group's intellectual property rights may have no or limited protection due to legal restrictions. For this reason, the Group may not be able to completely prevent its competitors from analyzing and researching the Group's proprietary technologies and providing similar products to the market. While the Group pays utmost attention to avoid infringing intellectual property rights and copyrights when offering new products and services, there may be a risk at some future point where other parties may deem that the Group is infringing on their intellectual property rights and copyrights.

(i) Risks associated with the Group's technology obsolescence and deterioration of technological innovation

The Group conducts development activities to upgrade technology and enhance quality for current/future products and services. However, if the products and services provided by the Group became obsolete or the Group's technological innovation deteriorated, the Group may lose its competitive edge against other products and services on the market. This may have a significant impact on the Group's future performance and financial standing.

(j) Risks associated with bugs and defects on products offered by the Group

The Group develops and markets various products around the framework of "web filtering software." Countless quality controls are performed in course of developing and marketing software in order to take all possible means to ensure that the program operates properly. However, software bugs (defects) unexpected at the time of launch may be confirmed post-launch, and in such circumstances, the Group promptly releases update patches to correct the issue. However, if such bug issues prevent the Group from providing services, if the Group requires a long period of time to resolve the issue, or if the issue could not be resolved, this could lead to a reduction of sales, goods being returned and to a decline in the Group's credibility, which may significantly impact the Group's business performance and financial standing.

(k) Risks associated with issues in the mainstay system (server) owned by the Group

The Group's services essentially take the form of providing URL and other information from servers administered by the Group. The Group positions these servers as the most critical mainstay system and makes every effort to provide consistent service by taking necessary safeguards, such as server duplication and backups. However, servers are hardware and problems such as unexpected shutdown, malfunction, and loss of material information (such as URL database, client data and technological information that are at the core of the Group's service) may result in service suspension.

The Group's service may also be interrupted due to suspension of business at the facility where the Group's server is located, problems with internet service providers, telecommunication carriers and other cloud services, and information security incidents such as the leakage of information due to hacking attacks and theft of material data. The Group has acquired the Privacy Mark and developed a system in compliance with Information Security Management System (ISMS) requirements. However, in the event the Group's service is suspended due to such issues, this suspension could lead to a decline in the Group's credibility, which may significantly impact the Group's business performance and financial standing.

(l) Reliance on key management, and securing/developing talent

The Group's operation is heavily dependent on key management personnel, such as CEO Toshio Dogu. In the event these management personnel takes an extended leave due to illness or injury, leaves the Group or dies, such factors may have a significant impact on the Group's performance and financial standing. The Group works on securing and developing talent, but failing to secure and develop sufficient talent in the future may adversely affect the Group's competitiveness and efficiency and have a significant impact on the Group's business performance and financial standing.

(m) Risks pertaining to merger and acquisitions, and assignment/acquisition of business rights

Digital Arts Inc. is a public company listed on the Prime Section of Tokyo Stock Exchange, where CEO Toshio Dogu is the largest shareholder with 2,253,226 shares (which account for approximately 16.1%, including shares held by the shareholders' association made up of directors) out of 14,133,000 issued and outstanding shares (including treasury shares) as of March 31, 2023. As a public company, the possibilities of mergers and acquisitions cannot be denied, and the entire or part of the Group or its business rights may be acquired, merged or assigned at some point in the future. Such factors may significantly impact the Group's performance and financial standing.

Similar impact would be seen if the Group performs mergers and acquisitions, or acquires business rights.

(n) Risks associated with natural disaster, disaster, terrorist activities, war, the spread of infections and power outage

The Group's business performance and business activities may be significantly affected due to unforeseen situations, such as disasters, including earthquakes and other acts of God, terrorist activities or the outbreak of war at home or abroad, and the spread of infections such as influenza and COVID-19. In addition, insufficient power supply due to nationwide/regional power outage or problems in the buildings where the Group performs its business may cause the Group to suspend its business activities and services, and may, in turn, significantly impact its business performance and financial position.

4. Analysis of Financial Conditions, Operating Results and Cash Flows by the Management

(1) Overview of operating results, etc.

An overview of the financial condition, operating results and cash flows (hereinafter operating results, etc.) of the Digital Arts Group (Digital Arts Inc. and its consolidated subsidiaries) during the consolidated fiscal year under review is as follows.

(i) Financial condition and operating results

During the consolidated fiscal year under review (April 1, 2022 through March 31, 2023), the Japanese economy saw a mild rally in economic activities following the gradual easing of the activity restrictions that had been applied during the COVID-19 pandemic. However, the outlook for the economy remains uncertain, chiefly reflecting the persistent conflict in Ukraine and rising prices of goods attributable to the sharp weakening of the yen against the U.S. dollar.

In the security industry, in which the Digital Arts Group (the “Group”) operates, cyber attacks diversified and intensified, including ransomware, Emotet and Agent Tesla, which is remote control malware that steals confidential information from keyboard operations. That expanded demand for security products. Not only among large companies but also at small and medium enterprises that lag behind in security measures, demand for newly introducing security products is expanding.

In this situation, the Company enhanced the linkage and features of its mainstay products of i-FILTER, m-FILTER and FinalCode and added a broad array of security solutions to them in response to mounting needs for comprehensive security. It also worked hard to promote its original next-generation Secure Web Gateway (SWG).

In addition to the White Operation that the Company has long been proposing, it released Anti-Virus & Sandbox to steadily achieve an increase in orders. This is a new option for secure file downloads and reception from secure websites and email messages to improve the level of security. It also performs real-time judgment of malware and paves the way for centralized control logs for greater convenience. To minimize the damage from cyberattacks, the Security Operation Center (SOC), the Endpoint Detection and Response (EDR) and other solutions for detecting and responding to incidents are of increasing significance. In light of that, the Company released the D Alert Reporting Service as a new low-cost option for the swift detection of incidents for customers facing difficulties in hiring personnel or security cost issues. The Company has thus entered the market of incident detection and response solutions.

Moreover, damage caused by phishing, which sends email or uses other means to direct users to fake websites, is on the increase, as well as that arising from unknown threats and malicious files. Phishing websites look so similar to websites of financial institutions and online shopping websites that it can be very difficult to tell them apart. To protect from the threats of these phishing websites, the i-FILTER@Cloud was newly equipped with a credential protection function to provide customers with a higher security level. This function uses the Company's original technology that allows credential information to be sent to URLs, only those confirmed to be secure, while blocking transmission to any website that is not confirmed to be secure. As a result of these measures, the number of licenses for use of the White Operation that the Company independently promotes increased by 1.66 million during the consolidated fiscal year under review to 11.68 million.

As a result of the above, the financial condition and operating results for the consolidated fiscal year under review are as follows.

a. Financial condition

(Assets)

Total assets at the end of the consolidated fiscal year under review increased 1,807 million yen from the end of the previous consolidated fiscal year, to 21,149 million yen. This was due mainly to an increase of 1,245 million yen in cash and deposits.

(Liabilities)

Total liabilities in the consolidated fiscal year under review declined 205 million yen from the end of the previous consolidated fiscal year to 6,975 million yen. This was due mainly to a decrease of 496 million yen in advances received.

(Net assets)

Net assets in the consolidated fiscal year under review climbed 2,013 million yen from the end of the previous consolidated fiscal year, to 14,173 million yen. This was mainly due to an increase in retained earnings due to the recording of profit attributable to owners of parent, which outweighed a decrease in dividends paid.

b. Operating results

Consolidated net sales for the fiscal year under review stood at 10,436 million yen, up 15.3% year on year, operating profit increased 7.0% year on year, to 4,413 million yen, ordinary profit grew 7.1% year on year, to 4,429 million yen, and profit attributable to owners of parent increased 5.6% year on year, to 3,062 million yen.

Overview of Consolidated Business Result

(Million yen)

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2023	Change	% Change
Net sales	9,051	10,436	＋1,384	＋15.3
Operating profit	4,126	4,413	＋286	＋7.0
Ordinary profit	4,135	4,429	＋293	＋7.1
Profit attributable to owners of parent	2,900	3,062	＋161	＋5.6

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, to meet demand for total security, the Group gained new projects by adding antivirus functions and sandbox functions as new options to i-FILTER and m-FILTER. Sales of m-FILTER increased steadily as a result of the high marks it has earned for its functions of tackling the PPAP (sending a Zip file protected by a password by e-mail and sending the password by a separate e-mail) and dealing with targeted attacks, including attacks using Emotet. In addition, net sales for Digital Arts Consulting Inc., a subsidiary offering security consulting services, increased with a progress achieved in new customer acquisition in line with greater corporate demand for cybersecurity and digital transformation (DX) consulting.

As a consequence, net sales in this market reached 5,316 million yen, up 16.6% year on year.

Public Sector Market

In the public sector market, the Group recorded sales from projects related to the GIGA School Concept, which ran from before the previous fiscal year and which focused on proposing solutions to support local government efforts to strengthen security measures that were ramped up from the fiscal year under review. As a result, sales of the i-FILTER and m-FILTER series grew as brisk orders were won from local governments.

As a consequence, net sales in this market stood at 4,686 million yen, up15.8% year on year.

Consumer Sector Market

In the consumer sector market, the Group focused on collaborating with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems using a single serial ID.

As a consequence, net sales in this market amounted to 433 million yen, down 2.6% year on year.

Net sales for the consolidated fiscal year under review (April 1, 2022 - March 31, 2023)

	Enterprise Sector Market	Public Sector Market	Consumer Sector Market	Total
	Million yen	Million yen	Million yen	Million yen
Fiscal Year Ended March 31, 2023	5,316	4,686	433	10,436
Fiscal Year Ended March 31, 2022	4,559	4,046	444	9,051

(Figures shown are rounded down to the nearest million yen.)

(ii) State of cash flows

In the consolidated fiscal year under review, cash and cash equivalents increased 1,245 million yen from the end of the previous consolidated fiscal year to 17,018 million yen. Cash flows in each category are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities stood at 3,147 million yen (net cash provided of 6,169 million yen in the previous consolidated fiscal year), chiefly reflecting profit before income taxes of 4,430 million yen, depreciation of 884 million yen.

(Cash flows from investing activities)

Net cash used in investing activities came to 867 million yen (978 million yen in the previous fiscal year), mainly due to the purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 1,051 million yen (810 million yen in the previous fiscal year), primarily due to dividends paid.

(iii) Results for production, orders received and sales

a. Results of production

	Fiscal year under review (from April 1, 2022 to March 31, 2023) (million yen)	Change YoY (%)
Enterprise Sector Market	5,002	113.7
Public Sector Market	4,654	116.1
Consumer Sector Market	432	97.4
Total	10,089	114.0

(Notes)1. Production amounts are based on selling prices

2. Segment information is omitted because the Group operates in one segment only (the security business).

b. Results of orders received

Not applicable as the Group does not build products to order.

c. Results of sales

	Fiscal year under review (from April 1, 2022 to March 31, 2023) (million yen)	Change YoY (%)
Enterprise Sector Market	5,316	116.6
Public Sector Market	4,686	115.8
Consumer Sector Market	433	97.4
Total	10,436	115.3

(Notes) 1. There are no export sales.
2. Segment information is omitted because the Group operates in one segment only (the security business).
3. The results of sales by major customer and the ratio of sales by major customer to total sales in the fiscal year are as follows.

Customer	Previous fiscal year (from April 1, 2021 to March 31, 2022)		Fiscal year under review (from April 1, 2022 to March 31, 2023)	
	Amount (million yen)	Ratio (%)	Amount (million yen)	Ratio (%)
Daiwabo Information System Co., Ltd.	2,045	22.6	2,683	25.7
SB C&S Corp.	1,541	17.0	1,747	16.7

(2) Details of analysis and examination concerning the state of operating results, etc. from the perspective of the management

The details of understanding, analysis and examination concerning the state of operating results , etc. for the Group from the perspective of the management are as follows.

Matters concerning the future stated below are based on assessments as of the end of the fiscal year under review.

(i) Significant accounting policies and accounting estimates

The Group’s consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles in Japan (JGAAP). In preparing these consolidated financial statements, the Group was required to make estimates and forecasts that might affect its financial condition, operating results and cash flows at the end of the consolidated fiscal year under review. The Company always bases its estimates and forecasts on assumptions that it believes to be reasonable based on past results and conditions. Due to the uncertain nature of estimates, in some cases actual results may vary from these estimates.

(ii) Details of understanding, analysis and examination concerning the state of operating results, etc. for the fiscal year under review

The Group’s operating results, etc. in the consolidated fiscal year under review are as follows.

a. State of operating results, etc.

(Net sales)

Consolidated net sales for the fiscal year under review stood at 10,436 million yen, up 1,384 million yen compared to the previous consolidated fiscal year (an increase of 15.3% year on year).

This increase is largely attributable to growth in orders for the i-FILTER series bolstered by the spread of teleworking in the Enterprise Sector Market, expansion of orders for the i-FILTER series associated with the GIGA School Concept in the Public Sector Market and growth in sales from new customers at Digital Arts Consulting Inc.

(Cost of sales, gross profit)

Cost of sales during the consolidated fiscal year under review stood at 3,666 million yen, up 990 million yen compared to the previous consolidated fiscal year (an increase of 37.0% year on year). Meanwhile, gross profit stood at 6,769 million yen, up 394 million yen compared to the previous consolidated fiscal year (an increase of 6.2% year on year).

In the consolidated fiscal year under review, gross profit surged thanks to a rise in net sales despite an increase in cloud service expenses associated with sales expansion of cloud service products and higher personnel expenses attributable to a rise in the number of consultant personnel at Digital Arts Consulting.

(Selling, general and administrative expenses, operating profit)

Selling, general and administrative expenses were 2,356 million yen, up 108 million yen compared to the previous consolidated fiscal year (an increase of 4.8% year on year). Meanwhile, operating profit stood at 4,413 million yen, up 286 million yen compared to the previous consolidated fiscal year (a rise of 7.0% year on year).

In the consolidated fiscal year under review, operating profit surged thanks to a rise in net sales despite an increase in hiring expenses associated with a rise in the number of consultant personnel at Digital Arts Consulting.

(Ordinary profit)

In the consolidated fiscal year under review, ordinary profit amounted to 4,429 million yen (an increase of 7.1% year on year), mainly due to the recording of non-operating income such as foreign exchange gains of 12 million yen.

(Profit attributable to owners of parent)

Profit attributable to owners of parent increased 5.6% year on year, to 3,062 million yen.

b. Analysis of objective indicators for judging status of achievement of management goals

Objective indicators used in the consolidated fiscal year under review are as shown below.

The main reason for the discrepancy between the contract amount growth rate and the net sales growth rate is that a large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment, while sales are recorded on a monthly pro-rata basis throughout the service period for cloud service products.

	Previous fiscal year (from April 1, 2021 to March 31, 2022)	Fiscal year under review (from April 1, 2022 to March 31, 2023)
Contract amount growth rate (%)	(19.7)	10.6
Net sales growth rate (%)	32.6	15.3
Operating margin (%)	45.6	42.3
Return on equity (ROE) (%)	26.2	23.3

c. Analysis of capital resources and liquidity

The Group’s basic capital policy is to aim for sustainable improvement in corporate value by comprehensively considering securing enough internal reserves to enable prompt investment in growing areas and returning profits to shareholders.

At the end of the consolidated fiscal year under review, the Group had no outstanding interest-bearing debt whilst cash and cash equivalents stood at 17,018 million yen.

A major component of the Group’s demand for working capital is personnel expenses to secure and develop the talented human resources necessary to provide high added value solutions. When allocating internal reserves, the Group will give priority to securing and developing human resources, and we will maintain the stable and continuous growth of existing business while also actively striving to identify new needs.

d. Factors that have a significant impact on operating results

As stated in “Section II. Business Summary 3. Business and Other Risks”

5. Material Contracts Affecting Management of the Company, etc.

Not applicable.

6. Research and Development

The Group’s research and development activities are conducted by the Company’s Development Department, which conducts investigations, comparisons and analysis to improve the usability of the Company’s products and examines ways to improve existing products. The Company’s Development Department also investigates, researches and develops technologies for products and services for coming fiscal years and conducts activities for bringing new products and services to market.

In the consolidated fiscal year under review total research and development expenses were 24 million yen.

Section III. Properties

1. Summary of Capital Investment, etc.

In the consolidated fiscal year under review, the Group made capital investment totaling 58 million yen. This mainly consisted of office equipment work and purchases of computers, servers, and other information equipment.

Meanwhile, the Group made investments in intangible assets totaling 811 million yen, mainly for software development.

2. Major Facilities

Major facilities of the Company are as follows. (The major facilities of the Company are shown because this report omits segment information.)

(1) The Reporting Company

(As of March 31, 2023)

Branch name (location)	Description of equipment	Book value							Number of employees
		Buildings		Vehicles (million yen)	Furniture and fixtures (million yen)	Land		Total (thousand yen)	
		Area (m²)	Amount (million yen)			Area (m²)	Amount (million yen)		
Headquarters (Chiyoda-ku, Tokyo)	Administration, development and sales facility	1,626.42 [1,626.42]	9	5	79	-	-	94	221[31]
Recreational facility (Atami, Shizuoka Prefecture)	Recreational facility	71.85	67	-	0	10,017.49	26	94	-

(Notes) 1. The figure in parentheses in the Buildings section is included in the total and is the area that is leased.

2. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.)
3. Other branches are the Hokkaido Sales Office (Two employees), the Tohoku Sales Office (one employees), the Chubu Sales Office (six employees), the Kansai Sales Office (eleven employees), the Chushikoku Sales Office (two employees), and the Kyushu Sales Office (three employees).
4. The head office of the reporting company includes a building leased to Digital Arts Consulting Inc., which is a subsidiary of the reporting company.

(2) Domestic Subsidiaries

(As of March 31, 2023)

Company name	Branch name (location)	Description of equipment	Book value		Number of employees
			Furniture and fixtures (million yen)	Total (million yen)	
Digital Arts Consulting Inc.	Headquarters (Chiyoda-ku, Tokyo)	Administration and sales facility	10	10	100
Digital Arts Consulting Inc.	Sales office (Fukuoka-shi, Fukuoka)	Sales office	0	0	6

(Notes) 1. Digital Arts Consulting Inc. leases the whole building from the reporting company.

3. Plans for Capital Investment, Disposals of Properties, etc.

(1) New Construction of Important Facilities, etc.

None in particular

(2) Retirement of Important Facilities, etc.

None in particular

Section IV. Information on the Reporting Company

1. Stock Information

(1) Total Number of Shares, etc.

(i) Total Number of Shares

Classification	Total number of shares authorized to be issued (shares)
Common share	45,036,000
Total	45,036,000

(ii) Issued Shares

Classification	Number of shares issued as of the end of fiscal year (shares) (March 31, 2023)	Number of shares issued as of the filing date (shares) (June 26, 2023)	Listed stock exchange	Description
Common share	14,133,000	14,133,000	Tokyo Stock Exchange Prime Market	Number of shares in trading unit 100
Total	14,133,000	14,133,000	—	—

(Note) The figures in the “Number of shares issued as of the filing date” column do not include the number of shares issued upon the exercise of share acquisition rights between June 1, 2023 and the filing date of this Annual Securities Report.

(2) Information on the Share Acquisition Rights, etc.

(i) Details of Stock Option Plans

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

i) Resolution of the Board of Directors Meeting held on November 12, 2015

	As of the end of the fiscal year (March 31, 2023)	As of the end of the month before the filing date (May 31, 2023)
Category and number of persons subject to grants	Four directors, 151 employees	
Number of share acquisition rights	1,520	1,520
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common share	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	152,000 shares	152,000 shares
Amount to be paid upon exercise of share acquisition rights	2,034 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2017 to May 31, 2027	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares	Issue price: 2,036 yen Amount capitalized as common shares: 1,018 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

(Notes) 1. The share acquisition rights were issued with a charge of 200 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2017, the fiscal year ended March 31, 2018, or the fiscal year ended March 31, 2019.

(a) If operating profit exceeds 1.5 billion yen, 20% of share acquisition rights can be exercised.

(b) If operating profit exceeds 2.0 billion yen, 50% of share acquisition rights can be exercised.

(c) If operating profit exceeds 2.5 billion yen, 100% of share acquisition rights can be exercised.

In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors. Any fraction of less than one share acquisition right arising in the number of the share acquisition rights that can be exercised by each holder of share acquisition rights when calculating the percentage that can be exercised shall be rounded down.

(2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.

(4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.

(5) Share acquisition rights may not be exercised in less than one unit.

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.

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

If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

4. The value of assets to be contributed upon exercise of the share acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the "Exercise Price") by the number of shares granted.

The Exercise Price shall be 2,034 yen, which is equal to the closing price of the Company's stock in regular trading on the Tokyo Stock Exchange on November 11, 2015, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

(1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

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

(2) If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

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

In the above formula, the "number of shares outstanding" shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the “number of shares to be newly issued” shall be read as the “number of treasury shares to be disposed of.”

(3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.

5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

(1) Number of share acquisition rights of the Reorganized Company to be allotted
The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.

(2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common shares of the Reorganized Company

(3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the allotment date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

(4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.

(5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.

(6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights
To be determined as follows.

(i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.

(ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

(7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.

(8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company’s Board of Directors in the case when the approval of the Company’s general meeting of shareholders is not required), the Company may acquire all share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

ii) Resolution of the Board of Directors Meeting held on November 10, 2016

	As of the end of the fiscal year (March 31, 2023)	As of the end of the month before the filing date (May 31, 2023)
Category and number of persons subject to grants	Three directors, 96 employees	
Number of share acquisition rights	3,009	3,009
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common share	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	300,900 shares	300,900 shares
Amount to be paid upon exercise of share acquisition rights	2,639 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2018 to May 31, 2028	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares	Issue price: 2,663 yen Amount capitalized as common shares: 1,332 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

(Notes) 1. The share acquisition rights were issued with a charge of 2,400 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2018, the fiscal year ended March 31, 2019, or the fiscal year ended March 31, 2020.

(a) If operating profit exceeds 2.0 billion yen, 20% of share acquisition rights can be exercised.

(b) If operating profit exceeds 2.5 billion yen, 50% of share acquisition rights can be exercised.

(c) If operating profit exceeds 2.8 billion yen, 100% of share acquisition rights can be exercised.

In the items above, the operating profit stated in the consolidated statements of income in the Company’s annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors. Any fraction of less than one share acquisition right arising in the number of the share acquisition rights that can be exercised by each holder of share acquisition rights when calculating the percentage that can be exercised shall be rounded down.

(2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.

(4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.

(5) Share acquisition rights may not be exercised in less than one unit.

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)
If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.
4. The value of assets to be contributed upon exercise of the share acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the "Exercise Price") by the number of shares granted.
The Exercise Price shall be 2,639 yen, which is equal to the closing price of the Company's stock in regular trading on the Tokyo Stock Exchange on November 9, 2016, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.
   (1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

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

   (2) If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

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

In the above formula, the "number of shares outstanding" shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the "number of shares to be newly issued" shall be read as the "number of treasury shares to be disposed of."
   (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the "Reorganization"), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in "a" through "e" of Article 236, Paragraph 1, Item 8 of the Companies Act (the "Reorganized Company") to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.
   (1) Number of share acquisition rights of the Reorganized Company to be allotted
   The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.
   (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
   Common shares of the Reorganized Company

(3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the allotment date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

(4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.

(5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.

(6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights
To be determined as follows.
(i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.
(ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

(7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.

(8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company's Board of Directors in the case when the approval of the Company's general meeting of shareholders is not required), the Company may acquire all share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

iii) Resolution of the Board of Directors Meeting held on August 30, 2021 (11th series of share acquisition rights)

	As of the end of the fiscal year (March 31, 2023)	As of the end of the month before the filing date (May 31, 2023)
Category and number of persons subject to grants	16 employees	
Number of share acquisition rights	590	590
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common share	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	59,000 shares	59,000 shares
Amount to be paid upon exercise of share acquisition rights	8,310 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2036 to June 30, 2038	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares	Issue price: 15,071 yen Amount capitalized as common shares: 7,536 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

(Notes) 1. The share acquisition rights were issued with a charge of 2,000 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Persons who have received an allotment of stock acquisition rights (“Stock Acquisition Rights Holders”) may exercise their stock acquisition rights in the period from July 1, 2036 to June 30, 2038 only, if the Company’s operating profit for any of the fiscal years from the fiscal year ending March 31, 2022 to the fiscal year ending March 31, 2036 exceeds 14,736 million yen. Moreover, operating profit shall be defined as operating profit as stated in the non-consolidated statement of income in the Company’s Annual Securities Report, and in the event of a material change in the concept of operating profit to be referred to due to the application of International Financial Reporting Standards, etc., the Board of Directors shall separately determine the index to be referred to.

(2) Stock Acquisition Rights Holders must be directors, corporate auditors, or employees of the Company or its subsidiaries at the time they exercise their stock acquisition rights. Provided, however, this provision shall not apply to Stock Acquisition Rights Holders who have retired due to the expiration of their terms of office, or stock acquisition right holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that its Board of Directors may deem appropriate.

(3) In the event of the death of a Stock Acquisition Rights Holder, the exercise of these rights by his/her heirs shall not be permitted.

(4) Other conditions shall be as set forth in the stock acquisition right allotment agreement to be concluded between the Company and the Stock Acquisition Rights Holders.

3. The class of shares to be issued upon the exercise of the stock acquisition rights shall be the common stock of the Company, and the number of shares to be issued upon exercise of the stock acquisition rights (the "Number of Shares Granted") shall be 100 shares per stock acquisition right.
   After the date of the allotment of the Stock Acquisition Rights (the "Allotment Date"), if the Company conducts a stock split (including the gratis allotment of the Company's common stock; hereinafter the same shall apply for any description of a stock split) or a reverse stock split of its common stock, the Number of Shares Granted shall be adjusted for the Stock Acquisition Rights that have not been exercised at the time of the stock split or reverse stock split by the following calculation formula.
   Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split or reverse stock split
   In addition to the above, if unavoidable circumstances arise that require the adjustment of the Number of Shares Granted, the Company may adjust the Number of Shares Granted as deemed necessary by the Board of Directors of the Company.
   Any fractions less than one (1) share resulting from the above adjustment shall be rounded down.
4. The amount to be paid upon exercise of this stock acquisition right shall be the amount obtained by multiplying the amount to be paid in per share issued or transferred through the exercise of the stock acquisition right (the "Issue Amount") by the Number of Shares Granted.
   The Exercise Price shall be 8,310 yen. The Exercise Price is equal to the closing price of the Company's common stock on the Tokyo Stock Exchange on August 27, 2021.
   If any of the reasons shown below arise after the Allotment Date, the Exercise Price shall be adjusted accordingly.
   (1) If the Company conducts a stock split or a reverse stock split of its common stock, the Exercise Price shall be adjusted according to the following formula, and any fraction of less than one (1) yen arising from the adjustment shall be rounded up to the nearest one (1) yen.

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

   (2) In the event that the Company issues new shares of common stock of the Company or disposes of treasury stock at a price lower than the market price (excluding sale of treasury stock pursuant to the provisions of Article 194 of the Companies Act (request for sale of shares constituting less than one unit by shareholders constituting less than one unit), or the case of conversion of securities convertible into or can be converted into shares of common stock of the Company or the case of the exercise of stock acquisition rights to claim delivery of shares of common stock of the Company (including those attached to bonds with stock acquisition rights)), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one (1) yen arising from the adjustment shall be rounded up to the nearest one (1) yen.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares outstanding} + \dfrac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Fair market value per share}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

   The "number of shares already issued" in the above formula shall be the number obtained by subtracting the number of treasury shares held by the Company from the total number of issued shares of the Company, and in the case of disposal of treasury shares, the "number of shares newly issued" shall be replaced with the "number of shares to be disposed of" and the "amount to be paid per share" with the "amount to be disposed of per share."
   (3) In the event of a merger of the Company, a corporate split, or in any other cases where the adjustment of the exercise price is necessary in accordance with these cases, the exercise price shall be adjusted to the extent necessary and reasonable.

5. If the Company engages in a merger (only if the Company ceases to exist after the merger), absorption-type company split or incorporation-type company split (in each case only if the Company is the split company), or a stock exchange or stock transfer (in each case only if the Company becomes a wholly-owned subsidiary) (hereinafter collectively referred to as "Reorganization Actions"), the Company shall deliver to Stock Acquisition Right Holders who hold any stock acquisition rights remaining (hereinafter referred to as the "Remaining Stock Acquisition Rights") directly before the effective date of the Reorganization Actions (effective date of absorption-type merger in case of absorption type merger, date of incorporation of joint stock company established by consolidation-type merger in case of consolidation-type merger; effective date of absorption-type split in case of absorption-type split; date of incorporation of company established by incorporation-type split in case of incorporation-type split; effective date of stock exchange in case of stock exchange; or date of incorporation of parent company established by stock transfer in case of stock transfer; the same applies hereinafter) the stock acquisition rights of the relevant stock companies listed in Article 236, paragraph 1, No.8 -(a) through (e) of the Companies Act (hereinafter referred to as the "Reorganized Company"). Provided, however, that the foregoing shall be on the condition that the allotment of such stock acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.
   (1) Number of share acquisition rights of the Reorganized Company to be allotted
   The Number of Stock Acquisition Rights shall be the same as the number of remaining stock acquisition rights held by the Stock Acquisition Rights Holders
   (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
   Common shares of the Reorganized Company
   (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
   It shall be determined in accordance with the following, taking into consideration the terms and conditions of the Reorganization Actions.
   The class of shares to be issued upon the exercise of the stock acquisition rights shall be the common stock of the Company, and the number of shares to be issued upon exercise of the stock acquisition rights (the "Number of Shares Granted") shall be 100 shares per stock acquisition right. After the date of the allotment of the Stock Acquisition Rights (the "Allotment Date"), if the Company conducts a stock split (including the gratis allotment of the Company's common stock; hereinafter the same shall apply for any description of a stock split) or a reverse stock split of its common stock, the Number of Shares Granted shall be adjusted for the Stock Acquisition Rights that have not been exercised at the time of the stock split or reverse stock split by the following calculation formula.
   Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split or reverse stock split
   In addition to the above, if unavoidable circumstances arise that require the adjustment of the Number of Shares Granted, the Company may adjust the Number of Shares Granted as deemed necessary by the Board of Directors of the Company.
   Any fractions less than one (1) share resulting from the above adjustment shall be rounded down.
   (4) Value of assets to be contributed upon exercise of each share acquisition right
   The value of assets to be contributed upon exercise of each stock acquisition right to be delivered shall be the amount obtained by multiplying the exercise price after reorganization, obtained through adjustment of the Exercise Price provided for in 6. above taking into consideration factors such as the terms and conditions of the Reorganization Actions, by the number of shares of the Reorganized Company to be issued upon exercise of each of such stock acquisition right as determined in accordance with (3) above.
   (5) Exercise period of share acquisition rights
   The period shall be from July 1, 2036 to June 30, 2038.

(6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights

(i) The amount of share capital to be increased due to the issuance of shares upon the exercise of the Stock Acquisition Rights shall be half of the maximum amount of increase in share capital, etc., that is calculated pursuant to Article 17, Paragraph 1 of the Corporate Accounting Rules, and any fraction of less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.

(ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

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

Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Reorganized Company.

(8) Clause on the acquisition of share acquisition rights

(i) In the event that the Stock Acquisition Rights Holder is unable to exercise the stock acquisition rights due to the provisions of 2 above or the stock acquisition right allotment agreement before exercising the rights, the Company may acquire such stock acquisition rights without consideration on a date separately determined by the Board of Directors of the Company.

(ii) If any of the following proposals, a, b, c, d or e, are approved at a general meeting of shareholders of the Company (or approved by the Board of Directors of the Company if a resolution of a general meeting of shareholders is not required), the Company may acquire the stock acquisition rights without consideration on a date separately determined by its Board of Directors of the Company.

a. Proposal for the approval of a merger agreement under which the Company is to be dissolved

b. Proposal for the approval of a company split agreement or company split plan under which the Company is to be split

c. Proposal for the approval of a stock exchange agreement or stock transfer plan under which the Company is to become a wholly owned subsidiary

d. Proposal for the approval of a change to the Company's Articles of Incorporation to establish provisions concerning the requirement for the Company's approval regarding the acquisition of all outstanding shares of stock through a transfer

e. Proposal for the approval of a change to the Company's Articles of Incorporation to establish provisions concerning a requirement for the Company's approval regarding the acquisition through a transfer of shares issued upon the exercise of these stock options or concerning the acquisition by the Company of all shares issued upon the exercise of stock options by resolution of the Company's General Meeting of Shareholders.

iv) Resolution of the Board of Directors Meeting held on August 30, 2021 (12th series of share acquisition rights)

	As of the end of the fiscal year (March 31, 2023)	As of the end of the month before the filing date (May 31, 2023)
Category and number of persons subject to grants	55 employees	
Number of share acquisition rights	1,000	1,000
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common share	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	100,000 shares	100,000 shares
Amount to be paid upon exercise of share acquisition rights	8,310 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2041 to Jun 30, 2043	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares	Issue price: 15,792 yen Amount capitalized as common shares: 7,896 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

(Notes) 1. The share acquisition rights were issued with a charge of 2,700 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Persons who have received an allotment of stock acquisition rights (“Stock Acquisition Rights Holders”) may exercise their stock acquisition rights in the period from July 1, 2041 to June 30, 2043 only, if the Company’s operating profit for any of the fiscal years from the fiscal year ending March 31, 2022 to the fiscal year ending March 31, 2041 exceeds 20,630 million yen. Moreover, operating profit shall be defined as operating profit as stated in the non-consolidated statement of income in the Company’s Annual Securities Report, and in the event of a material change in the concept of operating profit to be referred to due to the application of International Financial Reporting Standards, etc., the Board of Directors shall separately determine the index to be referred to.

(2) Stock Acquisition Rights Holders must be directors, corporate auditors, or employees of the Company or its subsidiaries at the time they exercise their stock acquisition rights. Provided, however, this provision shall not apply to Stock Acquisition Rights Holders who have retired due to the expiration of their terms of office, or stock acquisition right holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that its Board of Directors may deem appropriate.

(3) In the event of the death of a Stock Acquisition Rights Holder, the exercise of these rights by his/her heirs shall not be permitted.

(4) Other conditions shall be as set forth in the stock acquisition right allotment agreement to be concluded between the Company and the Stock Acquisition Rights Holders.

3. The class of shares to be issued upon the exercise of the stock acquisition rights shall be the common stock of the Company, and the number of shares to be issued upon exercise of the stock acquisition rights (the "Number of Shares Granted") shall be 100 shares per stock acquisition right.

After the date of the allotment of the Stock Acquisition Rights (the "Allotment Date"), if the Company conducts a stock split (including the gratis allotment of the Company's common stock; hereinafter the same shall apply for any description of a stock split) or a reverse stock split of its common stock, the Number of Shares Granted shall be adjusted for the Stock Acquisition Rights that have not been exercised at the time of the stock split or reverse stock split by the following calculation formula.

Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split or reverse stock split

In addition to the above, if unavoidable circumstances arise that require the adjustment of the Number of Shares Granted, the Company may adjust the Number of Shares Granted as deemed necessary by the Board of Directors of the Company.

Any fractions less than one (1) share resulting from the above adjustment shall be rounded down.

4. The amount to be paid upon exercise of this stock acquisition right shall be the amount obtained by multiplying the amount to be paid in per share issued or transferred through the exercise of the stock acquisition right (the "Issue Amount") by the Number of Shares Granted.

The Exercise Price shall be 8,310 yen. The Exercise Price is equal to the closing price of the Company's common stock on the Tokyo Stock Exchange on August 27, 2021.

If any of the reasons shown below arise after the Allotment Date, the Exercise Price shall be adjusted accordingly.

(1) If the Company conducts a stock split or a reverse stock split of its common stock, the Exercise Price shall be adjusted according to the following formula, and any fraction of less than one (1) yen arising from the adjustment shall be rounded up to the nearest one (1) yen.

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

(2) In the event that the Company issues new shares of common stock of the Company or disposes of treasury stock at a price lower than the market price (excluding sale of treasury stock pursuant to the provisions of Article 194 of the Companies Act (request for sale of shares constituting less than one unit by shareholders constituting less than one unit), or the case of conversion of securities convertible into or can be converted into shares of common stock of the Company or the case of the exercise of stock acquisition rights to claim delivery of shares of common stock of the Company (including those attached to bonds with stock acquisition rights)), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one (1) yen arising from the adjustment shall be rounded up to the nearest one (1) yen.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares outstanding} + \dfrac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Fair market value per share}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

The "number of shares already issued" in the above formula shall be the number obtained by subtracting the number of treasury shares held by the Company from the total number of issued shares of the Company, and in the case of disposal of treasury shares, the "number of shares newly issued" shall be replaced with the "number of shares to be disposed of" and the "amount to be paid per share" with the "amount to be disposed of per share."

(3) In the event of a merger of the Company, a corporate split, or in any other cases where the adjustment of the exercise price is necessary in accordance with these cases, the exercise price shall be adjusted to the extent necessary and reasonable.

5. If the Company engages in a merger (only if the Company ceases to exist after the merger), absorption-type company split or incorporation-type company split (in each case only if the Company is the split company), or a stock exchange or stock transfer (in each case only if the Company becomes a wholly-owned subsidiary) (hereinafter collectively referred to as “Reorganization Actions”), the Company shall deliver to Stock Acquisition Right Holders who hold any stock acquisition rights remaining (hereinafter referred to as the “Remaining Stock Acquisition Rights”) directly before the effective date of the Reorganization Actions (effective date of absorption-type merger in case of absorption type merger, date of incorporation of joint stock company established by consolidation-type merger in case of consolidation-type merger; effective date of absorption-type split in case of absorption-type split; date of incorporation of company established by incorporation-type split in case of incorporation-type split; effective date of stock exchange in case of stock exchange; or date of incorporation of parent company established by stock transfer in case of stock transfer; the same applies hereinafter) the stock acquisition rights of the relevant stock companies listed in Article 236, paragraph 1, No.8 -(a) through (e) of the Companies Act (hereinafter referred to as the “Reorganized Company”). Provided, however, that the foregoing shall be on the condition that the allotment of such stock acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

(1) Number of share acquisition rights of the Reorganized Company to be allotted
The Number of Stock Acquisition Rights shall be the same as the number of remaining stock acquisition rights held by the Stock Acquisition Rights Holders

(2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common shares of the Reorganized Company

(3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
It shall be determined in accordance with the following, taking into consideration the terms and conditions of the Reorganization Actions.
The class of shares to be issued upon the exercise of the stock acquisition rights shall be the common stock of the Company, and the number of shares to be issued upon exercise of the stock acquisition rights (the “Number of Shares Granted”) shall be 100 shares per stock acquisition right. After the date of the allotment of the Stock Acquisition Rights (the “Allotment Date”), if the Company conducts a stock split (including the gratis allotment of the Company’s common stock; hereinafter the same shall apply for any description of a stock split) or a reverse stock split of its common stock, the Number of Shares Granted shall be adjusted for the Stock Acquisition Rights that have not been exercised at the time of the stock split or reverse stock split by the following calculation formula.
Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split or reverse stock split
In addition to the above, if unavoidable circumstances arise that require the adjustment of the Number of Shares Granted, the Company may adjust the Number of Shares Granted as deemed necessary by the Board of Directors of the Company.
Any fractions less than one (1) share resulting from the above adjustment shall be rounded down.

(4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each stock acquisition right to be delivered shall be the amount obtained by multiplying the exercise price after reorganization, obtained through adjustment of the Exercise Price provided for in 6. above taking into consideration factors such as the terms and conditions of the Reorganization Actions, by the number of shares of the Reorganized Company to be issued upon exercise of each of such stock acquisition right as determined in accordance with (3) above.

(5) Exercise period of share acquisition rights
The period shall be from July 1, 2041 to June 30, 2043.

(6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights

(i) The amount of share capital to be increased due to the issuance of shares upon the exercise of the Stock Acquisition Rights shall be half of the maximum amount of increase in share capital, etc., that is calculated pursuant to Article 17, Paragraph 1 of the Corporate Accounting Rules, and any fraction of less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.

(ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

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

Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Reorganized Company.

(8) Clause on the acquisition of share acquisition rights

(i) In the event that the Stock Acquisition Rights Holder is unable to exercise the stock acquisition rights due to the provisions of 2 above or the stock acquisition right allotment agreement before exercising the rights, the Company may acquire such stock acquisition rights without consideration on a date separately determined by the Board of Directors of the Company.

(ii) If any of the following proposals, a, b, c, d or e, are approved at a general meeting of shareholders of the Company (or approved by the Board of Directors of the Company if a resolution of a general meeting of shareholders is not required), the Company may acquire the stock acquisition rights without consideration on a date separately determined by its Board of Directors of the Company.

a. Proposal for the approval of a merger agreement under which the Company is to be dissolved

b. Proposal for the approval of a company split agreement or company split plan under which the Company is to be split

c. Proposal for the approval of a stock exchange agreement or stock transfer plan under which the Company is to become a wholly owned subsidiary

d. Proposal for the approval of a change to the Company’s Articles of Incorporation to establish provisions concerning the requirement for the Company’s approval regarding the acquisition of all outstanding shares of stock through a transfer

e. Proposal for the approval of a change to the Company’s Articles of Incorporation to establish provisions concerning a requirement for the Company’s approval regarding the acquisition through a transfer of shares issued upon the exercise of these stock options or concerning the acquisition by the Company of all shares issued upon the exercise of stock options by resolution of the Company’s General Meeting of Shareholders.

(ii) Information on Shareholder Rights Plans

Not applicable.

(iii) Status of Share Acquisition Rights and Other Plans

Not applicable.

(3) Information on Moving Strike Convertible Bonds, etc.

Not applicable.

(4) Changes in the Total Number of Issued Shares and the Amount of Share Capital and Other

Date	Change in the total number of issued shares	Balance of the total number of issued shares	Change in common stock (million yen)	Balance of share capital (million yen)	Change in legal capital surplus (million yen)	Balance of legal capital surplus (million yen)
April 1, 2013 (Note)	13,991,670	14,133,000	—	713	—	700

(Note) The Company conducted a 100-for-1 common shares split on April 1, 2013 based on a resolution at the meeting of the Board of Directors held on February 28, 2013. This stock split increased the number of shares outstanding to 14,133,000 shares, an increase of 13,991,670 shares.

(5) Shareholders Composition

As of March 31, 2023

Category	Status of shares (one unit of stock: 100 shares)								Number of shares less than one unit (shares)
	Government and municipality	Financial institution	Financial instruments business operator	Other institution	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders	—	15	38	47	184	15	5,549	5,848	—
Share ownership (units)	—	30,111	2,722	10,165	52,500	68	45,631	141,197	13,300
Ownership percentage of shares (%)	—	21.32	1.93	7.20	37.18	0.05	32.32	100.00	—

(Note) Of 93,833 treasury shares, 938 units are included in the “Individuals and others” column, while 33 shares are included in the “Number of shares less than one unit” column.

(6) Major Shareholders

As of March 31, 2023

Name	Address	Share ownership (shares)	Ratio (%) of the number of owned shares to the total number of outstanding shares (excluding treasury shares)
Toshio Dogu	Minato-ku, Tokyo	2,253,226	16.05
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	1,649,400	11.75
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	1,099,300	7.83
DAM Corporation	1-3-1 Minami-Aoyama, Minato-ku, Tokyo	710,000	5.06
BNYMSANV RE BNYMSANVDUB RE LEGAL (AND) GENERAL UCITS ETF PLC (Standing proxy: MUFG Bank, Ltd.)	33 SIR JOHN ROGERSON’S QUAY DUBLIN 2 IRELAND (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	666,902	4.75
THE BANK OF NEW YORK MELLON 140044(Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	544,000	3.87
GOVERNMENT OF NORWAY (Standing proxy: Citibank N.A., Tokyo Branch)	BANKPLASSEN 2, 0107 OSLO 1 OSLO 0107 NO (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	450,600	3.21
BBH FOR GLOBAL X CYBERSECURITY ETF (Standing proxy: MUFG Bank, Ltd.)	1 FREEDOM VALLEY DR OAKS PENNSYLVANIA 19456 U.S.A (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	397,629	2.83
NORTHERN TRUST CO.(AVFC) RE MONDRIAN INTERNATIONAL SMALL CAP EQUITY FUND, L.P. (Standing proxy: HSBC Tokyo Branch, Custody Service Department)	50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	333,300	2.37
THE BANK OF NEW YORK MELLON SA/NV 10 (Standing proxy: MUFG Bank, Ltd.)	BOULEVARD ANSPACH 1, 1000 BRUXELLES, BELGIUM (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	274,100	1.95
Total	—	8,378,457	59.68

(Notes) 1. The number of shares held by Mr. Toshio Dogu includes his shares of stock in Digital Arts Inc.’s officers’ shareholding association.

2. The number of shares pertaining to the trust services of Master Trust Bank of Japan, Ltd. (Trust Account) could not be confirmed by the Company and is, therefore, omitted.

3. The number of shares pertaining to the trust services of Custody Bank of Japan, Ltd. (Trust Account) could not be confirmed by the Company and is, therefore, omitted.

4. In addition to the forgoing, the Company holds 93,833 treasury shares.

5. The content of reports on large shareholders whose shareholdings could not be confirmed as of March 31, 2023 (change reports) is as follows.

The large shareholding report (change report) made available for public inspection on July 27, 2022 reports that Mondrian Investment Partners Limited held the following shares as of July 21, 2022. However, the Company has confirmed no beneficial ownership of the number of shares held in the name of this party as of March 31, 2023, and therefore, the following is not taken into consideration in the above status of major shareholders.
The content of the large shareholding report (change report) concerned is given below.

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Mondrian Investment Partners Limited	Sixty London Wall 10th Floor, London, EC2M 5TQ, UK	1,079,000	7.63
Total	—	1,079,000	7.63

(7) Information on Voting Rights

(i) Issued Shares

As of March 31, 2023

Category	Number of shares (shares)	Number of voting rights	Description
Shares without voting right	—	—	—
Shares with restricted voting right (treasury shares, etc.)	—	—	—
Shares with restricted voting right (others)	—	—	—
Shares with full voting right (treasury shares, etc.)	Common shares 93,800	—	—
Shares with full voting right (others)	Common shares 14,025,900	140,259	—
Shares less than one unit	Common shares 13,300	—	—
Number of issued shares	14,133,000	—	—
Total number of voting rights	—	140,259	—

(ii) Treasury Shares, etc.

As of March 31, 2023

Number of shares held under own name	Number of shares held under the name of others	Total shares held (shares)	Number of shares held under the name of others	Number of shares held under own name	Ownership percentage to the total number of issued shares (%)
Digital Arts Inc.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	93,800	—	93,800	0.7
Total	—	93,800	—	93,800	0.7

2. Information on Acquisition, etc. of Treasury Shares

Class of shares	Acquisition of common shares under Article 155 (iii) of the Companies Act and acquisition of common shares under Article 155 (vii) of the Companies Act

(1) Acquisition of treasury shares resolved at the general meeting of shareholders

Not applicable.

(2) Acquisition of treasury shares resolved at the Board of Directors meetings

Category	Number of shares (shares)	Total amount (yen)
Status of resolution at meeting of Board of Directors (May 9, 2023) (Acquisition period: May 10, 2023 to July 7, 2023)	120,000	500,000,000
Treasury shares acquired before this fiscal year	—	—
Treasury shares acquired during this fiscal year	—	—
Total number and total value of treasury shares still to be acquired based on resolution	—	—
Ratio of treasury shares yet to be acquired as of March 31, 2023 (%)	—	—
Treasury shares acquired during the current period	37,100	207,192,000
Ratio of treasury shares yet to be acquired as of June 26, 2023 (%)	69.1	58.6

(3)Details of acquisition of treasury shares not based on the resolutions of the general meeting of shareholders or the Board of Directors meetings.

Category	Number of shares (shares)	Total amount (yen)
Treasury shares acquired during this fiscal year	102	735,050
Treasury shares acquired during the current period	—	—

(Note) Treasury shares acquired during the current period do not include the number of shares acquired through purchases of shares constituting less than one full unit between June 1, 2023 and June 26, 2023.

(4) Status of the disposition and holding of acquired treasury shares

Category	Current business year		Current period	
	Number of shares (shares)	Total disposition amount (yen)	Number of shares (shares)	Total disposition amount (yen)
Acquired treasury shares which were offered to subscribers	—	—	—	—
Acquired treasury shares which were canceled	—	—	—	—
Acquired treasury shares which were transferred due to merger, share exchange, share issuance or company split	—	—	—	—
Other (Note)	—	—	—	—
Total number of treasury shares held	93,833	—	130,933	—

(Notes) Total number of treasury shares held in the current period does not include the number of shares held through the exercise of share acquisition rights or purchases of shares constituting less than one full unit between June 1, 2023 and June 26, 2023.

3. Dividend Policy

We aim to continuously increase our corporate value and also consider the return of profits to shareholders to be an important management goal. From this perspective, we have decided to make decisions on dividends of surplus, etc. based on our operating environment and the following policy.

Our basic policy is to continuously provide a stable dividend, and we aim to achieve a consolidated dividend payout ratio of at least 30%, comprehensively taking into consideration such factors as the results of our operations and financial condition each fiscal year and our future prospects.

We will use our internal reserves to strengthen our financial condition, invest in business areas with future growth potential and to finance capital expenditures and R&D spending.

Our Articles of Incorporation state that we may, by resolution of the Board of Directors, pay interim dividends with a record date of September 30 each year, and our dividend forecast for the year ending March 31, 2024 is 75 yen per share (which includes an interim dividend of 35 yen).

Dividends of surplus for the current business year are as shown below.

Resolution date	Total amount of dividends (million yen)	Dividend per share (yen)
Resolution of the Board of Directors Meeting held on October 28, 2022	491	35
Resolution of the Annual General Shareholders Meeting held on June 23, 2023	561	40

4. Corporate Governance

(1) Corporate Governance

(i) Corporate Governance Policy

The Company's corporate governance policy consists of "engaging in speedy decision-making and clarifying the roles and responsibilities incidental to this," "maintaining objective checking systems both internally and externally" and "ensuring timely and fair disclosure" and we will endeavor to continue maintaining and strengthening this approach in the future.

(ii) Overview of the corporate governance structure and reasons for its adoption

A. Overview of the corporate governance structure

We transitioned to a company with an Audit & Supervisory Board based on a resolution of the 21st Annual General Meeting of Shareholders held on June 24, 2016. We have set up the Audit & Supervisory Board composed of a major of Outside Directors. Directors who are Audit & Supervisory Board Members including Outside Directors have expertise in fields such as finance, law and business management to conduct audits not only on legality but also on appropriateness.

The status of major activities is as follows.

(1) Board of Directors

The Board of Directors is comprised of the following six Directors, of whom three (50%) are Outside Directors. As business execution body, it holds meetings once a month in principle to make decisions on important matters that are fundamental to management.

Toshio Dogu (Chairman, Representative Director, President & CEO, Internal Director)
Takuya Matsumoto (Internal Director)
Kiyoto Inomata (Standing Audit & Supervisory Board Member, Internal Director)
Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)
Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)
Chise Kuwayama (Audit & Supervisory Board Member, Outside Director)

The Company held a total of 13 meetings of the Board of Directors during the fiscal year under review, and the attendance of individual Directors is as follows:

Name	Number of meetings convened	Number of meetings attended
Toshio Dogu	13	13
Takuya Matsumoto	13	13
Kiyoto Inomata	13	13
Hidekazu Kubokawa	13	12
Masataka Uesugi	13	13
Chise Kuwayama	13	13

Major matters considered at meetings of the Board of Directors included basic policies concerning the management of the Company, important business execution matters, matters authorized by resolutions of the General Meeting of Shareholders, and matters stipulated by laws, regulations and the Articles of Incorporation of the Company. Sustainability-related matters discussed by the Sustainability Committee that are disclosed on the Company's website, as well as the contents of the Skill Matrix, Annual Securities Report, Corporate Governance Report, Quarterly Reports, and other disclosure information are reported to the Board of Directors for discussion prior to disclosure, and discussions are also held regarding the executive remuneration system and the results of the questionnaire on the effectiveness evaluation of the Board of Directors.
In addition to the above, regular monthly meetings of the Board of Directors are held to report on financial results, product development, and the progress of internal controls.

(2) Audit & Supervisory Board

The Audit & Supervisory Board is comprised of the following four Directors (one of whom is a Standing Audit & Supervisory Board Member), three of whom are Outside Directors. It holds meetings once a month in principle to deliberate important matters specified in the Audit & Supervisory Board Rules in accordance with the Standards for Audits and Supervision by the Audit & Supervisory Board and endeavors to strengthen audits and supervision.

Kiyoto Inomata (Chairman, Standing Audit & Supervisory Board Member, Internal Director)
Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)
Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)
Chise Kuwayama (Audit & Supervisory Board Member, Outside Director)

(3) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee is comprised of the following four Directors, of whom three are Outside Directors. The Committee holds at least one meeting a year, in principle, and deliberates and reports on matters regarding the nomination of and remuneration for Directors, among other matters.

Toshio Dogu (Chairperson, Representative Director, President & CEO, Internal Director)
Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)
Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)
Chise Kuwayama (Audit & Supervisory Board Member, Outside Director)

The Company held one meeting of the Nomination and Remuneration Advisory Committee during the fiscal year under review, and the attendance of individual members is as follows:

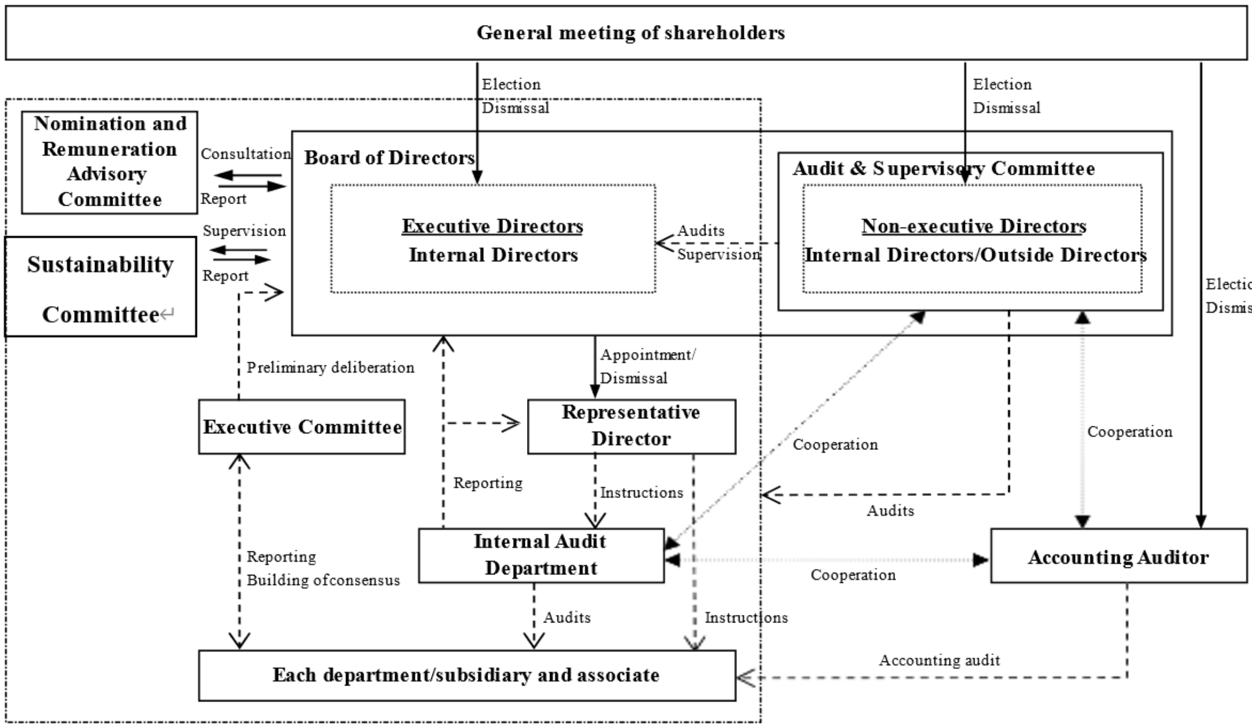
Name	Number of meetings convened	Number of meetings attended
Toshio Dogu	1	1
Hidekazu Kubokawa	1	1
Masataka Uesugi	1	1
Chise Kuwayama	1	1

Major matters considered at meetings of the Nomination and Remuneration Advisory Committee included matters concerning the selection of candidates for Directors at the General Meeting of Shareholders and the remuneration system for the Company's Executive Directors, etc. The results of the discussions held by the Nomination and Remuneration Advisory Committee are reported to the Board of Directors.

(3) Other

The Company holds meetings of the Executive Committee once a month. Serving as a body preceded by the Board of Directors, it consists of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of individual Departments. It determines individual management strategies based on the prior deliberations and decision-making of the Board of Directors and reviews the status of business execution. In addition, it holds meetings of the Management Reporting and Liaison Committee once a week in principle. Composed of General Managers of separate Departments and Sections and higher-ranking members, it reports on the state of progress of operations in each division and builds consensus. These meeting bodies clarify their respective roles and responsibilities and seek to enrich discussions at the Board of Directors and give shape to its decisions. We have also established functional departments responsible for clarifying the segregation of duties and ensuring checks and balances to maintain corporate governance.

An overview of the Group's management organization and systems for maintaining corporate governance are as shown in the following figure.



(Note) The Executive Committee includes the Management Reporting and Liaison Committee.

B. Reasons for adoption of the corporate governance structure

The Board of Directors and the Executive Committee are responsible for most of the important decision-making related to execution of the Company's business. The Board of Directors, which consists of six Directors, three of whom are Outside Directors, holds meetings in principle once a month and also meets on an ad hoc basis whenever necessary. To complement managerial judgments on other important matters, the Executive Committee, which consists of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of individual Departments, holds meetings once a month to make decisions related to business execution and to review the status of business execution.

Directors who are Audit & Supervisory Board Members receive reports on the status of execution of duties from Directors (excludes Directors who are Audit & Supervisory Board Members) and from employees, etc., asks them for explanations where necessary and views important resolution documentation in accordance with the audit policy and audit plan, etc. specified by the Audit & Supervisory Board. They work closely with the Accounting Auditor, the Internal Audit Department and others to maintain and improve the efficiency of corporate management and ensure legality. We believe, therefore, that this structure allows us to ensure management objectivity.

We adopted our current structure based on the judgment that it further strengthens corporate governance by rationalizing decision-making and execution of duties by Directors and ensuring effective audits and supervision.

(iii) Other matters related to corporate governance

A. Status of development of internal control system

a. Systems to ensure that the Group's Directors and employees execute duties in compliance with laws and regulations and the Articles of Incorporation

(1) The Group considers compliance to be its highest priority and establishes rules relating to compliance to ensure that the Group's officers and employees execute their duties in compliance with laws and regulations and the Articles of Incorporation and healthy social norms, implements initiatives such as providing training and a whistleblowing system, and develops systems under which any problems that arise are reported to the Company's Board of Directors and Audit & Supervisory Board.

(2) The Company is required to convene a meeting of the Board of Directors once a month, in principle, and on an ad hoc basis whenever necessary. At meetings of the Board of Directors, the Company makes decisions about the execution of the Group's important business and also supervises the execution of duties by Directors. The Company also seeks to ensure that Directors and employees comply with laws and regulations, the Articles of Incorporation, various regulations and stipulated business processes and it also works to strengthen risk management system and seeks to enhance internal control systems.

(3) The Company establishes the Internal Audit Department and builds a system of internal control through internal audits. The Internal Audit Department regularly conducts internal audits of the Group's business management and all its business activities, evaluates and verifies the state of compliance with laws and regulations, the Articles of Incorporation, various rules and stipulated business processes and reports to the Company's Board of Directors and to the Audit & Supervisory Board in a timely manner.

(4) For the purpose of strengthening independence, objectivity and accountability of the Board of Directors' functions related to Directors' nomination, remuneration and others, the Company sets up a voluntary Nomination and Remuneration Advisory Committee consisting of independent Outside Directors and other committee members as an advisory body subordinate to the Board of Directors. In response to consultation from the Board of Directors, the Nomination and Remuneration Advisory Committee discusses matters related to determination of candidates for Directors, selection of the Representative Directors and Directors with portfolio and remuneration of Directors and others and submits a report on the results to the Board of Directors.

b. Systems for storage and management of information relating to the execution of duties by the Company's Directors

(1) In accordance with the Document Management Rules, the Company records, stores and manages information relating to the execution of duties by Directors in the form of paper or electronic means, including the minutes of meetings of the Board of Directors and other important meetings and documents approved by each Director in accordance with the Rules on Administrative Authority. Directors may view these documents, etc. at any time.

(2) To ensure the effectiveness of internal audits, the Company establishes rules setting out the management method and storage period of important documents (including electronic media) relating to the execution of duties by Directors and stores and manages them in accordance with these rules.

c. Rules and other systems relating to management of loss risks of the Group

(1) To establish systems relating to management of loss risks of the Group, the Company establishes rules relating to the Group's risk management and raises awareness of these rules among Directors and employees.

(2) The Company establishes the Internal Audit Department. It regularly examines the appropriateness of the audit items and audit methods used in the Group's business audits and revises audit items and audit methods if necessary.

d. Systems to ensure the effective and efficient execution of duties by the Group's Directors

(1) To ensure the effective and efficient execution of duties by Directors, the Group formulates a business plan every fiscal year and verifies progress through monthly performance assessments.

(2) Regarding the execution of routine duties by Directors, the Board of Directors delegates authority for the execution of duties to employees in accordance with the Rules on Administrative Authority and Rules on the Segregation of Duties and these employees assume responsibility for efficient execution of the delegated duties.

e. Systems for reporting to the Company matters related to the execution of duties by the Group's Directors

(1) The Company conducts internal audits of its individual divisions and subsidiaries performed by the Internal Audit Department in accordance with the Internal Audit Rules, establishes internal control systems within the Group, and reports on the nature and frequency of risks within individual divisions and subsidiaries and their impact on the Company and others to the Board of Directors and the Audit & Supervisory Board of the Company in a timely manner.

(2) The Company makes it mandatory for each Group company to regularly report to the Company on its operating results, financial condition and certain other important matters related to management.

f. Matters related to Directors and employees to assist the duties of the Audit & Supervisory Board

Upon a request from the Audit & Supervisory Board for the assignment of employees required to assist the duties of the Audit & Supervisory Board, the Company promptly assigns the appropriate personnel.

g. Matters related to the independence of Directors and employees required to assist the duties of the Audit & Supervisory Board from Directors (excludes said Directors and Directors who are Audit & Supervisory Board Members) and matters for ensuring the effectiveness of instructions to Directors and employees required to assist the duties of the Audit & Supervisory Board

(1) Employees required to assist the duties of the Audit & Supervisory Board are only under the command of the Audit & Supervisory Board with respect to the work they are instructed to do by the Audit & Supervisory Board.

(2) The Company will listen to the opinions of the Audit & Supervisory Board before determining matters such as personnel transfers and personnel evaluations of employees required to assist the duties of the Audit & Supervisory Board.

h. Systems for reporting to the Audit & Supervisory Board

(1) The Company's Directors report the status of execution of their duties at meetings of the Board of Directors attended by Audit & Supervisory Board Members and other important meetings as and when necessary.

(2) The Directors and employees of the Group report to the Company's Audit & Supervisory Board any violations of laws and regulations and any fact that might be damaging to the Company immediately upon discovery thereof.

(3) The division in charge of the Group's whistleblowing system regularly reports to the Audit & Supervisory Board the status of whistleblowing reports by Group officers and employees.

i. Systems to ensure that persons are not treated disadvantageously for making reports to the Audit & Supervisory Board Members

The Company does not permit Group officers or employees who have made reports to the Audit & Supervisory Board to be treated disadvantageously and makes this known to all officers and employees of the Group.

j. Matters regarding policy on handling advance payment or repayment of expenses resulting from execution of duties by Audit & Supervisory Board Members (only expenses related to the execution of duties of the Audit & Supervisory Board) or other expenses or debts arising from said execution of duties

If the Company receives a request for advance payment, etc., of expenses under the provisions of Article 399-2, Paragraph 4 of the Companies Act in relation to the performance of duties by a Member of the Audit & Supervisory Board, the Company, after discussions at the division in charge, immediately settles said expenses or debts, except where it is determined that said costs or debts were not necessary for the performance of duties by a Member of the Audit & Supervisory Board.

k. Other systems used to ensure that the Audit & Supervisory Board can conduct audits effectively

(1) The Representative Director regularly holds meetings with the Audit & Supervisory Board to exchange views on matters such as issues to be addressed by the Company, the status of development of the environment for audits by Audit & Supervisory Board Members and important audit-related issues.

(2) The Audit & Supervisory Board, the Internal Audit Department and the Accounting Auditor seek to improve the quality of audits by strengthening their cooperation through the mutual exchange of information and opinions where necessary.

l. Systems for eliminating antisocial forces

The Group maintains a firm stance to respond, as an organization, to any unjustified demands by antisocial forces and develops internal systems so that it does not have any business relationship or any other relationship whatsoever with antisocial forces.

B. Status of improvement of risk management system

The Company establishes Risk Management Rules and exercises integrated management in relation to business risks that might arise as a result of its business activities to prevent risks and deal with any risks that arise.
As a body preceded by the Board of Directors, the Executive Committee quickly grasps and discusses business risks, including the possibility of risks emerging, and makes reports to the Board of Directors where necessary.
The Audit & Supervisory Board conducts audits to assess whether the Board of Directors makes policy decisions and conducts monitoring and supervision in relation to business risks in an appropriate manner.

C. Status of development of systems for ensuring the appropriateness of operations of subsidiaries

The Company and Group companies have formulated a Corporate Code of Conduct based on the Group's management philosophy and make group-wide efforts to increase the corporate value of the entire group.
Regarding the business management of Group companies, Directors of the parent company serve concurrently as Directors of subsidiaries and are involved in important decision-making and gain an understanding of important information relating to their business. The Audit & Supervisory Board and persons in charge of internal audits also monitor Group companies and the Affiliated Company Management Rules stipulate systems through which Group companies seek approval from and report to the Company.

D. Quorum of Directors

The Articles of Incorporation of the Company stipulate that the Company shall have not more than six Directors (excluding Audit & Supervisory Board Members) and that it shall have not more than four Directors who are Audit & Supervisory Board Members.

E. Requirements for resolutions of the election of Directors

The Articles of Incorporation of the Company stipulate that resolutions for the election of the Directors shall be made by a majority of voting rights of the shareholders in attendance who hold one-third (1/3) or more of the total voting rights of the shareholders who can exercise such rights. The Articles of Incorporation of the Company stipulate that resolutions for the election of Directors shall not be by cumulative voting.

F. Decision-making body for acquisition of treasury shares

To facilitate a flexible capital policy, the Articles of Incorporation of the Company stipulate that the Company may, by the resolution of the Board of Directors, acquire its own shares pursuant to Article 165, Paragraph 2 of the Companies Act.

G. Interim dividends

The Articles of Incorporation of the Company stipulate that the Company may, by a resolution of the Board of Directors, pay interim dividends with a record date of September 30 of each year, pursuant to Article 454, Paragraph 5 of the Companies Act. The aim is to enable flexibility in regard to return of profit to shareholders.

H. Content and outline of agreements for limitation of liability

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company concludes agreements with Directors who are Audit & Supervisory Board Members to limit the liability for damages pursuant to Article 423, Paragraph 1 of the Companies Act. The maximum amount of liability for compensation of damages under these agreements is the amount set forth in laws and regulations. Limitation of liability is allowed only if a Director who is an Audit & Supervisory Board Member was performing the duties said to be the cause of damages, in good faith and without gross negligence.

I. Exemption of Directors from liability

The Articles of Incorporation of the Company stipulate that the Company may, by resolution of the Board of Directors, exempt any Director prescribed in Article 423, Paragraph 1 of the Companies Act (including former directors) from liabilities to the extent provided in laws and regulations, for the reasonable limitation of Directors' liability.

J. Requirement for special resolutions of general shareholders meetings

The Articles of Incorporation of the Company stipulate that a special resolution of general meetings of shareholders as stipulated in Article 309, Paragraph 2 of the Companies Act shall be adopted by a two-thirds (2/3) majority vote of shareholders present at the meeting, at which shareholders representing at least one-third (1/3) of the total voting rights of all shareholders who are entitled to vote are present. The purpose is to relax the quorum for special resolutions at general meetings of shareholders to ensure the meetings proceed smoothly.

(2) Officers

(i) List of Officers

Men: 5 persons, Women: 1 person (Women's percentage to total number of officers: 17%)

Title	Name	Date of birth	Business experience		Term of office	Share ownership (shares)
Representative Director, President, CEO and General Manager-Corporation Planning	Toshio Dogu	February 17, 1968	October 1997	Representative Director, President & CEO, Digital Arts Inc.	(Note 2)	2,253,226
			October 2003	General Manager-Corporate Planning		
			March 2005	Director, IQS' Co., Ltd.		
			November 2005	Representative Director, President & CEO, IQS' Co., Ltd.		
			December 2006	Representative Director, President & CEO, DAM Corporation (incumbent)		
			April 2011	Director, President & CEO, Digital Arts America, Inc. (incumbent)		
			June 2012	Director, Digital Arts Investment, Inc.		
			May 2013	Representative Director, President & CEO, Polkast Japan LLC		
			October 2013	Representative Director, President & CEO, DA Corporation (incumbent)		
			October 2013	Representative Director, President & CEO, DM Corporation (incumbent)		
			April 2014	Director, President & CEO, FinalCode, Inc.		
			November 2014	Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc.		
			April 2015	Representative Director, President & CEO, General Manager-Sales, General Manager-FinalCode Business		
			November 2015	Director, Digital Arts Asia Pacific Pte. Ltd. (incumbent)		
			April 2016	Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc.		
			April 2016	Representative Director, Chairman, Digital Arts Consulting Inc. (incumbent)		
			September 2016	Director, Digital Arts Europe Limited (incumbent)		
			April 2017	Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, Digital Arts Inc.		
			April 2018	Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing		
			October 2019	Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, General Manager- Administration		
			February 2020	Representative Director, President and CEO		
			August 2022	Representative Director, President & CEO, General Manager-Corporation Planning, (incumbent)		
Director, General Manager-Development	Takuya Matsumoto	November 4, 1976	April 1999	Joined COMAS Co., Ltd.	(Note 2)	3,115
			April 2003	Joined Digital Arts Inc., Development		
			April 2014	Associate General Manager-Development		
			October 2016	General Manager-Development		
			June 2017	Director, General Manager-Development		
			December 2017	Director, General Manager-Development, General Manager-New Development		
			April 2018	Director, General Manager-Development (incumbent)		
			October 2019	Director, Digital Arts Consulting Inc. (incumbent)		

Director (Audit & Supervisory Board Member)	Kiyoto Inomata	July 7, 1967	April 1995 January 2003 July 2004 November 2005 April 2006 June 2007 June 2008 April 2011 April 2015 June 2020 June 2020	Joined Tokyo Gas Co., Ltd. Personnel Dept. (Dispatched to Digital Arts Inc. for management training) Seconded to Energy Advance Co., Ltd. (currently Tokyo Gas Engineering Solutions Corporation) Joined Digital Arts Inc., Corporate Planning Deputy General Manager- Development General Manager-Corporate Planning Director, IQS' Co., Ltd. General Manager-Internal Audit, Digital Arts Inc. Associate General Manager-Development, General Manager-Quality Assurance Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) Auditor, Digital Arts Consulting Inc. (incumbent)	(Note 3)	144
Director (Audit & Supervisory Board Member)	Hidekazu Kubokawa	February 20, 1953	November 1976 July 1986 February 1989 March 2000 June 2005 June 2006 June 2016	Joined Chuo Audit Corporation (currently PricewaterhouseCoopers Aarata LLC) Founded Kubokawa CPA Office (currently Yotsuya Partners Accounting Firm), Representative Partner (incumbent) Outside Audit & Supervisory Board Member, SoftBank Corp. Japan (currently SoftBank Group Corp.) Outside Auditor, Digital Arts Inc. Outside Corporate Auditor, Kyoritsu Printing Co., Ltd. (incumbent) Outside Auditor, Pado Corporation Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent)	(Note 3)	3,617
Director (Audit & Supervisory Board Member)	Masataka Uesugi	July 31, 1965	April 1995 April 1999 September 2000 June 2003 June 2003 December 2013 November 2014 March 2015 March 2016 June 2016 April 1995 April 1999	Joined Emori Kawamori Atsumi Law Office Founded Uesugi Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, Digital Arts Inc. Outside Auditor, Commerce One Holdings Inc. (incumbent) Outside Audit & Supervisory Board Member, Ceres Inc. (incumbent) Outside Audit & Supervisory Board Member, Aiming Inc. (incumbent) Senior Partner, Sakurada Dori Partners (incumbent) Director (Audit & Supervisory Committee Member), Fullcast Holdings Co., Ltd. (incumbent) Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) Joined Emori Kawamori Atsumi Law Office Founded Uesugi Law Office	(Note 3)	3,617
Director (Audit & Supervisory Board Member)	Chise Kuwayama	May 2, 1971	April 1995 November 2004 August 2008 March 2015 March 2021 June 2022	Joined Dai-ichi Mutual Life Insurance Company (currently, The Dai-ichi Life Insurance Co., Ltd.) Joined Tohmatsu & Co. (currently, Deloitte Touche Tohmatsu LLC) Registered as a certified public accountant Outside Standing Audit and Supervisory Board Member, Ceres Inc. Outside Director (Full-time Audit and Supervisory Board Member), Ceres Inc. Outside Standing Audit & Supervisory Board Member, Sony Network Communications Smart Platform, Inc. (currently, MEEQ Inc.) (incumbent)	(Note 4)	159
Total						2,263,878

(Notes) 1. Audit & Supervisory Board Members Hidekazu Kubokawa, Masataka Uesugi and Chise Kuwayama are Outside Directors.
2. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within one (1) year after the conclusion of the Annual General Meeting of Shareholders held on June 23, 2023.
3. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within two (2) years after the conclusion of the Annual General Meeting of Shareholders held on June 21, 2022.
4. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within two (2) years after the conclusion of the Annual General Meeting of Shareholders held on June 23, 2023.
5. The number of shares held includes shares of stock in Digital Arts Inc.'s officers' shareholding association.

(ii) Information about Outside Officers

The Company has three Outside Directors.

Outside Director Hidekazu Kubokawa holds 3,617 shares of the Company's stock as of March 31, 2023, but there are no other special interests between Mr. Kubokawa and the Company. Mr. Kubokawa is a Representative Partner of Yotsuya Partners Accounting Firm but there are no special interests between Yotsuya Partners Accounting Firm and the Company.

Outside Director Masataka Uesugi holds 3,617 shares of the Company's stock as of March 31, 2023, but there are no other special interests between Mr. Uesugi and the Company. Mr. Uesugi is a Partner of Sakurada Dori Partners but there are no special interests between Sakurada Dori Partners and the Company.

Outside Director Chise Kuwayama holds 159 shares of the Company's stock as of March 31, 2023, but there are no other special interests between Ms. Kuwayama and the Company.

The Company elects Outside Directors to ensure the objectivity and neutrality of supervisory functions of management.

While the Company has not established standards or a policy for judging the independence of Outside Directors, it refers to the requirements for independence stipulated by the Tokyo Stock Exchange when electing Outside Directors. The Outside Directors have the function of auditing the execution of duties by Directors from the perspectives of legality and appropriateness, based on their independence and specialist knowledge.

(iii) Mutual Collaboration between Audits or Supervision by Outside Officers, Audits by the Audits & Supervisory Board and Account Audits and Relationship with Internal Control Department

Together with Directors who are Standing Audit & Supervisory Board Members, the Outside Directors receive detailed reports on important events and risk factors as part of the results of internal audits conducted on a regular basis by Internal Auditors.

In the case of the accounting auditor's audit of quarterly and annual financial statements, Audit & Supervisory Board Members are required to receive detailed reports on the status of audits from the certified public accountants who performed the operations and assistants involved in the audit operations. Internal Auditors report the status of internal controls, etc. to Outside Directors via the Board of Directors where necessary. The Company has registered Messrs. Hidekazu Kubokawa, Masataka Uesugi and Chise Kuwayama with the Tokyo Stock Exchange as independent officers as defined by the Tokyo Stock Exchange.

(3) Information about Audits

(i) Information about Audits of Audit & Supervisory Board Members

The Company's organization for audits of Audit & Supervisory Board Members is comprised of four Audit & Supervisory Board Members.

Standing Audit & Supervisory Board Member Kiyoto Inomata has long been working for corporate departments and the Internal Audit Department. He is familiar with overall matters of the Group's businesses and has extensive knowledge of business management.

Audit & Supervisory Board Member Hidekazu Kubokawa is a certified public accountant and tax accountant, Audit &

Supervisory Board Member Masataka Uesugi is an attorney, and Chise Kuwayama is a certified public accountant.

In the fiscal year under review, the Company held meetings of the Audit & Supervisory Board once a month, in principle. Attendance of individual Audit & Supervisory Board Members was as follows.

	Name	Number of meetings convened	Number of meetings attended
Standing Audit & Supervisory Board Member	Kiyoto Inomata	12	12
Outside Audit & Supervisory Board Member	Hidekazu Kubokawa	12	11
Outside Audit & Supervisory Board Member	Masataka Uesugi	12	12
Outside Audit & Supervisory Board Member	Chise Kuwayama	12	12

Important matters considered at meetings of the Audit & Supervisory Board included the formulation of audit plans, the preparation of audit reports, evaluation of re-appointment of the Accounting Auditor, and agreement on fees paid to the Accounting Auditor.

Important activities carried out by Audit & Supervisory Board Members included gathering information about the implementation status of internal audits from those in charge, exchanging opinions with/ gathering information from the Accounting Auditor, requesting reports from other relevant departments where necessary, and gathering information about the status of execution of the Company’s business.

(ii) Information about Internal Audits

The Company’s Internal Audit Department consists of one person in charge of internal audits.

When conducting internal audits, the person in charge of internal audits is required to formulate an annual plan and conduct audits based upon collaboration and the exchange of opinions with the accounting auditor and Audit & Supervisory Board Members. The person in charge of internal audits, who reports directly to the President, systematically conducts internal audits and investigations of all departments of the Company, reports the results to the President and the Audit & Supervisory Board, makes requests for improvements to the audited departments, and conducts follow-ups. In addition, the Internal Audit Department meets with the Internal Control Department as appropriate and makes recommendations for the maintenance and strengthening of controls based on the audit results. With regard to internal control audits based on the Financial Instruments and Exchange Act, the Internal Audit Department conducts detailed audits of Internal Control Department, in cooperation with the Accounting Auditor, to ensure the appropriateness and efficiency of internal control over financial reporting.

(iii) Information about Accounting Audit

A. Name of audit corporation

BDO Sanyu & Co.

B. Tenure

23 years

C. Certified public accountants who execute operations

Mr. So Nomura

Mr. Hiroaki Nakanishi

D. Composition of assistants with audit operations

Assistants with the Company’s accounting audit operations mainly comprise two certified public accountants, two persons who have passed accountant examinations and one other person.

E. Policy and reasons for selection of audit corporation

If the accounting auditor has committed a serious violation or breach of laws and regulations such as the Companies Act or the Certified Public Accountants Act or if it is deemed difficult for the accounting auditor to conduct an audit properly, the Audit & Supervisory Board examines dismissing or not reappointing the accounting auditor. If, as a result of its examination, the Audit & Supervisory Board judges that it is appropriate to dismiss or not to reappoint the accounting auditor, the Audit & Supervisory Board puts forward a proposal for the dismissal or non-reappointment of the accounting auditor to the general meeting of shareholders. The Audit & Supervisory Board also examines each period whether reappointment of the accounting auditor is appropriate and whether the status of execution of duties, the audit systems, independence, etc. of the accounting auditor are appropriate. If as a result of its examination, no major problems are found, the Audit & Supervisory Board conducts an evaluation of the accounting auditor and judges that reappointment is appropriate

F. Evaluation of audit corporation by Audit & Supervisory Board

The Company's Audit & Supervisory Board conducts an evaluation of the audit corporation by receiving reports from the audited executive divisions, asking the audit corporation about results of inspections by the supervisory authorities and its internal quality control systems and comprehensively examining whether the audit corporation maintains the quality of audits and conducts audits properly through witnessing onsite audits.

(iv) Audit Fees

A. Fees paid to certified public accountants, etc.

Category	Previous fiscal year		Fiscal year under review	
	Fees for audit services (million yen)	Fees for non-audit services (million yen)	Fees for audit services (million yen)	Fees for non-audit services (million yen)
Reporting company	19	—	20	—
Consolidated subsidiaries	—	—	—	—
Total	19	—	20	—

B. Fees paid to other accountants belonging to the same network as the certified public accountants, etc. (excluding A.)

Not applicable.

C. Details of other major fees for audit and attestation services

Not applicable.

D. Policy on determination of audit fees

Regarding the Company's policy on determination of audit fees for certified public accountants, etc., the Company requests only audit services, and audit fees are determined in an appropriate manner, taking into consideration factors such as the duration of the audit, the Company's business scale and the characteristics of its operations.

E. Reasons why the Audit & Supervisory Board consented to the fees, etc. of the accounting auditor

The Audit & Supervisory Board gave consent for the fees, etc. of the accounting auditor proposed by the Board of Directors under Article 399, Paragraphs 1 and 3 of the Companies Act, because, having confirmed the status of execution of duties and actual fees of the accounting auditor in the previous business year by obtaining necessary materials and asking for reports from the Board of Directors, relevant internal divisions and the accounting auditor and having examined the content of the audit plan and the appropriateness of the basis for calculation of estimated fees for the current business year, it judged these fees, etc. to be appropriate.

(4) Compensation to Directors and Executive Officers

(i) Matters Related to Policy for Determining the Amount and Method of Calculation of Compensation to Directors and Executive Officers

According to the Company's basic policy on remuneration for its Directors (excluding those who are Audit & Supervisory Board Members), a remuneration system must function as an incentive to continuously increase the corporate value as a whole and remuneration for each Director is to be determined at an appropriate level in consideration of their duties. Specifically, the base remuneration for the Company's Directors is fixed on a monthly basis. The Company pays remuneration in overall consideration of the Company's business results, status of management, social circumstances, degree of contribution according to their duties, number of years of service and the levels of remuneration at other companies. The Company's non-monetary remuneration for Directors include (1) the provision of share acquisition rights for the Company's common shares, and (2) the allotment of shares subject to transfer restrictions for a predetermined period and the Company's rules on events for acquisition without contribution (hereinafter referred to as "Shares with Restrictions on Transfer"). In consultation with the Board of Directors, the Nomination and Remuneration Advisory Committee discusses the policy on determination and builds a consensus in the committee. The Board of Directors then makes a decision. The remuneration amount of a Director who is an Audit & Supervisory Board Member is fixed remuneration that takes into consideration factors such as whether the post is full-time or part-time, duties and authority. It is not linked to corporate performance and is determined by resolution of the Audit & Supervisory Board.

Details about the amount of remuneration for individual Directors (excluding Directors who are Audit & Supervisory Board Members) are determined by the President and Representative Director in accordance with a resolution adopted by the Board of Directors to delegate this authority to the President and Representative Director. To ensure the fairness and transparency of the examination process, the Nomination and Remuneration Advisory Committee discusses the proposal on remuneration created by the President and Representative Director within the remuneration limit approved by the General Meeting of Shareholders at the request of the Board of Directors. On the basis of the views coordinated by the committee, the President and Representative Director makes a decision.

The remuneration limit for Directors (excluding Directors who are Audit & Supervisory Board Members) is set at 300 million yen per year, excluding the portion of the employee salary for Directors serving as employees, according to a resolution adopted by the 21st Annual Shareholders' Meeting on June 24, 2016. As of the close of this Annual Shareholders' Meeting, the Company had four Directors, excluding Directors who are Audit & Supervisory Board Members.

Apart from the remuneration mentioned above, a resolution has been adopted according to which the total monetary remuneration claims to Directors (excluding Directors who are Audit & Supervisory Board Members) as remuneration concerned with the Shares with Restrictions on Transfer are capped at 50 million yen per year in overall consideration of the degree of contribution and other factors. With a commission of authority, the Board of Directors makes decisions on the actual allotment of Shares with Restrictions on Transfer in overall consideration of the degree of contribution to the Company and other factors of individual Directors concerned.

The Company's 21st Annual Shareholders' Meeting on June 24, 2016 adopted a resolution to set the limit of remuneration for Directors who are Audit & Supervisory Board Members at 100 million yen per year. As of the close of this Annual Shareholders' Meeting, the Company had three Directors who were Audit & Supervisory Members, including two Outside Directors.

(ii)Total Amount of Remuneration, etc. for Each Executive Officer Category, Total Amount of Remuneration, etc. by Type and Number of Executive Officers

Category of officers	Total amount of remuneration (million yen)	Total amount of remuneration, etc. by type (million yen)		Number of eligible officers
		Basic remuneration	Stock options	
Directors (excludes Audit & Supervisory Board Members and Outside Directors)	83	83	—	2
Directors who are Audit & Supervisory Board Members (excludes Outside Directors)	12	12	—	1
Outside Directors	10	10	—	3

(iii) Total Amount of Remuneration Paid by Group to Each Officer

Not stated because there are no persons whose total amount of consolidated remuneration, etc. is 100 million yen or more.

(iv) Employees Salary of Officers Who also Hold Employee Posts

Total amount (million yen)	Officers who also hold employee posts (people)	Description
14	1	Salary as consideration for services rendered.

(5) Information on Shareholdings

Not applicable.

Section V. Financial Information

1. Method of Preparation of Consolidated Financial Statements and Non-consolidated Financial Statements

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

(2) The non-consolidated financial statements of the Company are prepared in compliance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the "Ordinance on Non-Consolidated Financial Statements").
Because the Company is classified as a company that prepares its financial statements pursuant to special provisions, the non-consolidated financial statements are prepared as provided in Article 127 of the Ordinance on Non-Consolidated Financial Statements.

2. Audit Certification

The Company underwent an audit by BDO Sanyu & Co. of the consolidated financial statements for the consolidated fiscal year (from April 1, 2022 to March 31, 2023) and the non-consolidated financial statements for the fiscal year (from April 1, 2022 to March 31, 2023) in compliance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Specific Efforts to Secure the Appropriateness of the Consolidated Financial Statements, etc.

The Company has undertaken specific measures to secure the appropriateness of its consolidated financial statements, etc.
The Company is a member of the Financial Accounting Standards Foundation (FASF) and endeavors to gather information to properly understand accounting standards and develop systems that enable it to ensure the appropriateness of consolidated financial statements.
The Company also actively participates in seminars held by the FASF.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2023)
Assets		
Current assets		
Cash and deposits	15,773	17,018
Notes receivable - trade	74	148
Accounts receivable - trade	1,142	1,426
Finished goods	0	19
Supplies	3	3
Other	111	309
Total current assets	17,105	18,925
Non-current assets		
Property, plant and equipment		
Buildings	220	220
Accumulated depreciation	(132)	(136)
Buildings, net	88	83
Vehicles	18	18
Accumulated depreciation	(9)	(13)
Vehicles, net	8	5
Tools, furniture and fixtures	493	506
Accumulated depreciation	(409)	(412)
Tools, furniture and fixtures, net	83	93
Land	26	26
Total property, plant and equipment	206	209
Intangible assets		
Software	1,317	1,264
Other	209	243
Total intangible assets	1,526	1,508
Investments and other assets		
Investment securities	101	101
Deferred tax assets	96	116
Other	304	288
Total investments and other assets	503	506
Total non-current assets	2,236	2,223
Total assets	19,341	21,149

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	44	238
Income taxes payable	760	839
Provision for bonuses	95	156
Advances received	5,684	5,187
Other	546	502
Total current liabilities	7,130	6,924
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	7,181	6,975
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	10,758	12,768
Treasury shares	(307)	(308)
Total shareholders' equity	12,118	14,127
Accumulated other comprehensive income		
Foreign currency translation adjustment	11	14
Total accumulated other comprehensive income	11	14
Share acquisition rights	12	11
Non-controlling interests	17	20
Total net assets	12,159	14,173
Total liabilities and net assets	19,341	21,149

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Net sales	9,051	10,436
Cost of sales	2,676	3,666
Gross profit	6,374	6,769
Selling, general and administrative expenses	*1 *2 2,248	*1 *2 2,356
Operating profit	4,126	4,413
Non-operating income		
Interest income	0	0
Foreign exchange gains	6	12
Gain on forfeiture of unclaimed dividends	1	1
Miscellaneous income	0	1
Total non-operating income	8	15
Ordinary profit	4,135	4,429
Extraordinary income		
Gain on reversal of share acquisition rights	1	1
Gain on sales of non-current assets	*3 0	—
Total extraordinary income	1	1
Extraordinary losses		
Loss on retirement of non-current assets	*4 0	*4 0
Total extraordinary losses	0	0
Profit before income taxes	4,136	4,430
Income taxes – current	1,203	1,385
Income taxes – deferred	26	(19)
Total income taxes	1,229	1,365
Profit	2,906	3,064
Profit attributable to non-controlling interests	5	2
Profit attributable to owners of parent	2,900	3,062

Consolidated statement of comprehensive income

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Profit	2,906	3,064
Other comprehensive income		
Foreign currency translation adjustment	3	2
Total other comprehensive income	*1 3	*1 2
Comprehensive income	2,910	3,067
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,904	3,065
Comprehensive income attributable to non-controlling interests	5	2

(3) Consolidated statement of changes in equity

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Share capital	Capital surplus	Share capital	Capital surplus	Share capital			
Balance at beginning of period	713	963	8,699	(342)	10,034	7	7	8	12	10,062
Changes during period										
Dividends of surplus			(841)		(841)					(841)
Profit attributable to owners of parent			2,900		2,900					2,900
Disposal of treasury shares		(9)		35	25					25
Purchase of treasury shares				(0)	(0)					(0)
Net changes in items other than shareholders' equity						3	3	3	5	13
Total changes during period	—	(9)	2,059	34	2,084	3	3	3	5	2,097
Balance at end of period	713	953	10,758	(307)	12,118	11	11	12	17	12,159

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Share capital	Capital surplus	Share capital	Capital surplus	Share capital			
Balance at beginning of period	713	953	10,758	(307)	12,118	11	11	12	17	12,159
Changes during period										
Dividends of surplus			(1,052)		(1,052)					(1,052)
Profit attributable to owners of parent			3,062		3,062					3,062
Purchase of treasury shares				(0)	(0)					(0)
Changes in parent company's interest in transactions with noncontrolling shareholders		0			0					0
Net changes in items other than shareholders' equity						2	2	(0)	2	4
Total changes during period	—	0	2,009	(0)	2,008	2	2	(0)	2	2,013
Balance at end of period	713	953	12,768	(308)	14,127	14	14	11	20	14,173

(4) Consolidated statement of cash flows

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Cash flows from operating activities		
Profit before income taxes	4,136	4,430
Depreciation	890	884
Increase (decrease) in provision for bonuses	(98)	60
Interest income	(0)	(0)
Foreign exchange losses (gains)	(6)	(12)
Gain on reversal of share acquisition rights	(1)	(1)
Loss on retirement of non-current assets	0	0
Loss (gain) on sales of non-current assets	(0)	—
Decrease (increase) in trade receivables	2,364	(856)
Decrease (increase) in inventories	0	(18)
Increase (decrease) in trade payables	10	194
Increase (decrease) in accounts payable - other	43	35
Decrease (increase) in other current assets	(40)	(186)
Increase (decrease) in other current liabilities	38	(81)
Other	(27)	16
Subtotal	7,309	4,464
Interest and dividends received	0	0
Income taxes paid	(1,140)	(1,318)
Net cash provided by (used in) operating activities	6,169	3,147
Cash flows from investing activities		
Purchase of property, plant and equipment	(17)	(56)
Proceeds from sale of property, plant and equipment	0	—
Purchase of intangible assets	(961)	(811)
Net cash provided by (used in) investing activities	(978)	(867)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	25	—
Purchase of treasury shares	(0)	(0)
Proceeds from issuance of share acquisition rights	5	—
Proceeds from stock issuance to non-controlling interests	—	1
Dividends paid	(840)	(1,052)
Net cash provided by (used in) financing activities	(810)	(1,051)
Effect of exchange rate change on cash and cash equivalents	10	17
Net increase (decrease) in cash and cash equivalents	4,391	1,245
Cash and cash equivalents at beginning of period	11,382	15,773
Cash and cash equivalents at end of period	*1 15,773	*1 17,018

Notes to consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

(Significant matters that serve as the basis for the preparation of consolidated financial statements)

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

Digital Arts Consulting Inc.
Digital Arts America, Inc.
Digital Arts Asia Pacific Pte. Ltd.
Digital Arts Europe Limited

(2) Names, etc. of non-consolidated subsidiaries

There are no applicable matters.

2. Matters related to the application of the equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applied: —

(2) Names, etc. of non-consolidated subsidiaries to which the equity method is not applied

There are no applicable matters.

3. Fiscal years of consolidated subsidiaries

The fiscal year end of all consolidated subsidiaries is the same as the end of the consolidated fiscal year.

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

A. Securities

(a) Bonds held for maturity

The amortized cost method (interest method) is applied.

B. Inventories

(a) Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method based on reduction in profitability.)

(2) Depreciation/amortization method for significant depreciable/amortizable assets

A. Property, plant and equipment

The declining balance method is applied.

The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act. The straight-line method is applied for facilities attached to buildings acquired on April 1, 2016 or later.

B. Intangible assets

The straight-line method is applied.

The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.

C. Long-term prepaid expenses

The straight-line method is applied.

The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.

(3) Standards for recognition of significant allowances

A. Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the consolidated fiscal year under review is posted.

(4) Accounting standards for significant income and expenses

the Company recognizes revenue in the amount expected to be received in exchange for promised goods or services at the point where control over such goods or services moves to customers.

Major performance obligations in major businesses and the normal time to recognize revenue are as described in (Matters concerning revenue recognition).

(5) Standards for translating significant assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the consolidated settling day, and translation adjustments are treated as a profit or loss. Assets and liabilities at overseas subsidiaries, etc. are translated into yen using the spot exchange rate on the consolidated settling day. Revenue and expense are translated into yen using the average rate during the period, and translation adjustments are included in the foreign currency translation adjustment in net assets.

(6) Scope of funds in the consolidated statement of cash flows

Funds in the consolidated statement of cash flows (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn as needed, and short-term investments that can be realized easily and only have insignificant value fluctuation risk and whose redemption date arrives within three months of the acquisition date.

(Consolidated statement of income)

*1. The major items of selling, general and administrative expenses and the amounts are as follows.

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Advertising expenses	239million yen	297million yen
Salaries and allowances	708	698
Provision for bonuses	54	86

*2. Total amount of research and development expenses included in general and administrative expenses are as follows.

Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
1million yen	24million yen

*3. Gain on sales of non-current assets are as follows.

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Vehicles	0million yen	－million yen

*4. The details of loss on retirement of non-current assets are as follows.

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Tools, furniture and fixtures	－million yen	0million yen
Software	0	－
Total	0	0

(Consolidated statement of comprehensive income)

*1. Reclassification adjustment and tax effect related to other comprehensive income

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	3million yen	2million yen
Reclassification adjustment	—	—
Before tax effect adjustment	3	2
Tax effect	—	—
Foreign currency translation adjustment	3	2
Total other comprehensive income	3	2

(Consolidated statement of changes in equity)

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	104,462	69	10,800	93,731
Total	104,462	69	10,800	93,731

(Note) An increase in the number of common shares in treasury shares, 69, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 10,800, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares to be acquired upon exercise of share acquisition rights				Amount at end of fiscal year under review (million yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	12
Total			—	—	—	—	12

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2021	Common shares	420	30	March 31, 2021	June 23, 2021
Board of Directors meeting on October 28, 2021	Common shares	421	30	September 30, 2021	December 2, 2021

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (million yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 21, 2022	Common shares	561	Retained earnings	40	March 31, 2022	June 22, 2022

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	93,731	102	—	93,833
Total	93,731	102	—	93,833

(Note) An increase in the number of common shares in treasury shares, 102, is due to the purchase of treasury shares.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares to be acquired upon exercise of share acquisition rights				Amount at end of fiscal year under review (million yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	11
Total		—	—	—	—	—	11

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 21, 2022	Common shares	561	40	March 31, 2022	June 22, 2022
Board of Directors meeting on October 28, 2022	Common shares	491	35	September 30, 2022	December 2, 2022

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (million yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 23, 2023	Common shares	561	Retained earnings	40	March 31, 2023	June 26, 2023

(Consolidated statement of cash flows)

*1. Cash and cash equivalents at the end of the fiscal year and their relationships with items in the consolidated balance sheets

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Cash and deposit account	15,773million yen	17,018million yen
Cash and cash equivalents	15,773	17,018

(Lease transactions)

Not applicable.

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

The Group's fund management is centered on short-term deposits. The Group also invests in government bonds, which are very safe and highly rated corporate and other bonds.

(2) Description of financial instruments and their risks

Notes and accounts receivable-trade, operating receivables, are exposed to customers' credit risk.

Investment securities are public and corporate bonds and are exposed to risks of fluctuations in market price.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract non-performance) management

The sales management section and administrative department of the Company regularly monitor the status of operating receivables at the main trading partners under the Company's credit management regulations and control the due dates and balances for individual partners. In this way, the Company strives to identify concerns over collections caused by deterioration in partners' financial situation early and mitigate them. The Company conducts similar credit management at consolidated subsidiaries under its credit management regulations.

As for short-term fund management, the Company only uses bank deposits and investments in highly rated funds to avoid as much credit risk as possible.

(ii) Market risk (interest-rate fluctuation risk, etc.) management

The Company determines its fund management portfolio while expecting its financing needs, and avoids market risk as much as possible.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company manages liquidity risk chiefly by having the administrative department create financial plans in a timely manner.

(4) Additional information on matters related to the market prices of financial instruments, etc.

Since calculations of the market prices of financial instruments take variable factors into consideration, calculated market prices may change if different assumptions are used.

2. Matters related to the market prices of financial instruments, etc.

Consolidated balance sheet amounts, market prices and differences between them are as follows: Cash is omitted. Deposits are also omitted because deposits are settled in a short period of time and their market prices are similar to their book values.

Fiscal 2022 (As of March 31, 2022)

	Consolidated balance sheet amount (million yen)	Market price (million yen)	Difference (million yen)
(1) Notes receivable - trade	74	74	—
(2) Accounts receivable	1,142	1,142	—
(3) Investment securities			
Bonds held to maturity	101	101	(0)
Total assets	1,318	1,317	(0)
(1) Income taxes payable	760	760	—
Total liabilities	760	760	—

Fiscal 2023 (As of March 31, 2023)

	Consolidated balance sheet amount (million yen)	Market price (million yen)	Difference (million yen)
(1) Notes receivable - trade	148	148	—
(2) Accounts receivable	1,426	1,426	—
(3) Investment securities			
Bonds held to maturity	101	100	(0)
Total assets	1,675	1,675	(0)
(1) Income taxes payable	839	839	—
Total liabilities	839	839	—

(Note) Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date

Fiscal 2022 (As of March 31, 2022)

	Within a year (million yen)	More than a year, within five years (million yen)	More than five years, within 10 years (million yen)	More than 10 years (million yen)
Cash and deposits	15,773	—	—	—
Notes receivable - trade	74	—	—	—
Accounts receivable - trade	1,142	—	—	—
Investment securities				
Bonds held to maturity				
Corporate bonds	—	100	—	—
Total	16,989	100	—	—

Fiscal 2023 (As of March 31, 2023)

	Within a year (million yen)	More than a year, within five years (million yen)	More than five years, within 10 years (million yen)	More than 10 years (million yen)
Cash and deposits	17,018	—	—	—
Notes receivable - trade	148	—	—	—
Accounts receivable - trade	1,426	—	—	—
Investment securities				
Bonds held to maturity				
Corporate bonds	—	100	—	—
Total	18,593	100	—	—

3. Breakdown of financial instruments in different appropriate classifications

The fair values of financial instruments are classified into the following three levels according to the observability and importance of inputs used in the calculation of fair values.

Level 1 fair value: fair value calculated using market prices, on an active market, of assets or liabilities whose fair value is calculated of the observable inputs related to the calculation of fair value

Level 2 fair value: fair value calculated using inputs other than the inputs used for Level 1 of the observable inputs related to the calculation of fair value

Level 3 fair value: fair value calculated using inputs that are not observable related to the calculation of fair value

If more than one input that has a significant effect on the calculation of fair value is used, the fair value is classified to the level of inputs whose priority is lowest in the calculation of fair value.

Financial assets and financial liabilities whose consolidated balance sheet amounts are not market prices.

Fiscal 2022 (As of March 31, 2022)

(Million yen)

Classification	Market price			
	Level 1	Level 2	Level 3	Total
Notes receivable - trade	—	74	—	74
Accounts receivable – trade	—	1,142	—	1,142
Investment securities				
Bonds held to maturity				
Bonds payable	—	101	—	101
Total assets	—	1,317	—	1,317
Income taxes payable	—	760	—	760
Total liabilities	—	760	—	760

Fiscal 2023 (As of March 31, 2023)

(Million yen)

Classification	Market price			
	Level 1	Level 2	Level 3	Total
Notes receivable - trade	—	148	—	148
Accounts receivable – trade	—	1,426	—	1,426
Investment securities				
Bonds held to maturity				
Bonds payable	—	100	—	100
Total assets	—	1,675	—	1,675
Income taxes payable	—	839	—	839
Total liabilities	—	839	—	839

(Note) Explanations about assessment techniques used in the calculation of fair value and inputs related to the calculation of fair value

Notes and accounts receivable - trade

The fair value of each classified receivable is calculated periodically by the discounted cash flow method based on a rate that takes the amount receivable, the period until the due date and credit risk into account and their fair value is classified as level 2 fair value.

Investment securities

Corporate bonds are valued using quoted market prices. Corporate bonds valued by the Company are bonds for which quoted market prices are not readily available because they are not traded frequently and their fair value is therefore classified as level 2 fair value.

Income taxes payable

The fair value of income taxes payable is calculated by the discounted cash flow method based on a rate which takes future cash flows and the term to the due date into consideration and is classified as level 2 fair value.

(Securities)

Bonds held to maturity

Fiscal 2022 (As of March 31, 2022)

	Classification	Consolidated balance sheet amount (million yen)	Market price (million yen)	Difference (million yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	101	101	(0)
	(3) Other	—	—	—
	Subtotal	101	101	(0)
Total		101	101	(0)

Fiscal 2023 (As of March 31, 2023)

	Classification	Consolidated balance sheet amount (million yen)	Market price (million yen)	Difference (million yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	101	100	(0)
	(3) Other	—	—	—
	Subtotal	101	100	(0)
Total		101	100	(0)

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022) and consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)

The Group did not conduct any derivatives transactions.

(Retirement benefits)

1. Outline of the retirement benefits system

The Company and its consolidated subsidiaries have a defined contribution pension plan.

2. Retirement benefit expenses

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

The amount that was required for contribution to the defined contribution pension plan was 38 million yen.

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

The amount that was required for contribution to the defined contribution pension plan was 52 million yen.

(Stock options)

1. Expenses related to stock options and their account titles

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Selling, general and administrative expenses	0 million yen	0 million yen

2. Amount posted as profit due to the forfeiture of unexercised stock options

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Gain on reversal of share acquisition rights	1 million yen	1 million yen

3. Description of stock options, their scale and changes

(1) Description of stock options

	8th Stock options	9th Stock options
Company	Reporting company	Same as on the left
Category and number of persons subject to grants	Four directors 151 employees	Three directors 96 employees
Stock options by class of shares	Common shares 350,100 shares	Common shares 848,000 shares
Grant date	November 27, 2015	December 13, 2016
Vesting conditions	Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (November 27, 2015) to the vesting date (July 1, 2017) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2017, the fiscal year ended March 31, 2018, or the fiscal year ended March 31, 2019. (i) If operating profit exceeds 1.5 billion yen, 20% of share acquisition rights can be exercised (ii) If operating profit exceeds 2.0 billion yen, 50% of share acquisition rights can be exercised (iii) If operating profit exceeds 2.5 billion yen, 100% of share acquisition rights can be exercised In the items above, the operating profit stated in the consolidated statement of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.	Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (December 13, 2016) to the vesting date (July 1, 2018). Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2018, the fiscal year ended March 31, 2019, or the fiscal year ended March 31, 2020. (i) If operating profit exceeds 2.0 billion yen, 20% of share acquisition rights can be exercised (ii) If operating profit exceeds 2.5 billion yen, 50% of share acquisition rights can be exercised (iii) If operating profit exceeds 2.8 billion yen, 100% of share acquisition rights can be exercised In the items above, the operating profit stated in the consolidated statement of income in the Company's annual securities report (or the statements of income if no consolidated statement of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.
Requisite service period	No requisite service periods are determined.	No requisite service periods are determined.
Exercise period	From the vesting date to May 31, 2027. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.	From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.

	11th Stock options	12th Stock options
Company	Reporting company	Same as on the left
Category and number of persons subject to grants	16 employees	55 employees
Stock options by class of shares	Common shares 69,000 shares	Common shares 137,500 shares
Grant date	September 24, 2021	September 24, 2021
Vesting conditions	Being a director, an auditor, or an employee of the reporting company or its subsidiaries and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or its subsidiaries from the grant date (September 24, 2021) to the vesting date (June 30, 2036) The share acquisition rights can be exercised only over the period from July 1, 2036 to June 30, 2038, if operating profit exceeds 14,736 million yen in any fiscal year from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2036. Whether the operating profit above is exceeded or not shall be determined in reference to the operating profit stated in the non-consolidated statement of income in the Company's Annual Securities Report, and in the event of a material change in the concept of the item to be referred to due to the application of International Financial Reporting Standards, etc., the Board of Directors shall separately determine the index to be referred to.	Being a director, an auditor, or an employee of the reporting company or its subsidiaries and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or its subsidiaries from the grant date (September 24, 2021) to the vesting date (June 30, 2041) The share acquisition rights can be exercised only over the period from July 1, 2041 to June 30, 2043, if operating profit exceeds 20,630 million yen in any fiscal year from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2041. Whether the operating profit above is exceeded or not shall be determined in reference to the operating profit stated in the non-consolidated statement of income in the Company's Annual Securities Report, and in the event of a material change in the concept of the item to be referred to due to the application of International Financial Reporting Standards, etc., the Board of Directors shall separately determine the index to be referred to.
Requisite service period	No requisite service periods are determined.	No requisite service periods are determined.
Exercise period	From July 1, 2036 to June 30, 2038. The person must continue to be a director, an auditor, or an employee of the Company or its subsidiaries to exercise share acquisition rights.	From July 1, 2041 to June 30, 2043. The person must continue to be a director, an auditor, or an employee of the Company or its subsidiaries to exercise share acquisition rights.

(2) Scale of stock options and related changes

The stock options below are those that existed in the fiscal year under review (fiscal year ended March 31, 2023). The number of stock options has been converted to the number of shares.

(i) Number of stock options

	8th Stock options	9th Stock options	11th Stock options	12th Stock options
Before vesting (shares)				
As of March 31, 2022	—	—	—	—
Granted	—	—	69,000	130,000
Forfeited	—	—	10,000	30,000
Vested	—	—	—	—
Yet to be vested	—	—	59,000	100,000
After vesting (shares)	—	—	—	—
As of March 31, 2022	152,000	300,900	—	—
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Yet to be exercised	152,000	300,900	—	—

(ii) Unit price information

	8th Stock options	9th Stock options	11th Stock options	12th Stock options
Exercise price (yen)	2,034	2,639	8,310	8,310
Average stock price when exercised (yen)	—	—	—	—
Fair unit value (grant date) (yen)	2	24	6,741	7,482

4. Method for estimating the number of stock options vested

It is basically difficult to reasonably estimate the number of stock options to be forfeited, and only the actual number of stock options forfeited is reflected. For paid-in stock options with performance conditions, the number of forfeitures of non-vested stock options is estimated taking vesting conditions into consideration.

(Additional information)

Transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018) are still accounted for using the previously adopted accounting treatment in accordance with Paragraph 10 (3) of PITF No. 36.

1. Overview of stock acquisition rights which involve considerations with vesting conditions

Notes are omitted because the same description is given in “2. Description of stock options, their scale and changes” above.

2. Outline of accounting treatment adopted

When share acquisition rights are issued, the amount paid in on the issuance of share acquisition rights will be recorded as share acquisition rights in net assets. When share acquisition rights are exercised, and new shares are issued, the amount paid in on the issuance of share acquisition rights and the amount paid in on the exercise of share acquisition rights will be transferred to share capital and legal capital surplus, respectively.

When share acquisition rights have lapsed, the amount that corresponds to the lapse will be recorded as profit within that accounting period.

(Tax effect accounting)

1. Breakdown of key factors contributing to deferred tax assets and deferred tax liabilities

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2023)
Deferred tax assets		
Enterprise taxes payable	39Million yen	40Million yen
Provision for bonuses	29	47
Accrued social insurance premiums	4	7
Non-deductible depreciation expenses	0	—
Asset retirement obligations	14	14
Loss carryforwards	53	55
Loss on valuation of golf club membership	1	1
Other	7	4
Total deferred tax assets	150	172
Valuation allowance	(53)	(55)
Total deferred tax assets	96	116

2. Reconciliation of the statutory tax rate and the actual effective tax rate

Notes are omitted because the difference between the statutory tax rate and the effective tax rate is 5% or less of the statutory tax rate for the consolidated fiscal year under review and for the previous consolidated fiscal year.

(Asset retirement obligations)

Asset retirement obligations posted in the consolidated balance sheets

(1) Outline of the asset retirement obligations

Obligations of restoration related to lease agreements at the head office and other offices

(2) Method for calculation of the asset retirement obligations

The period of use is estimated to be one to 15 years from the acquisition. The discount rate is △0.15% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

(3) Increase/decrease in the asset retirement obligations

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Balance at beginning of fiscal year	48Million yen	48Million yen
Adjustment due to passage of time	0	0
Balance at end of fiscal year	48	48

(Matters concerning revenue recognition)

1. Information on the breakdown of revenue from contracts with customers

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

Below is a breakdown of revenue from contracts with customers.

(Million yen)

	Enterprise Sector Market	Public Sector Market	Consumer Sector Market	Total
Revenue from contracts with customers	4,559	4,046	444	9,051

(Note) Internal transactions between Group companies are deducted.

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

Below is a breakdown of revenue from contracts with customers.

(Million yen)

	Enterprise Sector Market	Public Sector Market	Consumer Sector Market	Total
Revenue from contracts with customers	5,316	4,686	433	10,436

(Note) Internal transactions between Group companies are deducted.

2. Basic information for understanding revenue from contracts with customers

The Digital Arts Group is principally engaged in internet security, email security, the planning, development, sale, etc. of file encryption and tracking solutions, and information security consulting.

In sales of security software, software is classified into two types: license products and associated maintenance services, and cloud service products.

Revenue from a license product is recognized when the software product is provided to the customer, at which time the performance obligation is deemed fulfilled. The performance obligation for maintenance services is fulfilled over a certain period, and revenue is recognized over the term of the contract as the performance obligation is being satisfied.

As for the cloud service product, the service performance obligation is satisfied over time, and the transaction price under the contract with the customer is distributed evenly throughout the term of the contract and recognized as revenue.

Revenue is recorded mostly in accordance with the contract with the customer. If the Company pays a rebate according to a transaction amount for a certain period, among other factors, the rebate is deducted from the revenue.

The promised consideration does not include any significant financing component.

3. Information to understand revenue in the fiscal year under review and the next fiscal year and thereafter

(1)Below is the opening and ending balance of contract liabilities arising from contracts with customers.

(Million yen)

Contract liabilities	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Balance at beginning of fiscal year	3,370	5,684
Balance at end of fiscal year	5,684	5,187

Advances received in the consolidated balance sheet are all contract liabilities arising from contracts with customers, and advance payments are posted if the related performance obligations are not fulfilled at the end of the fiscal year.

The amount of revenue recognized in the fiscal year under review included in the balance of contract liabilities at the beginning of the fiscal year is 2,319 million yen. (1,316 million yen in the previous fiscal year)

(2) Transaction prices allocated to outstanding performance obligations

The total amount of transaction prices allocated to outstanding performance obligations and the periods over which revenue is expected to be recognized are as follows.

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Within 1 year	2,916	3,213
Over 1 year, within 2 years	1,342	1,480
Over 2 years, within 3 years	1,219	1,169
Over 3 years	1,093	455
Total	6,572	6,318

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022) and consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)

The Group has only one segment, which is the security business, and segment information is omitted.

Related information

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

1. Information by product/service

The Group has only one product and service category, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statement of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Million yen)

Customer name	Net sales
Daiwabo Information System Co., Ltd.	2,045
SB C&S Corp.	1,541

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

1. Information by product/service

The Group has only one product and service category, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statement of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Million yen)

Customer name	Net sales
Daiwabo Information System Co., Ltd.	2,683
SB C&S Corp.	1,747

Information on impairment loss in non-current assets by reporting segment

There are no applicable matters.

Information on amortization of goodwill and unamortized balance by reporting segment

There are no applicable matters.

Information on gain on bargain purchase by reporting segment

There are no applicable matters.

Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

Officers and major individual shareholders of the company submitting consolidated financial statements

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

There are no applicable matters.

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

There are no applicable matters.

(Special purpose companies subject to disclosure)

There are no applicable matters.

(Per share information)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Net assets per share	863.96yen	1,007.27yen
Profit per share	206.71yen	218.12yen
Diluted profit per share Profit	202.03yen	213.92yen

(Note) Base for calculating profit per share and diluted profit per share

Item	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Profit per share		
Profit attributable to owners of parent (million yen)	2,900	3,062
Amount not attributable to common shareholders (million yen)	—	—
Profit attributable to owners of parent related to common shares (million yen)	2,900	3,062
Average number of common shares during the term	14,034,190	14,039,205
Diluted profit per share		
Adjustment of profit attributable to owners of parent (million yen)	—	—
Increase in the number of common shares	325,272	275,549
[Of the increase, the number of share acquisition rights] (shares)	[325,272]	[275,549]
Outline of potential shares that are not included in the calculation of the diluted profit per share because they do not have any diluting effects	Share acquisition rights Resolution on August 30, 2021 Number of potential shares: 199,000	Share acquisition rights Resolution on August 30, 2021 Number of potential shares: 159,000

(Significant subsequent events)

There are no applicable matters.

(v) Consolidated Supplementary Schedules

Bonds Schedule

Not applicable.

Borrowings Schedule

Not applicable.

Asset Retirement Obligations Schedule

The amount of asset retirement obligations at both the beginning and end of fiscal 2023 are less than 1% of the combined total of liabilities and net assets at the beginning and end of fiscal 2023, and so have been omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

(2) Other

Quarterly information in the consolidated fiscal year under review, etc.

(Cumulative period)		First quarter	Second quarter	Third quarter	Fiscal year under review
Net sales	(Million yen)	2,386	5,084	7,658	10,436
Profit before income taxes	(Million yen)	1,019	2,263	3,242	4,430
Profit attributable to owners of parent	(Million yen)	702	1,558	2,235	3,062
Profit per share	(Yen)	50.00	111.03	159.25	218.12

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	(円)	50.00	61.03	48.22	58.87

2. Financial Statements of the Reporting Company

(1) Financial Statements

(i) Balance Sheet

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2023)
Assets		
Current assets		
Cash and deposits	15,534	16,832
Notes receivable - trade	74	148
Accounts receivable - trade	※1 995	※1 1,089
Finished goods	0	19
Supplies	3	3
Prepaid expenses	94	268
Other	※1 4	※1 4
Total current assets	16,708	18,366
Non-current assets		
Property, plant and equipment		
Buildings	88	83
Vehicles	8	5
Tools, furniture and fixtures	75	83
Land	26	26
Total property, plant and equipment	199	198
Intangible assets		
Software	1,317	1,263
Software in progress	208	243
Telephone subscription right	0	0
Total intangible assets	1,526	1,507
Investments and other assets		
Investment securities	101	101
Shares of subsidiaries and associates	115	115
Investments in capital	0	0
Long-term prepaid expenses	60	43
Leasehold and guarantee deposits	188	188
Deferred tax assets	182	202
Other	56	56
Total investments and other assets	704	707
Total non-current assets	2,429	2,413
Total assets	19,138	20,780

(Million yen)

	Fiscal 2022 (As of March 31, 2021)	Fiscal 2023 (As of March 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	※1 24	※1 45
Accounts payable - other	※1 181	※1 216
Accrued expenses	54	56
Income taxes payable	730	839
Accrued consumption taxes	215	130
Advances received	5,669	5,172
Deposits received	17	19
Provision for bonuses	95	156
Total current liabilities	6,990	6,637
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	7,040	6,688
Net assets		
Shareholders’ equity		
Share capital	713	713
Capital surplus		
Legal capital surplus	700	700
Other capital surplus	255	255
Total capital surplus	955	955
Retained earnings		
Other retained earnings		
Retained earnings brought forward	10,723	12,719
Total retained earnings	10,723	12,719
Treasury shares	(307)	(308)
Share acquisition rights	12,085	14,080
Share acquisition rights	12	11
Total net assets	12,097	14,091
Total liabilities and net assets	19,138	20,780

(ii) Statement of Income

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Net sales	※1 8,003	※1 8,984
Cost of sales		
Beginning finished goods inventory	0	0
Cost of Internet service	※1 1,821	※1 2,446
Total	1,822	2,446
Transfer to other account	0	2
Ending finished goods inventory	0	19
Cost of finished goods sold	1,821	2,425
Gross profit	6,182	6,559
Selling, general and administrative expenses	※1, ※2 2,141	※1, ※2 2,163
Operating profit	4,040	4,395
Non-operating income		
Interest income	0	0
Interest on securities	0	0
Commission income	※1 4	※1 4
Foreign exchange gains	4	4
Gain on forfeiture of unclaimed dividends	1	1
Miscellaneous income	0	1
Total non-operating income	11	11
Ordinary profit	4,052	4,407
Extraordinary income		
Gain on sales of non-current assets	※3 0	—
Gain on reversal of share acquisition rights	1	1
Total extraordinary income	1	1
Extraordinary losses		
Loss on retirement of non-current assets	※4 0	※4 0
Loss on valuation of shares of subsidiaries	38	—
Total extraordinary losses	38	0
Profit before income taxes	4,015	4,408
Income taxes - current	1,167	1,380
Income taxes - deferred	14	(19)
Total income taxes	1,182	1,360
Profit	2,832	3,048

Detailed Statement of Cost of Internet Service

		Fiscal 2022 (from April 1, 2021 to March 31, 2022)		Fiscal 2023 (from April 1, 2022 to March 31, 2023)	
Category	Note number	Amount (million yen)	Composition rate (%)	Category	Composition rate (%)
I. Material cost		66	2.4	152	4.6
II. Labor cost	※1	869	30.9	844	25.5
III. Expenses	※2	1,879	66.7	2,315	69.9
Total expenses		2,816	100.0	3,311	100.0
Transfer to other account	※3	994		865	
Cost of Internet service		1,821		2,446	

(Note)

Fiscal 2022 (from April 1, 2021 to March 31, 2022)		Fiscal 2023 (from April 1, 2022 to March 31, 2023)	
*1 Major items in labor cost	(Million yen)	*1 Major items in labor cost	(Million yen)
Salaries and allowances	502	Salaries and allowances	507
Legal welfare expenses	106	Legal welfare expenses	100
Bonuses	164	Bonuses	63
Provision for bonuses	40	Provision for bonuses	69
Other salaries	45	Other salaries	91
*2 Major items in expenses	(Million yen)	*2 Major items in expenses	(Million yen)
Outsourcing expenses	133	Outsourcing expenses	116
Depreciation	841	Depreciation	833
Rent expenses	92	Rent expenses	91
*3 Major items in transfer to other account	(Million yen)	*3 Major items in transfer to other account	(Million yen)
Selling, general and administrative expenses	32	Selling, general and administrative expenses	58
Non-current assets	961	Non-current assets	807
Total	994	Total	865
4. Costing method The job order cost system based on actual costs is employed for the Company’s costing.		4. Costing method Same as on the left	

(iii) Statement of Changes in Equity

Fiscal 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Shareholders' equity								Share acquisition rights	Shareholders' equity
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713	700	265	965	8,732	8,732	(342)	10,069	8	10,078
Changes during period										
Dividends of surplus					(841)	(841)		(841)		(841)
Profit					2,832	2,832		2,832		2,832
Disposal of treasury shares			(9)	(9)			35	25		25
Purchase of treasury shares							(0)	(0)		(0)
Net changes in items other than shareholders' equity									3	3
Total changes during period	—	—	(9)	(9)	1,990	1,990	34	2,015	3	2,019
Balance at end of period	713	700	255	955	10,723	10,723	(307)	12,085	12	12,097

Fiscal 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713	700	255	955	10,723	10,723	(307)	12,085	12	12,097
Changes during period										
Dividends of surplus					(1,052)	(1,052)		(1,052)		(1,052)
Profit					3,048	3,048		3,048		3,048
Purchase of treasury shares							(0)	(0)		(0)
Net changes in items other than shareholders' equity									(0)	(0)
Total changes during period	—	—	—	—	1,995	1,995	(0)	1,994	(0)	1,994
Balance at end of period	713	700	255	955	12,719	12,719	(308)	14,080	11	14,091

Notes

(Notes on the premise of a going concern)

Not applicable.

(Significant accounting policies)

1. Asset valuation standards and valuation method

(1) Valuation standards and valuation methods for securities

Bonds held for maturity

The amortized cost method (interest method) is applied.

Shares of subsidiaries and associates

The moving average cost method is applied.

(2) Valuation standards and valuation method for inventories

Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method based on reduction in profitability.)

2. Depreciation method for non-current assets

(1) Property, plant and equipment

The declining balance method is applied.

The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act. The straight-line method is applied for facilities attached to buildings acquired on April 1, 2016 or later.

(2) Intangible assets

The straight-line method is applied.

The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.

(3) Long-term prepaid expenses

The straight-line method is applied.

The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.

3. Standards for translating assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the settling day, and translation adjustments are treated as a profit or loss.

4. Standards for reporting allowances

Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the fiscal year under review is posted.

5. Accounting standards for significant income and expenses

The Company recognizes revenue in the amount expected to be received in exchange for promised goods or services at the point where control over such goods or services moves to customers.

Major performance obligations in major businesses and the normal time to recognize revenue are as described in (Matters concerning revenue recognition).

(Additional information)

Transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018) are still accounted for using the previously adopted accounting treatment in accordance with Paragraph 10 (3) of PITF No. 36.

1. Overview of stock acquisition rights which involve considerations with vesting conditions

Notes are omitted because the same information is given in Section V. Financial Information 1. Consolidated Financial Statements, Notes (Stock options).

2. Outline of accounting treatment adopted

When share acquisition rights are issued, the amount paid in on the issuance of share acquisition rights will be recorded as share acquisition rights in net assets. When share acquisition rights are exercised, and new shares are issued, the amount paid in on the issuance of share acquisition rights and the amount paid in on the exercise of share acquisition rights will be transferred to share capital and legal capital surplus, respectively.

When share acquisition rights have lapsed, the amount that corresponds to the lapse will be recorded as profit within that accounting period.

(Balance sheet)

*1. Monetary claims and monetary liabilities in relation to subsidiaries and associates (excluding those presented on balance sheet)

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2023)
Short-term monetary claims	4	4
Short-term monetary liabilities	5	5

(Matters related to income statement)

*1. Transactions in relation to subsidiaries and associates are included as follows.

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Operating transactions		
Net sales	8	23
Purchase of goods	4	5
Selling, general and administrative expenses	45	47
Transactions other than operating transactions	4	4

*2. Selling expenses accounted for approximately 12.2% and 14.5% of total selling, general and administrative expenses in fiscal 2022 and fiscal 2023 respectively while the share of general and administrative expenses was 87.8% in fiscal 2022 and 85.5% in fiscal 2023.

The major items of selling, general and administrative expenses and the amounts are as follows.

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Advertising expenses	239	292
Salaries and allowances	679	669
Provision for bonuses	54	86
Depreciation	44	44
bonuses	215	84

*3. The details of gain on sales of non-current assets are as follows.

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Vehicles	0	—

*4. The details of loss on retirement of non-current assets are as follows.

(Million yen)

	Fiscal 2022 (from April 1, 2021 to March 31, 2022)	Fiscal 2023 (from April 1, 2022 to March 31, 2023)
Tools, furniture and fixtures	—	0
Software	0	—
Total	0	0

(Securities)

The fair values of shares of subsidiaries and associates (amounts recorded on balance sheets for the fiscal year under review and the previous fiscal year are 115 million yen and 115 million yen respectively) are not stated as their market value is not readily available.

(Tax effect accounting)

1. Breakdown of key factors contributing to deferred tax assets and deferred tax liabilities

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	Fiscal 2023 (As of March 31, 2022)
Deferred tax assets		
Enterprise taxes payable	39	40
Provision for bonuses	29	47
Accrued social insurance premiums	4	7
Non-deductible depreciation expenses	0	—
Asset retirement obligations	14	14
Loss on valuation of golf club membership	1	1
Loss on valuation of shares of subsidiaries	85	85
Other	6	4
Net deferred tax assets	182	202

2. Reconciliation of the statutory tax rate and the actual effective tax rate

Notes are omitted because the difference between the statutory tax rate and the effective tax rate is 5% or less of the statutory tax rate.

(Matters concerning revenue recognition)

1. Basic information for understanding revenue from contracts with customers

Notes are omitted because the same information is given in the Consolidated Financial Statements, Notes (Matters concerning revenue recognition).

(Significant subsequent events)

Not applicable.

(iv) Supplementary Schedules

Itemized Account of Property, Plant and Equipment, etc.

(Million yen)

Classes of assets	Balance at beginning of period	Net increase in current period	Net decrease in current period	Depreciation in current period	Balance at end of period	Accumulated depreciation
Property, plant and equipment						
Buildings	88	—	—	4	83	136
Vehicles	8	—	—	3	5	13
Tools, furniture and fixtures	75	49	0	42	83	396
Land	26	—	—	—	26	—
Total property, plant and equipment	199	49	0	50	198	546
Intangible assets						
Software	1,317	774	—	828	1,263	—
Software in progress	208	807	772	—	243	—
Telephone subscription right	0	—	—	—	0	—
Total intangible assets	1,526	1,582	772	828	1,507	—

(Notes) 1. Major increases during the current period are as follows:

Software 702 million yen (i-FILTER, DigitalArts@Cloud, etc.)

Software in progress 807 million yen (DigitalArts@Cloud, i-FILTER, etc.)

2. Major decreases during the current period are as follows:

(Software in progress) Decrease indicates transfer to software account due to completion.

Itemized Account of Allowances

(Million yen)

Category	Balance at beginning of period	Net increase in current period	Net decrease in current period	Balance at end of period
Provision for bonuses	95	156	95	156

(2) Details of major assets and liabilities

The presentation of this information is omitted due to the ongoing preparation of consolidated financial statements.

(3) Other

Not applicable.

Section VI. Stock Information of the Reporting Company

Fiscal year	From April 1 to March 31
Annual general meeting of shareholders	During June
Record date	March 31
Record date for distribution of surplus	September 30 and March 31
Number of shares constituting one unit	100 shares
Purchase and sale of shares less than one unit Handling office Transfer agent Forward office Purchasing and selling fee	Not applicable.
Method of public notice	The Company posts notices in electronic format. However, in the event online announcement becomes impossible due to unavoidable circumstances, announcements will be published in the Nihon Keizai Shimbun. Notices are posted on the Company's website: http://www.daj.jp/ir/stock/notification/
Special benefit for shareholders	Not applicable.

(Note) Holders of shares constituting less than one trading unit do not have any rights except the rights granted by the items listed in Article 189, Paragraph 2 of the Companies Act, the right to make a request pursuant to Article 166, Paragraph 1 of the Companies Act, and the right for allotment of shares for subscription or share acquisition rights for subscription in proportion to the number of shares owned.

Section VII. Reference Information on the Reporting Company

1. Information on Parent Entities of the Reporting Company

The Company does not have a Parent Company, etc. as specified in Article 24-7 (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

The Company submitted the following documents between the first day of the fiscal year under review and the day of submitting the securities report.

(1) Annual Securities Report and documents attached, and Confirmation Letter

27th fiscal year (from April 1, 2021 to March 31, 2022) Submitted to the Director-General of Kanto Local Finance Bureau on June 22, 2022

(2) Internal Control Report and accompanying documents

Submitted to the Director-General of Kanto Local Finance Bureau on June 22, 2022

(3) Quarterly Report and Confirmation Letter

Quarterly accounting period

For the first quarter of the 28th fiscal year (April 1, 2022 to June 30, 2022) Submitted to the Director-General of Kanto Local Finance Bureau on August 5, 2022

For the second quarter of the 28th fiscal year (July 1, 2022 to September 30, 2022) Submitted to the Director-General of Kanto Local Finance Bureau on November 4, 2022

For the third quarter of the 28th fiscal year (October 1, 2022 to December 31, 2022) Submitted to the Director-General of Kanto Local Finance Bureau on February 3, 2023

(4) Share Buyback Report

Submitted to the Director-General of Kanto Local Finance Bureau on June 6, 2023

Part II. Information Concerning Guarantors of the Reporting Company

Not applicable.

Independent Auditors' Audit Report and Internal Control Audit Report

June 23, 2023

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.

Tokyo Office

Designated and Engagement Partner	Certified Public Accountant	So Nomura	Seal
Designated and Engagement Partner	Certified Public Accountant	Hiroaki Nakanishi	Seal

[Audit of Financial Statements]

Audit Opinion

To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Digital Arts Inc. for the consolidated fiscal year from April 1, 2022 to March 31, 2023 included in the Financial Information, namely, the consolidated balance sheet, the consolidated statements of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, significant matters that serve as a basis for the preparation of consolidated financial statements, other notes and consolidated supplementary schedules.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Arts Inc. and its consolidated subsidiaries as of March 31, 2023, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles for consolidated financial statements generally accepted in Japan.

Basis for Opinion

We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable in Japan. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Issues of the Audit

Key issues of the audit mean issues that we deem particularly important from a professional perspective in auditing consolidated financial statements for the consolidated fiscal year under review. The key issues of the audit are what were addressed in the process of implementing an audit of all consolidated financial statements and forming audit comments. They do not mean that we state our own view on them.

<table>
<tr><th colspan="2">Appropriateness of period attribution of net sales of Digital Arts Inc.</th></tr>
<tr><th>Details of key issues of the audit
and reasons for decision</th><th>How our audit addressed the issues</th></tr>
<tr><td>Digital Arts Inc. mainly sells security software, and its net sales of 8,984 million yen account for 86.0% of consolidated net sales of 10,436 million yen.
[Notes] As described in “Matters concerning revenue recognition, 2. Basic information for understanding revenue from contracts with customers,” sales of security software are mainly divided into license sales products and their maintenance services, and cloud service products, and the timing of satisfaction of performance obligations differs for each of these categories. In addition, since orders for IT products are often received in March, the last month of the fiscal year, by private companies and public organizations, net sales tend to increase in March, the month in which the fiscal year ends. Therefore, there is a potential risk of making a mistake in attributing net sales to a period.
Based on the foregoing, we judged that the appropriateness of period attribution of net sales of Digital Arts Inc. is especially important in the audit of the consolidated financial statements for the fiscal year under review and falls under “Key issues of the audit.”</td><td>In verifying the appropriateness of period attribution of net sales of Digital Arts Inc., we principally performed the following auditing procedures:
(1) Evaluation of internal control
We assessed the design and operation of internal control over the process of recording net sales. In conducting the assessment, we focused in particular on the following:
- Controls whereby the sales department manager reconciles order information entered into the sales management system with the order documents.
- Controls whereby the sales department manager reconciles the license key transmission history with sales data.
(2) Examination of the appropriateness of the period attribution of net sales
To examine the appropriateness of the period attribution of net sales, we performed empirical procedures that included the following:
- For transactions extracted from sales data for the accounting month based on certain criteria, we reconcile order documents and the license key transmission history with the amount of sales posted in line with the date of sales posting and product type.
- Procedures for confirming the balance of accounts receivable - trade from customers.
- Verification of the existence and content of sales return processing after the end of the term.</td></tr>
</table>

Other information

Other information is information included in the annual securities report which is not covered by the consolidated financial statements and non-consolidated financial statements as well as their audit reports. Management's responsibility is to create and disclose the other information. The Audit & Supervisory Board is responsible for overseeing the directors’ performance of duties in terms of developing and implementing a process for reporting such other information.

The subject of the audit opinion on the consolidated financial statements does not include other information, and we do not express an opinion on the other information.

Our responsibilities in auditing the consolidated financial statements are to read through the other information to consider whether there is any major differences between the other information and the consolidated financial statements or the knowledge that we acquire in the process of the audit, and to pay attention to any signs of material errors in information

other than those major differences.
We are required to report the facts when we determine that there is a material error in other information based on the procedure that was conducted.
There are no matters to be reported regarding other information.

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements
Management is responsible for the preparation and appropriate presentation of consolidated financial statements in accordance with the Generally Accepted Accounting Principles of Japan. Such responsibilities include the establishment and implementation of internal control that management determines is necessary for the preparation and appropriate presentation of consolidated financial statements that are free of any material misstatements due to frauds or errors.
In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with generally accepted accounting principles of Japan.
The Audit & Supervisory Board is responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are 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 issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; Design and perform audit procedures responsive to those risks. These audit procedures are selected and performed, depending on the auditor’s judgment. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to assess the risk and design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with auditing standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the

audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
We define those matters discussed with the Audit & Supervisory Board which are deemed particularly important in the audit of the consolidated financial statements for the consolidated fiscal year under review as key issues of the audit and state them in the audit report. However, we do not state matters in the case where publication of these matters is prohibited by laws, ordinances or suchlike or in the very rare case that we judge that they should not be reported on the grounds of reasonably expected disadvantages from the reporting in the audit report that would exceed the public interest.

[Internal Control Audit]

Audit Opinion

To conduct audit certification as prescribed in the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the internal control report of Digital Arts Inc. dated March 31, 2023.
We consider that the aforementioned internal control report, in which Digital Arts Inc. indicates that effective internal control is maintained pertaining to financial reporting as of March 31, 2023, properly reflects the evaluation results of internal control over financial reporting in all important respects, in compliance with internal control evaluation standards over financial reporting that are generally considered fair and reasonable in Japan.

Basis for Opinion

We have conducted the internal control audit in accordance with internal control audit standards over internal reporting that are generally considered fair and reasonable in Japan. Our responsibilities under the auditing standards for internal control over financial reporting are further described in the "Auditor’s Responsibilities for the Audit of Internal Control" section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and the Audit & Supervisory Board for the Internal Control Report

Management is responsible for the establishment and implementation of internal control as it pertains to financial reporting, as well as the preparation and appropriate presentation of internal control reports, in accordance with internal control evaluation standards over financial reporting that are considered generally fair and reasonable in Japan.
The Audit & Supervisory Board is responsible for overseeing and examining the design and operation of internal control over financial reporting.
It may not be possible, however, to fully prevent or identify the presentation of misstatements due to internal control over financial reporting.

Auditor’s Responsibilities for the Audit of Internal Control

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of internal control and to issue an auditor’s report that includes our opinion.
As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and result of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal

control report. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of our audit of internal control, the results thereof, material weaknesses in internal control identified during our audit of internal control, and those that were remediated.

We also provide the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Related

There is not any conflict of interest between the Company and its consolidated subsidiaries and BDO Sanyu & Co. or its Engagement Partners which should be disclosed under the provisions of the Certified Public Accountants Act.

(Notes) 1. The above is an electronic copy of what is described in the original audit report that is separately stored by the Company.

2. XBRL data are not within the scope of audits.

Internal Control Audit Report by Independent Auditors

June 23, 2023

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.
Tokyo Office

Designated and Engagement Partner	Certified Public Accountant	So Nomura	Seal
Designated and Engagement Partner	Certified Public Accountant	Hiroaki Nakanishi	Seal

Audit Opinion

To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements of Digital Arts Inc. for the 28th fiscal year starting from April 1, 2022 to March 31, 2023 included in the Financial Information, namely, the balance sheet, the income statement, the statement of changes in equity, significant accounting policies, the notes to specific items, and the annexed detailed statements thereto.

We consider that the aforementioned financial statements properly reflect the financial position of Digital Arts Inc. as of March 31, 2023, as well as its financial results in the fiscal year that ended on the same day, in all important respects, in compliance with the Generally Accepted Accounting Principles of Japan.

Basis for Opinion

We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable in Japan. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Issues of the Audit

Key issues of the audit mean issues that the auditor deems particularly important from the perspective of a professional specialist in auditing financial statements for the fiscal year under review. The key issues of the audit are what were addressed in the process of implementing an audit of all financial statements and forming audit comments. They do not mean that the we state our own view on them.

Appropriateness of period attribution of net sales

The statement of the details about the key issues of the audit, reasons for the decision and how our audit addressed the issues is omitted, given that it is identical with that on the key issues of the audit in the audit report on the consolidated financial statements (appropriateness of period attribution of net sales).

Other information

Other information is information included in the annual securities report which is not covered by the consolidated financial statements and non-consolidated financial statements as well as their audit reports. Management's responsibility is to create and disclose the other information. The Audit & Supervisory Board is responsible for overseeing the directors’ performance of duties in terms of developing and implementing a process for reporting such other information.

The subject of the audit opinion on the financial statements does not include other information, and we do not express an opinion on the other information

Our responsibilities in auditing the financial statements are to read through the other information to consider whether there is any major differences between the other information and the financial statements or the knowledge that we acquire in the process of the audit, and to pay attention to any signs of material errors in information other than those major differences.

We are required to report the facts when we determine that there is a material error in other information based on the procedure that was conducted.

There are no matters to be reported regarding other information.

Responsibilities of Management and Audit & Supervisory Board for the Financial Statements

Management is responsible for the preparation and appropriate presentation of financial statements in accordance with the Generally Accepted Accounting Principles of Japan. Such responsibilities include the establishment and implementation of internal control that management determines is necessary for the preparation and appropriate presentation of financial statements that are free of any material misstatements due to frauds or errors.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with generally accepted accounting principles of Japan.

The Audit & Supervisory Board is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; Design and perform audit procedures responsive to those risks. These audit procedures are selected and performed, depending on the auditor's judgment. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We do not audit financial statements to express an opinion on the effectiveness of internal control. Nevertheless, to implement risk assessments, we examine internal control as it pertains to the preparation and appropriate presentation of financial statements, thereby ensuring that an appropriate audit procedure program is formulated depending on situations.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with auditing standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We define those matters discussed with the Audit & Supervisory Board which are deemed particularly important in the audit of the financial statements for the fiscal year under review as key issues of the audit and state them in the audit report. However, we do not state the matters in the case where publication of these matters is prohibited by laws, ordinances or suchlike or in the very rare case that we judge that they should not be reported on the grounds of reasonably expected disadvantages from the reporting in the audit report that would exceed the public interest.

Interest Related

There is not any conflict of interest between the company and BDO Sanyu & Co. or its Engagement Partners which should be disclosed under the provisions of the Certified Public Accountants Act.

(Notes) 1. The above is an electronic copy of what is described in the original audit report that is separately stored by the Company.

2. XBRL data are not within the scope of audits.