24th Fiscal Year (From July 1, 2019 to June30, 2020)

Annual Securities Report

This is an unofficial translation. In case of any difference in meaning between the original Japanese text and the English translation, Japanese text shall prevail.

AVANT Corporation

Contents

[Cover]

[Filing Typ]	Securities Report
[Governing laws and regulations]	Article 24(1) of the Financial Instruments and Exchange Act
[Filed with]	Kanto Finance Bureau
[Filing date]	September 23, 2020
[Fiscal year]	24th fiscal year (from July 1, 2019 to June 30, 2020)
[Company name]	AVANT Corporation
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Part I [Corporate Information]

1. [Business Overview]

1-1 [Selected Financial Data]

(1) Consolidated financial summary

Fiscal term		20th	21st	22nd	23rd	24th
Fiscal Year-End		June 2016	June 2017	June 2018	June 2019	June 2020
Net sales	(thousand yen)	9,612,878	10,532,392	12,110,795	14,077,976	15,691,533
Ordinary income	(thousand yen)	1,112,546	1,308,887	1,632,433	1,972,583	2,282,082
Profit attributable to owners of parent company	(thousand yen)	660,729	663,606	1,062,061	1,317,048	1,537,894
Comprehensive income	(thousand yen)	656,127	665,659	1,069,302	1,316,735	1,562,619
Net assets	(thousand yen)	3,311,089	3,873,381	4,792,462	5,898,048	7,194,333
Total assets	(thousand yen)	6,709,167	7,325,518	8,814,290	10,415,229	11,780,604
Net assets per share	(Yen)	88.17	103.15	127.63	157.00	191,42
Net income per share	(Yen)	17.60	17.67	28.28	35.06	40.92
Fully diluted Net income per share	(Yen)	-	-	-	-	-
Equity Ratio	(%)	49.4	52.9	54.4	56.6	61.1
Return on equity	(%)	21.8	18.5	24.5	24.6	23.5
Price-earnings ratio	(Times)	7.8	20.2	17.0	28.7	25.3
Cash flows from operating activities	(thousand yen)	1,135,934	1,070,201	1,159,472	1,320,217	1,890,755
Cash flows from investing activities	(thousand yen)	(301,484)	(297,429)	(353,910)	(455,340)	(420,430)
Cash flows from financing activities	(thousand yen)	(243,579)	(232,227)	(184,632)	(232,007)	(294,708)
Cash and cash equivalents Year-end balance	(thousand yen)	3,406,066	3,947,673	4,566,875	5,195,137	6,370,860
Number of employees (excluding average number of temporary employees)	(People)	603 (27)	709 (34)	806 (48)	938 (55)	1,055 (16)

(Notes)

1. Net sales do not include consumption taxes.
2. Diluted net income per share is not prepared because there are no dilutive shares.
3. The number of employees is the number of employed persons (excluding those seconded from our group to non-group companies, and includes those seconded from non-group companies to our group companies).
4. On December 1, 2016, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of the 20th fiscal period.
5. On November 1, 2017, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share are calculated as if this stock split had taken place at the beginning of the 21st fiscal period.
6. On December 1, 2019, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share are calculated as if this stock split had taken place at the beginning of the 23rd fiscal period.

(2) Parent company financial summary

Fiscal term		20th	21st	22nd	23rd	24th
Fiscal Year-End		June 2016	June 2017	June 2018	June 2019	June 2020
Net sales or operating revenue	(thousand yen)	1,850,064	1,743,500	1,751,837	1,851,240	2,355778
Ordinary income	(thousand yen)	720,604	561,938	679,684	729,784	1,141,659
Net income	(thousand yen)	599,689	478,788	642,379	771,939	1,252,154
Paid-in Capital	(thousand yen)	288,400	288,400	288,400	295,525	303,271
Number of issued shares	Co., Ltd.	4,694,000	9,388,000	18,776,000	18,785,094	37,586,982
Net assets	(thousand yen)	2,603,661	2,979,276	3,480,465	4,044,164	5,054,779
Total assets	(thousand yen)	4,682,279	5,388,194	6,029,542	6,769,764	6,994,627
Net assets per share	(Yen)	277.35	158.69	185.38	215.30	134.49
Dividend per share (Including interim dividends per share)	(Yen) (Yen)	22 (-)	16 (-)	12 (-)	7.5 (-)	9 (-)
Net income per share	(Yen)	63.88	25.50	34.22	41.10	33.32
Fully diluted Net income per share	(Yen)	-	-	-	-	-
Equity Ratio	(%)	55.6	55.3	57.7	59.7	72.3
Return on equity	(%)	25.6	17.2	19.9	20.5	27.5
Price-earnings ratio	(Times)	8.6	28.0	28.1	49.0	31.1
Dividend payout ratio	(%)	17.2	31.4	35.1	36.5	27.0
Number of employees (excluding average number of temporary employees)	(People)	49 (13)	56 (9)	33 (1)	37 (3)	36 (2)
Total shareholder return (Comparative index: TOPIX with dividends)	(%) (%)	75.7 (102.7)	195.5 (135.7)	264.8 (148.9)	549.6 (136.6)	584.3 (107.1)
Highest stock price	(Yen)	1,692	1,550 (1,835)	1,093 (2,195)	2,364	1,198 (2,497)
Lowest stock price	(Yen)	997	808 (1,020)	818 (1,384)	911	645 (1,775)

(Notes)
1. Net sales and operating revenue do not include consumption taxes.
2. Diluted net income per share is not prepared because there are no dilutive shares.
3. The number of employees is based on the number of employees employed (including employees seconded from outside the company to us, excluding those seconded from us to outside the company).
4. The highest and lowest share prices are based on the First Section of the Tokyo Stock Exchange from March 7, 2018, and are based on the Second Section of the Tokyo Stock Exchange prior to March 6, 2018, and the Tokyo Stock Exchange JASDAQ (Growth) prior to September 21, 2017. The maximum and minimum stock values for the years ending June 2017 and June 2018 are shown after the stock split, and the maximum and minimum stock values before the stock split are shown in parentheses.
5. On December 1, 2016, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of the 20th fiscal period. The amount of dividends per share for the 20th fiscal period and prior is the actual amount of dividends before the stock split.
6. On November 1, 2017, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share are calculated as if this stock split had taken place at the beginning of the 21st fiscal period. The amount of dividends per share for the 21st fiscal period and prior is the actual amount of dividends before the stock split.
7. On December 1, 2019, the Company conducted a 2-for-1 stock split of common stock. Net assets per share and net income per share are calculated as if this stock split had taken place at the beginning of the 23rd fiscal period.

1-2 [History]

Date	Events
May 1997	Established DIVA Corporation (capitalized at 11 million yen) in Ota-ku, Tokyo to develop, sell, and support consolidated accounting packages and software (DivaSystem)
October 1997	Commercial launch of DivaSystem
December 1998	Added automated cash-flow statement creation function to DivaSystem in response to changes in the accounting system
	Also equipped with a web data collection module to expand consolidated accounting support functions
June 1999	Relocated headquarters from Omori-kita, Ota-ku, Tokyo to Minami-Oi, Shinagawa-ku, Tokyo
August 1999	Opened an Osaka branch office in Nishi-Tenma, Kita-ku, Osaka
September 2001	Relocated the head office from Minami-Oi, Shinagawa-ku, Tokyo to Kamata, Ota-ku, Tokyo
June 2002	Launched consolidated accounting operations courses for accounting professionals
January 2004	Launched outsourcing services for consolidated accounting operations
November 2005	Relocated the Osaka Branch from Nishi-Tenma, Kita-ku, Osaka to Dojima, Kita-ku, Osaka
February 2007	Listed on the Osaka Securities Exchange Hercules (now Tokyo Stock Exchange JASDAQ (Growth))
August 2007	Launched sales of DivaSystem version 9 with enhanced consolidated administrative functions
	Achieved 500 companies using DivaSystem
October 2008	Established DIVA CORPORATION OF AMERICA (now a consolidated subsidiary) in California, U.S.A.
	Opened a Nagoya office in Meieki, Nakamura-ku, Nagoya City
November 2009	Acquired all shares of Internet Disclosure Co., Ltd. (now a consolidated subsidiary)
November 2010	Relocated the head office from Kamata, Ota-ku, Tokyo to Konan, Minato-ku, Tokyo (current location).
August 2011	Established DIVA BUSINESS INNOVATION CORPORATION
July 2012	Established ZEAL Spin-off Preparation Co., Ltd. (now a consolidated subsidiary)
October 2012	Changed the name of ZEAL Spin-off Preparation Co., Ltd. to ZEAL CORPORATION and took over the information systems business of DHI CORPORATION.
February 2013	Opened Omori Office in Minami-Oi, Shinagawa-ku
October 2013	Changed trade name to AVANT CORPORATION and shifted to a holding company structure
	Succeeded software business to DIVA CORPORATION (now a consolidated subsidiary), which was established through a spin-off.
November 2014	DIVA CORPORATION opens Shinjuku Office (now FIERTE CORPORATION) in Nishi-Shinjuku, Shinjuku-ku.
June 2016	DIVA CORPORATION merged with DIVA BUSINESS INNOVATION CORPORATION.
August 2017	FIERTE CORPORATION (now a consolidated subsidiary) is established.
September 2017	Changed from the Tokyo Stock Exchange JASDAQ (Growth) to the Second Section of the Tokyo Stock Exchange
October 2017	Succeeded outsourcing business of DIVA CORPORATION to FIERTE CORPORATION
March 2018	Shares listed on the Second Section of the Tokyo Stock Exchange are listed on the First Section of the Tokyo Stock Exchange.
December 2018	DivaSystem clients base exceeded 1,000 companies

1-3 [Description of Business]

Our group consists of the Company and five subsidiaries. Based on the mission of "Spreading Accountability (transforming management information into a map for the future)," we are working on "visualization of management information (business intelligence business)," "use of management information (consolidated accounting-related business)," and "entrustment (outsourcing business)".
As the Company is a specified listed company, etc., the Company will determine the minor criteria for the material facts of the insider trading regulation based on the consolidated figures.

The positioning of the Company and its affiliated companies in the businesses of the Company and its affiliated companies, and their relationship to their segments, are as follows. The following categories are the same as the segments.
For details of consolidated subsidiaries, please refer to "1. Overview of the Company, 4. Overview of Subsidiaries and Affiliates."

(1) Consolidated Accounting-related business

DIVA CORPORATION sells licenses and provides in-licensing consulting services for DivaSystem, a packaged software developed in-house for consolidated management and accounting. Following the start of operations, we also provide sustained maintenance services, including support for version upgrades.
In addition, we provide consulting services and solutions related to IFRS response, sophisticated management, budgetary management, and administrative accounts.
In addition, the information search service for disclosure documents provided by Internet Disclosure Co., Ltd. which is mainly provided to auditing firms, is also included in the consolidated accounting-related business.

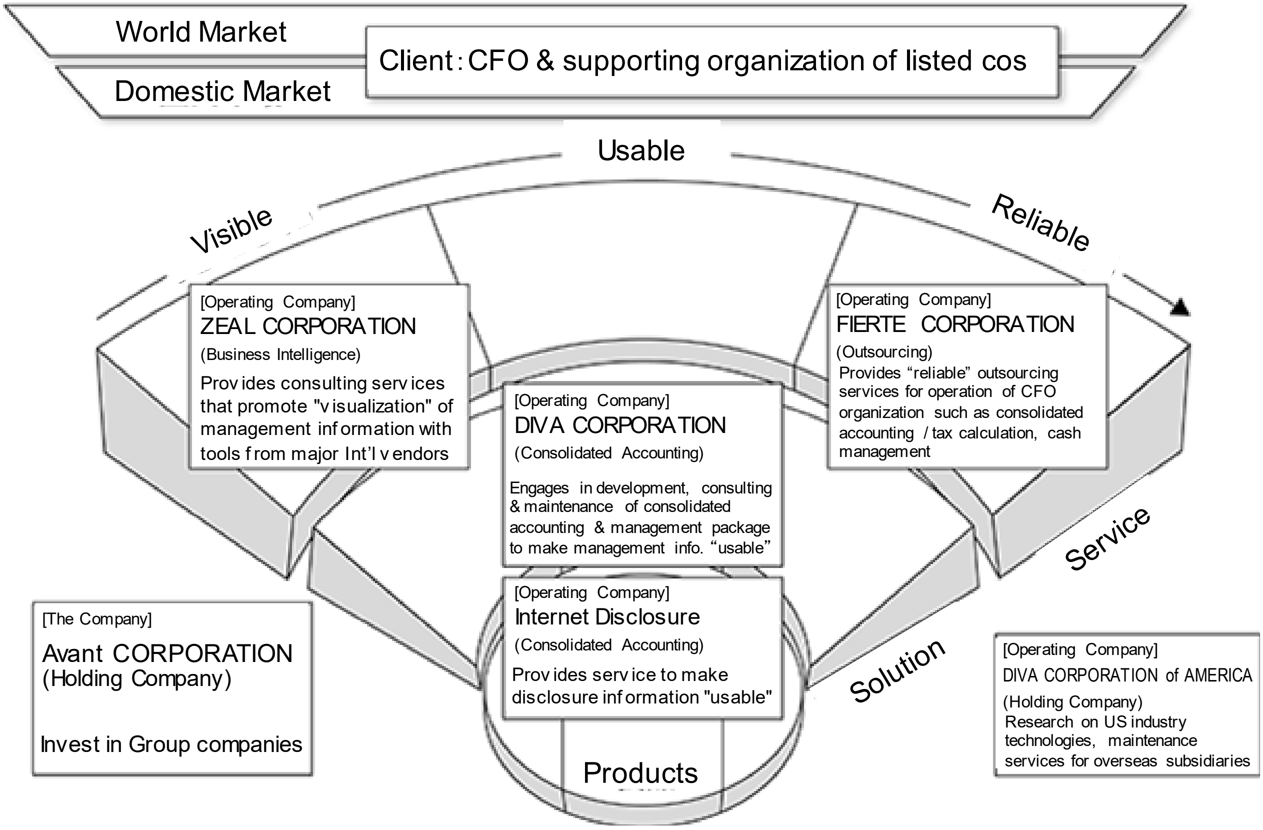
(2) Business Intelligence

ZEAL CORPORATION is developing a system integration service for utilizing information called BI (Business Intelligence). This is a system development service that integrates and organizes enormous amounts of data in companies that are accumulated in business systems, etc., and analyzes them in reports and graphs so that they can be used for corporate decision-making. The service helps customers improve their information utilization capabilities.

(3) Outsourcing business

FIERTE CORPORATION provides outsourced consolidated accounting and consolidated tax payment services. We are contributing to the creation of an environment in which we can provide more value to management and business by analyzing and utilizing various types of information, while resolving bottlenecks and personalization of operations by acting on behalf of our customers and resolving bottlenecks.

[Business Organization]



1-4 [Information on Affiliated Companies]

Name	Address	Paid-in Capital (millions of yen)	Major Businesses Details	Voting rights owned by the Company (%)	Details of the relationship
(Consolidated Subsidiaries)					
DIVA CORPORATION (Notes 2, 3)	Minato-ku, Tokyo	100	Consolidated Accounting-related business	100.0	Management guidance, administrative work outsourcing, dividend receipt, fund management, With concurrent position of director
Internet Disclosure Co., Ltd. (Notes 2)	Minato-ku, Tokyo	39	Consolidated Accounting-related business	100.0	Management guidance, dividend receipts, cash management, With concurrent position of director
ZEAL CORPORATION (Notes 2, 3)	Shinagawa, Tokyo, Japan	100	Business Intelligence business	100.0	Management guidance, administrative work outsourcing, dividend receipt, fund management, With concurrent position of director
FIERTE CORPORATION (Notes 2)	Shinjuku-ku, Tokyo	100	Outsourcing business	100.0	Management guidance, administrative work outsourcing, dividend receipt, fund management, With concurrent position of director
DIVA CORPORATION OF AMERICA (Notes 2)	Burlingame, California, USA	USD 1,100,000	Others	100.0	Consignment of research, With concurrent position of director

(Notes)
1. Segment information are listed in the "Major Business Details" column. "Others" is a business segment that is not included in each segment and includes IT products and services research.
2. These subsidiaries are classified as a specified subsidiary.
3. Major profit and loss information of consolidated subsidiaries in which net sales (excluding inter-company sales among consolidated companies) exceed 10% of consolidated net sales is as follows:

Name	Net sales (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)	Net assets (Millions of yen)	Total assets (Millions of yen)
DIVA CORPORATION	8,159	1,502	1,029	1,254	4,705
ZEAL CORPORATION	5,767	691	491	928	2,127

1-5 [Information on Employees]

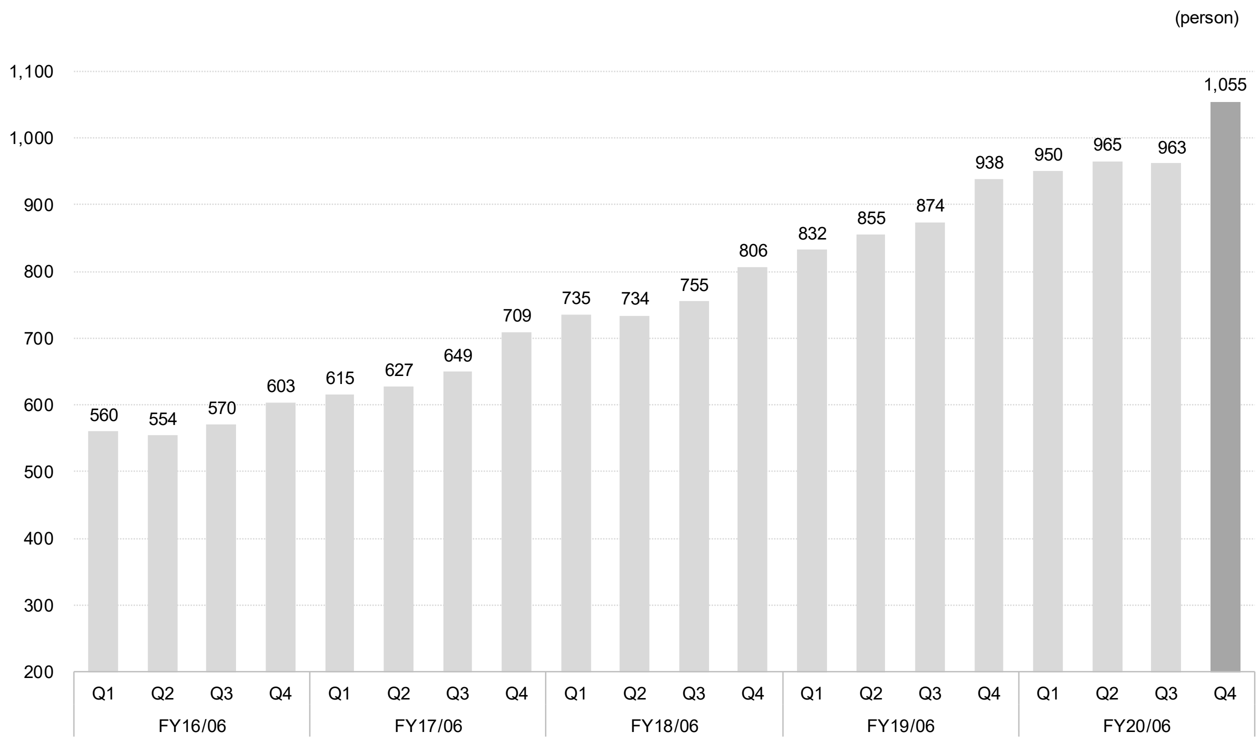
(1) Employees of Consolidated Companies

As at June 30, 2020

Segment	Employees (person)
Consolidated Accounting Related Business	465 (11)
Business Intelligence Business	351 (-)
Outsourcing Business	203 (-)
Head office	36 (2)
Total	1,055 (16)

(Notes)
1. The number of employees is the number of employed persons (excluding those seconded from our group to non-group companies, but including those seconded from non-group companies to our group companies).
2. Figures in the "Number of Employees" column are the annual average number of temporary employees.
3. Head office employees are employees of administrative divisions, etc. that cannot be classified into specific segments.
4. The number of employees increased by 117 people from the end of the previous fiscal year, mainly due to new hires in line with business expansion.

The changes in the number of employees by quarter are as follows.



(2) Employees of the Parent Company

As at June 30, 2020

Number of employees	Average age	Average length of service	Average compensation (yen)
36 (2)	43.1	4.1	7,053,372

(Notes)
1. The number of employees is the number of employed persons (excluding those seconded from our group to non-group companies but including those seconded from non-group companies to our group companies).
2. Figures in the "Number of Employees" column are the annual average number of temporary employees.
3. Average annual pay includes bonuses and any non-standard wages.
4. The number of employees by segment is not shown because we are a holding company.

(3) Information on labor union

In our group, there is no labor union, but labor-management relations are working in a satisfactory manner, and there are no noteworthy issues.

2. [Business situation]

2-1 [Management policy, management environment and issues to be addressed]

The forward-looking statements contained in this document are based on management's assumptions and beliefs in light of reasonable views and beliefs as of the date of filing of this document, and are not intended to guarantee the Group's achievement or future performance.

(1) Fundamental Management Policy of the Company

Our Group has set the highest management goal of "Creating a 100-year company" to support the self-realization of members participating in the organization and to achieve continuous business growth through an independent organization that is highly adaptable to the rapidly changing market environment.

By specializing in the business domains of group management, we are dedicated to further contributing to our customers by developing and providing professional services based on software products and systems that have a deeper understanding of our customers' business. To this end, we have established the following 5 management principles.
These principles also indicate the priority of management decisions.

(i) Trust
Trust means adhering to promises (commitments). In terms of relationships with our customers, we are able to gain through the accumulation of efforts to meet quality and expectations, and we believe that in business activities we can build up by raising the accuracy of our plans and repeatedly achieving them.

(ii) High profitability
Our focus on high profitability is the basis for implementing what we want to do, and we believe it is the foundation for responding flexibly to unexpected changes in the future.

(iii) High productivity
Life is finite, and time can be thought of as a unit that subdivides the life.
Creativity and ingenuity to make effective use of time is nothing less than the importance of life.
Growth is important for companies, but it is important to develop a framework to support growth before doing so.

(iv) High growth
We believe that not only corporations but also people working in them must grow together.
We are striving to create new value every day and not to repeat the same work.

(v) Pursuit of an edge
Pursuit of an edge leads to everywhere and can be considered to be the quality of life. It is expected that each and every employee will have something that "is second to none" in his or her work. In addition, we would like to increase the number of such employees by as many people as possible.

(2) Medium-term business targets

Our groups have six key management indicators, including revenue, recurrent revenue ratio, operating income, revenue growth and operating income, ROE, and dividends. Specific targets for each are announced in the 5-year new medium-term management plan "BE GLOBAL 2023" up to the fiscal year ending June 2023.

(3) The Company's Medium- to long-term Management Strategy

(i) Sustainable Earnings Growth and Business Expansion

The Group's medium-term management plan was formulated with the fiscal year ended June 30, 2019 as the first year and was announced in September 2018. We achieved our target of net income of 1 billion yen in the previous medium-term management plan announced in August 2017, 2 years ahead of schedule in the fiscal year ended June 30, 2018, and have therefore formulated a new five-year plan.

A growing demand for stronger governance and management capabilities at client companies is turning into a tailwind for us. We continue to focus on providing sustainable value to clients through our consolidated accounting related business, business intelligence business, and outsourcing business. At the same time, we are aiming for earnings growth by improving quality and productivity and promoting automation.
On the other hand, in order for the Group to achieve medium-to long-term growth, it is extremely important to strengthen the system for product development that accurately reflects the needs of client companies and changes in the surrounding environment. Therefore, we will continue to invest in product development that are necessary from a medium-to long-term perspective, rather than limiting ourselves to short-term improvement in profitability.

(ii) Changing Business Model

In order to increase corporate value, the Group focuses on the stable and continuous generation of earnings. In the medium-term management plan, the Group has set the goal of continuously increasing the ratio of recurrent revenues. To achieve this, we will accelerate the expansion of the outsourcing business and promote the shift of other businesses to cloud and transformation of our business models.

(iii) Grow through Mergers and Acquisitions

In addition to the growth of our existing businesses, if there is an opportunity to conduct mergers and acquisition with a company that meets the Group's strategy, we will carefully judge whether or not it will contribute to the enhancement of the Group's corporate value, and will actively promote M&A while taking care not to make the M&A an objective.

(4) Challenges for AVANT CORPORATION

In September 2018, the Group announced new five-year medium-term management plan "BE GLOBAL 2023" which covers five years to the fiscal year ending June 30, 2023, with the goal of becoming a globally competitive software company. We are working to achieve this plan. In particular, the goal of raising the ratio of "recurrent revenue," which consistently generate sales, such as software maintenance fees, to total revenue (the ratio of recurrent revenue) to 70% from more than 30% currently, is an extremely important challenge for the Group, and all of our employees are making efforts to tackle this challenge positively. In addition, we have adopted the "sales growth rate + operating income margin" as an indicator in order to promote both improvement of profitability and expansion of scale in a balanced manner. Our goal is to raise this figure to 40% or more, which is the highest level on a global basis.
In realizing these medium-term management plan, we must address the following issues.

1. Increase the Number of Clients

The Group's products have been adopted by many of Japan's leading companies, with sales records exceeding 1,000 companies, and these products are becoming the infrastructure that support consolidated accounting and group management in Japan. However, they have not yet reached a sufficient level to contribute to society and increase corporate value. For the foreseeable future, we will continue to provide high-quality, high-value-added products and services with the aim of attracting more than 2,000 customers.

2. Increase the Value of Contributions to Existing Customers and Their Group Companies

One of our greatest assets is our clients, who are among Japan's most outstanding corporations. In addition, as we provide products and services related to group management, dozens of affiliated companies of the clients are using our Group's products as users. In order to provide added value to these customers and their group companies, we aim to contribute to more than ten thousand group companies by providing various services of our group companies and cloud-based products developed based on the knowledge accumulated through these services.
In addition, we will strive to create an environment in which each Group company can realize maximum synergy.

3. Transform from Man-hour Business to Value-based Business

In the process of expanding the scale of our corporate group to the present scale, we have increased the ratio of sales based on the man-hours required to bill customers by man-hours multiplied by the unit price. In order to further increase corporate value by increasing profitability and productivity while expanding the scale of sales in the future, we recognize that it is necessary to shift from a business focused on man-hours sales to a business focused on value-based sales that does not necessarily require an increase in the number of employees in order to increase sales.

The 70% recurrent revenue ratio is a percentage that will be difficult to achieve without this change in business model. By setting this goal as an important indicator, the Group is working together to transform its business model.

4. Improve Employee Satisfaction

Another major asset of our group is outstanding employees with advanced technologies, expertise, and a spirit of challenge. At the Group, we consider "increasing quality employment" to be an important role of management. While increasing the number of employees every fiscal year, we strive to create a rewarding work environment that enriches the lives of employees and allows them to focus on the creation of results in their work. As part of these efforts, we have begun to recruit diverse human resources regardless of gender or nationality, and to promote them to manager positions.

5. Capture External Growth

Sustainable development of existing businesses is the foundation for realizing the Medium-term Management Plan, but it may not be possible to achieve it on its own. We will also consider acquisitions and capital alliances to be the important elements of modern corporate activities when these are deemed necessary and effective, and will take a proactive approach while carefully preparing for them.

In incorporating external growth, the target company should share the direction we aim to pursue, and we will avoid the possibility of impairing corporate value by adopting an easy approach to external growth. To this end, we always refer to the cost of capital and we discipline ourselves to maintain ROE of 20% or more even after the acquisition.

6. Compliance

Since our founding, compliance has been a fundamental principle of corporate governance. At the same time, society demands for stronger compliance so much that in the event of a violation, the loss of public confidence is even greater than in the past, and the time required to restore confidence is longer. We are promoting business activities even more thoroughly than in the past so that we do not violate not only various related laws and regulations centered on labor laws, but also corporate ethics.

7. Sustainability

The Group's management philosophy of "Creating a 100-year Company" refers to viewing a company as a public entity of society and sustainable development as an organization that exists for society. Our mission is to provide value by utilizing management information for the creation of the future, and to contribute to society. In the process of realizing this mission, we will involve various stakeholders. Therefore, unless each and every member of the Group sufficiently takes into account the need to maintain a balance between economic activities, environmental conservation, and social justice, we will not be able to achieve sustainable development.

On July 22, 2020, the Group formulated the Group Human Rights Policy and the Group Environmental Policy. On August 25, 2020, the Group signed the United Nations Global Compact and declared its commitment to accepting, supporting and implementing essential values in the four areas of human rights, labor, the environment and anti-corruption.

Until now, our group has supported sporting events and cultural activities organized by local governments and industry associations, albeit only slightly. With the signing of the Global Compact as an opportunity, we will strengthen our efforts in and outside the Group for the environment (E), society (S), and governance (G).

With regard to the impact of the spread of COVID-19, although the impact on continuing services such as maintenance sales and outsourcing sales is insignificant, there are also cases in which new clients postpone decision to sign contract or existing clients extend decision to purchase new services.

At present, we have formulated a business plan based on the assumption that the impact of COVID-19 would subside to some extent within 2020, and the economic activities of domestic companies will gradually normalize through 2021. However, if the impact of COVID-19 is prolonged, IT investment by domestic companies will be further postponed, and our Group's operating results may deteriorate more than expected. In this case, we are preparing a scenario to limit the deterioration in operating results by controlling certain expenses, such as outsourcing expenses.

In addition, the expansion of COVID-19 will promote the digitization of companies and increase the importance of management information over the medium to long term, and we believe that this will be an expanding factor in the markets in which the Group belongs.

2-2 [Risk Factors]

Items that may affect the Group's business performance, financial condition, stock price, etc. include the following.
The Group's business activities could be affected by various other factors than items listed below.
Matters concerning the future in the text are considered reasonable by the Group or based on certain assumptions made by the Group as of the filing date of the securities report.

(1) Risks Related to the Group Business

(i) Dependence on Consolidated Accounting and Management System

The Group is engaged in the software business, with development & sales, installation & support service of The Group is engaged in the software business and its main business is development & sales, installation & support service of consolidated accounting and management systems as the main business. For this reason, the Group implements measures such as research and development and organization changes based on the verification of changes in customers' needs related to consolidated accounting and management or changes in the market environment. If the Group cannot adequately predict customers' needs and market environment, and product development and organizational structures cannot be properly addressed, it may affect business results and financial position. In addition, while the Group is working to expand revenues and strengthen its business base by diversifying the solutions it provides such as financial planning / budgeting systems and management information utilization systems, our dependence on DivaSystems grow stronger. Many customers of DivaSystem are listed companies with many consolidated subsidiaries and are required to disclose consolidated financial results and management results. Thus, the market for consolidated accounting and management systems may be limited compared to accounting software for individual settlement of companies, and the Group is developing products that meet these customer (market) needs.

(ii) Business Environment in the Consolidated Group Management and Consolidated Accounting Market

The Group aims to create and drive the market for financial planning and budgeting systems and management information utilization systems in order to expand addressable market and users of management information, and to expand the line of business of the Group. This systems solution market is rapidly changing on the back of the reorganization of major ERP vendors and business intelligence solution vendors. In addition, the market is immature in Japan, so if the company cannot keep up with the speed of growth of the market or the products developed by the Group in the future cannot adequately meet customer needs, it may affect the business performance and financial position.

(2) Risks Related to Profitability of the Company

(i) Impact of IT Investment

The Group is committed to providing high-quality products and providing systems that can be used continuously through enhancement of products and the Group’s support capabilities. Orders to the Group may be affected by the change in IT investment policy of the customers. IT investment is greatly affected by the economic environment and corporate profit environment, and depending on these trends, the amount of investment may be reduced or canceled. In the future, the products that the Group plans to sell include not only those that contribute to the cost reduction of client companies through improvement in operational efficiency, but also those that support company decision making. Investment in these products may be postponed when the earnings environment of the client company deteriorates.

(ii) Impact of Large-scale Projects

When the Group participates in large-scale projects, the feedback from that experience contributes to the development of practical product in line with job requirements, and thus will promote the development of high-value-added and reliable quality packaged software. So, our policy is to take orders for large-scale projects, but the business performance and financial position of the Group may be affected by trends in orders for these large-scale projects.

(iii) Competition

The competitive environment surrounding the Group has shifted to major SI vendors and ERP companies. These companies are not specialized in consolidated accounting and management systems, but are comprehensive system developers, and greatly exceed the Group in terms of corporate size, financial resources and investment capacity. In order to compete with these companies and ensure competitiveness, we have responded meticulously to customer needs and are fully committed to developing and providing products and services that are attractive to the market. If these competitors deploy a sales strategy based on scale and comprehensive strength, the Group will not be able to compete and may affect the business environment, business performance, and financial position.

(iv) Regulations

At present, we recognize that there are no regulations that will restrict the Group's business activities. In the future, if new regulations related to the software industry is introduced, or regulations related to changes in related fields and the environment are strengthened and the business activities of the Group will be restricted, it may affect our business.

(3) Risks Related to Product Development

(i) New Product Development

The Group has established a medium-term product development policy for the purpose of providing competitive products and services that meet customer (market) needs, and it is working on the development of new products that will drive the Group's growth if they are put on the market at appropriate timing. However, rapid technological advances, the emergence of alternative technologies / competitive products, changes in the dependent technology standards / bases, etc. may hinder appropriate launch of new products. There is also a possibility that changes in product cycle and market environment may hinder continuous product development capabilities, and our business results and financial position may fluctuate significantly.

(ii) Technological Innovation Related to Database and Operating System

In developing software and building systems, the Group uses the industry standard technologies such as Oracle for the database and Microsoft for the operating system. However, technological innovation and market changes might make these technologies no longer a standard. In this case, the Group's products may also lose competitiveness, which may affect business results and financial position.

(iii) Defects (Lawsuits Arising from Software Defects)

The Group makes every effort to conduct quality control and system test inspections during product development until launch, but in the event of an economic loss to a client company due to a serious malfunction, the Group might be asked to compensate for damages. If that happens, in addition to the impact of costs associated with repairs and response work, the Group would suffer damage to its social credibility and to its brand, ant it may have a further impact on business results and financial position.

(iv) Intellectual Property Rights

The Group develops new products and templates based on accumulation of business experiences. If a customer makes a copyright request for a system function that has been developed based on customer requirements, the product function might be restricted.

In case a software developed by the Group infringes on the intellectual property rights of others, the Group might be asked compensation for damages.

In addition, in order to ensure competitiveness, we take great care in managing the Group's product development information and try to protect intellectual property. However, if other companies infringe on our intellectual properties or in case of emergence of imitations and similar products, expected earnings may be lost, which may affect business performance and financial position.

(v) Revision of Regulations on Corporate Accounting and Information Disclosure

The specifications of the software of the Group are designed based on rules and regulation governing corporate accounting and the information disclosure. However, if there is a sudden change in the rules and regulation that constitutes these business contents occurs and the Group cannot respond appropriately, the competitiveness of group products may be reduced, which may affect business performance and financial position.

In addition, there is a possibility that it will be affected by the revision of tax regulation, etc., which are largely related to the accounting field.

(4) Risks Related to Information Management and Security

(i) Management of Customer Information

The Group handles important corporate information that corresponds to insider information such as financial results of customers in connection with business execution. We believe we have taken all possible measures to manage this information. However, the Group cannot rule out possible leakage of such information due to unforeseen circumstances such as unauthorized access to our company's computers from outside, misconduct of our company's officers / employees and subcontractors, etc. If such a situation occurs, it may have a significant impact on the Group's social credibility and may affect the Group's business performance and financial position, including the cost of responding.

(ii) Information System Failures and Security

The role of computer networks and information systems is becoming more and more important, and the construction of information systems and the establishment of security measures are indispensable for continuing business activities. At the same time the possibility of risk of information leakage due to system failure, system fault by malicious virus and network intrusion is increasing. The Group makes every effort to manage systems and data through advanced security and employee training. However, if these accidents occur, they may affect business activities.

In addition, if the Group's offices are damaged by natural disasters such as earthquakes or fires, the loss of stored documents and data may hinder business activities and affect business performance and financial condition.

(5) Risks Related to Management System and Organization Structure

(i) Dependence on Chief of Management

The Group's organization is currently working on the development of human resources and the establishment of an organizational structure but recognizes that corporate management is highly dependent on Tetsuji Morikawa, President and Representative Director. If a situation arises, it may affect the promotion of business activities, earnings and financial position.

In addition, in order to respond to future expansion of line of business and business foundation, the Group aims to strengthen human resources and enhance the internal management system. However, if the expansion of human resources does not proceed as planned, if there is an unexpected outflow of human resources, it may hinder business operations and affect the Group's business performance and financial position.

(ii) Secure and Develop Human Resources

We believe that the development of Group's business and growth depend on its ability to sustain development of competitive products and services that meet customer needs. That ability depends on whether the Group can secure and develop talented human resources who are capable of both creating solutions that combines ever evolving information technology and practical business operation and converging them into a system. Thus, the Group offers various training opportunities such as training for new graduates, mid-term training and OJT for them to accumulate practical experience. However, if the securing and developing of talented human resources with specialized knowledge does not proceed as planned for several years, it may affect the future growth potential, performance and financial position of the Group.

(iii) Securing Capacity to Provide Service and Quality Assurance

The Group is unable to exactly forecast the order amount and frequency for services that the Group develop as contractor, so in some circumstances the Group cannot accommodate customer order in excess of our capacity to supply services, and that may result in lost sales opportunities. Regarding its capacity to supply services, we are working to improve the ability to respond to various orders by utilizing outsourcing to external partner companies and the service quality and provision capacity to customers through alliances, but these alliances do not always progress as planned. If that happens, it may have an impact on business performance and financial position.

Further, the Group established a project quality management department to strengthen project management and pay close attention to project profits and losses. However, as project specification becomes more sophisticated and complicated, there is a chance that the Group incurs a difference in projection due to unexpected obstacles, changes in specifications or delivery dates, and then profitability of that project may deteriorate or become deficit. In that case it may affect the Group's business performance and financial position.

(iv) Shift to a Holding Company Structure (Reorganization, etc.)

The Group shifted to a holding company structure on October 1, 2013, where the Company specializes in management and business support functions, and each business subsidiary provides customers with services that take advantage of their characteristics.

In the course of business in the future, the Group might reorganize the business structure, or the Group might incur reorganization in association with merger and acquisition in pursuit of growth opportunity. Along the way, the Group will accumulate know-how on reorganization with or without M & A, and prepare for smooth management integration work, aiming for the growth and improvement of corporate value of the Group. However, there are always risks associated with group reorganization and M & A. If these actions do not meet the original expectation the Group's business results and financial condition may be affected.

(6) Other Risks

(i) Recognition of Sales

In the Group's services, sales are recognized upon acceptance by the customer. Even if the Group believes that the provision of services has been completed, if the acceptance is delayed by the customer, the recognition of sales will be deferred, and it may affect the performance and financial position of the Company.

(ii) Effect of Investment

In order to enhance competitiveness of the product, establish and expand business foundations and to sustain medium- to long-term growth in priority areas, the Group actively makes investments such as research and development after considering business performance and financial conditions. However, there is no guarantee that we can always realize the development of new products that will lead to the growth of the Group and the establishment of a business foundation that will have an effect commensurate with investment. In this case, the Group's business results and financial condition may be affected.

(iii) Limited Number of Issued (Floating) Shares

The Group's business is small and so is the number of shares issued. If there is not enough liquidity to meet market demand and supply, stock prices may increase or decrease sharply in the short term.

Among the above risks, our Group recognizes the following as particularly important risks, and implements countermeasures centered on the Compliance and Risk Committee, which is chaired by the Group CEO.

・ (3)-(iii) Defects (Lawsuits Arising from Software Defects)

To date, there have been no cases in which lawsuits have been brought about as a result of product or other deliverables having a significant impact on the performance of the customer's business, and this is not a high likelihood of occurrence. However, we recognize that this is a risk that, if it does occur, it will have a major impact on the Group's operating results and financial position. We take measures by, for example, improving product project quality through the establishment of a quality control department and other means, and obtaining insurance in the event of an emergency.

・ (4)-(ii) Information System Failures and Security

Considering the impact of cyber-attacks, earthquakes, and other natural disasters on the system, we recognize that the risks that materialize are relatively high. We are continually implementing measures to strengthen security measures, strengthen back-ups, and conduct internal education and training.

・(5)-(i) Dependence on Chief of Management

Although the timing of the materialization is unclear, this is a risk that will always materialize over the long term. The Group CEO, by concurrently assuming the positions of directors of each business company, is working to develop successors by providing guidance and entrusting management.

・(5)-(iv) Shift to a Holding Company Structure (Reorganization, etc.)

We recognize that M&A is an important risk because the amount of investment in M&A is enormous in the reorganization and the impact of failure is extremely large.
Although this is not a frequent activity in our group, we plan to take bold action after sufficiently reducing risks (uncertainties) through careful planning and the implementation of in-depth due diligence.

2-3 [Management's Discussion and Analysis of Financial Condition, Results of Operations and Cash Flows]

Management discussion and analysis on Financial position, results of operations and cash flows of the Company and its consolidated subsidiaries for the fiscal year (hereinafter referred to as "business results, etc.") and the status of the Group's business results is as follows.

The forward-looking statements in this report are based on judgments made at the end of the fiscal year under review.

(1) Overview of Operating Results

In September 2018, we formulated a new 5-year medium-term management plan "BE GLOBAL 2023" for the period up to June 2023, with the goal of becoming a global software company. Among these, we have announced targets for 6 categories: sales, recurrent revenue ratio, operating margin, sales growth rate + operating margin, ROE, and distribution. Targets for each item and progress made in the current consolidated fiscal year are as follows.

	FY19 Actual	FY20 Actual	FY23 Target
Revenue	¥14.07B	¥15.69B	¥18~22B
Recurrent revenue ratio	31.4%	32.6%	70%
Operating income	¥1.96B	¥2.27B	¥3.1~3.8B
Revenue growth + OP margins	30.2pt	26.0pt	Over 40pt
ROE	24.6%	23.5 %	Over 20%
Dividends	¥7.5	¥9	Over ¥15

[Net sales]

Our sales target for the fiscal year ending June 2023 is 180 yen to 22 billion yen.
This represents net sales growth assuming an average growth rate of around 10% from net sales in the previous fiscal year. In the fiscal year under review, however, net sales in the Business Intelligence Business and the Outsourcing Business grew significantly. In the consolidated fiscal year under review, consolidated revenues were 15,691 million yen, mainly due to the additional sales from large-scale projects, which had been scheduled to wind down in the fiscal year under review. This represents an increase of 11.5% over the previous fiscal year, and we recognize that we are making steady progress toward the goals of the Mid-term Plan.

[Recurrent revenue ratio]

We have set a goal of increasing recurrent revenue ratio, which is the ratio of stock sales (sales occurring continuously every fiscal year, such as software maintenance fees) to total sales, to 70% in order to reform our business model during the period of the current medium-term management plan.
Recurrent revenue ratio for the fiscal year under review stood at 32.6%, almost unchanged from the previous fiscal year. While we see signs of success in some areas, such as growth in the Outsourcing Business and an increase in cloud sales in the Consolidated Accounting-related Business, and the total amount of recurrent revenue increased significantly by 15.9% from the previous fiscal year, recurrent ratio remained at the same level partly due to the favorable non-stock-type sales, mainly in the Business Intelligence Business. Therefore, we do not recognize that it is completely difficult to achieve the target. We will continue our efforts to reform our business model.
[Operating income]

We focus on the growth of operating income, and our long-term target is an average growth rate of 18%. Based on this average growth rate in the medium-term management plan, the target is to reach between 3.1 and 3.8 billion yen in fiscal year ending June 30, 2023.

In the fiscal year under review, expenses increased due to the increase in compensation levels to improve competitiveness and the opening and expansion of offices by several group companies. However, in addition to the impact of the increase in sales, the Company made efforts to receive orders for highly profitable projects, improve project quality and productivity, and the Company made efforts to reduce fixed-type expenses in preparation for uncertain conditions in the future when the Company faced signs of COVID-19 to spread,. As a result, the Company posted operating income of 2,278 million yen. This represents a 15.9% increase compared to the previous fiscal year, and we recognize that we have made a steady progress toward achieving our medium-term plan targets.

[Revenue growth + Operating margin]

Under the current medium-term management plan, we adopted "sales growth rate + operating income ratio" as an indicator to increase corporate value by maintaining a balance between improvement in profitability and expansion of scale, and we aim to achieve 40 points or more, which is on the high side for a company on a global perspective.

In the fiscal year under review, net sales grew steadily to 11.5%, and the operating income margin improved 0.5 of a percentage points from the previous fiscal year to 14.5%, resulting in a consolidated operating income margin of 26.0%. This represents a decline of 4.2 percentage points from the previous fiscal year, and there is still a deviation from the target. We believe that we need to further accelerate sales growth and improve profitability.

[ROE]

We recognize that realizing the goals of the current medium-term plan requires not only the growth of the three existing businesses segments, but also investment activities, such as internal investments and the incorporation of external growth. However, as a guideline for implementing investment activities, we have set a target of maintaining ROE of at least 20% on a continuing basis, which we had maintained at around 20% over the long term. In the fiscal year under review, the ratio was 23.5%, exceeding the target but in line with the Company’s expectation.

[Dividend]

The Group considers dividends to be an important part of its shareholder return policy and pays attention to indicators such as the ratio of dividends to net assets. Our goal is to maintain and increase the amount of dividends in a stable manner without being greatly influenced by the financial performance of each fiscal year. In the fiscal year ending June 2023, we intend to realize the results of operations and the financial condition that should support distribution of 15 yen per share.

Based on our basic policy of paying stable dividends on a continuous basis, we have increased our dividend per share for the fiscal year under review by 1.5 yen to 9 yen. Although we are unable to achieve our target unless we slightly fasten the pace of increase in dividend within the period of the current medium-term plan, we believe that we are not in a situation in which we need to revise our target downward at this time.

The following is a detailed analysis of operating results.

(2) Discussion on Business Operations

The consolidated results for the fiscal year ended June 30, 2020 are as follows.

(Millions of yen, rounded down to the nearest unit)

	Fiscal Year ended June 30, 2019	Fiscal Year ended June 30, 2020	Year on Year Change	
			Amount	%
Revenue	14,077	15,691	1,613	11.5
Operating income	1,966	2,278	312	15.9
Ordinary income	1,972	2,282	309	15.7
Net Profit attributable to owners of parent company	1,317	1,537	220	16.8

Consolidated revenue was 15,691 million yen (up 11.5% year on year), achieving double-digit growth. While the Business Intelligence Business and the Outsourcing Business both recorded significant growth, the Consolidated Accounting-related Business also grew mainly due to the continuation of large-scale projects with additional sales, which were scheduled to level off in the fiscal year under review. In the mid-term management plan announced in September 2018, one of the management targets was to increase the ratio of recurrent revenue (e.g. software maintenance fees, among other continuously generated revenue). While some of the results have begun to emerge, such as an increase in cloud sales in the Consolidated Accounting-related business, there was also a favorable impact from non-recurrent revenue, mainly in the Business Intelligence business. As a result, the total amount of recurrent revenue increased 15.9% year on year, but the ratio of recurrent revenue to total revenue remained almost unchanged at 32.6%.

Operating income increased 15.9% year on year to 2,278 million yen, and ordinary income increased 15.7% year on year to 2,282 million yen, and profit attributable to owners of parent company increased 16.8% to 1,537 million yen, all increased for the fifth consecutive years and set their records. While there was an upward trend in costs associated with the increase in the level of employee compensation to improve competitiveness and the opening and expansion of offices, we continued our focus on accumulating new orders for highly profitable projects and our efforts to improve quality and productivity of existing projects. Since the spread of COVID-19 began, the Company set out efforts to reduce nonessential expenses in preparation for future uncertainties.

Some companies in Japan have begun to postpone or some seriously affected have suspend IT investment as a result of the expansion of COVID-19, and some of the orders received by the Group have been affected, but the impact on operating results for the fiscal year under review is limited.

The status of each reportable segment is as follows.
(a) Revenue

(Millions of yen, rounded down to the nearest million yen)

	Fiscal Year ended June 30, 2019	Fiscal Year ended June 30, 2020	Year on Year Change	
			Amount	%
Consolidated Accounting	8,034	8,485	451	5.6
Business Intelligence	4,990	5,767	776	15.6
Outsourcing	1,629	2,062	432	26.5
Elimination of inter-segment transactions	(576)	(624)	(47)	—
Consolidated net sales	14,077	15,691	1,613	11.5

(b) Operating income

(Millions of yen, rounded down to the nearest million yen)

	Fiscal Year ended June 30, 2019	Fiscal year ended June 30, 2020	Year on Year Change	
			Amount	%
Consolidated Accounting	1.293	1,616	323	25.0
Business Intelligence	636	692	55	8.8
Outsourcing	318	364	45	14.4
Corporate Expenses and Elimination of inter-company transaction	(281)	(394)	(112)	—
Consolidated operating income	1,966	2,278	312	15.9

In the Consolidated Accounting-related business, at the beginning of the fiscal year, we anticipated that the large-scale projects that had contributed greatly to revenue up to the previous fiscal year would level off. However, during the year under review, we continue to receive additional sales from this client. At the same time, we saw solid new sales in areas other than large-scale projects, and segment revenue increased 5.6% year on year to 8,485 million yen. Personnel expenses rose due to an increase in the number of employees, and expenses rose due to the renovation of an existing office and opening of a new office. Despite these increases in expenses, we were able to improve overall profitability as a result of our efforts to improve project quality and productivity, and since the spread of COVID-19 began, the Company set out efforts to reduce nonessential expenses in preparation for future uncertainties. As a result, operating income increased 25.0% year on year to 1,616 million yen.

In the Business Intelligence business, we continue to observe favorable market environment where corporations invest heavily in visualizing corporate management information as part of their efforts to promote digital transformation. As a result, net sales increased to 5,767 million yen (up 15.6% year on year). On the other hand, operating income increased only slightly to 692 million yen (up 8.8% year on year), due in part to an increase in personnel expenses accompanying an increase in compensation levels and an increase in the number of employees, as well as an increase in expenses related to the opening of a new office.

In the Outsourcing business, demand continued to be strong as enterprise clients continue strengthen and examine the group governance system and review the roles of the accounting department in their organization. In addition, sales in other than consolidated accounting and disclosure fields such as treasury management solutions increased, and segment revenue increased significantly or 26.5% year on year to 2,062 million yen. Despite an increase in expenses such as office floor space accompanying an increase in the number of employees, and expenses incurred for the maintenance of the office environment in order to continue providing high-quality services to customers while ensuring the health and safety of employees despite the spread of COVID-19, operating income increased to 364 million yen (up 14.4% year on year).

(Production, Orders and Sales Results)
a. Production Results
Not applicable.

b. Orders Received
Orders received in each business segment for the fiscal year under review are as follows.

Segment name	Orders Received (Millions of yen)	Year on year (%)	Order Backlog (Millions of Yen)	Year on year (%)
Consolidated accounting-related business	8,313	6.9	1,999	(8.0)
Business Intelligence	5,417	2.9	854	(29.1)
Outsourcing business	2,160	19.5	950	11.4
Elimination of inter-segment transactions	(533)	(21.1)	(208)	(31.1)
Total	15,357	8.4	3,595	(8.5)

(Note) Figures do not include consumption tax and other items.

c. Sales Results
Sales results for the fiscal year under review by business segment are as follows.

Segment name	Sales (Millions of yen)	Year on year (%)
Consolidated accounting-related business	8,485	5.6
Business Intelligence	5,767	15.6
Outsourcing business	2,062	26.5
Elimination of inter-segment transactions	(624)	-
Total	15,691	11.5

(Notes) 1. Sales results by major counterparty and the ratio of such sales to total sales are not stated because there are no major counterparties whose ratio is more than 10%.
2. Figures do not include consumption tax and other items.

(3) Discussion on Financial Position

Total assets at the end of the fiscal year under review amounted to 11,780 million yen, an increase of 1,365 million yen from the end of the previous fiscal year. This was mainly attributable to an increase in current assets of 1,106 million yen due to an increase in cash and deposits of 1,175 million yen mainly attributable to owners of parent company and a decrease in accounts and notes receivable-trade of 182 million yen, as well as an increase in property, plant and equipment of 192 million yen mainly due to expansion of offices and network improvements, and an increase in intangible assets of 26 million yen mainly due to improvements in the IT infrastructure environment, resulting in an increase in non-current assets of 258 million yen.

Total liabilities amounted to 4,586 million yen, an increase of 69 million yen from the end of the previous fiscal year. This was mainly due to an increase in unearned revenue of 218 million yen, a decrease in accounts payable-trade of 83 million yen, and a decrease in accounts payable-other and accrued expenses of 43 million yen.

Total net assets amounted to 7,194 million yen (up 1,296 million yen from the end of the previous fiscal year), due to the recording of 1,537 million yen in profit attributable to owners of parent and the payment of 281 million yen in dividends from surplus. As a result, the equity ratio improved by 4.5% points from the previous fiscal year to 61.1% (56.6% at the end of the previous fiscal year). We believe that we are maintaining a stable financial balance without interest-bearing debt.

(4) Discussion on Cash Flows

Cash and cash equivalents (hereinafter, "cash") at the end of the fiscal year under review increased by 1,175 million yen from the end of the previous fiscal year to 6,370 million yen. The status of each type of cash flow and its factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,890 million yen. (Acquired 1,320 million yen in the previous fiscal year)
Major inflows included income before income taxes of 2,282 million yen, depreciation of fixed assets of 227 million yen, an increase in unearned revenue of 218 million yen, and an increase in notes and accounts receivable-trade of 182 million yen. Major outflows included income taxes paid of 913 million yen and a decrease in accounts payable-other and accrued expenses of 10 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 420 million yen. (Use of 455 million yen in the previous consolidated fiscal year)
Major expenditures included the purchase of property, plant and equipment of 236 million yen due to an increase in the floor space of offices and network improvements, the purchase of intangible assets of 121 million yen due to improvements in the IT infrastructure, and the payment of lease and guarantee deposits of 138 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 294 million yen. (Use of 232 million yen in the previous consolidated fiscal year)
The main expenditure was cash dividends paid of 281 million yen.

(5) Analysis of Shareholders' Equity and Liquidity

Our basic policy for the Group is to maintain and pursue an optimal capital structure that ensures financial soundness and flexibility while improving capital efficiency in order to achieve sustainable growth in corporate value and increase shareholder returns.

The Group's main funding requirements are office and IT-related capital investment and ordinary working capital, and these funds are procured from the Company's own funds and borrowings from banks as appropriate.

There were no outstanding borrowings at the end of the fiscal year under review. The Company also holds cash and deposits of 6,335 million yen, and the Company recognizes that the necessary funds are secured.

With regard to fund liquidity, the Group strives to effectively utilize surplus funds through fund management contracts between Group companies, and has concluded commitment line contracts with financial institutions to prepare for sudden fund demand and contingencies.

(6) Significant Accounting Estimates and Assumptions Used in Such Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. In preparing these consolidated financial statements, it is necessary to make estimates regarding the future that affect the reported amounts and disclosures of assets, liabilities, and revenues and expenses for the current fiscal year.
Management makes reasonable judgments regarding these estimates by taking into account past results and various other factors at the end of the current fiscal year. However, actual results may differ from these estimates in the future due to uncertainties inherent in the estimates.

Significant accounting policies used in the consolidated financial statements of the Group are described in "5. Accounting, 1. Consolidated Financial Statements, (1) Notes to Consolidated Financial Statements, and Significant Accounting Policies for the Preparation of Consolidated Financial Statements."
In particular, the following significant accounting policies will have a significant impact on the judgment of the Company in making significant estimates in the preparation of its consolidated financial statements.

(i) Deferred tax assets

The Companies reasonably estimate future taxable income and determine the recoverability of deferred tax assets.
Forecasts of future taxable income are based on historical experience and certain assumptions. If changes in the business environment or other factors necessitate changes in the estimates of taxable income, the amount of deferred tax assets recorded may change, which may affect the Group's performance.

(ii) Provision for bonuses

The reserve for bonuses is provided at an amount corresponding to the current period of the estimated bonus payments to employees in the next fiscal year. However, since the actual bonus payments are determined based on the external environment at the time of payment and the status of our group, additional expenses may be required if the actual bonus payments differ from the estimates.

(iii) Accrual for losses on contracts

In order to prepare for future losses on contracts, the Group records the estimated amount of losses to be incurred in and after the next fiscal year. Additional provisions may be required when actual accrued costs differ from estimates.

2-4 [Important Business Contracts]

Not applicable.

2-5 [R&D Activities]

The Group considers software to be an intellectual product, and in order to provide high productivity added value by standardizing and packing business processes, we consider software functions from both operational and technical aspects of data processing and the resulting content, and promote the development of reliable software that concentrates advanced technologies. We will also strengthen our product development system to accurately reflect the needs of client companies for the medium-to long-term growth of the Group. Our group has been developing products that meet a variety of needs by building relationships with a large number of client companies. We will continue to strengthen our relationships with client companies and seek more effective product development inputs.

Total R&D expenditures for the fiscal year under review were 409 million yen.

R&D activities by segment are as follows.

(1) Consolidated accounting-related business

We continue to develop products in order to meet the diverse needs of our customers and contribute to the solution of issues.

(2) Business Intelligence

There were no research and development expenses related to this segment.

(3) Outsourcing business

There were no research and development expenses related to this segment.

3. [Information on Facilities]

3-1 [Outline of Capital Investment]

In order to respond to rapid technological innovation and changes in the business environment, the Group carries out systematic and continuous capital investment with the aim of enhancing product development functions, strengthening customer service, and strengthening the organizational foundation to support continuous business growth.

Capital expenditures for the consolidated fiscal year under review amounted to 488 million yen (including software). Capital expenditures by segment were 284 million yen for the consolidated accounting-related business, 81 million yen for the business intelligence business, 61 million yen for the outsourcing business, and 60 million yen for the intra-company (common). This was mainly due to the construction of new facilities attached to buildings related to offices and the introduction of software for internal use, and there was no disposal or sale of important facilities during the fiscal year under review.

3-2 [Major Facilities]

Major facilities of our group are as follows.

(1) Parent company

As of June 30, 2020

Business Sites (Location)	In the segment Name	Facilities	Book value (Millions of yen)					Number of employees (People)
			Buildings	Tools, instruments & fixtures	Software	Others	Total	
Head Office (Minato-ku, Tokyo)	Head-office	Office facilities Software	3	43	48	7	101	8
Omori Office (Shinagawa-ku, Tokyo)	Head-office	Office facilities	5	0	6	-	12	28
Shinjuku office (Shinjuku-ku, Tokyo)	Head-office	Office facilities	63	-	-	-	63	-
Osaka Office (Osaka City, Osaka Prefecture)	Head-office	Office facilities	3	0	0	0	3	-

(Notes)
1. The above amounts do not include consumption taxes.
2. In addition to property, plant and equipment, software (excluding software for sale on the market) is included.
3. All buildings are building fixtures such as partitions. Both the head office and other offices are under lease.
4. For the Head Office, Omori Office, Meguro Office, Shinjuku Office, Osaka Office and Takanawa Office, part of the facilities are leased to the consolidated subsidiaries together with the business sites.
5. The book value of "Other" includes telephone subscription rights and trademarks.

(2) Domestic subsidiaries

As of June 30, 2020

Company Name	In the segment Name	Business Sites (Location)	Facilities	Book value (Millions of yen)					Number of employees (People)
				Buildings	Tools, Instruments and fixtures	Software	Others	Total	
DIVA Corporation	Consolidated accounting-related business	Head Office (Minato-ku, Tokyo)	Office facilities Software	32	25	14	7	79	233
		Omori Office (Shinagawa-ku, Tokyo)	Office facilities Software	3	3	1	-	8	52
		Osaka Office (Osaka City, Osaka)	Office facilities	33	2	-	-	36	49
		Konan office (Minato-ku, Tokyo)	Office facilities	86	45	-	-	132	118
Internet Disclosure Co., Ltd.	Consolidated accounting-related business	Head Office (Minato-ku, Tokyo)	Office facilities Software	0	4	-	-	4	11
ZEAL Corporation	Business Intelligence Business	Head Office (Shinagawa-ku, Tokyo)	Office facilities Software	9	3	23	2	37	173
		Gotanda Office (Shinagawa-ku, Tokyo)	Office facilities	11	3	-	-	15	98
		Osaka Office (Osaka City, Osaka)	Office facilities	13	3	-	-	17	19
		Fudomae Office (Shinagawa-ku, Tokyo)	Office facilities	30	13	-	-	44	61
FIERTE CORPORATION	Outsourcing business	Head Office (Shinjuku-ku, Tokyo)	Office facilities Software	1	20	47	-	69	202

(Notes)
1. The above amounts do not include consumption taxes.
2. In addition to property, plant and equipment, software (excluding software for sale on the market) is included.
3. All buildings are building fixtures such as partitions. Both the head office and other offices are under lease.
4. The book value of "Other" includes vehicles, telephone subscription rights and trademarks.
5. Konan Office was opened on December 2, 2019
6. Fudomae Office was opened on February 2, 2020

3-3 [Plans for New Construction and Retirement of Facilities]

(1) Construction of major facilities

Not applicable.

(2) Disposal of major facilities

Not applicable.

4. [Information on Parent Company]

4-1 [Status of Shares, etc.]

(1) [Total number of shares, etc.]

(i) [Total number of shares]

Type	Number of Shares Authorized (Shares)
Common stock	62,304,000
Total	62,304,000

(ii) [Shares issued and outstanding]

Type	As of the end of the fiscal year Number of shares issued (As of June 30, 2020)	As of the filing date Number of shares issued (September 23, 2020)	Listed financial commodity exchange name or registered authorized financial commodity trade association name	Details
Common stock	37,586,982	37,586,982	Tokyo Stock Exchange (First Section)	Number of shares per unit 100 shares
Total	37,586,982	37,586,982	-	-

(2) [Subscription rights to shares, etc.]

(i) [Details of the stock option plan]
Not applicable.

(ii) [Content of rights plan]
Not applicable.

(iii) [Status of other stock acquisition rights, etc.]
Not applicable.

(3) [Exercise of bonds with subscription rights to shares, etc. with exercise price revision provisions, etc.]

Not applicable.

(4) [Number of Shares Issued, Share Capital, etc.]

Date	Issued shares Increase/decrease in the total number Co., Ltd.	Issued shares Total balance Co., Ltd.	Change in common shareholders' equity (Millions of yen)	Common stock balance (Millions of yen)	Legal capital surplus Increase (decrease) (Millions of yen)	Legal capital surplus Balance (Millions of yen)
December 1, 2016 (Notes) 1	4,694,000	9,388,000	-	288	-	225
November 1, 2017 (Notes) 1	9,388,000	18,776,000	-	288	-	225
October 19, 2018 (Notes) 2	9,094	18,785,094	7	295	7	232
October 17, 2019 (Notes) 3	8,397	18,793,491	7	303	7	240
December 1, 2019 (Notes) 1	18,793,491	37,586,982	-	303	-	240

(Notes)
1. This is due to a 2-for-1 stock split.
2. This was due to the issuance of new shares as restricted stock compensation.
   Issue price: 1,567 yen
   Capital appropriation: 783.5 yen
   Issued to: 10 of our Corporate Officer and our subsidiary's board members
3. This was due to the issuance of new shares as restricted stock compensation.
   Issue price: 1,845 yen
   Capital appropriation: 922.5 yen
   Issued to: 10 of our Corporate Officer and our subsidiary's board members

(5) Status by Owner

As of June 30, 2020

Classification	Status of shares (100 shares per unit)								Shares in less than 1 unit
	Governments and municipality	Financial institutions	Financial Instruments Business dealer	Other Corporation	Foreigners		Individuals Others	Total	
					Corporate	Individuals			
Number of shareholders	-	19	20	21	75	8	2,393	2,536	-
Number of shares held (Unit)	-	45,493	6,655	39,329	53,560	17	230,777	375,831	3,882
Number of shares held Percentage of	-	12.10	1.77	10.46	14.25	0.00	61.40	100.00	-

(Note) 2,911 treasury stocks are included in "Individuals and others" at 29 units and in "shares in less than 1 unit" at 11.

(6) [Major Shareholders]

As of June 30, 2020

Name or registration	Address	Number of shares held	Issued shares To the total number of treasury shares Percentage of total numbers of share held (%)
Tetsuji Morikawa	Minato-ku, Tokyo	9,764,000	25.98
Avant Employee Holdings Association	2-15-2, Konan, Minato-ku, Tokyo	3,195,300	8.50
Japan Trustee Service Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	2,248,500	5.98
Tsuyoshi Noshiro	Asaka, Saitama	1,868,800	4.97
OBIC Business Consulting Co., Ltd.	6-8-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo	1,600,000	4.26
PCA Corporation	1-2-21, Fujimi-cho, Chiyoda-ku, Tokyo	1,556,800	4.14
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hong Kong and Shanghai Banking Corporation, Tokyo Branch)	ONE LINCOLN STREET, BOSTON MA USA 02 111 (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	1,426,200	3.79
The Master Trust Bank of Japan, Ltd. (trust account)	Hamamatsucho, Minato-ku, Tokyo	983,500	2.62
FCP SEXTANT AUTOUR DU MONDE (Standing proxy: The Hong Kong and Shanghai Banking Corporation, Tokyo Branch)	9 AVENUE PERCIER 75008 PARIS (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	811,600	2.16
BBH/DESTINATIONS INTERNATIONAL EQUITY DUND/WASATCH ADVISORS (Standing proxy: Sumitomo Mitsui Banking Corporation)	1055 WESTLAKES DRIVE, SUITE 250 BERWYN PENNSYLVANIA 19312 (1-3-2 Marunouchi, Chiyoda-ku, Tokyo)	653,640	1.74
Total	-	24,108,340	64.15

(Notes)

1. Of the above number of shares held, the number of shares related to the trust business is as follows.
   Japan Trustee Services Bank, Ltd. (Trust account) 2,248,500 shares
   The Master Trust Bank of Japan, Ltd. (Trust account) 983,500 shares
2. Japan Trustee Services Bank, Ltd. merged with JTC Holdings, Ltd. and Trust & Custody Services Bank, Ltd. on July 27, 2020 and changed its name to Custody Bank of Japan, Ltd.
3. Wasatch Advisors Inc. announced in the Report of Possession of Large Volume published for public inspection as of January 2020, 2020, that it owns the following shares as of January 15, 2020. However, as we are not able to confirm the actual number of shares owned as of March 31, 2020, it is not included in the above-mentioned major shareholders. The content of the Report of Possession of Large Volume is as follows.

Name or registration	Address	Shares owned (000's)	Percentage held (%)
WASATCH ADVISORS INC	1-4-1 Kasumigaseki, Chiyoda-ku, Tokyo Nittochi Bldg., 4F Blakemore & Mitsuki	19,274	5.13

(7) [Status of voting rights]

(i) [Shares issued and outstanding]

As of June 30, 2020

Classification	Number of shares		Number of voting rights (units)	Details
Non-voting stock	-		-	-
Shares with Restricted Voting Right (Treasury Shares, etc.)	-		-	-
Shares with restricted voting rights (other)	-		-	-
Wholly Owned Voting Shares (Treasury Shares, etc.)	(Treasury stock) Common stock	2,900	-	-
Shares with full voting rights (Others)	Common stock	37,580,200	375,802	-
Shares less than 1 unit	Common stock	3,882	3,494 -	-
Number of issued shares		37,586,982	-	-
Voting rights of all shareholders	-		375,802	-

(Note) 11 shares of treasury stock owned by the Company are included in the "Shares less than 1 unit" column.

(ii) [Treasury stock, etc.]

As of June 30, 2020

Owner's name Or name	Address of the holder	Own name Number of shares held Co., Ltd.	Name of another person Number of shares held Co., Ltd.	Number of shares held Total Co., Ltd.	Percentage of shares held
(Treasury stock) AVANT Corporation	Konan, Minato-ku, Tokyo 15-2, 2-chome	2,900	-	2,900	0.01
Total	-	2,900	-	2,900	0.01

4-2 [Information on treasury stock]

[Type of shares] Acquisition of common shares as set forth in Item 7 of Article 155 of the Company Law

(1) [Acquisition by resolution of the shareholders' meeting]

Not applicable.

(2) [Acquisition by resolution of the Board of Directors]

Not applicable.

(3) [Details of items that are not based on the resolution at the general meeting of shareholders or the resolution at the meeting of the board of directors]

Classification	Number of shares	Total value (yen)
Treasury stock acquired during the current fiscal year	69	71,883
Treasury stock acquired during the period	-	-

(Notes) 1. On December 1, 2019, the Company conducted a 2-for-1 stock split of common stock. The number of shares repurchased during the current fiscal year is the number of shares after adjustment for the stock split.
2. The number of treasury shares repurchased during the period does not include the number of shares repurchased due to the purchase of odd-lot shares from September 1, 2020 to the filing date of this Annual Securities Report.

(4) [Status of disposal and holding of acquired treasury stock]

Classification	Current fiscal year		Current period	
	Number of shares	Total value disposed (Yen)	Number of shares	Total value disposed (Yen)
Treasury stock distributed to underwriters	-	-	-	-
Treasury stock retired	-	-	-	-
Treasury stock transferred related to mergers, share exchanges and corporate splits	-	-	-	-
Others (-)	-	-	-	-
Number of shares of treasury stock held	2,911	-	2,911	-

(Notes) 1. On December 1, 2019, the Company conducted a 2-for-1 stock split of common stock. The number of shares repurchased during the current fiscal year is the number of shares after adjustment for the stock split.
2. The number of treasury shares repurchased during the period does not include the number of shares repurchased due to the purchase of odd-lot shares from September 1, 2020 to the filing date of this Annual Securities Report.

4-3 [Dividend Policy]

We consider the payment of dividends from surplus to be an important part of our shareholder return policy. We pay attention to indicators such as the ratio of dividends to net assets, and aim to maintain and improve the amount of dividends in a stable manner without being greatly influenced by the performance of each fiscal year.

Currently, we pay dividends from retained earnings once a year, and the decision-making body for the payment of dividends from retained earnings is the General Meeting of Shareholders.

Based on our basic policy of consistently paying a stable dividend, we paid a dividend of 9 yen per share for the fiscal year under review.

The Company intends to use internal reserves effectively to develop and develop competitive and attractive products and services that meet market needs in order to respond to anticipated changes in the business environment.

In addition, we have adopted an interim dividend system based on Article 454, Paragraph 5 of the Companies Act. The Articles of Incorporation stipulate that each year the record date shall be December 31. The Board of Directors is the decision-making body for the interim dividend.

(Note) Dividends from retained earnings with record dates in the fiscal year under review are as follows.

Date of resolution	Total dividends (Millions of yen)	Dividend per share (Yen)
September 23, 2020 Decision adopted at the Annual General Meeting of Shareholders	338	9.00

4-4. [Information on Corporate Governance]

(1) Overview of corporate governance

(i) Basic policy on corporate governance

In fulfilling our social responsibilities as a company, we have made "Creating a 100-Year Company" our most important management goal, which is to support employees' self-realization through the realization of continuous business growth, and to contribute to all stakeholders, including customers, through the added value that we have created.
To this end, we have formulated the "Avant Group Basic Policy on Corporate Governance" and are working to enhance corporate governance by enhancing the transparency and soundness of management, carrying out business operations promptly based on accurate decision-making, and building a management system that enables appropriate oversight of these operations.

(ii) Scheme of corporate governance and reason for the election of the scheme

1. Overview of Corporate Governance Structure

- We are a company with Audit & Supervisory Board, with 5 directors (including 3 outside directors) and 3 auditors (including 2 outside auditors).
- The Board of Directors makes decisions on important management issues and supervises the status of business execution. The term of office for directors is set at 1 year in order to improve the efficiency of decision-making, to reflect management policies in swift business activities, to respond swiftly to changes in the business environment, and to clarify management responsibilities for each fiscal year.
- The members of the Board of Directors are as follows:
  Representative Director: Tetsuji Morikawa, Director: Naoyoshi Kasuga, Outside Director: Naohisa Fukutani Outside Director: George Ugeux, Outside Director: Jon Robertson
- The representative director, the director in charge of finance, and Corporate Officer, who are appointed by the Board of Directors, are responsible for the execution of business operations. The representative director of each Group company and the director in charge of business administration report the status of business execution to the representative director of the Company (Group CEO Line), and the director in charge of finance of each Group company reports to the director in charge of finance of the Company (Group CFO Line). Aiming for sustainable growth and enhancement of corporate value through Group management, the Board of Directors discusses important issues and consults with the Board of Directors on important matters.
- We have established the Compliance and Risk Management (CRM) Committee, which is composed of the persons responsible for compliance and risk management at each of our group companies appointed by the chairperson. The CRM Committee deliberates and examines important issues and responses related to corporate ethics, compliance, and risk management, and promptly reports them to the Board of Directors.
- The members of the CRM Committee are as follows:
  Chairman: Tetsuji Morikawa, Group CEO
  Members: Naoyoshi Kasuga, Group CFO, Takahiro Okabe, President & CEO, ZEAL CORPORATION, Hiroshi Takizawa, President, Internet Disclosure Co., Ltd., Hiroki Takemura, Vice President, DIVA CORPORATION, Gen Nagata, President, FIERTE CORPORATION
  Secretariat: Masamitsu Suzuki, Office of Group CEO
- For violations of laws and regulations and other acts of doubt in accordance with laws and regulations, a

reporting system shall be established and operated with legal advisors and corporate auditors serving as contacts.

- In accordance with the auditing policies stipulated by Audit and Supervisory Board, corporate auditors audit the execution of duties by directors by attending meetings of the Board of Directors and other important meetings and investigating the status of business execution.

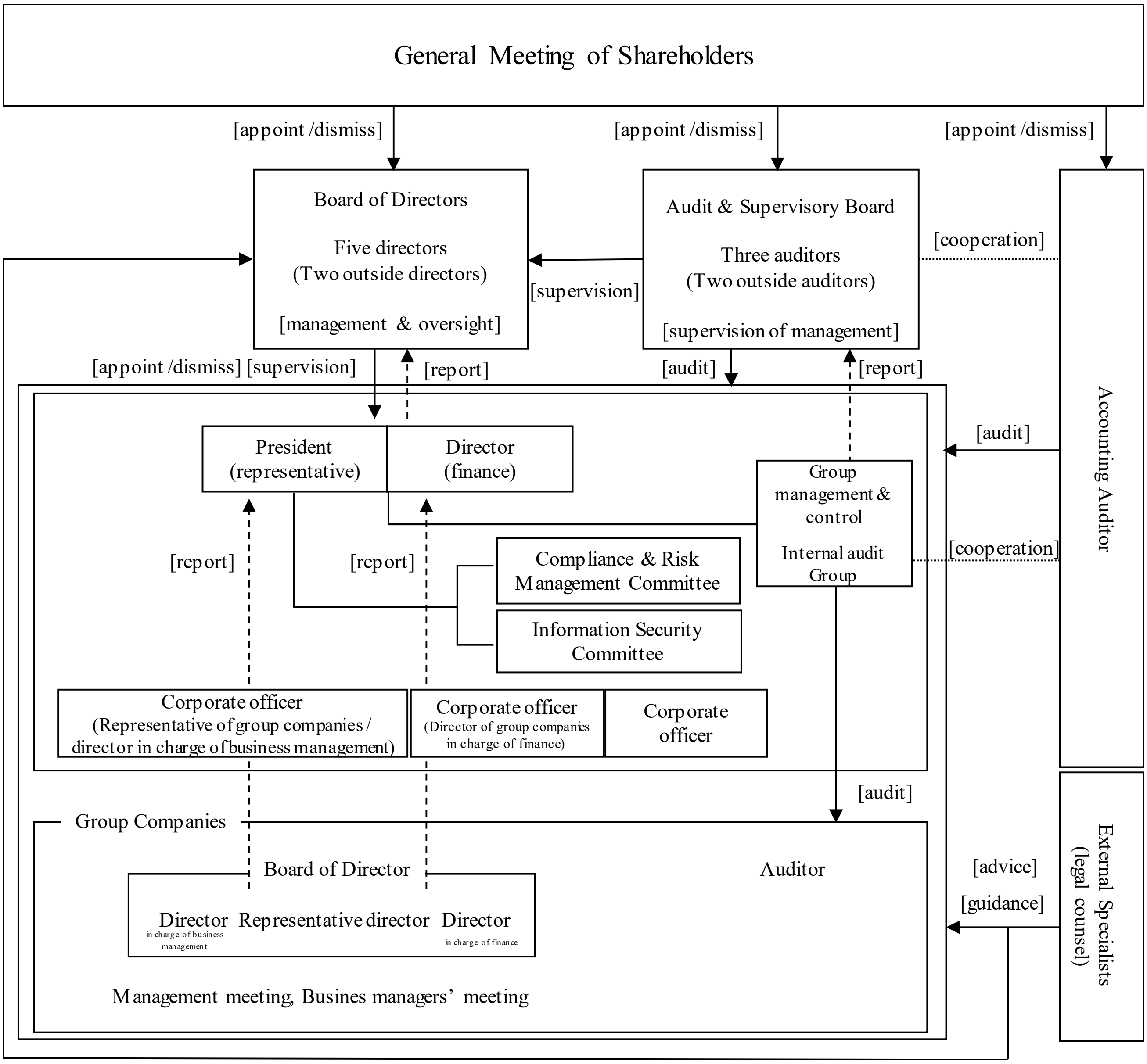
- Audit and Supervisory Board monitors the execution of duties by its directors from a fair and objective perspective in accordance with the auditing policies and the allocation of responsibilities established by the corporate auditors, as well as in accordance with the auditing plans.

- The members of Audit & Supervisory Board are as follows:
  Standing Audit & Supervisory Board Member: Takeshi Noshiro, Outside Audit & Supervisory Board Member: Kunio Suzuki Outside Audit & Supervisory Board Member: Masanori Kobayashi

2. Reasons for Adopting a Corporate Governance System

The Board of Directors has the function of making management decisions and overseeing the execution of business operations, thereby ensuring the appropriateness of management decisions and the prompt execution of business operations.
We have also established Audit & Supervisory Board and have adopted audit system based on the judgment that the Audit and Supervisory Board members including outside auditors is effective as a management oversight function.

The corporate governance structure as of the date of filing of this Annual Securities Report is as follows.



(iii) Other matters related to corporate governance

1. Arrangements for ensuring the propriety of operations

We have established corporate behavior standards and established and promoted corporate ethics. The Board has decided on the basic policy for the improvement of internal control systems as follows.

2. Compliance system for Directors

(1) System to ensure that the execution of duties by directors conforms to laws and the Articles of Incorporation

(i) Directors shall comply with the "AVANT Code of Conduct", practice "AVANT Value", and execute business appropriately in accordance with laws and regulations, the Articles of Incorporation, the rules of the Board of Directors, and other internal rules.

(ii) Directors shall make decisions based on comprehensive considerations at the Board of Directors and various cross-organizational meetings when executing business.

(iii) Personnel responsible for compliance and risk management (CRM) of each Group company nominated by the chairman shall deliberate and review important issues and response regarding corporate ethics, compliance and risk management, and promptly report to the Board of Directors.

(iv) The Company will establish and operate a reporting system with legal advisors and corporate auditors as a contact point for legal violations and other legally suspicious acts.

(v) Corporate auditors shall audit the execution of duties by directors by attending meetings of the Board of Directors and other important meetings and investigating the status of business execution under the audit policy established by the Audit and Supervisory Board.

(2) System to ensure that directors perform their duties efficiently

(i) The Board of Directors of the Company shall hold a regular Board of Directors meeting basically once a month, and shall hold an ad hoc meeting whenever necessary to make decisions and quickly execute business operations and supervise directors' important management decision and status of execution.

(ii) Various conference bodies and committees, where directors or committee members are responsible, deliberate and decide on business execution within the scope of their authority.

(iii) We shall promote the decentralization of management through organization based on management policies and business plans.

(iv) In order to clarify management responsibilities and respond to changes in the management environment, the term of office for directors is set at one year.

(3) System for storage and management of information related to the execution of duties by directors

Information regarding the execution of duties by directors shall be appropriately stored and managed by the department in charge based on laws and regulations, the Board of Directors regulations, document management regulations, and other related regulations.

3. System to ensure the appropriateness of company operations

(1) Rules and other systems for managing risk of loss

(i) With regard to thorough progress management of business results and expense management, the Company shall conduct the management of business process, funds and prevention of risks by grasping the status of business in a cycle relative to business environment based on rolling forecast management.

(ii) We shall manage risks related to compliance, information assets, and other business matters by developing and disseminating necessary regulations and manuals.
In addition, to ensure thorough compliance, the CRM Committee will strengthen management and response. Also, for intellectual properties management, the Information Security Committee will reinforce management and response.

(iii) The Company shall consult, receive advice and guidance from third parties with specialized knowledge such as lawyers, Accounting auditors, tax accountants, etc., as necessary for business execution.

(2) System to ensure that the execution of duties by employees complies with laws and the Articles of Incorporation

(i) Employees shall comply with the "AVANT Code of Conduct", practice "AVANT Value", and conduct business in accordance with laws and regulations, the Articles of Incorporation and internal rules.

(ii) In order to raise compliance awareness among employees and promote socially responsible behavior, the Company will prepare internal rules and conduct internal audits under the direction of the president.

(iii) Employees will report to or consult with the whistleblower hotline when they learn that somebodies are violating laws, the Articles of Incorporation, internal rules, or conduct that violates social conventions.

(iv) Directors shall respond promptly or make improvements at the CRM Committee in response to requests from the corporate auditors regarding the employee's compliance system and internal reporting system and requests for improvement.

(3) System to ensure the appropriateness of business in the corporate group consisting of the Company and its subsidiaries

(i) Our subsidiaries will comply with our management policy and "AVANT Code of Conduct", share the practice of "AVANT Value", and contribute to the improvement of the corporate value of the Group.

(ii) While respecting the independence of subsidiaries, the Company will support the development and improvement of internal control systems and promote in cooperation with subsidiaries.

(iii) The Company's subsidiaries enter into management guidance and management contracts with the Holding Company Avant, and the Company receives reports on important matters related to the execution of duties by directors. Although the board of directors of each operating company decides important matters, the following three areas need approval from Avant: (i) investment including office contracts, (ii) human resources, and (iii) financing including capital management policy

(iv) The Company's subsidiary shall hold a regular Board of Directors meeting basically once a month, and holds an ad hoc Board of Directors meetings as needed to make decisions and quickly execute business operations. The office of Group General Affairs of the Company confirms the status of meetings.

(v) As part of building a compliance system for the entire Group, employees of our subsidiaries report to or consult with the whistleblowing system when they learn that laws, the Articles of Incorporation, other internal rules and other social conventions are violated.

(vi) The CRM Committee will provide support for legal violations and other compliance issues at subsidiaries.

(vii) With regard to the progress of the performance of our subsidiaries and thorough cost management, the Company shall conduct the management of business process, funds and prevention of risks by grasping the status of business in a cycle relative to business environment based on rolling forecast management.

(viii) The appropriateness of the operations of the Company's subsidiaries will be observed as necessary by conducting regular internal audits by Audit Group under the Office of Group Management and Control Internal and reporting the results to the Company's directors and the Audit and Supervisory Board.

(4) System for ensuring appropriate financial reporting

Under the direction of the Board of Directors, the Company will establish a system for ensuring appropriate legal & financial reporting as well as operating system. Periodically the Company needs to conduct self-assessment and independent assessment of internal control over financial reporting. At the same time, it is audited by an Accounting Auditor.

(5) Basic approach to eliminate anti-social forces

In the AVANT Code of Conduct, we declare the exclusion of anti-social forces and the prohibition of anti-social acts that threaten the safety and order of society and the sound activities of companies. The basic idea is neither to have a relationship nor to respond to unjust and illegal requests.

In addition, we appoint the Prevention Officer for unfair requests, we endeavor to collect information from the beginning and check the business partners.

In the event of an incident, we are in close contact with relevant government agencies and attorneys and other specialists to deal with the issue promptly.

4. The audit system

(1) Matters related to the employee when the corporate auditor requests that the employee be assisted, and the independence of the employee from the director

(i) Although the Company does not have employees to assist the duties of corporate auditors, the Board of Directors can negotiate based on requests from corporate auditors and appoint and assign such employees.

(ii) During the period to be appointed by the corporate auditor, the command and order of the employee appointed as an assistant to the duties of the corporate auditor shall be transferred to the corporate auditor in order to ensure independence from the Directors. In addition, the evaluation of the employee is conducted after hearing the opinions of the corporate auditors.

(2) System for directors and employees to report to corporate auditors and other systems for reporting to corporate auditors

(i) Corporate auditors attend meetings of the Board of Directors, attend important meetings, receive reports on the status of operations, and are able to attend any other meetings and committees or view minutes as necessary.

(ii) Corporate auditors can request directors and employees to report business and operations to corporate auditors regularly or at any time.

(3) System to ensure that those who report to the corporate auditors are not subject to unfavorable treatment because of the report

According to the compliance and risk management regulations stipulated in the Company's compliance hotline handling guidelines, we have stipulated and enforced that we will not be subject to adverse treatment.

(4) Matters related to the policies relating to the processing of expenses or obligations arising from the execution of duties by the corporate auditors

When a corporate auditor makes a request for prepayment or reimbursement of expenses incurred for the performance of his / her duties, the expenses or obligations will be processed promptly unless it is deemed unnecessary for the performance of the duties of the corporate auditors.

(5) Other systems to ensure that audits by corporate auditors are conducted effectively

(i) Corporate auditors are able to hold meetings for communication and exchange of opinions with the President and Representative Director.

(ii) The Company ensures to exchange opinions and information with accounting auditors and corporate auditors, and to request investigations and reports as necessary, while cooperating with them.

5. Operational status of the system to ensure the appropriateness of business

The Company has been continuously investigating the maintenance and operation status of the internal control system since the establishment of the system to ensure the appropriateness of the above operations and has reported the details of the investigation to the Board of Directors.
We have taken corrective actions for problems found as a result of the investigation and are working to build and operate a more appropriate internal control system.

(iv) Outline of Limitation of Liability Agreement

We have entered into an agreement with all of our outside directors and corporate auditors to limit liability for damage as set forth in Paragraph 1 of Article 423 of the Companies Act pursuant to the provisions of Paragraph 1 of Article 427 of the Companies Act. The limited amount of liability for damages under the applicable agreement is the amount specified in Paragraph 1 of Article 425 of the Company Law.

(v) Resolution of the general meeting of shareholders, which may be resolved by the Board of Directors

1. Purchase of treasury stock
The Articles of Incorporation provide that the Company may, by resolution of the Board of Directors, acquire treasury stock through market transactions, etc., in accordance with Article 165-2 of the Companies Act in order to enable the Company to implement flexible capital policies in response to changes in the business environment.

2. Interim dividends
In accordance with Article 454, Paragraph 5 of the Corporate Law, the Company's Articles of Incorporation provide that interim dividends may be paid on December 31 of each year as a base date, based on a resolution of the Board of Directors.

3. Quorum of directors
Our Articles of Incorporation provide that the number of Directors shall not exceed nine.

4. Selection of Directors
The Company's Articles of Incorporation provide that resolutions for the election of directors shall be adopted by a majority of the votes of shareholders present who hold one-third or more of the voting rights of shareholders who are entitled to exercise their voting rights at a general meeting of shareholders.
In addition, the Articles of Incorporation stipulates that resolutions for the election of directors shall not be made by cumulative voting.

5. Exemption of Officers from Liabilities
In order to enable corporate auditors (including former corporate auditors) to fully exercise their expected roles in the performance of their duties, the Company's Articles of Incorporation provide that they may be exempted from liability for damage as set forth in Paragraph 1 of Article 423 of the Company Law to the extent of the amount obtained by deducting the minimum liability amount stipulated in laws and regulations from the amount of liability for damage, provided that they satisfy the requirements stipulated in laws and regulations.
In addition, the Articles of Incorporation stipulates that, in order to enable directors (including those who were directors) in group management under the holding company system to fully exercise their expected roles in the performance of their duties, they may be exempted from liability for damages under Clause 1 of Article 423 of the Corporate Law to the extent of the amount obtained by deducting the minimum liability amount stipulated in laws and regulations from the amount of liability for damages, provided that they satisfy the requirements stipulated in laws and regulations.

6. Requirements for Extraordinary Resolution at General Meetings of Shareholders
The Company's Articles of Incorporation provide that resolutions pursuant to the provisions of Paragraph 2 of Article 309 of the Company Law shall be adopted by two-thirds or more of the voting rights of shareholders present who hold one-third or more of the voting rights of shareholders who are entitled to exercise their voting rights.
The purpose of this system is to facilitate the smooth operation of the General Meeting of Shareholders by reducing the number of shares subject to special resolutions at the General Meeting of Shareholders.

(2) [Information on Directors]

(i) Board of Directors and Auditors

8 Male Female (Ratio of Female Directors to Total Number of Directors -%)

Title	Name	Date of birth	Biographies		Term of Office	Number of shares held Co., Ltd.
President and Representative Director (Group CEO)	Tetsuji Morikawa	Born on February 23, 1966	April, 1990 May, 1997 October, 2013 October, 2013 March, 2017 September 2020	Joined Price Waterhouse Consultant Co., Ltd. Establishment of the Company President and Representative Director (to present) President and Representative Director, DIVA CORPORATION (to present) DIVA CORPORATION OF AMERICA CEO (to present) Outside Director of Kayak Co., Ltd. (to present) Group CEO (to present)	(Notes) 4	9,764,000
Director in charge of Finance (Group CFO)	Naoyoshi Kasuga	Born May 13, 1963	April, 1987 August, 1999 2005 January. October-2010 February, 2011 September. 2011 September 2020	Joined Long-Term Credit Bank of Japan, Ltd. Joined New York Stock Exchange Asia Pacific Office New York Stock Exchange Corporate Officer Joining our company Our president's office manager Director in charge of Finance of the Company (to present) Group CFO (to present)	(Notes) 4	6,500
Director	Naohisa Fukutani	Born April 17, 1961	April, 1987 July. 2001 2005 March. September. 2013 July. 2015	Joined The Mitsui Bank, Ltd. Daiwa Securities SMBC Singapore Pte. Ltd. General Manager of Corporate Finance and Asia-Pacific Joined Managing Director of GCA Co., Ltd. Director of the Company (to present) Joined PricewaterhouseCoopers Co., Ltd. (currently PwC Advisory LLC) as a partner (current position)	(Notes) 4	50,200
Director	George Ugeux	Born April 20, 1945	September. 1970 1985 January. 1988 October. September. 1992 September. 1996 October, 2003 September. 2014	Joined Société General Bank (Belgium) Managing Director, Investment Banking, Morgan Stanley Chief Financial Officer, Société Générale Belgium Group President Kidder Peabody International New York Stock Exchange In charge of International Division and Research Division Chairman and CEO, Galileo Global Advisors, Inc. (to present) Director of the Company (to present)	(Notes) 4	2,000
Director	Jon Robertson	Born October 29,1968	January 1994 July 1996 July 1999 July 2002 January 2004 January 2007 January 2012 December 2014 March 2015	Sales Manager, M3i Systems, Inc. Sales Director, SAP America, Inc. Managing Director, EMC Corporation Senior Director, Reuters K.K. (now Thomson Reuters K. K.) EMC Corporation Vice President, Customer Operation, VMware K.K. Vice President and General Manager, ASEAN, VMware Singapore Pte. Ltd. Vice President, VMware K.K. President, VMware K.K.	(Notes) 4	0

Corporate auditor	Tsuyoshi Noshiro	Born on January 6, 1961	October, 1985 April, 1989 July. 1989 February, 1998 June. 2000 September. 2001 September. 2011	Joined Aoyama Audit Corporation Became Certificated Public Accountant Joined SANYO FINANCE CO., LTD. Joining our company Our general manager of administration headquarters Our director of finance Our full-time corporate auditors (current)	(Notes) 5	18,868,800
Outside auditor	Kunio Suzuki	Born on January 6, 1944	April, 1967 1997 March. 2001 January. September. 2001	Joined IBM Japan, Ltd. Director of IBM Japan, Ltd. Established 0 S Management Co., Ltd. Representative Director (to present) Outside Auditor of the Company (to present)	(Notes) 6	588,000
Outside auditor	Masanori Kobayashi	Born on August 1, 1965	April, 1988 September. 1990 May, 1994 October, 2000 October, 2002 2007 October. September. 2013	Joined Mitsui Fudosan Co., Ltd. Joined Arthur Andersen & Company Eiwa Audit Corporation Became Certificated Public Accountant Joined Hayato International Law Office, registered as a lawyer Joined Shin-Tokyo Law Accounting Office Established Kobayashi Law Accounting Office (to present) Outside Auditor of the Company (to present)	(Notes) 7	0
Total						6,138,200

(Notes)
1. Directors Naohisa Fukutani, Mr. George Ugeux and Mr. Jon Robertson are outside directors as stipulated in Article 2, Item 15 of the Companies Act.
2. Both auditors, Kunio Suzuki and Masanori Kobayashi, are external auditors as defined in Item 16 of Article 2 of the Company Act.
3. We have introduced a Corporate Officer system to expedite business execution and clarify accountability and authority. Corporate Officers as of October 1, 2020 consists of 12 members as resolved at Board of Directors on September 23, 2020, and their names and responsibilities are as follows.
   Takahiro Okabe, President, ZEAL Corporation
   Hiroshi Takizawa, President, Internet Disclosure Co., Ltd.
   Hiroki Takemura, Vice President, DIVA Corporation
   Gen Nagata, President, FIERTE Corporation
   Teppei Terashima, Director, Diva Corporation
   Hiroshi Iwasa, Director, DIVA Corporation
   Yoshiyuki Numata, Director, ZEAL Corporation
   Hiroyuki Morita, Director, ZEAL Corporation
   Tetsuya Kawamura, Director, FIERTE Corporation
   Shuichi Fukayama, Director, FIERTE Corporation
   Masaoki Kobayashi, CTO
   Tatsuru Nakayama, General Manager, Group Management Office
4. The term of office is from the close of the ordinary general meeting of shareholders for the year ending June 2020 to the close of the ordinary general meeting of shareholders for the year ending June 2021.
5. The term of office is from the end of the Ordinary General Meeting of Shareholders related to the fiscal year ended June 2019 to the end of the Ordinary General Meeting of Shareholders related to the fiscal year ended June 2023.
6. The term of office is from the end of the Ordinary General Meeting of Shareholders relating to the fiscal year ended June 2018 to the end of the Ordinary General Meeting of Shareholders relating to the fiscal year ending June 2022.
7. The term of office is from the close of the ordinary general meeting of shareholders for the year ended June 31, 2017 to the close of the ordinary general meeting of shareholders for the year ended June 31, 2021.

(ii) Status of Outside Directors

We have three outside directors and two outside auditors.

Outside Director Naohisa Fukutani and Outside Director George Ugeux have many years of experience and wide-ranging knowledge about finance, as well as their own experience in management. We believe that they will contribute to strengthening the overall supervision of Group management and corporate governance.

Kunio Suzuki, an outside auditor, has extensive experience and knowledge of management in the IT and information and communications industries.

Masanori Kobayashi, an outside auditor, is qualified as a lawyer and a certified public accountant, and is familiar with the company's financial and legal services, and has been involved in accounting and management through many specialized experiences to date, and possesses specialized knowledge of company management.

Based on the above background and other factors, the Company believes that the Company will be able to properly perform its duties as an outside auditor, including providing useful advice, in making management decisions and making such decisions, based on a thorough understanding of the Company's management.

Outside Director George Ugeux is our shareholder, but his holding ratio is less than 1% and he is not a major shareholder, and there is no special interest between him and us. Therefore, we do not believe that there will be a conflict of interest with general shareholders.

Outside Director Naohisa Fukutani is a shareholder of our company, but the shareholding ratio is less than 1% and is not a major shareholder, and there is no special interest between Mr. Fukutani and us. Therefore, we do not believe that there will be a conflict of interest with general shareholders.

Kazuo Suzuki, an outside auditor, is the top 10 shareholders of the Company. However, the ownership ratio is less than 2% and is not a major shareholder, and there is no special interest between Mr. Suzuki and us. Therefore, we do not believe that there will be a conflict of interest with general shareholders.

We have appointed Outside Director Naohisa Fukutani, Outside Director George Ugeux and Outside Audit & Supervisory Board member Masanori Kobayashi as Independent Directors pursuant to the provisions of the Tokyo Stock Exchange and have notified the Tokyo Stock Exchange.

Furthermore, we have concluded a limited liability agreement with all outside directors and corporate auditors, and the outline of the agreement is the minimum liability amount as set forth in laws and regulations, provided that the liability for compensation for damages as set forth in Paragraph 1 of Article 423 of the Company Law is subject to the requirements set forth in laws and regulations.

There are no criteria or policies regarding independence from us for the appointment of outside directors and outside Audit & Supervisory Board members. However, when selecting candidates, the candidates are selected based on the criteria for the independence of the independent officers of the Financial Instruments Exchange, etc. that the candidates are in a neutral position that does not give rise to conflicts of interest with general shareholders and other stakeholders.

(iii) Cooperation between supervision or audits by outside directors or outside auditors and internal audits, audits by corporate auditors and independent accounting auditors, and relationships with the internal control division

Outside Directors and outside auditors attend monthly meetings of the Board of Directors, where they ask questions, give advice, and give advice on the status of operation execution as appropriate, in order to strengthen governance.

Outside auditors, corporate auditors and internal auditors attend the accounting audit report meeting, and both the independent accounting auditors and internal auditors have opportunities to hear and discuss with each other to confirm the status of internal controls in business and finance.

Outside auditors, corporate auditors, and internal auditors cooperate with each other to request investigations and reports as necessary, and verify that the status of management and business execution are conducted appropriately and efficiently.

(3) Information on Audits

(i) Information on audits by Audit and Supervisory Board

1. Organization, Personnel and Procedures of Audit by Audit and Supervisory Board

At Audit and Supervisory Board, two of our three members are outside auditors. They monitor and audit our management from their specialist knowledge and experience. They report on the status of their duties to each other at Audit and Supervisory Board to share the understanding of our auditing operations.

Two auditors are qualified as certified public accountants and have considerable knowledge of finance and accounting.

2. Activities of Auditors and Audit and Supervisory Board

We hold 15 Audit and Supervisory Board meeting during the fiscal year under review. The attendance of individual auditors is as follows.

Title	Name	Attendance/Number of meetings
Corporate Auditor	Tsuyoshi Noshiro	15 / 15 times
Outside Auditor	Kunio Suzuki	14 / 15 times
Outside Auditor	Masanori Kobayashi	15 / 15 times

Major items to be considered at Audit & Supervisory Board include the formulation of audit policies and audit plans, the development and operation of internal control systems, and the determination of the appropriateness of auditing methods and outcomes by the independent auditor.

In accordance with the auditing policies and the division of duties stipulated by Audit & Supervisory Board, Audit & Supervisory Board Members communicate with Directors, etc., attend meetings of the Board of Directors and other important meetings, inspect important approval documents, and investigate the business operations and asset status of the head office and major business sites. In addition, the Audit & Supervisory Board members communicate and exchange information with the Directors and Audit & Supervisory Board members of subsidiaries, confirm business reports from subsidiaries, and confirm the implementation status of audits and results reports from the Accounting Auditors.

(ii) Internal Audit Status
In our internal audits, the Internal Audit Department, which is comprised of 3 internal auditors, monitors the company's business activities from a fair standpoint and provides improvement and guidance to contribute to the proper execution of business and the proper disclosure of financial conditions. The department reports to the president on the results of its audits.

(iii) Independent Auditor
1. Name of the audit corporation
Deloitte Touche Tohmatsu LLC

2. Continuous Audit Period
20 years
The rotation of executive operating partners is properly implemented, and as a general rule, any one of them not involved in audit work for more than seven consecutive accounting periods.

3. Certified Public Accountants leading the independent financial audit
Jun Kagawa : Designated Limited Liability Members, Executive Operating Partners
Jyoji Furukawa: Designated Limited Liability Members, Executive Operating Partners

4. Assistant to auditors
CPAs: 4
Others: 4
(Note) Others include those who pass the Certified Public Accountant Examination and those in charge of system audits.

5. Policy and Reason for Selection of Audit Corporation
Based on the "Practical Guidelines for Corporate Auditors, etc. Concerning the Evaluation of Accounting Auditors and Formulation of Selection Standards" published by the Japan Association of Corporate Auditors, etc., the Company has made selections based on comprehensive considerations such as quality control, independence, expertise, audit fees, communication with corporate auditors and management, and handling of fraudulent risks.
In addition, in the event an accounting auditor is deemed to fall under any of the items set forth in Paragraph 1 of Article 340 of the Companies Act, Audit and Supervisory Board shall dismiss such accounting auditor with the consent of all auditors.

6. Valuation of the auditing firm by corporate auditors and Audit and Supervisory Board
Our corporate auditors and Audit and Supervisory Board comprehensively evaluate the auditing system of the independent public accountants and the performance of their duties.

(iv) Details of audit fees

1. Compensation for Audit Certified Public Accountants

Classification	Previous Fiscal year		Current Fiscal year	
	Compensation for audit certification (Millions of yen)	Compensation for non-audit operations (Millions of yen)	Compensation for audit certification (Millions of yen)	Compensation for non-audit operations (Millions of yen)
Parent company	27	-	28	-
Consolidated subsidiaries	-	-	-	-
Total	27	-	28	-

2. Compensation for the same network as auditing certified public accountants, etc. (excluding 1)
Not applicable.

3. Details of compensation based on other important audit certification services
Not applicable.

4. Policy for determining audit fees

The Company's Articles of Incorporation stipulate that the Representative Director shall provide for the amount of compensation to certified public accountants, etc. with the consent of Audit & Supervisory Board, and the amount is determined after taking into account the number of days required for audits, etc.

5. Reasons why Audit & Supervisory Board agreed to the compensation, etc. of the independent auditor

Based on the "Practical Guidelines for Corporate Auditors, etc. Concerning the Evaluation of Accounting Auditors and Formulation of Selection Standards" published by the Japan Association of Corporate Auditors, Audit & Supervisory Board examines whether or not the content of reports on audit plans of auditing corporations, the status of performance of duties in the previous consolidated fiscal year, and the basis for calculation of compensation estimates are appropriate, and consents to Article 399(1) of the Companies Act have been obtained with respect to the compensation of auditing corporations, etc.

(4) Directors Compensation

(i) Policy and method for determining the amount of compensation for officers and calculation method

Directors compensation of the Company is divided into fixed compensation (paid in the same amount regularly) and performance-based compensation. The fixed compensation is paid for each job title in consideration of the level commensurate with the required capability and responsibility. Performance-based compensation covers directors (excluding outside officers) and consist of I. short-term performance-based compensation linked to business results for each fiscal year, and II. medium- to long-term performance-based compensation linked to the rate of increase in share prices and others for the three-year evaluation period. Medium- to long-term performance-based compensation have been introduced from the fiscal year ended June 2018. From fiscal year ended June 2019, in order to incentivize directors on improvement of corporate value over the longer term and share the value with shareholders the Company has elected share-based compensation that the Company's common stock will be delivered according to the performance of the target period at the end of the target period.

At the 5th Annual General Meeting of Shareholders held on September 27, 2001, and at the 11th Annual General Meeting of Shareholders held on September 26, 2007, the maximum annual amount of fixed compensation for the directors of the Company was set at 150,000 thousand yen or less, and at the 18th Annual General Meeting of Shareholders held on September 25, 2014, the maximum annual amount of performance-based compensation was set at 41,250 thousand yen or less per eligible director. The upper limit of medium-to long-term performance-based compensation in Company common stocks was set at the 22nd Annual General Meeting of Shareholders held on September 19, 2018, at 100,000 thousand yen for each applicable period.

Since outside directors and auditors are independent from business execution, performance-based compensation is not applied, and fixed compensation is paid.

The maximum amount of compensation for Audit & Supervisory Board Members has been resolved at an extraordinary general meeting of shareholders held in December 2003 within an annual amount of 30,000 thousand yen.

(ii) Compensation Calculation Process

1) Purpose of performance-based compensation and performance-based stock compensation, basis of indicators, and specific calculation method

The Board of Directors determines the policies and calculation methods for determining the compensation for directors, as well as the compensation system and amount for each director. Our Board of Directors consists of 7 members, 2 of whom are outside directors, 2 of whom are outside auditors, representing majority in the Board. This ensures an objective perspective. At the same time, we receive advice from third-party experts and take into account the level of the market as a whole or the industry as a whole in order to ensure objectivity.

I. Short-term performance-based compensation

A cash bonus will be granted in the range of 0% to 200% with the aim of achieving financial performance and share price. For the purpose of enhancing corporate value expected of investors, performance-based compensation is calculated using the coefficients calculated from the 2 indices of A: rate of increase in operating income and B: rate of increase in share price.

Each calculation method is as follows:

A. Rate of increase in operating income: Where (a) operating income, and (b) operating income for the previous fiscal year, calculation rate based on the following formula:

(i) If (a) is (b) or less :0

(ii) When (a) exceeds (b) and (b) × 112% :$0.5\times\{1+((a)-(b))\div((b)\times12\%)\}$

(iii) When (a) is 112% or more of (b) :1+0.5×((a)-(b)×112%)÷((b)×6%)

B. Rate of increase in share price = 1+ (Average share price during the period ÷ Share price at the beginning of the period)-(Average TOPIX during the period ÷ TOPIX at the beginning of the period)

Short-term performance-based compensation = base amount of short-term performance-based compensation (33.3% of fixed compensation) × short-term incentive coefficient (A×B)

* Short-term incentive coefficients are limited to 2.0.

In the fiscal year under review, 129% of the base amount was paid as follows.
A. operating income growth rate = 1 + 0.5 × (operating income: 2.278 billion yen-(operating income of 1.966 billion yen × 112%) ÷ operating income of 1.966 billion yen × 6% = 1.32
B. rate of increase in share price = 1 + (Average share price during the period: 1,030 yen ÷ Stock price at the beginning of the period: 1,032 yen)-(Average TOPIX during the period: 1,578 yen ÷ TOPIX at the beginning of the period: 1,585 yen) =.98
Short-term incentive coefficient =A×B=1.29

As the rate of increase in our share price is reflected in medium-to long-term performance-based compensation, the Board of Directors resolved at a meeting held on August 19, 2020 to determine the short-term performance-based compensation for the 25th fiscal year and beyond on the basis of the rate of increase in consolidated operating income.

II. Medium-to Long-Term Performance-based Compensation

In the Fiscal Year ended June 30, 2018, we introduced a medium-to long-term performance-based compensation system with the aim of providing incentives to directors to achieve sustainable improvement of their corporate value and promoting greater value sharing between directors and shareholders by clarifying the linkage system between director remuneration and medium-to long-term corporate performance and the value of our shares over the medium to long-term.
The Company provides these compensation to its directors (excluding outside directors) based on the long-term incentive coefficient during the 3-year period after the end of the period covered. This factor is calculated based on the growth rate of our stock price increase and the Tokyo Stock Exchange Stock Price Index (TOPIX) during the period covered.

In view of the epidemic of COVID-19 and the resulting uncertainty in the economic environment, the Board of Directors resolved on July 10, 2020 to waive the compensation from June 2018 to June 2020 in order to prioritize the financial health of the company.

With regard to medium-to long-term performance-based compensation from the fiscal year ending June 2019, the Company has changed to stock-based remuneration, which gives the board members an incentive to improve our corporate value over the longer term, and delivers our common stock in accordance with the performance of the target period at the end of the target period, in order to further share value between the board members and the shareholder.
The Share-based Compensation is a system to distribute to our directors (excluding outside directors) the number of our common shares calculated in accordance with our share growth rate during the period covered by the Share-based Compensation, which covers 3 years from the month in which the date of the Annual General Meeting of Shareholders of each year falls. The number of our common shares to be delivered to each Director after the end of the applicable period will be determined by multiplying (i) the number of shares determined by our Board of Directors by (ii) the share distribution ratio determined according to our share growth rate. Our equity growth rate is calculated by dividing our TSR (Total Shareholder Return) for the period covered by the growth rate of the Tokyo Stock Exchange Stock Price Index (TOPIX) for the period covered.
Specifically, after the end of the relevant period, the Company will pay monetary compensation claims to the relevant Directors based on the calculation method stipulated below. In the case of the issuance of shares or disposal of treasury stock by the Company, the Company will deliver its shares by making contributions in kind to all of the monetary compensation claims. The amount of remuneration for monetary remuneration claims to be paid under the System shall not exceed 100 million yen per year. The number of shares to be delivered to the applicable Directors under the System shall not exceed 60,000 shares per year for all Directors, and shall not exceed 100,000 shares per year for the total number of directors.

<Calculation formula>

Number of shares to be delivered	=	Number of shares issued by the standard x Share issuance ratio
Number of shares to be issued	:	Decisions made by our Board of Directors

Share issuance ratio	:	(i)	Our stock growth rate is less than 100%	:0%
(see graph below)		(ii)	Our equity growth rate is between 100% and 112%	:33%×(our equity growth rate-100%)÷12%
		(iii)	Our equity growth rate is between 112% and 150%	:33%+67%×(our equity growth rate-112%)÷38%
		(iv)	Our equity growth rate exceeds 150%	:100%

$$\text{Our equity growth rate} = \frac{\text{Our total return on equity (Total Shareholder Return) for the period covered}}{\text{Rate at which TOPIX grew over time}}$$

$$= \frac{(B + C) \div A}{E \div D}$$

A: Simple average of the closing prices of our common shares on the Tokyo Stock Exchange for the first month of the period covered (September of the year)

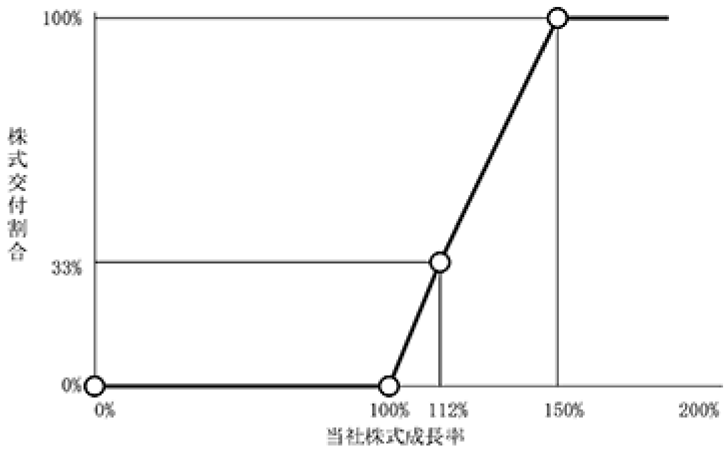
B: Simple average of the closing prices of our common stock on the Tokyo Stock Exchange for the last month of the period covered (September 3 years from now)

C: Total amount of dividends per share related to dividends from retained earnings during the period

D: Simplified averages of TOPIX for the first month of the period covered (September of the current year)

E: Simplified averages of TOPIX for the end-of-period month (September 3 years from now)

<Share issuance ratio>



Because the current consolidated fiscal year was prior to the end of the current consolidated fiscal year, no payment was made.

At the Board of Directors meeting on August 19, 2020, in order to clarify the responsibilities of the Representative Directors toward realizing the Medium-Term Management Plan "BE GLOBAL," the Board approved the decision to impose restrictions on the share compensation of the President for the respective periods based on the following key quantitative indicators of the Medium-Term Management Plan: "recurrent revenue ratio (continuous sales ratio to sales)."

Recurrent revenue ratio that serve as the basis for granting stock-based compensation at the end of the term

Fiscal Years	Recurrent Revenue Ratio
June 2019	Over 50%
June 2020	Over 60%
June 2021	Over 70%
June 2022	Over 70%

June 2023	Over 70%

(iii) Total amount of compensation, etc. by officer category, total amount by type of compensation, etc. and the number of applicable officers

Director category	Total amount of compensation (millions of yen)	Total compensation by type (millions of yen)		Number of officers concerned (People)
		Basic compensation	Performance-based compensation	
Director (excluding outside directors)	112	81	30	2
Auditors (Excluding Outside Auditors)	10	10	-	1
Outside Directors	29	29	-	2
Outside Auditors	7	7	-	2

(iv) Total amount of consolidated compensation, etc. for each director
This information is omitted because there are no persons with total consolidated compensation, etc. of 100 million yen or more.

(v) Important salaries for employees who are concurrently serving as an employee and serving as an officer
Not applicable.

(5) [Information on investment stocks]

(i) Concept and classification of investment stocks
We classify investment stocks held for pure investment purposes and investment stocks held for other than pure investment purposes into those held solely for the purpose of receiving incomes from changes in the value of stocks or dividends on stocks, and those held for other purposes.

(ii) Investment shares held for purposes other than pure investment
Not applicable.

(Issues for which the number of shares has increased in the current business year)
Not applicable.

(issues for which the number of shares decreased in the current fiscal year)
Not applicable.

(iii) Investments in stocks for which the purpose of holding is net investment

Classification	Current fiscal year		Previous fiscal year	
	Number of issues	Amount recognized on balance sheet (millions of yen)	Number of issues (Stock)	Amount recognized on balance sheet (millions of yen)
Unlisted stocks	1	0	-	-
Stocks other than unlisted stocks	1	141	1	109

Classification	Current fiscal year		
	Total dividends income (millions of yen)	Total gains or losses on sales of stocks (millions of yen)	Total appraisal gains or loss (millions of yen)
Unlisted stocks	-	-	-
Stocks other than unlisted stocks	2	-	51

5. [Financial Statements]

1. Basis of Presenting Consolidated Financial Statements and Financial Statements

(1) Our consolidated financial statements have been prepared in accordance with the "Regulations Concerning Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance ordinance No. 28, 1976; hereinafter referred to as the "Regulations Concerning Consolidated Financial Statements").

(2) Our financial statements have been prepared in accordance with the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc. (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the "Ordinance on Financial Statements, etc.").

We also fall under the category of a company that submits special financial statements and prepare financial statements in accordance with the provisions of Article 127 of the Ordinance on Financial Statements, Etc.

2. About Audit Certification

We have been audited by Deloitte Touche Tohmatsu LLC, a limited liability auditor, in accordance with the provisions of Article 2, Clause 1 of Article 193 of the Fiscal Product Trading Law for the consolidated fiscal year (from July 1, 2019 to June 30, 2020) and for the fiscal year (from July 1, 2019 to June 30, 2020).

3. Special Measures to Ensure the Appropriateness of Consolidated Financial Statements

We make special efforts to ensure the appropriateness of our consolidated financial statements.
Specifically, the Company participates in the Financial Accounting Standards Organization in order to develop a system that enables it to appropriately understand the content of accounting standards, etc. and to respond appropriately to changes, etc. in accounting standards, etc.

5-1. Consolidated Financial Statements and Accompanying Notes

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(thousands of yen)

	End of previous fiscal year (As of June 30, 2019)	End of current fiscal year (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	5,160,507	6,335,623
Notes and accounts receivable - trade	2,525,653	2,343,601
Securities	—	10,783
Work in process	178,271	140,960
Raw materials and supplies	16,584	15,587
Prepaid expenses	482,079	552,356
Other	40,668	111,927
Allowance for doubtful accounts	(5,296)	(5,610)
Total current assets	8,398,467	9,505,230
Non-current assets		
Property, plant and equipment		
Buildings	361,585	501,574
Accumulated depreciation	(215,623)	(201,938)
Buildings, net	145,962	299,636
Vehicles	—	440
Accumulated depreciation	—	(146)
Vehicles, net	—	293
Tools, furniture and fixtures	639,336	733,399
Accumulated depreciation	(515,429)	(563,937)
Tools, furniture and fixtures, net	123,906	169,462
Construction in progress	7,228	—
Total property, plant and equipment	277,096	469,392
Intangible assets		
Software	164,304	190,781
Other	782	744
Total intangible assets	165,087	191,526
Investments and other assets		
Investment securities	397,868	428,261
Long-term prepaid expenses	14,468	21,088
Leasehold and guarantee deposits	687,567	674,355
Deferred tax assets	392,827	369,737
Other	91,437	121,013
Allowance for doubtful accounts	(9,591)	—
Total investments and other assets	1,574,578	1,614,455
Total non-current assets	2,016,762	2,275,373
Total assets	10,415,229	11,780,604

(thousands of yen)

	End of previous fiscal year (As of June 30, 2019)	End of current fiscal year (As of June 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	511,503	428,418
Lease obligations	3,515	14,299
Accounts payable - other, and accrued expenses	377,355	333,436
Income taxes payable	296,693	122,303
Unearned revenue	1,857,288	2,075,741
Provision for bonuses	723,591	719,089
Provision for bonuses for directors (and other officers)	138,778	120,998
Provision for loss on order received	60,058	15,887
Other	379,272	483,988
Total current liabilities	4,348,056	4,314,163
Non-current liabilities		
Lease obligations	6,862	45,297
Asset retirement obligations	162,262	226,810
Total non-current liabilities	169,124	272,107
Total liabilities	4,517,181	4,586,270
Net assets		
Shareholders' equity		
Share capital	295,525	303,271
Capital surplus	232,325	240,071
Retained earnings	5,362,527	6,618,666
Treasury shares	(404)	(476)
Total shareholders' equity	5,889,973	7,161,533
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,067	35,859
Deferred gains or losses on hedges	3	6
Foreign currency translation adjustment	(2,995)	(3,065)
Total accumulated other comprehensive income	8,075	32,800
Total net assets	5,898,048	7,194,333
Total liabilities and net assets	10,415,229	11,780,604

(ii) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated income statement

(thousands of yen)

	Previous fiscal year (period from July 1, 2018 to June 30, 2019)	Current fiscal year (period from July 1, 2019 to June 30, 2020)
Net sales	14,077,976	15,691,533
Cost of sales	7,779,392	8,525,446
Gross profit	6,298,583	7,166,086
Selling, general and administrative expenses		
Compensation for directors (and other officers)	286,139	312,705
Employees' salaries and bonuses	1,049,858	1,288,199
Provision for bonuses	723,591	714,902
Provision for bonuses for directors (and other officers)	138,778	120,998
Legal welfare expenses	170,081	195,932
Outsourcing expenses	48,429	66,538
Rent expenses on land and buildings	303,661	268,049
Utilities expenses	150,092	95,883
Commission expenses	452,307	480,165
Depreciation	103,830	159,639
Research and development expenses	215,633	409,398
Other	689,725	774,982
Total selling, general and administrative expenses	4,332,129	4,887,396
Operating profit	1,966,453	2,278,690
Non-operating income		
Interest income	507	421
Dividend income	3,573	5,376
Gain on investments in investment partnerships	—	371
Foreign exchange gains	416	—
Subsidy income	990	2,220
Compensation for transfer	8,137	—
Other	437	937
Total non-operating income	14,062	9,326
Non-operating expenses		
Interest expenses	149	744
Loss on investments in investment partnerships	2,571	—
Commission expenses	2,649	4,755
Foreign exchange losses	—	17
Share issuance costs	942	413
Compensation for damage	1,620	—
Other	—	3
Total non-operating expenses	7,933	5,934
Ordinary profit	1,972,583	2,282,082
Extraordinary income		
Settlement received	31,200	—
Total extraordinary income	31,200	—
Profit before income taxes	2,003,783	2,282,082
Income taxes - current	766,968	727,521
Income taxes - deferred	(80,233)	16,666
Total income taxes	686,734	744,188
Profit	1,317,048	1,537,894
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	1,317,048	1,537,894

Consolidated Statements of Comprehensive Income

(thousands of yen)

	Previous fiscal year (period from July 1, 2018 to June 30, 2019)	Current fiscal year (period from July 1, 2019 to June 30, 2020)
Profit	1,317,048	1,537,894
Other comprehensive income		
Valuation difference on available-for-sale securities	2,943	24,791
Deferred gains or losses on hedges	(34)	2
Foreign currency translation adjustment	(3,221)	(69)
Total other comprehensive income	(313)	24,724
Comprehensive income	1,316,735	1,562,619
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,316,735	1,562,619
Comprehensive income attributable to non-controlling interests	—	—

(iii) Consolidated Statement of Changes in Net Assets

Previous Fiscal year (period from July 1, 2018 to June 30, 2019)

(thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	288,400	225,200	4,270,775	(301)	4,784,074
Changes for the year					
Issue of new shares	7,125	7,125			14,250
Dividends			(225,295)		(225,295)
Net income attributable to shareholders of parent company			1,317,048		1,317,048
Purchase of treasury stock				(103)	(103)
Net changes of items other than shareholders' equity					
Total changes for the year	7,125	7,125	1,091,752	(103)	1,105,899
Balance at the end of the year	295,525	232,325	5,362,527	(404)	5,889,973

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	
Balance at the beginning of the year	8,124	37	226	8,388	4,792,462
Changes for the year					
Issue of new shares					14,250
Dividends					(225,295)
Net income attributable to shareholders of parent company					1,317,048
Purchase of treasury stock					(103)
Net changes of items other than shareholders' equity	2,943	(34)	(3,221)	(313)	(313)
Total changes for the year	2,943	(34)	(3,221)	(313)	1,105,586
Balance at the end of the year	11,067	3	(2,995)	8,075	5,898,048

Current Fiscal year (period from July 1, 2019 to June 30, 2020)

(thousands of yen)

	shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	295,525	232,325	5,362,527	(404)	5,889,973
Changes for the year					
Issue of new shares	7,746	7,746			15,492
Dividends			(281,755)		(281,755)
Net income attributable to shareholders of parent company			1,537,894		1,537,894
Purchase of treasury stock				(71)	(71)
Net changes of items other than shareholders' equity					
Total changes for the year	7,746	7,746	1,256,139	(71)	1,271,559
Balance at the end of the year	303,271	240,071	6,618,666	(476)	7,161,533

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	
Balance at the beginning of the year	11,067	3	(2,995)	8,075	5,898,048
Changes for the year					
Issue of new shares					15,492
Dividends					(281,755)
Net income attributable to shareholders of parent company					1,537,894
Purchase of treasury stock					(71)
Net changes of items other than shareholders' equity	24,791	2	(69)	24,724	24,724
Total changes for the year	24,791	2	(69)	24,724	1,296,284
Balance at the end of the year	35,859	6	(3,065)	32,800	7,194,333

(iv) Consolidated Statements of Cash Flows

(thousands of yen)

	Previous fiscal year (period from July 1, 2018 to June 30, 2019)	Current fiscal year (period from July 1, 2019 to June 30, 2020)
Cash flows from operating activities		
Profit before income taxes	2,003,783	2,282,082
Depreciation	167,080	227,944
Share-based compensation expenses	3,562	8,623
Increase (decrease) in allowance for doubtful accounts	866	(9,277)
Increase (decrease) in provision for bonuses	161,824	(4,501)
Increase (decrease) in provision for bonuses for directors (and other officers)	24,294	(17,779)
Increase (decrease) in provision for loss on order received	55,748	(44,171)
Interest and dividend income	(4,080)	(5,797)
Compensation for forced relocation	(8,137)	—
Interest expenses	149	744
Commission expenses	2,649	4,755
Share issuance costs	942	413
Compensation for damage	1,620	—
Settlement received	(31,200)	—
Loss (gain) on investments in investment partnerships	2,571	(371)
Subsidy income	(990)	(2,220)
Decrease (increase) in trade receivables	(512,541)	182,057
Decrease (increase) in inventories	(84,168)	38,307
Decrease (increase) in prepaid expenses	(28,377)	(66,011)
Increase (decrease) in trade payables	77,404	(83,085)
Increase (decrease) in accounts payable - other, and accrued expenses	24,533	(10,031)
Increase (decrease) in accrued consumption taxes	37,548	152,446
Increase (decrease) in unearned revenue	182,593	218,453
Increase in long-term accounts receivable	—	(34,706)
Other, net	(4,807)	(40,670)
Subtotal	2,072,870	2,797,203
Interest and dividends received	4,138	6,021
Interest paid	(149)	(744)
Proceeds from compensation for forced relocation	5,695	—
Compensation for damage paid	(1,620)	—
Settlement package received	31,200	—
Proceeds from subsidy income	990	2,220
Income taxes paid	(792,905)	(913,944)
Net cash provided by (used in) operating activities	1,320,217	1,890,755
Cash flows from investing activities		
Proceeds from redemption of securities	33,780	—
Purchase of property, plant and equipment	(127,242)	(236,147)
Purchase of intangible assets	(54,554)	(121,077)
Purchase of investment securities	(90,911)	(10,837)
Proceeds from refund of leasehold and guarantee deposits	138	89,687
Payments of leasehold and guarantee deposits	(215,592)	(138,666)
Purchase of insurance funds	(4,459)	(4,459)
Other, net	3,502	1,071
Net cash provided by (used in) investing activities	(455,340)	(420,430)
Cash flows from financing activities		
Repayments of finance lease obligations	(3,414)	(8,771)
Commission fee paid	(2,252)	(3,696)
Purchase of treasury shares	(103)	(71)

Dividends paid	(225,295)	(281,755)
Other, net	(942)	(413)
Net cash provided by (used in) financing activities	(232,007)	(294,708)
Effect of exchange rate change on cash and cash equivalents	(4,607)	105
Net increase (decrease) in cash and cash equivalents	628,261	1,175,722
Cash and cash equivalents at beginning of period	4,566,875	5,195,137
Cash and cash equivalents at end of period	5,195,137	6,370,860

Notes to Consolidated Financial Statements

(Significant Matters Forming the Basis for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

We consolidate all the five subsidiaries

Consolidated subsidiaries: 5 companies

DIVA Corporation

Internet Disclosure Co., Ltd.

ZEAL Corporation

FIERTE Corporation

DIVA CORPORATION OF AMERICA

2. Application of the equity method

Not applicable.

3. Accounting periods of consolidated subsidiaries

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

4. Significant Accounting Policies

(1) Valuation standards and methods for important assets

(i) Marketable securities

Held-to-maturity debt securities

Amortized cost (straight-line method)

Other securities

With market value

Market value method based on market prices, etc. as of the closing date (Valuation difference is included directly in net assets, and cost of securities sold is calculated by the moving average method.)

Without market value

Cost determined by the moving-average method

Investments in limited partnerships for investment (deemed as securities pursuant to Article 2(2) of the Financial Instruments and Exchange Law) are based on the latest financial statements available according to the closing report date stipulated in the partnership agreement, and the amount equivalent to equity is included in the net amount.

(ii) Evaluation criteria and method of inventories

I Work in process

Cost method based on the specific identification method (the balance sheet value is calculated by writing down the book value due to the decrease in profitability)

II Raw materials

Stated at cost determined by the first-in, first-out method. (The carrying value on the balance sheet is written down to reflect the decline in profitability.)

III Supplies

Cost method based on the specific identification method (the balance sheet value is calculated by writing down the book value due to the decrease in profitability)

(2) Depreciation methods for material depreciable assets

(i) Property, plant and equipment (Excluding leased assets)

Declining balance method

However, the straight-line method is applied to facilities attached to buildings acquired on or after April 1, 2016.

Principal useful lives

Buildings	3 to 10 years
Tools, furniture and fixtures	2 to 8 years

(ii) Intangible assets

Straight-line method

Software

I Software for sale

Amortization based on projected sales revenue within the estimated selling period (3 years)

II Software for internal use

The useful lives are the estimated useful lives (3 to 5 years).

(iii) Leased assets

Lease assets related to finance lease transactions that do not transfer ownership of the leased property to the lessee

Straight line method over the periods of these capital leases, assuming no remaining value

(3) Accounting method of deferred assets

(i) Stock issuance cost

All costs are booked as expenses as incurred.

(4) Basis of material allowances

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible losses on receivables based on the historical write-off ratio for general receivables and on an estimate of the uncollectible amount for specific receivables such as doubtful receivables.

(ii) Accrued bonuses

In order to prepare for bonuses paid to employees, the amount to be borne in the current consolidated fiscal year is recorded based on the estimated amount to be paid.

(iii) Provision for directors' bonuses

To prepare for the payment of bonuses to directors, the Company records the amount of bonuses to be borne in the current fiscal year based on the estimated amount of bonuses to be paid.

(iv) Accrual for losses on contracts

In order to prepare for future losses on contracts for which future losses are expected and the amount of such losses can be reasonably estimated at the end of the fiscal year under review, the Company records an estimated amount of such losses.

(5) The standards for recognition of significant revenues and expenses

Standard for recording sales and cost of sales related to made-to-order software

(i) Contracts for which the outcome is certain with respect to the portion of progress up to the end of the current consolidated fiscal year

Percentage-of-completion method (contract progress rate is estimated using the cost-to-cost method)

(ii) Other Contracts

Acceptance Criteria

(6) Standards for the conversion of important foreign currency-denominated assets and liabilities into yen

The revenue and expense accounts of the overseas consolidated subsidiaries and their balance sheet accounts, are translated into yen at the rates of exchange in effect at the balance sheet date.

The assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot exchange rates prevailing at the balance sheet date. Revenue and expense accounts are translated into Japanese yen at the average exchange rates prevailing during the fiscal year. Translation adjustments are included in foreign currency translation adjustments in net assets.

(7) Significant hedge accounting method

(i) Hedge accounting method

In principle, the Company uses deferral hedge accounting.

(ii) Hedging instruments and hedged items

Hedging instruments: Foreign currency deposits

Hedged items: Forecast transactions denominated in foreign currencies

(iii) Hedging policy

Foreign currency deposits are used to hedge foreign currency fluctuation risk. The Company's policy is to use these instruments within the scope of actual demand and not to enter into transactions for speculative purposes.

(iv) Hedging evaluation

Evaluation of the effectiveness of the hedging instrument at the consolidated balance sheet date is omitted because the important conditions for the hedging instrument and the hedged item are the same, and cash flow fluctuations after the hedge's inception can be offset.

(8) The amortization method and amortization period of goodwill

Goodwill is amortized using the straight-line method over 5 years.

(9) Scope of funds in consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, bank deposits that can be withdrawn on demand, and short-term investments with original maturities of 3 months or less that are readily convertible to cash and are exposed to insignificant risk of changes in value.

(10) Other significant matters for preparing Consolidated Financial Statements

(i) Accounting for consumption tax

Consumption taxes are subject to the net of tax method.

(ii) Consolidated tax return system

We and our domestic consolidated subsidiaries have adopted the consolidated taxation system.

(iii) Application of tax effect accounting for the transition from the consolidated taxation system to the group-wide calculation system

With respect to items for which the non-consolidated tax payment system was reviewed in line with the transition to the group accounting system established under the Act for Partial Amendment to the Income Tax Act (Act No. 8 of 2020), in accordance with the provisions of paragraph 3 of the "Handling of Application of Tax Effect Accounting for Transition from the Consolidated Tax Payment System to the Group Accounting System" (Practical Response Report No. 39, March 31, 2020), we and our domestic consolidated subsidiaries do not apply the provisions of paragraph 44 of the Guidelines for Application of Accounting Standards for Tax Effect Accounting (Guidelines No. 28, February 16, 2018) and the amount of deferred tax assets and deferred tax liabilities is based on the provisions of the Tax Act prior to the revision.

(Unapplied accounting standards, etc.)

1. Revenue Recognition Standards, etc.

- "Earnings Recognition Basis" (corporate accounting standard No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)
- Implementation Guidance on Disclosure of Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Summary

This is a comprehensive accounting standard for revenue recognition.

Revenue is recognized by applying the following 5 steps:

Step 1: Identify the customer contract.

Step 2: Identify performance obligations in the contract.

Step 3: Calculate the transaction price.

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

Step 5: Recognize revenue when performance obligations are satisfied or satisfied.

(2) Expected date of application

It is scheduled to be applied from the beginning of the fiscal year ending June 2022.

(3) Impact of adoption of the new accounting standard

The impact is being evaluated at the time of preparing the consolidated financial statements.

2. Accounting Standard for Calculation of Market Values

- "Criteria for the Calculation of Market Values" (corporate accounting standard No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Calculation of Fair Value (ASBJ Guidance No. 31, July 4, 2019)
- "Criteria for the Evaluation of Inventories" (corporate accounting standard No. 9, July 4, 2019)
- "Accounting Standards for Financial Products" (corporate accounting standard No. 10, July 4, 2019)
- Implementation Guidance on Disclosure of Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Summary

In order to improve comparability with international accounting standards, the "Accounting Standards for Calculation of Market Value" and the "Guidelines for Application of Accounting Standards for Calculation of Market Value" (hereinafter referred to as "Market Value Accounting Standards") were developed, and guidance on methods of calculating Market Value was established. Current value accounting standards are applied to the following items:

・ Financial instruments under "Accounting Standard for Financial Instruments"
・ Inventories held for trading purposes under the Accounting Standard for Valuation of Inventories

In addition, the "Implementation Guidance on Disclosure of Fair Value, etc. of Financial Instruments" was revised to provide notes to the breakdown of the fair value of financial instruments by level.

(2) Expected date of application

It is scheduled to be applied from the beginning of the fiscal year ending June 2022.

(3) Impact of adoption of the new accounting standard

The impact is being evaluated at the time of preparing the consolidated financial statements.

3. Accounting Standard for Disclosure of Accounting Estimates

- "Accounting Standards for the Disclosure of Accounting Estimates" (corporate accounting standard No. 31, March 31, 2020)

(1) Summary

The purpose of this report is to disclose information that contributes to the understanding of financial statement users regarding the accounting estimates of items recorded in the financial statements for the current fiscal year that have the risk of materially affecting the financial statements for the following fiscal year.

(2) Expected date of application

The application is scheduled to start at the end of the fiscal year ending June 2021.

4. Accounting standards for disclosure of accounting principles, accounting changes and error corrections

- "Accounting Standards for the Disclosure of Accounting Policies, Changes in Accounting and Correction of Errors" (Corporate accounting standard No. 24, March 31, 2020, Financial Accounting Standards Foundation)

(1) Summary

This is intended to provide an overview of the accounting principles and procedures adopted in the event that related accounting standards are not yet established.

(2) Expected date of application

The application is scheduled to start at the end of the fiscal year ending June 2021.

(Changes in Basis of Presentation)

(Notes to Consolidated Statements of Income)

"Subsidy income," which was included in "Other" under "Non-operating income" in the previous fiscal year, is presented as a separate item from the fiscal year under review because it exceeded 10% 100 of total non-operating income. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.
As a result, 1,427 thousand yen presented as "Other" under "Non-operating income" in the Consolidated Statements of Income for the previous fiscal year has been reclassified as 990 thousand yen of "Subsidy income" and 437 thousand yen of "Other."

(Notes to Consolidated Statements of Cash Flows)

"Subsidy income," which was included in "Income before income taxes and minority interests" under "Cash flows from operating activities" in the previous fiscal year, is presented separately from the fiscal year under review due to an increase in monetary materiality.
Accordingly, "Subsidy income" is presented separately in the "Subtotal" column of "Cash flows from operating activities" below. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.
As a result, 2,073,860 thousand yen presented as "Subtotal" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified as (990) thousand yen as "Subsidy income," 990 thousand yen as "Subsidy received," and 2,072,870 thousand yen as "Subtotal."
"Proceeds from collection of lease and guarantee deposits," which was included in "Other" under "Cash flows from investing activities" in the previous fiscal year, is presented separately from the current fiscal year due to an increase in monetary materiality. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.
As a result, 3,640 thousand yen presented as "Other" under "Cash flows from investing activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified as 138 thousand yen of "Proceeds from collection of lease and guarantee deposits" and 3,502 thousand yen of "Other."

(Notes to Consolidated Balance Sheets)

※ 1. Work in process and allowance for loss on order received related to contracts for which losses are expected are not offset.

Provision for loss on orders received of work in process for contracts with expected losses

(thousands of yen)

	Previous fiscal year (As of June 30, 2019)	Current fiscal year (As of June 30, 2020)
Work in process	18,568	12,581

2. The Company has concluded loan commitment agreements with 3 banks with the aim of efficiently procuring working funds.

Undisbursed balances of loan commitments as of the end of the consolidated fiscal year are as follows.

(thousands of yen)

	Previous fiscal year (As of June 30, 2019)	Current fiscal year (As of June 30, 2020)
Total loan commitments	1,500,000	3,500,000
Loan balance	-	-
Balance	1,500,000	3,500,000

(Notes to Consolidated Statements of Income)

※ 1. Total R&D expenditure

(thousands of yen)

	Previous fiscal year (From July 1, 2018 To June 30, 2019)	Current fiscal year (From July 1, 2019 To June 30, 2020)
R & D expenditures included in general and administrative expenses	215,633	409,398

※ 2. Provision (or reversal of provision) for loss on order received included in cost of sales

(thousands of yen)

Previous fiscal year (From July 1, 2018 To June 30, 2019)	Current fiscal year (From July 1, 2019 To June 30, 2020)
55,748	(44,171)

(Notes to Consolidated Statements of Comprehensive Income)

※ 1. Reclassification adjustments and tax effects relating to other comprehensive income

(thousands of yen)

	Previous fiscal year (From July 1, 2018 To June 30, 2019)	Current fiscal year (From July 1, 2019 To June 30, 2020)
Valuation difference on securities		
Arising during the year	4,908	31,279
Reclassification adjustments	(92)	(63)
Before-tax	4,816	31,216
Income tax effect	(1,872)	(6,424)
Valuation difference on securities	2,943	24,791
Deferred gains or losses on hedges		
Arising during the year	(45)	(0)
Before-tax	(45)	(0)
Income tax effect	11	3
Deferred gains or losses on hedges	(34)	2
Foreign currency translation adjustments		
Arising during the year	(3,221)	(69)
Foreign currency translation adjustments	(3,221)	(69)
Total other comprehensive income	(313)	24,724

(Notes to Consolidated Statements of Changes in Net Assets)

Previous fiscal year (July 1, 2018, to June 30, 2019)

1. Type and total number of issued shares and type and number of treasury shares

(Number of shares)

	Beginning of the fiscal year	Increase during the year	Decrease during the year	End of the fiscal year
Issued shares Common stock (Notes 1)	18,776,000	9,094	-	18,785,094
Total	18,776,000	9,094	-	18,785,094
Treasury stock Common stock (Notes 2)	1,349	72	-	1,421
Total	1,349	72	-	1,421

(Notes) 1. Increase in shares outstanding

Increase due to issuance of new shares as restricted stock compensation: 9,094 shares

2. Increase in treasury stock

Increase due to request for purchase of odd-lot shares 72 shares

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (thousand yen)	Cash dividends per share (yen)	Record Date	Effective date
September 19, 2018 Annual Shareholders' Meeting	Common stock	225,295	12.00	June 30, 2018	September 20, 2018

(2) Dividends for which the base date belongs to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

Resolution	Class of shares	Source of dividend	Total dividends (thousand yen)	Per share Dividends (yen)	Record Date	Effective date
September 27, 2019 Annual Shareholders' Meeting	Common stock	Retained earnings	281,755	15.00	June 30, 2019	September 30, 2019

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

1. Type and total number of issued shares and type and number of treasury shares

(Number of shares)

	Beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	At the end of the fiscal year
Issued shares Common stock (Notes 1)	18,785,094	18,801,888	-	37,586,982
Total	18,785,094	18,801,888	-	37,586,982
Treasury shares Common stock (Notes 2, 3)	1,421	1,490	-	2,911
Total	1,421	1,490	-	2,911

(Notes) 1. On December 1, 2019, the Company conducted a 2-for-1 stock split.

2. Increase in shares outstanding

Increase due to stock split: 18,785,094 shares

Increase due to issuance of new shares as restricted stock compensation: 16,794 shares

3. Increase in treasury stock

Increase due to stock split: 1421 shares

Increase due to request for purchase of odd-lot shares 69 shares

2. Dividends from surplus

(1) Cash dividends paid

Resolution	Class of shares	Total dividends (thousand yen)	Per share Dividends (yen)	Record date	Effective date
September 27, 2019 Annual Meeting of Shareholders	Common stock	281,755	15.00	June 30, 2019	September 30, 2019

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

Scheduled to be resolved	Class of shares	Source of dividend	Total dividends (thousand yen)	Per share Dividends (yen)	Record date	Effective date
September 23, 2020 Annual Meeting of Shareholders	Common stock	Retained earnings	338,256	9.00	June 30, 2020	September 24, 2020

(Notes to Consolidated Statements of Cash Flows)

※1. Reconciliation of cash and cash equivalents at end of period with cash items on balance sheet

(thousands of yen)

	Previous fiscal year (From July 1, 2018 To June 30, 2019	Current fiscal year (From July 1, 2019 To June 30, 2020)
Cash and deposits	5,160,507	6,335,623
Other current assets (deposits paid)	76	157
Investment securities (MMFs)	34,554	35,079
Cash and cash equivalents	5,195,137	6,370,860

(Notes to lease transactions)

Finance leases (lessees)

Finance lease transactions without transfer of ownership

1. Contents of lease assets

Property, plant and equipment

Office equipment (tools, furniture and fixtures)

2. Depreciation method for leased assets

Depreciation is computed by the straight-line method, assuming the lease period to be the useful life and the residual value to be zero.

(Notes on Financial Instruments)

1. Matters relating to financial instruments

(1) Policy for Financial Instruments

Our Group procures the necessary funds (mainly bank loans and bond issues) based on our management policies and business plans. Temporary surplus funds are invested in highly liquid and safe financial assets in accordance with internal management regulations, and short-term working capital is procured through bank loans. In addition, foreign currency deposits are used to hedge foreign currency fluctuation risk. Regarding hedging instruments and hedged items, hedging policies, and methods of evaluating the effectiveness of hedging, please refer to "(iv) Matters concerning accounting policies, (iv) Other important matters that form the basis for preparing the consolidated financial statements, 2) Significant hedge accounting methods."

(2) Description of financial instruments, related risks, and risk management system

Notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. However, by thoroughly managing the credit of each business partner and regularly managing the collection date and balance, we aim to quickly identify and mitigate collection concerns due to deterioration in financial conditions, etc.

Investment securities classified as held-to-maturity are exposed to foreign exchange risk and interest rate fluctuation risk, although credit risk is insignificant, as they cover only highly rated securities. Available-for-sale securities are exposed to market price fluctuation risk and foreign currency exchange fluctuation risk. However, the Company is continually reviewing their holdings in light of market value and other factors. With regard to investment in limited partnerships, the Group is exposed to the risk of falling below the investment principal due to changes in the management and financial conditions of the issuer of the shares incorporated in the partnership. The Group manages risk by regularly obtaining the financial statements of the partnership and ascertaining the financial status and management status of the partnership.

Lease and guarantee deposits are guarantee deposits in the lease contracts of the head office, branches and subsidiaries, which are exposed to the credit risk of the lessee. At the time of the contract, credit risk is checked to reduce such risk.

Notes and accounts payable-trade and accounts payable-other, which are trade payables, are mostly due within 1 year. Lease obligations related to finance lease transactions are primarily for the purpose of procuring funds for capital expenditures. The maximum term end is 4 years and 9 months after the balance sheet date. These risks are exposed to liquidity risk (the risk of being unable to make payments on the due date), but our Group manages these risks by checking and managing monthly cash schedules and account balances.

(3) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since variable factors are included in the calculation of the value, the value may change if different assumptions, etc. are adopted.

2. Fair Value of Financial Instruments

Balance sheet amounts, fair values and differences as of June 30, 2020 are as follows: The following table does not include financial instruments whose fair values are deemed extremely difficult to determine (see Note 2).

Previous fiscal year (June 30, 2019)

	Carrying amount (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
(i) Cash and deposits	5,160,507	5,160,507	—
(ii) Notes and accounts receivable	2,525,653	2,525,653	—
(iii) Marketable and investment securities			
Held-to-maturity debt securities	101,632	101,371	(261)
Other securities	289,471	289,471	—
(iv) Lease deposits and guarantee deposits (including those scheduled to be collected within 1 year)	687,567	694,645	7,077
Total assets	8,764,832	8,771,649	6,816
(i) Notes and accounts payable-trade	511,503	511,503	—

(ii)	Accrued expenses	377,355	377,355	—
(iii)	Income taxes payable	296,693	296,693	—
(iv)	Lease liability (including current portion of 1 year)	10,378	10,406	28
	Total liabilities	1,195,930	1,195,958	28

Current fiscal year (June 30, 2020)

	Carrying amount (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
(i) Cash and deposits	6,335,623	6,335,623	-
(ii) Notes and accounts receivable	2,343,601	2,343,601	-
(iii) Marketable and investment securities			
Held-to-maturity debt securities	101,343	101,379	36
Other securities	319,797	319,797	-
(iv) Lease deposits and guarantee deposits (including those scheduled to be collected within 1 year)	739,556	738,983	(573)
Total assets	9,839,922	9,839,385	(536)
(i) Notes and accounts payable-trade	428,418	428,418	-
(ii) Accrued expenses	333,436	333,436	-
(iii) Income taxes payable	122,303	122,303	-
(iv) Lease liability (including current portion of 1 year)	59,597	59,786	189
Total liabilities	943,754	943,944	189

(Notes) 1. Calculation method for fair value of financial instruments

Assets

(i) Cash and deposits, (ii) Notes and accounts receivable-trade

Since these instruments are settled in a short period of time, their fair values approximate their carrying amounts.

(iii) Marketable and investment securities

The fair values of these securities are based on quoted market prices for stocks and those for bonds are based on quoted market prices from financial institutions.

(iv) Lease deposits and guarantee deposits (including those scheduled to be collected within 1 year)

The fair value of lease and guarantee deposits is calculated using the present value discounted at an appropriate rate, such as the yield on government bonds, based on reasonably estimated collection periods of lease and guarantee deposits.

Liabilities

(i) Notes and accounts payable-trade, (ii) Accounts payable-other and accrued expenses, and (iii) Income taxes payable

Since these instruments are settled in a short period of time, their fair values approximate their carrying amounts.

(iv) Lease liability (including current portion of 1 year)

The fair value of these instruments is calculated based on the present value of the total amount of principal and interest discounted by the interest rate that would be applied to similar new leases.

2. Carrying amount of financial instruments whose fair value is deemed extremely difficult to determine

(thousands of yen)

Classification	June 30, 2019	June 30, 2020
Unlisted stocks	0	0
Investments in investment limited partnership	6,764	17,904

These instruments are not included in "(iii) Marketable securities and investment securities" because they do not have quoted market prices and it is extremely difficult to determine their fair values.

3. Maturity profile of monetary receivables and securities with contractual maturities subsequent to the fiscal year-end date

End of previous fiscal year (June 30, 2019)

	Within one year (thousand yen)	Due after one year through five years (thousand yen)	Due after five years through ten years (thousand yen)	Due after ten years (thousand yen)
Cash and deposits	5,160,507	-	-	-
Notes and accounts receivable	2,525,653	-	-	-
Marketable securities and Investment securities (Note)				
Held-to-maturity debt securities (Corporate bonds)	-	101,632	-	-
Total	7,686,160	101,632	-	-

(NOTE) The redemption schedule is stated at the amount recorded on the consolidated balance sheet.

Current Consolidated fiscal year (June 30, 2020)

	Within one year (thousand yen)	Due after one year through five years (thousand yen)	Due after five years through ten years (thousand yen)	Due after ten years (thousand yen)
Cash and deposits	6,335,623	-	-	-
Notes and accounts receivable	2,343,601	-	-	-
Marketable securities and Investment securities (Note)				
Held-to-maturity debt securities (Corporate bonds)	10,783	90,559	-	-
Total	8,690,008	90,559	-	-

(NOTE) The redemption schedule is stated at the amount recorded on the consolidated balance sheet.

4. Maturity profile of bonds, long-term borrowings, lease obligations and other interest-bearing debt subsequent to the fiscal year-end date

Previous fiscal year (June 30, 2019)

	Within one year (thousand yen)	Over one year Within 2 years (thousand yen)	Over 2 years Within 3 years (thousand yen)	More than 3 years Within 4 years (thousand yen)	Due after 4 years Within 5 years (thousand yen)	Over five years (thousand yen)
Lease obligations	3,515	3,028	3,007	772	53	-

Current fiscal year (June 30, 2020)

	Within one year (thousand yen)	Over one year Within 2 years (thousand yen)	Over 2 years Within 3 years (thousand yen)	More than 3 years Within 4 years (thousand yen)	Due after 4 years Within 5 years (thousand yen)	Over five years (thousand yen)
Lease obligations	14,299	14,502	12,499	12,020	6,275	-

(Notes to Securities)

1. Held-to-maturity debt securities

Previous fiscal year (July 1, 2018, to June 30, 2019)

Classification	Carrying amount (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
Securities whose fair value exceeds their carrying amount			
Corporate bonds	-	-	-
Market value is less than carrying amount			
Corporate bonds	101,632	101,371	(261)
Total	101,632	101,371	(261)

Current fiscal year (From July 1, 2,019 to June 30, 2020)

Classification	Carrying amount (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
Securities whose fair value exceeds their carrying amount			
Corporate bonds	101,343	101,379	36
Market value is less than carrying amount			
Corporate bonds	-	-	-
Total	101,343	101,379	36

2. Other securities

Previous fiscal year (July 1, 2018, to June 30, 2019)

Classification	Carrying amount (thousand yen)	Acquisition cost (thousand yen)	Difference (thousand yen)
Securities whose carrying value exceeds their acquisition cost			
Equity securities	109,890	90,554	19,335
Others	50,730	47,979	2,751
Subtotal	160,620	138,533	22,086
Securities whose acquisition cost exceeds their carrying value			
Equity securities	-	-	-
Others	128,850	134,319	(5,468)
Subtotal	128,850	134,319	(5,468)
Total	289,471	272,853	16,618

(Note) Investments in unlisted shares (consolidated balance sheet value: 0 yen) and investment in limited partnerships (consolidated balance sheet value: 6,764 thousand yen) are not included in "Available-for-sale securities" in the above table, as they do not have market prices and it is extremely difficult to determine their fair values.

Current fiscal year (From July 1, 2,019 to June 30, 2020)

Classification	Carrying amount (thousand yen)	Acquisition cost (thousand yen)	Difference (thousand yen)
Securities whose carrying value exceeds their acquisition cost			
Equity securities	141,912	90,554	51,357
Others	51,185	47,532	3,652
Subtotal	193,097	138,087	55,010
Securities whose acquisition cost exceeds their carrying value			
Equity securities	-	-	-
Others	126,699	133,814	(7,114)
Subtotal	126,699	133,680	(7,114)
Total	319,797	271,902	47,895

(Note) Investments in unlisted shares (consolidated balance sheet value: 0 yen) and investment in limited partnerships (consolidated balance sheet value: 17,904 thousand yen) are not included in "Available-for-sale securities" in the above table, as they do not have market prices and it is extremely difficult to determine their fair values.

(Derivative Transactions)

The Group Companies do not use derivative financial instruments, and therefore there are no derivative transactions.

(Retirement Benefits)

The Companies do not have any retirement benefit plans, so there are no applicable items.

(Stock options)

Not applicable.

(Deferred tax accounting)

1. Breakdown of principal origins of deferred tax assets and liabilities

(thousands of yen)

	Previous fiscal year (As of June 30, 2019)	Current fiscal year (As of June 30, 2020)
(Deferred tax assets)		
Tax loss carryforwards	15,745	39,139
Accrued enterprise tax	56,373	43,184
Accrued business office taxes	6,070	6,916
Accrued expenses	1,542	2,026
Provision for bonuses	249,192	247,177
Provision for directors' bonuses	2,833	1,882
Accrual for losses on contracts	20,780	5,496
Advances received	1,273	1,012
Allowance for doubtful accounts	3,492	1,941
Charges for stock compensation	1,224	4,187
Depreciation and amortization	37,809	44,330
Loss on valuation of investment securities	3,062	3,062
Asset retirement obligations	50,324	72,618
Valuation difference on securities	1,674	2,302
RESEARCH AND DEVELOPMENT COSTS	1,606	1,177
Others	2,866	3,417
Gross deferred tax assets	15,745	479,873
Valuation allowance for operating loss carryforwards	56,373	(39,139)
Valuation allowance for deductible temporary differences	6,070	(23,195)
Total valuation allowance	1,542	(62,334)
Total of deferred tax assets	249,192	417,539
Deferred tax liabilities		
Accrued refund of enterprise tax	829	-
Deferred gains or losses on hedges	13	1
Facilities attached to buildings (asset retirement cost)	17,695	34,162
Valuation difference on securities	6,734	13,637
Total deferred tax liabilities	25,273	47,802
Net deferred tax assets	392,827	369,737

(Note) The valuation allowance increased by 24,563 thousand yen. This increase was mainly due to an increase in valuation allowance of 23,393 thousand yen related to tax loss carryforwards.

2. Reconciliation of the statutory tax rate to the effective income tax rate

	Previous fiscal year (As of June 30, 2019)	Current fiscal year (As of June 30, 2020)
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Expenses not deductible for income tax purposes	2.2%	1.8%
Per capita inhabitant tax	0.2%	0.2%
Tax credit	-4.2%	-5.8%
Valuation allowance	1.7%	0.8%
Difference in tax rates applied to consolidated subsidiaries, etc.	4.5%	4.6%
Others	-0.7%	0.5%
Effective income tax rate	34.3%	32.6%

(Notes to asset retirement obligations)

Asset retirement obligations reported on the consolidated balance sheet

(1) Summary of asset retirement obligations

This is an obligation to restore an office to its original state in accordance with a real estate lease agreement for the headquarters office and other offices.

(2) Calculation method of asset retirement obligations

Asset retirement obligations are calculated using the risk-free rate as the discount rate, assuming that the main estimated period of use is 10 years after acquisition.

(3) Increase (decrease) in asset retirement obligations

(thousands of yen)

	Previous fiscal year (July 1, 2018 To June 30, 2019)	Current fiscal year (July 1, 2019 To June 30, 2020)
Balance at beginning of year	141,867	162,262
Liabilities incurred due to the acquisition of property, plant and equipment	20,085	63,516
Accretion expense	1,028	1,031
Decrease due to fulfillment of asset retirement obligations	(719)	-
Balance at end of year	162,262	226,810

(Segment Information and Others)

1. Summary of reportable segments

(1) Reason to determine the report segment

The Group's reportable segments was set up so that the Board of Directors can monitor regularly the separate financial information among our constituent units and make decisions on allocation of management resources and evaluate results of operations.

The Group is working to make management information “usable (Consolidated Accounting business),” “visible (Business Intelligence business)” and “reliable (Outsourcing business)” and thus measures performance of the three business portfolios; “Consolidated Accounting business”, “Business Intelligence business” and “Outsourcing business” as reportable segments.

(2) Products and services included in each reportable segment

In Consolidated Accounting business, DIVA Corporation sells licenses and offer consulting service to implement the packaged software called DivaSystem, an internally developed package software for consolidated management and consolidated accounting. After the implementation, the Company also provide maintenance services, including software upgrades. Its consulting services also includes solutions related to IFRS, advanced management solutions, and budget management / management accounting solutions.

Consolidated Accounting business also reflects results of Internet Disclosure Co., Ltd. which offers search engines on disclosure information to audit corporations.

In the Business Intelligence business, ZEAL Corporation offers system integration services for effective management of various information among corporations, which is generally called Business Intelligence (BI). Through integration and organization of a large amount of data in a company’s operating system, the Company can offer that information in reports and graphs and the management of the company can make decisions. In another words, the Company’s system integration service is designed to help customers improve their ability to use information.

In the Outsourcing business, FIERTE Corporation offers outsourcing services on consolidated accounting and consolidated tax payment operations. While acting on behalf of the customers, the Company’s solution can promote task diversification among employees and eliminate bottleneck, so that customers can devote more time on value-creating operations such as analysis and utilization of various information, and thus create value to their operations and management.

2. Formula to calculate revenue, profit or loss, assets, liabilities and other items by reportable segment

The reported method of accounting for operating segments is the same as formula generally used in the preparation of consolidated financial statements.

Profits for reportable segments are based on operating income.

Intersegment sales and transfers are based on market prices.

3. Information on ordinary revenue, income or loss, assets and liabilities, and others by reporting segment

Previous fiscal year (July 1, 2018 to June 30, 2019)

(Thousands of yen)

	Reportable segments			Total
	Consolidated accounting	Business Intelligence	Outsourcing	
Revenue				
Sales to customers	8,005,563	4,939,485	1,134,927	14,077,976
Intersegment sales	30,956	50,894	495,036	576,888
Total	8,034,520	4,990,380	1,629,964	14,654,864
Segment profit	1,293,140	636,362	318,399	2,247,901
Segment Assets	4,726,842	2,365,146	958,819	8,050,809
Segment Liabilities	3,268,109	1,486,644	551,303	5,306,057
Other items				
Depreciation	77,939	15,286	9,558	102,784
Increase in tangible fixed assets and intangible fixed assets	28,295	48,247	24,325	100,869

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

(Thousands of yen)

	Reportable segments			Total
	Consolidated accounting	Business Intelligence	Outsourcing	
Revenue				
Sales to customers	8,464,307	5,741,190	1,486,035	15,691,533
Intersegment sales	21,383	26,070	576,665	624,118
Total	8,485,690	5,767,260	2,062,700	16,315,651
Segment profit	1,616,772	692,060	364,277	2,673,110
Segment Assets	5,331,424	2,127,672	1,091,494	8,550,591
Segment Liabilities	3,668,253	1,199,389	648,376	5,516,019
Other items				
Depreciation	102,561	20,035	29,182	151,779
Increase in tangible fixed assets and intangible fixed assets	273,732	78,206	61,600	413,539

4. The difference between the total amount of reportable segments and the amount recorded in consolidated financial statements and the main contents of the difference (differences related to adjustments)

(thousands of yen)

Revenue	Previous fiscal year	Current fiscal year
Total amount of reportable segments	14,654,864	16,315,651
Elimination of transaction between the Company and segment	(576,888)	(624,118)
Revenue reported in consolidated financial statements	14,077,976	15,691,533

(thousands of yen)

Profits	Previous fiscal year	Current fiscal year
Total amount of reportable segments	2,247,901	2,673,110
Elimination of transaction between the Company and segment	703,749	707,124
Corporate expenses (Note)	(977,867)	(1,102,601)
Others	(7,329)	1,056
Operating Income reported in consolidated financial statements	1,966,453	2,278,690

(Note) Corporate expenses mainly consist of general and administrative expenses not attributable to the reporting segments.

(thousands of yen)

Assets	Previous fiscal year	Current fiscal year
Total amount of reportable segments	8,050,809	8,550,591
Elimination of transaction between the Company and segment	(2,369,062)	(1,762,798)
Corporate assets (Note)	4,762,084	5,051,100
Others	(28,600)	(58,289)
Total assets reported in consolidated financial statements	10,415,229	11,780,604

(Note) Corporate assets mainly consist of assets not attributable to the reporting segments.

(thousands of yen)

Liabilities	Previous fiscal year	Current fiscal year
Total amount of reportable segments	5,306,057	5,516,019
Elimination of transaction between the Company and segment	(1,311,727)	(1,323,020)
Corporate liabilities (Note)	546,654	447,756
Others	(23,803)	(54,485)
Total liabilities reported in consolidated financial statements	4,517,181	4,586,270

(Note) Corporate liabilities mainly consist of liabilities not attributable to the reporting segments.

(thousands of yen)

Other items	Reported segments		Adjustments (Notes)		Amounts reported in consolidated financial statements	
	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year
Depreciation	102,784	151,779	64,296	76,164	167,080	227,944
Increase in tangible fixed assets and intangible fixed assets	100,869	413,539	112,144	43,484	213,013	457,024

(Notes) Adjustment for depreciation and amortization mainly refers to depreciation and amortization for assets not attributable to the reportable segments.
Adjustments to increases in tangible fixed assets and intangible fixed assets mainly relate to assets not attributable to reporting segments.

[Related Information]
For the previous fiscal year (from July 1, 2018 to June 30, 2019) and current fiscal year (from July 1, 2019 to June 30, 2020)

1. Information for each product and service
This information is omitted because the same information is disclosed in Segment Information.

2. Information for each region
(1) Net sales
This information is omitted because net sales to external customers in Japan account for more than 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment
This information is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheets.

3. Information for each major customer
Not applicable because no customer accounts for more than 10% of net sales on the consolidated statements of income.

[Information on impairment loss on fixed assets by reportable segment]
Not applicable.

[Information on Amortization of Goodwill and Unamortized Balance by Reporting Segment]
Previous fiscal year (from July 1, 2018 to June 30, 2019)
Amortization of goodwill is omitted because the same information is disclosed in segment information.
There is no unamortized balance of goodwill.

Current fiscal year (from July 1, 2019 to June 30, 2020)
Not applicable.

[Information on gain on negative goodwill by reportable segment]
Not applicable.

[Related party information]
Not applicable.

(Per-share Information)

	Previous fiscal year (period from July 1, 2018 to June 30, 2019)	Current fiscal year (period from July 1, 2019 To June 30, 2020)
Net assets per share	157.00 yen	191.42 yen
Net income per share	35.06 yen	40.92 yen

Note 1. Diluted net income per share is not provided as there are no potential shares.

2. The stock split was conducted on December 1, 2019, at a ratio of 2 shares of common stock per 1 share of common stock. net assets per share and net income per share are calculated assuming that the stock split was conducted at the beginning of the previous fiscal year.

3. The basis for calculating net assets per share is as follows;

Items	Previous fiscal year (As of June 30, 2019)	Current fiscal year (As of June 30, 2020)
Total of net assets (thousands of yen)	5,898,048	7,194,333
Amount deducted from total of net assets (thousands of yen)	-	-
Net assets attributable to common stock (thousands of yen)	5,898,048	7,194,333
Number of common stock outstanding for calculating net assets per share (shares)	37,567,346	37,584,071

4. The basis for calculating net income per share is as follows;

Items	Previous fiscal year (Period from July 1, 2018 to June 30, 2019)	Current fiscal year (Period from July 1, 2019 to June 30, 2020)
Net income attributable to shareholders of parent company (thousands of yen)	1,317,048	1,537,894
Amounts not attributable to shareholders of common stock (thousands of yen)	-	-
Net income attributable to shareholders of common stock of parent company (thousands of yen)	1,317,048	1,537,894
Average number of common stock outstanding (shares)	37,561,940	37,579,157

(Subsequent Events)
Not applicable

(v) [Consolidated supplementary schedules]

[Schedule of bonds]

Not applicable.

[Specification of borrowing]

Classification	Opening balance (thousand yen)	Closing balance (thousand yen)	Average interest rate (%)	Maturity date
Current portion of long-term debt	-	-	-	-
Lease obligations due within 1 year	3,515	14,299	2.4	-
Long-term borrowings (excluding those due within 1 year)	-	-	-	-
Lease obligations (excluding those due within 1 year)	6,862	45,297	2.5	From July 2021 onward 2025 March.
Other interest-bearing debt	-	-	-	-
Total	10,378	59,597	-	-

(NOTE) 1. The average interest rate is the weighted average interest rate based on the outstanding balance at the end of the fiscal year.

2. The aggregate annual maturities of lease obligations (excluding current portion) for the 5 years following the consolidated fiscal year-end are as follows:

Classification	Due in 1-2 years (thousand yen)	Due after 2 years through 3 years (thousand yen)	Due after 3 years through 4 years (thousand yen)	Due after 4 years through 5 years (thousand yen)
Lease obligations	14,502	12,499	12,020	6,275

[Schedule of asset retirement obligations]

Classification	Opening balance (thousand yen)	Increased during current term (thousand yen)	Decreased during current term (thousand yen)	Closing balance (thousand yen)
Obligation to restore property to its original state in accordance with the real estate lease agreement	162,262	64,548	-	226,810

(2) [Others]

Quarterly information for the current consolidated fiscal year

(cumulative period)		1st quarter	2nd quarter	3rd quarter	Current fiscal year
Net sales	(thousand yen)	3,714,822	7,734,551	11,784,699	15,691,533
Before income taxes Quarterly (current) net income	(thousand yen)	520,035	1,093,848	1,692,637	2,282,082
Profit attributable to owners of parent companies Quarterly (current) net income	(thousand yen)	334,044	673,140	1,018,081	1,537,894
Per share Quarterly (current) net income	(Yen)	8.89	17.91	27.09	40.92

(Accounting Period)		1st quarter	2nd quarter	3rd quarter	4th quarter
Per share Net profit	(Yen)	8.89	9.02	9.18	13.83

(NOTE) On December 1, 2019, the Company conducted a 2-for-1 stock split of common stock. Net income per share is calculated as if this stock split had taken place at the beginning of the fiscal year.

2. Parent company financial statements and notes to accounts

(1) Financial statements

(i) Balance Sheets

(thousands of yen)

	Previous fiscal year (June 30, 2019)	Current fiscal year (June 30, 2020)
Assets		
Current assets		
Cash and deposits	3,311,969	3,673,619
Notes and accounts receivable - trade	※1 78,022	※1 73,979
Securities	―	10,783
Supplies	6,117	13,187
Prepaid expenses	90,824	76,381
Advance payment	※1 491,840	※1 512,433
Accounts receivable	※1 503,797	※1 406,906
Income tax receivable	―	62,114
Consumption tax receivable	20,370	-
Other	※1 4,297	※1 65,839
Total current assets	4,507,240	4,895,247
Non-current assets		
Property, plant and equipment		
Buildings	321,132	241,373
Accumulated depreciation	(203,956)	(166,011)
Buildings, net	117,175	75,362
Tools, furniture and fixtures	269,861	292,037
Accumulated depreciation	(226,517)	(248,995)
Tools, furniture and fixtures, net	43,344	43,041
Construction in progress	6,989	-
Total property, plant and equipment	167,510	118,404
Intangible assets		
Trademark	120	82
Software	65,788	62,499
Other	595	595
Total intangible assets	66,504	63,177
Investments and other		
Investment securities	391,104	410,357
Investments in subsidiaries	1,043,737	1,043,737
Long-term prepaid expenses	6,487	4,651
Leasehold and guarantee deposits	496,181	345,973
Insurance policies	41,672	46,132
Deferred tax assets	35,927	38,930
Others	※1 13,399	※1 28,015
Total investments and other	2,028,509	1,917,798
Total non-current assets	2,028,509	2,099,379
Total assets	6,769,764	6,994,627

(thousands of yen)

	Previous fiscal year (June 30, 2019)	Current fiscal year (June 30, 2020)
Liabilities		
Current liabilities		
		3,315
Accounts payable	※1 70,305	※1 62,478
Accrued expenses	92,440	68,447
Income tax payable	69,418	-
Deposits	101,679	83,632
Provision for bonuses	29,394	39,296
Provision for bonuses for directors	49,183	31,668
Affiliates company deposit	2,167,000	1,483,000
		8,521
Total current liabilities	2,579,422	1,780,360
Non-current liabilities		
		12,307
Asset retirement obligations	146,177	147,179
Total non-current liabilities	146,177	159,486
Total liabilities	2,725,599	1,939,847
Net assets		
Shareholders' equity		
Share capital	295,525	303,271
Capital surplus		
Capital reserve	232,325	240,071
Capital surplus	232,325	240,071
Retained earnings		
Legal reserve	374	374
Other retained earnings		
Retained earnings carried forward	3,505,273	4,475,673
Total retained earnings	3,505,647	4,476,047
Treasury shares	(404)	(476)
Total shareholders' equity	4,033,093	5,018,914
Evaluation and conversion difference		
Valuation difference on available for sale securities	11,067	35,859
Deferred gains or losses on hedges	3	6
Total evaluation and conversion difference	11,070	35,865
Total net assets	4,044,164	5,054,779
Total liabilities and net assets	6,769,764	6,994,627

(ii) Profit and loss statements

(thousands of yen)

	Previous fiscal year (from July 1, 2018 to June 30, 2019)	Current fiscal year (from July 1, 2019 to June 30, 2020)
Operating revenue		
Management fee	※1 845,493	※1 803,761
Dividend income from affiliates companies	1,005,747	1,552,016
Total operating revenue	1,851,240	2,355,778
Operating expenses	※1、※2 1,124,021	※1、※2 1,214,118
Operating income	727,219	1,41,659
Non-operating income		
Interest income	486	1,127
Dividend income	3,573	5,376
Foreign exchange gains	427	163
Subsidy income	990	1,890
Other	※1 799	※1 517
Total non-operating income	6,277	9,075
Non-operating expneses		
Interest expenses	※1 120	※1 107
Commission expenses	2,649	4,755
Foreign exchange loss	—	—
Share issuing costs	942	413
		3
Total non-operating expenses	3,711	5,280
Ordinary income	729,784	1,145,455
	-	※1 17,894
	-	17,894
Profit before income taxes	729,784	1,163,349
Income tax – current	(54,576)	(79,380)
Income tax – deferred	12,422	(9,424)
Total income tax	(42,154)	(88,805)
Profit	771,939	1,252,154

(iii) [Statement of Changes in Net Assets]

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

(thousands of yen)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		
		Capital reserve	Total Capital surplus	Legal reserve	Other reserve Amount carried forward	Total Retained Earnings
Balance at the beginning of the year	288,400	225,200	225,200	374	2,958,630	2,959,004
Changes for the year						
Issue of new shares	7,125	7,125	7,125			
Dividends					(225,295)	(225,295)
Net income					771,939	771,939
Purchase of treasury stock						
Net changes of items other than shareholders' equity						
Total changes for the year	7,125	7,125	7,125	—	546,643	546,643
Balance at the end of the year	295,525	232,325	232,325	374	3,505,273	3,505,647

	Shareholders' equity		Valuation and conversion difference			Total net assets Valuation difference on available-for-sale securities
	Own shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Own shares	Total shareholders' equity	
Balance at the beginning of the year	(301)	3,472,303	8,124	37	8,161	3,480,465
Changes for the year						
Issue of new shares		14,250				14,250
Dividends		(225,295)				(225,295)
Net income		771,939				771,939
Purchase of treasury stock	(103)	(103)				(103)
Net changes of items other than shareholders' equity			2,943	(34)	2,908	2,908
	(103)	560,790	2,943	(34)	2,908	563,699
Total changes for the year	(404)	4,033,093	11,067	3	11,070	4,044,164

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

(thousands of yen)

	Shareholders' equity					
	Capital stock	Capital surplus		Retained earnings		
		Capital reserve	Capital stock	Legal reserve	Other reserve Amount carried forward	Total Retained Earnings
Balance at the beginning of the year	295,525	232,325	232,325	374	3,505,273	3,505,647
Changes for the year						
Issue of new shares	7,746	7,746	7,746			
Dividends					(281,755)	(281,755)
Net income					1,252,154	1,252,154
Purchase of treasury stock						
Net changes of items other than shareholders' equity						
Total changes for the year	7,746	7,746	7,746	—	970,399	970,399
Balance at the end of the year	303,271	240,071	240,071	374	4,475,673	4,476,047

	Shareholders' equity		Valuation and conversion difference			Total net assets Valuation difference on available-for-sale securities
	Own shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Own shares	Total shareholders' equity	
Balance at the beginning of the year	(404)	4,033,093	11,067	3	11,070	4,044,164
Changes for the year						
Issue of new shares		15,492				15,492
Dividends		(281,755)				(281,755)
Net income		1,252,154				1,252,154
Purchase of treasury stock	(71)	(71)				(71)
Net changes of items other than shareholders' equity			24,791	2	24,794	24,794
Total changes for the year	(71)	985,820	24,791	2	24,794	1,010,614
Balance at the end of the year	(476)	5,018,914	35,859	6	35,865	5,054,779

Notes to Parent Company Financial Statements

(Summary of significant accounting policies)

1. Valuation basis and method for assets

(1) Marketable securities

・Held-to-maturity debt securities

Amortized cost (straight-line method)

・Subsidiaries' stocks

Cost determined by the moving-average method

・Other securities

With market value

Market value method based on market prices, etc. as of the closing date (Valuation difference is included directly in net assets, and cost of securities sold is calculated by the moving average method.)

Without market value

Cost determined by the moving-average method

(2) Evaluation criteria and method of inventories

・Supplies

Cost method based on the specific identification method (the balance sheet value is calculated by writing down the book value due to the decrease in profitability)

2. Depreciation method of fixed assets

(1) Property, plant and equipment

Declining balance method

The straight-line method is applied to facilities attached to buildings acquired on or after April 1, 2016.

Principal useful lives

Buildings	3 to 10 years
Tools, furniture and fixtures	2 to 8 years

(2) Intangible assets

Straight-line method

Software

Software for internal use

Useful lives are the estimated useful lives (5 years)

3. Accounting method of deferred assets

(1) Stock issuance cost

All costs are charged to income as incurred.

4. Accounting for reserves

(1) Accrued bonuses

To prepare for the payment of bonuses to employees, the amount to be borne in the current fiscal year is recorded based on the estimated amount to be paid.

(2) Provision for directors' bonuses

To prepare for the payment of bonuses to directors, the amount of bonuses to be borne in the current fiscal year is recorded based on the estimated amount of bonuses to be paid.

5. Other basic items for preparation of calculation documents

(1) Significant hedge accounting method

・Hedge accounting method

In principle, the Company uses deferral hedge accounting.

・Hedging instruments and hedged items

Hedging instruments: Foreign currency deposits

Hedged items: Forecast transactions denominated in foreign currencies

・Hedging policy

Foreign currency deposits are used to hedge foreign currency fluctuation risk. The Company's policy is to use these instruments within the scope of actual demand and not to enter into transactions for speculative purposes.

・Hedging evaluation

Evaluation of hedging instruments and hedged items is omitted because they have the same important terms and conditions and can offset cash flow fluctuations after the hedge's inception.

(2) Standards for the conversion of important foreign currency-denominated assets and liabilities into yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the balance sheet date, and translation adjustments are recognized as profit or loss.

(3) Accounting for consumption tax

Consumption taxes are subject to the net of tax method.

(4) Consolidated tax return system

We and our domestic consolidated subsidiaries have adopted the consolidated taxation system.

(5) Application of tax effect accounting for the transition from the consolidated taxation system to the group-wide calculation system

With respect to items for which the non-consolidated tax payment system was reviewed in line with the transition to the group accounting system established under the Act for Partial Amendment to the Income Tax Act (Act No. 8 of 2020), in accordance with the provisions of paragraph 3 of the "Handling of Application of Tax Effect Accounting for Transition from the Consolidated Tax Payment System to the Group Accounting System" (Practical Response Report No. 39, March 31, 2020), we and our domestic consolidated subsidiaries do not apply the provisions of paragraph 44 of the Guidelines for Application of Accounting Standards for Tax Effect Accounting (Guidelines No. 28, February 16, 2018) and the amount of deferred tax assets and deferred tax liabilities is based on the provisions of the Tax Act prior to the revision

(Notes to the Balance Sheet)

※1. Monetary claims and liabilities to affiliated companies (excluding those presented separately)

(thousands of yen)

	Previous fiscal year June 30, 2019	Current fiscal year June 30, 2020
Short-term monetary claims	1,071,123	992,704
Short-term loans payable	12,349	9,370
Long-term monetary receivables	13,399	28,015

2. The Company has concluded loan commitment agreements with 3 banks with the aim of efficiently procuring working funds. The balance of unused loan commitments at the end of the fiscal year under review is as follows.

(thousands of yen)

	Previous fiscal year June 30, 2019	Current fiscal year June 30, 2020
Total loan commitments	1,500,000	3,500,000
Loan balance	—	-
Balance	1,500,000	3,500,000

(Notes pertaining to profit-and-loss statement)

※1. Transactions with affiliated companies (excluding those classified)

(thousands of yen)

	Previous fiscal year (From July 1, 2018 To June 30, 2019)	Current fiscal year (From July 1, 2019 To June 30, 2020)
Turnover with business transaction	997,392	918,634
Excluding operating transactions with subsidiary	499	18,917

※ 2. Major items and amounts of operating expenses are as follows. The entire amount is included in general and administrative expenses.

(thousands of yen)

	Previous fiscal year (From July 1, 2018 To June 30, 2019)	Current fiscal year (From July 1, 2019 To June 30, 2020)
Directors' compensation	119,880	129,255
Employees' salaries and bonuses	218,543	241,046
Provision for bonuses	29,394	39,296
Provision for directors' bonuses	49,183	31,668
Depreciation and amortization	64,460	77,683
Commissions paid	265,553	269,406

(Notes to Securities)

Previous fiscal year (June 30, 2019)

The fair value of shares of subsidiaries (1,043,737 thousand yen recorded on the balance sheet) is not presented because there is no quoted market price and it is extremely difficult to determine the fair value.

Current fiscal year (June 30, 2020)

The fair value of shares of subsidiaries (1,043,737 thousand yen recorded on the balance sheet) is not presented because there is no quoted market price and it is extremely difficult to determine the fair value.

(Notes to tax effect accounting)

1. Breakdown of principal origins of deferred tax assets and liabilities

(thousands of yen)

	Previous fiscal year (June 30, 2019)	Current fiscal year (June 30, 2020)
(Deferred tax assets)		
Accrued enterprise tax	—	295
Accrued business office taxes	382	307
Provision for bonuses	9,000	9,169
Provision for directors' bonuses	264	206
Tax loss carryforwards	15,745	39,139
Depreciation and amortization	18,518	14,562
Loss on valuation of investment securities	3,062	3,062
Loss on valuation of affiliated companies	—	-
Asset retirement obligations	44,759	34,343
Valuation difference on securities	1,674	1,754
Others	386	252
Gross deferred tax assets	93,794	103,093
Valuation allowance for operating loss carryforwards	(15,745)	(39,139)
Valuation allowance for deductible temporary differences	(20,904)	(3,062)
Allowance for valuation	(36,649)	
Total of deferred tax assets	57,144	60,892
(Deferred tax liabilities)		
Facilities attached to buildings (asset retirement cost)	13,639	8,322
Valuation difference on securities	6,734	13,637
Accrued business tax	829	
Others	13	1
Total deferred tax liabilities	21,217	21,961
Net deferred tax assets	35,927	38,930

2. Reconciliation of the statutory tax rate to the effective income tax rate

	Previous fiscal year (June 30, 2019)	Current fiscal year (June 30, 2020)
Statutory tax rate	30.6%	30.6%
(Adjustments)		
Expenses not deductible for income tax purposes	2.1%	0.8%
Non-taxable dividend income	-42.2%	-40.9%
Valuation allowance	4.5%	1.6%
Valuation allowance	-0.8%	0.2%
Effective income tax rate	-5.8%	-7.6%

(Notes to Material subsequent events)

Not applicable.

(iv) [Supplementary schedules]
Tangible fixed assets list

(thousands of yen)

Classification	Type of asset	Opening balance	Increased during current term	Decreased during current term	Amortization of goodwill	Closing balance	Depreciation Accumulated amount
Tangible Fixed assets	Buildings	117,175	-	9,865	31,948	75,362	166,011
	Tools, instruments and Fixtures	43,344	30,267	4,524	26,046	43,041	248,995
	Construction in progress	6,989	-	6,989	-	-	-
	Total	167,510	30,267	21,379	57,994	118,404	415,006
Intangible Fixed assets	Trademark Rights	120	-	-	38	82	-
	Software	65,788	16,362	-	19,650	62,499	-
	Others	595	-	-	-	595	-
	Total	66,504	16,362	-	19,688	63,177	-

(Note) (1) Major increases are as follows:

Tools, furniture and fixtures	Network development	30,267	thousands of yen
Software	Management software	16,362	thousands of yen

[Schedule of allowances]

(thousands of yen)

Classification	Opening balance	Increased during current term	Decreased during current term	Closing balance
Provision for bonuses	29,394	39,296	29,394	39,296
Provision for directors' bonuses	49,183	31,668	49,183	31,668

(2) [Details of main assets and liabilities]
This information is omitted because the consolidated financial statements have been prepared.

(3) [Others]
Not applicable.

6 [Overview of Share Administration of the Company]

Business Year	From July 1 to June 30
Annual Shareholders' Meeting	Within 3 months from the day following the last day of the fiscal year
Record Date	June 30
Base Day for Payment of Dividends on Retained Earnings	December 31 June 30
Number of shares per unit	100 shares
Purchase of fractional unit shares	
Place of Handling	Stock Transfer Agency Department, Sumitomo Mitsui Trust Bank, Limited, 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Administrator of Shareholder Registry	Sumitomo Mitsui Trust and Banking Corporation, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Agency	——————
Purchase commission	Free
Posting of Public Notices	Electronic Public Notice (https://www.avantcorp.com/) (Provided, however, that public notices in the event that electronic public notices cannot be made due to an accident or other unavoidable reason shall be made by posting them in the Nihon Keizai Shimbun.)
Shareholder benefits	Not applicable.

7 [Reference Information for the Company]

7-1 [Information of parent company of the company]

We do not have a parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Law.

7-2 [Other Reference Information]

Between the commencement date of the current business year and the filing date of the securities report, the following documents were submitted.

(1) Annual Securities Report and its Attached Documents and Confirmation Documents
Fiscal year (23rd fiscal period) (from July 1, 2,018 to June 30, 2019)
Submitted to Director-General of Kanto Finance Bureau on September 27, 2019

(2) Internal Control Report and Attached Documents
Submitted to Director-General of Kanto Finance Bureau on September 27, 2019

(3) Quarterly Reports and Certification
(First Quarter of the 24th Fiscal Period) (From July 1, 2,019 to September 30, 2019)
Submitted to Director-General of Kanto Finance Bureau on November 13, 2019
(Second Quarter of the 24th Fiscal Period) (From October 1, 2,019 to December 31, 2019)
Submitted to Director-General of Kanto Finance Bureau on February 13, 2020
(First 3 quarters of the 24th fiscal period) (from January 1, 2,020 to March 31, 2020)
Submitted to Director-General of Kanto Finance Bureau on May 14, 2020

(4) Extraordinary Report
An extraordinary report under Article 24-5(4) of the Financial Instruments and Exchange Act and Article 19(2)(ix)-2 (Result of Voting Rights Exercised at Shareholders Meeting) of the Cabinet Office Ordinance Concerning Disclosure of Corporate Contents, etc.
Submitted to Director-General of Kanto Finance Bureau on October 1, 2019

(5) Notice of Securities
Submitted to Director-General of Kanto Finance Bureau on September 18, 2020

Part II [Information on Guarantee Companies, etc. of the Company]

Not applicable.

Independent accounting auditors' Report and Internal Control Audit Report

September 23, 2020

AVANT Corporation
To the Board of Directors

Deloitte Touche Tohmatsu LLC

Designated Limited Liability Partner Executive Partner	Certified Public Accountant	Jun Kagawa	Seal
Designated Limited Liability Partner Executive Partner	Certified Public Accountant	Joji Furukawa	Seal

<Audit of Financial Statements>

Audit Opinion

For the purpose of the audit certification pursuant to the provisions of Article 193-2-1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the "Accounting" for AVANT Corporation for the fiscal year from July 1, 2,019 to June 30, 2020: the consolidated balance sheet, the consolidated statement of income, comprehensive income, changes in net assets, the consolidated statement of cash flows, the significant items forming the basis for the preparation of the consolidated financial statements, other related notes, and the consolidated supplementary schedules.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AVANT Corporation and its consolidated subsidiaries as of June 30, 2020, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Basis for the audit opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities in accordance with auditing standards are set forth in "Auditor's Responsibility in Auditing Consolidated Financial Statements." We are independent of the Company and its consolidated subsidiaries and fulfill other ethical responsibilities as an auditor in accordance with the provisions on occupational ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Corporate Auditors and Audit and Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan. This includes designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for evaluating the appropriateness of preparing the consolidated financial statements based on the going concern assumptions, and disclosing matters in accordance with accounting principles generally accepted in Japan.

Auditors and Audit & Supervisory Board are responsible for overseeing the directors' execution of their duties in the development and operation of financial reporting processes.

Responsibility of the auditor in auditing the consolidated financial statements

Our responsibility is to express an opinion on these consolidated financial statements on an independent basis, based on our audits, on our audit reports, with reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error. Misstatements are deemed to be material if they are likely to be due to fraud or error and, if aggregated or individually, they are reasonably expected to affect the decision-making of the users of the consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, auditors make professional judgments throughout the course of their audits and, in a professional manner, maintain a high level of professional skepticism, perform the following.

- Identify and evaluate the risk of material misstatement due to fraud or error. Develop and implement audit procedures to address the risk of material misstatement. The selection and application of audit procedures is based on the judgment of the auditor. In addition, obtain sufficient and appropriate audit evidence supporting the expressions of opinion.
- The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but the auditor considers internal control relevant to the audit in making the risk assessment in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies adopted by management and their application, as well as the reasonableness of accounting estimates made by management and the relevance of related notes.
- Conclude whether it is appropriate for the management to prepare the consolidated financial statements on a going concern basis, and whether, based on the audit evidence obtained, significant uncertainty is recognized with respect to the event or situation that raises material doubt about the going concern assumption. If there is material uncertainty about the premise of a going concern, the auditor is required to draw attention to the notes to the consolidated financial statements in the audit report or to express an opinion on the consolidated financial statements with an exception if the notes to the consolidated financial statements regarding material uncertainty are not appropriate. The auditor's conclusion is based on the audit evidence obtained prior to the date of the audit report, but future events and circumstances may make the enterprise unable to survive as a going concern.
- Assess whether the accompanying consolidated financial statements are presented in conformity with accounting principles generally accepted in Japan, and the presentation, composition and composition of the consolidated financial statements, including related notes, and the fair presentation of the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence about the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. The auditor is responsible for the audit of the consolidated financial statements, as well as for the supervision and implementation of the audit. The auditor is solely responsible for the audit opinion.

The auditor reports to the auditors and Audit & Supervisory Board on the scope and timing of the planned audit, important findings in the audit, including significant deficiencies in internal control identified in the audit process, and other matters required by the audit criteria. The auditor shall report to the auditors and Audit & Supervisory Board the fact that he/she has complied with the provisions on professional ethics in Japan regarding independence and that he/she has implemented safeguards in order to eliminate or mitigate factors that may reasonably affect the independence of the auditor.

<Internal Control Audit>

Audit Opinion

We have audited AVANT Corporation's report on internal control as of June 30, 2020, in order to provide an audit certification under Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

In our opinion, the report on internal control referred to above, which represents that the internal control over financial reporting of the Company and its consolidated subsidiaries as of June 30, 2,020 is effective, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for the audit opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities in auditing internal control over financial reporting are set out in the section "Auditor's responsibilities in auditing internal control." We are independent of the Company and its consolidated subsidiaries and fulfill other ethical responsibilities as an auditor in accordance with the provisions on occupational ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Corporate Auditors, and Audit & Supervisory Board for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Auditors and Audit & Supervisory Board are responsible for monitoring and verifying the design and operation of internal control over financial reporting.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility in Internal Control Audits

The responsibility of the auditor is to obtain reasonable assurance about whether the internal control report is free from material misstatement, based on the internal control audit conducted by the auditor, and to express an opinion on the internal control report based on an independent standpoint.

In accordance with auditing standards of internal control over financial reporting generally accepted in Japan, auditors shall make professional judgments throughout the course of their audits and, in a professional manner, maintain a high level of professional skepticism, and perform the following:

- Conduct audit procedures to obtain audit evidence about the results of assessment of internal control over financial reporting in the internal control report. The procedures selected depend on the auditor's judgment, including the materiality of the impact on the reliability of financial reporting.
- Consider the presentation of the overall internal control report, including statements made by management regarding the scope, procedures and results of assessment of internal control over financial reporting.
- Obtain sufficient and appropriate audit evidence on the results of the assessment of internal control over financial reporting in the Internal Control Report. Auditor
  Is responsible for the direction, oversight and implementation of the audit of the internal control report. The auditor is solely responsible for the audit opinion.

The auditor reports to the auditors and Audit & Supervisory Board on the scope and timing of the planned audit of internal control, the results of the audit of internal control, the material deficiencies to be disclosed in the identified internal control, the results of the correction, and other matters required under the audit standard of internal control.

The auditor shall report to the auditors and Audit & Supervisory Board the fact that he/she has complied with the provisions on professional ethics in Japan regarding independence and that he/she has implemented safeguards in order to eliminate or mitigate factors that may reasonably affect the independence of the auditor.

Interests

The Company and its Consolidated Subsidiaries have no interest in the Company or the Operating Partner that should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

Ends

(Notes) 1. The above is a digitized version of the original audit report, and the original copy is stored separately by our company (the company filing the securities report).
2. XBRL data is not included in the scope of auditing.

Independent accounting auditors' Report

September 23, 2020

AVANT Corporation
To the Board of Directors

Deloitte Touche Tohmatsu LLC

Designated Limited Liability Partners Executive Partner	Certified Public Accountant	Jun Kagawa	Seal
Designated Limited Liability Partners Executive	Certified Public Accountant	Joji Furukawa	Seal

Audit Opinion

For the purpose of the audit certification pursuant to the provisions of Article 193-2-1 of the Financial Instruments and Exchange Act, we have audited the financial statements included in the "Accounting" for the 24th fiscal period from July 1, 2,019 to June 30, 2020: the balance sheet, income statement, statement of changes in net assets, significant accounting policies, other notes, and supplementary schedules.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AVANT Corporation as of June 30, 2020 and its consolidated results of operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Basis for the audit opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities in accordance with auditing standards are set out in the section "Auditor's Responsibility in Auditing Financial Statements." We are independent of the Company and fulfill other ethical responsibilities as an auditor in accordance with the provisions on occupational ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Corporate Auditors and Audit & Supervisory Board to the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan. This includes designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, management is responsible for evaluating the appropriateness of the preparation of financial statements based on the going concern assumptions, and disclosing matters in accordance with accounting principles generally accepted in Japan where necessary.

Auditors and Audit & Supervisory Board are responsible for overseeing the directors' execution of their duties in the development and operation of financial reporting processes.

Responsibility of the auditor in the audit of the financial statements

The responsibility of the auditor is to express an opinion on these financial statements based on our audits as independent accounting auditors, with reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error. Misstatements are deemed to be material when fraud or errors can occur and, when aggregated or individually, it is reasonably expected to affect the decision-making of users of the financial statements.

In accordance with auditing standards generally accepted in Japan, auditors make professional judgments throughout the course of their audits and, in a professional manner, maintain a high level of professional skepticism, perform the following.

・ Identify and evaluate the risk of material misstatement due to fraud or error. Develop and implement audit procedures to address the risk of material misstatement. The selection and application of audit procedures is based on the judgment of the auditor. In addition, obtain sufficient and appropriate audit evidence supporting the expressions of opinion.
・ The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making the risk assessment, the auditor considers internal control relevant to the audit to design audit procedures that are appropriate in the circumstances.
・ Evaluate the appropriateness of accounting policies adopted by management and their application, as well as the reasonableness of accounting estimates made by management and the relevance of related notes.
・ Conclude whether it is appropriate for management to prepare financial statements based on going concern, and whether, based on the audit evidence obtained, significant uncertainty exists with respect to events or circumstances that give rise to material doubts about the assumptions of the going concern. If there is material uncertainty about the premise of a going concern, the auditor is required to draw attention to the notes to the financial statements in the audit report or to express an opinion on the financial statements with an exception if the notes to the financial statements regarding material uncertainty are not appropriate. The auditor's conclusion is based on the audit evidence obtained prior to the date of the audit report, but future events and status may make the enterprise unable to survive as a going concern.
・ Assess whether the financial statements are presented in conformity with accounting principles generally accepted in Japan, and the presentation, composition and composition of the financial statements, including related notes, and the fair presentation of the underlying transactions and accounting events.

The auditors shall provide the auditors and Audit & Supervisory Board with the scope and timing of the planned audits and the internal controls identified in the course of the audits.

Report important audit findings, including significant deficiencies, and other matters required by audit standards.

The auditors shall comply with the provisions on professional ethics in Japan concerning independence from the auditors and Audit & Supervisory Board.

In addition, the auditors shall report matters that may reasonably be expected to affect the independence of the auditor and report matters thereof if the Company has implemented safeguards to eliminate or mitigate impediments.

Interests

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Ends

(Notes) 1. The above is a digitized version of the original audit report, and the original copy is stored separately by our company (the company filing the securities report).
2. XBRL data is not included in the scope of auditing.

[Cover]

[Filing]	Report on Internal Control
[Governing laws and regulations]	Article 24-4-4(1) of the Financial Instruments and Exchange Act
[Submitted To]	Kanto Finance Bureau
[Submission date]	September 23, 2020
[Company name]	AVANT Corporation
[English translation]	AVANT CORPORATION
[Title of Representative]	Tetsuji Morikawa, President and Representative Director
[Title of Chief Financial Officer]	Naoyoshi Kasuga, Director in charge of Finance
[Location of Head Office]	15-2, Konan 2-chome, Minato-ku, Tokyo
[Location for public inspection]	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo)

1 [Matters Regarding the Basic Framework of Internal Control over Financial Reporting]

Tetsuji Morikawa, President and Representative Director, and Naoyoshi Kasuga, Director in charge of Finance, are responsible for the design and operation of our internal control over financial reporting. We have developed and implemented internal control over financial reporting in accordance with the basic framework of internal control outlined in the "Standards for the Evaluation and Audit of Internal Control over Financial Reporting and Standards for the Implementation of Evaluation and Audit of Internal Control over Financial Reporting" (Opinion) issued by the Business Accounting Deliberation Council.

Internal controls aim to achieve their objectives within a reasonable range by organically linking each basic element of internal controls and functioning together. As a result, internal control over financial reporting may not completely prevent or detect misstatements in financial reporting.

2 [Matters concerning the scope, base date, and evaluation procedures of evaluation]

The assessment of internal control over financial reporting was made on June 30, 2020, the last day of the fiscal year under review, and the assessment was made in accordance with generally accepted standards for the assessment of internal control over financial reporting.

In this evaluation, we have evaluated internal controls (company-wide internal controls) that have a material impact on overall financial reporting for us and our consolidated subsidiaries, and based on the results, we have selected the business processes to be evaluated.

We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

The scope of the assessment of internal control over financial reporting was determined from the viewpoint of the significance of the impact on the reliability of financial reporting for us and our consolidated subsidiaries.

The materiality of the impact on the reliability of financial reporting was determined by considering the materiality of monetary and qualitative impacts, and based on the results of the evaluation of company-wide internal controls, it was reasonably determined as the scope of evaluation of internal controls related to business processes.

Regarding the scope of assessment of internal control over business processes, business locations that accounted for approximately 2-thirds of consolidated net sales for the previous fiscal year were selected as "significant business locations."

At selected significant locations of operation, business processes ranging from sales, accounts receivable, work in process, cost of sales, and accounts payable were subject to evaluation as accounting items significantly involved in the business objectives of the company. In addition, the business processes related to significant accounts for which material misstatements are probable and involve estimates and forecasts have been added to the scope of assessment as business processes that are significant in importance in consideration of their impact on financial reporting.

With regard to the business processes subject to the evaluation, after analyzing each process, we selected key control points that would have a material impact on the reliability of financial reporting and evaluated the design and operation of these key points by performing procedures such as inspecting related documents, questioning appropriate personnel related to such internal controls, observing operations, and verifying records of implementation of internal controls.

3 [Matters concerning evaluation results]

Based on the above evaluation, Tetsuji Morikawa, President and Representative Director, and Naoyoshi Kasuga, Director in charge of Finance, concluded that our internal control over financial reporting was effective as of June 30, 2020.

4 [Additional Notes]

Not applicable.

5 [Special Notes]

Not applicable.

[Cover]

[Filing]	Certificate
[Governing laws and regulations]	Article 24-4-2(1) of the Financial Instruments and Exchange Act
[Submitted To]	Kanto Finance Bureau
[Submission date]	September 23, 2020
[Company name]	AVANT Corporation
[English translation]	AVANT CORPORATION
[Title of Representative]	Tetsuji Morikawa, President and Representative Director
[Title of Chief Financial Officer]	Naoyoshi Kasuga, Director in charge of Finance
[Location of Head Office]	15-2, Konan 2-chome, Minato-ku, Tokyo
[Location for public inspection]	Tokyo Stock Exchange, Inc.
	(2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo)

1 [Matters concerning the appropriateness of the contents of the annual securities report]

Tetsuji Morikawa, President and Representative Director, and Naoyoshi Kasuga, Director in charge of Finance, confirmed that the contents of the securities report on 24th fiscal year (from July 1, 2019 to June 30, 2020) are properly stated in accordance with the Financial Instruments and Exchange Act.

2 [Special Notes]

There are no noteworthy items for confirmation.