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Annual Securities Report

Fiscal Year	From July 1, 2020
(The 38 th Term)	to June 30, 2021

INTELLIGENT WAVE INC.

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Annual Securities Report

1. This document was produced by adding the table of contents and page numbers to the data of annual securities report written in accordance with Article 24, Paragraph 1 of the Financial Instruments and Exchange Act, which were submitted by using Electronic Disclosure for Investors' NETwork (EDINET) specified in Article 27-30-2 of the Financial Instruments and Exchange Act, and then outputting and printing the data.
2. This document includes the audit report attached to the annual securities report submitted with the above-mentioned method and the internal control report and written confirmation submitted with the above-mentioned annual securities report at the end of this document.

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Cover

Submitted document	Annual Securities Report
Applicable provision	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Submitted to	Director-general of Kanto Local Finance Bureau
Date of submission	September 29, 2021
Fiscal year	The 38 th term (from July 1, 2020 to June 30, 2021)
Corporate name	Kabushiki Kaisha Intelligent Wave
English name	INTELLIGENT WAVE INC.
Post and name of the representative	Representative Director and President: Kunimitsu Sato
Location of the principal office	1-21-2 Shinkawa, Chuo-ku, Tokyo
Telephone number	03(6222)7111
Contact person	Mitsuru Kakito, Senior Executive Officer
The nearest place of contact	1-21-2 Shinkawa, Chuo-ku, Tokyo
Telephone number	03(6222)7111
Contact person	Mitsuru Kakito, Senior Executive Officer
Place for browsing	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi-kabutocho, Chuo-ku, Tokyo)

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Part 1 Corporate Information

I Corporate Profile

1. Variations in Major Management Indicators, etc.

Term	34 th	35 th	36 th	37 th	38 th
Account closing month	June 2017	June 2018	June 2019	June 2020	June 2021
Sales (thousand yen)	8,469,569	10,603,964	10,443,300	10,920,848	11,187,679
Ordinary income (thousand yen)	766,309	573,680	953,581	1,074,827	1,171,233
Net income (thousand yen)	547,183	377,464	683,891	762,053	840,970
Investment gain on equity method (thousand yen)	6,942	12,833	4,647	8,880	5,565
Capital amount (thousand yen)	843,750	843,750	843,750	843,750	843,750
Total number of outstanding shares (-)	26,340,000	26,340,000	26,340,000	26,340,000	26,340,000
Net assets (thousand yen)	5,647,591	5,715,286	6,372,515	6,983,469	7,567,656
Total assets (thousand yen)	8,508,108	8,837,017	10,032,243	10,552,011	11,140,135
Net assets per share (yen)	214.51	217.18	242.23	265.55	287.85
Dividend per share (Interim dividend per share) (yen)	7	7	9	10	13
	(—)	(—)	(—)	(—)	(—)
Net income per share (yen)	20.78	14.36	25.99	29.00	31.98
Diluted net income per share (yen)	—	—	—	—	—
Equity ratio (%)	66.4	64.7	63.5	66.2	67.9
Return on equity (%)	10.3	6.6	11.3	11.4	11.6
Price-earnings ratio (times)	33.3	51.3	34.17	28.38	19.29
Payout ratio (%)	33.7	48.8	34.6	34.5	40.6
Net cash provided by (used in) operating activities (thousand yen)	1,172,965	1,213,267	1,237,338	1,547,066	1,700,270
Net cash provided by (used in) investing activities (thousand yen)	(1,151,386)	(603,708)	(601,905)	(752,569)	(742,978)
Net cash provided by (used in) financing activities (thousand yen)	(198,794)	(348,867)	(219,585)	(407,534)	(292,123)
Term-end balance of cash and cash equivalents (thousand yen)	2,578,278	2,839,698	3,254,913	3,641,864	4,307,699
Number of employees (persons)	339	397	413	435	441
Total shareholder return (%)	151.4	162.9	197.6	185.7	143.8
(Comparative indicator: TOPIX including dividends) (%)	(132.2)	(145.0)	(133.1)	(137.2)	(174.1)
The highest share price (yen)	789	747 ○932	1,180	956	918
The lowest share price (yen)	411	647 ○473	591	398	613

Notes

- Consumption tax, or the like is not included in sales.
- Diluted net income per share was not posted, because there were no dilutive shares.
- The number of employees means the number of full-time employees.
- The highest share prices and the lowest share prices mean those in the first section of Tokyo Stock Exchange from March 27, 2019, those in the second section of Tokyo Stock Exchange from June 27, 2018 to March 26, 2019, and those in JASDAQ (standard) before June 26, 2018. For the term ended June 2018, “○” represents those in JASDAQ (standard) of Tokyo Stock Exchange.
- The dividend per share for the 36th term (9 yen/share) includes the commemorative dividend (1 yen/share) for listing on the first section of Tokyo Stock Exchange.

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2. Corporate History

Year	History
Dec. 1984	INTELLIGENT WAVE INC. was established in Shinbashi, Minato-ku, Tokyo, with a capital of 98 million yen to “import, export, and sell computer devices, develop computer software, and provide consulting services related to it.”
Feb. 1985	The head office was relocated to Kayobacho, Chuo-ku, Tokyo.
Sep. 1985	Niigata branch office was opened. The first Stratus Computer in Japan was installed.
Jan. 1989	INTELLIGENT WAVE’s own building (in Shibata, Niigata) was completed.
Apr. 1991	An agency agreement with NEURON DATA was concluded.
May 1991	INTELLIGENT WAVE PHILIPPINES, INC. (MANILA) was established.
May 1993	The head office was relocated to Kiba, Koto-ku, Tokyo.
Aug. 1995	Shizuoka branch office was opened.
Dec. 1996	An agency agreement with BEA SYSTEMS JAPAN, LTD. (TUXEDO) was concluded.
Mar. 1997	The fiscal year in the Articles of Incorporation was changed to “one year from July 1 of each year to June 30 of the following year.”
Sep. 1998	Shizuoka branch office was closed due to business integration with Shizuoka Calculation Center (currently named APLIS Corporation) through capital participation.
Nov. 1999	An agency agreement with Software Technology Corporation was concluded.
Feb. 2000	INTELLIGENT WAVE sold all of the shares of APLIS Corporation as it became a wholly-owned subsidiary of Credia Co., Ltd.
Jun. 2000	INTELLIGENT WAVE sold some of INTELLIGENT WAVE PHILIPPINES, INC.’s shares.
Mar. 2001	The land of Hakodate Industrial Park was acquired.
Jun. 2001	INTELLIGENT WAVE was listed on the Japan Securities Dealers Association’s over-the-counter market.
Jun. 2001	The capital amount was increased to 843,750 thousand yen through a public offering of shares in connection with the listing on the over-the-counter market.
Sep. 2004	Intelligent Wave USA, Inc. was established in the U.S.
Dec. 2004	Over-the-counter registration with the Japan Securities Dealers Association was cancelled and INTELLIGENT WAVE was listed on the JASDAQ Securities Exchange.
Dec. 2004	INTELLIGENT WAVE EUROPE LIMITED was established in the U.K.
Feb. 2005	The head office was relocated to Shinkawa, Chuo-ku, Tokyo.
Jun. 2005	Intelligent Wave Korea Inc. was established in South Korea.
Jul. 2009	INTELLIGENT WAVE EUROPE LIMITED in the U.K. was liquidated.
Apr. 2010	INTELLIGENT WAVE became a subsidiary of Dai Nippon Printing Co., Ltd. through tender offer by Dai Nippon Printing Co., Ltd. for the company’s shares.
Apr. 2010	The stock was listed on the Osaka Securities Exchange (JASDAQ market) following the merger of the JASDAQ Securities Exchange and the Osaka Securities Exchange.
Oct. 2010	The stock was listed on the Osaka Securities Exchange JASDAQ (Standard) following the merger of the Osaka Securities Exchange Hercules, Osaka Securities Exchange JASDAQ and Osaka Securities Exchange NEO markets.
Mar. 2012	Niigata branch office was closed.
Jun. 2012	Intelligent Wave USA, Inc. in the U.S. was liquidated.
Jun. 2013	Acquired more shares of ODN Solution, reorganizing it into an equity method affiliate.
Jul. 2013	The stock was listed on the Tokyo Stock Exchange JASDAQ (Standard) following the merger of the cash markets of the Osaka Securities Exchange and the Tokyo Stock Exchange.
Nov. 2014	A party for commemorating the 30 th anniversary of the company’s founding was held.
Jun. 2016	Intelligent Wave Korea Inc. in South Korea was liquidated.
Jun. 2018	The stock was listed on the Second Section of the Tokyo Stock Exchange.
Mar. 2019	The stock was listed on the First Section of the Tokyo Stock Exchange.
Sep. 2020	The number of members of the Board of Directors was changed to six and an executive officer system was adopted.
May 2021	Issued a declaration of health-oriented management.
Jun. 2021	Revised the regulations for the nomination and remuneration committee, to strengthen its independence.

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3. Description of Business

Our company's corporate group consists of our company, our company's parent company, and one affiliated company.

Our company conducts two businesses: (1) a business of developing and maintaining systems with added value by integrating software and hardware for enterprises mainly in the financial field, and (2) an information security business for delivering and maintaining high value-added systems, including our packaged software for information security and other companies' packaged software for cyber security, and offering technical support to clients not limited to specific fields or business categories.

(Note) In the first quarter of the 38th term, "the financial system solution business" and "the product solution business" were combined into a single segment, so the description of segment information has been omitted.

(1) Financial Systems Solutions business

This segment focuses on system development for customers in the financial industry, such as credit card companies, banks, and securities firms, developing software and selling hardware (servers), which are the core of systems, and providing maintenance services for those systems.

The systems we develop form part of systems of our customers (credit card companies, etc.) and provide functions to ensure that information on cards and transactions, which is delivered to the system through the network each time a card payment is made, is securely transferred to and from other internal and external systems and networks. The system that performs these functions is also called a Front-End Processor, which is why our system is also referred to as an FEP system in this industry.

Our company's FEP system is mainly used by credit card companies to process high-speed, high-volume credit card transactions that occur uninterruptedly 24 hours a day, 365 days a year, in real time and without fail.

Furthermore, one of the features of our system development is the development of business systems for our customers based on our packaged software. In particular, in the development of FEP systems used for credit card payments processing, our NET+1 package software, which has a proven track record in many implementations, forms the core of the system, and by customizing NET+1 to meet customer needs, we provide functions such as connecting domestic and international card networks, transferring transaction information between various systems, and authenticating card usage. It is also used for non-credit card applications where secure online transaction processing is required, such as ATM network connections at banks.

Our company's ACEPlus is a product that detects unauthorized use of credit cards due to card theft and forgery, theft of IDs and passwords, etc., and suppresses the damage caused by unauthorized use. We have developed a business system for monitoring card transactions and detecting fraudulent use based on mainly ACEPlus and provide it to many credit card companies.

Against the backdrop of the promotion of a cashless society, a variety of payment methods are becoming more common, such as credit cards, debit cards, prepaid cards, and smartphone payments, and our technology and products are being used in an increasing number of ways.

As a cloud service business, we launched a service to provide systems for credit card merchant contracting (acquiring) operations and fraud detection in the data center operated by our company. We provide this service to regional banks, credit card companies, etc. as well as to business companies that newly start credit card business. As an alternative to the traditional format of developing and delivering individual systems to customers, this service, in which customers share a system built by our company, allows customers to work with a lower initial investment, and growth is anticipated in this business as we can expect to acquire more customers.

In the field of securities trading, we have developed a system for the reliable delivery of and processing of ultra-fast and voluminous market information, which is used mainly by online securities companies.

Thus, the main features of our business are to process a variety of data that is circulating in large volumes and at very high speed and to be responsible for the safe and reliable delivery of data for the completion of transaction processing, based on our extensive technology and experience in online data processing and system development based on our products.

(2) Information Security business

Our company sells packaged software for information security and cybersecurity, and provides maintenance services.

For information security, we sell CWAT and provide maintenance services.

CWAT is packaged software that has been adopted by many companies to prevent information leaks by detecting and blocking attempts to take information from inside the organization in real time, as well as monitoring and recording the usage of terminals.

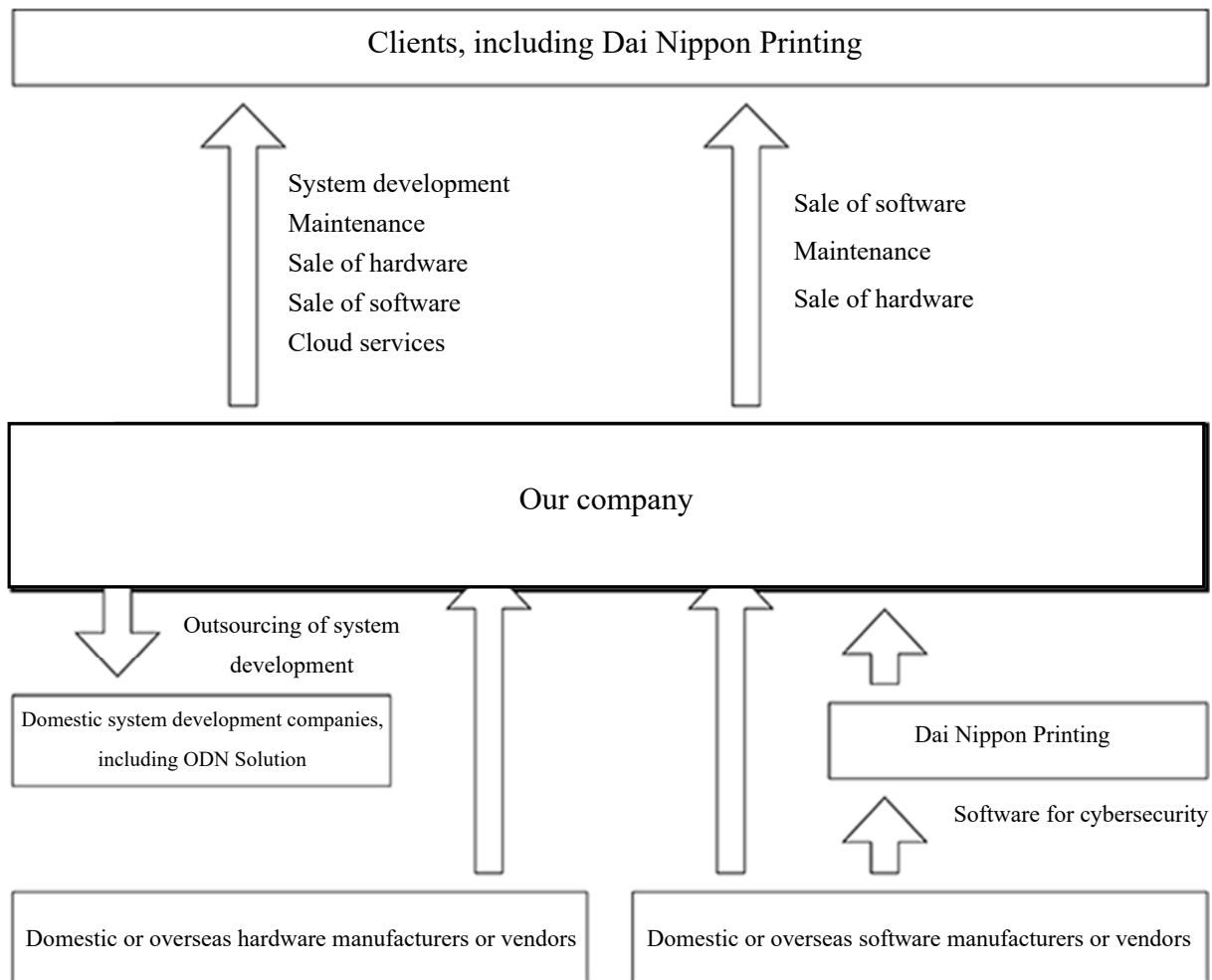
For cybersecurity, we sell superior products of other companies from Japan and overseas to our customers.

In particular, we are distinguished by the sales and technical support services of products developed by an Israeli company that possesses a high level of technological superiority and experience in this field.

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Schematic diagram of the business

The above-mentioned business can be expressed by the following schematic diagram.



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4. Situation of Related Companies

Name	Address	Capital/capital contribution	Major businesses	Ratio of voting rights of the company (or INTELLIGENT WAVE) (%)	Relations
(Parent company) Dai Nippon Printing Co., Ltd.	Shinjuku-ku, Tokyo	114,464 million yen	Printing business, soft drink business	(50.74)	Sale of our products, entrusting our company with software development, and procurement of products
(Equity method affiliate) ODN Solution Co., Ltd.	Urasoe-shi, Okinawa Pref.	50 million yen	System development	33.90	Partial outsourcing of software developed entrusted to our company Serving as executives of ODN Solution on a part-time basis (1)

Notes

1. The parenthesis of “Serving as executives of ODN Solution on a part-time basis (1)” in “Relations” represents the number of employees of our company.
2. The parent company Dai Nippon Printing Co., Ltd. has submitted its annual securities report.

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5. Situation of Employees

(1) Situation of the company

As of June 30, 2021

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (thousand yen)
441	39.0	10.7	7,450

Notes

1. The number of employees means the number of full-time employees (excluding those who have been temporarily transferred from our company to another company and including those who have been temporarily transferred from outside to our company).
2. The average annual salary includes bonuses and extra remunerations.
3. Since the number of business segments is only one, the description of the situation in each segment was omitted.

(2) Situation of a labor union

A labor union has not been organized, but labor-management relationships are healthy.

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II Situation of Business

1. Management Policy, the Business Environment, and Issues That Must Be Addressed

(Note) The contents related to the future in this document are based on our judgment as of the end of the term ended June 2021.

Management policy

Our management philosophy is “to provide safety and convenience for the information society of tomorrow,” and in accordance with this philosophy, our management policy is to increase our corporate value and contribute to society by promoting businesses that “provide IT infrastructure that is swift, secure, high-quality, and highly convenient.”

We develop and provide systems to our clients based on our strengths in online, real-time network connectivity technology for credit card transactions, securities trading, etc. These systems are indispensable IT infrastructure for society, and a high level of quality is required to complete transactions quickly and safely, with system stability as a prerequisite. In addition, we develop and sell products for information security and sell products for cyber security, contributing to the safe business operation of client companies.

We think that the trust of clients, which our company has gained thanks to a long track record in development and stable operation, supports our business and it is the base, through which it will thrive.

The management policy is to meet our stakeholders’ expectations by expanding the company’s business base and growing by continuing to provide IT infrastructure, in which more and more customers will put their trust.

Business environment

The spread of COVID-19 has significantly affected not only the domestic and overseas economic situations, but also business performance, consumer spending, and workstyles. The financial and credit card industries, which are our business domains, were affected, too, but the investment in systems by major clients, mainly leading credit card companies, remained active, so our business is healthy.

The economic situation is severe, but cashless payment is steadily spreading in Japan, and an increasing number of business operators start credit-card payment business.

Besides payments, in what is known as the data economy, the amount of data generated and circulated by society as a whole is expected to explode in the near future, and the use of such data is expected to become a new source of competitiveness for companies and the society. In such a society, the importance of IT infrastructure for data distribution and use is sure to increase, and the demand for connectivity and data exchange between different networks is expected to rise.

In the corporate world, it is expected that value-added functions that contribute to the utilization of data will be sought after, not just to connect networks, and using our products as an example, we believe that the importance of functions such as authorization, fraud detection, data monitoring, and security measures will increase for network connections. In addition, we are expected to see the growth of demand for systems that can analyze not only data on financial transactions, but also data on images and videos on a real-time basis, propose new methods for utilizing data, and improve productivity in a variety of businesses.

Against this backdrop of changing social conditions, we believe that our business opportunities will continue to expand and that we are aiming to make the most of them.

Management issues

1. Business expansion

On August 4, 2021, our company disclosed a mid-term business plan. We plan to achieve sales of 15 billion yen and an operating income of 2.25 billion yen (an operating income margin of 15.0%) in the term ending June 2024.

The system development business, which is a major revenue source of our company, is categorized as a “one-shot revenue” source, because the scales and sales of contracts vary according to the conditions of clients. On the other hand, the businesses in which sales can be posted continuously according to the period of use of systems we developed like cloud services are categorized as “recurring revenue” sources.

Our company is securing more stable revenues and expanding our business scale, by adding “recurring revenue” sources to “one-shot revenue” sources. By growing the “recurring revenue” sources, we plan to secure new revenue sources and expand our business scale.

In addition, we endeavor to develop new products for enterprises in fields other than the financial field, and cultivate new markets by utilizing our knowledge and experience nurtured through the development projects in the financial field.

With our technology for processing a large volume of data rapidly on a real-time basis, we will identify potential problems with business operations in different fields, and solve them, to cultivate new markets and develop new revenue sources.

2. Human resources development

We regularly organize internal training programs so that our employees maintain a professional sense of duty and fulfill their duties with a high level of success. For instance, we will not only focus on introducing measures to enhance their ability to perform tasks in technical fields, but also specialized fields of business, and to foster their interpersonal skills.

3. Improving the corporate culture

Our company aims to develop an organization for improving corporate value by establishing an environment in which it is possible to take advantage of the diversity of personnel and bring out the abilities of organizations to the maximum degree.

Our company will not only provide an environment, where employees can perform their duties easily, but will also promote the development of employees and increase productivity. In addition to providing a physical work environment, we will strive to raise employees' awareness of their involvement in the promotion of the business and the growth of the company through fair evaluations and other means. We will also strive to foster a corporate culture that stimulates communication among employees and encourages them to take on the challenges of new technologies and businesses.

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Management Indicators

We have set operating income margin as a key management indicator for continuous improvement in profitability, and we are planning to achieve 15% in the term ending June 2024. We believe that an increase in operating income margin will lead to an improvement in the company's return on equity (ROE). We view an increase in operating income margin as an indicator of improved profitability and operational efficiency, while ROE is an indicator of our capital efficiency.

We estimate our cost of capital to be 6.6%. We aim to increase our shareholder value by pursuing a return on equity that exceeds our cost of capital.

	2017	2018	2019	2020	2021	Plan
Operating income margin	8.3%	5.2%	8.8%	9.5%	10.1%	15.0%
ROE	10.3%	6.6%	11.3%	11.4%	11.6%	—

We use sales per employee as another indicator of the efficiency of business operations.

	2017	2018	2019	2020	2021	Target
Sales per employee	25.0 million yen	26.7 million yen	25.3 million yen	25.1 million yen	25.4 million yen	30.0 million yen

Future outlook

On August 4, 2021, our company revised its medium-term business plan and disclosed it as a new plan.

The term ended June 2021 was not hugely affected by the impact of COVID-19. There were no any major disruptions to the continuity of our system development and system operations. At present, our production activities are performing well.

Our company is shifting to a business form for offering not only on-premise services, but also cloud services through our systems. The on-premise commissioned development business we have been conducting is categorized as a “one-shot revenue” business, because the scale of contracts and the timing of posting of sales vary among transactions. On the other hand, cloud services are categorized as “recurring revenue” ones, as they are expected to earn stable revenues during continuous contract periods.

We are expanding a stable revenue base by adding “recurring revenue” businesses, from which we can expect sustainable revenues, to the conventional “one-shot revenue” businesses.

As mentioned above, business companies in fields other than the financial field offer new settlement and financial services for expanding their trading areas. In addition, there is a trend in which our client companies use cloud services for launching new businesses swiftly.

Taking advantage of this situation, our company aims to earn sales of 15,000 million yen and an operating income of 2,250 million yen (an operating income margin of 15.0%) in the term ending June 2024.

Especially, our cloud services are expected to move into the black in the term ending June 2022, grow considerably, and become major revenue sources by the term ending June 2024.

In addition, we endeavor to develop new products for enterprises in fields other than the financial field, and cultivate new markets by utilizing our knowledge and experience nurtured through the development projects in the financial field.

With our technology for processing a large volume of data rapidly on a real-time basis, we will identify potential problems with business operations in different fields, and solve them, to cultivate new markets and develop new revenue sources.

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(Reference) Mid-term business plan
(New Plan)

(Unit: million yen)

	FY 6/2021 (Results)	FY 6/2022 (Forecast)	FY 6/2023 (Plan)	FY 6/2024 (Plan)
Sales	11,187	12,000	13,500	15,000
Operating income (margin)	1,130 (10.1%)	1,320 (11.0%)	1,750 (13.0%)	2,250 (15.0%)

(Old plan)

	FY 6/2020 (Results)	FY 6/2021 (Plan)	FY 6/2022 (Plan)	FY 6/2023 (Plan)
Sales	10,920	11,000	12,000	13,500
Operating income (margin)	1,036 (9.5%)	1,150 (10.5%)	1,250 (10.4%)	1,500 (11.1%)

The earnings forecast for the term ending June 2022 calls for sales of 12,000 million yen and an operating income of 1,320 million yen (an operating income margin of 11.0%), up 16.8% from the previous term.

We do not expect large-scale development projects in the term ending June 2022, either, but we will develop systems and sell products to mainly existing clients. We plan to improve profit margin by streamlining development processes and tightening quality control.

The sales of the cloud service business are projected to be 1,130 million yen, up 20.0% from the previous term. As we made a relatively large-scale transaction in July 2021, it is expected to contribute to sales from the second half of this fiscal year. Profit/loss has improved, and we are expected to post annual profit. The sales of this business are forecast to reach 2,000 million yen in the term ending June 2023 and 2,500 million yen in the term ending June 2024, driving the mid-term growth of profit.

(Reference)
(Sales by category)

(Unit: million yen)

	FY 6/2021 (Results)	FY 6/2022 (Forecast)	Remarks
System Development	5,272	5,850	Sales of system development services
Maintenance	1,357	1,440	Sales for maintenance of systems developed by our company
Our products	335	400	Sales related to the sales operations of our products
Cloud services	942	1,130	Sales related to the time-limited rental service of our systems
Hardware	1,638	1,730	Sales related to sales operations of servers and other hardware
Other companies' products	509	250	Sales related to sales operations of other companies' products
Security products	1,131	1,200	Sales related to sales operations of security products made by our company and other companies

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2. Risks in Business, etc.

The following are the risks associated with our business that may affect investors' decisions.

These risks are typical risks estimated by our company and are not intended to be an exhaustive list of risks that may actually occur. Forward-looking statements are based on our company's judgment as of the end of the term ending June 2021.

Potential risks classified into each category are reported to the Board of Directors and the Risk Management Committee for review and consideration on an individual basis, thus ensuring that a system is in place to prevent major risks from occurring in the first place.

1. About Industry Trends

With social changes such as the spread of electronic money, online shopping, and credit card payments via mobile devices, there have been cases of companies other than credit card companies entering the card payment business, which presents new business opportunities for us; however, the credit card industry, which is our primary business area, is going through an industry reorganization led by the megabanks, and there is a possibility that our market will shrink over the long term as a result of further industry reorganization and other factors.

The consolidation of our customers as a result of industry consolidation could reduce the number of our customers, which, over time, could result in fewer system development orders from our customers and thus reduce our sales. On the other hand, thanks to the consolidation of customers the system will grow in size and the size of customers' orders may increase.

In addition, a large portion of our results is made up of orders from credit card industry companies, and our company's results could be affected by a temporary decrease in orders due to changes in the business performance of these companies, regulatory trends, and other factors.

2. About System Development

At the time of accepting an order for system development, particularly, for long-term projects, we are working hard every day to eliminate unprofitable projects by concluding contracts in stages by dividing the process into multiple periods, improving the accuracy of cost estimates and risk management, and strengthening the project management system by managing development methods, etc.

Even if a project is expected to be profitable at the time of order, unprofitable projects may occur due to reasons such as changes in requirements, the incurrence of more man-hours than originally estimated, or delays in delivery, which could affect our business results.

For projects that are more critical in terms of the size of the order and the nature of the work, our company's quality control department continuously evaluates the status of the project and reports the results to the Risk Management Committee, and for projects that are significantly less profitable than originally planned, the situation is reported to the Board of Directors for discussion and consideration of remedial measures.

In general, in system development, ambiguity in specifications during the system planning and requirements definition process can cause confusion in subsequent processes, resulting in a decline in system quality and delays in development work, which may result in costs that exceed the amount of the order and reduce the profitability of the development project.

As the development process progresses, ambiguous or unanticipated issues may get settled or unexpected issues may arise, affecting the prerequisites for subsequent processes and increasing development costs.

In order to fix program flaws (bugs) discovered in the testing process and to meet the deadline promised to the customer, the project may become unprofitable due to an increase in man-hours and manpower investment beyond the estimate.

If a project with a relatively large order value becomes unprofitable, our profit forecast could be affected.

In addition, if a third party's intellectual property rights are intentionally or accidentally infringed upon during the course of system development, our company may be subject to a claim for damages from a third party, which might have an impact on our business operations and performance.

3. About Securing Human Resources

In order to promote our business, it is important to secure personnel with professional and technical skills and knowledge. Therefore, we strive to secure human resources through recruiting and training, as well as through outsourcing to other companies. However, if we are unable to secure such personnel as planned, or if we are unable to obtain the cooperation of outside companies, our business operations and performance could be adversely affected. More specifically, if we are unable to establish a system to promote development projects due to problems in securing human resources, we may not be able to receive orders for development projects as planned, which may result in a decrease in sales.

In addition, our company's business and operating results may be affected in the event that it is unable to carry out development work under its existing structure due to the turnover or retirement of a large number of engineers, who have accumulated a wealth of proprietary technology and knowledge. The quality of development work may deteriorate, resulting in a loss of long-term trust from customers and damage to our company's reputation, which may have a negative impact on our corporate value.

4. Working Environment

System development, which is our main business, is characterized by its dependence on the abilities, expertise, and knowledge of its employees to a large extent in terms of business execution and quality of results. As mentioned above, securing human resources are one of the key challenges for the continuity of our business.

Based on this understanding, we are constantly working to prevent overwork and improve the workplace environment while taking into account the diversity of our employees, but if the working environment deteriorates for any reason, our business performance may deteriorate through a decline in labor productivity and an exodus of personnel.

If, as a result of a personnel exodus, we are unable to build a system to promote development projects, or other problems arise, this may result in decreases of orders received and sales. In the longer term, the quality of our development work and services could deteriorate, which could result in a loss of customer trust and damage to our corporate value in the long-term, etc.

Our company regularly reports to the Risk Management Committee on the status of improvements and enhancements to the working environment, including health and safety management and reduction of overtime work, and considers each case to prevent major risks from arising.

5. About the Cloud Service Business

Rather than developing and delivering individual systems to handle a customer's business, the joint-use cloud service business

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allows customers to operate their business by allowing multiple customers to use the systems and infrastructure (hardware, network, etc.) prepared by our company to provide services to their customers. This business requires an initial investment in system development and infrastructure development, and relatively large investments may be made in a short period of time, which could temporarily affect our business performance and cash flow.

The cost of operating our systems and infrastructure is covered by the monthly service fees that our customers pay to us and is recorded as revenues for the business; however, during periods when we have a small number of customers, the profit and loss of the business in a single year may be affected by depreciation and amortization costs incurred as a result of the initial investment. Likewise, because we foresee that it may take several years after the commencement of services to pay back the initial investment, we take measures to ensure a more reliable return on investment by, for example, entering into multi-year service provision agreements with our clients, but there is also the possibility that the provision of services may be interrupted for reasons such as the client's circumstances or unforeseen events, which could result in an interruption of revenue. In such an event, our financial results could deteriorate, our cash flow may decline, and our results of operations may be adversely affected by the impairment of our cloud services business assets.

In addition, if we operate the Cloud Services system on behalf of our customers, any operational failures could cause some damage to the customer's business and we could be liable for compensation claims for such damage. If the amount of damages is significant, our results of operations could be affected, as well as a loss of customer trust, which may lead to a decrease in sales in the medium term and thereby have an adverse impact on our results of operations.

6. About Price Competition

In the general system development business, it is now difficult to raise the prices of system development and other services, due to clients' cautious stance toward investment in systems, the competition among business operators for receiving orders, and the emergence of efficient new technologies that would replace the existing technologies.

We specialize in building systems in specific functional area, and our expertise and experience have earned us the trust and recognition of many of our customers. We have been able to establish long-term, stable relationships with the customers with whom we have begun to do business, and this fact has become an important component of our business base. However, if we cannot keep offering added value demanded by clients, we may lose in the price-cutting competition, and see the declines in the amount of orders received and sales.

7. Technical Innovation

Our company's business strengths lie primarily in the credit card industry, where it has accumulated expertise in unique technology and functional areas, such as connecting to the networks required to complete online transactions and the delivery of data.

If, in the future, so-called disruptive technological innovations were to completely replace the existing technological systems used in the network, which serves as the social infrastructure that supports the payment services, there could be a significant impact on our business structure and performance. As a result, if we lose market share in the market for FEP systems, in which we have an advantage, our operating results could be adversely affected in the long term, including a decline in our business performance.

8. Product Development

We are engaged in research and development of new products, as well as improvements and enhancements to existing products, in order to provide the best services and solutions for our customers.

The start of research and development is determined after a comprehensive review of the necessary costs and sales plan, etc. If the recoverability of these prior investments as intangible assets (software for sale) is in doubt, our business performance could be adversely affected, including the posting of losses due to an impairment assessment, etc.

9. Business Continuity

In the system development business, we maintain a backup system for information assets such as information and data entrusted to us by our clients, program data, and test tools that are in progress or completed, in order to ensure continuity of operations. However, if we have to interrupt or suspend operations due to damage to such information assets as a result of a large-scale disaster, failure, incident, or accident, our business performance could be adversely affected.

With regard to system operations, we have formulated a business continuity plan for securing alternative measures and securing and deploying personnel in the event of a disaster at a business site. If our employees cannot reach our offices due to a traffic blockage or other reason, or if our employees are unable to access the system due to damage to the communications network caused by a large-scale disaster or other reasons, we may temporarily suspend our operational operations, which could result in a loss of customer trust, which in turn could have an impact on our financial results, including a decline in sales over the medium term.

10. Information Security

The Payment Card Industry Data Security Standard (PCI DSS) is a credit card industry information security standard designed to protect credit card member information. We have obtained PCI DSS certification through an audit by an auditing organization and operate in accordance with the standards. In addition, personal information and confidential information handled by our company as part of its business operations are properly managed and administered under the Privacy Mark certification. If such information is lost or leaked, our business performance could be adversely affected by claims for damages or loss of trust from customers. Moreover, in the event of information leaks due to a cyber-attack from the outside, etc., our business and earnings could be affected by compensation for damages or loss of trust from its customers.

We have established and are operating a system of operational standards and regulations to guarantee information security, and we conduct periodic employee training on information security measures.

We have established a Security Committee to review and evaluate information security measures for internal systems and networks in general, as well as to gather and evaluate information on security measures of related companies. More important cases and events are reported to the Risk Management Committee for consideration. These measures are designed to proactively prevent risks related to information security.

11. Laws and Regulations

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Any violation of domestic or foreign laws and regulations in any aspect of our business operations could have an adverse effect on our business and financial results. Our company's reputation may be tarnished, and a loss of customer confidence may result in a decrease in sales and other effects in the medium to long term.

All employees are required to take part in regular in-house training sessions with the aim of deepening their understanding of the various legal systems and raising their awareness of the risks involved in order to prevent bad cases from occurring. Further, we manage employee's performance during the training and monitor their results. The Business Operation and Management Committee evaluates the content of the training program and manages it to ensure that revisions to the legal system are properly reflected in our operations. The Business Operation and Management Committee assesses potential compliance risks, and if they are discovered, countermeasures are promptly introduced and reported to the Risk Management Committee.

12. Losses on the Valuation of Investment Securities, etc.

While we invest in companies deemed necessary for the business strategy, we evaluate our investments appropriately at each term-end in accordance with accounting standards for financial products and internal management regulations.

In the future, if the performance of a company whose investments exceed a certain level significantly deteriorates and its net assets are significantly impaired or reduced, a valuation loss could be incurred, which may affect our financial results.

13. On the Spread of the Novel Coronavirus Infection

We are responsible for the development and operation of systems that provide essential functions for credit card settlements, and we are properly aware of our social mission, and we are promoting our business while preparing the facilities and systems necessary to continue our operations.

Our company's offices are located in Chuo-ku, Tokyo, and Hakodate Office (Hakodate City), where all employees and external collaborators engaged in development projects and other activities of our company's work. Some employees work at customer-operated establishments.

As of the end of June 2021, we have established an environment in which approximately 700 people, including employees and external collaborators, will be able to work from home. Our employees are prohibited from traveling abroad and instructed to refrain from going on a business trip, holding a meeting, or the like unless it is necessary or urgent.

As of today, some employees continue to work from home. We prohibit employees from traveling overseas, and we continue to have a policy of refraining from non-essential business trips and meetings in the country.

To date, our company has not had any serious concerns about business continuity and has not suffered any material adverse effects.

It is difficult to predict with any precision the impact of COVID-19 in the future on our company's business. However, in the event that infections continued to spread for a prolonged period of time, a temporary decline in our sales can be expected depending on the degree of stagnation in sales and production activities. In addition, there is a possibility that our sales may decline over the longer term due to a decline in capital investment by various companies or other factors.

14. The Influence of the Parent Company

With the aim of continuously improving business performance, our company maintains a cooperative business relationship with its parent company, Dai Nippon Printing Co. Ltd. while promoting sales and conducting its business independently.

A certain amount of transactions with Dai Nippon Printing Co. Ltd. occur regularly, and from our point of view, it is one of our most important customers. Dai Nippon Printing Co., Ltd. not only prints credit cards and prepaid cards, but also operates a cloud service business that handles the settlement and management of these cards, and has outsourced the development and operation of some of its systems, such as network connection functions, which is our area of expertise, to our company. As the cashless society develops, this business is expected to grow in size and the business relationship between our company and its parent company is likely to become deeper. We have been cooperating with our parent company not only in the financial industry, but also in the field of cybersecurity product sales, and we expect our relationship with our parent company to deepen in this area as well.

Because of this relationship and influence, Dai Nippon Printing Co. Ltd. may act for its own best interest but not necessarily for the interest of other shareholders.

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3. Employers' Analysis of the Financial Standing, Business Performance, and Cash Flows

(1) Overview of Business Results, etc.

Our company's financial position, results of operations, and cash flows for the term ended June 2021 (hereinafter, "business results, etc.") are summarized as follows.

① The business results

In the term ended June 2021, the domestic economic situation remained severe due to the impact of COVID-19, but there was a recovery trend. The performance of services of restaurants, accommodation, etc. was sluggish and consumer spending was stagnant, but if the impact of COVID-19 subsides, the economy is expected to keep growing.

In the credit card field, which is our major business domain, monthly trade volume increased*, and the monthly amounts of spending with credit cards of leading credit card companies grew year on year. The business performance of our client companies is improving, and the equipment investment mainly by leading credit card companies remains active.

Especially among leading corporate groups, there is an obvious trend of not only responding to the diversification of payment settlement methods, but also offering other financial services to customers, with the aim of expanding their trade areas, and this trend can be said to be a business opportunity for our company.

For example, business companies in fields other than the financial field offer new payment settlement services and financial services for expanding their trade areas. Some of our client companies are planning the shift from the on-premise type in which the development of each specific system is outsourced to the type in which cloud services are utilized, with the aim of offering new services speedily.

In addition, an increasing number of people work from home and do online shopping due to COVID-19, so it is expected that credit-card payment will become more common thanks to the changes in consumer behavior and workstyles.

*Source: "Survey on the dynamic statistics of specific service industries" by the Ministry of Economy, Trade and Industry.

In this business environment, the results in the term ended June 2021 were healthy.

Without being affected by COVID-19, our performance was almost in line with the initial forecast.

As a developer and operator of systems that provide essential card payment functions, we are fully aware of our social mission, and we are working to develop the facilities and systems necessary to continue our business.

In order to prevent the spread of COVID-19, we checked the health conditions of employees and others, adopted telework and staggered shifts, limited domestic and overseas business trips, and took other measures.

In the term ended June 2021 (Jul. 2020 to Jun. 2021), sales were 11,187 million yen, exceeding the initial forecast: 11,000 million yen and also the sales in the previous term: 10,920 million yen.

Operating income was 1,130 million yen, slightly lower than the initial forecast: 1,150 million yen, but up 9.1% from that in the previous term: 1,036 million yen.

Ordinary income was 1,171 million yen, up 9.0% from that in the previous term: 1,074 million yen. Net income was 840 million yen, up 10.4% from that in the previous term: 762 million yen.

Regarding the business in the financial field, we upgraded systems for credit card payment, strengthened their functions, engaged in development and sold hardware for establishing fraud detection systems, targeting leading card companies and system vendors.

The sales of hardware increased from the previous term, as we sold hardware to be used for system development projects by our company and made transactions for replacement of specific models of servers. The sales of other companies' products used for development projects for mainly new clients, too, grew from the previous term. The sales of the cloud service business, too, increased from the previous term, as mentioned in the initial forecast. The sales of system development decreased from the previous term, but it was offset by the increase of sales of products, such as hardware. In the term ended June 2021, there were no relatively large-scale development projects, so the decline in sales of system development was in line with the forecast. The sales of other categories increased from the previous term.

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(For reference) Sales in each category	(Unit: million yen)		
	FY 6/2020	FY 6/2021	Recurring revenue/one-shot revenue
System development	5,791	5,272	One-shot revenue
Maintenance	1,246	1,357	Recurring revenue
Our products	244	335	One-shot revenue
Cloud services	828	942	Recurring revenue
Hardware	1,526	1,638	One-shot revenue
Other companies' products	220	509	One-shot revenue
Products for security	1,063	1,131	One-shot revenue
Total	10,920	11,187	

(Note) The businesses in which certain amounts of sales can be posted constantly are categorized as recurring revenue businesses. Meanwhile, the businesses in which the scale and timing of each contract vary are categorized as one-shot revenue businesses.

Operating income slightly fell below the initial forecast: 1,150 million yen, but increased from the previous term.

In the first quarter (Jul. to Sep. 2020), the cloud service business saw a temporary augmentation of expenses, but operating income exceeded that in the previous term: 1,036 million yen, thanks to the streamlining of system development processes, the sales growth of other categories, the improvement in profit/loss from the information security business, etc.

In FY 6/2021, our business performance was not significantly affected by COVID-19.

(2) Financial position

The balance of assets at the end of the current term was 11,140 million yen, an increase of 588 million yen from the end of the previous fiscal year. Of which, current assets increased by 594 million yen to 6,975 million yen from the end of the previous fiscal year. This was mainly due to an increase of 665 million yen in cash and deposits. Fixed assets were 4,164 million yen, 6 million yen down from the end of the previous term. This is mainly because tools, furniture and fixtures increased 205 million yen, but software dropped 147 million yen and long-term prepaid expenses decreased 71 million yen.

The balance of liabilities increased by 3 million yen from the end of the previous term to 3,572 million yen. This was mainly due to an increase in income taxes payable, etc. of 181 million yen, an increase in accounts payable-other of 82 million yen, despite a decrease in accounts payable-trade of 196 million yen and a decrease in advances received of 148 million yen.

The balance of net assets increased by 584 million yen from the end of the previous term to 7,567 million yen. This was mainly due to an increase in retained earnings of 577 million yen.

(3) Cash flow position

Cash and cash equivalents at the end of the current term amounted to 4,307 million yen, up 665 million yen from the end of the previous term. The status of each of the cash flow categories and their respective contributing factors are as follows:

(Cash flows from operating activities)

The cash provided by operating activities for the current term was 1,700 million yen (up 9.9% from the previous fiscal year). This was due to income before income taxes of 1,166 million yen owing to the strong performance of the overall business and the recording of 751 million yen in depreciation and amortization, which is a non-cash item.

(Cash flows from investing activities)

The cash used in investing activities for the current term was 742 million yen (a net outflow of 752 million yen in the previous fiscal year). This was due to 469 million yen for purchase of intangible assets, mainly for the development of software for the purpose of sales and for internal use.

(Cash flows from financing activities)

The cash used in financing activities in the current term was 292 million yen (a net outflow of 407 million yen in the previous fiscal year). This was mainly due to cash dividends paid of 262 million yen.

The trends of cash flow indicators are as follows.

	FY 6/2020	FY 6/2021
Capital-to-asset ratio [%]	66.2	67.9
Market value-based capital-to-asset ratio [%]	205.1	145.6
Debt redemption period [years]	0.0	0.0
Interest coverage ratio	16,516.7	65,007.5

(Notes)

1. Capital-to-asset ratio: Equity capital/total assets
2. Market value-based capital-to-asset ratio: Market cap/total assets

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Market cap is calculated based on the number of outstanding shares, excluding treasury shares.

3. Debt redemption period: Interest-bearing liabilities/operating cash flow
Interest-bearing liabilities are all liabilities with interest posted in the balance sheet.
4. Interest coverage ratio: Operating cash flow/interest payment

(Information on sources of capital and liquidity of funds)

Our company's main cash needs include operating expenses, such as personnel costs for system development, product purchasing, and SG&A expenses, research and development to develop new products, and investments in new or upgraded facilities. Our basic policy is to finance these capital requirements with cash on hand and cash flow from operating activities. Our company will also consider raising funds from outside sources such as financial institutions if it is considered necessary. In addition, we have concluded commitment line agreements with three banks and a life insurance company to establish an agile and stable fund procurement system and ensure the liquidity of funds.

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(4) Results of production, orders received, and sale

a. Results of production

Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
Production output (thousand yen)	Y/y ratio (%)	Production output (thousand yen)	Y/y ratio (%)
6,115,098	96.8	5,754,372	94.1

Notes

1. Results of production are indicated with selling prices.
2. The above amounts do not include consumption tax or the like.

b. Results of the procurement

Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
Procurement amount (thousand yen)	Y/y ratio (%)	Procurement amount (thousand yen)	Y/y ratio (%)
1,667,931	116.4	1,826,554	109.5

Notes

1. Our company's purchases are software and services, and it is difficult to express in terms of volume, so only monetary values are indicated.
2. The above amounts do not include consumption tax or the like.

c. Orders received

Previous fiscal year (From July 1, 2019 to June 30, 2020)				Current fiscal year (From July 1, 2020 to June 30, 2021)			
Orders received (thousands of yen)	Y/y ratio (%)	Order backlog (thousands of yen)	Y/y ratio (%)	Orders received (thousands of yen)	Y/y ratio (%)	Order backlog (thousands of yen)	Y/y ratio (%)

Note

The above amounts do not include consumption tax or the like.

d. Sales Performance

Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
Amount (thousand yen)	Y/y ratio (%)	Amount (thousand yen)	Y/y ratio (%)
10,920,848	104.6	11,187,679	102.4

Notes

1. Since our products cover a wide range of products, it is difficult to indicate quantities, so we only show them in monetary values.
2. The ratio of sales to major clients to total sales is as follows.

Clients	Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
	Amount (thousand yen)	Ratio (%)	Amount (thousand yen)	Ratio (%)
Dai Nippon Printing Co., Ltd.	1,837,130	16.8	1,294,781	11.6
TIC Inc.	705,324	6.46	1,213,843	10.9
Aeon Credit Service Co., Ltd.	531,386	4.87	1,202,742	10.8

3. The above amounts do not include consumption tax or the like.

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(2) Details of Analysis and Review of Business Results, etc. from the Management's Perspective
Business results
Variation in business performance

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021
Sales	8,469	10,603	10,443	10,920	11,187
Operating income	702	547	921	1,036	1,130
Operating income margin	8.3%	5.2%	8.8%	9.5%	10.1%
EBITDA*	1,039	1,032	1,628	1,641	1,881
Net income	547	377	683	762	840
(Net assets)	5,647	5,715	6,372	6,983	7,567
(Total assets)	8,508	8,837	10,032	10,552	11,140
ROE	10.3%	6.6%	11.3%	11.4%	11.6%
Number of employees	339	397	413	435	441

EBITDA* Operating income + Depreciation

Over the years, we have pursued the "evolution" of our company and its businesses, with the expansion of scale and changes in business models as key factors.

Our company has maintained a stable business base, mainly in the business of developing systems that provide specific functions for credit card companies. However, we have been working to expand our existing system development business as well as to capture new revenue opportunities, taking advantage of the changing social conditions, including the diversification of payment methods and the development of a cashless society, as a growth opportunity.

We have set a target of over 10 billion yen in sales as a tangible indicator of our company's evolution, and we have pursued the evolution of our business, aiming to create an organization in which the development and investment of new products and services is a continuous process.

System development orders from major credit card companies, which are our existing customers, were steady and supported the growth in sales.

In the term ended June 2021, we achieved sales of 11.187 billion yen and an operating income of 1.13 billion yen. EBITDA, which is the indicator of our company's profitability, has evolved in scale, growing significantly from 1,039 million yen to 1,881 million yen.

The average annual growth rates for five years from the term ended June 2017 were 7.2% for sales and 12.6% for operating income. The growth rate shows the rapid pace at which we are evolving, but there is still room for further improvement (The average annual growth rate during the period from FY 6/2016 to FY 6/2020 was 11.0% for sales and 9.1% for operating income.). In addition to the growth of our mainstay System Development business, we will boost the development and release of new products and services following our Cloud Services business in order to accelerate the growth.

In the mid-term business plan for the 3 fiscal years from FY 6/2022 to FY 6/2024, we will accelerate our evolution with the aim of achieving an annual average growth rate of 10.3% for sales and an annual average growth rate of 25.8% for operating income.

In the term ending June 2024, we will hold the slogan "15ALL" with the aim of achieving sales of 15 billion yen and an operating income margin of 15.0%.

The cloud services business we launched in the term ended June 2016 can be considered as an example of the qualitative evolution of our business. Previously, credit card-related business systems were developed and delivered on a customer-by-customer basis, but by renting these systems for a period of time from the data center operated by our company, our company has been able to generate stable revenue from the same customer.

Customers can use our services to start their card business without a significant upfront investment, which opens the door for new entrants. This is also an important opportunity for us to acquire new customers.

In the System Development business, sales and profit margins vary from project to project, but in the Cloud Services business, we are able to generate relatively high profits as long as sales exceed a certain amount and we are able to build up revenues in a consistent and stable manner. The business performance is expected to improve from the term ending June 2022, and the business will drive the growth of our company.

(Note) The items related to the future mentioned in this document are based on our judgment as of the end of the term ended June 2021.

Trends in the Cloud Services business

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021	June 2022 (Forecast)	June 2023 (Plan)	June 2024 (Plan)
Sales	179	386	637	828	942	1,130	2,000	2,500
Gross profit	-166	-296	-105	-24	-81	80	—	—

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About the cash flow
Trends of the cash flow

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021
Operating CF	1,172	1,213	1,237	1,547	1,700
Investing CF	-1,151	-603	-601	-752	-742
Financing CF	-198	-348	-219	-407	-292
Cash equivalents	2,578	2,839	3,254	3,641	4,307
EBITDA	1,039	1,032	1,628	1,641	1,881

EBITDA, the indicator of cash generation capability, is growing steadily. Our company will invest in growth by using cash and cash-on-hand generated by its business activities as the source of funds.

Depending on the investment, we will consider the possibility of raising funds from outside sources, but in such cases, we will also take into account the profitability and financial soundness of the investment in question.

During the term ended June 2017, we made the capital and development investments necessary to launch our cloud services business. We have since continued to invest in the development of new products. The cloud service business is expected to become a new revenue source for our company, as its profitability is projected to rise.

We will continue active investment in new business, and plan to grow it to make it a new revenue source following the cloud service business.

Shareholder Returns
Trends of dividends

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021
Dividend	184	184	237	262	341
Payout ratio	33.7%	48.8%	34.6%	34.5%	40.6%

We consider dividends to be an important means of shareholder return, and our basic policy is to maintain continuous and stable dividends. Until the term ended June 2020, we targeted a payout ratio of about 30% when determining the dividend amount, but from the term ended June 2021, we raised the target payout ratio to 40%, for the purpose of enhancing the return to shareholders.

Management Indicators

Our company uses operating income as a key management indicator for measuring the continued improvement of its profitability.

Variations in return on equity (ROE) and other management indicators are shown below.

Variations in Management Indicators

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021
Operating income	702	547	921	1,036	1,130
Profit ratio (operating income)	8.3%	5.2%	8.8%	9.5%	10.1%
ROE	10.3%	6.6%	11.3%	11.4%	11.6%
Total Assets Turnover Ratio (Sales / Total Assets)	1.10	1.22	1.11	1.06	1.03
Profit ratio (net income)	6.5%	3.6%	6.6%	7.0%	7.5%
Financial leverage (total assets/net assets)	1.45	1.53	1.56	1.54	1.49
Sales per capita	25.0	26.7	25.3	25.1	25.4

About ROE

Assets have increased in parallel with the increase in sales, with total asset turnover in the range of 1.03 to 1.22. As sales increased, current assets such as accounts receivable increased, leading to an increase in total assets. The majority of our intangible assets consist of software developed by our company (i.e., software for sales and software provided for cloud services). We believe there is room for improvement in the total asset turnover rate by effectively utilizing these intellectual assets to drive sales growth.

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Variations in assets

(Unit: million yen)

	June 2017	June 2018	June 2019	June 2020	June 2021
Total amount of assets	8,508	8,837	10,032	10,552	11,140
of which, current assets	4,984	5,034	6,054	6,381	6,975
of which, the amount of intangible assets	1,421	1,514	1,341	1,465	1,317

Moreover, the increase in sales per employee can be considered as an indicator of the efficiency of sales growth. Over the longer term, we expect that the efficient increase in sales per capita will allow us to increase our profitability as well as growing in scale and improving our operating income margin. Additionally, higher operating income margins can be achieved by improving the efficiency of systems development operations and the quality of deliverables, as well as by increasing the sales ratio of businesses that exceed the profitability of systems development operations. For our business, higher operating income margins are directly related to higher net income margins.

An efficient increase in sales and an increase in operating income margins will ultimately result in improved ROE.

We use higher net income margins and sales per capita resulting from higher operating income margins as indicators of increased profitability and efficiency, while ROE is a metric indicative of our company's equity efficiency.

We estimate our company's cost of equity to be 6.6%*, which we use as a benchmark for evaluating ROE. While keeping in mind that equity spread (the difference between ROE and the cost of shareholders' equity) will increase, we aim to improve ROE by strengthening our earning power.

*Based on the Capital Asset Pricing Model (CAPM).

Significant Accounting Estimates and Assumptions Used in Making Such Estimates

Our company's financial statements are prepared in accordance with business accounting standards generally accepted in Japan.

The preparation of the financial statements employs estimates and assumptions that affect the reported values of assets, liabilities, revenues and expenses, but due to the uncertainties inherent in such estimates, actual results may differ from those estimates.

In addition, regarding accounting estimates of the spread of the novel coronavirus, we have made estimates based on information available at the time the financial statements were prepared, but we are not aware of any events that would have a material impact on our business results, etc. for the current term. However, there are many uncertainties over the impact of COVID-19, which could have an impact on our company's financial position and operating results in the following fiscal year, including delays in receiving orders for new projects.

The significant accounting estimates and assumptions used in the preparation of the financial statements are as follows:

(a) Depreciation method for software intended for sale in the market

Regarding the depreciation of software intended for sale in the market, the unamortized balance of each product is amortized on a product-by-product basis at the amount calculated on actual sales revenue for the current term based on estimated sales revenue or a straight-line amortization amount based on the remaining effective period (3 years), whichever is larger. If the estimated sales revenue declines in the future, depreciation and amortization could increase.

(b) Impairment of fixed assets

With regard to fixed assets, at the end of the current fiscal year, we determined whether there was any indication that tangible and intangible assets were likely to be impaired. For assets or groups of assets that are on the verge of impairment, In the event that the total amount of undiscounted cash flow from the assets, such as software used in the provision of services and capitalized servers, is less than the book value of the assets, due to deterioration in the business environment or increase in development costs, our company may have to record an impairment loss on the fixed assets.

(c) Determining the recoverability of deferred tax assets

We record deferred tax assets for temporary differences in future subtraction that we believe will provide sufficient taxable income based on our future profit plan or that are considered to be recoverable; however, because deferred tax assets are dependent on estimates of future taxable income, the recoverability of deferred tax assets may change in the event of changes in uncertain future economic conditions or other changes in the statutory tax rate or other factors resulting from tax reform.

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4. Important Contract for Business Administration, etc.

No relevant information.

5. Research and Development Activities

We constantly strive to research and develop new technologies in order to provide useful, high value-added products in response to changes in the market and the technological environment.

The total amount of research and development activities for the current term was 80,461 thousand yen.

We mainly conducted research, etc. for a joint front-office system for the purpose of reducing the operation cost of our own ASP service.

In addition, we improved the scoring precision of the next-generation fraud detection system FARIS, and strengthened the POC and functions for preventing fraud using practical data.

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III Situation of Equipment

1. Overview of Equipment Investment, etc.

We have invested 304,799 thousand yen in facilities centered on server equipment related to Cloud Service business. There will be no disposal of important equipment during the current fiscal year.

2. Situation of Major Equipment

The main facilities of our company are as follows.

As of June 30, 2021

Office name (location)	Facilities	Book value (thousand yen)					Number of employees
		Buildings and Structures	Land (Area m ²)	Lease Assets	Other	Total	
Tokyo Head Office (Chuo-ku, Tokyo)	Office and equipment	102,233	—	14,573	606,530	723,338	436
Data center (Kashiwa-shi, Chiba Prefecture)	Network server related	—	—	—	704,090	704,090	—
Data center (Bunkyo-ku, Tokyo)	Network server related	—	—	—	231,088	231,088	—
Hakodate Office (Hakodate, Hokkaido)	Office and equipment	112,504	84,394 (5,105.55)	—	2,446	199,344	5

Notes

1. The number of employees does not include executives.
2. The Tokyo head office is renting a building. The annual rent is 346,295 thousand yen.
3. The "Other" in the book value consists of tools, furniture and fixtures.

3. Plans for Installation, Disposal, etc. of Equipment

As of the end of the current fiscal year, there are no plans for new installation or removal of important equipment.

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IV Situation of the Company

1. Situation of Shares, etc.

(1) Total number of shares, etc.

① Total number of shares

Type	Total number of issuable shares (shares)
Common shares	105,360,000
Total	105,360,000

② Issued shares

Type	Number of shares issued as of the end of the fiscal year (June 30, 2021)	Number of shares issued as of the submission date (September 29, 2021)	Financial instruments exchange or registered authorized financial instrument firms association	Description
Common shares	26,340,000	26,340,000	Tokyo Stock Exchange (First section)	The number of shares per lot is 100.
Total	26,340,000	26,340,000	—	—

(2) Status of share acquisition rights

① Description of the stock option system

None.

② Description of rights plan

None.

③ Status of other share acquisition rights

None.

(3) Exercise status of corporate bonds with share acquisition rights that have exercise price adjustment clause

None.

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

Date	Increase/decrease in the total number of outstanding shares (shares)	Total number of outstanding shares (shares)	Increase/decrease in capital (thousand yen)	Capital balance (thousand yen)	Increase/decrease in capital reserve (thousand yen)	Capital reserve balance (thousand yen)
January 1, 2014 (Note)	26,076,600	26,340,000	—	843,750	—	559,622

Note

Due to the 100-for-1 stock split.

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(5) Status by owner

As of June 30, 2021

Classification	Share status (100 shares per lot)							Status of shares less than one lot (shares)	
	Government and local public organizations	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations		Individuals and others		Total
					Non-individuals	Individuals			
Number of shareholders	0	16	24	45	30	26	8,250	8,391	—
Number of shares owned (lots)	0	22,123	2,580	134,631	5,475	291	98,110	263,210	19,000
Percentage of shares owned (%)	0.0	8.4	1.0	51.1	2.1	0.1	37.3	100.0	—

Notes

1. Out of 50,051 treasury shares, 500 lots are included in "Individuals and others" and 51 shares in "Status of shares less than one lot."
2. The above "other corporations" includes seven units of shares in the name of Japan Securities Depository Center, Inc.

(6) Status of major shareholders

As of June 30, 2021

Name	Address	Number of shares owned (stock)	The ratio of the number of shares owned to the total number of outstanding shares (excluding treasury shares) (%)
Dai Nippon Printing Co., Ltd.	1-1-1 Ichigayakagacho, Shinjuku-ku, Tokyo	13,330,700	50.71
Kazuhiko Adachi	Konan-ku, Yokohama City	2,382,900	9.06
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	733,900	2.79
Custody Bank of Japan, Ltd. (trust)	1-8-12 Harumi, Chuo-ku, Tokyo	559,500	2.13
Intelligent Wave Employee Shareholding Association	1-21-2 Shinkawa, Chuo-ku, Tokyo	535,000	2.03
BNYM AS AGT/CLTS 10 PERCENT (Standing proxy) MUFG Bank, Ltd.	240 GREENWICH STREET, NEW YORK, NEW YORK 10286 U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	308,505	1.17
Momoko Mizota	Chiyoda-ku, Tokyo	307,200	1.17
Hideki Nishino	Midori-ku, Yokohama City	209,000	0.79
MUFG Bank, Ltd.	2-7-1 Marunouchi, Chiyoda-ku, Tokyo	200,000	0.76
Hirotsugu Kobayashi	Yachiyo-shi, Chiba Prefecture	191,600	0.73
Total	—	18,758,305	71.35

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(7) Status of voting rights

① Outstanding shares

As of June 30, 2021

Classification	Number of shares	Number of voting rights	Description
Non-voting shares	—	—	—
Shares with restricted voting rights (treasury shares, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	(Self-owned shares) Common shares 50,000	—	—
Shares with full voting rights (others)	Common shares 26,271,000	262,710	—
Shares less than one lot	Common shares 19,000	—	—
Total number of outstanding shares	26,340,000	—	—
Voting rights of all shareholders	—	262,710	—

Note

The "Shares with full voting rights (others)" column contains 700 shares (seven voting rights) in the name of the Japan Securities Depository Center, Inc.

② Treasury shares

As of June 30, 2021

Owner's name Or title	Owner's address	Number of shares owned in its own name (share)	Number of shares owned in the name of another person (share)	Total number of shares owned (share)	The ratio of the number of shares owned to the total number of outstanding shares (%)
(Self-owned shares) INTELLIGENT WAVE INC.	1-21-2 Shinkawa, Chuo-ku, Tokyo	50,000	—	50,000	0.19
Total	—	50,000	—	50,000	0.19

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2. Situation of Acquisition of Treasury Shares, etc.

Types of shares

Acquisition of common shares according to Article 155, Item 13 of the Companies Act

(1) Status of acquisition through a resolution of the general meeting of shareholders

None.

(2) Status of acquisition by resolution of the Board of Directors

None.

(3) Description of acquisitions not based on a resolution of the general meeting of shareholders or the resolution of the Board of Directors

Classification	Number of shares	Total price (thousand yen)
Treasury shares acquired in the current fiscal year	8,400	—
Treasury shares acquired during this period	2,000	—

Notes

- "This period" means the period from the day after the last day of the current fiscal year to the date of submission of this annual securities report.
- The number of treasury shares acquired during this period does not include the number of shares from the purchase of shares less than one lot from September 1, 2021 to the submission of the annual securities report.

(4) Processing and holding status of acquired treasury shares

Classification	Current fiscal year		This period	
	Number of shares	Total disposal price (thousand yen)	Number of shares	Total disposal price (thousand yen)
Acquisition of treasury shares through solicitation of subscribers	—	—	—	—
Acquired treasury shares that have been canceled	—	—	—	—
Acquired treasury shares that were transferred in connection with a merger, share exchange, share issuance, or company split	—	—	—	—
Others (handled as compensation for shares with restriction of transfer)	—	—	—	—
Number of treasury shares held	50,051	—	52,051	—

Notes

- This period means the period from the day after the last day of the current fiscal year to the date of submission of this annual securities report.
- The treasury shares acquired during the period do not include the number of shares purchased from September 1, 2021, until the submission of this annual securities report.

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3. Dividend Policy

Our company considers the return of profit to shareholders as an important management mission, and upholds the basic policy of maintaining stable dividends while paying attention to internal reserve for fortifying the management base.

This time, as disclosed in “Notification on the dividend of surplus” dated July 28, 2021, we decided to increase the dividend amount for enriching our measures for shareholder return.

We changed the target payout ratio from around 30% to around 40%, for determining the dividend amount. Under this basic policy, we increased the dividend amount by 3 yen/share from 10 yen/share in the previous term to 13 yen/share.

The Articles of Incorporation stipulate that our company may pay an interim dividend with December 31 as the record date every year by a resolution of the Board of Directors.

Dividends of surplus for the current fiscal year are as follows

Resolution date	Total dividend (thousand yen)	Dividend per share (yen)
September 29, 2021 Ordinary General Meeting of Shareholders	341,769	13

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4. Situation of Corporate Governance, etc.

(1) Overview of Corporate Governance

(Basic policy concerning corporate governance)

Our company pursues “to provide safety and convenience for the information society of tomorrow” as its management philosophy, and in accordance with that philosophy, our company aims to contribute to society by boosting our enterprise value by promoting a business that “provide IT infrastructure that is swift, secure, high-quality, and highly convenient” as its management policy.

The system developed by our company is the IT infrastructure indispensable for society, because of which a product of high standards is being demanded in order to successfully execute high speed and safe transactions with the stability of the system being a necessary condition. Our company boasts of many developmental achievements and safe operations, and we believe the trust we have gained from these results will continue to support our company’s business and become its developmental foundation.

Our company’s management policy will be to meet the expectations of our stakeholders by expanding our company’s business foundation by offering an IT infrastructure that will continue to be trusted by more customers.

Our company is promoting the strengthening of our management supervisory function by appointing independent outside directors and outside auditors, as well as placing the Nomination and Compensation Committee, which will be comprised mostly of these independent executives, under the Board of Directors.

Further, our company’s basic policy will be to guarantee transparency in management by fairly and quickly disclosing any valuable information necessary for the understanding of our company’s management and business status, as well as promoting dialogue with the marketplace. In addition, training for increasing employees’ awareness of compliance will be thoroughly conducted in order to comprehensively enhance our corporate governance.

(Outline of Corporate Governance System and Reason for Adoption)

Our company has established a corporate governance system based on the Board of Directors and the Board of Auditors. As of the date of this report, our company has appointed five independent executives, and their attendance at the Board of Directors meeting ensures that management decisions are made under objective and neutral supervision. The current system of collaboration between the independent outside directors and the Board of Auditors has been selected because it allows the management to be monitored and supervised from an external perspective and ensures proper governance. In addition, our company strives to strengthen corporate governance through the establishment and proper management of committees, meetings, and other organizations.

① Board of Directors

Our company has established the Board of Directors, which is comprised of six directors (including two independent outside directors), as an organization to deliberate and decide on important management matters and supervise directors in the execution of their duties. Our company stipulates that the Board of Directors shall properly fulfill the following responsibilities.

1. Detailing the visions for business strategies and such
2. Discussing and executing measures that will contribute to an increase in enterprise value based on a spirit of wholesome entrepreneurship
3. Performing highly effective supervision on directors or executive officers

The following is a summary of the activities of the Board of Directors in FY 6/2021.

Regular Board of Directors’ meetings are held every month, but extraordinary meetings are also held as needed, with 18 such meetings having been held this term.

All directors and auditors attended all meetings of the board of directors. On September 25, 2020, we adopted the executive officer system to overseas management and clarify the duties of business execution, and the information on proposals is explained and shared in advance at a management meeting. Accordingly, the board of directors had opportunities to have discussions efficiently and sufficiently.

During FY 6/2021, the Board of Directors voted on a total of 61 important administrative matters, including those on the discussion and approval for mid-term management plans, remuneration for executives, personnel systems for employees, organizational restructuring and management personnel affairs, and the establishment of the governance system.

Regarding proposals on research and development, a project that was considered to be of high importance out of contents and scale was discussed and voted on. Regarding proposals on financial affairs, the approval for mainly account settlement and budgets were voted on.

Further, regarding earnings forecasts, the state of business progress, reports from committees, transaction with related parties, and the state of circulated settlement, task execution of each director and executive officer was supervised by individually discussing and deliberating on 57 different reported matters.

For both resolutions and reported matters, independent outside directors requested details explanations from directors in charge, and there was aggressive exchange of opinions on matters of discussion.

Based on the frequency of Board of Directors meetings, the high attendance rate, and the content of actual discussions, we believe that management decision-making by the Board of Directors and supervision of the directors’ performance of their duties are conducted appropriately, and that the Board of Directors is functioning effectively from the perspective of corporate governance. Our company’s Board of Directors has also commissioned an external organization to periodically conduct a survey of all officers on the effectiveness of the Board of Directors and receive reports on the results.

Our company is making efforts to enhance debate at the Board of Directors’ meetings by establishing management meetings to share information, with reporting, explaining, and providing opportunities to question on information required for broad-ranging items to be discussed. Further, our company has taken steps to optimize management and strengthen information management by facilitating the reading and sharing of documents for Board of Directors’ meetings by introducing tools for paperless meetings and online meetings. Our company is promoting an increase in efficiency for Board of Directors through the above steps.

The Board of Directors makes important management decisions and supervises the execution of business operations by the executive officers to strengthen corporate governance.

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②Nomination and Compensation Committee

Our company has established and manages the Nomination and Compensation Committee as an advisory committee to the Board of Directors, based on the “Nomination and Compensation Committee Regulation.” The Nomination and Compensation Committee is comprised of 5 outside executives and a representative director, which guarantees an outside perspective due to the majority of the committee being composed of outside executives, and after consultation with the directors, topics related to the nomination and compensation of directors are deliberated on, after which all opinions are summarized and reported to the Board of Directors. Such a structure and management of the Nomination and Compensation Committee contributes to the autonomy and objectivity of the functions of the Board of Directors related to the nomination and compensation of directors, as well as the strengthening of accountability.

The Nomination and Compensation Committee held 5 meetings during FY 6/2021, with each meeting lasting for about one hour. Our policy for responding to the revision to the corporate governance code, nomination of director candidates and executives, and a review of the compensation system for full-time directors were discussed and debated on as major topics.

After an exchange of opinions among the members at the meeting, the Nomination and Compensation Committee reports the results to the Board of Directors, and the Board of Directors conducts a vote on the following items.

At the regular meeting of the board of directors held on June 23, 2021, the board of directors resolved to revise the regulations for the Nomination and Compensation Committee, so that said committee will be chaired by an independent outside director and a majority of committee members are independent outside directors, for the purpose of enhancing the independence of said committee. After that, the board of directors resolved to appoint the independent outside director Kenichi Miki, the independent outside director Akira Watanabe, and the representative director and president Kunimitsu Sato as members of said committee. At the meeting of the Nomination and Compensation Committee held on the same day, said committee selected the independent outside director Kenichi Miki as chairperson of said committee.

Since the terms of all of the 6 directors will expire, the board of directors selected 6 candidate directors and 5 executive officers including those who also serve as directors.

The board of directors resolved to revise the remuneration system in FY 6/2021 to increase the ratio of performance-based compensation from 21% to 30% by reducing fixed monthly pay and increasing performance-based compensation by changing the bonus calculation method, in response to the proposal from the Nomination and Compensation Committee.

③Risk Management Committee

Our company established and operates the system of the Risk Management Committee in accordance with in-company rules as a system for evaluating risks while involving employers and managers at appropriate posts, in order to produce reliable financial reports. The Risk Management Committee is under the direct control of the Board of Directors and is chaired by the president and includes executive officers. The committee holds a meeting once a quarter and when necessary to receive reports from each team, etc. on the status of risk extraction, analysis, evaluation, and formulation of improvement measures in accordance with internal rules, to confirm and evaluate their completeness and appropriateness in order to provide necessary guidance and supervision on future response policies, and to follow up on risks that are being addressed. Every time we see a change that may produce a significant effect on the production of reliable financial reports, such as the change of an organization and IT development, we establish a system for re-evaluating risks and take appropriate measures.

In FY 6/2021, there were a total of four sessions held, each lasting approximately one hour. The Risk Management Committee comprehensively receives reports on risk control from the Business Operation Management Committee, the Security Committee, and others, recognizes and evaluates each risk while considering internal and external factors and their effects on the production of reliable financial reports, and then give necessary instructions and guidance. The survey, reporting, and evaluation of the risks caused by COVID-19, which were started in the previous term, are continued by the management council from FY 6/2021.

The Risk Management Committee, with the active involvement of our company’s management and other senior management, is regarded as an effective mechanism for assessing and managing various risks related to business activities, damage control of unforeseen events, and the preparation of reliable financial reports.

④ Management Meetings

Our company has established and operates the management meetings in accordance with the “Management Meetings Rules.” In management meetings, which are attended by all directors, executive officers and auditors, supplementary information on the backgrounds of matters to be brought up at the Board of Directors’ meeting as well as information necessary to understand the points of discussion are explained by executive officers, the head of each department, the business supervisor and other related personnel within our company. Further, reports on the state of progress and related risks concerning research and development projects already in progress and individual development projects, technical knowledge and information related to our company’s products and services are explained, which helps the directors and auditors deepen their understandings on such subjects. As they are a form of coordination of information meant to raise the quality of discussion at the Board of Directors’ meetings, the management meeting does not have any decision-making authority and no decisions are made.

In FY 6/2021, management meetings were held a total of 12 times with 28 topics of discussion, and the duration of each meeting was about one hour. The agenda is composed of mainly the reporting of R&D projects for next-generation products, the reporting of investment in development for new large-scale cloud services, the reporting of the plan and progress of new businesses, and the reporting of individual development projects, which account for 20 topics.

Some topics of discussion at the management meetings for FY 6/2021 are later introduced at the Board of Directors’ meetings and voted on after sufficient and efficient discussion. We believe the establishment and operation of management meetings will enhance our corporate governance, especially debates at the Board of Directors’ meetings, and contribute to an appropriate decision-making process.

⑤Internal Control Committee

Our company has established and operates the Internal Control Committee in accordance with the “Basic Rules for Internal Control” for the maintenance, operation, and evaluation of internal control over financial reporting. The Internal Control

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Committee is chaired by the president and includes executive officers of those who are in charge of each sector and the head of the Audit Department, and meets twice a year, and when necessary.

During FY 6/2021, a total of two meetings were held to approve the Basic Plan for Internal Control, which was formulated as the overall plan for the development, operation, and evaluation of internal control during the fiscal year. In addition, the Internal Control Committee, upon clarifying the risks of misstatement of financial reports, received reports on the status of the company's internal control and their operation in accordance with the Basic Plan for Internal Control, as well as various evaluation materials and reports that were independently verified by the evaluators, and received explanations of the reports and reviewed their contents. In its conclusion, the Internal Control Committee has determined that our company's internal control is effective.

The Internal Control Committee, as the final confirming body for the internal control we are working on to ensure the reliability of our financial reporting, understands and manages information that could have a material effect on our financial statements, and we believe that it contributes to our corporate governance.

⑥ Business Operation Management Committee

Our company has established and operates the Business Operation Management Committee in accordance with the "Business Operation Management Committee Rules." The Business Operation Management Committee is chaired by a senior managing executive officer whose in charge of Corporate Management Division and includes the head of the Corporate Management Division as well as managers from the Corporate Management Division, Audit Department and Corporate Planning Department. They focus on the following issues, holding specific discussions to strengthen them and promoting activities to improve the issues.

1. Review of the rules, confirmation of their operation, and planning and implementation of measures necessary to revise or abolish them.
2. Consideration of the operation and management of specific measures to realize appropriate corporate governance and specific measures for the operation and improvement of the internal control system.
3. Consideration of specific measures necessary to prevent legal violations and misconduct, to understand and respond to such violations, to instruct on measures to prevent recurrence, and to reduce other risks of misconduct.

During FY 6/2021, a total of 22 meetings were held and each meeting lasted about 1.5 hours. The Business Operation Management Committee confirms the status of the specific development and operation of the company's internal control system and internal management system, and formulates and implements specific measures when necessary. In-company investigation is conducted and risks are appropriately evaluated while considering not only superficial facts on misconduct, but also the motives, reasons, backgrounds, etc. for misconduct, and the results are reported to the Risk Management Committee.

For instance, we conducted in-company investigation into a risk that the improper accounting that has recently occurred in another company will occur in our company with the same tricks, and discussed environmental factors that enable such misconduct and countermeasures. We also revised the in-company rules, etc. regarding the executive officer system, which was adopted in FY 6/2021.

The Business Operation Management Committee is a permanent meeting body that inspects the specific development and operation of the internal control system developed by our company and considers specific measures, and we believe that it effectively inspects the status of our corporate governance and implements specific measures.

⑦ Personal Information Protection Promotion Office

The Privacy Mark System is a system that recognizes businesses that have a system in place to appropriately protect personal information and grants them a privacy mark to that effect and allows them to use the Privacy-Mark for their business activities.

We have maintained our certification under the Privacy Mark System since May 2002, when we received the certification for the first time. The Personal Information Protection Promotion Office has been established as a division in charge of the maintenance and operation of the Privacy Mark System and functions as an organization to promote the proper handling and operation of personal information.

In FY 6/2021, the office discussed the effects of major amended provisions of the amended Act on the Protection of Personal Information, which was promulgated on June 12, 2020 and is to be enforced on April 1, 2022, and measures for them.

The Personal Information Protection Promotion Office reports the results of its activities to the Risk Management Committee.

The importance of protecting personal information is growing, and more appropriate measures are required. We will pay close attention to amendments to laws and guidelines, and promote high-quality management of personal information protection.

⑧ Security Committee

Our company has established the "Information Security Policy" for information security management, which is posted on our company's website to ensure business continuity by eliminating security risks that could interfere with our company's business.

To put into practice the philosophy and measures set forth in the Information Security Policy, we have established a Security Committee composed of employees from our company's information security section and information system section to promote specific information security measures.

During FY 6/2021, the regular Security Committee meetings were held every other week, a total of 23 times.

The Security Committee discusses information security measures, embodies our internal rules and operational procedures, and makes them known through our company. The operation of the established rules is inspected and specific measures are instructed to related parties. The committee considers requests and inquiries from customers regarding security measures in an integrated manner and strives to ensure that there are no leaks or omissions while implementing specific measures.

In FY 6/2021, we held the training for coping with targeted emails for all employees, including those of affiliated companies in order to prevent the damage from targeted email attacks several times, and educated all employees online for dealing with "10 major information security threats" announced by Information-technology Promotion Agency, Japan, to enhance and improve employees' awareness of security. In addition, we evaluated and discussed the in-house systems and tools for security in detail, added necessary measures, and produced contents for online education and training. We also produced and enforced security-related rules for telework for all employees and others.

The activities of the committee include the strengthening of our information security measures, to reduce security risks and realize business continuity.

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⑨ Internal Reporting System

Our company has established the “Rules for the Protection of Whistleblowers” for the purpose of early detection and correction of wrongdoing by providing a mechanism for the appropriate handling of consultations and reports of systematic or personal violations of laws and regulations by employees and others as defined by the Whistleblower Protection Act.

In accordance with these rules, our company has designated a executive officer of the Corporate Management Department as a person in charge of handling internal whistleblowing and has established a Secretariat for Internal Reporting (hereinafter referred to as the “Secretariat”) within the Corporate Management Department. From the perspective of protecting whistleblowers, we outsource the whistleblowing and consultation services to an external organization, and the Secretariat serves as a liaison to the external organization. In addition to external organizations, one can also report and consult directly with the Secretariat and our company’s auditors. The members of the Secretariat are listed in the “List of Persons Responsible for Internal Reporting, etc.” and are made known internally. Our company requires that the members of the Secretariat should periodically undergo training and other programs outside our company and submit a “Confidentiality Pledge” with their signatures and seals to the person in charge of whistleblower handling to ensure the effectiveness of the whistleblower handling.

The Secretariat, under the direction of the person in charge of whistleblower handling, will investigate the facts relating to matters reported to the external organization. In the event of a direct report to corporate auditors, the auditors or a person designated by the auditors as the person in charge of handling whistleblowing will investigate and take corrective measures in accordance with these regulations. If, as a result of the investigation, any misconduct is revealed, the person involved in such an act will be disciplined in accordance with our company’s employment regulations.

From the perspective of protecting whistleblowers and investigators, our company will not dismiss whistleblowers or treat them disadvantageously in any other way. The rules also stipulate that appropriate measures shall be taken to prevent the workplace environment from deteriorating as a result of the whistleblower’s whistleblowing or consultation. The same applies to investigative cooperators.

The actual report was investigated internally and the response was completed in accordance with established procedures. The whistleblowers report to the Risk Management Committee on the status of operations, paying careful attention to personal information, and have been evaluated on the appropriateness of the process.

⑩ Training and Education System

Our company has established and operates a regular employee training and an education system to raise the compliance awareness of each and every employee.

During FY 6/2021, all full-time directors, employees, and temporary employees took part online in 14 programs under the theme of “Training on Internal Control, Compliance and Personal Information Protection,” for which we had prepared training materials, including “Introduction to Compliance,” “Internal Control,” “Dealing with Anti-Social Forces,” “general theory on sustainability,” “prohibition of discrimination,” and “prevention of harassment.” In addition, “Insider Trading Regulation Training” was conducted, and all employees attended the programs offered by the Japan Exchange Regulation.

By providing these compliance-related educational opportunities on an ongoing basis, we are working to ensure compliance and enhance corporate governance.

⑪ Board of Auditors

Our company is a company with auditors, and as of the date of submission of this report, the Board of Auditors consists of five auditors (one full-time auditor and there outside auditors). Regular meetings of the Board of Auditors are held monthly, and extraordinary meetings are held from time to time to resolve, discuss and report on important audit-related matters. Each auditor oversees the execution of duties by the directors by conducting audits in accordance with the audit plan formulated by the Board of Auditors.

The activities of the Board of Auditors during FY 6/2021 are described in (3) Status of Audits, ① Status of Audits by Auditors below.

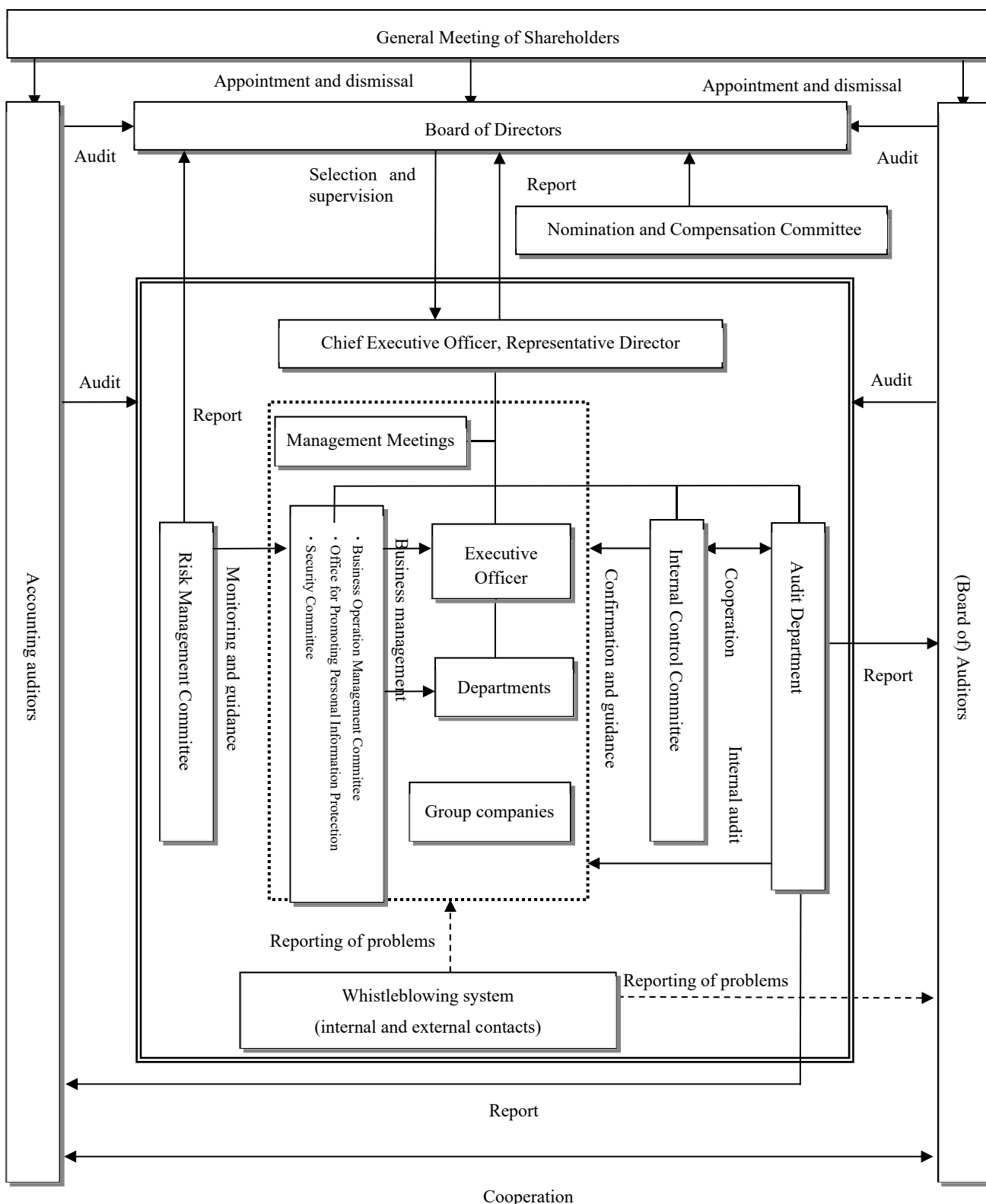
The heads and members of each of the above bodies as of the date of submission of this report are shown in the table below.

Post	Name/Institution	Board of Directors	Nomination/Remuneration Committee	Risk Control Committee	Internal Control Committee	Management meetings	Board of Auditors
Chief Executive Officer, Representative Director	Kunimitsu Sato	◎	○	◎	◎	○	
Director and senior executive officer	Keiji Ohyama	○		○	○	○	
Director and managing executive officer	Taisuke Goto	○		○	○	○	
Director and executive officer	Mitsue Sako	○		○	○	○	
Independent outside director	Akira Watanabe	○	○			○	
Independent outside director	Kenichi Miki	○	◎			○	
Full-time auditor	Masaharu Shirasugi					○	◎
Part-time auditor	Yoshinori Kato					○	○
Independent outside auditor	Hiroshi Sato					○	○
Independent outside auditor	Noboru Takebayashi					○	○
Independent outside auditor	Masayuki Horie					○	○

*◎ represents the head of each organ. ○ represents a member.

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The schematic diagram of our corporate governance system, including the above contents, is as follows;



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(For reference) Regarding the establishment of the sustainability committee

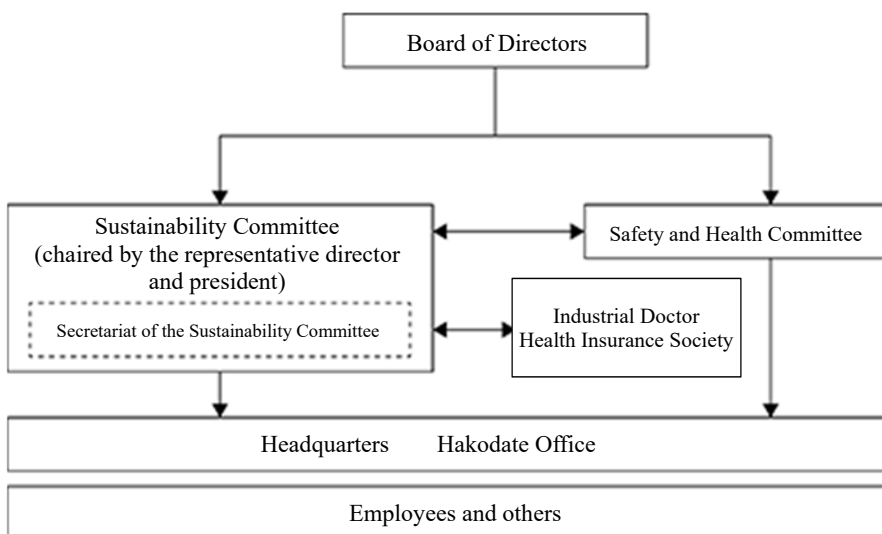
In accordance with the sustainable development goals (SDGs), our company voluntarily works on the settlement of issues related to the environment, society, and governance, contributing to the sustainable growth of our business and the sustainable development of society.

Among ESG issues, we work on mainly the activities for improving human capital targeted at our employees, and established the sustainability committee as an organization for leading these activities in April 2021.

The sustainability committee is chaired by the representative director and president Kunimitsu Sato, and composed of mainly full-time directors. It serves as a core organization for setting policies for “contribution to society,” “fostering of a good corporate culture,” “prohibition of discrimination,” “care for the earth environment,” etc. in accordance with our principles of corporate behavior and securing the continuity of company-wide activities. The sustainability committee and its secretariat are separated, take the roles as a certification institution and an executive body, respectively, to oversee and lead activities.

As our company is a system development company for credit-card payment, which is part of essential infrastructure, employees, which are human capital, are the most important managerial resources, and the enhancement of their health is very beneficial to the actualization of our mid-term management goals and ethos. Our company issued a declaration of health-oriented business administration for the purpose of sharing the above basic policies with employees and all other stakeholders, and takes concrete measures for health-oriented business administration, and the sustainability committee takes leading roles.

(Organizational chart)



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(Fundamental concept for our internal control system and status of development)

Based on the Companies Act and the Ordinance for Enforcement of the Companies Act, as basic policy of the system that ensures the appropriateness of the tasks of our company and corporate group, the Board of Directors voted on “Basic Policy for Developing an Internal Control System” as follows.

The “Basic Policy for Developing an Internal Control System” also contains regulations related to subsidiaries, but as of the writing of this report, our company has no such subsidiary.

“Basic Policy for Developing an Internal Control System”

1. Systems to Ensure that the Execution of Duties by Our Directors and Employees Conforms to Laws and Articles of Incorporation

Our company has established the “Basic Policy on Compliance” and “Corporate Code of Conduct” to make sure our directors and employees strictly adhere to laws and articles of incorporation, and work towards the establishing of social responsibility and corporate ethics.

Further, our company maintains a “Compliance Manual” which it uses as teaching material during company training courses for the dissemination of information with the aim of preserving and improving the Compliance System.

As a basic stance against anti-social forces, our company absolutely cuts any ties with any anti-social forces by clearly declaring our “Basic Policy on Compliance,” “Corporate Code of Conduct” and “Compliance Manual,” taking a resolute stance against these forces, and even notifying and coordinating with the police, its legal advisor and external expert institutions (National Center for Removal of Criminal Organizations) if necessary.

In accordance with the “Internal Audit Regulations,” the Audit Department periodically confirms that company tasks are being executed while strictly adhering to laws, articles of incorporation and company regulations, and reports its findings to the president.

2. Systems Related to the Preservation and Management of Information Concerning the Execution of Duties by Directors

Based on company regulations including the “Document Management Regulations,” which has a legal basis, the treatment of information concerning task execution of our directors and other important information, ranging from the creation of documents including electromagnetic records, preservation, management to disposal, are clearly defined, and our company makes sure these can be viewed by directors, auditors, accounting auditors, and others, when necessary.

3. Regulations Related to the Management of Risk of Loss, and Other Systems

In order to minimize the various risks related to the general business activities of our company and group companies, along with loss and negative effects due to unforeseen events, our company established “Risk Management Regulations,” “Detailed Regulations on Risk Management” and “Risk Management Committee Regulations,” and created a risk management committee system that monitors the risk control of each management board responsible for managing significant risks in our company’s management and business, as well as the state of risk management for each management board.

4. Systems to Ensure the Efficiency in Execution of Duties by Directors

Our company holds regular Board of Directors’ meetings every month and extraordinary Board of Directors’ meetings when necessary, which involve decision-making on important managerial matters and supervision of the state of task execution of each director, along with facilitating mutual understanding between each director, thereby ensuring efficiency in the execution of tasks.

Further, the Board of Directors’ meetings also involve the manager for the business task department entrusted with business execution by the Board of Directors being seated with the Board of Directors and reporting the state of business execution in the department they are in charge of.

Other than the Board of Directors’ meetings, our company also periodically holds meetings attended by directors, executives, auditors, and other senior business executives that were called by any director and other meetings necessary in the course of work, facilitating task execution through swift, precise, and efficient decision-making.

5. Systems to Ensure the Appropriateness of Tasks in the Business Group Consisting of Our Company, Parent Company and Subsidiaries

Our company ensures the appropriateness of tasks as a member of the DNP Group, based on the “Basic Regulations on DNP Group Compliance Management” established by our parent company, Dai Nippon Printing Co., Ltd. (hereinafter referred to as DNP).

Further, various regulations, including the “Regulations on Management of Affiliated Companies,” have been put in place at our company for its subsidiaries and affiliated companies, and in accordance with such policies and regulations, our company will facilitate appropriate business management with transparency as a corporate group while respecting the autonomy of each of its affiliated companies. Further, our company will create the following systems ① to ④ in order to ensure appropriateness of tasks for its subsidiaries

① Our company’s directors will receive reports on matters related to task execution at subsidiaries by attending periodic meetings with the presidents of subsidiaries, the subsidiaries’ Board of Directors’ meetings and other such important meetings as required.

Further, the Accounting Department of the Business Management Head Office of our company, which is in charge of management tasks for subsidiaries, will receive reports related to task execution from each department of the subsidiaries.

② Our company’s “Risk Management Regulations” will also apply to its subsidiaries, and our company will put in place a system in which subsidiaries will independently manage risks faced during their business activities.

③ Our company’s executives and employees will hold concurrent positions as directors and such in our company’s subsidiaries, and our company will promote subsidiaries’ business operation based on the affiliated companies’ management policy as well as ensure optimization of task execution in the subsidiaries by being indirectly involved in the management of the subsidiaries.

④ Our company will make its subsidiaries adhere to the “Corporate Code of Conduct” and “Basic Policy on Compliance” which all other affiliated companies have to adhere to as well, and ensure a system conforming to laws and the articles of incorporation. Further, in accordance with “Internal Audit Regulations,” our company’s Audit Department will put in place a system that ensures appropriate auditing and will guide the execution, inspection, evaluation and improvement of the

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subsidiaries' business operation.

6. In Case Our Company's Auditors Request an Employee to Assist in their Tasks, Matters Related to the Concerned Employee, Matters Related to the Concerned Employee's Independence from Directors and Matters Related to Ensuring the Effectiveness in the Concerned Employee's Compliance to the Auditors

In case auditors request for an employee to assist them in their tasks, our company responds to that request by allocating appropriate personnel.

The employees who perform tasks after receiving necessary orders from auditors will secure independence from the directors on account of the task in question and the personnel shift, performance evaluation and disciplinary actions for the employees in question require a prior consent from the Board of Auditors.

Further, in order to ensure effectiveness in carrying out instructions from auditors, orders from auditors will be given priority, information necessary for auditing will be collected, and the state of task execution will be appropriately reported to the auditors.

7. Systems for Directors and Employees to Report to Auditors, and Systems for Directors, Auditors and Employees of Subsidiaries to Report to Our Auditors

In the event that directors, auditors and employees of our company and its subsidiaries discover facts that can cause immense damage to our company, or malpractices related to task execution, or significant facts about violation of the law or the articles of incorporation, or other major facts related to compliance, they must report them to our company's auditors immediately.

The person who reported these facts will be offered the utmost protection and confidentiality in accordance with the "Regulations for the Protection of Whistleblowers."

8. Matters Related to Procedures for Advance Payment or Reimbursement of Costs from the Execution of Tasks by Auditors, and Policies for Handling Costs or Obligations from the Execution of Tasks

In case an auditor of our company requests advance payment of costs from the execution of their tasks, our company will immediately respond to that request unless it is considered that advance payment is unnecessary for the execution of the auditor's tasks.

9. Other Systems to Ensure Effective Auditing by Auditors

Our company's auditors attend the Board of Directors' meetings and other such important meetings, where they offer advice and recommendations.

Further, the auditors inspect documents for approval, reports etc., understand the overall status of company management, work towards mutual understanding with the president and accounting auditors when necessary, engage in periodic exchange of opinions and boost the effectiveness of audits through coordination with the Audit Department.

(Number of directors)

Our company's Articles of Incorporation stipulate that the number of directors is 15 or less.

(Resolutions for the appointment of directors)

Our company specifies in its Articles of Incorporation that shareholders who have at least one-third of voting rights shall be present in the resolution for the appointment of directors, directors shall be appointed based on a majority of the voting rights, and no cumulative vote shall be used.

(Matters to be resolved by the Board of Directors at the general meeting of shareholders)

1. Acquisition of treasury shares

In order to improve capital efficiency and implement flexible capital policies in accordance with the business environment, our company's Articles of Incorporation stipulate that our company may acquire treasury shares through market transactions etc. by resolution of the Board of Directors, according to the provisions of Article 165, Paragraph 2 of the Companies Act.

2. Outline of the liability limitation contracts

Based on the provisions of Article 427, Paragraph 1 of the Companies Act, our company has entered into an agreement with the directors (excluding those who are executive directors etc.) and with the auditors to limit liability under Article 423, Paragraph 1 of the Companies Act. In the event that there is good faith and no gross negligence, the maximum extent of liability under the contract shall be as stipulated by law.

3. Outline of the contract for liability insurance for executives and others

Our company concluded a contract for liability insurance for executives and others, which is set forth in Article 430-3, Paragraph 1 of the Companies Act, with directors, auditors, and executive officers being insured, and fully bears insurance premiums.

Said insurance contract stipulates that if an insured person receives a claim for damages arising out of his/her activity at his/her post, the insurance will cover the compensation for damages and lawsuit expenses borne by the insured.

However, said contract includes a disclaimer clause, which stipulates that the insurance will not cover the damage caused by any act committed while recognizing it is illegal.

4. Interim dividend

In order to swiftly return profits to shareholders, our company has stipulated in its Articles of Incorporation that it is possible to distribute surplus in cash to shareholders or registered pledgees listed or registered in the final shareholder register on December 31 of each year by resolution of the Board of Directors, as stipulated in Article 454, Paragraph 5 of the Companies Act.

(Requirements for special resolution for the general meeting of shareholders)

In order to ensure the smooth operation of the general meeting of shareholders, our company has stipulated in its Articles of Incorporation that shareholders who have at least one-third of voting rights shall attend and a special resolution may be made with at least two thirds of the voting rights at the Shareholders' General Meeting as stipulated in Article 309, Paragraph 2 of the Companies Act.

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(2) Situation of executives

10 males and 1 female (The ratio of female executives is 9.1%.)

Post	Name	Birthdate	Biography	Term	No. of shares owned
Chief Executive Officer, Representative Director	Kunimitsu Sato	Born on Dec. 23, 1959	<p>Apr. 1983 Joined Dai Nippon Printing Co., Ltd.</p> <p>Oct. 2001 Chief of the sales development division, IC card dept., Business Form Business Section of the company.</p> <p>Apr. 2006 Chief of the IC card business development division, IC card business development dept., IPS Business Section of the company</p> <p>Apr. 2007 Head of IC card business development dept., IPS Business Section of the company</p> <p>Oct. 2012 Head of digital security dept., Information Solutions Business Section of the company</p> <p>Apr. 2016 Deputy director of C&I Center, Information Innovation Business Section of the company</p> <p>Apr. 2018 Director of C&I Center, Information Innovation Business Section of the company</p> <p>Sep. 2019 Director of our company</p> <p>Apr. 2020 Vice chief of Information Innovation Business Section of Dai Nippon Printing</p> <p>Sep. 2020 Representative director and president of our company (current)</p>	Note 4	1,700
Director and Senior Executive Officer in charge of Sales Dept.	Keiji Ohyama	Born on May 1, 1961	<p>Apr. 1984 Joined Tokyo Computer Service Co., Ltd.</p> <p>Jan. 1985 Joined our company.</p> <p>Jul. 2003 Executive officer and chief of the first sales division, Sales Dept.</p> <p>Sep. 2007 Director and senior executive officer of our company Vice chief of Credit System Business Section and head of sales division of Credit System Business Section</p> <p>Jan. 2011 Director and managing executive officer of our company Head of Sales Dept.</p> <p>Jul. 2011 Managing director of our company Head of the first sales dept.</p> <p>Jul. 2012 Managing director of our company Head of the first sales dept. and chief of the first sales division of the first sales dept.</p> <p>Jul. 2013 Managing director of our company Head of Sales Dept.</p> <p>Apr. 2015 Managing director of our company In charge of Security Solution Dept. and head of Sales Dept.</p> <p>Sep. 2016 Senior managing director of our company In charge of Security Solution Dept. and head of Sales Dept.</p> <p>Jul. 2017 Senior managing director of our company Head of Sales Dept.</p> <p>Jul. 2018 Senior managing director of our company In charge of Sales Dept. and Security Solution Dept.</p> <p>Jun. 2019 Director of ODN Solution Co., Ltd. (current)</p> <p>Jul. 2020 Senior managing director of our company In charge of Sales Dept.</p> <p>Sep. 2020 Director and senior executive officer of our company In charge of Sales Dept. (current)</p>	Note 4	43,600

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Post	Name	Birthdate	Biography	Term	No. of shares owned
Director and Managing Executive Officer in charge of Business Administration Dept. and Management Planning Division	Taisuke Goto	Born on Apr. 27, 1974	<p>Dec. 1998 Joined Soft Japan Corporation.</p> <p>Mar. 2005 Joined our company.</p> <p>Jan. 2016 Chief of the third development division, the first system development dept. of our company</p> <p>Oct. 2016 Vice head of System Development Dept. and vice head of Project Promotion Dept. of our company</p> <p>Jul. 2017 Vice head of System Development Dept. of our company</p> <p>Oct. 2017 Vice head of System Development Dept. and chief of the security management division of Business Administration Dept.</p> <p>Jul. 2018 Head of the third system development dept. of our company</p> <p>Sep. 2018 Director and head of the third system development dept. of our company</p> <p>Jul. 2019 Director of our company in charge of Business Management Dept. and Sales Planning Division</p> <p>Jun. 2020 Director of Software Association of Japan (current)</p> <p>Sep. 2020 Director and executive officer of our company In charge of Business Management Dept. and Management Planning Division</p> <p>Sep. 2021 Director and managing executive officer of our company In charge of Business Management Dept. and Management Planning Division (Current)</p>	Note 4	2,400
Director and Executive Officer In charge of Second System Development Dept.	Mitsue Sako	Born on May 26, 1964	<p>Jan. 1990 Joined Dai Nippon Sapporo ISD Co., Ltd.</p> <p>Jun. 2002 Chief of Sapporo System Development Section I, Hokkaido System Dept., DNP Information Systems Co., Ltd.</p> <p>Apr. 2005 Head of Embedded System Development Dept. of DNP Information Systems Co., Ltd.</p> <p>Oct. 2012 Executive officer and head of IPS System Development Dept. of DNP Information Systems Co., Ltd.</p> <p>Apr. 2017 Executive officer in charge of SI Dept., System Product Development Dept., Hokkaido System Dept., Tohoku System Dept., and Western Japan System Dept. of DNP Digital Solutions Co., Ltd.</p> <p>Apr. 2019 Managing executive officer of DNP Digital Solutions Co., Ltd.</p> <p>Oct. 2020 Deputy head of ICT Center System Platform Development Dept., Information Innovation Business Section, Dai Nippon Printing Co., Ltd.</p> <p>Sep. 2021 Executive officer in charge of System Development Dept. II of our company (current)</p>	Note 4	—

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Post	Name	Birthdate	Biography	Term	No. of shares owned
Director	Akira Watanabe	Born on May 13, 1953	<p>Apr. 1979 Registered as a lawyer (in-service) Akira Watanabe Law Office</p> <p>Apr. 1999 Special visiting professor of Faculty of Law, Gakushuin University</p> <p>Apr. 2003 Visiting professor of Faculty of Law, Seikei University</p> <p>Apr. 2004 Professor of Law School, Gakushuin University</p> <p>Sep. 2013 Specially appointed professor of Research Center for Advanced Science and Technology, The University of Tokyo</p> <p>Sep. 2014 Director of our company (current)</p> <p>Apr. 2019 Visiting researcher of Research Center for Advanced Science and Technology, The University of Tokyo (current)</p>	Note 4	10,700
Director	Kenichi Miki	Born on Jul. 11, 1955	<p>Apr. 1978 Joined Daiwa Securities Co. Ltd.</p> <p>Aug. 1979 Joined Daiwa Computer Co., Ltd. (present: Daiwa Institute of Research Ltd.)</p> <p>Jun. 2002 Head of System Solutions Business Section of the company</p> <p>Apr. 2004 Executive officer, head of System Solutions Business Section, head of Telecom System Business Section, in charge of Social Insurance System Business Section, and information security manager</p> <p>Apr. 2005 In charge of tasks as an executive officer of Daiwa Securities SMBC Co., Ltd.</p> <p>Jun. 2006 Outside director of Japan Securities Depository Center, Incorporated</p> <p>Apr. 2008 In charge of tasks as a managing executive officer of Daiwa Securities SMBC Co., Ltd.</p> <p>Jan. 2010 In charge of tasks as a managing executive officer of Daiwa Securities Capital Markets Co., Ltd.</p> <p>Apr. 2010 Managing director and vice chief of the management department of Daiwa Securities Co., Ltd.</p> <p>Apr. 2011 Senior managing director of Daiwa Institute of Research Holdings Ltd. and representative director and president of DIR Information Systems Co., Ltd.</p> <p>Apr. 2015 Senior managing director of Daiwa Institute of Research Business Innovation Ltd., representative director of DIR XunHe Business Innovation (Beijing) Limited, and representative director of DIR XunHe Business Innovation (Jinan) Limited</p> <p>Apr. 2016 Adviser of Daiwa Institute of Research Business Innovation Ltd.</p> <p>Apr. 2017 Resigned as an adviser of the company</p> <p>Sep. 2017 Director of our company (current)</p>	Note 4	—

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Post	Name	Birthdate	Biography	Term	No. of shares owned
Full-time Auditor	Masaharu Shirasugi	Born on Mar. 29, 1957	<p>Oct. 1982 Joined Chogin Computer Service Co., Ltd.</p> <p>Mar. 1988 Joined our company.</p> <p>Jan. 1997 Director and head of the credit system business division of our company</p> <p>Sep. 1999 Director and vice chief of the credit system business division of our company</p> <p>Jan. 2003 Director and head of Management Dept. of our company</p> <p>Jul. 2004 Director and managing executive officer of our company</p> <p>Jul. 2007 Director, senior managing executive officer and head of Management Dept. of our company</p> <p>Apr. 2009 Director and senior managing executive officer overseeing the System Solutions Business Division and the market development division of our company</p> <p>Jul. 2010 Director and senior managing executive officer of our company Overseeing the Security Solutions Business</p> <p>Jul. 2011 Senior managing director of our company In charge of new and overseas business projects</p> <p>Jan. 2013 Senior managing director of our company In charge of new and overseas business projects, and chief of the business promotion division</p> <p>Feb. 2014 Senior managing director of our company In charge of new and overseas business projects, and the business promotion division</p> <p>Jul. 2014 Senior managing director of our company In charge of the business promotion division</p> <p>Sep. 2014 Full-time auditor of our company (current)</p>	Note 5	101,400
Auditor	Yoshinori Kato	Born on Feb. 24, 1963	<p>Apr. 1986 Joined Dai Nippon Printing Co., Ltd.</p> <p>Oct. 1999 Joined DNP CORPORATION USA.</p> <p>Apr. 2010 Subleader of Project D of the electronic publishing solution department of Dai Nippon Printing Co., Ltd.</p> <p>Oct. 2012 Vice chief of Business Development Unit of Honto Business Dept. of the company</p> <p>Mar. 2013 President of 2Dfacto, Inc.</p> <p>Apr. 2019 Chief of Business Alliance Promotion Division of Business Promotion Dept. of Dai Nippon Printing Co., Ltd. (current)</p> <p>Sep. 2020 Auditor of our company (current)</p>	Note 6	—
Auditor	Hiroshi Sato	Born on Sep. 26, 1951	<p>Apr. 1975 Joined Sumitomo Electric Industries, Ltd.</p> <p>Apr. 1997 Temporarily transferred to Netmarks Inc.</p> <p>Jul. 2000 Joined the company.</p> <p>Jun. 2001 Executive officer of the company.</p> <p>Jun. 2004 Director and executive officer of the company</p> <p>Apr. 2005 Director and managing executive officer of the company</p> <p>Apr. 2007 Director and vice president of the company</p> <p>Apr. 2010 Representative director and president of the company</p> <p>Jun. 2011 Also served as a director of Uniadex Ltd. on a part-time basis.</p> <p>Mar. 2014 Resigned from Netmarks Inc. Director and vice president of Uniadex Ltd.</p> <p>Mar. 2015 Resigned as a director and vice president of the company Adviser of the company</p> <p>Sep. 2016 Auditor of our company (current)</p> <p>Apr. 2017 Former employee of Uniadex Ltd.</p> <p>Dec. 2017 Outside auditor of Internetworking & Broadband Consulting Co., Ltd. (current)</p> <p>Jun. 2019 Outside auditor of Terilogy Co., Ltd. (current)</p>	Note 6	7,200

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Post	Name	Birthdate	Biography	Term	No. of shares owned
Auditor	Noboru Takebayashi	Born on Aug. 14, 1958	Apr. 1981 Joined ITOCHU Corporation. Aug. 1988 Temporarily transferred to NCI Systems Integration, Inc. Apr. 1996 Chief of Operational Reform Division, IT Planning Dept. of ITOCHU Corporation Jan. 2000 Temporarily transferred to Info Avenue Co., Ltd. to serve as representative director and president. Apr. 2008 Chief of IT Planning Division, IT Planning Dept. of ITOCHU Corporation Apr. 2011 Executive officer, an assistant to the head of System Solution Dept., and head of System Management Division of FamilyMart Co., Ltd. May 2012 Director, an assistant to the head of System Dept., and head of System Management Division of the company May 2013 Director, a managing executive officer, and head of System Management Division of the company Mar. 2014 Representative director and president of famima.com Co., Ltd. Mar. 2014 Director of Itochu Interactive Co., Ltd. Jun. 2015 Outside director of Excite Japan Co., Ltd. Apr. 2018 Representative director and president of DXA Co., Ltd. (current) Jul. 2018 Auditor of webrage CO., LTD. (current) Dec. 2019 Auditor of bravesoft inc (current) Sep. 2020 Auditor of our company (current)	Note 6	—
Auditor	Masayuki Horie	Born on Sep. 28, 1958	Apr. 1996 Professor of College of Commerce, Nihon University (current) Apr. 2011 Visiting Professor of Institute of Information Security (current) Jun. 2015 Outside auditor of NEC Networks & System Integration Corporation (current) Jun. 2017 Executive director of Japan Society for Systems Audits (current) Sep. 2019 Auditor-secretary of Japan Internal Control Research Association (current) Sep. 2020 Auditor of our company (current)	Note 6	—
Total					167,000

- Notes
1. The directors Akira Watanabe and Kenichi Miki are outside directors.
 2. The auditors Hiroshi Sato, Noboru Takebayashi, and Masayuki Horie are outside auditors.
 3. The directors Akira Watanabe and Kenichi Miki and the auditors Hiroshi Sato, Noboru Takebayashi, and Masayuki Horie are independent executives who will not have a conflict of interest with general shareholders whose designation are stipulated by Tokyo Stock Exchange.
 4. The term of each director is from the end of the annual meeting of shareholders for FY 6/2021 to the end of the annual meeting of shareholders for FY 6/2022.
 5. The term of each auditor is from the end of the annual meeting of shareholders for FY 6/2018 to the end of the annual meeting of shareholders for FY 6/2022.
 6. The term of each auditor is from the end of the annual meeting of shareholders for FY 6/2020 to the end of the annual meeting of shareholders for FY 6/2024.

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(Outside directors and auditors)

① Numbers of outside directors and auditors

Our company has two outside directors: Akira Watanabe and Kenichi Miki, and three outside auditors: Hiroshi Sato, Noboru Takebayashi, and Masayuki Horie.

② Functions and roles of outside directors and auditors, and their personal, capital, and transactional relationships with our company, and other interests

The functions and roles of outside directors and auditors, and their personal, capital, and transactional relationships with our company, and other interests are as follows.

• Outside directors

Akira Watanabe possesses legal expertise as a lawyer, and plenty of academic experience as he served as a specially appointed professor of Research Center for Advanced Science and Technology, The University of Tokyo, etc. Accordingly, he was selected as an outside director, because it was judged that he would be able to participate in business administration from an objective standpoint and give appropriate advice from an independent viewpoint from the management that executes business. In addition, he became a member of the Nomination and Compensation Committee in June 2021, and participates in the processes of selecting candidate directors and executive officers and determining the remuneration, etc. for directors from the objective, neutral standpoint. He was appointed as an outside director, as he is expected to contribute to the strengthening of our governance system and give appropriate advice and suggestions. In addition, he holds 10,700 shares of our company.

He made transactions with our company for legal consultation and affairs, but there are no longer such transactions.

Our company signed an advisory contract with another lawyer belonging to Akira Watanabe Law Office, but it does not fall under transactions with Akira Watanabe, and it has been concluded that this contract will not affect the judgment of shareholders and investors, while considering the scale and characteristics of transactions arising out of this contract.

Kenichi Miki possesses experience as an employer and plenty of knowledge in this field, as he served as a managing director of Daiwa Securities Co., Ltd., a senior managing director and an adviser of Daiwa Institute of Research Business Innovation Ltd., and so on. He was selected as an outside director, because it was judged that he would be able to participate in business administration from an objective standpoint and give appropriate advice from an independent viewpoint from the management that executes business. In addition, he became a member of the Nomination and Compensation Committee in June 2021, and participates in the processes of selecting candidate directors and executive officers and determining the remuneration, etc. for directors from the objective, neutral standpoint. He was appointed as an outside director, as he is expected to contribute to the strengthening of our governance system and give appropriate advice and suggestions.

Kenichi Miki was a managing director of Daiwa Securities Co., Ltd., with which our company makes transactions for development and maintenance of software, but resigned in April 2011. He was a senior managing director of Daiwa Institute of Research Holdings Ltd., but resigned in April 2015. He was a senior managing director and adviser of Daiwa Institute of Research Business Innovation Ltd., but resigned in April 2017. The scale and characteristics of such transactions are considered not to affect the judgment of shareholders or investors, so the brief description of them has been omitted.

• Outside auditors

Hiroshi Sato was selected as an outside auditor, because he is expected to enhance the auditing function based on his experience as an employer of a company in the same industry, his technical knowledge and broad insights. He holds 7,200 shares of our company.

He was a director and vice president of Uniadex Ltd., with which our company makes transactions for development and maintenance of software, procurement of hardware, etc., but resigned in March 2015. He has been also appointed as an outside auditor of Internetworking & Broadband Consulting Co., Ltd., with which our company makes transactions for sale of packaged software, but the scale and characteristics of such transactions are considered not to affect the judgment of shareholders or investors, so the brief description of them has been omitted.

Noboru Takebayashi was selected as an outside auditor, because he is expected to enhance the auditing function based on his experience as an employer, such as a director of a company in the same industry, his plentiful knowledge and broad insights regarding the IT field.

He has been also appointed as representative director and president of DXA Co., Ltd. and an auditor of webrage CO., LTD. and bravesoft inc, but he has no special interests with our company.

Masayuki Horie was selected as an outside auditor, because he is able to give appropriate advice from an objective, independent standpoint as he possesses profound knowledge of IT-based internal control and audit in business administration as a professor, and has experience as an outside auditor in other companies. He was appointed as a professor of College of Commerce, Nihon University, but he has no special interests with our company.

③ Designation of independent executives and criteria for independence

The outside directors Akira Watanabe and Kenichi Miki and the outside auditors Hiroshi Sato, Noboru Takebayashi, and Masayuki Horie were designated as independent executives, because they satisfy the “criteria for independence” specified by Tokyo Stock Exchange in “Guidelines regarding the management of listing, etc.” and the “criteria for independence of outside directors and auditors” specified by our company. The criteria for judgment we specified are as follows.

“Criteria for independence of outside directors and auditors”

Our company judges that outside directors and outside auditors will have autonomy, when they do not fall under any of the following items.

1. An individual, or an executive director of a company with our company as a major business partner (Note 1)

A major business partner receives more than 5% of their annual consolidated sales from transactions with our company during

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one of the 3 most recent fiscal years (Note 2).

2. A major business partner or an executive director thereof of our company (Note 1)

A major business partner receives more than 5% of their annual consolidated sales from transactions with our company during one of the 3 most recent fiscal years (Note 2).

3. A consultant, an accounting expert or a legal expert receiving large sums of money or other assets from our company outside of executive compensation

Large sums of money or other assets is defined as anything with a monetary value greater than 10 million yen per year.

4. An individual who fell under any of the above items 1. to 3. anytime in the past 3 fiscal years (Note 2)

5. An individual who fell under any of the following items ① to ③ in the 10 years before appointment:

① Executive officers or non-executive directors of the parent company of our company

② Auditors of the parent company of our company (only when outside auditors are designated as independent executives)

③ Executive officers of our fellow subsidiaries

6. An individual within the second degree of kinship to an individual who falls under any of the following items ① to ④

① An individual who falls under any of the above items 1. to 5.

② An executive director of a subsidiary of our company (Note 1)

③ A director of a subsidiary of our company who is not an executive director (For cases when outside auditors are nominated as independent executives)

④ An executive director of our company (Note 1), or an individual who falls under the above item ① or ② in the past 3 fiscal years (Note 2)

7. A major shareholder of our company or an executive director thereof (Note 1)

A major shareholder is defined as anyone who directly or indirectly owns more than 10% of our company's voting rights.

(Note 1) An executive director is defined as anyone who meets the standards set in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.

(Note 2) The starting point for calculation will be the point when a proposal for appointment submitted to the Shareholders' General Meeting is adopted.

Our company and directors (excluding executive directors) and auditors have concluded contracts for liability limitation for limiting the liability for damages mentioned in Article 423, Paragraph 1 of the Companies Act, in accordance with Article 427, Paragraph of the Companies Act.

The limit of liability for damages set forth in said contracts is the amount specified by law for both directors and auditors.

④ Interconnection among outside directors' or outside auditors' supervision or audit, internal audit, auditors' audit, and accounting audit, and relations with the internal control division

Outside directors have discussions with auditors at meetings of the Board of Directors, and receive reports on the details and results from auditors each time auditors implement audits and have an interview with accounting auditors, obtaining helpful information for exerting their supervision function as outside directors.

In addition, outside auditors attend the interviews with the audit section, which is in charge of internal audit as part of auditors' audit, to exchange opinions and give advice. For interconnection with accounting auditors, opinions are exchanged at meetings, etc. for reporting audit results for quarterly and term-end financial results.

Furthermore, outside directors and outside auditor receive reports on the results of evaluation of effectiveness of internal control related to financial reporting conducted by the internal control committee at meetings of the Board of Directors. As for the situation of development and operation of the internal control system, they receive explanations when necessary from the business administration department, etc., which are in charge of business operation.

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(3) Audit Status

① Status of Auditors' Audit

Our company has 5 auditors (including 3 outside auditors) and there is one full-time auditor. Based on the audit standards, auditing policies and auditing plans formulated by the Board of Auditors, each auditor will attend important meetings such as Board of Directors' meetings, managements meetings, etc., audit the decision making and management procedures of the Board of Directors, and audit the state of business execution of each department as well as the state of business execution of directors through periodic interviews with each director, including the representative director, as well as senior manager of each department, along with auditing reports from the Internal Auditing Department. Further, auditors will carry out financial audits by auditing the legality of the financial report system, accounting, financial statements etc., along with receiving periodic reports from accounting auditors.

In order to make sure auditors can perform their tasks smoothly, auditing members (1 member holding a concurrent post) will support the auditors in the execution of their tasks.

Among our auditors for FY 6/2021, the full-time auditor Masaharu Shirasugi has worked in the development department since entering our company, and after assuming the post of director, engaged in overseeing the management department, new and overseas business projects, the business promotion office, etc., gaining abundant knowledge and management experience within our company. The auditor Yoshinori Kato has practical experience and diverse qualifications at Dai Nippon Printing Co., Ltd., experience as a president at other companies, and also knowledge of management. Hiroshi Sato, an outside auditor, has served as president of NETMARKS INC., vice president of Uniadex Inc., etc., and has a wealth of knowledge and experience within this company's industry, as well as a wide range of insights and general management knowledge. The outside auditor Noboru Takebayashi has the experience of serving as managers, including the representative director and president (incumbent) of DXA Co., Ltd. and directors of other companies, and possesses plenty of profound and broad knowledge and experience in the IT industry. The outside auditor Masayuki Horie possesses profound knowledge of IT-based internal control and audit in business administration as a professor of Nihon University College of Commerce, and plenty of experience, such as serving as director of Japan Auditing Association.

In FY 6/2021, a Board of Auditors' meeting was held once or more every month, and the attendance status of each auditor is as follows.

Name	Number of times held	Number of times of attendance
Masaharu Shirasugi	18	18
Yoshinori Kato	14	14
Hiroshi Sato	18	18
Noboru Takebayashi	14	14
Masayuki Horie	14	14

The Board of Auditors' meetings involved confirmations on the auditing policy, auditing plans, documents for approval, financial audits, decisions on the approval for compensation for accounting auditors and reappointment, and discussions related to the resolutions on creating audit reports, along with an exchange of opinions on the rationality of management decisions, the state of progress for large-scale development projects and risk management. Further, the Board of Auditors holds periodic interviews with directors and the senior management of each department, and 43 such interviews were held in FY 6/2021. In addition, as part of the diversification of workstyles, the Board of Auditors is actively taking initiatives towards the utilization of online meetings.

The activities of full-time auditors include the attending of important meetings, browsing of important documents, coordination with the Internal Audit Department, gathering of company information, along with daily confirmation of the state of management and risk management.

② Status of Internal Audit

An Audit Department in charge of internal audits was established as an exclusive organization under direct control of the representative director and president, and as of the day this report was submitted, the department has 2 full-time members.

In accordance with the "Internal Audit Regulations," the Audit Department holds individual interviews after clarifying its audit policies and important auditing matters by formulating an internal audit plan, completes auditing procedures through the inspection of documents and analysis on transition in numerical documents, and reports and notifies the president, auditors and the audited department of the results of the audit every time it performs an internal audit. If a potential for improvement is detected in any part of the internal auditing process, corrective measures are implemented and the results of the corrections are properly confirmed, guaranteeing the appropriateness of the tasks.

In FY 6/2021, the important auditing matters for this term were established, an internal audit plan was formulated based on these matters and their auditing was commenced after obtaining the approval from the president at the start of the term. An operational audit of each department, a financial audit of the accounting department and an audit and follow-up related to protection of personal information were carried out. An interview was held with each audited department through a prior written survey and inspection of relevant documents, which was focused on understanding the problems faced by each audited subject while preserving the quality of auditing. The results of the audit were summarized in audit work papers and audit reports, and the defects, issues and matters being addressed are classified into matters with potential for improvement, matters under observation and matters under consideration, the expected date of completion is clearly defined, and their state of progress is continuously verified as a follow-up.

The president is reported every time an audit is conducted through an internal audit report. The Board of Auditors and audited

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departments are also notified of the contents of the report. Further, the Audit Department holds regular monthly briefings with the president, with 12 such briefings having been held this term. These briefings include reports on the schedule and state of progress of the audits, explanation of the results of the audit as well as reports on the results of the monitoring independently performed by the Audit Department based on monthly financial results.

The Audit Department facilitates periodic exchange of opinions with auditors and accounting auditors and debates on the internal audit plan, contents of the internal audits, state of improvement on matters for correction and future internal audit policies, which improve the effectiveness of the internal audits.

Further, the chief auditor, as the reviewer of the internal control reporting system related to financial reports, checks the state of adherence to laws and company regulations, state of risk management and the state of the financial report system and the maintenance and operation of important task processes through the evaluation of the internal controls. By auditing and supervising tasks through both the internal audit and internal control review, our company is making an effort to enhance and optimize audits.

Three interactive dialogues were held with the Board of Auditors in FY 6/2021, where debates with full-time auditors and outside auditors were held on the state of internal auditing, explanation on matters with the potential for improvement and improvement in the quality of internal audits. Further, the exchange of opinions took place from time to time with an accounting auditor during auditor visits to the internal controls related to financial reports. Through such coordination between auditors and accounting auditors, our company took initiatives to improve the efficiency of internal audits and enhance and optimize the contents of the audit.

③ Status of Accounting Audit

The name of the certified public accountants who executed the accounting audit of our company, the audit corporation to which they belong, and the composition of the assistants engaged in the audit work are as follows:

a. Name of the audit corporation

BDO Sanyu & Co.

b. Continuous auditing period

16 years

c. Certified public accountants responsible for financial auditing

Nobuhito Iwata
Michiaki Inoue

d. Composition of assistants involved in audit work

The assistants for our company's financial auditing are comprised of 3 certified public accountants, 3 successful applicants of the Certified Public Accountant Examination and 2 other members.

e. Policy and reasons for the selection of the audit corporation

The Board of Auditors seeks to understand and evaluate the implementation status of duties throughout the audit process and in the audit reports of the auditing corporation. The Board of Auditors also selects the auditing corporation. The Board of Auditors judged that BDO Sanyu & Co. is adequate, considering its independence, expertise, system for conducting and managing auditing tasks, audit fees, etc.

The Board of Auditors also comprehensively considers the performance of duties by accounting auditors, and if it finds that the appropriateness and reliability of the audit cannot be ensured, the Board will determine the details of a proposal for the dismissal or non-reappointment of the accounting auditors, which is to be submitted to the general meeting of shareholders.

In addition, the Board of Auditors will, based on the consent of all members of the Board, dismiss a accounting auditor if he/she is deemed to fall under any of the items stipulated in Article 340, Paragraph 1 of the Companies Act. In this case, Board members selected by the Board of Auditors will report the fact that the accounting auditor has been dismissed and the reasons for it at the first general meeting of shareholders convened after the dismissal.

f. Evaluation of the auditing corporation by auditors and the Board of Auditors

Our auditors and the Board of Auditors evaluate audit corporations as follows:

① While monitoring and checking whether the audit corporation maintains an independent position and conducts appropriate audits, the Board receives the audit corporation's reports on the status of execution of its duties and requests explanations when necessary. The Board also interviews related departments of our company about the status of the auditing corporation's performance.

② The Board is notified by the auditing corporation of the establishment of a "System to Ensure that Duties are Performed Properly" in accordance with "Quality Control Standards for Audits," and receives further explanations when necessary.

As a result of deliberation by the Board of Auditors following this evaluation method, we have determined that the audit corporation is qualified.

④ Details of audit fees, etc.

a. Compensation for certified public accountants, etc.

Previous Fiscal Year		Current Fiscal Year	
Compensation based on audit certification work (thousand yen)	Compensation based on non-audit work (Thousand yen)	Compensation based on audit certification work (thousand yen)	Compensation based on non-audit work (Thousand yen)

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23,500	—	24,000	—

b. Compensation for organizations belonging to the same network as certified public accountants, etc. (excluding a.)
(Previous fiscal year)

None.

(Current fiscal year)

None.

c. Compensation based on other important audit certification work

(Previous fiscal year)

None.

(Current fiscal year)

None.

d. Audit fee determination policy

Our company's policy for determining audit remuneration is to comprehensively consider the planned audit days, the amount calculated based on the scope of accounting, and the actual amount of remuneration so far.

e. Reason for the Board of Auditors' consent to compensation for accounting auditors

The Board of Auditors estimates the contents, method and compensation of the audit plan for the current fiscal year submitted by accounting auditors based on the "Practical Guidelines for Cooperation with Accounting Auditors" as published by the Japan Auditors Association. As a result of examining the basis for calculating the above and the scrutinizing status of execution of duties by accounting auditors in the previous fiscal year, it was determined that the amount of compensation was appropriate.

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(4) Remuneration for executives, etc.

(Remuneration for executives, etc.)

A. Total amount of remuneration for each category of executives of the company, and the total amount of remuneration by type, and the number of executives receiving remuneration

Classification of executives		Total amount of compensation, etc. (Thousand yen)	Number of executives receiving remuneration	Total amount of compensation by type (thousand yen)			
				Fixed compensation	Performance-linked compensation	Retirement benefits	Stock-based compensation
Directors	Outside Directors	11,225	2	11,225	—	—	—
	Directors other than above	97,818	8	50,508	43,362	3,682	795
	Total	109,044	10	61,734	43,362	3,682	795
Auditors	Outside Auditors	15,150	5	14,400	—	750	—
	Auditors other than above	8,945	1	8,400	—	545	—
	Total	24,095	6	22,800	—	1,295	—

Notes

1. Performance-linked compensation (bonuses) are the provisions for executives' bonuses for the current fiscal year (July 2020 to June 2021).

2. Retirement allowance is the amount of provision for retirement allowance for executives in the current fiscal year.

3. As of the end of FY 6/2021, the number of directors was 6 (including two outside directors) and the number of auditors was 5 (including three outside auditors). The reason why these numbers are different from the numbers of directors and auditors receiving remuneration tabulated above is that the above table includes the 4 directors who retired and the 2 outside auditors who resigned at the end of the annual meeting of shareholders held on September 25, 2020 and there are 2 auditors working without pay.

4. In addition to the above-mentioned compensation, we paid the following retirement benefits for executives to the directors and auditors who retired at the end of the annual meeting of shareholders held on September 25, 2020, in accordance with the resolution at said meeting.

- 4 retired directors: 9 million yen
- 2 retired outside auditors: 2 million yen

(The paid amount includes 9 million yen for 4 directors and 2 million yen for 2 auditors as the provision for retirement benefits for executives included in the total amount of remuneration, etc. for directors and auditors and the total amount of remuneration, etc. for executives in the past fiscal years.)

B. Total amount of remuneration, etc. for each executive of the company

Not listed because no one has a total amount of remuneration of 100 million yen or more.

C. Contents of the policies for determining the amount of remuneration for executives or the method for calculating it, and how to set such policies

1. The way of thinking regarding compensation.

(1) Compensation for directors and auditors shall be within the range of remuneration approved at the Shareholders' General Meeting. Remuneration for directors is determined by a resolution of the Board of Directors, and remuneration for auditors is determined by consultation with auditors. The maximum amount of remuneration for directors is 300 million yen as per a resolution of the 23rd Shareholders' General Meeting held on September 27, 2006 (however, the salary for employees is not included). The number of directors after the resolution at said general meeting of shareholders is 5. In addition, at the 34th annual meeting of shareholders held on September 27, 2017, we resolved to specify that the remuneration for offering transfer-restricted shares to 7 directors, excluding outside directors and part-time directors, shall be up to 10,000 thousand yen per year.

At the 32nd annual meeting of shareholders held on September 29, 2015, we resolved to specify that the remuneration for auditors shall be up to 50 million yen per year. The number of auditors after the resolution at said general meeting of shareholders is 5 (including 3 outside auditors).

(2) Policy for determining the details of remuneration for each full-time director, etc.

a. Method for determining said policy

Regarding the policy for determining the details of remuneration for each full-time director, the nomination and remuneration committee, which is an advisory body for the board of directors, chaired by an independent outside director, and composed of mainly independent outside directors, deliberates the appropriateness of the remuneration level, etc., and submits a proposal to the board of directors, and then the board of directors makes a decision.

b. Outline of said policy

The remuneration, etc. for full-time directors are composed of specified monthly remuneration, performance-based bonuses, retirement benefits, and stock-based compensation.

The amount of monthly remuneration is determined with reference to the table of basic remuneration set for each post.

Regarding performance-based bonuses, we use a remuneration system in which a bonus is calculated from operating income and a coefficient specified for each post, to clearly reflect the performance in each fiscal year. So that the performance-based part accounts for about 30%, we decreased the fixed monthly remuneration and increased the coefficient for performance-based remuneration in the term ended June 2021. The target operating income for FY

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6/2021 was 1,150 million yen, and the result was 1,130 million yen.

The amount of retirement benefits is calculated by adding up the points for each post, the points for qualifications, and the points for the length of service, which are given each year, and multiplying the sum by the unit compensation. Regarding stock-based compensation, it was resolved, at the 34th annual meeting of shareholders held on September 27, 2017, that the remuneration for giving transfer-restricted shares to directors, excluding outside and part-time directors, shall be up to 10,000 thousand yen per year. At the meeting of the board of directors held on the same day, we decided to adopt a system for transfer-restricted stock-based compensation, in which the annual amount shall be up to 10,000 thousand yen per year, the number of shares shall be up to 20,000 per year, and the transfer restriction period is 3 years. The transfer restriction period from October 27, 2017 to October 27, 2020 has expired.

(3) Remuneration, etc. for outside directors

The remuneration for outside directors, who are independent of business execution, is composed of fixed monthly pay and retirement benefits, and does not include performance-based compensation or stock-based compensation. The monthly pay is specified for each outside director. In FY 6/2021, the board of directors resolved to delegate the authority to determine the details of remuneration for outside directors to the representative director and president Kunimitsu Sato, to secure fairness and transparency as outside directors have a stake, and he determined said details in accordance with our corporate policy for determining remuneration. The amount of retirement benefits is calculated by adding up the points for each post, the points for qualifications, and the points for the length of service, which are given each year, and multiplying the sum by the unit compensation.

(4) Remuneration, etc. for auditors

The remuneration for auditors is determined through the discussion by auditors. The remuneration for auditors, who are independent of business execution, is composed of fixed monthly pay and retirement benefits, and does not include performance-based compensation or stock-based compensation. The amount of retirement benefits is calculated by adding up the points for each post, the points for qualifications, and the points for the length of service, which are given each year, and multiplying the sum by the unit compensation.

2. Method for calculating monthly compensation

The fixed monthly remuneration for full-time directors is determined by calculating the amount using the standard remuneration table set for each position in accordance with internal regulations, and taking into consideration factors such as the duties and responsibilities attendant on that position. The fixed monthly remuneration for auditors will be discussed and determined by the Board of Auditors, taking into consideration whether or not the auditor is a full-time auditor.

3. Method for calculating performance-linked bonuses

Regarding performance-linked bonuses, in order to clearly reflect the performance in each fiscal year, we use a bonus system that uses operating income as an index and calculates a bonus using a coefficient based on the individual's position.

4. Regarding Stock Compensation

As for stock compensation, at the 34th Shareholders' General Meeting held on September 27, 2017, we adopted a restricted stock compensation plan while specifying that the annual amount is up to 10,000 thousand yen, the number of shares is up to 20,000 shares per year, and the transfer restriction period is 3 years, with the aim of sharing value with shareholders by promoting directors, excluding outside and non-executive ones, to hold the shares of our company.

5. Establishment of Nomination and Compensation Committee and Review of Compensation System

In FY 6/2020, the Board of Directors established a Nomination and Compensation Committee as an advisory body to further strengthen the independence, objectivity and accountability of the functions of the Board of Directors regarding the nomination and remuneration of directors. The Nomination and Compensation Committee, whose members' majority is composed of outside executives, deliberates on agenda items related to nominations and remuneration consulted about by directors, gathers opinions, and reports to the Board of Directors.

In FY 6/2021, the meeting of the nomination and remuneration committee is held 5 times, to discuss mainly our corporate policy for responding to the revision to the corporate governance code, the selection of candidate directors and executive officers, and the revision to the system for remuneration for full-time directors. As a result of the exchange of opinions, the Nomination and Compensation Committee has submitted to the Board of Directors a plan to increase the ratio of the performance-linked portion of compensation from 21% to 30% by reducing the monthly fixed compensation and increasing performance-linked compensation through a revision of the bonus calculation method, from FY 6/2021.

At the regular meeting held on June 23, 2021, the board of directors resolved to revise the regulations for the nomination and remuneration committee so that it is chaired by an independent outside director and independent outside directors constitute a majority of members, for the purpose of strengthening the independence of said committee, and then resolved to appoint the independent outside director Kenichi Miki, the independent outside director Akira Watanabe, and the representative director and president Kunimitsu Sato as members of said committee. In addition, said committee appointed the independent outside director Kenichi Miki as chairperson of said committee at the meeting held on the same day.

(5) Shareholding status

① Criteria and concept of classification of investment stocks

Our company classifies shares we started holding for the purpose of expanding our business or strengthening relationships as investment shares other than those exclusively for investment. Other shares are classified as shares exclusively for investment.

② Investment shares whose holding purpose is other than investment

a. Details of examination by the Board of Directors regarding the holding policy, the method of examining the rationality of shareholding, and the suitability of holding individual stocks

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With regard to the shares held, we evaluate the management situation of the issuing company quarterly, evaluate its future potential and relevance to our business, and comprehensively examine the medium- to long-term economic rationality of the shareholding. We strive to examine the risks and returns of shareholding as concretely as possible using indicators such as the cost of capital. For shares that are not conditioned on continued holding, we will individually discuss the timing, price and method of sale.

b. Number of stocks and the amount recorded on the balance sheet

	Number of Stocks	Total amount posted in the balance sheet (thousand yen)
Unlisted stocks	4	10,089
Stocks other than unlisted stocks	2	1,058,750

(Stocks whose number of shares increased in the current fiscal year)

	Number of Stocks	Total acquisition price for the increased number of shares (thousand yen)	Reasons for the increase in the number of shares
Unlisted stocks	—	—	—
Stocks other than unlisted stocks	1	2,269	We continue to hold shares for the purpose of expanding our business and strengthening our business relationships. Our company is a member of the JACCS Kyoekai, a shareholding association, and continuously purchases a certain amount of shares in accordance with the terms and conditions. All of the shares held are acquired through this shareholding association.

(Stocks whose number of shares decreased in the current fiscal year)

	Number of Stocks	Total selling price for a decrease in the number of shares (thousand yen)
Unlisted stock	—	—
Stocks other than unlisted stocks	—	—

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c. Information on the number of shares of respective specified investment stocks and deemed stocks held, the amount recorded on the balance sheet, etc.

Specified investment stocks

Stock	Current fiscal year	Previous fiscal year	Purpose of shareholding, quantitative effect of shareholding, and the reason for the increase in the number of shares	With or without holding of our company's shares
	Number of shares	Number of shares		
	Balance sheet amount (Thousand yen)	Balance sheet amount (Thousand yen)		
Saison Information Systems Co., Ltd.	500,000	500,000	We continue to hold the shares for the purpose of expanding our business. As mentioned above, we examine the continuation of holding. Also, we believe that the continuation of holding is rational, based on the dividend yield and unrealized gains. In addition, judging from the performance of the issuing company and market conditions, the market price seems to be below a reasonable price level, and the liquidity in the market is extremely low, so we are not in a hurry to sell.	Without
	1,038,000	1,035,500		
JACCS Co., Ltd.	7,981	6,871	We continue to hold the shares for the purpose of expanding our business and strengthening the business relationship. We believe that the shareholding is rational in consideration of the background of the start of shareholding and the current business relationship. Our company is a member of the JACCS Kyoeikai, a shareholding association, and continuously purchases a certain amount of shares in accordance with set terms and conditions. All of the shares held are acquired through this shareholding association.	Without
	20,750	12,059		

Deemed shares held

Such shares are currently not in our holdings

- ③ Investment stocks whose holding purpose is investment only
Such shares are currently not in our holdings

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V Status of Accounting

1. Preparation of Financial Statements

Our financial statements are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ministry of Finance Order No. 59 of 1963).

2. Audit Certification

Our financial statements for the business term starting on July 1, 2020 and ending on June 30, 2021 have been audited by BDO Sanyu & Co. in accordance with Article 193-2 (1) of the Financial Instruments and Exchange Act.

3. Consolidated Financial Statements

Our company does not prepare consolidated financial statements because we have no subsidiaries.

4. Particular Efforts to Ensure Appropriateness of Financial Statements

Our company puts forth particular efforts to ensure the appropriateness of our financial statements and other related documents. Specifically, we strive to acquire information by joining Japan’s Financial Accounting Standards Foundation (FASF) and attend seminars held by other organizations than our company in order to properly understand accounting principles and other related standards and develop a framework for fairly preparing such documents as financial statements.

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1. Financial Statements, etc.

(1) Financial statements

① Balance sheet

(unit: thousand yen)

	The previous fiscal year (June 30, 2020)	Current fiscal year (June 30, 2021)
Assets		
Current assets		
Cash and deposits	3,641,864	4,307,699
Accounts receivable - trade	1,720,318	1,698,475
Merchandise and finished goods	26,675	9,871
Work in process	381,557	355,789
Raw materials and supplies	5,249	5,517
Advance payments - trade	381,282	368,425
Prepaid expenses	219,460	227,033
Other	4,830	2,950
Total current assets	6,381,239	6,975,762
Non-current assets		
Property, plant and equipment		
Buildings	402,210	425,259
Accumulated depreciation	(199,537)	(211,347)
Buildings, net	202,672	213,912
Structures	16,479	16,479
Accumulated depreciation	(15,457)	(15,653)
Structures, net	1,022	825
Tools, furniture and fixtures	580,943	866,604
Accumulated depreciation	(367,320)	(447,306)
Tools, furniture and fixtures, net	213,623	419,297
Leased assets	154,235	159,724
Accumulated depreciation	(117,976)	(145,150)
Leased assets, net	36,259	14,573
Land	84,394	84,394
Total property, plant and equipment	537,972	733,004
Intangible assets		
Software	1,262,416	1,124,857
Software in progress	199,089	189,015
Telephone subscription right	3,806	3,806
Total intangible assets	1,465,312	1,317,679
Investments and other assets		
Investment securities	1,359,193	1,369,810
Shares of subsidiaries and associates	24,680	24,680
Long-term loans to employees	—	1,135
Long-term prepaid expenses	144,252	72,837
Deferred tax assets	248,771	255,097
Other	390,589	390,127
Total investments and other assets	2,167,487	2,113,688
Total non-current assets	4,170,771	4,164,372
Total assets	10,552,011	11,140,135

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(unit: thousand yen)

	Previous fiscal year (June 30, 2020)	Current fiscal year (June 30 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	627,020	430,770
Lease obligations	29,280	9,787
Accounts payable - other	92,836	175,407
Accrued expenses	157,946	170,814
Income taxes payable	61,971	243,271
Advances received	1,381,890	1,233,216
Deposits received	110,191	117,019
Provision for bonuses	295,182	348,470
Provision for directors' bonuses	42,682	43,362
Other	151,626	139,427
Total current liabilities	2,950,627	2,911,547
Non-current liabilities		
Lease obligations	10,010	6,058
Provision for retirement benefits	490,430	544,834
Provision for directors' retirement benefits	30,052	22,550
Asset retirement obligations	87,421	87,487
Total non-current liabilities	617,914	660,930
Total liabilities	3,568,542	3,572,478
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus		
Legal capital surplus	559,622	559,622
Other capital surplus	13,477	13,477
Total other capital surplus	573,099	573,099
Retained earnings		
Legal retained earnings	18,000	18,000
Other retained earnings		
General reserve	2,600,000	2,600,000
Retained earnings brought forward	2,425,372	3,003,359
Total other retained earnings	5,043,372	5,621,359
Treasury shares	(26,712)	(26,712)
Total shareholders' equity	6,433,508	7,011,496
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	549,960	556,160
Total valuation and translation adjustments	549,960	556,160
Total net assets	6,983,469	7,567,656
Total liabilities and net assets	10,552,011	11,140,135

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②Statement of income

(unit: thousand yen)

	Previous fiscal year (From July 1, 2019 to June 30 2020)	Current fiscal year (From July 1, 2020 to June 30 2021)
Net sales		
Net sales of finished goods	8,529,159	8,377,550
Net sales of goods	2,391,689	2,810,129
Total net sales	10,920,848	11,187,679
Cost of sales		
Cost of products manufactured	※2 6,285,862	※2 6,187,694
Cost of finished goods sold	6,285,862	6,187,694
Beginning inventory	13,119	26,675
Cost of purchased goods	1,667,931	1,826,554
Total	1,681,051	1,853,230
Ending inventory	26,675	9,871
Cost of goods sold	1,654,375	1,843,359
Total cost of sales	7,940,237	8,031,053
Gross profit	2,980,611	3,156,625
Selling, general and administrative expenses	※1、2 1,944,275	※1、2 2,026,122
Operating income	1,036,335	1,130,503
Non-operating income		
Interest income	55	31
Interest on securities	596	661
Dividend income	44,926	45,219
Insurance income	28,028	—
Other	3,396	5,437
Total non-operating income	77,004	51,349
Non-operating expenses		
Interest expenses	93	26
Commitment fee	3,743	4,689
Foreign exchange losses	—	1,610
Compensation expenses	33,679	3,613
Other	996	678
Total non-operating expenses	38,512	10,618
Ordinary income	1,074,827	1,171,233
Extraordinary income		
Total extraordinary income	—	—
Extraordinary losses		
Loss on retirement of fixed assets	—	※3 4,713
Total extraordinary losses	—	4,713
Income before income taxes	1,074,827	1,166,520
Income taxes - current	264,553	334,611
Income taxes - deferred	48,220	(9,062)
Total income taxes	312,774	325,549
Net income	762,053	840,970

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Statement of manufacturing cost

Division	Notes No.	Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
		Amount (1000 yen)	Composition Ratio (%)	Amount (1000 yen)	Composition Ratio (%)
I Cost of materials		43,312	0.6	28,423	0.4
II Labor expenses		2,729,297	41.1	2,893,205	43.5
III Sundry expenses		1,305,656	19.7	1,485,020	22.3
IV Subcontract processing cost		2,558,899	38.6	2,249,709	33.8
Gross manufacturing cost for the period		6,637,166	100.0	6,656,359	100.0
Beginning work in progress inventories		626,309		381,557	
Total		7,263,475		7,037,916	
Ending work in process inventories		381,557		355,789	
Transfer to other account	*1	596,056		494,432	
Cost of products manufactured		6,285,862		6,187,694	

(Note)

Previous fiscal year (From July 1, 2019 to June 30, 2020)		Current fiscal year (From July 1, 2020 to June 30, 2021)	
*1 Breakdown of other transfer to other account is as follows.		*1 Breakdown of other transfer to other account is as follows.	
Research and development expenses	31,809 thousand yen	Research and development expenses	80,461 thousand yen
Software in progress	564,246 thousand yen	Software in progress	360,138 thousand yen

(Cost calculation method)

Our company's cost calculation is individually calculated.

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③ Statement of changes in equity

Previous fiscal year (From July 1, 2019 to June 30, 2020)

(unit: thousand yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surpluses		Other retained earnings		Total other retained earnings	Treasury shares
					General reserve	Retained earnings brought forward			
Balance at beginning of the current period	843,750	559,622	1,564	561,186	18,000	2,600,000	1,900,091	4,518,091	(14,955)
Changes of items during period									
Dividends of surplus							(236,772)	(236,772)	
Net income							762,053	762,053	
Purchase of treasury shares									(136,125)
Disposal of treasury shares			11,912	11,912					124,368
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	11,912	11,912	-	-	525,280	525,280	(11,757)
Balance at the end of the current period	843,750	559,622	13,477	573,099	18,000	2,600,000	2,425,372	5,043,372	(26,712)

	Shareholders' equity	Valuation and translation adjustments		Total net assets
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of the current period	5,908,072	464,442	464,442	6,372,515
Changes of items during period				
Dividends of surplus	(236,772)			(236,772)
Net income	762,053			762,053
Purchase of treasury shares	(136,125)			(136,125)
Disposal of treasury shares	136,281			136,281
Net changes of items other than shareholders' equity		85,517	85,517	85,517
Total changes of items during period	525,436	85,517	85,517	610,953
Balance at the end of the current period	6,433,508	549,960	549,960	6,983,469

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Current fiscal year (From July 1, 2020 to June 30, 2021)

(unit: thousand yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surpluses		Other retained earnings		Total other retained earnings	Treasury shares
				General reserve	Retained earnings brought forward				
Balance at beginning of the current period	843,750	559,622	13,477	573,099	18,000	2,600,000	2,425,372	5,043,372	(26,712)
Changes of items during period									
Dividends of surplus							(262,983)	(262,983)	
Net income							840,970	840,970	
Purchase of treasury shares									
Disposal of treasury shares									
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	-	-	577,987	577,987	-
Balance at the end of the current period	843,750	559,622	13,477	573,099	18,000	2,600,000	3,003,359	5,621,359	(26,712)

	Shareholders' equity	Valuation and translation adjustments		Total net assets
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of the current period	6,433,508	549,960	549,960	6,983,469
Changes of items during period				
Dividends of surplus	(262,983)			(262,983)
Net income	840,970			840,970
Purchase of treasury shares				-
Disposal of treasury shares				-
Net changes of items other than shareholders' equity		6,199	6,199	6,199
Total changes of items during period	577,987	6,199	6,199	584,187
Balance at the end of the current period	7,011,496	556,160	556,160	7,567,656

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④Statement of cash flows

(unit: thousand yen)

	Previous fiscal year (From July 1, 2019 to June 30, 2020)	Current fiscal year (From July 1, 2020 to June 30, 2021)
Cash flows from operating activities		
Income before income taxes	1,074,827	1,166,520
Depreciation	605,658	751,229
Share-based compensation expenses	66,763	62,701
Increase (decrease) in provision for bonuses	16,644	53,288
Increase (decrease) in provision for directors' bonuses	2,506	679
Increase (decrease) in provision for retirement benefits	39,257	54,403
Increase (decrease) in provision for retirement benefits and directors' retirement benefits	6,167	(7,502)
Insurance income	(28,028)	—
Interest and dividend income	(45,579)	(45,911)
Interest expenses	93	26
Compensation expenses	33,679	3,613
Commitment fee	3,743	4,689
Loss on retirement of fixed assets	—	4,713
Decrease (increase) in notes and accounts receivable - trade	(311,178)	(126,829)
Decrease (increase) in inventories	227,409	42,304
Increase (decrease) in notes and accounts payable - trade	406,189	(182,910)
Other	(34,519)	67,820
Subtotal	2,063,635	1,848,836
Interest and dividend income received	45,641	45,911
Interest expenses paid	(93)	(26)
Commitment fee paid	(3,742)	(4,686)
Proceeds from insurance income	28,028	—
Compensation expenses paid	(33,679)	(3,613)
Income taxes paid	(552,724)	(186,151)
Cash flows from operating activities	1,547,066	1,700,270
Cash flows from investing activities		
Purchase of property, plant and equipment	(181,455)	(269,322)
Purchase of intangible assets	(579,751)	(469,647)
Purchase of investment securities	(1,664)	(2,269)
Expenditure for receivables	—	(2,909)
Collection of loans receivable	568	709
Other	9,732	461
Cash flows from investing activities	(752,569)	(742,978)
Cash flows from financing activities		
Purchase of treasury shares	(136,125)	—
Cash dividends paid	(236,384)	(262,641)
Repayments of lease obligations	(35,024)	(29,481)
Cash flows from financing activities	(407,534)	(292,123)
Effect of exchange rate change on cash and cash equivalents	(11)	666
Net increase (decrease) in cash and cash equivalents	386,950	665,835
Cash and cash equivalents at beginning of period	3,254,913	3,641,864
Cash and cash equivalents at the end of period	※1 3,641,864	※1 4,307,699

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Notes on Financial Statements
(Significant accounting policies)

1. Basis and method for valuation of assets

(1) Basis and method for valuation of securities

Shares of subsidiaries and associates

Valuated on a cost basis by the moving-average method

Held-to-maturity debt securities

Valuated at amortized cost (straight-line method)

Other securities

Available-for-sale securities with market value

Valuated at market value based on the market price as of the balance sheet date (unrealized gains or losses are reported as a component of shareholders' equity, and cost of selling the securities is determined using the moving-average method)

Available-for-sale securities without market value

Valuated on a cost basis by the moving-average method

(2) Basis and method for valuation of inventories

Merchandise, work in process, and supplies

Valuated at cost determined using the specific identification method (or the method of writing down the book value based on declines in profitability for the amounts on the balance sheet)

2. Methods for depreciation of non-current assets

(1) Property, plant and equipment (excluding leased assets)

Declining balance method

The straight-line method, however, is used for the buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) and the facilities attached to buildings and structures acquired on or after April 1, 2016.

The major service lives of items, such as buildings and structures, are as follows:

Buildings 8 – 50 years

Structures 10 – 20 years

Tools, furniture and fixtures 4 – 15 years

(2) Intangible assets (excluding leased assets)

Straight-line method

Software for internal use is amortized using the straight-line method based on its estimated useful life in our company (5 years).

Software for sale is stated at the amortization amount based on its estimated sales income or the amortization amount by the straight-line method based on its remaining useful life (3 years), whichever is greater.

(3) Leased assets

The straight-line method is adopted with the lease period deemed to be the useful life and the residual value to be zero.

3. Standards for recording reserves

(1) Allowance for doubtful accounts

In order to cover possible losses due to uncollectible receivables, allowance for doubtful accounts is provided including an amount expected to be uncollectible based on the historical rate of losses from uncollectible receivables for general accounts receivable and by taking into account the collectability of individual debts for such specific debts as doubtful accounts receivable.

(2) Provision for product warranties

Estimated losses are recorded in order to provide for expenses associated with product warranties.

(3) Provision for bonuses

Provision for bonuses is provided at an amount expected to be paid to the employees in the current fiscal year.

(4) Provision for executives' bonuses

Provision for executives' bonuses is recorded based on an amount expected to be paid to the executives in the current fiscal year.

(5) Provision for retirement benefits

Provision for retirement benefits is recorded based on the defined benefit obligation at the end of the current fiscal year in order to provide for retirement benefits expected to be paid to the employees.

① Method of attributing estimated retirement benefits to periods

In calculating retirement benefit obligations, the benefit formula basis is adopted to attribute estimated amounts of retirement benefits to the period up to the end of the current fiscal year.

② Method of amortizing actuarial gains and losses and prior service costs

Prior service costs are amortized by the straight-line method over a certain number of years (10 years) within the average remaining service period of the eligible employee when the cost is incurred.

Actuarial gains and losses are individually amortized, starting in the fiscal year following the year during which the gain or loss is incurred, by prorating the relevant amount using the straight-line method over a certain number of years (10 years) within the average remaining service period of the eligible employee in the fiscal year when the gain or loss is incurred.

(6) Provision for executives' retirement benefits

The amounts expected to be paid at the end of the fiscal year are recorded in accordance with our company's internal rules in order to provide for payment of retirement benefits to the executives.

4. Standards for recording revenue and expenses

Standard for recording revenue and expenses related to development of build-to-order software

(1) Development of build-to-order software for which the outcome of the development progress up to the end of the current fiscal year is deemed certain

Percentage-of-completion method (the percentage of completion of development activities is estimated based on incurred cost)

(2) Development of other build-to-order software

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Completed-contract method

5. Scope of cash and cash equivalents in the statement of cash flows

Cash and cash equivalents in the statement of cash flows include cash on hand, cash that are withdrawable at any time, and short-term investments with maturities of three months or less from the acquisition which are readily convertible to a known amount of cash and subject to insignificant risk of changes in value.

6. Other significant matters that form the basis for preparation of financial statements

(1) Accounting for consumption taxes

Consumption taxes are accounted for using the tax-excluded method.

(Important accounting estimates)

There are no items to be described.

(Accounting standards not yet applied)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 published on March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 published on March 26, 2021)

(1) Overview

These documents are comprehensive accounting standards regarding revenue recognition. Revenue is recognized through the following five steps:

Step 1: Identify a contract with a customer.

Step 2: Identify performance obligations in the contract.

Step 3: Calculate a transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when the performance obligations are fulfilled or being fulfilled.

(2) Effective date

The standard and guidance will be applied at the beginning of FY 6/2022.

(3) Financial impact of application of the accounting standards etc.

The amount of the financial impacts of applying the Accounting Standard for Revenue Recognition and the related guidance on the financial statements is being assessed at the moment.

(Change in the indication method)

(Application of “the accounting standards regarding the disclosure of accounting estimates”)

We started applying “the accounting standards regarding the disclosure of accounting estimates” (Corporate Accounting Standards No. 31; March 31, 2020) from the financial statements as of the end of FY 6/2021, and added a note regarding important accounting estimates to the financial statements.

In said note, we did not mention the contents of the previous fiscal year, in accordance with the provision regarding transitional handling specified in the proviso of Paragraph 11 of said accounting standards.

(Additional information)

(Accounting estimates regarding the impact of spread of COVID-19)

Regarding the impact of COVID-19 on our business, it is difficult to accurately predict how it will spread and when it will subside, but it is expected that the economic situation will recover gradually through the vaccination, etc. Accordingly, we assumed that the impact on future business performance will be limited, when estimating the impairment loss of fixed assets, the collectability of deferred tax assets, etc.

We conducted estimation and judgment based on currently available information, but there are many uncertainties over the status of spread and impact of COVID-19, which may affect the financial standing or business performance of our company.

(Balance Sheet)

1. Our company has entered into overdraft agreements and loan commitment agreements with four banks and an insurance company in order to effectively procure operating capital.

The balance of unused loans under these contracts at the end of the fiscal years ended June 30, 2020 and 2021, respectively, are as follows:

	Previous fiscal year (as of June 30, 2020)	Current fiscal year (as of June 30, 2021)
Total of the maximum amount of the overdraft agreements and the amount of loan commitments	4,200,000 thousand yen	4,200,000 thousand yen
Amount of loans outstanding	— thousand yen	— thousand yen
Balance	4,200,000 thousand yen	4,200,000 thousand yen

(Statement of Income)

*1 The primary components and amounts of selling, general and administrative expenses, and their respective approximate ratios are as follows:

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	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1 2020 to June 30, 2021)
Salaries and allowances	705,175 thousand yen	674,891 thousand yen
Depreciation	38,955 thousand yen	40,376 thousand yen
Provision for bonuses	77,555 thousand yen	112,857 thousand yen
Provision for executives' bonuses	42,682 thousand yen	43,362 thousand yen
Retirement benefit expenses	35,052 thousand yen	27,430 thousand yen
Provision for executives' retirement benefits	6,167 thousand yen	4,977 thousand yen
Research & development expenses	31,809 thousand yen	80,461 thousand yen
Approximate ratio		
Selling expenses	40.4%	38.1%
General and administrative expenses	59.6%	61.9%

*2 The total amount of the general and administrative expenses and the research and development expenses included in the manufacturing cost for the period is as follows:

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1 2020 to June 30, 2021)
General & administrative expenses	31,809 thousand yen	80,461 thousand yen
Manufacturing cost for period	— thousand yen	— thousand yen
Total	31,809 thousand yen	80,461 thousand yen

*3 The breakdown of the loss on retirement of fixed assets is as follows.

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1 2020 to June 30, 2021)
Software	—thousand yen	4,713 thousand yen

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(Statement of Changes in Equity)

Previous fiscal year (from July 1, 2019 to June 30, 2020)

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

	Beginning of period	Increase	Decrease	End of period
Shares issued				
Common shares (shares)	26,340,000	—	—	26,340,000
Total	26,340,000	—	—	26,340,000
Treasury shares				
Common shares (shares)	31,907	176,144	166,400	41,651
Total	31,907	176,144	166,400	41,651

(Overview of changes)

① Acquisition of treasury shares through the resolution by the Board of Directors:

167,200 shares

② Disposal of treasury shares as restricted stock compensation plan:

166,400 shares

③ Increase due to retirement of employees eligible for restricted stock compensation plan:

8,900 shares

④ Increase due to buyback of fractional shares amounting to less than one unit:

44 shares

2. Share options and treasury share options

Not applicable.

3. Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividend amount per share (yen)	Record date	Effective date
Annual shareholders' meeting held on Sep. 26, 2019	Common shares	236,772	9	June 30, 2019	Sep. 27, 2019

(2) Shares for which the record date falls in the current fiscal year, but the effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (thousand yen)	Dividend amount per share (yen)	Record date	Effective date
Annual shareholders' meeting held on Sep. 25, 2020	Common shares	Retained earnings	262,983	10	June 30, 2020	Sep. 28, 2020

Current fiscal year (from July 1, 2020 to June 30, 2021)

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

	Beginning of period	Increase	Decrease	End of period
Shares issued				
Common shares (shares)	26,340,000	—	—	26,340,000
Total	26,340,000	—	—	26,340,000
Treasury shares				
Common shares (shares)	41,651	8,400	—	50,051
Total	41,651	8,400	—	50,051

(Overview of changes)

Increase due to retirement of employees eligible for restricted stock compensation plan:

8,400 shares

2. Share options and treasury share options

Not applicable.

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3. Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividend amount per share (yen)	Record date	Effective date
Annual shareholders' meeting held on Sep. 25, 2020	Common shares	262,983	10	June 30, 2020	Sep. 28, 2020

(2) Shares for which the record date falls in the current fiscal year but the effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (thousand yen)	Dividend amount per share (yen)	Record date	Effective date
Annual shareholders' meeting held on Sep. 29, 2021	Common shares	Retained earnings	341,769	13	June 30, 2021	Sep. 30, 2021

(Statement of Cash Flows)

*1 The relation between the ending balance of cash and cash equivalents and the accounts on the balance sheet is as follows:

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1 2020 to June 30, 2021)
Cash and deposits	3,641,864 thousand yen	4,307,699 thousand yen
Time deposits exceeding 3 months in deposit term	—thousand yen	—thousand yen
Cash and cash equivalents	3,641,864 thousand yen	4,307,699 thousand yen

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(Financial Instruments)

1. Status of financial instruments

(1) Policies on financial instruments

Our company manages funds mainly using short-term deposits and by depositing part of retained earnings in the long term. We raise funds through borrowing from banks. Furthermore, we utilize derivative transactions for hedging risks and do not engage in any transactions for the purpose of speculation.

(2) Details and risks of financial instruments, and risk management system thereof

As accounts receivable, which are trade receivables, are exposed to customer credit risk, our company strives to reduce the risk by regularly assessing the credit standing of our major business partners, as well as managing due dates and outstanding balances of each partner.

As for investment securities, our company endeavors to lessening the credit risk by investing only in held-to-maturity debt securities with high credit ratings.

Available-for-sale securities with market values are exposed to risks of market price fluctuations.

Even unlisted shares without market values, too, are exposed to risks of recoverability of investments due to deteriorating business environments and financial position of investee companies. Meanwhile, such investments are made in the shares of the companies with which our company has business relationships with the aim of expanding our business, and we strive to assess the market value of the shares and the financial position of issuing entities on the regular basis and continuously review the status of holding such shares by taking into account our relationship with each business partner.

Accounts payable and income taxes payable, which are trade payables, will become due and payable within a year. Lease obligations related to finance lease transactions are principally intended to raise funds for capital investments with the longest maturity of lease term of five years after the balance sheet date.

(3) Supplementary explanation about market values of financial instruments

Market values of financial instruments include not just values based on market prices, but also values reasonably calculated for financial instruments without market values. Such values may fluctuate when different preconditions are adopted because variable factors are taken into account for their calculation.

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2. Market values of financial instruments

The balance sheet amounts and market values, and the differences thereof are as follows. Items whose market values are deemed highly difficult to determine are not included in the following table (See Note 2):

Previous fiscal year (as of June 30, 2020)

	Balance sheet amount (Thousand yen)	Market value (Thousand yen)	Difference (Thousand yen)
(1) Cash and deposits	3,641,864	3,641,864	—
(2) Accounts receivable	1,720,318	1,720,318	—
(3) Investment securities			
① Held-to-mature debt securities	301,558	299,534	(2,024)
② Available-for-sale securities	1,047,559	1,047,559	—
Total assets	6,711,301	6,709,276	(2,024)
(1) Accounts payable	627,020	627,020	—
(2) Income taxes payable	61,971	61,971	—
(3) Lease obligations	39,290	38,990	(299)
Total liabilities	728,282	727,982	(299)

Current fiscal year (as of June 30, 2021)

	Balance sheet amount (Thousand yen)	Market value (Thousand yen)	Difference (Thousand yen)
(1) Cash and deposits	4,307,699	4,307,699	—
(2) Accounts receivable	1,698,475	1,698,475	—
(3) Investment securities			
① Held-to-mature debt securities	300,970	299,762	(1,208)
② Available-for-sale securities	1,058,750	1,058,750	—
Total assets	7,365,895	7,364,687	(1,208)
(1) Accounts payable	430,770	430,770	—
(2) Income taxes payable	243,271	243,271	—
(3) Lease obligations	15,845	15,663	(182)
Total liabilities	689,887	689,704	(182)

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(Note 1) Method for calculating the market values of financial instruments, and matters related to securities and derivative transactions

Assets

(1) Cash and deposits, and (2) Accounts receivable

Cash and deposits, and accounts receivable are all stated in carrying amounts because they are settled in a short term and their market values are approximate to their respective carrying amounts.

(3) Investment securities

As for investment securities, shares are stated in prices at the stock market, and debt securities are stated in prices offered by financial institutions or the present values discounted at an interest rate in which the period of future cash flows remaining until the maturity date and credit risks are taken into account.

Please see “Securities” for notes on each purpose of holding securities.

Liabilities

(1) Accounts payable, and (2) Income taxes payable

Accounts payable and income taxes payable are all stated in carrying amounts because they are settled in a short term and their respective market values are approximately equal to the carrying amounts.

(3) Lease obligations

The market value is calculated based on the present value calculated by discounting the total amount of the principal and interest at a rate expected to be applied for a similar lease transaction newly conducted. The current portion of lease obligations is also included.

(Note 2) Balance sheet amounts of financial instruments for which market values are deemed to be highly difficult to determine

(Unit: thousand yen)

Classification	As of June 30, 2020	As of June 30, 2021
Unlisted shares	10,075	10,089
Shares of subsidiaries and associates	24,680	24,680

These shares are not included in “(3) Investment securities” because there are no market prices for them and it is deemed to be highly difficult to determine their market values.

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(Note 3) Estimated redemption amounts of monetary claims and securities with maturity dates after balance sheet date
Previous fiscal year (as of June 30, 2020)

	Within 1 year (Thousand yen)	Over 1 year through 5 years (Thousand yen)	Over 5 years through 10 years (Thousand yen)	Over 10 years (Thousand yen)
Cash and deposits	3,641,864	—	—	—
Account receivables	1,720,318	—	—	—
Investment securities				
Held-to-maturity debt securities	—	300,000	—	—
Available-for-sale securities with maturity date (debt securities)	—	—	—	—
Total	5,362,183	300,000	—	—

Current fiscal year (as of June 30, 2021)

	Within 1 year (Thousand yen)	Over 1 year through 5 years (Thousand yen)	Over 5 years through 10 years (Thousand yen)	Over 10 years (Thousand yen)
Cash and deposits	4,307,699	—	—	—
Account receivables	1,698,475	—	—	—
Investment securities				
Held-to-maturity debt securities	—	300,000	—	—
Available-for-sale securities with maturity date (debt securities)	—	—	—	—
Total	6,006,174	300,000	—	—

(Note 4) Amounts of lease obligations scheduled to be paid back after balance sheet date
Previous fiscal year (as of June 30, 2020)

	Within 1 year (Thousand yen)	Over 1 year through 2 years (Thousand yen)	Over 2 years through 3 years (Thousand yen)	Over 3 years through 4 years (Thousand yen)	Over 4 years through 5 years (Thousand yen)	Over 5 years (Thousand yen)
Lease obligations	29,280	8,580	1,430	—	—	—
Total	29,280	8,580	1,430	—	—	—

Current fiscal year (as of June 30, 2021)

	Within 1 year (Thousand yen)	Over 1 year through 2 years (Thousand yen)	Over 2 years through 3 years (Thousand yen)	Over 3 years through 4 years (Thousand yen)	Over 4 years through 5 years (Thousand yen)	Over 5 years (Thousand yen)
Lease obligations	9,787	2,637	1,207	1,207	1,006	—
Total	9,787	2,637	1,207	1,207	1,006	—

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(Securities)

1. Held-to-maturity debt securities

Previous fiscal year (as of June 30, 2020)

Class	Balance sheet amount (Thousand yen)	Market value (Thousand yen)	Difference (Thousand yen)
Debt securities whose market value exceeds the balance sheet amount	—	—	—
Debt securities whose market value is within the market value	301,558	299,534	2,024
Total	301,558	299,534	2,024

Current fiscal year (as of June 30, 2021)

Classification	Balance sheet amount (Thousand yen)	Market value (Thousand yen)	Difference (Thousand yen)
Debt securities whose market value exceeds the balance sheet amount	—	—	—
Debt securities whose market value is within the market value	300,970	299,762	1,208
Total	300,970	299,762	1,208

2. Shares of subsidiaries and associates

Shares of subsidiaries and associates are not presented because there are no market values for them and it is deemed to be highly difficult to determine their market values.

The respective balance sheet amounts for the shares of subsidiaries and associates whose market values are deemed highly difficult to determine are as follows:

Classification	Previous fiscal year (as of June 30, 2020)	Current fiscal year (as of June 30, 2021)
Share of subsidiaries	—thousand yen	—thousand yen
Shares of associates	24,680 thousand yen	24,680 thousand yen
Total	24,680 thousand yen	24,680 thousand yen

3. Available-for-sale securities

Previous fiscal year (as of June 30, 2020)

Classification	Balance sheet amount (Thousand yen)	Acquisition cost (Thousand yen)	Difference (Thousand yen)
Securities whose balance sheet amount exceeds the acquisition cost			
Shares	1,035,500	242,000	793,500
Debt securities	—	—	—
Subtotal	1,035,500	242,000	793,500
Securities whose balance sheet amount is within the acquisition cost			
Shares	12,059	12,851	(792)
Debt securities	—	—	—
Other	—	—	—
Subtotal	12,059	12,851	(792)
Total	1,047,559	254,851	792,707

Note

Unlisted shares (with the balance sheet amount of 10,075 thousand yen) are not contained in “Available-for-sale securities” in the table above because there are no market values for them and it is deemed highly difficult to determine their market values.

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Current fiscal year (as of June 30, 2021)

Classification	Balance sheet amount (Thousand yen)	Acquisition cost (Thousand yen)	Difference (Thousand yen)
Securities whose balance sheet amount exceeds the acquisition cost			
Shares	1,058,750	257,121	801,629
Debt securities	—	—	—
Subtotal	1,058,750	257,121	801,629
Securities whose balance sheet amount is within the acquisition cost			
Shares	—	—	—
Debt securities	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	1,058,750	257,121	801,629

Note

Unlisted shares (with the balance sheet amount of 10,089 thousand yen) are not contained in “Available-for-sale securities” in the table above because there are no market values for them and it is deemed highly difficult to determine their market values.

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(Retirement Benefits)

1. Overview of the retirement benefit plans employed

Our company adopts the lump-sum retirement benefit plan and the employees' pension fund plan (multi-employer type) in order to provide for retirement benefits to be paid to our employees.

Under the lump-sum retirement benefit plan (unfunded type), we provide our employees with lump-sum payment as retirement benefits based on points accumulated according to each employee's level of qualification and years of service.

Although our company is a member of a multi-employer fund, the Japan Computer Information Service Employees' Pension Fund, the amount of plan assets corresponding to our company's financial contribution cannot be reasonably calculated and thus it is accounted for in the same manner for the defined contribution plan.

When employees retire, our company may pay extra retirement benefits that are not covered by retirement benefit obligations based on actuarial calculation as par the accounting for retirement benefits.

2. Defined benefit plans

(1) Reconciliation between the beginning and ending balances of retirement benefit obligations

	(Thousand yen)	
	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Beginning balance of retirement benefit obligations	537,406	599,013
Service costs	40,642	51,813
Interest costs	1,612	1,797
Actuarial gains or losses incurred	32,724	(5,132)
Retirement benefit paid	(13,372)	(12,855)
Ending balance of retirement benefit obligations	599,013	634,636

(2) Reconciliation between the ending balance of retirement benefit obligations and the provision for retirement benefits recorded on the balance sheet

	(Thousand yen)	
	Previous fiscal year (as of June 30, 2020)	Current fiscal year (as of June 30, 2021)
Retirement benefit obligations under unfunded plans	599,013	634,636
Unfunded retirement benefit obligations	599,013	634,636
Unrecognized actuarial gains or losses	(93,750)	(77,088)
Unrecognized prior service costs	(14,832)	(12,713)
Net amount of assets and liabilities recorded on balance sheet	490,430	544,834
Provision for retirement benefits	490,430	544,834
Net amount of assets and liabilities recorded on balance sheet	490,430	544,834

(3) Amounts of retirement benefit expenses and components thereof

	(Thousand yen)	
	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Service costs	40,642	51,813
Interest costs	1,612	1,797
Actuarial gains or losses amortized	8,256	11,529
Prior service costs amortized	2,118	2,118
Retirement benefit expenses under defined benefit plans	52,630	67,259

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(4) Assumptions used in actuarial calculation
Major assumptions for actuarial calculations

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Discount rate	0.3%	0.3%
Expected rate of salary increase	8.1%	8.1%

Note

The expected rate of salary increase is calculated based on the average increase rate of points given according to each employee's level of qualification.

3. Multi-employer plan

The amount required to be contributed to the employees' pension fund plan over multiple fiscal years, which is accounted for in the same manner as in the defined contribution plan, is 27,422 thousand yen for the previous fiscal year and 28,622 thousand yen for the current fiscal year, and the same amounts have been amortized.

(1) Latest status of funding under multi-employer plan

	Previous fiscal year (as of March 31, 2020)	Current fiscal year (as of March 31, 2021)
Plan asset	247,676	262,373
Total of the actuarial obligations in pension financing and the minimum reserves	202,774	206,858
Difference	44,901	55,515

(2) Contribution ratio of our company in the multi-employer plan

Previous fiscal year 0.6% (from April 1, 2019 to March 31, 2020)
Current fiscal year 0.7% (from April 1, 2020 to March 31, 2021)

(3) Supplementary explanation

The differences presented in (1) above arose mainly due to the amounts calculated by deducting the balance of the prior service obligations in pension financing (which was 34 million yen for the previous fiscal year and 55 million yen for the current fiscal year) from the retained earnings (which were 42,324 million yen and 55,571 million yen for the previous and current fiscal years, respectively).

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(Tax Effect Accounting)

1. Major components of deferred tax assets and liabilities

	Previous fiscal year (as of June 30, 2020)	Current fiscal year (as of June 30, 2021)
Deferred tax assets		
Accrued enterprise tax non-deductible from the taxable income	9,601 thousand yen	18,280 thousand yen
Valuation loss on goods, currently not deductible	2,026 thousand yen	2,026 thousand yen
Provision for bonuses non-deductible from the taxable income	79,416 thousand yen	96,943 thousand yen
Inclusion of advances received in gross income	166,485 thousand yen	152,159 thousand yen
Depreciation in excess	25,795 thousand yen	21,001 thousand yen
Provision for retirement benefits non-deductible from the taxable income	149,422 thousand yen	166,013 thousand yen
Provision for directors' retirement benefits non-deductible from the taxable income	9,202 thousand yen	6,904 thousand yen
Share-based compensation expenses non-deductible from the taxable income	36,227 thousand yen	20,358 thousand yen
Valuation loss on investment securities, currently not deductible	16,997 thousand yen	16,997 thousand yen
Non-recurring amortization of software, currently not deductible	9,845 thousand yen	9,845 thousand yen
Asset retirement obligations	26,768 thousand yen	26,788 thousand yen
Other	44,896 thousand yen	46,696 thousand yen
Subtotal	576,685 thousand yen	584,016 thousand yen
Valuation allowance	(74,020) thousand yen	(73,612) thousand yen
Total deferred tax assets	502,665 thousand yen	510,404 thousand yen
Deferred tax liabilities		
Valuation difference on investment securities	(242,718) thousand yen	(245,454) thousand yen
Asset retirement obligations	(11,175) thousand yen	(9,852) thousand yen
Total deferred tax liabilities	(253,893) thousand yen	(255,306) thousand yen
Net deferred tax assets	248,771 thousand yen	255,097 thousand yen

2. Normal effective statutory tax rate and actual rates of income taxes after tax effect accounting was applied, and the major causes for the difference between the rates

	Previous fiscal year (as of June 30, 2020)	Current fiscal year (as of June 30, 2021)
Normal effective statutory tax rate	—	30.6%
(Reconciliation)		
Items not included in deductible expenses permanently, such as entertainment expenses	—	0.6%
Exclusion of dividend income from gross income	—	(0.3)%
Inhabitant taxes on a per capita basis	—	0.3%
Tax credit	—	(4.2)%
Directors' bonuses, currently not deductible	—	1.1%
Other	—	(0.2)%
Actual rate of income taxes after tax effect accounting was applied	—	27.9%

Note

Values are not presented for the previous fiscal year in the table above because the difference between the normal effective statutory tax rate and the actual effective rates of income taxes after tax effect accounting was applied is less than five hundredths (5/100) of the normal effective statutory tax rate.

(Asset Retirement Obligations)

Asset retirement obligations recorded on the balance sheet

(1) Overview of the asset retirement obligations

The asset retirement obligations include the obligation to restore the real estate that our company is leasing for using as our head

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office to its original condition as at the commencement of the lease, which is placed in accordance with the real estate lease agreement that our company has entered into.

(2) Method for calculating the amount of the asset retirement obligations

The amount of the asset retirement obligations is calculated by estimating the expected period of using the real estate to be 15 years after acquisition and using discount rates of 0.0%, 0.12%, 0.32%, and 1.52%.

(3) Changes in the total amount of the asset retirement obligations

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Beginning balance	96,611 thousand yen	87,421 thousand yen
Adjustment amount over time	473 thousand yen	66 thousand yen
Decrease due to payment of asset retirement obligations	(9,664) thousand yen	— thousand yen
Ending balance	87,421 thousand yen	87,487 thousand yen

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(Segment Information, etc.)

Segment Information

In the first quarter, our company integrated “the financial system solution business” and “the product solution business” into a single segment, so the description of each segment information is omitted.

Items regarding the change, etc. of segments to be reported

Our company has so far conducted business administration with the financial system solution business and the product solution business being the segments to be reported.

In the financial system solution business, we have provided mainly credit card companies with the service of development of indispensable systems for credit-card payment and related services. In the product solution business, we have sold products for information security and cyber security to mainly general business companies.

Our company plans to enhance the marketing activities for the two businesses and strengthen the system for promoting product development, to facilitate the growth of our business.

We will put together the information on clients managed separately in the two businesses to improve marketing, and strengthen the system for developing security technologies, to facilitate the development of new products and services.

On July 1, 2020, we reformed our organizational structure and business administration system, changing segments to be reported.

Related Information

Previous fiscal year (from July 1, 2019 to June 30, 2020)

1. Information on each product and service

Net sales to external customers are as follows:

(Unit: thousand yen)

Service	Amount
Software development	5,844,726
In-house packaged software	270,371
Software maintenance	1,522,640
Hardware	1,570,579
Other companies' package software	299,651
Service (for in-house products)	891,421
Service (for other companies' products)	521,458
Total	10,920,848

2. Information on each region

Information on each region is omitted because net sales to external customers in Japan account for over 90% of the net sales on the Statement of Income.

Information on property, plant and equipment is omitted as well because our company owns no property, plant and equipment in countries or regions other than Japan.

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3. Information on each major customer

(Unit: thousand yen)

Customer	Net sales
Dai Nippon Printing Co., Ltd.	1,837,130

Current fiscal year (from July 1, 2020 to June 30, 2021)

1. Information on each product and service

Net sales to external customers are as follows:

(Unit: thousand yen)

Service	Amount
Software development	5,339,454
In-house packaged software	414,918
Software maintenance	1,639,347
Hardware	1,732,640
Other companies' package software	487,605
Service (for in-house products)	983,829
Service (for other companies' products)	589,883
Total	11,187,676

2. Information on each region

Information on each region is omitted because net sales to external customers in Japan account for over 90% of the net sales on the Statement of Income.

Information on property, plant and equipment is omitted as well because our company owns any property, plant and equipment in countries or regions other than Japan.

3. Information on each major customer

(Unit: thousand yen)

Customer	Net sales
Dai Nippon Printing Co., Ltd.	1,294,781
TIS Inc.	1,213,843
Aeon Credit Service Co., Ltd.	1,202,742

Impairment Loss of Property, Plant and Equipment by Reportable Segment

Not applicable.

Amount of Goodwill Amortization and Unamortized Balance Thereof by Reportable Segment

Not applicable.

Gain on Bargain Purchase by Reportable Segment

Not applicable.

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(Equity in Earnings of Associates)

1. Associates

	(Unit: thousand yen)	
	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Investments in associates	24,680	24,680
Investments accounted for using the equity method	125,953	129,428
Equity in earnings of associates accounted for using the equity method	8,880	5,565

2. Special purpose companies subject to disclosure

Our company has no special purpose company subject to disclosure.

Related Parties

1. Transactions with related parties

(1) Parent company and major shareholders (limited to corporations and other entities) of the company submitting financial statements
Previous fiscal year (from July 1, 2019 to June 30, 2020)

Class	Company name	Address	Capital stock or investments in capital (¥ million)	Details of business or occupation	Ratio of voting rights held (ownership) (%)	Relation with related parties	Details of transactions	Transaction amount (thousand yen)	Account title	Ending balance (thousand yen)
Parent company	Dai Nippon Printing Co., Ltd.	Shinjuku-ku, Tokyo	114,464	Printing, beverage manufacturing	Directly held (owned) at 50.74	Sale of our products, sale on consignment, Product procurement	Software development	1,837,130	Accounts receivable Advances received	302,024
							Security product procurement	150,433	Accounts payable Advance payments	133,823
							Payment for damages	33,679	—	3,633
							—	—	—	148,818

Transaction terms, and policies on determining transaction terms

Transaction terms are the same as those used for parties that have no relationships with our company.

Current fiscal year (from July 1, 2020 to June 30, 2021)

Class	Company name	Address	Capital stock or investments in capital (¥ million)	Details of business or occupation	Ratio of voting rights held (ownership) (%)	Relation with related parties	Details of transactions	Transaction amount (thousand yen)	Account title	Ending balance (thousand yen)
Parent company	Dai Nippon Printing Co., Ltd.	Shinjuku-ku, Tokyo	114,464	Printing, beverage manufacturing	Directly held (owned) at 50.74	Sale of our products, sale on consignment, Product procurement	Software development	1,294,781	Accounts receivable Advances received	130,051
							Security product procurement	178,287	Accounts payable Advance payments	56,974
							Payment for damages	3,613	—	27,605
							—	—	—	73,222

Transaction terms, and policies on determining transaction terms

Transaction terms are the same as those used for parties that have no relationships with our company.

(2) Directors and major shareholders (limited to individuals) of the company submitting financial statements
Previous fiscal year (from July 1, 2019 to June 30, 2020)
Not applicable.

Current fiscal year (from July 1, 2020 to June 30, 2021)
Not applicable.

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2. Notes on parent company or significant associates

(1) Parent company

Dai Nippon Printing Co., Ltd. (listed with the First Section of the Tokyo Stock Exchange)

(2) Summarized financial information on significant associates

Not applicable.

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(Per Share Information)

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Net assets per share	265.55 yen	287.85 yen
Net income per share	29.00 yen	31.98 yen

Notes

1. Fully diluted earnings per share is not presented because no potentially dilutive shares exist.
2. The basis for the calculation of net income per share is as follows:

	Previous fiscal year (from July 1, 2019 to June 30, 2020)	Current fiscal year (from July 1, 2020 to June 30, 2021)
Net income (thousand yen)	762,053	840,970
Amount not attributable to common shareholders (thousand yen)	—	—
Net income related to common shares (thousand yen)	762,053	840,970
Average No. of common shares during the period (shares)	26,273,290	26,294,407

(Significant Subsequent Events)

Not applicable.

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⑤ Annexed Detailed Schedules

Schedule of property, plant and equipment, and other assets

Type of asset	Balance at the beginning of the current period (thousand yen)	Increase in the current period (thousand yen)	Decrease in the current period (thousand yen)	Balance at the end of the current period (thousand yen)	Accumulated depreciation or amortization at the end of the current period (thousand yen)	Depreciation or amortization in the current period (thousand yen)	Net balance at the end of the current period (thousand yen)
Property, plant and equipment							
Buildings	402,210	25,604	2,555	425,259	211,347	14,352	213,912
Structures	16,479	—	—	16,479	15,653	196	825
Tools, furniture and fixtures	580,943	299,311	13,650	866,604	447,306	93,380	419,297
Land	84,394	—	—	84,394	—	—	84,394
Leased assets	154,235	5,488	—	159,724	145,150	27,173	14,573
Total property, plant and equipment	1,238,263	330,403	16,205	1,552,461	819,457	135,102	733,004
Intangible assets							
Software	3,767,961	483,281	155,817	4,095,425	2,970,568	616,126	1,124,857
Software in progress	199,089	360,157	370,230	189,015	—	—	189,015
Telephone subscription right	3,806	—	—	3,806	—	—	3,806
Leased assets	1,743	—	—	1,743	1,743	—	—
Total intangible assets	3,972,600	843,438	526,047	4,289,991	2,972,311	616,126	1,317,679
Long-term prepaid expenses	144,252	48,329	119,744	72,837	—	—	72,837

Notes

1. The major factors for the increases in the current period are as follows:

The increase in tools, furniture and fixtures is primarily due to the purchase of server, switches and other items.

The increase in software is primarily due to transfer from software in progress in conjunction with the completion of software for internal use.

The increase in software in progress is primarily due to development of software for internal use.

2. The major factors for the decreases in the current period are as follows:

The decrease in software is mainly due to the retirement after the termination of sale.

3. Some items, such as accumulated depreciation, are omitted for long-term prepaid expenses because they are not subject to depreciation and their cost is all allocated to each period.

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Schedule of Corporate Bonds Payable
Not applicable.

Schedule of Borrowings

Classification	Balance at the beginning of the current period (thousand yen)	Balance at the end of the current period (thousand yen)	Average interest rate (%)	Due in
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	—	—	—	—
Current portion of lease obligations payable	29,280	9,787	0.0	—
Long-term loans payable (excluding current portion)	—	—	—	—
Lease obligations (excluding current portion)	10,010	6,058	0.0	May 2026
Other interest-bearing debts	—	—	—	—
Total	39,290	15,845	—	—

Notes

1. The interest rates presented above are based on weighted average for the balance of lease obligations at the end of the period.
2. The total amount of scheduled repayment of lease obligations per year (excluding current portion) for five years after the balance sheet date.

Classification	Over 1 year through 2 years (thousand yen)	Over 2 years through 3 years (thousand yen)	Over 3 years through 4 years (thousand yen)	Over 4 years through 5 years (thousand yen)
Lease obligations	2,637	1,207	1,207	1,006

Schedule of Provisions

Classification	Balance at the beginning of the current period (thousand yen)	Increase in the current period (thousand yen)	Decrease in the current period (Amounts used) (thousand yen)	Decrease in the current period (Other) (thousand yen)	Balance at the end of the current period (thousand yen)
Provision for bonuses	295,182	348,470	295,182	—	348,470
Provision for directors' bonuses	42,682	43,362	42,682	—	43,362
Provision for directors' retirement benefits	30,052	4,977	12,480	—	22,550

Schedule of Asset Retirement Obligations

A schedule of asset retirement obligations is omitted because matters that are supposed to be presented in the schedule are reported as notes pursuant to Article 8-28 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements.

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(2) Components of Major Assets and Liabilities

① Cash and deposits

Class	Amount (thousand yen)
Cash	769
Deposits	
Current deposits	2,947,449
Ordinary deposits	1,352,581
Special deposits	1,058
Postal transfer deposits	5,840
Subtotal	4,306,929
Total	4,307,699

② Accounts receivable

Breakdown by customer

Customer	Amount (thousand yen)
AEION CREDIT SERVICE CO., LTD.	335,706
TIS Inc.	135,122
Dai Nippon Printing Co., Ltd.	130,051
Rakuten Card Co., Ltd.	104,089
The Japan Research Institute, Limited.	84,163
Other	909,341
Total	1,698,475

Accrual, collection, and delinquency of accounts receivable

Balance at the beginning of the current period (thousand yen) (A)	Amounts accrued in the current period (thousand yen) (B)	Amount collected in the current period (thousand yen) (C)	Balance at the end of the current period (thousand yen) (D)	Collection rate (%) $\frac{(C)}{(A) + (B)} \times 100$	Delinquency period (days) $\frac{(A) + (D)}{2} \times \frac{365}{(B)}$
1,720,318	12,300,892	12,322,736	1,698,475	87.9	50.7

Note

Although consumption taxes are accounted for using the tax-excluded method, the amounts above include consumption taxes.

③ Advances received

Customer	Amount (thousand yen)
TIS Inc.	209,423
TOYOTA FINANCE CORPORATION	147,425
Mitsubishi UFJ NICOS Co., Ltd.	94,130
Nihon Unisys, Ltd.	67,870
Mastercard Asia/Pacific Pte. Ltd.	65,724
Other	648,642
Total	1,233,216

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④ Merchandise and finished goods

Classification	Amount (thousand yen)
Hardware, etc.	9,871
Total	9,871

⑤ Work in process

Classification	Amount (thousand yen)
Software development	355,789
Total	355,789

⑥ Raw materials and supplies

Classification	Amount (thousand yen)
Product catalogs, company brochures, etc.	5,517
Total	5,517

⑦ Advance payments

Recipient	Amount (thousand yen)
UNIADEX, Ltd.	92,133
Dai Nippon Printing Co., Ltd.	73,222
Next Security Inc.	51,691
illusive networks Ltd	47,124
Thales DIS CPL Japan KK	22,507
Other	81,745
Total	368,425

⑧ Investment securities

Investee company	Amount (thousand yen)
Shares	
Saison Information Systems Co., Ltd.	1,038,000
JACCS CO., LTD.	20,750
Other	10,089
Subtotal	1,068,840
Debt securities	
Corporate bonds issued by Mitsubishi UFJ Financial Group, Inc.	300,970
Subtotal	300,970
Total	1,369,810

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⑨ Accounts payable
Breakdown by recipient

Recipient	Amount (thousand yen)
TID Limited	92,145
Dai Nippon Printing Co., Ltd.	27,605
ISM Incorporated	26,674
Next Security Inc.	22,962
UNIADEX, Ltd.	17,010
Other	244,372
Total	430,770

(3) Other
Quarterly information for the current term ended June 30, 2021

(Cumulative period)	3 months ended Sep. 30, 2020	6 months ended Dec. 31, 2020	9 months ended Mar. 31, 2021	Term ended June 30, 2021
Net sales (thousand yen)	2,298,911	5,247,940	8,067,013	11,187,679
Income before income taxes (thousand yen)	128,507	421,100	691,721	1,166,520
Net income (thousand yen)	83,588	285,628	470,631	840,970
Net income per share (yen)	3.18	10.86	17.90	31.98

(Accounting period)	Q1	Q2	Q3	Q4
Net income per share (yen)	3.18	7.68	7.04	14.09

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VI Overview of the Share-related Clerical Tasks of the Company

Fiscal year	From July 1 to June 30
Annual shareholders meeting held in	September
Record date	June 30
Record dates for allocation of retained earnings	December 31 and June 30
No. of shares constituting one unit	100
Buyback of fractional shares amounting to less than one unit	
Handled at	(Special account) Stock Transfer Agency Department at Head Office, Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo, Japan
Shareholder registry managed by	(Special account) Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo, Japan
Agent	—
Fees for buyback	None
Method of placing public notices	Our company adopts electronic public notice for posting public notices; however, in the event in which our company is unable to issue electronic public notices due to accidents and other unavoidable reasons, our company puts up public notices on a Japanese newspaper, Nihon Keizai Shimbun. We also post electronic public notices on our website. Please visit: https://www.iwi.co.jp/ir/announcement.html
Shareholder incentives	Not applicable.

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VII Reference Information of the Company

1. Information on the Parent Company, etc. of the Company

The company does not have a parent company to report pursuant to Article 24-7 (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

The following documents were submitted during the period starting on the first day of the current term ended June 30, 2021 and ending on the filing date of the Annual Securities Report:

(1) Annual Securities Report and attached documents, and confirmation letter thereof

Submitted to the Director-General of the Kanto Local Finance Bureau on September 25, 2020 of the 37th business term (from July 1, 2019 to June 30, 2020).

(2) Internal Control Report

Submitted to the Director-General of the Kanto Local Finance Bureau on September 25, 2020 of the 37th business term (from July 1, 2019 to June 30, 2020).

(3) Quarterly Report and confirmation letter thereof

Submitted to the Director-General of the Kanto Local Finance Bureau on November 6, 2020 of the first quarter of the 38th business term (from July 1, 2020 to September 30, 2020).

Submitted to the Director-General of the Kanto Local Finance Bureau on February 5, 2021 of the second quarter of the 38th business term (from October 1, 2020 to December 31, 2020).

Submitted to the Director-General of the Kanto Local Finance Bureau on May 10, 2021 of the third quarter of the 38th business term (from January 1, 2021 to March 31, 2021).

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Part 2 Information on the Guarantee Company, etc. of the Company

Not applicable.

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Independent Auditor's Report and Internal Control Audit Report

September 29, 2021

To the Board of Directors of
INTELLIGENT WAVE INC.

BDO Sanyu & Co.

Tokyo Office

Designated Partner Engagement Partner	Certified public accountant	Nobuhito Iwata
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Designated Partner Engagement Partner	Certified public accountant	Michiaki Inoue
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< Audit of Financial Statements >

Audit Opinion

We have audited the financial statements of INTELLIGENT WAVE INC. included in "Financial Status" for the 38th business term starting on July 1, 2020 and ending on June 30, 2021, which consist of the balance sheet, the statement of income, the statement of changes in equity, the statement of cash flows, significant accounting policies, related notes, and annexed detailed schedules, in order to provide audit and attestation services in accordance with the provisions set forth in Article 193-2 (1) of the Financial Instruments and Exchange Act.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of INTELLIGENT WAVE INC. as at June 30, 2021, and the results of their business operations and cash flows for the year then ended in accordance with the accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audits in accordance with the auditing standards generally accepted in Japan. Our responsibilities are as presented in Auditors' Responsibilities for Audits of Financial Statements in the auditing standards. We are independent of the reporting company and fulfill auditors' other ethical responsibilities in accordance with the provisions about professional ethics in Japan. We believe that we have obtained sufficient and appropriate audit evidence that forms the basis for expressing our opinion.

Major items to be discussed for audit

Major items to be discussed for audit mean the items considered important by auditors as professionals in the audit of financial statements for FY 6/2021. Major items are discussed when auditing financial statements and forming audit opinions, and not intended for expressing individual opinions.

Discussion on the rationality of prices and other transaction conditions for sales toward the parent company Dai Nippon Printing Co., Ltd.	
Details of major items to be discussed for audit and reasons for determining them	Audit measures
<p>The parent company Dai Nippon Printing Co., Ltd. conducts the cloud service business, etc. and entrusts INTELLIGENT WAVE with development and operation of some systems. Accordingly, certain amounts of sales are posted constantly.</p> <p>[Information on related parties] As mentioned in Section 1 "Transactions with related parties," the sales to the parent company in FY 6/2021 were 1,294,781 thousand yen, accounting for about 11.6% of total sales. In addition, the notes for that section mention that the transactions with the parent company are made under the same conditions as those for other parties not related to the company.</p> <p>There is a risk that the parent company makes transactions with INTELLIGENT WAVE under unreasonable conditions, including prices, compared with those for other companies, utilizing the parent-subsidiary relationship and its influence, and then inappropriate revenues will be posted.</p> <p>Accordingly, the audit corporation concluded that the rationality of prices and other transaction conditions for sales toward the parent company is a major item to be discussed for audit.</p>	<p>The audit corporation conducted the following procedures for discussing the rationality of prices and other transaction conditions for sales toward Dai Nippon Printing Co., Ltd.</p> <ul style="list-style-type: none"> • They interviewed the employers of INTELLIGENT WAVE, to confirm that the transactions with the parent company are made under the same conditions as those for other parties not related to the company. • They evaluated the effectiveness of development and operation of internal control systems for checking the prices, estimated profit margin, orders, etc. when making transactions with the parent company. • They browsed contracts, purchase orders, etc. to confirm that there were no unfair or inappropriate conditions after sampling some transactions throughout the year. • They examined the sales and gross profit margin from transactions with the parent company and other parties in each category by comparing them, analyzing their variations, etc.

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In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

Responsibilities of Management, Corporate Auditors, and Board of Auditors for Financial Statements

The management is responsible for preparing and fairly presenting financial statements in accordance with the accounting principles generally accepted in Japan, which include design and operation of such internal control that the management deems to be necessary for preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, the management has the responsibility for assessing whether it is appropriate to prepare financial statements on a going concern basis and disclosing, as applicable, matters related to a going concern in accordance with the accounting principles generally accepted in Japan.

The corporate auditors and the Board of Auditors are responsible for supervising execution of duties by the Board of Directors regarding design and operation of financial reporting processes.

Responsibilities of auditors for financial statement audits

We are responsible for obtaining reasonable assurance about whether financial statements are free of material misstatement, whether due to fraud or error, and independently expressing our opinion about the financial statements in audit reports. Misstatement may occur from fraud or error and, individually or in aggregate, they are considered to be significant when they are reasonably expected to affect decision-making by users of these financial statements.

We make professional judgment and conduct the following with professional skepticism through audit processes in accordance with the auditing standards generally accepted in Japan:

- We identify and assess risks of material misstatement, whether due to fraud or error, and to plan and perform audit procedures in order to deal with risks of material misstatement. We select and adopt audit procedures at our discretion. In addition, we obtain sufficient and appropriate audit evidence that forms the basis for expressing our opinion.
- Although the purpose of auditing financial statements is not to express our opinion about the effectiveness of internal control, we consider internal control over audits in order to plan fair audit processes according to circumstances when assessing risks.
- We evaluate the appropriateness of the accounting policies and methods for adopting them employed by the management, and the rationality of the accounting estimates provided by the management, and the validity of notes related thereto.
- We conclude whether it is appropriate that the management prepares financial statements on a going concern basis, and whether there is any significant uncertainty regarding events or situations that may cause significant doubts about the premise of a going concern, based on the audit evidence that we obtained. When significant uncertainty about the premise of a going concern is recognized, we are required to call attention to notes on financial statements in an audit report or express our opinion with excepted matters when providing notes about significant uncertainty on financial statements is not appropriate. Although our conclusion is based on the audit evidence that we obtained by the filing date of the relevant audit report, the company may not be able to continue as a going concern depending on future events or situations.
- We assess whether presentation and notes on financial statements are in compliance with the accounting principles generally accepted in Japan and whether the presentation, structure, and contents of the financial statements, including related notes, and financial statements themselves fairly present the transactions and accountable events that form the basis therefor.

We report to the corporate auditors and the Board of Auditors on the scope of the audits that we have planned and when we conducted the audits, significant audit findings related to internal control identified through the audits, including significant defects, and other matters required to be reported by the auditing standards.

We report to the corporate auditors and the Board of Auditors on our compliance to the Japanese provisions related to professional ethics for independence and safeguards, as applicable, for eliminating or mitigating matters that are reasonably expected to affect our independence and obstructive factors.

We define especially important items to audit the financial statements for this term among those discussed with corporate auditors and the board of auditors as major items to be discussed for audit, and describe them in audit reports, unless the announcement of said items is prohibited by laws, regulations, or the like or we conclude that said items should not be disclosed, because the detriment caused by the disclosure through an audit report would exceed public interest, although this case is very rare.

<Internal Control Audit>

Audit Opinion

We audited the internal control report of INTELLIGENT WAVE INC. on June 30, 2021 in order to provide audit certification in accordance with Article 193-2 (2) of the Financial Instruments and Exchange Act.

In our opinion, the internal control report referred to above, in which INTELLIGENT WAVE INC. states that the internal control over financial reporting was effective on June 30, 2021, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with the standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Audit Opinion

We audited internal control in accordance with Japan's generally accepted auditing standards for internal control over financial reporting. Our responsibilities are as presented in Auditors' Responsibilities for Audits of Financial Statements in the auditing standards. We are independent of the reporting company and fulfill auditors' other ethical responsibilities in accordance with the provisions related to professional ethics in Japan. We believe that we have obtained sufficient and appropriate audit evidence that forms the basis for expressing our opinion.

Responsibilities of the Management, Auditors, and Board of Auditors for Internal Control Report

The management is responsible for the design and operation of internal control over financial reporting, and the preparation and fair presentation of internal control reports in accordance with the standards for assessing internal control over financial reporting generally accepted in Japan.

The auditors and the Board of Auditors carry the responsibility for monitoring and verifying the design and operation of internal control over financial reporting.

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Internal control over financial reporting may not completely prevent or detect all misstatements in financial reports.

Auditors' Responsibilities for Internal Control Audit

We are responsible for obtaining reasonable assurance that there is no material misstatement in internal control reports and independently expressing our opinion on internal control reports based on internal control audits that we have conducted. We make professional judgment and perform the following with professional skepticism through audit processes in accordance with the auditing standards for internal control over financial reporting generally accepted in Japan:

- We implement auditing procedures for obtaining audit evidence regarding the results of assessment of internal control over financial reporting in internal control reports. We select and adopt procedures for internal control audits at our discretion according to the significance of the impact on the reliability of financial reports.
- We consider overall presentation of internal control reports, including the presentation provided by the management regarding the scope, procedures, and results of assessment of internal control over financial reporting.
- We gather sufficient and appropriate audit evidence regarding the results of assessment of internal control over financial reporting in internal control reports. We take the responsibility for instructing, supervising, and conducting audits of internal control reports. We are independently responsible for our audit opinion.

We report to the auditors and the Board of Auditors on the scope of the audits that we have planned and when we conduct the audits, the results of the internal control audits, significant defects that have been detected and should be disclosed, the results of corrective actions thereof, and other matters required to be reported by the auditing standards for internal control audits.

We report to the corporate auditors and the Board of Auditors on our compliance to the Japanese provisions related to professional ethics for independence and safeguards, as applicable, for eliminating or mitigating matters that are reasonably expected to affect our independence and obstructive factors.

Interest

There is no interest to be stated pursuant to the Certified Public Accountants Act between the reporting company and our auditing firm or Engagement Partners.

Notes 1. The aforementioned is the digitized form of the matters stated in the original audit report, and the original copy is separately stored in the custody of our company (the company submitting the annual securities report).

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