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Information Disclosure on the Internet Regarding the Notice of the 34th Annual General Meeting of Shareholders

Business Report

3. **Overview of System to Ensure Appropriateness of Operations and Its Implementation Status**

Consolidated Statement of Changes in Equity

Non-consolidated Statement of Changes in Equity

Notes to Consolidated Financial Statements

Notes to Non-consolidated Financial Statements

(From April 1, 2021 to March 31, 2022)

SB Technology Corp.

These documents have been provided to shareholders on the Company’s website (https://www.softbanktech.co.jp/) pursuant to provisions of laws and regulations as well as Article 16 of the Articles of Incorporation.

Business Report

3. Overview of System to Ensure Appropriateness of Operations and Its Implementation Status

The Board of Directors of the Company has resolved to adopt the basic policies described below for the establishment of a system to ensure appropriateness of operations. In accordance with these basic policies, the Company is determined to continue to build a more effective internal control system while ensuring the appropriateness of business operations.

Note that with the current status of the control system considered, the basic policies for the internal control system were revised at the Board of Directors meeting held on March 23, 2022. Specifically, the Company has abolished the Management Issues Review Committee with the enhancement of governance by an increase in the ratio of External Members of the Board. This revision has been reflected in the following revised basic policies.

(1) System to ensure that the execution of professional duties by Members of the Board and employees conform to laws and regulations and to the Articles of Incorporation

Based on the Officer and Employee Code of Conduct, the Company is striving to raise awareness of compliance through compliance training for Members of the Board and employees, and to thoroughly execute duties based on various compliance-related regulations.

In addition, in accordance with the Officer and Employee Code of Conduct, the Company rejects any involvement with antisocial forces and strives to develop internal measures, such as the inclusion of clauses for the exclusion of organized crime groups in various basic contracts, in order to take a resolute stance against such forces and deal with them appropriately.

The Company conducts periodic monitoring in accordance with the Internal Audit Regulations and other internal regulations to ensure compliance with laws and regulations and the Articles of Incorporation relating to the execution of duties by Members of the Board and employees.

In addition, while increasing the ratio of External Members of the Board to enhance the governance, the Company discusses medium-to long-term management issues, oversight of management execution, compliance assurance, and corporate governance issues.

(2) System for the maintenance and management of information with respect to execution of duties by Members of the Board

The Company manages the minutes of General Meetings of Shareholders, minutes of meetings of the Board of Directors, minutes of meetings of the Audit & Supervisory Board, business reports, and financial statements by the department in charge in accordance with laws and regulations, the Articles of Incorporation, and the Document Retention Management Regulations.

In addition, documents related to the execution of business by Members of the Board are kept and managed by the respective departments in charge in accordance with laws and regulations and the Document Retention Management Regulations. Members of the Board ensure that all employees are fully aware of such practice.

(3) Regulations for managing risks of loss and other systems

The Company identifies external and internal risks that threaten the sustained development of the Company and the safety of officers and employees, and takes the following measures to respond to them:

- The Company has formulated the Crisis Management Regulations and the Basic Guidelines for Crisis Management as rules for appropriately recognizing and managing risks, appointed a manager to be responsible for risk management, and appointed a supervisory department for each risk according to the type of risk, and established a risk management system for the Company.
- The Risk Management Committee has been established to collect, analyze, and prevent information on risks.
- In the event that a serious risk materializes, the Company will establish an emergency headquarters and take appropriate measures to minimize damage.

With regard to crisis management for disasters, etc., the Company strives to ensure the safety of its officers and employees by introducing a safety confirmation system and other measures.

Furthermore, in order to lead information security activities, the Company has established an Information Security Measures Committee to develop an information security system based on various information-related regulations, as well as to conduct audits and education.

(4) System for ensuring efficient execution of duties by Members of the Board

The Company clarifies the duties and operations of the Board of Directors in the Regulations of the Board of Directors and specifies matters to be resolved and reported. In addition, the Company ensures an efficient management system by optimizing the authority of duties and decision-making through the Authority Regulations.

In addition, the term of office for Members of the Board is set at one year in order to ensure an agile response to changes in the business environment and to clarify the management responsibilities of Members of the Board. At the same time, the Company has introduced an executive officer system to clarify management responsibilities and improve the efficiency of decision-making and business execution.

(5) System to ensure appropriate business operations within the SB Technology Group

The Company has established the SBT Group Charter, which serves as a common code of conduct for the Group. In addition, in order to ensure smooth business operations while respecting the autonomy of Group companies, the Company has established the SBT Group Company Management Regulations and established supervisory divisions to improve the integrity and efficiency of Group management, as well as to establish the following systems:

- The Company dispatches officers to major subsidiaries and, through the Boards of Directors of its subsidiaries, monitor the business conditions and financial condition of subsidiaries. In addition, every month the Company’s Board of Directors reports on the content of the business operations and considers matters of importance.
- The Company has established the SBT Group Compliance Regulations and are promoting compliance throughout the Group. At the same time, we are expanding the scope of our Free Access Line (hotline) to cover all Group companies in the interests of ensuring the effectiveness of compliance within the Group.
- In order to develop and strengthen risk management throughout the entire Group, the Company has established the SBT Group Risk Management Regulations and, as necessary, conducts operational audits of its subsidiaries in order to effectively monitor risks.

(6) Matters related to the system concerning employees who are to assist in the duties of Audit & Supervisory Board Members, matters concerning the independence of such employees from the Members of the Board, and matters concerning ensuring the effectiveness of instruction given to such employees

The Company does not currently have a dedicated employees assigned to assist the Audit & Supervisory Board Members in their duties. However, when requested by the Audit & Supervisory Board Members, employees in each division, including the Internal Audit Office, shall assist in such duties. Employees who assist in the duties of Audit & Supervisory Board Members shall prioritize instructions given by Audit & Supervisory Board Members when they receive such instructions, and shall not be subject to the instructions of Members of the Board, etc. with respect to such instructions.

(7) System for Members of the Board and employees of the Company and subsidiaries to report to Audit & Supervisory Board Members, and other systems for reporting to Audit & Supervisory Board Members

Members of the Board and employees of the Company and its subsidiaries are required to immediately report any violation of laws and regulations, of the Articles of Incorporation, or the existence of any other fact that is likely to cause serious damage to the Company in the course of business operation. Furthermore, Members of the Board of the Company and its subsidiaries are required to make the forementioned reporting obligations known to the employees.

In addition, Members of the Board and employees are required to promptly report on matters related to business execution from the Audit & Supervisory Board Members when they are required to do so.

Yet further, the Audit & Supervisory Board Members receive reports on the results of audits from the Internal Audit Office, and when they are aware of the need for additional audits and improvement measures, they can issue instructions as necessary. The Company and its subsidiaries prohibit the adverse treatment of persons who have made these reports to Audit & Supervisory Board Members, and make known such practice.

(8) Matters concerning the procedure for advance payment or redemption of expense incurred in the performance of duties by Audit & Supervisory Board Members, as well as other policies for handling liabilities incurred in the performance of duties

When the Audit & Supervisory Board Member requests advance payment of necessary expenses for the execution of his/her duties, etc., the Company promptly handles such expenses or liabilities.

(9) Other systems to ensure effective audits by Audit & Supervisory Board Members

The Audit & Supervisory Board Members receive reports on the results of audits from the Internal Audit Office and the Accounting Auditor, and cooperate in the implementation of audits.

In addition, the Audit & Supervisory Board Members and the Internal Audit Office hold regular liaison meetings to share information, report on the status of implementation of respective audits, and maintain close communication regarding the implementation of other cooperative audits.

In order to supervise the Accounting Auditor and ensure the independence of the Accounting Auditor from the Members of the Board, the Audit & Supervisory Board independently receives reports on the audit results of the Accounting Auditor.

In addition, Audit & Supervisory Board Members attend meetings of the Board of Directors, express their opinions, and make recommendations and reports as the Audit & Supervisory Board.

(10) System to ensure appropriateness and reliability of financial reporting

To ensure the appropriateness and reliability of financial reporting, the Company has formulated a Basic Policy on Internal Control over Financial Reporting, and have established a system to promote internal control, including the establishment of an Internal Control Committee and the appointment of an officer in charge of supervision.

Furthermore, in order to properly respond to the Financial Instruments and Exchange Act and other related laws and regulations, the Company is working to improve the reliability of financial reporting by establishing an information processing system.

(Overview of implementation status of the system to ensure appropriateness of operations)

The following summarize the Company’s major efforts and activities in the fiscal year under review in accordance with the basic policies stated above.

(1) The Officer and Employee Code of Conduct and a compliance manual (code of conduct) have been made available on the intranet for all officers and employees to be able to access them. In addition, to raise and maintain awareness of compliance, the compliance awareness month is set up every year. In the compliance month in the fiscal year under review, the Company provided all officers and employees with compliance training.

(2) Material risks of the Company and the Group companies have been reported periodically or as needed by officers in charge or other members at the Board of Directors meetings and other important internal meetings, where measures against risks and approaches to mitigating and preventing risks are discussed.

(3) The Board of Directors meetings were held 12 times in the fiscal year under review. At these meetings, the Company discussed and made decisions on important matters related to business operations including the Group’s business policies and strategies as well as matters stipulated by laws and regulations and the Articles of Incorporation. The Board of Directors also received reports on the statuses of business

operation of the Members of the Board and the business results of the Group companies at these meetings.

(4) The Audit & Supervisory Board Members performed audit in accordance with the audit plans stipulated at meetings of the Audit & Supervisory Board and ensured the effectiveness of audit through attending the Board of Directors meetings and important internal meetings, examining approved documents, and inspecting the statuses of businesses and assets, as well as through periodic meetings with Representative Directors, the Accounting Auditor and the Internal Audit Office.

(5) The Company's Members of the Board, etc. assumed office as the Members of the Board and Audit & Supervisory Board Members of the Group companies and supervised and audited the business operations of the companies. In addition, a department in charge of managing the Group companies was established and required to report the progress of the business operations of the Group companies as needed or periodically. Furthermore, whenever necessary, respective departments of the Company instructed and supervised the corresponding business operations of the Group companies.

Consolidated Statement of Changes in Equity

(April 1, 2021 – March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2021	1,235	1,327	17,271	(1,568)	18,266
Cumulative effects of changes in accounting policies	–	–	(202)	–	(202)
Restated balance	1,235	1,327	17,068	(1,568)	18,063
Changes during period					
Issuance of new shares	18	18	–	–	37
Dividends of surplus	–	–	(910)	–	(910)
Profit attributable to owners of parent	–	–	3,630	–	3,630
Purchase of treasury shares	–	–	–	(0)	(0)
Disposal of treasury shares	–	24	–	13	37
Change in ownership interest of parent due to transactions with non-controlling interests	–	196	–	–	196
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during period	18	239	2,720	12	2,992
Balance as of March 31, 2022	1,254	1,567	19,789	(1,555)	21,055

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of April 1, 2021	(14)	3	(10)	233	1,088	19,577
Cumulative effects of changes in accounting policies	–	–	–	–	–	(202)
Restated balance	(14)	3	(10)	233	1,088	19,375
Changes during period						
Issuance of new shares	–	–	–	–	–	37
Dividends of surplus	–	–	–	–	–	(910)
Profit attributable to owners of parent	–	–	–	–	–	3,630
Purchase of treasury shares	–	–	–	–	–	(0)
Disposal of treasury shares	–	–	–	–	–	37
Change in ownership interest of parent due to transactions with non-controlling interests	–	–	–	–	–	196
Net changes in items other than shareholders' equity	16	0	17	46	948	1,012
Total changes during period	16	0	17	46	948	4,004
Balance as of March 31, 2022	2	4	7	279	2,037	23,379

Note: All amounts are rounded down to the nearest million yen.

Non-consolidated Statement of Changes in Equity

(April 1, 2021 – March 31, 2022)

(Millions of yen)

	Shareholders' equity						
		Capital surplus			Retained earnings		
						Other retained earnings	
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Retained earnings brought forward	Total retained earnings
Balance as of April 1, 2021	1,235	1,313	–	1,313	5	15,068	15,074
Cumulative effects of changes in accounting policies	–	–	–	–	–	(198)	(198)
Restated balance	1,235	1,313	–	1,313	5	14,870	14,876
Changes during period							
Issuance of new shares	18	18	–	18	–	–	–
Dividends of surplus	–	–	–	–	–	(910)	(910)
Profit	–	–	–	–	–	3,136	3,136
Purchase of treasury shares	–	–	–	–	–	–	–
Disposal of treasury shares	–	–	24	24	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	–	–
Total changes during period	18	18	24	43	–	2,225	2,225
Balance as of March 31, 2022	1,254	1,332	24	1,356	5	17,096	17,102

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of April 1, 2021	(1,568)	16,055	(14)	(14)	229	16,270
Cumulative effects of changes in accounting policies	–	(198)	–	–	–	(198)
Restated balance	(1,568)	15,856	(14)	(14)	229	16,072
Changes during period						
Issuance of new shares	–	37	–	–	–	37
Dividends of surplus	–	(910)	–	–	–	(910)
Profit	–	3,136	–	–	–	3,136
Purchase of treasury shares	(0)	(0)	–	–	–	(0)
Disposal of treasury shares	13	37	–	–	–	37
Net changes in items other than shareholders' equity	–	–	16	16	46	62
Total changes during period	12	2,300	16	16	46	2,363
Balance as of March 31, 2022	(1,555)	18,157	2	2	276	18,436

Note: All amounts are rounded down to the nearest million yen.

Notes to Consolidated Financial Statements

1. Notes on Significant Accounting Policies for Preparation of Consolidated Financial Statements

(1) Scope of consolidation

1) Status of consolidated subsidiaries

- Number of consolidated subsidiaries: 14 companies
- Names of consolidated subsidiaries: Names of major consolidated subsidiaries are listed in "1. Status of the Group, (6) Major Parents and Subsidiaries" in the Business Report.

  Integral Vision Graphics Inc was included in the scope of consolidation in the fiscal year under review following the acquisition of its additional shares by the Company.

  Lineo Holdings Co., Ltd. was excluded from the scope of consolidation following the completion of its liquidation in February 2022.

2) Status of unconsolidated subsidiaries

Not applicable.

(2) Application of equity method

1) Status of unconsolidated subsidiaries and associates accounted for using equity method

- Number of unconsolidated subsidiaries and associates accounted for using equity method

  2 companies

- Names of unconsolidated subsidiaries and associates accounted for using equity method

  Nippon Registry Authentication Inc.

  Renazon Technology (S) Pte. Ltd.

2) Status of major unconsolidated subsidiaries and associates not accounted for using equity method

Not applicable.

3) Specific information deemed necessary about application of equity method

When the fiscal year of a company accounted for using equity method differs from the fiscal year of the Company, that company is consolidated based on its provisional financial statements as of the Company's fiscal year-end.

(3) Fiscal years of consolidated subsidiaries

The consolidated subsidiaries Cyber Secure Asia (S) Pte. Ltd., Cybersecure Tech Inc., and Integral Vision Graphics Inc have fiscal years ending on December 31, December 31, and January 31, respectively.

They are consolidated using the financial statements prepared as of their fiscal year-end, with necessary adjustments for significant transactions arising between their fiscal year-end and the Company's fiscal year-end.

The fiscal year-end of the other consolidated subsidiaries is the same as that of the Company.

(4) Accounting policies

1) Valuation of significant assets

a) Available-for-sale securities

- Securities other than shares, etc. that do not have a market price	Stated at fair value (with the entire amount of valuation differences recorded directly into net assets, and the cost of securities sold calculated using the moving-average method).
- Shares, etc. that do not have a market price	Stated at cost using the moving-average method. Investments in investment limited partnerships and other similar partnerships (those deemed as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are stated at an amount equivalent to the share of net assets of such partnerships, based on the latest financial statements available as of the reporting date stipulated in the partnership agreement.

b) Inventories

- Merchandise	Stated primarily at cost using the weighted-average method (a method in which book value is written down based on any decline in profitability).
- Work in process	Stated primarily at cost using the specific identification method (a method in which book value is written down based on any decline in profitability).

2) Depreciation and amortization of significant assets

a) Property, plant and equipment (excluding leased assets)	Depreciated primarily using the straight-line method. The major useful lives are as follows: Buildings: 8 to 15 years Tools, furniture and fixtures: 4 to 15 years
b) Intangible assets (excluding leased assets)	Amortized using the straight-line method. Software for internal use is amortized over a period of 3 to 5 years during which it is expected to be available internally. Customer relationships are amortized over a period of 8 to 12 years during which its effect is expected to continue.
c) Leased assets	Depreciated using the straight-line method over the lease term with zero residual value (the guaranteed residual value, in the case of lease contracts with residual value guarantees).

3) Recognition of significant allowances and provisions

a) Allowance for doubtful accounts	To provide for potential credit losses on receivables, allowance for doubtful accounts is recorded at an estimated amount of uncollectible receivables calculated based on the historical rate of credit loss for general receivables and determined in consideration of collectibility of individual receivables for doubtful accounts and certain other receivables.
b) Provision for bonuses	To provide for the payment of bonuses to employees, provision for bonuses is recorded at an amount accrued for the fiscal year under review out of the estimated amount to be paid.

c) Provision for loss on orders received	To provide for potential losses on orders received, provision for loss on orders received is recorded at an estimated amount of losses on orders on hand as of the end of the fiscal year under review that are highly likely to be incurred and can be reasonably estimated.
d) Provision for defect repair	To provide for potential liability for defect warranty in orders received, provision for defect repair is recorded at an estimated amount of defect repair expenses in consideration of the likelihood of incurring such expenses on an individual basis.

4) Retirement benefits

Certain consolidated subsidiaries determine retirement benefit liability and retirement benefit expenses by adopting the simplified method, which assumes the retirement benefit obligations to be the amount that would be payable if all eligible employees voluntarily terminated their services at the end of the fiscal year.

5) Recognition of revenue and expenses

The Group recognizes revenue by applying the following five steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group's major standards for revenue recognition are as follows:

a) Business IT Solutions, Corporate IT Solutions, and Technical Solutions

The Group mainly provides system design and construction services, and equipment sales to its customers.

<u>System development contracts, system operation and monitoring contracts, and other maintenance services</u>

(i) System development contracts involve obligations to deliver outcomes. The performance obligation of such contracts is considered to be satisfied as the tasks progress towards making the outcomes available for the customer. Accordingly, when the progress towards satisfaction of the performance obligation can be reasonably estimated, revenue is recognized based on that progress.

(ii) System operation and monitoring contracts and other maintenance services involve obligations to continue providing services over the contract period. The performance obligation of such contract services is considered to be satisfied as time passes during the period. Accordingly, the progress is estimated based on the elapsed service period as a percentage of the contractual service period, and revenue is recognized based on that progress.

<u>Sales of equipment and other products</u>

The sales of equipment and other products involve obligations to deliver products to customers. The performance obligation of such sales is considered to be satisfied, not over time, but at a point in time. Accordingly, revenue is recognized at a point in time when control of the product is transferred to the customer.

The time when control of the product is transferred is determined to be the time when the product is shipped, because the period from the shipment to the customer acceptance is ordinary for domestic sales.

b) EC Solutions

The Group is engaged in the sales of IT-related products and font licenses in EC sites that it owns as well as in EC sites that it operates as an agent.

EC site management agency business

The EC site management agency business mainly provides the sales of software licenses and rights to receive ongoing services owned by other companies. In the case where a license key is issued for each sale, the customer can use the software immediately upon completion of the procedures after the issuance. Accordingly, control is considered to have been transferred at the time of issuance, and revenue is recognized at that time.

In the case of contract renewal transactions for ongoing services, the customer is assured to receive ongoing services at the time of renewal transaction. Accordingly, control is considered to have been transferred at the time of renewal transaction, and revenue is recognized at that time.

The EC Solutions business is determined to act as an agent rather than as a principal, by comprehensively considering the degree of primary responsibility for performance obligations, the absence of inventory risk, the extent of discretionary authority over pricing, and other relevant factors. As a result, a net amount of revenue, after deducting purchase prices to be paid to suppliers from the amount to be received from the customer, is recognized as revenue.

Sales of font licenses

Fontworks Inc., a subsidiary of the Company, provides the sales of its own font licenses through its own websites and other means. There is no contractual requirement to engage in activities that significantly affect the intellectual property to which the customer will have rights as a result of this licensing activity. Based on this fact, licensing to a customer only commits to providing the right to use intellectual property that exists at the time of licensing (the right of use). Accordingly, the performance obligation is considered to be satisfied at the inception of the license, irrespective of the license period, and revenue is recognized at a point in time.

If customization work is required before licensing, licensing will begin after such work is completed.

6) Amortization of goodwill

Goodwill is amortized by the straight-line method over a reasonably estimated period of 5 to 10 years during which its effect is expected to continue. However, immaterial goodwill is expensed immediately at the time of acquisition.

7) Other significant accounting policies for preparation of consolidated financial statements

Deferred assets	Share issuance costs are amortized by the straight-line method over a period of 3 years.

2. Notes on Changes in Accounting Policies

(1) The Group started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 dated March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. at the beginning of the fiscal year under review. Under the standard, revenue is recognized, when the Group transfers the control of a promised good or service to a customer, in an amount that the Group expects to receive in exchange for such good or service. The principal changes resulting from the above are as follows:

1) In EC Solutions, the gross amount was previously used in revenue recognition for the EC site management agency business based on the classification of the principal transaction. Under the newly applied accounting standard, it is classified as an agent transaction and a net amount of revenue, after deducting purchase prices to be paid to suppliers from the amount to be received from the customer, is recognized as revenue.

2) In development contracts, the Group had previously applied the percentage-of-completion method as the revenue recognition standard for construction contracts whose outcome was deemed certain, and the completed-contract method for other construction contracts. Under the newly applied accounting standard, a development contract is judged to be a performance obligation to be satisfied over a certain period. The progress towards satisfaction of the performance obligation is reasonably estimated, and revenue is recognized based on that progress. In cases where cost incurred is expected to be collected, although the progress cannot be reasonably estimated, revenue is recognized using the cost recovery method. The progress towards satisfaction of the performance obligation is estimated based on the cost incurred as a percentage of estimated total cost (input method).

The Revenue Recognition Accounting Standard, etc. is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. A new accounting policy is applied starting at the beginning of the fiscal year under review, using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the fiscal year under review, either by adding it to or deducting it from retained earnings as of the beginning of the fiscal year under review.

As a result, net sales and cost of sales for the fiscal year under review decreased by 16,989 million yen and 17,036 million yen, respectively. Operating profit, ordinary profit and profit before income taxes for the fiscal year under review increased by 47 million yen, 47 million yen and 47 million yen, respectively. The balance of retained earnings as of the beginning of the fiscal year under review declined by 202 million yen.

With the application of the Revenue Recognition Accounting Standard, etc., "notes and accounts receivable - trade" posted under "current assets" on the consolidated balance sheet of the previous fiscal year are included in "notes and accounts receivable - trade and contract assets" starting in the fiscal year under review. "Advances received" previously posted under "current liabilities" are now included in "contract liabilities" under "current liabilities," and "long-term advances received" posted under "non-current liabilities" are included in "contract liabilities" under "non-current liabilities."

A portion of "notes and accounts receivable - trade" posted under "current assets" is now included in "other," and a portion of "accounts payable - trade" posted under "current liabilities" is now included in "accounts payable - other."

(2) The Group started to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 dated July 4, 2019; hereinafter, "Fair Value Measurement Accounting Standard"), etc. at the beginning of the fiscal year under review. It also decided to apply new accounting policies stipulated in the Fair Value Measurement Accounting Standard, etc. prospectively, in accordance with Paragraph 19 of the Fair Value Measurement Accounting Standard, etc. and provisional measures stipulated in Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 dated July 4, 2019). There is no impact on the consolidated financial statements.

3. Notes on Accounting Estimates

Items for which accounting estimates were included in the consolidated financial statements for the fiscal year under review and that may have a significant impact on the consolidated financial statements for the following fiscal year are as follows:

(1) Net sales for which revenue is recognized according to the estimated progress and provision for loss on orders received

1) Amount recorded in consolidated financial statements

Net sales for which revenue is recognized according to the estimated progress	7,749 million yen
(Amount of the portion in progress as of the fiscal year-end	3,454 million yen)
Provision for loss on orders received	403 million yen

2) Other information to help understanding the nature of estimates

The Company recognizes revenue from a construction contract over a certain period as the performance obligation is satisfied. The progress towards satisfaction of the performance obligation is measured appropriately based on the cost actually incurred as a percentage of estimated total construction cost. Revenue is recognized based on that progress. When the estimated total construction cost exceeds the contract amount, provision for loss on orders received is recorded at an amount of the excess, i.e., loss, in the case that the loss is highly likely to be incurred and can be reasonably estimated.

The estimated total construction cost, which is the common basis for the calculation of these two items, may vary as the construction progresses. Possible factors that cause changes in the estimate include differences between the Company and its customers in the specifications of deliverables and the scope of work, the need for additional man-hours due to unexpected accidents, and the unforeseeable effects of unexperienced technological elements. The impact of such changes in the estimate is recorded in income or loss for the fiscal year in which the changes are made, and thereby may affect the consolidated financial statements for the following fiscal year.

(2) Impairment losses on software and software in progress attributable to IoT services of the Company's subsidiary Cybertrust Japan Co., Ltd.

1) Amount recorded in consolidated financial statements

Software	537 million yen
Software in progress	7 million yen

2) Other information to help understanding the nature of estimates

Cybertrust Japan Co., Ltd. (hereinafter, "Cybertrust"), a subsidiary of the Company, holds software and software in progress as major assets to provide IoT services.

Cybertrust's asset groups are grouped into the smallest units that generate cash flows that are largely independent of the cash flows from other assets or asset groups. The asset group attributable to IoT services was tested for impairment based on internal and external sources of information available to the Company. As a result, the Company determined that there was an indication of impairment of non-current assets in the asset group. However, no impairment loss was recognized for the fiscal year under review because the sum of the undiscounted future cash flows expected to be generated from the asset group exceeded the carrying amount of the asset group.

The undiscounted future cash flows were estimated based on the following assumptions:

- The business plan approved by the Board of Directors that has been formulated based on the analysis of the market environment, internal development plans, etc. (which has been revised in a consistent manner based on the achievement level of business plans in previous years)
- The estimated duration of future cash flows based on the economic remaining useful life of major assets

The assumptions used in these estimates may need to be revised, such as due to deterioration in profitability caused by significant changes in the business environment and changes in the assumed market expansion rate driven by technological innovation. Any such revision could result in recognizing impairment losses in the following fiscal year.

4. Notes on Consolidated Balance Sheet

(1) Balances of receivables from contracts with customers and contract assets

Receivables from contracts with customers 17,682 million yen
Contract assets 4,607 million yen

Note: Receivables from contracts with customers and contract assets are included in "notes and accounts receivable - trade and contract assets" on the consolidated balance sheet.

(2) Accumulated depreciation of property, plant and equipment 2,399 million yen

(3) Financial covenants

Borrowings under the loan agreement with Mizuho Bank, Ltd. (loan balance: 910 million yen) are subject to financial covenants. If any of the following covenants is violated, lump-sum repayment should be made upon request from the lender.

1) On March 31 of each fiscal year on or after March 31, 2021, total net assets on the consolidated balance sheet and the non-consolidated balance sheet of the borrower shall not be less than 75% of the higher of either total net assets on March 31, 2020 or total net assets on March 31 of the previous fiscal year.

2) On March 31 of each fiscal year on or after March 31, 2021, operating profit (loss) and profit (loss) on the consolidated statement of income and the non-consolidated statement of income of the borrower shall not result in losses for the second consecutive fiscal year.

5. Notes on Consolidated Statement of Changes in Equity

(1) Class and total number of issued shares

Class of shares	Number of shares at beginning of period (shares)	Increase in number of shares during period (shares)	Decrease in number of shares during period (shares)	Number of shares at end of period (shares)
Common stock	22,728,500	14,300	–	22,742,800

Note: The increase in number of shares represents an increase of 7,000 shares due to the exercise of stock acquisition rights and an increase of 7,300 shares due to the grant of restricted stock.

(2) Class and number of treasury shares

Class of shares	Number of shares at beginning of period (shares)	Increase in number of shares during period (shares)	Decrease in number of shares during period (shares)	Number of shares at end of period (shares)
Common stock	2,505,822	229	21,700	2,484,351

Note: The increase in number of shares represents an increase due to the purchase of shares less than one unit.
The decrease in number of shares represents a decrease due to the disposal of treasury shares resulting from the exercise of stock acquisition rights.

(3) Dividends of surplus

1) Dividends paid

a) Distribution of dividends resolved at the 33rd Annual General Meeting of Shareholders held on June 21, 2021

- Class of shares	Common stock
- Total dividends	505 million yen
- Dividends per share	25 yen
- Record date	March 31, 2021
- Effective date	June 22, 2021

b) Distribution of dividends resolved at the meeting of the Board of Directors held on October 27, 2021

- Class of shares	Common stock
- Total dividends	404 million yen
- Dividends per share	20 yen
- Record date	September 30, 2021
- Effective date	December 1, 2021

2) Dividends for which the record date is in the fiscal year under review, and the effective date is in the following fiscal year

Distribution of dividends to be resolved at the 34th Annual General Meeting of Shareholders scheduled on June 20, 2022

- Class of shares	Common stock
- Total dividends	607 million yen
- Source of dividends	Retained earnings
- Dividends per share	30 yen
- Record date	March 31, 2022
- Effective date	June 21, 2022

(4) Class and number of shares underlying stock acquisition rights as of the end of the fiscal year under review
(excluding share acquisition rights not yet exercisable as of the end of the fiscal year under review)

Common stock	299,300 shares

6. Notes on Financial Instruments

(1) Status of financial instruments

1) Policies on financial instruments

The Group manages temporary surplus funds through highly secure investments such as short-term deposits.

In the event of demand for short-term working capital or investments such as in stocks for business or capital alliances and other purposes, the Group raises the necessary funds mainly through bank borrowings.

Derivatives are entered into mainly to hedge the risk of exchange rate fluctuations and not used for speculative purposes.

2) Nature of financial instruments, related risks and risk management system thereof

Trade receivables are notes and accounts receivable - trade and contract assets, which are exposed to customers' credit risk. To deal with the risk, the Group routinely manages the due dates and outstanding balances on an invoice-by-invoice basis in accordance with the internal Sales Management Regulations, as well as monitors the credit status of major customers every fiscal year.

Investment securities are investments in stocks for business or capital alliances and other purposes, investments in partnerships for promoting cooperative relationships with other partners, and bonds held by the subsidiaries at the time of the business combinations, all of which are exposed to the risk of market price fluctuations. To deal with the risk, the Group regularly reports their fair values and the financial conditions of the issuers to the Board of Directors.

Trade payables are accounts payable - trade, accounts payable - other, and income taxes payable, most of which are due within two months. Accounts payable - trade denominated in foreign currencies are exposed to the risk of exchange rate fluctuations. The Group hedges the risk for particularly large trade payables on an individual basis by using forward exchange contracts. Such derivative transactions are entered into through the internal approval procedures, as well as only with highly rated financial institutions to mitigate counterparty credit risk. There were no outstanding transactions at the end of the fiscal year under review.

Borrowings and lease liabilities related to finance leases are intended to finance investments in stocks and other securities and capital expenditures, part of which are exposed to the risk of interest rate fluctuations. To deal with the risk, the Group monitors the fluctuations in the market by regularly obtaining interest rate information from financial institutions and other sources.

Trade payables, borrowings, and lease liabilities involve liquidity risk at the time of settlement and repayment. The Group avoids the risk by reviewing the cash management plan every month and other means.

3) Supplementary explanation on fair value of financial instruments

The fair value of financial instruments is measured based on quoted market prices, if available, or a reasonably calculated value if a quoted market price is not available. Given that certain assumptions are used in the calculation of such value, the value may vary with different assumptions.

(2) Fair value of financial instruments

The book value on the consolidated balance sheet and fair value of financial instruments and their difference as of March 31, 2022 are as follows. The table below does not include shares, etc. that do not have a market price (see Note 2). In addition, cash and items whose book value on the consolidated balance sheet is immaterial are omitted, and deposits are also omitted because their book value approximates their fair value due to their short-term settlement nature.

(Millions of yen)

	Book value	Fair value	Difference
(1) Notes and accounts receivable - trade and contract assets	22,290	22,290	–
Allowance for doubtful accounts (*1)	(0)	(0)	–
Notes and accounts receivable - trade and contract assets, net	22,290	22,290	–
(2) Investment securities			
Available-for-sale securities (*2)	29	29	–
Total assets	22,319	22,319	–
(3) Accounts payable - trade	7,528	7,528	–
(4) Current portion of long-term borrowings	394	394	–
(5) Lease liabilities (current)	19	19	–
(6) Accounts payable - other	4,719	4,719	–
(7) Income taxes payable	1,379	1,379	–
(8) Long-term borrowings	799	797	(1)
(9) Lease liabilities (non-current)	96	95	(0)
Total liabilities	14,937	14,935	(2)

*1: Allowance for doubtful accounts is deducted from notes and accounts receivable - trade and contract assets.

*2: Investments in partnerships and other similar entities, which are carried on the consolidated balance sheet at an amount equivalent to the share of net assets of such partnerships, are omitted. The book value of these investments is 84 million yen.

Notes: 1. Fair value measurement method of financial instruments and matters concerning securities

(1) Notes and accounts receivable - trade and contract assets

The fair value of receivables collectible within a short period of time is determined at book value as the fair value is almost equal to their book value. The fair value of receivables not collectible within a short period of time is measured at present value, which is calculated by grouping the receivables by a certain period of time and discounting them at the interest rate reflecting the period to maturity and the credit risk. As a result of this calculation, their fair value is almost equal to their book value and therefore determined at book value.

(2) Investment securities

The fair value of investment securities is determined at prices quoted in the stock exchanges.

(3) Accounts payable - trade, (4) Current portion of long-term borrowings,

(5) Lease liabilities (current), (6) Accounts payable - other, (7) Income taxes payable

The fair value of these instruments is determined at book value as the fair value is almost equal to their book value due to their short-term settlement nature.

(8) Long-term borrowings

The fair value of long-term borrowings is measured at present value by discounting the sum of principal and interest at the interest rate that would be applied to similar new borrowings. However, the fair value of those with floating interest rates is determined at book value, which approximates their fair value because they reflect market interest rates within a short period of time and the Company’s credit standing has not changed significantly from the time they were executed.

(9) Lease liabilities (non-current)

The fair value of lease liabilities is measured at present value by discounting the sum of principal and interest at the interest rate that would be applied to similar new leases entered into with the same terms and maturity.

2. Shares, etc. that do not have a market price

(Millions of yen)

Category	Book value
Unlisted stocks, etc.	511
Investments in investment limited partnerships	84
Total	596

These financial instruments are not included in “(2) Investment securities.”

3. Redemption schedule of monetary receivables after the consolidated balance sheet date

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	8,762	–	–	–
Notes and accounts receivable - trade and contract assets	22,116	171	1	–
Total	30,878	171	1	–

4. Repayment schedule of long-term borrowings and lease liabilities after the consolidated balance sheet date

(Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term borrowings	394	309	299	90	19	80
Lease liabilities	19	14	16	8	7	49
Total	414	324	316	98	27	129

(3) Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.
Level 2: Fair value measured using observable inputs other than Level 1 inputs.
Level 3: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

1) Financial instruments carried at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities Available-for-sale securities Bonds	–	29	–	29
Total assets	–	29	–	29

2) Financial instruments other than those carried at fair value

(Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings	–	797	–	797
Lease liabilities	–	95	–	95
Total liabilities	–	893	–	893

Note: A description of the valuation techniques and inputs used in the fair value measurements

Long-term borrowings and lease liabilities

The fair value of these instruments is measured using the discounted cash flow method based on the sum of principal and interest and the interest rate reflecting the remaining maturity and the credit risk of the obligations, and is classified as Level 2.

7. Notes on Revenue Recognition

(1) Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers is as follows:

(Millions of yen)

	Reportable segment
	ICT Services
Business IT Solutions	12,162
Corporate IT Solutions	20,711
Technical Solutions	29,242
EC Solutions	4,067
Revenue from contracts with customers	66,183
Net sales to external customers	66,183

(2) Basic information for understanding revenue

Basic information for understanding revenue from contracts with customers is omitted as the same details are presented in "1. Notes on Significant Accounting Policies for Preparation of Consolidated Financial Statements, (4) Accounting policies, 5) Recognition of revenue and expenses" in the notes to the consolidated financial statements.

(3) Information for understanding revenue amounts in the fiscal year under review and subsequent fiscal years

1) Nature and balances of contract assets and contract liabilities

The balances of receivables, contract assets, and contract liabilities from contracts with customers are as follows:

(Millions of yen)

	Fiscal year under review	
	Balance at beginning of the year	Balance at end of the year
Receivables from contracts with customers	16,827	17,682
Contract assets	456	4,607
Contract liabilities	2,171	2,545

Contract assets consist primarily of unbilled accounts receivable - trade related to revenue recognized based on the measurement of progress in system development contracts, which involve obligations to deliver outcomes. They are reclassified to trade receivables upon customer acceptance. The increase in contract assets is mainly due to an increase in system development contracts in progress at the end of the fiscal year.

Contract liabilities consist primarily of advances received from customers for system operation and monitoring contracts, and other maintenance services. The amount of revenue recognized in the fiscal year under review that was included in the balance of contract liabilities at the beginning of the fiscal year was 1,980 million yen, and the amount related to performance obligations satisfied in prior fiscal years was immaterial.

2) Transaction price allocated to the remaining performance obligations

Revenue expected to be recognized in the future related to unsatisfied (or partially unsatisfied) performance obligations as of the end of the fiscal year under review is as follows:

(Millions of yen)

	Amount
Within 1 year	20,570
Over 1 year	8,155
Total	28,726

8. Notes on Per Share Information

(1) Net assets per share 1,039.71 yen

(2) Basic earnings per share 179.39 yen

9. Notes on Significant Subsequent Events

Not applicable.

Notes to Non-consolidated Financial Statements

1. Notes on Significant Accounting Policies

(1) Valuation of assets

1) Securities

a) Shares of subsidiaries and associates	Stated at cost using the moving-average method.
b) Available-for-sale securities	
- Securities other than shares, etc. that do not have a market price	Stated at fair value (with the entire amount of valuation differences recorded directly into net assets, and the cost of securities sold calculated using the moving-average method).
- Shares, etc. that do not have a market price	Stated at cost using the moving-average method. Investments in investment limited partnerships and other similar partnerships (those deemed as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are stated at an amount equivalent to the share of net assets of such partnerships, based on the latest financial statements available as of the reporting date stipulated in the partnership agreement.

2) Inventories

a) Merchandise	Stated at cost using the weighted-average method (a method in which book value is written down based on any decline in profitability).
b) Work in process	Stated at cost using the specific identification method (a method in which book value is written down based on any decline in profitability).

(2) Depreciation and amortization of non-current assets

1) Property, plant and equipment (excluding leased assets)	Depreciated using the straight-line method. The major useful lives are as follows: Buildings: 8 to 15 years Tools, furniture and fixtures: 4 to 15 years
2) Intangible assets (excluding leased assets)	Amortized using the straight-line method. Software for internal use is amortized over a period of 3 to 5 years during which it is expected to be available internally.
3) Leased assets	Depreciated using the straight-line method over the lease term with zero residual value (the guaranteed residual value, in the case of lease contracts with residual value guarantees).

(3) Recognition of allowances and provisions

1) Allowance for doubtful accounts	To provide for potential credit losses on receivables, allowance for doubtful accounts is recorded at an estimated amount of uncollectible receivables calculated based on the historical rate of credit loss for general receivables and determined in consideration of collectibility of individual receivables for doubtful accounts and certain other receivables.
2) Provision for bonuses	To provide for the payment of bonuses to employees, provision for bonuses is recorded at an amount accrued for the fiscal year under review out of the estimated amount to be paid.
3) Provision for loss on orders received	To provide for potential losses on orders received, provision for loss on orders received is recorded at an estimated amount of losses on orders on hand as of the end of the fiscal year under review that are highly likely to be incurred and can be reasonably estimated.
4) Provision for defect repair	To provide for potential liability for defect warranty in orders received, provision for defect repair is recorded at an estimated amount of defect repair expenses in consideration of the likelihood of incurring such expenses on an individual basis.

(4) Recognition of revenue and expenses

The Company recognizes revenue by applying the following five steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company's major standards for revenue recognition are as follows:

1) Business IT Solutions, Corporate IT Solutions, and Technical Solutions

The Company mainly provides system design and construction services, and equipment sales to its customers.

<u>System development contracts, system operation and monitoring contracts, and other maintenance services</u>

(i) System development contracts involve obligations to deliver outcomes. The performance obligation of such contracts is considered to be satisfied as the tasks progress towards making the outcomes available for the customer. Accordingly, when the progress towards satisfaction of the performance obligation can be reasonably estimated, revenue is recognized based on that progress.

(ii) System operation and monitoring contracts and other maintenance services involve obligations to continue providing services over the contract period. The performance obligation of such contract services is considered to be satisfied as time passes during the period. Accordingly, the progress is estimated based on the elapsed service period as a percentage of the contractual service period, and revenue is recognized based on that progress.

Sales of equipment and other products

The sales of equipment and other products involve obligations to deliver products to customers. The performance obligation of such sales is considered to be satisfied, not over time, but at a point in time. Accordingly, revenue is recognized at a point in time when control of the product is transferred to the customer.

The time when control of the product is transferred is determined to be the time when the product is shipped, because the period from the shipment to the customer acceptance is ordinary for domestic sales.

2) EC Solutions

The Company is engaged in the sales of IT-related products in EC sites that it operates as an agent.

EC site management agency business

The EC site management agency business mainly provides the sales of software licenses and rights to receive ongoing services owned by other companies. In the case where a license key is issued for each sale, the customer can use the software immediately upon completion of the procedures after the issuance. Accordingly, control is considered to have been transferred at the time of issuance, and revenue is recognized at that time.

In the case of contract renewal transactions for ongoing services, the customer is assured to receive ongoing services at the time of renewal transaction. Accordingly, control is considered to have been transferred at the time of renewal transaction, and revenue is recognized at that time.

The EC Solutions business is determined to act as an agent rather than as a principal, by comprehensively considering the degree of primary responsibility for performance obligations, the absence of inventory risk, the extent of discretionary authority over pricing, and other relevant factors. As a result, a net amount of revenue, after deducting purchase prices to be paid to suppliers from the amount to be received from the customer, is recognized as revenue.

2. Notes on Changes in Accounting Policies

(1) The Company started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 dated March 31, 2020; hereinafter, “Revenue Recognition Accounting Standard”), etc. at the beginning of the fiscal year under review. Under the standard, revenue is recognized, when the Company transfers the control of a promised good or service to a customer, in an amount that the Company expects to receive in exchange for such good or service. The principal changes resulting from the above are as follows:

1) In EC Solutions, the gross amount was previously used in revenue recognition for the EC site management agency business based on the classification of the principal transaction. Under the newly applied accounting standard, it is classified as an agent transaction and a net amount of revenue, after deducting purchase prices to be paid to suppliers from the amount to be received from the customer, is recognized as revenue.

2) In development contracts, the Company had previously applied the percentage-of-completion method as the revenue recognition standard for construction contracts whose outcome was deemed certain, and the completed-contract method for other construction contracts. Under the newly applied accounting standard, a development contract is judged to be a performance obligation to be satisfied over a certain period. The progress towards satisfaction of the performance obligation is reasonably estimated, and revenue is recognized based on that progress. In cases where cost incurred is expected to be collected, although the progress cannot be reasonably estimated, revenue is recognized using the cost recovery method. The progress towards satisfaction of the performance obligation is estimated based on the cost incurred as a percentage of estimated total cost (input method).

The Revenue Recognition Accounting Standard, etc. is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. A new accounting policy is applied starting at the beginning of the fiscal year under review, using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the fiscal year under review, either by adding it to or deducting it from retained earnings as of the beginning of the fiscal year under review.

As a result, net sales and cost of sales for the fiscal year under review decreased by 17,077 million yen and 17,061 million yen, respectively. Operating profit, ordinary profit and profit before income taxes for the fiscal year under review decreased by 15 million yen, 15 million yen and 15 million yen, respectively. The balance of retained earnings as of the beginning of the fiscal year under review declined by 198 million yen.

With the application of the Revenue Recognition Accounting Standard, etc., “advances received” posted under “current liabilities” on the non-consolidated balance sheet of the previous fiscal year are included in “contract liabilities” under “current liabilities” starting in the fiscal year under review, and “long-term advances received” previously posted under “non-current liabilities” are now included in “contract liabilities” under “non-current liabilities.”

A portion of “accounts receivable - trade” posted under “current assets” is now included in “other,” and a portion of “accounts payable - trade” posted under “current liabilities” is now included in “accounts payable - other.”

(2) The Company started to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 dated July 4, 2019; hereinafter, “Fair Value Measurement Accounting Standard”), etc. at the beginning of the fiscal year under review. It also decided to apply new accounting policies stipulated in the Fair Value Measurement Accounting Standard, etc. prospectively, in accordance with Paragraph 19 of the Fair Value Measurement Accounting Standard, etc. and provisional measures stipulated in Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 dated July 4, 2019). There is no impact on the non-consolidated financial statements.

3. Notes on Accounting Estimates

Items for which accounting estimates were included in the non-consolidated financial statements for the fiscal year under review and that may have a significant impact on the non-consolidated financial statements for the following fiscal year are as follows:

Net sales for which revenue is recognized according to the estimated progress	7,278 million yen
(Amount of the portion in progress as of the fiscal year-end	3,364 million yen)
Provision for loss on orders received	393 million yen

The information to help understanding the nature of accounting estimates is the same as that presented in the notes to the consolidated financial statements.

4. Notes on Non-consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 1,317 million yen

(2) Monetary receivables from and payables to subsidiaries and associates are as follows:

1) Short-term monetary receivables	7,390 million yen
2) Long-term monetary receivables	221 million yen
3) Short-term monetary payables	2,856 million yen
4) Long-term monetary payables	71 million yen

(3) Financial covenants

Borrowings under the loan agreement with Mizuho Bank, Ltd. (loan balance: 910 million yen) are subject to financial covenants. If any of the following covenants is violated, lump-sum repayment should be made upon request from the lender.

1) On March 31 of each fiscal year on or after March 31, 2021, total net assets on the consolidated balance sheet and the non-consolidated balance sheet of the borrower shall not be less than 75% of the higher of either total net assets on March 31, 2020 or total net assets on March 31 of the previous fiscal year.

2) On March 31 of each fiscal year on or after March 31, 2021, operating profit (loss) and profit (loss) on the consolidated statement of income and the non-consolidated statement of income of the borrower shall not result in losses for the second consecutive fiscal year.

5. Notes on Non-consolidated Statement of Income

Transactions with subsidiaries and associates

1) Net sales	23,741 million yen
2) Purchases	2,418 million yen
3) Selling, general and administrative expenses	132 million yen
4) Non-operating transactions	7 million yen

6. Notes on Non-consolidated Statement of Changes in Equity

Class and number of treasury shares

Class of shares	Number of shares at beginning of period (shares)	Increase in number of shares during period (shares)	Decrease in number of shares during period (shares)	Number of shares at end of period (shares)
Common stock	2,505,822	229	21,700	2,484,351

Note: The increase in number of shares represents an increase due to the purchase of shares less than one unit. The decrease in number of shares represents a decrease due to the disposal of treasury shares resulting from the exercise of stock acquisition rights.

7. Notes on Tax Effect Accounting

Significant components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Accrued enterprise tax	68
Accrued business office tax	6
Provision for bonuses	345
Provision for loss on orders received	128
Accrued social insurance premiums	49
Loss on valuation of investment securities	243
Depreciation in excess	127
Asset retirement obligations	73
Allowance for doubtful accounts	48
Shares in subsidiaries through distribution in kind	143
Other	94
Subtotal deferred tax assets	1,329
Valuation allowance for the sum of future deductible temporary differences, etc.	(289)
Total deferred tax assets	1,040
Deferred tax liabilities	
Removal costs corresponding to asset retirement obligations	(27)
Valuation difference on available-for-sale securities	(1)
Total deferred tax liabilities	(28)
Deferred tax assets, net	1,012

8. Notes on Transactions with Related Parties

(1) Parent company

<table>
<tr><th rowspan="2">Category</th><th rowspan="2">Name of company</th><th rowspan="2">Share capital or investments in capital (Millions of yen)</th><th rowspan="2" colspan="2">Nature of business or occupation</th><th rowspan="2" colspan="2">Ratio of voting rights holding (held) (%)</th><th colspan="2">Relationship with related party</th></tr>
<tr><th>Concurrent officers, etc.</th><th>Business relationship</th></tr>
<tr><td rowspan="3">Parent company</td><td rowspan="3">SoftBank Corp.</td><td>204,309</td><td colspan="2">Provision of mobile communications services, sale of mobile devices, provision of fixed-line telecommunications and ISP services</td><td colspan="2">Held Direct 53.0</td><td>None</td><td>Sales of products, etc., business contracts, purchase of telecommunications services</td></tr>
<tr><td colspan="2">Nature of transaction</td><td>Transaction amount (Millions of yen)</td><td colspan="3">Account</td><td>Balance at end of period (Millions of yen)</td></tr>
<tr><td colspan="2">Sales of products, system development, technical support, etc.</td><td>22,097</td><td colspan="3">Accounts receivable - trade</td><td>6,812</td></tr>
</table>

Transaction terms and conditions, and policy for setting transaction terms and conditions, etc.

1. Business contracts, etc. are agreed upon under the same terms and conditions as those for general transactions, in consideration of the cost of services to be provided.
2. Sale of products, etc. and purchase of telecommunications services are agreed upon under the same terms and conditions as those for general transactions, through negotiation following examination of individual cases.

(2) Subsidiaries and associates, etc.

<table>
<tr><th rowspan="2">Category</th><th rowspan="2">Name of company</th><th rowspan="2">Share capital or investments in capital (Millions of yen)</th><th rowspan="2" colspan="2">Nature of business or occupation</th><th rowspan="2" colspan="2">Ratio of voting rights holding (held) (%)</th><th colspan="2">Relationship with related party</th></tr>
<tr><th>Concurrent officers, etc.</th><th>Business relationship</th></tr>
<tr><td rowspan="5">Subsidiary</td><td rowspan="5">Fontworks Inc.</td><td>120</td><td colspan="2">Planning, development and sales of digital fonts (fonts), software development, technical services, OEM, etc.</td><td colspan="2">Holding Direct 100.0</td><td>Concurrent 3</td><td>Borrowing of funds, purchase and sale of products, etc.</td></tr>
<tr><td colspan="2">Nature of transaction</td><td>Transaction amount (Millions of yen)</td><td colspan="3">Account</td><td>Balance at end of period (Millions of yen)</td></tr>
<tr><td colspan="2">Borrowing of funds</td><td>800</td><td colspan="3" rowspan="3">Short-term borrowings</td><td rowspan="3">2,000</td></tr>
<tr><td colspan="2">Repayment of borrowings</td><td>200</td></tr>
<tr><td colspan="2">Interest payments</td><td>2</td></tr>
</table>

Transaction terms and conditions, and policy for setting transaction terms and conditions, etc.

1. Interest rates on borrowings are reasonably determined in reference to market interest rates.

(3) Fellow subsidiaries, etc.

<table>
<tr><td rowspan="2">Category</td><td rowspan="2">Name of company</td><td rowspan="2">Share capital or investments in capital (Millions of yen)</td><td rowspan="2" colspan="2">Nature of business or occupation</td><td rowspan="2">Ratio of voting rights holding (held) (%)</td><td colspan="2">Relationship with related party</td></tr>
<tr><td>Concurrent officers, etc.</td><td>Business relationship</td></tr>
<tr><td rowspan="4">Subsidiary of parent company</td><td rowspan="4">SB Payment Service Corp.</td><td>6,075</td><td colspan="2">Settlement services, credit card services, collection agency services, remittance services, and consulting services incidental to the above</td><td>None</td><td>None</td><td>Sale of products, etc., business contracts</td></tr>
<tr><td colspan="2">Nature of transaction</td><td>Transaction amount (Millions of yen)</td><td colspan="2">Account</td><td>Balance at end of period (Millions of yen)</td></tr>
<tr><td colspan="2">Sale of products, system development, technical support, etc.</td><td>1,102</td><td colspan="2">Accounts receivable - trade</td><td>148</td></tr>
<tr><td colspan="2">Outsourcing of settlement agency services for sales to end-users</td><td>–
(Note 2)</td><td colspan="2">Accounts receivable - other</td><td>1,622</td></tr>
</table>

<table>
<tr><td rowspan="2">Category</td><td rowspan="2">Name of company</td><td rowspan="2">Share capital or investments in capital (Millions of yen)</td><td rowspan="2" colspan="2">Nature of business or occupation</td><td rowspan="2">Ratio of voting rights holding (held) (%)</td><td colspan="2">Relationship with related party</td></tr>
<tr><td>Concurrent officers, etc.</td><td>Business relationship</td></tr>
<tr><td rowspan="5">Subsidiary of parent company</td><td rowspan="5">SB C&S Corp.</td><td>500</td><td colspan="2">Manufacturing, distribution and sales of IT-related products, and provision of IT-related services</td><td>None</td><td>None</td><td>Purchase and sale of products, etc., business contracts</td></tr>
<tr><td colspan="2">Nature of transaction</td><td>Transaction amount (Millions of yen)</td><td colspan="2">Account</td><td>Balance at end of period (Millions of yen)</td></tr>
<tr><td colspan="2">Sale of products, system development, technical support, etc.</td><td>2,208</td><td colspan="2">Accounts receivable - trade</td><td>407</td></tr>
<tr><td colspan="2">Purchase of products, etc.</td><td>3,685</td><td colspan="2" rowspan="2">Accounts payable - trade</td><td rowspan="2">1,323</td></tr>
<tr><td colspan="2">Purchase of materials, etc. for provision of services</td><td>1,710</td></tr>
</table>

Transaction terms and conditions, and policy for setting transaction terms and conditions, etc.

1. Business contracts, etc. are agreed upon under the same terms and conditions as those for general transactions, in consideration of the cost of services to be provided.
2. Sale and purchase of products, etc. are agreed upon under the same terms and conditions as those for general transactions, through negotiation following examination of individual cases.

Notes: 1. The transaction amount does not include consumption taxes, but the balance at end of period includes consumption taxes.

2. Transactions related to accounts receivable - other are sales transactions to end-users and not to SB Payment Service Corp. Therefore, the transaction amount is not presented.

(4) Officers, major individual shareholders, etc.

Category	Name of company or individual	Ratio of voting rights holding (held)	Relationship with related party	Nature of transaction	Transaction amount	Account	Balance at end of period
Officer	Masaaki Okazaki	Held Direct 0.02%	Member of the Board of the Company	Issuance of shares through third-party allotment (Note)	10 million yen (3,500 shares)	–	–

Transaction terms and conditions, and policy for setting transaction terms and conditions, etc.

Note: The table shows the issuance of newly issued restricted stock in the fiscal year under review, which were granted in accordance with the resolution at the meeting of the Board of Directors held on June 21, 2021. The "Transaction amount" column indicates the amount calculated by multiplying the number of restricted stock granted by the issue price.

9. Notes on Revenue Recognition

Basic information for understanding revenue from contracts with customers is omitted as the same details are presented in "1. Notes on Significant Accounting Policies, (4) Recognition of revenue and expenses" in the notes to the non-consolidated financial statements.

10. Notes on Per Share Information

(1) Net assets per share 896.42 yen
(2) Basic earnings per share 154.95 yen

11. Notes on Significant Subsequent Events

Not applicable.