

# **Annual Securities Report**

The 25th Fiscal Year

From April 1, 2019 to March 31, 2020

Digital Arts Inc.

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# Annual Securities Report

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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

	Page
The 25th Fiscal Year Annual Securities Report	
Cover .....	4
Part I. Corporate Information .....	5
Section I. Corporate Summary .....	5
1. Financial Highlights .....	5
2. Corporate History .....	7
3. Business Summary .....	8
4. Related Companies .....	11
5. Employment Data .....	11
Section II. Business Summary .....	12
1. Management Policy, Operating Environment and Business Issues to Be Considered .....	12
2. Business and Other Risks .....	13
3. Analysis of Financial Conditions, Operating Results and Cash Flows by the Management .....	16
4. Material Contracts Affecting Management of the Company, etc. ....	21
5. Research and Development .....	21
Section III. Properties .....	22
1. Summary of Capital Investment, etc. ....	22
2. Major Facilities .....	22
3. Plans for Capital Investment, Disposals of Properties etc. ....	23
Section IV. Information on the Reporting Company .....	24
1. Stock Information .....	24
2. Information on Acquisition, etc. of Treasury Shares .....	36
3. Dividend Policy .....	37
4. Corporate Governance .....	38
Section V. Financial Information .....	48
1. Consolidated Financial Statements .....	48
2. Financial Statements of the Reporting Company .....	75
Section VI. Stock Information of the Reporting Company .....	84
Section VII Reference Information on the Reporting Company .....	85
1. Information on Parent Entities of the Reporting Company .....	85
2. Other Reference Information .....	85
Part II. Information Concerning Guarantors of the Reporting Company .....	86
 Report of Independent Auditors	
 Report on Internal Controls and Compliance	
 Representation from Management	

[Cover]

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## Part I. Corporate Information

### Section I. Corporate Summary

#### 1. Financial Highlights

(1) Consolidated Management Indicators, etc.

Fiscal Year	21st fiscal year	22nd fiscal year	23rd fiscal year	24th fiscal year	25th fiscal year
Year end	March 2016	March 2017	March 2018	March 2019	March 2020
Net sales (Thousand yen)	4,000,620	5,058,685	5,116,969	5,841,287	5,641,805
Ordinary profit (Thousand yen)	994,311	1,811,279	1,909,377	2,630,963	2,326,930
Profit attributable to owners of parent (Thousand yen)	545,983	1,125,043	1,281,924	1,961,276	1,590,784
Comprehensive income (Thousand yen)	536,688	1,127,741	1,275,222	1,977,567	1,587,892
Net assets (Thousand yen)	4,642,033	5,270,339	6,247,602	7,802,894	8,680,224
Total assets (Thousand yen)	6,133,859	7,380,958	7,928,532	9,859,347	10,852,234
Net assets per share (Yen)	329.03	375.07	446.43	558.33	617.27
Basic profit per share (Yen)	39.26	80.92	92.46	141.11	113.69
Diluted profit per share (Yen)	39.14	80.68	92.13	140.80	110.83
Capital ratio (%)	74.7	70.2	78.2	78.7	79.7
Return on equity (%)	12.4	23.0	22.5	28.1	19.4
Price earnings ratio (Times)	62.35	37.63	44.45	64.13	41.08
Cash flows from operating activities (Thousand yen)	1,027,287	2,012,282	1,663,158	3,091,862	2,686,572
Cash flows from investing activities (Thousand yen)	(441,185)	(671,798)	(774,868)	(908,784)	111,013
Cash flows from financing activities (Thousand yen)	(187,807)	(503,262)	(293,407)	(429,712)	(709,214)
Cash and cash equivalents at end of period (Thousand yen)	2,443,875	3,298,836	3,826,443	5,569,172	7,651,645
Number of employees (Persons)	192	194	207	207	236
[Average number of part-time employees, etc.]	[25]	[30]	[33]	[26]	[22]

(Notes) 1. Net sales do not include consumption tax, etc.

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.).

## (2) Financial Data of the Reporting Company

Fiscal Year		21st fiscal year	22nd fiscal year	23rd fiscal year	24th fiscal year	25th fiscal year
Year end		March 2016	March 2017	March 2018	March 2019	March 2020
Net sales	(Thousand yen)	4,018,839	5,104,469	5,046,537	5,752,991	5,336,838
Ordinary profit	(Thousand yen)	1,328,681	2,056,138	2,097,906	2,777,431	2,359,152
Profit	(Thousand yen)	840,586	1,339,017	860,611	1,784,866	1,613,156
Share capital	(Thousand yen)	713,590	713,590	713,590	713,590	713,590
Number of issued shares	(Shares)	14,133,000	14,133,000	14,133,000	14,133,000	14,133,000
Net assets	(Thousand yen)	5,063,459	5,882,583	6,451,473	7,804,423	8,714,933
Total assets	(Thousand yen)	6,633,333	7,948,956	8,149,757	9,870,395	10,839,105
Net assets per share	(Yen)	359.28	420.53	462.20	559.74	620.45
Dividend per share	(Yen)	15	24	28	48	50
[Interim dividend per share]		[7]	[10]	[14]	[18]	[25]
Basic profit per share	(Yen)	60.45	96.31	62.07	128.42	115.29
Diluted profit per share	(Yen)	60.25	96.02	61.85	128.14	112.39
Capital ratio	(%)	75.5	73.1	78.7	78.8	80.2
Return on equity	(%)	18.0	24.8	14.1	25.1	19.6
Price earnings ratio	(Times)	40.50	31.62	66.21	70.47	40.51
Dividend payout ratio	(%)	24.8	24.9	45.1	37.4	43.4
Number of employees	(Persons)	186	186	194	201	214
[Average number of part-time employees, etc.]		[25]	[30]	[33]	[26]	[21]
Total shareholder return	(%)	207.3	259.6	351.6	771.5	407.0
[Benchmark index: TOPIX (Tokyo Stock Price Index)]	(%)	[89.2]	[102.3]	[118.5]	[112.5]	[101.8]
Year high	(Yen)	2,514	3,450	5,060	9,560	11,240
Year low	(Yen)	1,168	2,120	2,701	3,980	3,625

(Notes) 1. Net sales do not include consumption tax, etc.

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. Year high and year low indicate price on the Tokyo Stock Exchange (first section).

## 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
March 2005	Digital Arts Inc. obtains 100% stock share of IQS. Co. Ltd., making the company its subsidiary
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
June 2012	Digital Arts Investment, Inc. is established as a US subsidiary
March 2013	Digital Arts Inc. is listed on the First Section of the Tokyo Stock Exchange
May 2013	Digital Arts Inc. establishes Polkast Japan, Inc. as a subsidiary Digital Arts Inc. forms the business alliance with Polkast LLC (US)
April 2014	FinalCode, Inc. is established in the US as a local subsidiary
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.

### 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.	Information security consulting, etc.

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, ways of controlling and protecting information posted on the Internet 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 challenges, such as measures to prevent mis-transmission, storage and effective utilization of large amounts of emails, antispam measures and internet security measures. Additionally, files, which are important management assets, are also exposed to risks such as the leakage or unauthorized taking-out of personal information by interested parties within organizations, theft, loss, mis-transmission and other operational errors, and leakage by contractors.

With many companies and other organizations facing the challenges and risks outlined above, the modus operandi of “targeted attacks” that target specific organizations have also become more advanced, diverse and sophisticated in recent years. Information security officers are seeking to combat these attacks by means of multilayer defense, etc. through the adoption of multiple solutions. However, one after another, systems are hacked using a new modus operandi and the damage is escalating.

The Digital Arts Group’s mission as an Internet security company is to provide countermeasures against information leaks from within companies and organizations and solutions to combat attacks from outside, such as targeted attacks.

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

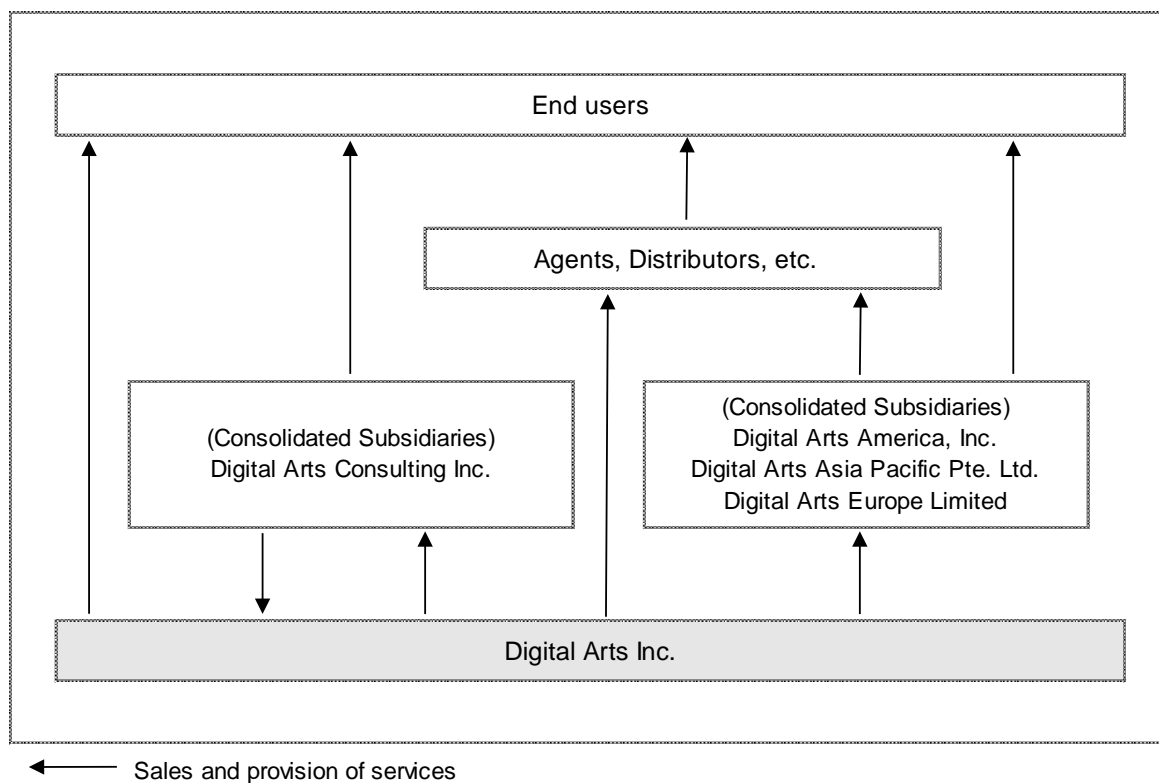
User category	Main products	Company name
Enterprise Sector	- i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution)	Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific 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)	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	<p>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.</p> <p>Main Applications</p> <ul style="list-style-type: none"> <li>- Protection against targeted attacks</li> <li>- Protection against watering hole attacks</li> <li>- Protection against phishing</li> <li>- Internet access control</li> <li>- Access log monitoring</li> </ul>
m-FILTER	<p>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.</p> <p>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.</p> <p>Main Applications</p> <ul style="list-style-type: none"> <li>- Protection against targeted emails</li> <li>- Prevention of e-mail mis-transmission</li> <li>- Email archiving</li> <li>- Protection against spam emails</li> </ul>
D-SPA	<p>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</p>
FinalCode	<p>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</p> <p>Main Applications</p> <ul style="list-style-type: none"> <li>- Protection against leakage of confidential information</li> <li>- Protection against internal fraud</li> <li>- Protection against supply chain attacks</li> <li>- File encryption and access control</li> <li>- File tracking</li> <li>- Remote file deletion</li> </ul>
i-FILTER (Consumer)	<p>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.</p> <p>Main Applications</p> <ul style="list-style-type: none"> <li>- Web filtering</li> <li>- Web usage reporting</li> <li>- Restriction of time spent online</li> </ul>

The Group's business organization chart is as follows.



#### 4. Related Companies

Company name	Address	Share capital (thousand 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	24,534	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Asia Pacific Pte. Ltd. (Note) 1	3 Temasek Avenue, #21-00 Centennial Tower, Singapore, 039190	227,701	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Europe Limited	337 Bath Road, Slough, Berkshire SL1 5PR, United Kingdom	23,981	Security business	100.0	Sale of the Company's products Business outsourcing Interlocking directorates
Digital Arts Consulting Inc. (Note) 1	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	73,000	Security business	92.1	Provision of services Business outsourcing Interlocking directorates

(Note) 1. Digital Arts Asia Pacific Pte. Ltd. and Digital Arts Consulting Inc. fall under the category of a specified subsidiary.

#### 5. Employment Data

##### (1) Consolidated Basis

As of March 31, 2020

Category	Number of employees
Security business	236 (22)
Total	236 (22)

- (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 number of employees increased by 29 from March 31, 2019. The increase is mainly attributable to the hiring of additional employees during the fiscal year as a result of expansion of business operations.
3. 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, 2020

Number of employees	Average age	Average length of service in years	Average annual salary (thousand yen)
214 (21)	35.4	6.1	6,162

- (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.

## 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

Based on our corporate philosophy of "Contributing to a more convenient, comfortable and safer Internet life," the Group aims to provide software to ensure that the benefits of the Internet, which is a great asset for humankind, are used as a positive force.

#### (2) Management Strategies, etc.

In accordance with the corporate philosophy described above, the Group will accelerate growth by focusing on strengthening its presences as a general security solution provider in the Japanese market.

In September 2017, we released a solution that protects against the leakage of information from within companies and organizations, which has been our core business since our foundation, and that also counters threats from outside such as targeted attacks. Since its release, this solution has not only notched up sales but has also been widely reported as an effective product in many case studies and has also been highly rated as protection against targeted attacks. The Group will continue to concentrate its resources on this business domain and, whilst earning the trust of users and distributors, will seek to achieve a brand change from a manufacturer of filtering software to a general security solution provider.

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

The Group 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 management goals. The Group's contract structure is such that the minimum contract term is one year and, upon contract initiation, the Group receives an amount according to the contract term based on a price schedule established for each product, but the method of recording sales for accounting purposes varies for each product. The component ratio of the type of products where the majority of the contract value is recorded as sales for accounting purposes upon contract initiation used to be high and the contract amount growth rate and the net sales growth rate were similar. However, recently, a change in the weighting of each product that make up our contract amount is evident and the type of products where recognition of most of the contract value is deferred has grown relative to other products and a disparity between the contract amount growth rate and the net sales growth rate has arisen. Since the Group and its distributors conduct sales activities with the aim of achieving growth in the contract amount, we attach importance to the contract amount growth rate as well as to other commonly used management indicators.

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

In the security industry to which the Group belongs, cyber attacks, including targeted attacks that threaten specific companies, organizations and national institutions, are occurring one after another and, as IT becomes more and more widely used in areas such as virtual currencies, cloud computing, the IoT, AI and 5G, the risks facing companies and organizations are increasing.

Meanwhile, in Japan, against the backdrop of decline in the working population, workstyle reform aimed at improving employee productivity is being promoted under government initiatives. In addition, the COVID-19 pandemic recently accelerated the adoption of teleworking, with many employees suddenly working from home. As a result, demand for cloud-computing products that deliver improvements in business efficiency is growing and there is a pressing need to tighten security.

In this environment, the Group became more widely recognized for its security solution that not only protects against the leakage of information from within companies and organizations, which has been its core business since its foundation in line with its mission as an internet security company, but that also counter threats from outside such as targeted attacks, thus taking its first step as a Japan-made general security solution provider.

The Group believes it has a responsibility to create a society in which anyone can use the Internet with peace of mind by quickly and accurately grasping the issues that need addressing in a rapidly changing world and by offering solutions through the pursuit of "Made in Japan" quality, and we will contribute to the rapidly evolving Internet society in line with this mission.

(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

As the areas in which IT is used become more widespread with the emergence of virtual currencies, cloud computing, the IoT, AI and 5G, new threats associated with internet use are constantly emerging. In this environment, the Group will put effort into market research and research and development in the belief that it is important to predict potential future needs and to offer new solutions that are the “Only One” of their kind.

(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 has therefore been actively seeking to secure talented human resources both through new graduate and mid-career recruitment. However, in view of the difficulties involved in securing human resources from outside the Group, we are also continuing to review our personnel programs especially pay and evaluation and striving to retain talented human resources. It is also a priority for us that existing employees increase their productivity and acquire knowledge and experience and we will seek to develop human resources by supporting employees to gain qualifications and by providing internal training.

(iv) Awareness-raising activities

Smartphones are rapidly becoming more popular and there has been a sharp rise in problems and social issues associated with the Internet and SNS. Meanwhile, many adults who give guidance to young people or are involved in their upbringing do not fully understand the potential dangers and problems that young people face when using smartphones. To tackle this situation, the Group will provide seminars and lectures upon request in regions throughout Japan and provide information to users of smartphones and other mobile devices to help increase their digital literacy, and we will also stress the importance of filtering.

(v) Response to the COVID-19 pandemic

If the COVID-19 pandemic drags on, the business activities of the Group and its distributors may be affected. We will, therefore, give top priority to the health of all our business associates and employees and encourage them to conduct seminars and negotiations online, thus promoting efficient digital sales activities, with the aim of achieving stable and continuous business growth.

## 2. 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 22, 2020).

(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

The Group operates on a global scale and conducts business activities appropriately, in compliance with national and regional laws and regulations. However, changes in laws and regulations related to aspects such as imports and exports, product liability, and transfer pricing arrangements as well as legal interpretations by the regulatory authorities may lead to an unforeseeable situation. If the Group spends a significant amount of time and money on complying with such changes, this could impact on the Group's performance and financial standing.

- (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 First Section of Tokyo Stock Exchange, where CEO Toshio Dogu is the largest shareholder with 2,503,003 shares (which account for approximately 17.7%, 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, 2020. 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.

(o) Risks associated with COVID-19

If the COVID-19 pandemic drags on, the business activities of the Group may be affected. If the Group is forced to suspend business activities due to the emergence of cases of COVID-19 within the Group, this may affect the Group's business performance and financial standing. To address this risk, the Group is working to continue business activities by urging employees to work from home to promote teleworking and by conducting seminars, negotiations and other sales activities online.

### 3. 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, 2019 – March 31, 2020), the Japanese economy saw a continued recovery in employment and corporate income amid the turnaround in consumer spending and capital investment. Meanwhile, the outlook on the world economy remained unclear amid intensification of the trade friction between the United States and China, anxiety over the political management of the U.S. administration and growing geopolitical risks. In addition, the impact of the COVID-19 coronavirus pandemic came to the surface to drag the global and Japanese economy down sharply.

In the security industry where the Digital Arts Group (hereinafter "the Group") operates, demand is expanding amid successive cases of diversifying cyberattacks including ransomware and Emotet. Apart from demand from large-sized organizations as conventionally main sources of demand, demand for the new introduction of security measures is growing from medium- and small-sized enterprises, which are comparatively lagging in such measures. In addition, IoT, AI and other technologies were increasingly used and the practice of working from home spread quickly to stop the proliferation of the COVID-19 coronavirus, security personnel must now manage increasingly diversifying and advancing risks, and the demand for security services is expected to continuously grow. On the other hand, for the consolidated fiscal year under review, there was a surge in demand for the replacement purchases of computers due to the consumption tax increase and the termination of support for Windows 7. Our sales partners remained busy with negotiations on replacement purchases of computers.

Under these circumstances, the Group's domestic operations continuously endeavored to expand sales of i-FILTER Ver. 10 and m-FILTER Ver. 5 in the enterprise sector and public sector markets in a bid to offer solutions for a secure Internet environment to customers of all sizes. Apart from that, as more and more people work from home, web services and e-mail environments are rapidly shifting to the cloud. Launched in May 2018, the Group's cloud services of i-FILTER@Cloud and m-FILTER@Cloud were repriced so that webpages could be viewed without worry and that e-mail messages could be opened without hesitation in the cloud environment. The Group also released Chat@Cloud. It is a business tool supporting not only text chat but also video chat to pave the way for online conferencing. The Group thus released a new product that is expected to be increasingly used under the current circumstances, in which teleworking, including working from home, is quickly expanded amid the COVID-19 coronavirus crisis.

In the consumer sector market, smartphones are increasingly used not only by senior high schoolers but by junior high schoolers or younger children. In view of that, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. This revision toughened enforcement of the introduction of filtering to young people, which had been compulsory before the revision. The Group continued to work with mobile network carriers and mobile virtual network operations (MVNOs) to further promote i-FILTER for smartphones.

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 992,887 thousand yen from the end of the previous consolidated fiscal year, to 10,852,234 thousand yen. This chiefly reflected an increase of 1,482,473 thousand yen in cash and deposits, which offset decreases of 299,968 thousand yen in securities and 177,721 thousand yen in notes and accounts receivable - trade.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review rose 115,557 thousand yen from the end of the previous fiscal year, to 2,172,010 thousand yen. This was due mainly to an increase of 138,407 thousand yen in income taxes payable.

(Net assets)

Net assets at the end of the consolidated fiscal year under review climbed 877,329 thousand yen from the end of the previous consolidated fiscal year, to 8,680,224 thousand yen. This was due mainly to an increase of 822,412 thousand yen in retained earnings, which offset factors for decrease due to the exercise of share acquisition rights.

b. Operating results

Consolidated net sales for the fiscal year under review stood at 5,641,805 thousand yen, down 3.4% year on year, operating profit fell 11.5% year on year to 2,328,036 thousand yen, ordinary profit declined 11.6% to 2,326,930 thousand yen, and profit attributable to owners of parent decreased 18.9% to 1,590,784 thousand yen.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, the Group carried out active sales promotion activities for high-end models for which full-scale sales started in the consolidated fiscal year under review, specifically i-FILTER Ver. 10 and m-FILTER Ver. 5. They increased the recognition of the utility of both products and helped gain some new projects, but this achievement was smaller than expected as a result of the striking increase in demand for replacement purchases of computers due to the termination of support for Windows 7. Meanwhile, the shortage of security professionals and the spread of teleworking accelerated the use of cloud services to reduce the burden of security operations. The sales share of i-FILTER Browser & Cloud and other cloud service products among the Group's products increased gradually and contributed to a sales rise. While license sales are recorded in a lump at the time of shipping, recorded sales of cloud services are apportioned on a monthly basis throughout the service provision period. As a result, the balance of advances received increased. The balance will be posted from the next consolidated fiscal year.

Net sales in this market reached 3,284,873 thousand yen, up 4.8% year on year.

Public Sector Market

In this market, the Group traditionally enjoyed high recognition and a large market share as a provider of Japan-made security solutions with a focus on internal data leakage. Highly regarded for its track record and reliability, it bolstered its presence as a general security solution provider in the market earlier than in the enterprise sector market. Providing advanced security measures, including those against targeted attacks, i-FILTER Ver. 10 and m-FILTER Ver. 5 made goods sales. As in the enterprise sector market, the cloud shift is seen in this market as well. The sales share of cloud service products is gradually increasing. The sales balance to be posted for the following and later consolidated fiscal years expanded. On the other hand, there was a reactionary sales decline following the large-scale project that helped increase net sales for the consolidated previous fiscal year. A supplementary budget proposal approved by the Japanese Cabinet in December 2019 included an amount of 231.8 billion yen for the GIGA School Concept envisioning integrated development of providing every school-aged child with a learning terminal and constructing high-speed and high-capacity communication networks. That led to the revision to the details of projects under negotiation, and these projects, which were expected to be ordered in the consolidated fiscal year under review, are now expected to be delayed until the following or later consolidated fiscal year.

As a consequence, net sales in this market stood at 1,911,173 thousand yen, down 12.8% year on year.

### Consumer Sector Market

In this market, the Group focused its efforts on collaboration with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID. Advances in the introduction of filtering amid widespread use of smartphones among young people and strong sales of multi-year packages and i-FILTER for Multiple Devices contributed to an increase in licenses. However, net sales tumbled due to revisions to the prices for sales to mobile network carriers.

Net sales in this market amounted to 445,759 thousand yen, shrunk 13.6% year on year.

Net sales for the consolidated fiscal year under review (April 1, 2019 - March 31, 2020)

	Enterprise Sector Market	Public Sector Market	Consumer Sector Market	Total
	Million yen	Million yen	Million yen	Million yen
Fiscal Year Ended March 31, 2020	3,284	1,911	445	5,641
Fiscal Year Ended March 31, 2019	3,133	2,191	516	5,841

(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 2,082,473 thousand yen from the end of the previous consolidated fiscal year to 7,651,645 thousand yen. Cash flows in each category are as follows:

##### (Cash flows from operating activities)

Net cash provided by operating activities stood at 2,686,572 thousand yen (net cash provided of 3,091,862 thousand yen in the previous consolidated fiscal year), chiefly reflecting a profit before income taxes of 2,326,026 thousand yen and depreciation of 805,723 thousand yen.

##### (Cash flows from investing activities)

Net cash provided by investing activities reached 111,013 thousand yen (net cash used of 908,784 thousand yen in the previous consolidated fiscal year), due mainly to a decrease in time deposits and proceeds from the redemption of securities despite the acquisition of intangible assets.

##### (Cash flows from financing activities)

Net cash used in financing activities was 709,214 thousand yen (net cash used of 429,712 thousand yen in the previous consolidated fiscal year), primarily due to dividends paid and the purchase of treasury shares, although there were proceeds from disposal of treasury shares.

#### (iii) Results for production, orders received and sales

##### a. Results of production

	Fiscal year under review (from April 1, 2019 to March 31, 2020) (thousand yen)	Change YoY (%)
Enterprise Sector Market	3,187,513	108.4
Public Sector Market	1,883,048	88.0
Consumer Sector Market	447,911	87.2
Total	5,518,473	98.6

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

2. The above amounts do not include consumption tax, etc.

3. 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, 2019 to March 31, 2020) (thousand yen)	Change YoY (%)
Enterprise Sector Market	3,284,873	104.8
Public Sector Market	1,911,173	87.2
Consumer Sector Market	445,759	86.4
Total	5,641,805	96.6

(Notes) 1. The above amounts do not include consumption tax, etc.

2. There are no export sales.

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

4. 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, 2018 to March 31, 2019)		Fiscal year under review (from April 1, 2019 to March 31, 2020)	
	Amount (thousand yen)	Ratio (%)	Amount (thousand yen)	Ratio (%)
SB C&S Corp.	1,247,566	21.4	1,166,937	21.9
Daiwabo Information System Co., Ltd.	1,160,228	19.9	1,109,164	20.8

(Note) The name of SoftBank Commerce & Service Corp. changed to SB C&S Corp. on January 1, 2019.

(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 5,641,805 thousand yen, down 199,481 thousand yen or 3.4% year on year.

This decrease is largely attributable to a striking increase in demand for replacement purchases of computers due to the termination of support for Windows 7, offsetting increases in sales of i-FILTER Ver. 10 and m-FILTER Ver. 5 in the Enterprise Sector Market; reactionary sales decline following the large-scale project that helped increase net sales for the consolidated previous fiscal year and revision to the details of projects under negotiation, which are now expected to be delayed until the following or later consolidated fiscal year due to the GIGA School Concept in the Public Sector Market; and downward revisions to the prices for sales to mobile network carriers associated with carriers' provision of free services to end users in the Consumer Sector Market.

(Cost of sales, gross profit)

Cost of sales during the consolidated fiscal year under review stood at 1,361,682 thousand yen, up 302,237 thousand yen compared to the previous consolidated fiscal year (an increase of 28.5% year on year). Meanwhile, gross profit stood at 4,280,123 thousand yen, down 501,719 thousand yen compared to the previous consolidated fiscal year (a decrease of 10.5% year on year).

Gross profit declined, mainly reflecting an increase in depreciation after the release of a new product and higher personnel expenses mainly due to an increase in consultant personnel.

(Selling, general and administrative expenses, operating profit)

Selling, general and administrative expenses were 1,952,086 thousand yen, down 200,664 thousand yen compared to the previous consolidated fiscal year (a fall of 9.3% year on year). Meanwhile, operating profit stood at 2,328,036 thousand yen, down 301,055 thousand yen compared to the previous consolidated fiscal year (a decrease of 11.5% year on year).

Consolidated operating profit for the fiscal year under review declined as a result of decreased net sales despite improvement in selling, general and administrative expenses through Group restructuring based on a review of overseas strategy in the previous fiscal year.

(Ordinary profit)

In the consolidated fiscal year under review, ordinary profit amounted to 2,326,930 thousand yen (a decrease of 11.6% year on year), mainly due to the recording of non-operating income such as miscellaneous income of 2,354 thousand yen and gain on forfeiture of unclaimed dividends of 840 thousand yen and non-operating expenses such as foreign exchange losses of 4,812 thousand yen.

(Profit attributable to owners of parent)

Profit attributable to owners of parent decreased 18.9% to 1,590,784 thousand yen due to the absence of the effect of reduction in tax expenses associated with the liquidation of a U.S subsidiary in the previous consolidated fiscal year.

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 contract amount growth rate decreased primarily due to the factors described in “a. State of operating results, etc. (Net sales)” The gap between the contract amount growth rate and the net sales growth rate largely reflects the fact that net sales for the fiscal year under review include net sales from contract amounts of previous fiscal years which were treated as deferred revenue.

	Previous fiscal year (from April 1, 2018 to March 31, 2019)	Fiscal year under review (from April 1, 2019 to March 31, 2020)
Contract amount growth rate (%)	19.3	(8.6)
Net sales growth rate (%)	14.2	(3.4)
Operating margin (%)	45.0	41.3
Return on equity (ROE) (%)	28.1	19.4

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 7,651,645 thousand 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 2. Business and Other Risks”

4. Material Contracts affecting Management of the Company, etc.

Not applicable.

5. 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 873 thousand yen.

## Section III. Properties

### 1. Summary of Capital Investment, etc.

In the consolidated fiscal year under review, the Group made capital investment totaling 53,130 thousand 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 740,170 thousand 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, 2020)

Branch name (location)	Description of equipment	Book value							Number of employees
		Buildings		Vehicles (thousand yen)	Furniture and fixtures (thousand yen)	Land		Total (thousand yen)	
		Area (m <sup>2</sup> )	Amount (thousand yen)			Area (m <sup>2</sup> )	Amount (thousand yen)		
Headquarters (Chiyoda-ku, Tokyo)	Administration, development and sales facility	1,626.42 (1,626.42)	17,975	4,637	104,097	—	—	126,710	214 (21)
Recreational facility (Atami, Shizuoka Prefecture)	Recreational facility	71.85	72,719	—	942	10,017.49	26,284	99,946	—

- (Notes)
- The amounts described above do not include consumption taxes, etc.
  - The figure in parentheses in the Buildings section is included in the total and is the area that is leased.
  - 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.).
  - Other branches are the Hokkaido Sales Office (zero employees), the Tohoku Sales Office (two employees), the Chubu Sales Office (six employees), the Kansai Sales Office (eight employees), the Chushikoku Sales Office (three employees), and the Kyushu Sales Office (five employees).
  - 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, 2020)

Company name	Branch name (location)	Description of equipment	Book value		Number of employees
			Furniture and fixtures (thousand yen)	Total (thousand yen)	
Digital Arts Consulting Inc.	Headquarters (Chiyoda-ku, Tokyo)	Administration and sales facility	4,277	4,277	22

- (Notes)
- The amounts described above do not include consumption taxes, etc.
  - Digital Arts Consulting Inc. leases the whole building from the reporting company.

#### (3) Overseas Subsidiaries

(As of March 31, 2020)

Company name	Branch name (location)	Description of equipment	Book value		Number of employees
			Furniture and fixtures (thousand yen)	Total (thousand yen)	
Digital Arts America, Inc.	Headquarters (San Jose, CA, USA)	Administration and sales facility	—	—	—
Digital Arts Asia Pacific Pte. Ltd.	Headquarters (Singapore)	Administration and sales facility	102	102	—
Digital Arts Europe Limited	Headquarters (Berkshire, UK)	Administration and sales facility	—	—	—

(Note) The amounts described above do not include consumption taxes, etc.

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 shares	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, 2020)	Number of shares issued as of the filing date (shares) (June 22, 2020)	Listed stock exchange	Description
Common shares	14,133,000	14,133,000	Tokyo Stock Exchange First Section	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, 2020 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, 2020)	As of the end of the month before the filing date (May 31, 2020)
Category and number of persons subject to grants	Four directors, 151 employees	
Number of share acquisition rights	1,600	1,596
Number of share acquisition rights that are own share options	—	—
Class of shares to be acquired upon exercise of share acquisition rights	Common shares	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	160,000 shares	159,600 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.

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

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.  
$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of split (or consolidation)}$$
  - (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, 2020)	As of the end of the month before the filing date (May 31, 2020)
Category and number of persons subject to grants	Three directors, 96 employees	
Number of share acquisition rights	6,892	3,156
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common shares	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	689,200 shares	315,600 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.

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

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 February 16, 2018

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month before the filing date (May 31, 2020)
Category and number of persons subject to grants	Three directors, 151 employees	
Number of share acquisition rights	11,883	11,666
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common shares	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	1,188,300 shares	1,166,600 shares
Amount to be paid upon exercise of share acquisition rights	3,400 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2021 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: 3,401 yen Amount capitalized as common shares: 1,701 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 100 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

- (1) Holders of share acquisition rights can exercise the share acquisition rights allocated to each of them only if the operating profit of the Company exceeds 4 billion yen in the fiscal year ending March 31, 2021.

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.

- (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 3,400 yen, which is equal to the closing price of the Company's stock in regular trading on the Tokyo Stock Exchange on February 15, 2018, 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.

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

- (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.

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

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) 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 share capital (thousand yen)	Balance of share capital (thousand yen)	Change in legal capital surplus (thousand yen)	Balance of legal capital surplus (thousand yen)
April 1, 2013 (Note 1)	13,991,670	14,133,000	—	713,590	—	700,222

(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, 2020

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 share-holders	—	33	45	82	163	16	7,123	7,462	—
Share ownership (units)	—	31,967	2,283	10,842	38,825	68	57,252	141,237	9,300
Ownership percentage of shares (%)	—	22.63	1.62	7.68	27.49	0.05	40.53	100.00	—

(Note) Of 116,042 treasury shares, 1,160 units are included in the "Individuals and others" column, while 42 shares are included in the "Number of shares less than one unit" column.



## (6) Major Shareholders

			As of March 31, 2020
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	2,503,003	17.86
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	1,271,500	9.07
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	771,800	5.51
DAM Corporation	1-3-1 Minami-Aoyama, Minato-ku, Tokyo	710,000	5.07
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT (Standing proxy: MUFG Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, NEW YORK 10286, USA (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	400,000	2.85
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)	298,200	2.13
BNYM AS AGT/CLTS 10 PERCENT (Standing proxy: MUFG Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, NY 10286, UNITED STATES (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	262,646	1.87
BNYM TREATY DTT 15 (Standing proxy: MUFG Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, NEW YORK 10286, USA (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	246,951	1.76
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	PETERBOROUGH COURT 133 FLEET STREET LONDON EC4A 2BB UNITED KINGDOM (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	235,176	1.68
GOVERNMENT OF NORWAY (Standing proxy: Citibank N.A., Tokyo Branch)	BANKPLASSEN 2, 0107 OSLO 1 OSLO 0107 NO (6-27-30 Shinjuku, Shinjuku-ku, Tokyo)	226,228	1.61
Total	—	6,925,504	49.41

(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 Japan Trustee Services Bank, Ltd. (Trustee Account) could not be confirmed by the Company and is, therefore, omitted.

3. 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.

4. In addition to the forgoing, the Company holds 116,042 treasury shares.

5. The content of reports on large shareholders whose shareholdings could not be confirmed as of March 31, 2020 (change reports) is as follows.

- (1) A report on large shareholders (change report) naming Asset Management One Co., Ltd. and Asset Management One International Ltd. as joint holders was submitted on July 5, 2019 by Mizuho Securities Co., Ltd., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2020.

The content of this report on large shareholders is as shown below.

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo, Japan	1,069,400	7.57
Asset Management One International Ltd. (Asset Management One International Ltd.)	Mizuho House, 30 Old Bailey, London, EC4M 7AU, UK	39,500	0.28
Total	—	1,108,900	7.85

- (2) A report on large shareholders (change report) naming Asset Management One Co., Ltd. and Mizuho Securities Co., Ltd. as joint holders was submitted on December 20, 2019 by Asset Management One Co., Ltd., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2020.

The content of this report on large shareholders is as shown below.

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo, Japan	383,700	2.71
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	31,400	0.22
Total	—	415,100	2.94

- (3) A report on large shareholders (change report) naming Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. as joint holders was submitted on March 19, 2020 by Sumitomo Mitsui Trust Asset Management Co., Ltd., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2020.

The content of this report on large shareholders is as shown below.

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1 Shibakoen, Minato-ku, Tokyo, Japan	435,100	3.08
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo, Japan	299,700	2.12
Total	—	734,800	5.20

## (7) Information on Voting Rights

## (i) Issued Shares

As of March 31, 2020

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 116,000	—	—
Shares with full voting right (others)	Common shares 14,007,700	140,077	—
Shares less than one unit	Common shares 9,300	—	—
Number of issued shares	14,133,000	—	—
Total number of voting rights	—	140,077	—

## (ii) Treasury Shares, etc.

As of March 31, 2020

Name of shareholder	Address	Number of shares held under own name	Number of shares held under the name of others	Total shares held (shares)	Ownership percentage to the total number of issued shares (%)
Digital Arts Inc.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	116,000	—	116,000	0.8
Total	—	116,000	—	116,000	0.8

## 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 (November 11, 2019) (Acquisition period: from November 12, 2019 to November 15, 2019)	60,000	300,000,000
Treasury shares acquired before this fiscal year	—	—
Treasury shares acquired during this fiscal year	49,400	299,605,000
Total number and total value of treasury shares still to be acquired based on resolution	10,600	395,000
Ratio of treasury shares yet to be acquired as of March 31, 2020 (%)	17.7	0.1
Treasury shares acquired during the current period	—	—
Ratio of treasury shares yet to be acquired as of June 22, 2020 (%)	17.7	0.1

(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	22	125,180
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, 2020 and June 22, 2020.

(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 or company split	—	—	—	—
Other (Note)	165,700	226,542,666	100	327,577
Total number of treasury shares held	116,042	—	115,942	—

(Notes) 1. "Other" for the current business year and current period represents the exercise of share acquisition rights.

2. 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, 2020 and June 22, 2020.

### 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, 2021 is 55 yen per share (which includes an interim dividend of 25 yen).

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

Resolution date	Total amount of dividends (thousand yen)	Dividend per share (yen)
Resolution of the Board of Directors Meeting held on October 29, 2019	351,352	25
Resolution of the Annual General Shareholders Meeting held on June 19, 2020	350,423	25

## 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 established an Audit & Supervisory Board that is comprised of a majority of Outside Directors, and Directors who are Audit & Supervisory Board Members, who include Outside Directors with expertise in fields such as finance, law and business management, 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 five Directors, of whom two (40%) are Outside Directors. As the highest decision-making body, the Board of Directors is convened 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)

##### (2) Audit & Supervisory Board

The Audit & Supervisory Board is comprised of the following three Directors (one of whom is a Standing Audit & Supervisory Board Member), two of whom are Outside Directors.

The Audit & Supervisory Board deliberates important matters specified in the Audit & Supervisory Board Rules and endeavors to strengthen audits and supervision.

Kiyoto Inomata (Chairman, Standing Audit & Supervisory Board Member, Internal Director)

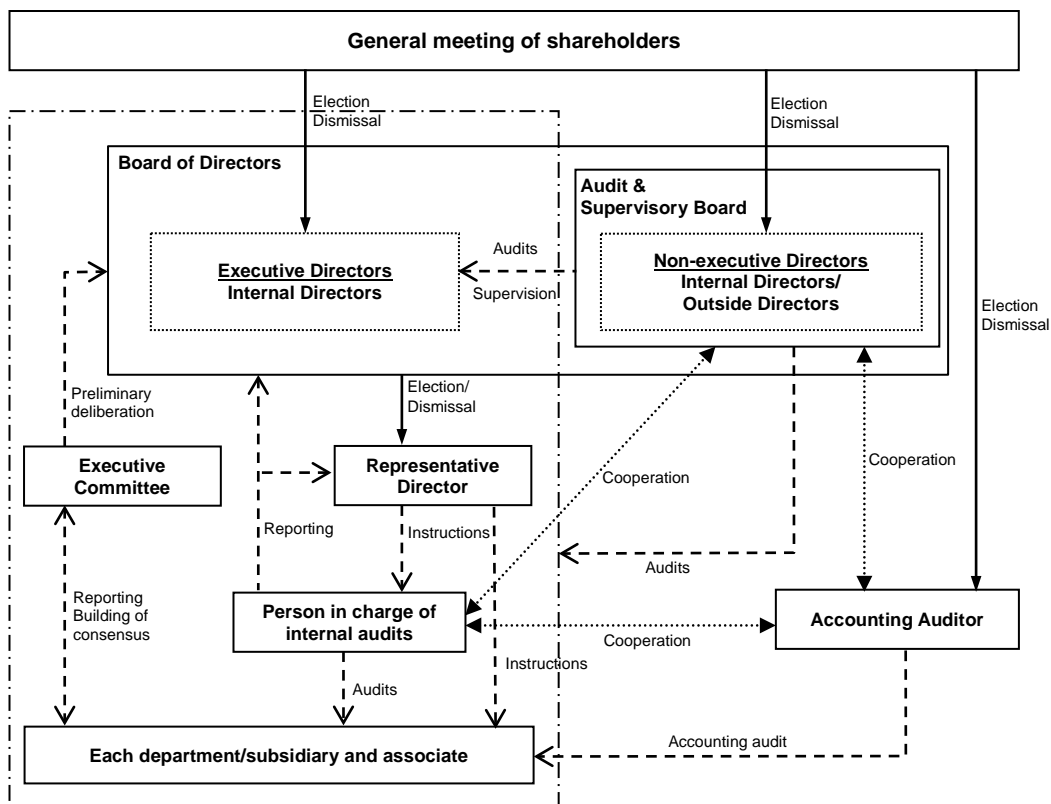
Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)

Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)

##### (3) Other

The Company convenes the Executive Committee, which is comprised of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and the General Managers of each Department, once a month, as a body preceded by the Board of Directors, to determine individual management strategies based on the prior deliberations and decision-making of the Board of Directors. The Company also convenes the Management Reporting and Liaison Committee, which is comprised of the General Managers of each Department and Section and higher-ranking members, once a week to report on the state of progress of operations in each division and to build consensus. Through these meeting bodies, we clarify individual roles and responsibilities and seek to give shape to the decisions made at meetings of the Board of Directors. 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 is comprised of five Directors, two of whom are Outside Directors, convenes, in principle, once monthly and also meets on an ad hoc basis whenever necessary. To complement managerial judgments on other important matters, the Executive Committee, which is comprised of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of departments, etc., convenes once a month to make decision related to business execution and also to confirm 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 also work to maintain and improve the efficiency of corporate management and ensure legality by cooperating closely with the accounting auditor, persons in charge of internal audits, etc. 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 appoints persons in charge of internal audits and builds internal control systems through internal audits. Persons in charge of internal audits regularly conduct internal audits of the Group's business management and all its business activities, evaluates and verifies 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 Audit & Supervisory Board in a timely manner.
- 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 appoints persons in charge of internal audits, and the persons in charge of internal audits regularly examine the appropriateness of the audit items and audit methods used in the Group's business audits and revise audit items and audit method where 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 each division and subsidiary of the Company by persons in charge of internal audits at the Company in accordance with the Internal Audit Rules, establishes internal control systems within the Group, and reports the nature and frequency of risks within each division and subsidiary and the impact on the Company, etc. to the Board of Directors and 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, persons in charge of internal audits and the accounting auditor seek to improve the quality of audits by strengthening cooperation with each other, including exchanging information and opinions where necessary.

l. Systems for eliminating antisocial forces

The Company 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 control 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.

They further state that a resolution on the dismissal of a Director shall be made with the approval of a majority of the voting rights of shareholders who are present and hold a majority of the total voting rights of the shareholders who can exercise such rights.

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: – person (Women's percentage to total number of officers: –%)

Title	Name	Date of birth	Business experience		Term of office	Share ownership (shares)
Representative Director, President and CEO	Toshio Dogu	February 17, 1968	October 1997 October 2003 March 2005 November 2005 December 2006  April 2011 June 2012 May 2013 October 2013  October 2013 April 2014 November 2014 April 2015  November 2015 April 2016 April 2016 September 2016 April 2017  April 2018  October 2019  February 2020	Representative Director, President & CEO, Digital Arts Inc. General Manager-Corporate Planning Director, IQS' Co., Ltd. Representative Director, President & CEO, IQS' Co., Ltd. Representative Director, President & CEO, DAM Corporation (incumbent)  Director, President & CEO, Digital Arts America, Inc. (incumbent) Director, Digital Arts Investment, Inc. (incumbent) Representative Director, President & CEO, Polkast Japan LLC Representative Director, President & CEO, DA Corporation (incumbent) Representative Director, President & CEO, DM Corporation (incumbent) Director, President & CEO, FinalCode, Inc. Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc. Representative Director, President & CEO, General Manager-Sales, General Manager-FinalCode Business Director, Digital Arts Asia Pacific Pte. Ltd. (incumbent) Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc. Representative Director, Chairman, Digital Arts Consulting Inc. (incumbent) Director, Digital Arts Europe Limited (incumbent) Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, Digital Arts Inc. Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, General Manager- Administration Representative Director, President and CEO (incumbent)	(Note 2)	2,503,003
Director, General Manager-Development	Takuya Matsumoto	November 4, 1976	April 1999 April 2003 April 2014 October 2016 June 2017 December 2017  April 2018 October 2019	Joined COMAS Co., Ltd. Joined Digital Arts Inc., Development Associate General Manager-Development General Manager-Development Director, General Manager-Development Director, General Manager-Development, General Manager-New Development  Director, General Manager-Development (incumbent) Director, Digital Arts Consulting Inc. (incumbent)	(Note 2)	3,012
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) Audit & Supervisory Board Member, Digital Arts Consulting Inc. (incumbent)	(Note 3)	100

Title	Name	Date of birth	Business experience		Term of office	Share ownership (shares)
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.) (incumbent) 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)	3,357
Director (Audit & Supervisory Board Member)	Masataka Uesugi	July 31, 1965	April 1995 April 1999 September 2000 June 2003 December 2013 November 2014 March 2015 March 2016 June 2016	Joined Emori Kawamori Atsumi Law Office Founded Uesugi Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, Digital Arts Inc. 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)	(Note 3)	3,357
Total						2,512,829

- (Notes) 1. Audit & Supervisory Board Members Hidekazu Kubokawa and Masataka Uesugi 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 19, 2020.
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 19, 2020.
4. The number of shares held includes shares of stock in Digital Arts Inc.'s officers' shareholding association.
5. Director Hidenobu Akazawa (General Manager-Administration, General Manager-Corporate Planning) retired from his position due to resignation with effect September 30, 2019.
6. Director (Audit & Supervisory Board Member) Shuji Wakai retired from his position with effect June 19, 2020.
7. The Company has elected a substitute for a Director who is an Audit & Supervisory Board Member stipulated in Article 329, Paragraph 3 of the Companies Act in advance to prepare for cases where the number of Directors who are Audit & Supervisory Board Members falls below the number stipulated by laws and regulations. The career history of the substitute for a Director who is an Audit & Supervisory Board Member is as follows.

Name	Date of birth	Business experience		Share ownership (shares)
Komei Sasaki	March 15, 1966	August 1999 May 2003 June 2004 April 2005 March 2015 June 2016	Partner Attorney, Tokyo Ginza Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, TAKE AND GIVE NEEDS Co., Ltd. Director, Junior College Accreditation Association (currently Japan Association for College Accreditation) (incumbent) Senior Partner, Sakurada Dori Partners (incumbent) Outside Director, TAKE AND GIVE NEEDS Co., Ltd. (incumbent)	—

(ii) Information about Outside Officers

The Company has two Outside Directors.

Outside Director Hidekazu Kubokawa holds 3,357 shares of the Company's stock as of March 31, 2020, 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 3,357 shares of the Company's stock as of March 31, 2020, 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.

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) Supervision, Audit, Internal Audit by Outside Directors and Outside Audit & Supervisory Board Members, Audit of Audit & Supervisory Board Members, Collaboration with Accounting Auditor and Relationship with Internal Control Divisions

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 and Masataka Uesugi 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 three Audit & Supervisory Board Members.

Standing Audit & Supervisory Board Member Shuji Wakai has many years of experience of accounting and finance operations at TDK Corporation and has considerable knowledge about finance and accounting.

Audit & Supervisory Board Member Hidekazu Kubokawa is a certified public accountant and tax accountant and Audit & Supervisory Board Member Masataka Uesugi is an attorney.

During the fiscal year under review, the Company convened the Audit & Supervisory Board once a month and the attendance of individual Audit & Supervisory Board Members was as follows.

	Name	Number of meetings convened	Number of meetings attended
Standing Audit & Supervisory Board Member	Shuji Wakai	12	12
Outside Audit & Supervisory Board Member	Hidekazu Kubokawa	12	12
Outside Audit & Supervisory Board Member	Masataka Uesugi	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 organization for internal audits is comprised 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 is required to prepare a report on the audit results, report the results to the Representative Director and also report them to Audit & Supervisory Board Members.

#### (iii) Information about Accounting Audit

A. Name of audit corporation

BDO Sanyu & Co.

B. Tenure

20 years

C. Certified public accountants who execute operations

Mr. Nobuhito Iwata

Mr. Koji Kumagai

D. Composition of assistants with audit operations

Assistants with the Company's accounting audit operations mainly comprise three 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 (thousand yen)	Fees for non-audit services (thousand yen)	Fees for audit services (thousand yen)	Fees for non-audit services (thousand yen)
Reporting company	19,500	—	19,500	—
Consolidated subsidiaries	—	—	—	—
Total	19,500	—	19,500	—

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

Remuneration for officers is set within a limit for total remuneration approved by the General Meeting of Shareholders, striking a balance between general norms and the duties of Director, Director who is an Audit & Supervisory Board Member and Outside Officer respectively. Remuneration for Directors (excluding any Director who is an Audit & Supervisory Board Member) is determined by the Board of Directors within a remuneration limit approved by the General Meeting of Shareholders, taking into consideration factors such as their contribution to business results, duties, status of execution and degree of contribution. 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.

The remuneration limit for Directors (excludes Directors who are Audit & Supervisory Board Members) is set at 300 million yen per year based on a resolution of the Annual Shareholders' Meeting held on June 24, 2016, and a proposal to set the maximum total amount of monetary compensation claims to be delivered to Directors (excludes Directors who are Audit & Supervisory Board Members) of the Company as remuneration related to restricted stock at 50 million yen per year was approved at the 24th Annual Shareholders' Meeting of the Company held on June 24, 2019 as a separate amount from this remuneration amount for Directors (excludes Directors who are Audit & Supervisory Board members). The remuneration limit for Directors who are Audit & Supervisory Board Members is set at 100 million yen per year based on a resolution of the Annual Shareholders' Meeting held on June 24, 2016.

The person with the authority to determine the amount of remuneration and the policy concerning determination of the calculation method for Directors (excludes Directors who are Audit & Supervisory Board Members) is Toshio Dogu, President & Representative Director, who was thus authorized based on a resolution of the Board of Directors. Meanwhile, the Audit & Supervisory Board has the authority to determine the amount of remuneration and the policy concerning determination of the calculation method for Directors who are Audit & Supervisory Board Members, and the nature of their authority and extent of discretion is limited by the framework for remuneration approved at the General Meeting of Shareholders. The amounts of remuneration for officers of the Company in the fiscal year under review were resolved at meetings of the Board of Directors and the Audit & Supervisory Board held after the close of the Annual General Meeting of Shareholders for the previous fiscal year.

(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 (thousand yen)	Total amount of remuneration, etc. by type (thousand yen)		Number of eligible officers
		Basic remuneration	Stock options	
Directors (excludes Audit & Supervisory Board Members and Outside Directors)	41,800	41,800	—	3
Directors who are Audit & Supervisory Board Members (excludes Outside Directors)	8,400	8,400	—	1
Outside Officers	7,200	7,200	—	2

(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 (thousand yen)	Officers who also hold employee posts (people)	Description
25,351	2	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, 2019 to March 31, 2020) and the non-consolidated financial statements for the fiscal year (from April 1, 2019 to March 31, 2020) 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

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	6,169,172	7,651,645
Notes and accounts receivable - trade	1,172,515	994,793
Securities	299,968	-
Finished goods	290	771
Supplies	-	654
Other	87,863	85,614
<b>Total current assets</b>	<b>7,729,809</b>	<b>8,733,479</b>
Non-current assets		
Property, plant and equipment		
Buildings	205,990	215,806
Accumulated depreciation	(104,980)	(115,189)
Buildings, net	101,009	100,617
Vehicles	17,519	17,519
Accumulated depreciation	(9,816)	(12,881)
Vehicles, net	7,703	4,637
Tools, furniture and fixtures	416,174	443,078
Accumulated depreciation	(290,055)	(325,965)
Tools, furniture and fixtures, net	126,119	117,113
Land	26,254	26,284
Construction in progress	-	822
<b>Total property, plant and equipment</b>	<b>261,087</b>	<b>249,474</b>
Intangible assets		
Software	1,044,163	1,331,410
Other	367,390	79,251
<b>Total intangible assets</b>	<b>1,411,553</b>	<b>1,410,661</b>
Investments and other assets		
Investment securities	103,002	102,529
Deferred tax assets	80,886	85,282
Shares of subsidiaries and associates	*1 1,097	*1 1,097
Other	271,910	269,709
<b>Total investments and other assets</b>	<b>456,896</b>	<b>458,619</b>
<b>Total non-current assets</b>	<b>2,129,537</b>	<b>2,118,755</b>
<b>Total assets</b>	<b>9,859,347</b>	<b>10,852,234</b>

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	22,744	32,469
Income taxes payable	330,672	469,079
Provision for bonuses	128,192	119,788
Advances received	1,225,258	1,229,998
Other	303,494	274,151
Total current liabilities	2,010,363	2,125,487
Non-current liabilities		
Asset retirement obligations	45,444	45,877
Other	645	645
Total non-current liabilities	46,089	46,522
Total liabilities	2,056,452	2,172,010
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	827,730	972,058
Retained earnings	6,518,256	7,340,668
Treasury shares	(306,939)	(380,126)
Total shareholders' equity	7,752,637	8,646,190
Accumulated other comprehensive income		
Foreign currency translation adjustment	8,499	6,120
Total accumulated other comprehensive income	8,499	6,120
Share acquisition rights	23,587	18,049
Non-controlling interests	18,169	9,864
Total net assets	7,802,894	8,680,224
Total liabilities and net assets	9,859,347	10,852,234

## (ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

## Consolidated Statement of Income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Net sales	5,841,287	5,641,805
Cost of sales	1,059,444	1,361,682
Gross profit	4,781,842	4,280,123
Selling, general and administrative expenses	*1, *2 2,152,750	*1, *2 1,952,086
Operating profit	2,629,092	2,328,036
Non-operating income		
Interest income	1,079	794
Commission income	198	15
Gain on forfeiture of unclaimed dividends	1,168	840
Miscellaneous income	1,759	2,354
Total non-operating income	4,204	4,005
Non-operating expenses		
Foreign exchange losses	2,224	4,812
Miscellaneous loss	108	299
Total non-operating expenses	2,333	5,111
Ordinary profit	2,630,963	2,326,930
Extraordinary income		
Gain on reversal of share acquisition rights	2,135	561
Total extraordinary income	2,135	561
Extraordinary losses		
Loss on retirement of non-current assets	*3 4,374	*3 65
Loss on valuation of golf club membership	2,200	1,400
Loss on liquidation of subsidiaries	*4 56,135	—
Loss on valuation of shares of subsidiaries	7,156	—
Total extraordinary losses	69,866	1,465
Profit before income taxes	2,563,232	2,326,026
Income taxes - current	605,870	740,151
Income taxes - deferred	(7,001)	(4,396)
Total income taxes	598,869	735,755
Profit	1,964,363	1,590,271
Profit (loss) attributable to non-controlling interests	3,087	(513)
Profit attributable to owners of parent	1,961,276	1,590,784

Consolidated Statement of Comprehensive Income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Profit	1,964,363	1,590,271
Other comprehensive income		
Foreign currency translation adjustment	13,203	(2,378)
Total other comprehensive income	*1 13,203	*1 (2,378)
Comprehensive income	1,977,567	1,587,892
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,974,480	1,588,405
Comprehensive income attributable to non-controlling interests	3,087	(513)

(iii) Consolidated Statement of Changes in Equity  
Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602
Changes during period										
Dividends of surplus			(444,592)		(444,592)					(444,592)
Change in ownership interest of parent due to transactions with non-controlling interests					-					-
Profit attributable to owners of parent			1,961,276		1,961,276					1,961,276
Change in scope of consolidation			9,641		9,641					9,641
Disposal of treasury shares		2,170		20,741	22,912					22,912
Purchase of treasury shares				(10)	(10)					(10)
Net changes in items other than shareholders' equity						13,203	13,203	(10,225)	3,087	6,065
Total changes during period	-	2,170	1,526,325	20,731	1,549,227	13,203	13,203	(10,225)	3,087	1,555,292
Balance at end of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894
Changes during period										
Dividends of surplus			(768,372)		(768,372)					(768,372)
Change in ownership interest of parent due to transactions with non-controlling interests		(123)			(123)					(123)
Profit attributable to owners of parent			1,590,784		1,590,784					1,590,784
Change in scope of consolidation					-					-
Disposal of treasury shares		144,451		226,542	370,994					370,994
Purchase of treasury shares				(299,730)	(299,730)					(299,730)
Net changes in items other than shareholders' equity						(2,378)	(2,378)	(5,538)	(8,305)	(16,222)
Total changes during period	-	144,327	822,412	(73,187)	893,552	(2,378)	(2,378)	(5,538)	(8,305)	877,329
Balance at end of period	713,590	972,058	7,340,668	(380,126)	8,646,190	6,120	6,120	18,049	9,864	8,680,224

## (iv) Consolidated Statement of Cash Flows

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
<b>Cash flows from operating activities</b>		
Profit before income taxes	2,563,232	2,326,026
Depreciation	662,496	805,723
Loss on valuation of golf club membership	2,200	1,400
Increase (decrease) in provision for bonuses	15,911	(8,404)
Interest income	(1,079)	(794)
Foreign exchange losses (gains)	2,878	3,974
Gain on reversal of share acquisition rights	(2,135)	(561)
Loss on valuation of shares of subsidiaries	7,156	–
Loss on retirement of non-current assets	4,374	65
Decrease (increase) in trade receivables	298,266	181,825
Decrease (increase) in inventories	404	(1,135)
Increase (decrease) in trade payables	450	9,839
Increase (decrease) in accounts payable - other	(34,743)	(7,081)
Decrease (increase) in other current assets	85,102	5,860
Increase (decrease) in other current liabilities	45,582	(31,077)
Other	19,598	11,944
Subtotal	3,669,697	3,297,605
Interest and dividends received	1,390	1,267
Income taxes paid	(579,225)	(612,300)
Net cash provided by (used in) operating activities	3,091,862	2,686,572
<b>Cash flows from investing activities</b>		
Decrease (increase) in time deposits	–	600,000
Purchase of property, plant and equipment	(167,827)	(45,178)
Purchase of intangible assets	(741,907)	(740,170)
Proceeds from redemption of securities	–	300,000
Other	950	(3,638)
Net cash provided by (used in) investing activities	(908,784)	111,013
<b>Cash flows from financing activities</b>		
Proceeds from disposal of treasury shares	14,822	366,017
Purchase of treasury shares	(10)	(300,029)
Purchase of shares from non-controlling shareholders	–	(7,916)
Dividends paid	(444,524)	(767,286)
Net cash provided by (used in) financing activities	(429,712)	(709,214)
Effect of exchange rate change on cash and cash equivalents	(2,267)	(5,897)
Net increase (decrease) in cash and cash equivalents	1,751,098	2,082,473
Cash and cash equivalents at beginning of period	3,826,443	5,569,172
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(8,369)	–
Cash and cash equivalents at end of period	*1 5,569,172	*1 7,651,645



## Notes

(Notes on the premise of a going concern)

Not applicable.

(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

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is a small company. Its total assets, net sales, profit, retained earnings or other items do not have any significant effect on the consolidated financial statements.

### 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

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason why the equity method is not applied)

The non-consolidated subsidiary's effect on profit, retained earnings and other items is minor and insignificant. The non-consolidated subsidiary as a whole is not significant.

### 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) Shares of subsidiaries and associates

The moving average cost 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 and structures acquired from April 1, 2016.
- 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) 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.
- (5) 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.
- (6) Other significant matters that serve as a basis for the preparation of consolidated financial statements
- A. Treatment of consumption tax
- Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the consolidated fiscal year under review.

(Issued but not yet Adopted Accounting Standards)

Accounting Standard for Revenue Recognition

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)

- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

An entity is required to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognize revenue in accordance with these basic principles, an entity applies the following five steps:

(i) Identify the contract with the customer.

(ii) Identify the performance obligations in the contract.

(iii) Calculate the value of the transaction.

(iv) Allocate the transaction value to the performance obligations in the contract.

(v) Recognize the revenue when the corresponding performance obligation has been satisfied or is going to be satisfied.

(2) Scheduled date of application

The Company and its consolidated subsidiaries will apply the accounting standard from the beginning of the consolidated fiscal year ending March 31, 2022.

(3) Impacts of the application of the relevant accounting standards

The impacts of adopting Accounting Standard for Revenue Recognition on the consolidated financial statements are being evaluated.

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24, March 31, 2020)

(1) Overview

In response to suggestions that consideration should be given to enhancement of explanatory notes in relation to “Accounting Principles and Procedures Adopted in Cases where Relevant Accounting Standards are Unclear,” the Accounting Standards Board of Japan (ASBJ) made necessary revisions and published these as the “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.”

The revised accounting standard states that Annotations on the Accounting Principles (Note 1-2) should continue to be applied as efforts to enhance explanatory notes in relation to “Accounting Principles and Procedures Adopted in Cases where Relevant Accounting Standards are Unclear” do not affect the practical expedients which have been used to date in cases where relevant accounting standards are clear.

(2) Scheduled date of application

The Company and its consolidated subsidiaries will apply the accounting standard from the end of the consolidated fiscal year ending March 31, 2021.

(Consolidated balance sheet)

\*1. The item related to non-consolidated subsidiaries is as follows.

	(Thousand yen)	
	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Shares of subsidiaries and associates	1,097	1,097

(Consolidated statement of income)

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

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Advertising expenses	290,527	207,266
Salaries and allowances	626,386	580,044
Provision for bonuses	70,766	64,292
Commission expenses	108,709	108,522

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

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
	13,176	873

\*3. The details of loss on retirement of non-current assets are as follows.

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Tools, furniture and fixtures	3,163	65
Software	1,211	-

\*4. Details of the loss on liquidation of subsidiaries are as follows.

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

The loss on liquidation of subsidiaries is a loss as a result of completion of the liquidation of FinalCode, Inc.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

Not applicable.

(Consolidated statements of comprehensive income)

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

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Foreign currency translation adjustment		
Amount that occurred in the fiscal year under review	2,214	(2,378)
Reclassification adjustment	10,989	-
Before tax effect adjustment	13,203	(2,378)
Tax effect	-	-
Foreign currency translation adjustment	13,203	(2,378)
Total other comprehensive income	13,203	(2,378)

(Consolidated statement of changes in equity)

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

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)	248,018	2	15,700	232,320
Total	248,018	2	15,700	232,320

(Note) An increase in the number of common shares in treasury shares, 2, is due to the purchase of shares constituting less than one full unit. A decrease in the number of treasury shares, 15,700, is due to the exercise of stock options.

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

Category	Breakdown of share acquisition rights	Class of shares to be acquired upon exercise of share acquisition rights	Number of shares to be acquired upon exercise of share acquisition rights				Amount at end of fiscal year under review (thousand 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	—	—	—	—	—	23,587
Total		—	—	—	—	—	23,587

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2018	Common shares	194,389	14	March 31, 2018	June 25, 2018
Board of Directors meeting on October 30, 2018	Common shares	250,203	18	September 30, 2018	December 4, 2018

(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 (thousand yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	Retained earnings	30	March 31, 2019	June 25, 2019

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

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)	232,320	49,422	165,700	116,042
Total	232,320	49,422	165,700	116,042

(Note) An increase in the number of common shares in treasury shares, 49,422, is due to an increase of 49,400 due to the purchase of treasury shares based on a resolution of the Board of Directors and an increase of 22 due to the purchase of shares constituting less than one full unit. A decrease in the number of treasury shares, 165,700, is due to the exercise of stock options.

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

Category	Breakdown of share acquisition rights	Class of shares to be acquired upon exercise of share acquisition rights	Number of shares to be acquired upon exercise of share acquisition rights				Amount at end of fiscal year under review (thousand 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	—	—	—	—	—	18,049
Total		—	—	—	—	—	18,049

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	30	March 31, 2019	June 25, 2019
Board of Directors meeting on October 29, 2019	Common shares	351,352	25	September 30, 2019	December 3, 2019

(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 (thousand yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 19, 2020	Common shares	350,423	Retained earnings	25	March 31, 2020	June 22, 2020

(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

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Cash and deposit account	6,169,172	7,651,645
Time deposits whose deposit period is more than three months	(600,000)	—
Cash and cash equivalents	5,569,172	7,651,645

(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.

Securities and investment securities are short-term investments in investment trusts and public and corporate bonds and are exposed to the market price fluctuation risk.

(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.

The market prices of financial instruments are based on market prices and rationally calculated prices if no market prices are available. The calculated prices include variable factors, which 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:

Fiscal 2019 (As of March 31, 2019)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	6,169,172	6,169,172	—
(2) Notes and accounts receivable - trade	1,172,515	1,172,515	—
(3) Securities and investment securities			
Bonds held for maturity	402,971	404,079	1,107
Total assets	7,744,658	7,745,766	1,107
(1) Income taxes payable	330,672	330,672	—
Total liabilities	330,672	330,672	—

Fiscal 2020 (As of March 31, 2020)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	7,651,645	7,651,645	–
(2) Notes and accounts receivable - trade	994,793	994,793	–
(3) Securities and investment securities			
Bonds held for maturity	102,529	101,805	(724)
Total assets	8,748,969	8,748,244	(724)
(1) Income taxes payable	469,079	469,079	–
Total liabilities	469,079	469,079	–

(Notes) 1. Matters related to calculation methods for the market prices of financial instruments and securities

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

(3) Securities and investment securities

The market prices of public and corporate bonds are presented by financial institutions, etc. As for investment trusts, the market prices are similar to the book values, because their yields are similar to those of deposits and their investment results are distributed in the short term. Thus, their market prices are close to their book values and are deemed to be their book values.

For information on securities according to holding purposes, refer to the note on securities.

Liabilities

(1) Income taxes payable

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

2. Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date

Fiscal 2019 (As of March 31, 2019)

	(Thousand yen)			
	Within a year	More than a year, within five years	More than five years, within 10 years	More than 10 years
Cash and deposits	6,169,172	–	–	–
Notes and accounts receivable - trade	1,172,515	–	–	–
Securities and investment securities				
Bonds held for maturity				
(1) Government bonds, local government bonds	300,000	–	–	–
(2) Corporate bonds	–	–	100,000	–
Total	7,641,687	–	100,000	–



Fiscal 2020 (As of March 31, 2020)

(Thousand yen)

	Within a year	More than a year, within five years	More than five years, within 10 years	More than 10 years
Cash and deposits	7,651,645	—	—	—
Notes and accounts receivable - trade	994,793	—	—	—
Securities and investment securities				
Bonds held for maturity				
(1) Government bonds, local government bonds	—	—	—	—
(2) Corporate bonds	—	—	100,000	—
Total	8,646,439	—	100,000	—

(Securities)

Bonds held for maturity

Fiscal 2019 (As of March 31, 2019)

(Thousand yen)

	Classification	Consolidated balance sheet amount	Market price	Difference
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,968	300,180	211
	(2) Corporate bonds	103,002	103,899	896
	(3) Other	—	—	—
	Subtotal	402,971	404,079	1,107
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		402,971	404,079	1,107

Fiscal 2020 (As of March 31, 2020)

(Thousand yen)

	Classification	Consolidated balance sheet amount	Market price	Difference
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	102,529	101,805	(724)
	(3) Other	—	—	—
	Subtotal	102,529	101,805	(724)
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		102,529	101,805	(724)

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019) and consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

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. Defined contribution plan

The amount the Company and its consolidated subsidiaries are required to contribute to the defined contribution pension was 19,928 thousand yen in fiscal 2019 (from April 1, 2018 to March 31, 2019) and 22,285 thousand yen in fiscal 2020 (from April 1, 2019 to March 31, 2020).

(Stock options)

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

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Gain on reversal of share acquisition rights	2,135	561

2. Description of stock options, their scale and changes

(1) Description of stock options

	2010 stock options	2015 stock options
Company name	Reporting company	Same as on the left
Category and number of persons subject to grants	Three directors, 80 employees	Four directors, 151 employees
Stock options by class of shares (Note)	Common shares 99,300 shares	Common shares 350,100 shares
Grant date	June 8, 2010	November 27, 2015
Vesting conditions	<p>Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate 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 or a subsidiary or an associate of the reporting company from the grant date (June 8, 2010) to the vesting date (May 26, 2012)</p> <p>The vesting dates are as follows:</p> <ul style="list-style-type: none"> <li>(i) May 26, 2012 for a third of the stock options</li> <li>(ii) May 26, 2013 for a third of the stock options</li> <li>(iii) May 26, 2014 for a third of the stock options</li> </ul>	<p>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)</p> <p>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.</p> <ul style="list-style-type: none"> <li>(i) If operating profit exceeds 1.5 billion yen, 20% of share acquisition rights can be exercised</li> <li>(ii) If operating profit exceeds 2.0 billion yen, 50% of share acquisition rights can be exercised</li> <li>(iii) If operating profit exceeds 2.5 billion yen, 100% of share acquisition rights can be exercised</li> </ul> <p>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.</p>
Requisite service period	<ul style="list-style-type: none"> <li>(i) May 26, 2010 to May 25, 2012 for a third of the stock options</li> <li>(ii) May 26, 2010 to May 25, 2013 for a third of the stock options</li> <li>(iii) May 26, 2010 to May 25, 2014 for a third of the stock options</li> </ul> <p>These periods correspond to (i), (ii), and (iii) of the vesting conditions.</p>	No requisite service periods are determined.
Exercise period	<p>From the vesting date to June 24, 2019.</p> <p>The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.</p>	<p>From the vesting date to May 31, 2027.</p> <p>The person must continue to be a director or an employee of the Company to exercise share acquisition rights.</p>

	2016 stock options	2018 stock options
Company name	Reporting company	Same as on the left
Category and number of persons subject to grants	Three directors, 96 employees	Three directors, 151 employees
Stock options by class of shares (Note)	Common shares 848,000 shares	Common shares 1,413,300 shares
Grant date	December 13, 2016	March 5, 2018
Vesting conditions	<p>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)</p> <p>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.</p> <p>(i) If operating profit exceeds 2.0 billion yen, 20% of share acquisition rights can be exercised</p> <p>(ii) If operating profit exceeds 2.5 billion yen, 50% of share acquisition rights can be exercised</p> <p>(iii) If operating profit exceeds 2.8 billion yen, 100% of share acquisition rights can be exercised</p> <p>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.</p>	<p>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 (March 5, 2018) to the vesting date (July 1, 2021)</p> <p>Each holder of share acquisition rights can exercise the share acquisition rights allocated to them only if operating profit exceeds 4.0 billion yen in the fiscal year ending March 31, 2021.</p> <p>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.</p>
Requisite service period	No requisite service periods are determined.	No requisite service periods are determined.
Exercise period	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.	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.

(Note) The Company conducted a 100-for-1 common shares split on April 1, 2013. In the description above, the number of shares has been converted to the number of shares after the stock split.

(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, 2020). The number of stock options has been converted to the number of shares.

(i) Number of stock options

	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Before vesting (shares)				
As of March 31, 2019	–	218,000	775,400	1,294,000
Granted	–	–	–	–
Forfeited	–	–	18,500	105,700
Vested	–	218,000	384,600	–
Yet to be vested	–	–	372,300	1,188,300
After vesting (shares)				
As of March 31, 2019	8,100	32,400	–	–
Vested	–	218,000	384,600	–
Exercised	8,100	90,400	67,200	–
Forfeited	–	–	500	–
Yet to be exercised	–	160,000	316,900	–

(Note) The Company conducted a 100-for-1 stock split on April 1, 2013. The number of stock options is the number after the stock split.

(ii) Unit price information

	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Exercise price (yen)	593	2,034	2,639	3,400
Average stock price when exercised (yen)	9,570	10,607	10,340	–
Fair unit value (grant date) (yen)	(i) 375 (ii) 386 (iii) 396 (Note) 1	2	24	1

(Notes) 1. The vesting conditions and requisite service period for each fiscal year in (1) Description of stock options in the Description of stock options, their scale and changes correspond to (i), (ii) and (iii) above.

2. The Company conducted a 100-for-1 stock split on April 1, 2013. The numbers in the unit price information are those after the stock split.

3. 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.

(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 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Deferred tax assets		
Enterprise taxes payable	17,831	24,657
Provision for bonuses	39,252	36,679
Accrued social insurance premiums	5,889	5,530
Non-deductible depreciation expenses	246	220
Share-based remuneration expenses	799	-
Asset retirement obligations	11,629	12,550
Loss carryforwards	37,706	44,274
Loss on valuation of golf club membership	1,362	1,791
Loss on valuation of shares of subsidiaries	2,191	2,191
Other	1,683	1,661
Total deferred tax assets	118,592	129,557
Valuation allowance (Note)	(37,706)	(44,274)
Total deferred tax assets	80,886	85,282

(Note) The valuation allowance increased by 6,568 thousand yen. This increase was mainly a result of an increase in the valuation allowance related to tax loss carryforwards at consolidated subsidiaries.

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

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Statutory effective tax rate	30.62 %	-%
(Adjustment)		
Inhabitant tax on a per capita basis	0.35	-
Items that are not permanently deductible, such as entertainment expense	0.25	-
Changes in valuation allowance	(7.28)	-
Differences in tax rate from the parent company's statutory tax rate	0.35	-
Other	(0.93)	-
Percentage of income tax payment, etc. after the application of tax effect accounting	23.36	-

(Note) 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.

(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 eight to 15 years from the acquisition. The discount rate is 0.12% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

(3) Increase/decrease in the asset retirement obligations

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Balance at beginning of fiscal year	44,360	45,444
Increase due to purchase of property, plant and equipment	655	-
Adjustment due to passage of time	428	433
Balance at end of fiscal year	45,444	45,877

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019) and consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

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

Related information

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

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 statements 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.

	(Thousand yen)
Customer name	Net sales
SB C&S Corp.	1,247,566
Daiwabo Information System Co., Ltd.	1,160,228

(Note) The name of SoftBank Commerce & Service Corp. changed to SB C&S Corp. on January 1, 2019.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

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 statements 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.

(Thousand yen)

Customer name	Net sales
SB C&S Corp.	1,166,937
Daiwabo Information System Co., Ltd.	1,109,164

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

Not applicable.

Information on amortization of goodwill and unamortized balance by reporting segment

Not applicable.

Information on gain on bargain purchase by reporting segment

Not applicable.

(Related party information)

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 2019 (from April 1, 2018 to March 31, 2019)

Not applicable.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

Not applicable.

(Special purpose companies subject to disclosure)

Not applicable.



(Per share information)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Net assets per share	558.33 yen	617.27 yen
Profit per share	141.11 yen	113.69 yen
Diluted profit per share	140.80 yen	110.83 yen

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

Item	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Profit per share		
Profit attributable to owners of parent (thousand yen)	1,961,276	1,590,784
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent related to common shares (thousand yen)	1,961,276	1,590,784
Average number of common shares during the term	13,898,934	13,991,859
Diluted profit per share		
Adjustment of profit attributable to owners of parent (thousand yen)	—	—
Increase in the number of common shares	30,455	361,483
(Of the increase, the number of share acquisition rights) (shares)	(30,455)	(361,483)
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 November 12, 2015 Number of potential shares: 218,000  Resolution on November 10, 2016 Number of potential shares: 775,400  Resolution on February 16, 2018 Number of potential shares: 1,294,000	Share acquisition rights  Resolution on November 10, 2016 Number of potential shares: 372,300  Resolution on February 16, 2018 Number of potential shares: 1,188,300

(Significant subsequent events)

Not applicable.

(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 2020 are less than 1% of the combined total of liabilities and net assets at the beginning and end of fiscal 2020, 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 (Thousand yen)	1,249,447	2,764,132	4,141,002	5,641,805
Profit before income taxes (Thousand yen)	412,014	1,092,446	1,649,358	2,326,026
Profit attributable to owners of parent (Thousand yen)	280,800	745,308	1,128,844	1,590,784
Profit per share (Yen)	20.19	53.40	80.72	113.69

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Yen)	20.19	33.16	27.32	32.96

## 2. Financial Statements of the Reporting Company

### (1) Financial Statements

#### (i) Balance Sheet

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	5,982,081	7,517,412
Notes and accounts receivable - trade	* 1,143,621	* 916,532
Securities	299,968	-
Finished goods	290	771
Supplies	-	654
Advance payments - trade	807	-
Prepaid expenses	65,278	63,535
Other	* 20,523	* 3,395
<b>Total current assets</b>	<b>7,512,572</b>	<b>8,502,301</b>
Non-current assets		
Property, plant and equipment		
Buildings	101,009	100,617
Vehicles	7,703	4,637
Tools, furniture and fixtures	124,985	112,947
Land	26,254	26,284
Construction in progress	-	822
<b>Total property, plant and equipment</b>	<b>259,953</b>	<b>245,308</b>
Intangible assets		
Software	1,043,645	1,331,822
Software in progress	367,199	79,060
Telephone subscription right	190	190
Other	15	-
<b>Total intangible assets</b>	<b>1,411,051</b>	<b>1,411,073</b>
Investments and other assets		
Investment securities	103,002	102,529
Shares of subsidiaries and associates	168,585	153,635
Investments in capital	10	10
Long-term prepaid expenses	28,890	26,948
Leasehold and guarantee deposits	182,990	186,271
Deferred tax assets	145,913	154,887
Other	57,426	56,139
<b>Total investments and other assets</b>	<b>686,818</b>	<b>680,421</b>
<b>Total non-current assets</b>	<b>2,357,823</b>	<b>2,336,803</b>
<b>Total assets</b>	<b>9,870,395</b>	<b>10,839,105</b>

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	* 19,236	* 7,067
Accounts payable - other	* 151,964	* 126,723
Accrued expenses	52,604	41,438
Income taxes payable	329,703	469,079
Accrued consumption taxes	99,125	77,337
Advances received	1,215,782	1,223,090
Deposits received	23,273	13,122
Provision for bonuses	128,192	119,788
<b>Total current liabilities</b>	<b>2,019,882</b>	<b>2,077,649</b>
Non-current liabilities		
Asset retirement obligations	45,444	45,877
Other	645	645
<b>Total non-current liabilities</b>	<b>46,089</b>	<b>46,522</b>
<b>Total liabilities</b>	<b>2,065,972</b>	<b>2,124,171</b>
<b>Net assets</b>		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus		
Legal capital surplus	700,222	700,222
Other capital surplus	129,682	274,134
<b>Total capital surplus</b>	<b>829,905</b>	<b>974,357</b>
Retained earnings		
Other retained earnings		
Retained earnings brought forward	6,544,279	7,389,064
<b>Total retained earnings</b>	<b>6,544,279</b>	<b>7,389,064</b>
Treasury shares	(306,939)	(380,126)
<b>Total shareholders' equity</b>	<b>7,780,835</b>	<b>8,696,884</b>
Share acquisition rights	23,587	18,049
<b>Total net assets</b>	<b>7,804,423</b>	<b>8,714,933</b>
<b>Total liabilities and net assets</b>	<b>9,870,395</b>	<b>10,839,105</b>

## (ii) Statement of Income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)		Fiscal 2020 (from April 1, 2019 to March 31, 2020)	
Net sales	*2	5,752,991	*2	5,336,838
Cost of sales				
Beginning finished goods inventory		695		290
Cost of Internet service	*2	1,028,520		1,098,585
Total		1,029,215		1,098,875
Transfer to other account	*1	14	*1	24
Ending finished goods inventory		290		771
Cost of finished goods sold		1,028,910		1,098,080
Gross profit		4,724,081		4,238,758
Selling, general and administrative expenses	*3	1,949,449	*2, *3	1,881,313
Operating profit		2,774,631		2,357,444
Non-operating income				
Interest income		182		193
Interest on securities		896		600
Commission income	*2	2,598	*2	3,615
Gain on forfeiture of unclaimed dividends		1,168		840
Miscellaneous income		834		2,312
Total non-operating income		5,678		7,562
Non-operating expenses				
Foreign exchange losses		2,878		5,555
Commission for purchase of treasury shares		–		299
Total non-operating expenses		2,878		5,854
Ordinary profit		2,777,431		2,359,152
Extraordinary income				
Gain on reversal of share acquisition rights		2,135		561
Distribution from the liquidation of subsidiaries		37,257		–
Total extraordinary income		39,393		561
Extraordinary losses				
Loss on retirement of non-current assets	*4	4,374	*4	10
Loss on valuation of golf club membership		2,200		1,400
Loss on valuation of shares of subsidiaries		219,860		14,949
Total extraordinary losses		226,434		16,360
Profit before income taxes		2,590,390		2,343,353
Income taxes - current		596,476		739,171
Income taxes - deferred		209,047		(8,974)
Total income taxes		805,523		730,196
Profit		1,784,866		1,613,156

Detailed Statement of Cost of Internet Service

Category	Note number	Fiscal 2019 (from April 1, 2018 to March 31, 2019)		Fiscal 2020 (from April 1, 2019 to March 31, 2020)	
		Amount (thousand yen)	Composition rate (%)	Amount (thousand yen)	Composition rate (%)
I. Material cost		179,986	10.6	32,483	1.8
II. Labor cost	*1	668,153	39.4	691,909	37.1
III. Expenses	*2	848,375	50.0	1,138,653	61.1
Total expenses		1,696,515	100.0	1,863,046	100.0
Transfer to other account	*3	667,995		764,461	
Cost of Internet service		1,028,520		1,098,585	

(Note)

Fiscal 2019 (from April 1, 2018 to March 31, 2019)		Fiscal 2020 (from April 1, 2019 to March 31, 2020)	
*1 Major items in labor cost (Thousand yen)		*1 Major items in labor cost (Thousand yen)	
Salaries and allowances	425,274	Salaries and allowances	429,138
Legal welfare expenses	88,208	Legal welfare expenses	88,538
Bonuses	57,372	Bonuses	71,749
Provision for bonuses	57,425	Provision for bonuses	55,495
Other salaries	33,372	Other salaries	35,028
*2 Major items in expenses (Thousand yen)		*2 Major items in expenses (Thousand yen)	
Outsourcing expenses	100,459	Outsourcing expenses	92,616
Depreciation	484,645	Depreciation	753,165
Rent expenses	93,946	Rent expenses	93,950
*3 Major items in transfer to other account (Thousand yen)		*3 Major items in transfer to other account (Thousand yen)	
Selling, general and administrative expenses	34,115	Selling, general and administrative expenses	32,020
Non-current assets	633,880	Non-current assets	732,441
Total	667,995	Total	764,461
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 2019 (from April 1, 2018 to March 31, 2019)

(Thousand 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	Total retained earnings				
Balance at beginning of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473
Changes during period										
Dividends of surplus					(444,592)	(444,592)		(444,592)		(444,592)
Profit					1,784,866	1,784,866		1,784,866		1,784,866
Disposal of treasury shares			2,170	2,170			20,741	22,912		22,912
Purchase of treasury shares							(10)	(10)		(10)
Net changes in items other than shareholders' equity									(10,225)	(10,225)
Total changes during period	-	-	2,170	2,170	1,340,273	1,340,273	20,731	1,363,175	(10,225)	1,352,950
Balance at end of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Thousand 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	Total retained earnings				
Balance at beginning of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423
Changes during period										
Dividends of surplus					(768,372)	(768,372)		(768,372)		(768,372)
Profit					1,613,156	1,613,156		1,613,156		1,613,156
Disposal of treasury shares			144,451	144,451			226,542	370,994		370,994
Purchase of treasury shares							(299,730)	(299,730)		(299,730)
Net changes in items other than shareholders' equity									(5,538)	(5,538)
Total changes during period	-	-	144,451	144,451	844,784	844,784	(73,187)	916,048	(5,538)	910,510
Balance at end of period	713,590	700,222	274,134	974,357	7,389,064	7,389,064	(380,126)	8,696,884	18,049	8,714,933



## 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 and structures acquired from April 1, 2016.

#### (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. Goodwill is evenly amortized over five years.

#### (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. Other significant matters that serve as the basis for the preparation of financial statements

#### Treatment of consumption tax

Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the fiscal year under review.

(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)

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

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Short-term monetary claims	10,665	2,180
Short-term monetary liabilities	36,239	13,950

(Matters related to income statement)

\*1. A breakdown of finished goods transfer to other account is as follows.

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Transfer to selling, general and administrative expenses	14	24

\*2. Transactions in relation to subsidiaries and associates are included as follows.

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Operating transactions		
Net sales	121,682	8,788
Purchase of goods	133,611	—
Selling, general and administrative expenses	—	21,511
Transactions other than operating transactions	2,400	3,600

\*3. Selling expenses accounted for approximately 15.2% and 12.2% of total selling, general and administrative expenses in fiscal 2019 and fiscal 2020 respectively while the share of general and administrative expenses was 84.8% in fiscal 2019 and 87.8% in fiscal 2020. The major items of selling, general and administrative expenses and the amounts are as follows.

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Advertising expenses	272,571	206,611
Salaries and allowances	555,832	570,267
Provision for bonuses	70,766	64,292
Depreciation	53,705	51,358

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

	(Thousand yen)	
	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Tools, furniture and fixtures	3,163	10
Software	1,211	-

(Securities)

Information about shares of subsidiaries and associates (the carrying amount in fiscal 2020 was 153,635 thousand yen and the carrying amount in fiscal 2019 was 168,585 thousand yen) is omitted as these shares do not have market value and it is considered extremely difficult to calculate their fair market values.

(Tax effect accounting)

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

	(Thousand yen)	
	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Deferred tax assets		
Enterprise taxes payable	17,831	24,657
Provision for bonuses	39,252	36,679
Accrued social insurance premiums	5,889	5,530
Non-deductible depreciation expenses	246	220
Share-based remuneration expenses	799	-
Asset retirement obligations	11,629	12,550
Loss on valuation of golf club membership	1,362	1,791
Loss on valuation of shares of subsidiaries	67,321	71,898
Other	1,580	1,559
Net deferred tax assets	145,913	154,887

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.

(Significant subsequent events)

Not applicable.

## (iv) Supplementary Schedules

## Itemized Account of Property, Plant and Equipment, etc.

(Thousand 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	101,009	9,815	–	10,208	100,617	115,189
Vehicles	7,703	–	–	3,065	4,637	12,881
Tools, furniture and fixtures	124,985	38,303	10	50,330	112,947	321,252
Land	26,254	29	–	–	26,284	–
Construction in progress	–	822	–	–	822	–
Total property, plant and equipment	259,953	48,970	10	63,605	245,308	449,323
Intangible assets						
Software	1,043,645	1,029,094	–	740,917	1,331,822	–
Software in progress	367,199	732,441	1,020,580	–	79,060	–
Telephone subscription right	190	–	–	–	190	–
Other	15	–	–	15	–	–
Total intangible assets	1,411,051	1,761,536	1,020,580	740,933	1,411,073	–

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

(Thousand yen)

Software	Commercial software (DigitalArts@Cloud)	418,408	Commercial software (i-FILTER)	229,335
	Commercial software (FinalCode)	162,494	Commercial software (m-FILTER)	102,709
Software in progress	Commercial software (i-FILTER)	236,501	Commercial software (DigitalArts@Cloud)	196,416
	Commercial software (m-FILTER)	123,840	Commercial software (FinalCode)	74,782

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

(Thousand 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	128,192	119,788	128,192	119,788

## (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: <a href="http://www.daj.jp/ir/stock/notification/">http://www.daj.jp/ir/stock/notification/</a>
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

24th fiscal year (from April 1, 2018 to March 31, 2019) Submitted to the Director-General of Kanto Local Finance Bureau on June 26, 2019

#### (2) Internal Control Report and accompanying documents

Submitted to the Director-General of Kanto Local Finance Bureau on June 26, 2019

#### (3) Quarterly Report and Confirmation Letter

Quarterly accounting period

For the first quarter of the 25th fiscal year (April 1, 2019 to June 30, 2019) Submitted to the Director-General of Kanto Local Finance Bureau on August 9, 2019

For the second quarter of the 25th fiscal year (July 1, 2019 to September 30, 2019) Submitted to the Director-General of Kanto Local Finance Bureau on November 8, 2019

For the third quarter of the 25th fiscal year (October 1, 2019 to December 31, 2019) Submitted to the Director-General of Kanto Local Finance Bureau on February 7, 2020

#### (4) Extraordinary Report

Submitted to the Director-General of Kanto Local Finance Bureau on June 26, 2019

An extraordinary report pursuant to the provisions of Item (ix)-2 (result of exercising voting rights at the general meeting of shareholders), Paragraph (2), Article 19 of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

#### (5) Share Buyback Report

Submitted to the Director-General of Kanto Local Finance Bureau on December 13, 2019

Part II. Information Concerning Guarantors of the Reporting Company

Not applicable.

## Independent Auditors' Audit Report and Internal Control Audit Report

June 19, 2020

The Board of Directors  
Digital Arts Inc.

BDO Sanyu & Co.

Tokyo Office

Designated and  
Engagement Partner      Certified Public Accountant Nobuhito Iwata      Seal

Designated and  
Engagement Partner      Certified Public Accountant Koji Kumagai      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, 2019 to March 31, 2020 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, 2020, 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.

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.

### [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, 2020.

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, 2020, 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.

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(Notes) 1. The above is an electronic copy of what is described in the original audit report kept by the company that submits securities reports, separately.

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

## Internal Control Audit Report by Independent Auditors

June 19, 2020

The Board of Directors  
Digital Arts Inc.

BDO Sanyu & Co.

Tokyo Office

Designated and  
Engagement Partner Certified Public Accountant Nobuhito Iwata Seal

Designated and  
Engagement Partner Certified Public Accountant Koji Kumagai 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 25th fiscal year starting from April 1, 2019 to March 31, 2020 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, 2020, 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.

### 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.

#### 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.

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(Notes) 1. The above is an electronic copy of what is described in the original audit report kept by the company that submits securities reports, separately.

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

