

Summary of Non-consolidated Financial Results

for the Fiscal Year Ended June 30, 2023 (Japanese GAAP)

August 2, 2023

1. Financial results for the year in review (July 1, 2022 to June 30, 2023)

(Percentages represents year-on-year changes.)

(Rounded down to the nearest million yen)

(1) Results of operations (cumulative)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended June 30, 2023	13,374	16.4	1,556	2.4	1,603	3.0	1,165	10.4
Year ended June 30, 2022	11,493	2.7	1,519	34.4	1,556	32.9	1,055	25.5

	EPS	Fully diluted EPS	ROE	Ordinary income to total assets ratio	Operating margin
	Yen	Yen	%	%	%
Year ended June 30, 2023	44.34	—	13.8	12.1	11.6
Year ended June 30, 2022	40.16	—	13.5	13.0	13.2

(Reference) Equity in earnings of affiliates: As of June 2023, ¥11 million,

As of June 2022, ¥12 million

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended June 30, 2023	13,683	8,799	64.3	334.84
Year ended June 30, 2022	12,740	8,039	63.1	305.87

(Reference) Shareholders' equity: As of June 2023, ¥8,799 million

As of June 2022, ¥8,039 million

(3) Cash flow conditions

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
	Million yen	Million yen	Million yen	Million yen
Year ended June 30, 2023	3,122	(1,913)	(448)	4,694
Year ended June 30, 2022	1,486	(1,516)	(350)	3,932

2. Dividends

	Dividend per share					Total dividend payment	Dividend payout ratio (Non-consolidated)	Dividend to net asset ratio (Non-consolidated)
	Q1-end	Q2-end	Q3-end	Year-end	Annual			
Year ended June 30, 2022	Yen —	Yen 0.00	Yen —	Yen 17.00	Yen 17.00	Million yen 446	% 42.3	% 5.7
Year ended June 30, 2023	—	0.00	—	20.00	20.00	525	45.1	6.2
Year ending June 30, 2024 (Forecast)	—	15.00	—	25.0	40.0		66.1	

3. Forecast of financial results for the fiscal year ending June 30, 2024
(July 1, 2023 to June 30, 2024)

	Net sales		Operating income		Ordinary income		Net income		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	7,000	3.1	850	5.8	870	5.6	600	7.5	22.83
Full year	15,000	12.2	2,250	44.5	2,290	42.8	1,590	36.5	60.50

Notes

(1) Changes in Accounting Policies and Accounting Estimates / Restatements

- (i) Changes in accounting policies due to revisions of accounting standards, etc.: No
- (ii) Changes in accounting policies other than (i) above: No
- (iii) Changes in accounting estimates: No
- (iv) Restatements: No

(2) Number of shares issued

(i) Number of shares issued
(including treasury stock)

As of June 30, 2023	26,340,000	As of June 30, 2022	26,340,000
As of June 30, 2023	60,051	As of June 30, 2022	56,851
As of June 30, 2023	26,280,612	As of June, 2022	26,286,363

(ii) Number of shares of treasury stock

(iii) Average number of shares

Note: Summary of financial results are not subject to audit by a certified public accountant or audit corporations.

Note: Explanation on the proper use of financial forecasts

Forward-looking statements contained in these materials are based on currently available information and include uncertainties. Actual results may differ from forecast figures due to changes in business conditions.

Please refer to "1. Overview of Operating Results (4) Business and Other Forecasts" on page 6 of the accompanying materials for earnings forecasts.

The company intends to hold a financial results briefing for institutional investors and securities analysts on August 4, 2023. The materials for this presentation will be uploaded to the company's website soon after the event.

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1. Overview of Operating Results

(1) Overview of Operating Results for the Fiscal Year under Review

In FY06/2023, the domestic economy recovered moderately. In the credit card industry, our main area of business, the volume of transactions of credit card companies also rose year on year due to a recovery in consumer spending.

According to calculations by the Ministry of Economy, Trade and Industry (METI), the cashless payment ratio in 2022 was 36.0%, and the cashless payment value was ¥111 trillion, exceeding ¥100 trillion for the first time. METI has set a goal of raising the cashless payment ratio to around 40% by 2025.

In the credit card industry, demand for fraud detection is growing rapidly, and the move to cloud services is accelerating for system modernization and cost-effectiveness. There is also a growing appetite for IT investment in security across all industries.

In this business environment, our company is promoting a medium-term business plan for the three-year period concluding in the fiscal year ending June 30, 2025. We are strengthening and expanding our business foundation by reforming our business structure and extending our business domains. At the same time, we are working to establish a foundation for human resources and co-creation for our own sustainable growth.

To strengthen our business foundation, we are expanding our recurring-revenue* business by growing the cloud service, expanding our payment business domains by utilizing payment data and supporting customers' IT strategies. We are also expanding our business domains beyond the payment and financial industry, based on our technologies and experience in the payment and finance businesses, which are our strengths.

Regarding human capital foundation, we have established the Human Capital Management Promotion Office and are promoting human capital strategies that are consistent with our business strategies.

With regard to our co-creation foundation, we are deepening cross-organizational and all-employee participation-based initiatives and dialogues through internal activities such as the Business Reliability Project and IWI's New Work-Style Project.

In the fiscal year under review, net sales were ¥13,374 million (up 16.4% year on year), operating income was ¥1,556 million (up 2.4% year on year), ordinary income was ¥1,603 million (up 3.0% year on year), and net income was ¥1,165 million (up 10.4% year on year). Both net sales and net income reached record highs, and operating income reached the highest level in the past 20 years.

Recurring revenue, which we have been focusing on, also reached a record high. As a result, recurring revenue now accounts for almost 50% of net sales.

Orders on hand surpassed ¥10 billion for the first time, reaching ¥10,974 million (up 14.8% year on year).

In addition, we have transformed our business structure to be able to consistently post sales of more than 1 billion yen each month.

Net sales increased significantly for system development and cloud services in the payment and financial business, as well as for hardware renewal and security business. As a result, sales increased significantly this fiscal year, marking the fourth consecutive year of sales growth.

As for operating income, gross profit increased 15.4% from the previous year, almost in line with the target, while selling, general and administrative (SG&A) expenses increased due to human capital investments, including increase in wages, office environment improvement, and IT investment. However, we achieved our fifth consecutive year of profit growth.

Net income increased 10.4% from the previous year, the highest ever, due in part to the impact of Tax Credits for Promotion of Salary Increases.

In cloud services, net sales were ¥1,867 million (up 59.2% year on year). We received several large-scale orders in the fiscal year under review, resulting in orders of ¥4,421 million (up 27.7% year on year), and the order backlog was ¥6,695 million (up 61.6% year on year).

Our cloud services have become a viable option not only for credit card companies but also for new entrants into the payments business. These orders will contribute significantly to sales starting in the current fiscal year. We forecast sales of 2.5 billion yen in the fiscal year ending June 30, 2024, and sales of more than

3 billion yen in the fiscal year ending June 30, 2025.

In particular, our fraud detection cloud service, "IFINDS", has steadily increased the number of customers and improved profitability by adding a score-based fraud detection function using AI and a service to share fraudulent information between issuers. We have also begun developing cross-industry multi-user platforms, and as a top vendor of card fraud management solutions, we began tackling co-creation across industries.

"IGATES", the cloud service for network connection switching services, has received orders to develop a large-scale multi-user platform.

In the payment business domain, we are primarily developing front-end processing (FEP) systems* and fraud detection system for credit card companies. The core of the system consists of proprietary products, such as "NET+1" and "ACEPlus". In the development of FEP systems, we record separately the sales of in-house products and sales of system development that are customized to meet the functional requirements of customers and the sales of hardware equipped with developed software. In the security business domain, we are developing and selling "CWAT", an in-house product, "to prevent leaks of companies' internal information, as well as third-party products for cyber security measures.

*1 Recurring revenue: Revenue generated from projects and contracts on a regular basis

*2 Front-end processing (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

(2) Report of Financial Position

(Assets)

The balance of assets as of June 30, 2023 (end-FY06/2023) increased by 942 million yen from the end of the previous fiscal year to 13,683 million yen. Current assets decreased by 410 million yen from the end of the previous fiscal year to 7,863 million yen. This was mainly due to an increase of 761 million yen in cash and deposits and a decrease of 740 million yen in notes and accounts receivable - trade, and contract assets and of 300 million yen in securities.

Non-current assets increased by 1,353 million yen from the end of the previous fiscal year to 5,820 million yen. This was mainly due to an increase of 700 million yen in software, and 263 million yen in investment securities, and 214 million yen in tools, furniture and fixtures, net.

(Liabilities)

The balance of liabilities at the end of FY06/2023 increased by 182 million yen from the end of the previous fiscal year to 4,883 million yen. This was mainly due to a decrease of 467 million yen in accounts payable-trade and an increase of 439 million yen in advances received and 53 million yen in provision for retirement benefits.

(Net Assets)

The balance of net assets at the end of the FY06/2023 increased by 760 million yen from the end of the previous fiscal year to 8,799 million yen. This was mainly due to an increase of 718 million yen in retained earnings.

(3) Report of Cash Flows

The balance of cash and deposits at the end of FY06/2023 was 4,694 million yen, an increase of 761 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities in FY06/2023 amounted to 3,122 million yen, increasing from the

previous fiscal year by 110.1%. This was mainly due to the fact that income before income taxes in the fiscal year under review amounted to 1,603 million yen and depreciation costs of 970 million yen were recorded as a non-cash item.

(Cash flows from investing activities)

Net cash used in investing activities in FY06/2023 was 1,913 million yen (compared with 1,516 million yen used in the previous fiscal year). This was mainly due to the purchase of intangible assets of 1,415 million yen for the software development for sales purposes and the internal use.

(Cash flows from financing activities)

Net cash used in financing activities was 448 million yen (350 million yen used in the previous fiscal year). This was mainly due to cash dividends paid of 446 million yen.

Cash flow indicators are as follows.

	FY06/2022	FY06/2023
Shareholders' equity ratio (%)	63.1	64.3
Equity ratio based on market value (%)	161.9	147.1
Debt amortization schedule (number of years)	0.0	0.0
Interest coverage ratio (times)	-	-

(Notes) 1. Shareholders' equity ratio: Shareholders' equity/total assets

2. Equity ratio based on market value: Market capitalization/total assets

Market capitalization is calculated based on the number of shares outstanding excluding treasury stock.

3. Number of years for debt redemption: interest-bearing debt / operating cash flow

Interest-bearing debt refers to all liabilities on the balance sheet on which interest is paid.

4. Interest coverage ratio: operating cash flow / interest expenses

(4) Business and Other Forecasts

In August 2021, we announced our medium-term business plan target of "15ALL," which called for net sales of ¥15 billion and an operating income margin of 15% for the three-year period concluding in the fiscal year ending June 30, 2024.

At the end of every fiscal year, we review new three-year numerical targets on a rolling basis, considering progress against targets and other factors. However, in the fiscal year ended June 30, 2023, we did not review the numerical targets using the rolling method; we will aim to achieve the goals of "15ALL".

The forecast for the fiscal year ending June 30, 2024 is for net sales of ¥15 billion (up 12.2% year on year), operating income of ¥2.25 billion (up 44.5% year on year), and operating income margin of 15.0%.

In the payments business domain, we will accelerate fraud detection and expand our business domains.

In the cloud services business, we expect sales to increase significantly as orders continue to expand from the fiscal year ended June 30, 2022. We will work to expand the scale of business while improving the infrastructure environment and operation system as the number of users increases.

In the security business domain, we will accelerate the shift of our core products, such as CWAT, to cloud services, as well as promote business activities in Asia.

In the new business domain, AI-based solutions for manpower-saving stores and AI-based Japanese-language proofreading tools are in the pipeline, and we aim to expand them.

We will continue to promote structural reforms in the fiscal year ending June 30, 2024. At the same time, we will continue to invest in system quality improvement, human capital, and response to ESG issues, while aiming to achieve our goals in the final year of our medium-term business plan.

In addition, we will announce a new medium-term business plan starting in the fiscal year ending June 30, 2025.

2. Basic Policy on Selecting Accounting Standards

The company employs Japanese accounting standards for financial reporting.

The company's policy is to respond appropriately to the adoption of the International Financial Reporting Standards (IFRS) in light of various circumstances in Japan and overseas.

2. Financial Statements

(1) Balance Sheet

	Thousands of yen	
	The previous fiscal year (as of June 30,2022)	Current fiscal year (as of June 30,2023)
Assets		
Current assets		
Cash and deposits	3,932,647	4,694,621
Notes and accounts receivable - trade, and contract assets	2,723,400	1,982,679
Securities	300,381	-
Merchandise and finished goods	46,759	10,786
Work in process	257,338	216,725
Raw materials and supplies	9,261	20,112
Advance payments - trade	590,215	649,109
Prepaid expenses	412,767	288,329
Other	1,452	1,105
Total current assets	8,274,224	7,863,470
Non-current assets		
Property, plant and equipment		
Buildings	444,866	494,356
Accumulated depreciation	(227,319)	(243,982)
Buildings, net	217,547	250,373
Structures	16,479	16,479
Accumulated depreciation	(15,743)	(15,823)
Structures, net	735	655
Tools, furniture and fixtures	985,548	1,439,168
Accumulated depreciation	(587,363)	(826,334)
Tools, furniture and fixtures, net	398,185	612,833
Leased assets	159,724	159,724
Accumulated depreciation	(154,192)	(156,614)
Leased assets, net	5,531	3,110
Land	84,394	84,394
Construction in progress	-	74,413
Total property, plant and equipment	706,395	1,025,781
Intangible assets		
Software	1,640,255	2,340,911
Software in progress	405,777	394,149
Telephone subscription right	3,806	3,806
Total intangible assets	2,049,839	2,738,867
Investments and other assets		
Investment securities	916,484	1,179,719
Shares of subsidiaries and associates	24,680	24,680
Long-term prepaid expenses	70,798	75,315
Deferred tax assets	329,784	389,440
Other	368,562	386,367
Total investments and other assets	1,710,309	2,055,522
Total non-current assets	4,466,543	5,820,170
Total assets	12,740,768	13,683,641

	Thousands of yen	
	The previous fiscal year (as of June 30,2022)	Current fiscal year (as of June 30,2023)
Liabilities		
Current liabilities		
Accounts payable - trade	940,780	473,097
Lease obligations	2,637	1,207
Accounts payable - other	180,733	213,228
Accrued expenses	163,579	180,528
Income taxes payable	331,611	314,629
Advances received	1,885,029	2,324,707
Deposits received	134,786	145,297
Provision for bonuses	289,341	303,957
Provision directors' bonuses	45,885	41,782
Other	61,397	167,316
Total current liabilities	<u>4,035,783</u>	<u>4,165,752</u>
Non-current liabilities		
Lease obligations	3,421	2,213
Provision for retirement benefits	552,279	606,007
Provision for retirement benefits for directors (and other officers)	22,565	12,975
Asset retirement obligations	87,554	97,050
Total non-current liabilities	<u>665,820</u>	<u>718,247</u>
Total liabilities	<u>4,701,603</u>	<u>4,883,999</u>
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 capital surplus	<u>573,099</u>	<u>573,099</u>
Retained earnings		
Legal retained earnings	18,000	18,000
Other retained earnings		
General reserve	2,600,000	2,600,000
Retained earnings brought forward	3,581,843	4,300,282
Total retained earnings	<u>6,199,843</u>	<u>6,918,282</u>
Treasury shares	(26,712)	(26,712)
Total shareholders' equity	<u>7,589,980</u>	<u>8,308,419</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	449,184	491,222
Total valuation and translation adjustments	<u>449,184</u>	<u>491,222</u>
Total net assets	<u>8,039,164</u>	<u>8,799,641</u>
Total liabilities and net assets	<u>12,740,768</u>	<u>13,683,641</u>

(2) Income Statement

Thousands of yen

	Previous fiscal year (from July 1,2021 to June 30,2022)	Current fiscal year (from July 1,2022 to June 30,2023)
Net sales		
Net sales of finished goods	8,795,728	10,457,299
Net sales of goods	2,697,751	2,917,637
Total net sales	11,493,480	13,374,937
Cost of sales		
Cost of products manufactured	6,127,682	7,319,407
Cost of finished goods sold	6,127,682	7,319,407
Beginning goods	9,871	46,759
Cost of purchased goods	1,703,697	1,749,724
Total	1,713,568	1,796,484
Ending goods	46,759	10,786
Cost of goods sold	1,666,809	1,785,697
Total cost of sales	7,794,491	9,105,104
Gross profit	3,698,988	4,269,832
Selling, general and administrative expenses	2,179,069	2,713,236
Operating income	1,519,919	1,556,595
Non-operating income		
Interest income	42	14
Interest on securities	661	1,418
Dividend income	47,302	48,745
Other	4,902	7,740
Total non-operating income	52,908	57,920
Non-operating expenses		
Commitment fee	5,418	5,239
Foreign exchange losses	4,862	3,168
Compensation expenses	3,814	1,438
Other	2,639	1,500
Total non-operating expenses	16,735	11,346
Ordinary income	1,556,092	1,603,169
Income before income taxes	1,556,092	1,603,169
Income taxes - current	468,017	516,126
Income taxes - deferred	32,325	(78,209)
Total income taxes	500,343	437,917
Net income	1,055,749	1,165,252

(3) Statement of Changes in Net Assets

Previous term (from July 1, 2021 to June 30, 2022)

(Thousands of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings	Treasury stock
		Legal capital surplus	Other capital surplus	Total capital surplus		General reserve	Retained earnings brought forward		
Balance at beginning of period	843,750	559,622	13,477	573,099	18,000	2,600,000	3,003,359	5,621,359	(26,712)
Cumulative impact of accounting changes							(135,495)	(135,495)	
Balance at the beginning of current period reflecting accounting changes	843,750	559,622	13,477	573,099	18,000	2,600,000	2,867,864	5,485,864	(26,712)
Changes of items during period									
Dividends of surplus							(341,769)	(341,769)	
Net income							1,055,749	1,055,749	
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	-	-	713,979	713,979	-
Balance at end of period	843,750	559,622	13,477	573,099	18,000	2,600,000	3,581,843	6,199,843	(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 period	7,011,496	556,160	556,160	7,567,656
Cumulative impact of accounting changes	(135,495)			(135,495)
Balance at the beginning of current period reflecting accounting changes	6,876,000	556,160	556,160	7,432,161
Changes of items during period				
Dividends of surplus	(341,769)			(341,769)
Net income	1,055,749			1,055,749
Net changes of items other than shareholders' equity		(106,976)	(106,976)	(106,976)
Total changes of items during period	713,979	(106,976)	(106,976)	607,003
Balance at end of period	7,589,980	449,184	449,184	8,039,164

Current term (from July 1, 2022 to June 30, 2023)

(Thousands of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Legal retained earnings	Other retained earnings		Total retained earnings	Treasury stock
		Legal capital surplus	Other capital surplus	Total capital surplus		General reserve	Retained earnings brought forward		
Balance at beginning of period	843,750	559,622	13,477	573,099	18,000	2,600,000	3,581,843	6,199,843	(26,712)
Changes of items during period									
Dividends of surplus							(446,813)	(446,813)	
Net income							1,165,252	1,165,252	
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	-	-	718,439	718,439	-
Balance at end of period	843,750	559,622	13,477	573,099	18,000	2,600,000	4,300,282	6,918,282	(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 period	7,589,980	449,184	449,184	8,039,164
Changes of items during period				
Dividends of surplus	(446,813)			(446,813)
Net income	1,165,252			1,165,252
Net changes of items other than shareholders' equity		42,038	42,038	42,038
Total changes of items during period	718,439	42,038	42,038	760,477
Balance at end of period	8,308,419	491,222	491,222	8,799,641

(4) Cash Flow Statement

Thousands of yen

	Previous fiscal year (from July 1,2021 to June 30,2022)	Current fiscal year (from July 1,2022 to June 30,2023)
Cash flows from operating activities		
Income before income taxes	1,556,092	1,603,169
Depreciation	829,292	970,235
Share-based payment expenses	43,635	16,880
Increase (decrease) in provision for bonuses	(59,129)	14,616
Increase (decrease) in provision for directors' bonuses	2,523	(4,102)
Increase (decrease) in provision for retirement benefits	7,444	53,728
Increase (decrease) in provision for directors' retirement benefits	15	(9,590)
Interest and dividend income	(48,006)	(50,179)
Compensation expenses	3,814	1,438
Commitment fee	5,418	5,239
Decrease (increase) in notes and accounts receivable	(716,504)	1,180,398
Decrease (increase) in inventories	(88,302)	65,735
Increase (decrease) in notes and accounts payable	518,469	(519,295)
Other	(226,390)	288,493
Subtotal	<u>1,828,373</u>	<u>3,616,773</u>
Interest and dividends received	48,006	49,629
Commitment fee paid	(5,415)	(5,241)
Compensation expenses paid	—	(4,621)
Income taxes paid	(384,733)	(534,427)
Cash flows from operating activities	<u>1,486,230</u>	<u>3,122,112</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(248,716)	(577,142)
Purchase of intangible assets	(1,289,557)	(1,415,719)
Purchase of investment securities	(1,833)	(202,643)
Proceeds from redemption of securities	—	300,000
Collection of loans receivable	2,120	80
Cancellation of insurance funds	21,325	21,185
Other	173	(38,854)
Cash flows from investing activities	<u>(1,516,487)</u>	<u>(1,913,094)</u>
Cash flows from financing activities		
Cash dividends paid	(341,131)	(446,355)
Repayments of lease obligations	(9,787)	(2,637)
Cash flows from financing activities	<u>(350,918)</u>	<u>(448,992)</u>
Effect of exchange rate change on cash and cash equivalents	6,122	1,949
Net increase (decrease) in cash and cash equivalents	<u>(375,052)</u>	<u>761,974</u>
Cash and cash equivalents at beginning of period	<u>4,307,699</u>	<u>3,932,647</u>
Cash and cash equivalents at end of period	<u>3,932,647</u>	<u>4,694,621</u>

(5) Notes

(Notes on the Going Concern Assumption)

Not applicable.

(Significant accounting policy)

1. Accounting for evaluation of assets

(1) Valuation basis and valuation method of securities

Securities in affiliates	Cost basis by moving average method
Held-to-maturity debt securities	Amortized cost (straight-line method)
Other securities	Available-for-sale with market value: Securities are stated at fair value based on market prices as of the balance sheet date. (Unrealized gains and losses reported in a separate component of equity. Cost of selling is determined by the moving average method.)
Available-for-sale without market value	Cost basis by moving average method

(2) Evaluation criteria and method of inventory valuation

Merchandise, work in process and supplies

Inventories are stated at cost determined by the specific identification. (The balance sheet amounts are written down to reflect declines in profitability.)

2. Depreciation and amortization

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

Declining balance method

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

The useful lives of property, plant and equipment are follows:

Buildings	8 to 50 years
Structures	10 to 20 years
Tools, furniture and fixtures	4 to 15 years

(2) Intangible assets (excluding leased assets)

Straight-line method

Software for internal use is amortized using the straight-line method over its estimated useful life (five years). Software for sale is stated at the higher of amortization based on estimated sales revenue or straight-line depreciation based on the remaining useful life of the software (three years).

(3) Leased asset

The straight-line method is used with the lease term as the useful life and the residual value as zero.

3. Accounting for reserves

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on uncollectible receivables. The allowance for doubtful accounts is provided at an amount calculated based on the historical write-off ratio for general receivables and an estimate of the uncollectible amount for specific doubtful receivables.

(2) Provision for product warranties

Estimated losses are recorded to prepare for expenses associated with product warranties.

(3) Provision for bonuses

Allowance for employees' bonuses is provided at an estimated amount to be paid in the current fiscal year.

(4) Provision for directors' bonuses

Accrued bonuses to directors and corporate auditors are provided at an amount calculated based on the estimated amount to be paid in the current fiscal year.

(5) Liability for retirement benefits

Accrued retirement benefits for employees are provided based on the retirement benefit obligation at the end of the current fiscal year.

- | | | |
|-----|---|---|
| i. | Method of attributing estimated retirement benefits to periods | In calculating retirement benefit obligations, the benefit formula basis is used to attribute the estimated amount of retirement benefits to the period up to the end of the current fiscal year. |
| ii. | 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 employees at the time of occurrence.
Actuarial gains and losses are amortized on a straight-line basis over 10 years, which is shorter than the average remaining years of service of the eligible employees, starting from the year following the year in which they are incurred. |

(6) Provision for directors' retirement benefits

To prepare for the payment of retirement benefits to directors and corporate auditors, the amount that would be required to be paid at the end of the fiscal year is recorded in accordance with the Company's internal rules.

4. Accounting standard for revenues and expenses

Revenues originating from contracts with clients

We recognize the revenues by applying the following five steps.

Step 1: Identify the contracts with clients

Step 2: Identify performance obligation stemming from the contracts

Step 3: Calculate the transaction price.

Step 4: Allocate the transaction price to respective performance obligations stemming from the contracts

Step 5: Recognize the revenues once the performance obligations have been fulfilled (or during the process of fulfilling the obligations)

We develop software and sell products and goods, offer maintenance and other services, and we recognize respective revenues as follows.

Revenues are measured based on the compensation stated in the contract with each client and exclude any sums collected for a third party. We recognize the revenues once the goods or services have been transferred the client.

Compensation for the performance obligation is mainly received within one year after fulfilling the performance obligation and does not contain any important financial elements.

i. Software development

Revenue sources from software development encompass system development based on entrustment contracts or quasi-mandate contracts.

transactions based on entrustment contracts, we recognize the revenue gradually as the system development progresses with employing the cost to cost method (sum corresponding to the ratio of actually incurred cumulative costs to the total estimated cost as of the last day of the term). Revenues recognized before billing clients are recognized as contract assets.

With regard to transactions based on quasi-mandate contracts, where a certain level of service is typically provided during the contract period, we consider the performance obligation to be fulfilled with time and recognize the revenue based on a proportional division of the sum promised in the contract with each client during the period of providing the service.

ii. Products and goods

Revenues from the sale of products and goods is generated through hardware, software, etc.

Our performance obligation is fulfilled by adhering to delivery requirements specified in contracts. This includes handover of the products and goods such as hardware and software to clients and accepting the receipt and inspection. At the point, we recognize the revenue as the sum promised in the contract with the client.

Regarding the sale of software, specifically our in-house security tools, there is no significant difference in the time of shipping and handing over products to clients. As the client has acquired control over the products at the point of shipment, therefore, revenue is recognized at the point of shipment.

For the sale of goods, in cases where our company acts as an agent, revenue recognition is calculated as the net price. This net price results from deducting the sum paid to another party from the sum received for exchanging the goods provided by said other party. We recognize the revenue once the arrangements for delivering the goods to clients have been completed.

iii. Services

Revenues from the provision of services encompass maintenance, subscriptions, and cloud services.

These transactions involve everyday or repetitive services, and our performance obligation is fulfilled over time as we provide services to clients based on contracts. We recognize the revenue by proportionally dividing the sum promised in the contract with the client during the period of providing the service. However, in cases where the sum is not significant, we recognize the revenue as a one-time revenue in the starting month of the maintenance or other service.

5. Scope of Cash and Cash Equivalents in the Statement of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, cash withdrawable on demand, and short-term investments with original maturities of three months or less which are readily convertible to known amounts of cash and present insignificant risk of changes in value.

(Equity in earnings of affiliates, etc.)	(Thousands of yen)	
	Previous term end (as of June 30,2022)	Current term end (as of June 30, 2023)
Investments in affiliates	24,680	24,680
Investments accounted for using the equity method	140,638	151,271
Equity in earnings of affiliates	12,343	11,518

(Business Segment)

Business segment information is omitted because the company has a single reportable segment.

(Revenue recognition)

Categorized information on revenue from contracts with customers

Thousands of yen

	Previous fiscal year (from July 1, 2021 to June 30, 2022)	Current fiscal year (from July 1, 2022, to June 30, 2023)
Net sales		
Software development	4,288,425	4,846,606
In-house products	392,620	305,203
System services	40,750	20,027
Third-party products	1,566,771	1,645,279
Maintenance	2,639,944	3,173,396
Maintenance of third-party products	614,344	725,808
Own services	1,434,528	2,112,066
Other services	516,095	546,549
Total	11,493,480	13,374,937
Timing of revenue recognition		
Goods and services transferred at a point in time	4,140,651	4,188,089
Goods and services transferred at a period of time	7,352,829	9,186,848
Total	11,493,480	13,374,937

(Earnings per share)

The amounts of net income per share with the respective bases of calculation are as follows.

Items	Previous fiscal year (from July 1, 2021 to June 30, 2022)	Current fiscal year (from July 1, 2022 to June 30, 2023)
Net assets per share (Yen)	305.87	334.84
Net income per share (Yen)	40.16	44.34

*1. No dilutive share exist, so fully diluted EPS are not represented.

*2. Net income per share is based on following information:

Items	Previous term (from July 1, 2021 to June 30, 2022)	Current term (from July 1, 2022 to June 30, 2023)
Net income per share (Yen)		
Net income (Thousands of yen)	1,055,749	1,165,252
Non attributable to common shareholders	—	—
Net income attributable to common stocks (Thousands of yen)	1,055,749	1,165,252
Weighted-average number of common stocks outstanding for the period	26,286,363	26,280,612
An overview of the potential shares that were not included in the calculation of diluted earnings per share due to their lack of dilutive effect	-	-

(Significant subsequent events)

Not applicable