

Securities Report

16th Fiscal Year (FY2022)

From January 1, 2022

To December 31, 2022

Frontier Management Inc.

3-2-1 Roppongi, Minato-ku, Tokyo, Japan

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Submitted document	Securities Report
Legal basis	Article 24, Paragraph (1) of the Financial Instruments and Exchange Act
Submit to	Director-General of the Kanto Local Finance Bureau
Submission date	March 24, 2023
Fiscal year	16th Fiscal Year (from January 1, 2022 to December 31, 2022)
Company name	Frontier Management Inc.
Name translated in English	Frontier Management Inc.
Job title/Name of representative	Shoichiro Onishi, Representative Director, Co-President and Executive Officer
Location of head office	3-2-1 Roppongi, Minato-ku, Tokyo, Japan
Telephone	03-6862-8335
Administrative contact	Hiroaki Hamada, Executive Officer and Head of Company Planning and Administration Department
Contact location	3-2-1 Roppongi, Minato-ku, Tokyo, Japan
Telephone	03-6862-8335
Administrative contact	Hiroaki Hamada, Executive Officer and Head of Company Planning and Administration Department
Place available for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

Section I. Corporate Information

I. Company Overview

1. Changes in Key Management Indicators, Etc.

(1) Key management indicators, etc.

Fiscal year		12th fiscal year (FY2018)	13th fiscal year (FY2019)	14th fiscal year (FY2020)	15th fiscal year (FY2021)	16th fiscal year (FY2022)
Fiscal year-end		Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022
Net sales	(Thousands of yen)	4,690,065	4,771,144	5,192,527	5,741,654	7,915,655
Ordinary income	(Thousands of yen)	676,615	678,872	575,633	514,576	921,511
Net income attributable to owners of parent	(Thousands of yen)	472,434	429,382	420,515	338,707	556,722
Comprehensive income	(Thousands of yen)	475,292	430,556	420,304	336,103	565,308
Net assets	(Thousands of yen)	1,897,531	2,185,341	2,448,598	2,454,066	3,015,956
Total assets	(Thousands of yen)	3,623,692	3,269,111	3,792,731	3,819,274	5,658,644
Net assets per share	(Yen)	166.39	191.63	213.05	215.40	255.37
Net income per share	(Yen)	45.64	37.65	36.89	29.70	48.67
Diluted net income per share	(Yen)	45.30	36.68	36.05	29.24	47.93
Equity ratio	(%)	52.4	66.8	64.6	63.0	51.7
Return on equity (ROE)	(%)	35.8	21.0	18.1	14.0	20.9
Price-earnings ratio (PER)	(Times)	16.16	19.26	64.59	25.28	25.91
Cash flows from operating activities	(Thousands of yen)	629,176	137,641	456,102	316,813	1,250,257
Cash flows from investing activities	(Thousands of yen)	(22,045)	(203,350)	(59,305)	(31,524)	(486,911)
Cash flows from financing activities	(Thousands of yen)	649,168	(317,748)	(230,684)	(404,765)	646,534
Cash and cash equivalents at end of period	(Thousands of yen)	2,116,453	1,733,235	1,899,100	1,784,218	3,199,089
Number of employees	(Persons)	165	177	227	257	335

- (Notes)
- Diluted net income per share for the 12th fiscal year is calculated with the average stock price from the date of new listing to the end of the 12th fiscal year assumed as the average stock price during the period, because the Company was listed on the Mothers Market of the Tokyo Stock Exchange on September 28, 2018.
 - The Company carried out a 1,000-for-1 common stock split on July 13, 2018, a 2-for-1 common stock split on October 1, 2019, and a 2-for-1 common stock split on January 1, 2021. Net assets per share, net income per share and diluted net income per share were calculated as if these stock splits had taken place at the start of the 12th fiscal year.
 - The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan), etc. have been applied from the beginning of the current fiscal year, and the major management indices, etc. related to the current fiscal year are indices after the relevant accounting standards, etc. have been applied.

(2) Key management indicators, etc. of submitter company

Fiscal year		12th fiscal year (FY2018)	13th fiscal year (FY2019)	14th fiscal year (FY2020)	15th fiscal year (FY2021)	16th fiscal year (FY2022)
Fiscal year-end		Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022
Net sales	(Thousands of yen)	4,690,065	4,762,968	5,188,593	5,732,196	7,546,117
Ordinary income	(Thousands of yen)	665,292	660,550	556,817	513,057	1,081,609
Net income	(Thousands of yen)	461,787	417,231	413,157	345,454	754,497
Paid-in capital	(Thousands of yen)	158,137	158,137	163,530	178,723	210,062
Total number of shares issued	(Shares)	2,853,000	5,706,000	5,777,900	11,418,398	11,468,478
Net assets	(Thousands of yen)	1,883,974	2,158,459	2,414,569	2,429,387	3,136,089
Total assets	(Thousands of yen)	3,610,673	3,243,878	3,759,798	3,800,171	5,646,614
Net assets per share	(Yen)	165.20	189.27	210.09	213.24	270.56
Dividend per share [Of which, interim dividend per share]	(Yen)	50 [-]	23 [-]	24 [-]	10 [-]	28 [-]
Net income per share	(Yen)	44.61	36.58	36.24	30.29	65.96
Diluted net income per share	(Yen)	44.28	35.65	35.42	29.82	64.96
Equity ratio	(%)	52.2	66.5	64.2	62.7	54.9
Return on equity (ROE)	(%)	35.2	20.6	18.1	14.5	27.5
Price-earnings ratio (PER)	(Times)	16.53	19.83	65.75	24.79	19.12
Dividend payout ratio	(%)	28.0	31.4	33.1	33.0	42.4
Number of employees	(Persons)	164	177	226	256	304
Total shareholder return (TSR)	(%)	-	99.9	326.3	106.4	179.3
[Comparative index: Dividend-included TOPIX]	(%)	[-]	[118.1]	[126.8]	[143.0]	[139.5]
Highest stock price	(Yen)	7,990	1,488 [4,260]	2,453 [6,540]	2,635	1,570
Lowest stock price	(Yen)	2,601	1,151 [2,029]	2,283 [1,281]	681	608

- (Notes)
- Diluted net income per share for the 12th fiscal year is calculated with the average stock price from the date of new listing to the end of the 12th fiscal year assumed as the average stock price during the period, because the Company was listed on the Mothers Market of the Tokyo Stock Exchange on September 28, 2018.
 - The Company carried out a 1,000-for-1 common stock split on July 13, 2018, a 2-for-1 common stock split on October 1, 2019, and a 2-for-1 common stock split on January 1, 2021. Net assets per share, net income per share and diluted net income per share were calculated as if these stock splits had taken place at the start of the 12th fiscal year. Dividend per share reflects the amount of actual dividend prior to the aforementioned stock splits.
 - Total shareholder return and comparative indicator for the 12th fiscal year are not recorded, because the Company was listed on the Mothers Market of the Tokyo Stock Exchange on September 28, 2018.
 - The Company switched its listing from the Mothers Market of the Tokyo Stock Exchange to the First Section of the said exchange effective September 7, 2020. The highest stock price and the lowest stock price refer to those on the Mothers Market of the Tokyo Stock Exchange before September 6, 2020, on the First Section of the said exchange between September 7, 2020 and April 3, 2022, and on the Prime Market of the said exchange from April 4, 2022 onwards. However, since the Company was listed on the Mothers Market of the Tokyo Stock Exchange effective September 28, 2018, the data on stock prices before this date do not apply.
 - The Company carried out a 2-for-1 common stock split on October 1, 2019, and a 2-for-1 common stock split on January 1, 2021. The highest stock price and the lowest stock price after ex-rights of the aforesaid stock splits are recorded for the

stock prices of the 13th fiscal year and the 14th fiscal year, and the highest stock price and the lowest stock price before the ex-rights of the aforesaid stock splits are indicated in the square brackets.

6. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan), etc. have been applied from the beginning of the current fiscal year, and the major management indices, etc. related to the current fiscal year are indices after the relevant accounting standards, etc. have been applied.

2. History

Many members of Frontier Management Inc. (“the Company”) at the time of its foundation, including Representative Directors Shoichiro Onishi and Masahiro Matsuoka, were from Industrial Revitalization Corporation of Japan^(Note) where they acquired a great deal of know-how on operations for management consulting, business revitalization and M&A through handling many projects.

To facilitate the execution of operations while solving various issues in management consulting, business revitalization and M&A projects, it is necessary to arrive at a total optimum solution by combining complex and advanced expertise as well as know-how in a variety of areas including business, finance, accounting and law. Generally, companies with needs for services of management consulting, business revitalization and M&A establish a special in-house team to execute the said operations and complement necessary expertise by individually hiring different companies and groups, such as a management consulting company, an investment bank, an accounting office and a law office, for each project.

However, it is not necessarily easy to facilitate the execution of operations for management consulting, business revitalization and M&A in a unified manner, because multiple experts need to cooperate while maintaining close communication. This is because each expert belongs to a company or group with its own organizational policy and circumstances in different locations. Mutual understanding could also be deemed insufficient in some cases.

Therefore, a special team of companies need to perform the difficult task of arriving at a total optimum solution by communicating with the expert group in each area and combining individually presented and partially optimum solutions to be considered comprehensively on their own.

In order to solve this issue, Shoichiro Onishi and Masahiro Matsuoka, the founders of the Company, came up with an idea of collecting experts with diverse backgrounds, such as a management consultant, an industrial analyst, business experts including those from business corporations, an M&A specialist from an investment bank, and institutional experts, such as a lawyer, a certified public accountant and a certified tax accountant, in a single consulting firm. They thought that if they could provide various management support services in one stop by finding experts in each area that meet the required needs as a single team from the in-house collection of experts, they could not only dramatically increase the convenience of customer companies, but also provide total optimum solutions to solve complex and advanced management issues facing the customer companies.

Given these circumstances, Shoichiro Onishi and Masahiro Matsuoka established the Company in January 2007 with other initial members who agreed with the idea for comprehensively solving management issues that are becoming increasingly complex and advanced, making excellent use of various expert methods by accepting an investment from RISA Partners, Inc. (currently, the capital relationship is dissolved).

(Note) Industrial Revitalization Corporation of Japan is a timed organization established in 2003 based on the Industrial Revitalization Corporation Act. It was dissolved in March 2007, with the termination of its operations.

Month & Year	History
January 2007	Frontier Management Inc. (capital stock: ¥85,000 thousand) was established in Minato-ku, Tokyo for the purpose of comprehensively solving management issues that are becoming increasingly complex and advanced by making excellent use of various expert methods.
November 2008	Head office was relocated to 3-2-11 Kudankita, Chiyoda-ku, Tokyo.
October 2011	Frontier Management (Shanghai) Inc. (consolidated subsidiary) was established in Shanghai, China for the purpose of providing Chinese companies and Japanese companies aiming to make inroads in China with various management support services, including management consulting and M&A.
September 2012	Frontier Turnaround Inc. (consolidated subsidiary) was established in Chiyoda-ku, Tokyo for the purpose of separating the Consulting Division that conducted hands-on management reform support (station-type support for implementation of management reforms) operations and other related operations from the Company and further strengthening these operations. (Merged through absorption into Frontier Management Inc. in April 2017)
December 2012	Singapore Branch was opened as an information base to develop the market in Asia other than China for management consulting and cross-border M&A.
July 2014	Nagano Branch was opened in Nagano City, Nagano for the purpose of realizing community-based management support services. (Closed in April 2022)
August 2014	Osaka Branch was opened in Kita-ku, Osaka City, Osaka for the purpose of realizing community-based management support services.
May 2016	Frontier Business School was opened as an education and training business for officers and employees of business companies and financial institutions.
June 2017	New York Branch was opened in New York, the U.S. for the purpose of strengthening the support system for the advancement and business expansion of Japanese companies in the North American region.

Month & Year	History
November 2017	FCD Partners Inc. (equity-method affiliate) was established as a joint venture with Development Bank of Japan Inc. for the purpose of providing customers with financial support services.
December 2017	The Company invested in FCD No. 1 Investment Business Limited Partnership.
September 2018	Listed on TSE Mothers.
July 2019	Nagoya Branch was opened in Nagoya City, Aichi for the purpose of realizing community-based management support services.
July 2019	Head office was relocated to 3-2-1 Roppongi, Minato-ku, Tokyo.
September 2020	Changed stock market listing to the First Section of the Tokyo Stock Exchange.
January 2022	Acquired the stock of Celebrain Corporation (consolidated subsidiary) and converted it to a consolidated subsidiary
April 2022	Established Frontier Capital Inc. (consolidated subsidiary) upon the commencement of the new investment business
April 2022	Due to a review of the market categories on the Tokyo Stock Exchange, transferred from the First Section to the Prime Section of the said exchange
June 2022	Frontier Nanto Investment Godo Kaisha (equity-method affiliate) was established as a joint venture with Nanto Capital Partners. Inc. with the purpose of supporting the management reform, growth and revitalization of the companies which have received investment

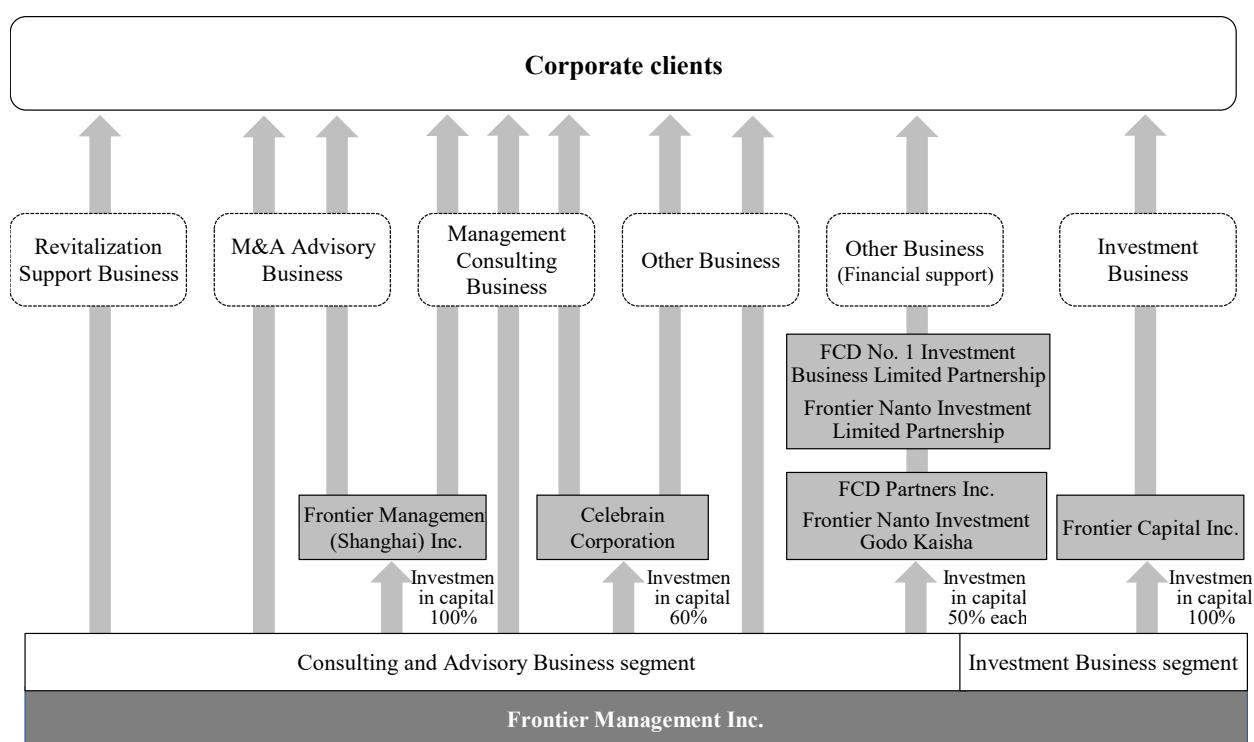
3. Description of Business

The Group consists of six companies: the Company (Frontier Management Inc.), three consolidated subsidiaries (Frontier Management (Shanghai) Inc., Celebrain Corporation, and Frontier Capital Inc.), and two affiliates accounted for by the equity method (FCD Partners Inc. and Frontier Nanto Investment Godo Kaisha).

Under the management philosophy of “contributing to the interests of clients,” “contributing to the interests of stakeholders,” and “contributing to society,” the Group provides management-support services, principally including management consulting, M&A advisory services and revitalization support, and a financial support service involving the dispatch of management personnel as its core business fields.

The Group provides these services alone or in combination, depending on the needs of its corporate clients. In addition, as an independent consulting firm that does not have a capital relationship with any specific financial institution, audit corporation, or other business corporation, the Group provides services from a neutral standpoint without conflicts of interest.

[Business Structure]



The Group’s businesses consist of two segments: Consulting and Advisory Business and Investment Business. An outline of each segment is as follows.

(1) Consulting and Advisory Business segment

Net sales of the Consulting and Advisory Business segment are classified under (i) Management Consulting Business, (ii) M&A Advisory Business, (iii) Revitalization Support Business, or (iv) Other Business.

An outline of each business is as follows.

(i) Management Consulting Business

For corporate clients, the roster of consulting solutions that Frontier Management offers includes proposal of management strategies (company-wide strategies, business strategies, function-specific strategies (strategies related to marketing, operation, and other individual functions of a company)), support for medium-term management plans from drafting to execution, permanent support for management execution through dispatch of management teams and due diligence related to M&A (research and analysis of business activities, etc.).

One of the key features of the Group’s consulting business is that we provide various solutions designed and developed by our experienced analysts to our corporate clients in a wide range of industries according to the characteristics of each industry, including retail and distribution, transportation, restaurants, service, information and communication, technology, manufacturing, trading companies, and pharmaceuticals and healthcare.

In addition, opportunities to support management execution have diversified against the background of the sophistication of management and the increase in business succession, and the Group is expanding the service of providing permanent support for management execution through the dispatch of management teams.

The Group has begun to address ESG, sustainability, and digital transformation (DX) on the part of client companies. Since its foundation, the Group has steadily built a corps of industry analysts and consultants with knowledge of a wide range of industries, as well as specialists deeply versed in their respective business fields. By sharing the knowledge and expertise of these specialists, the Group deepens its Group-wide knowledge of the industries to which each corporate client belongs and expands the breadth of solutions it can offer. In this way the Group constantly improves the quality of its services.

(ii) M&A Advisory Business

For corporate clients contemplating M&A or reorganization, the Group provides comprehensive advice and assistance. Services in this area include formulation of M&A strategies, selection and approaching of target companies, a wide variety of due diligence (research and analysis), calculation of corporate value, negotiation of contracts and terms and conditions, and handling of closing procedures (settlement, etc.).

In this business, the Group has been ranked highly in total number of M&A since 2011 in the advisor ranking in Bloomberg's Japan M&A market review, and rivals major financial institutions in record of accomplishments.

As Japanese enterprises develop their businesses globally, client needs for cross-border M&A services are growing. To serve this demand, the Group actively recruits professionals with a wealth of results. We are also strengthening our framework for executing cross-border M&A projects while expanding our overseas network. For example, the Group has established a subsidiary in China, opened Singapore and New York branches, and joined CFI (Corporate Finance International) as a full member. CFI is an M&A firm organization that operates in more than 20 countries, mainly in Europe, and Matsuoka, Representative Director of the Company, became a Board Member of CFI in January 2021.

(iii) Revitalization Support Business

The Group is pleased to offer total support in revitalization, from drafting of a business-revitalization plan to implementation support, reconciliation of interests with financial institutions, participation in management for the purpose of management innovation (turnaround) and support for various processes associated with revitalization.

A key feature of the Group's Revitalization Support Business is the hands-on management innovation support (support for implementation of management innovation by permanently seconded staff). At the Group, "hands-on management innovation support" means the dispatch of consultants accomplished in management innovation (turnaround) to serve as members of the corporate client's management team, providing direct support for the execution of revitalization plans and management innovation. The Group commits fully and directly with the corporate client to draft the revitalization plan and implement management innovation, seeing the project through to realization.

(iv) Other Business

In relation to the Revitalization Support Business and M&A Advisory Business, the Group offers research services (legal, financial and tax due diligence) conducted by lawyers, certified public accountants, tax accountants and other specialists in various systems and provides advice related to respective systems regarding business revitalization plans, M&A and reorganization in the execution phase.

To provide education and training to the executives and employees of business companies and financial institutions, the Group operates the Frontier Business School.

Through FCD Partners Inc. and Frontier Nanto Investment Godo Kaisha, affiliates of the Group, the Group offers financial support (investment) via funds.

(2) Investment Business segment

For customers who require funds for growth through business model reforms and industry consolidation, we will not only make direct investment aimed at increasing corporate value over the medium to long term but also dispatch management personnel.

The Group has continued to be strongly conscious of enhancing the corporate value of client companies since its foundation. In order to accommodate diverse client needs, we have continued to focus on providing a variety of solutions and securing various experts to support those solutions.

As a result of keeping this focus, the Group has come to have the following features.

(Features of the Group)

(1) Experts in a diverse range of fields

The Group's professionals (experts providing various management support services to corporate clients) include institutional experts, such as a lawyer, a certified public accountant, and a certified tax accountant, management consultants, industrial analysts, business experts, including those from investment banks, business corporations and financial institutions, and other specialists. Since its founding, the Group has continued to consciously hire experts with diverse backgrounds to maintain a well-rounded base of expertise. Establishing such a portfolio of human resources enables the Group to provide a variety of solutions as follows.

(2) A variety of solutions

The Group engages in the Management Consulting Business, the M&A Advisory Business, the Revitalization Support Business, the Investment Business, and Other Business, providing relevant services alone or in combination to clients. Being capable of offering diverse solutions enables the Group to propose a total optimum solution and offer a one-stop solution for various issues to clients.

For example, proposals to enhance the corporate value of a client provided by a company specializing in M&A advisory are basically limited to supporting M&A while those from a company specializing in management consulting are basically limited to supporting self-driven growth. Meanwhile, the Group can offer proposals that meet the wide-ranging needs of clients because of its capabilities to comprehensively provide services.

The management environment surrounding companies is drastically changing due to globalization in the capital and product markets, decline in the workforce, changes in legal and accounting systems, deregulation and tightening of regulations and other factors. Companies are expected to have the capability to comprehensively utilize knowledge and information across different fields in an environment that is becoming increasingly complicated and sophisticated.

However, when solving highly complicated and sophisticated management issues across multiple areas of expertise, although an optimal solution for each field can be attained by consulting an expert in each field, it is not easy to derive a total optimum solution through integrating the individual solutions obtained.

Having in-house specialists who are well versed in their respective fields, the Group assembles teams of specialists optimized for each project. These in-house specialists closely cooperate with one another and comprehensively bring together the expertise across multiple fields to derive a total optimum solution. It is in this way that the Group offers strong, speedy, one-stop support services with high quality for solving management issues.

In addition, by being capable of adjusting interests based on abundant experience and executing hands-on support, the Group can offer support from drafting the necessary measures to realize the total optimum solution derived to executing such measures.

(3) Strong commitment

In carrying out projects, the Group is committed to enhancing the corporate value of clients. Ever since its founding, the Group has demonstrated strength in supporting business revitalization. Since an inadequate level of commitment when pursuing business revitalization can cause a failure in business revitalization and possibly lead to termination of business with the respective client, the Group has continued to be keenly conscious of maintaining a strong commitment. We demonstrate our strong commitment not only in the rehabilitation support services but also in all services we provide.

(4) Extensive industrial knowledge

The Group's Industry Research Department is composed of industrial specialists who have been observers of their respective sectors for 10 to 20 years. We continue to enhance the quality of our management consulting and M&A advisory services through fully utilizing the extensive industrial knowledge of our specialists.

(5) A nationwide network of financial institutions

The Group's Business Development Department specializes in building and maintaining relationships with megabanks, regional banks and other financial institutions. As a result of building and deepening such relationships over many years, we have a nationwide network of financial institutions with which we have close relationships. Consequently, we are able to access not only financial institutions across the country but also their business partners and clients.

(6) Neutrality as an independent firm

Frontier Management Group is an independent consulting firm that does not have a capital relationship with any specific financial institution, audit corporation, or other business corporation.

If a consulting firm is part of the capital of a certain business corporation, for example, it would be difficult to handle an M&A that might bring benefit to a rival company of the business corporation, and the consulting firm would not necessarily be able to offer the optimum proposal for its client. Meanwhile, the Group, as an independent consulting firm that does not have a capital relationship with another entity, can provide services from a neutral standpoint without conflicts of interest.

4. Status of Subsidiaries and Affiliates

Name	Address	Paid-in capital or investments (Millions of yen)	Description of main business	Ratio of voting rights owned by the Company (owned in the Company) (%)	Business relationship
(Consolidated subsidiary)					
Frontier Management (Shanghai) Inc. (Note)	People's Republic of China Shanghai	120	Management Consulting Business, M&A Advisory Business	100.0	Concurrent post held by officer Partial outsourcing of commissioned operations by the Company Partial outsourcing of commissioned operations to the Company Borrowings from the Company
Celebrain Corporation (Note)	Minato-ku, Tokyo	64	Management Consulting Business, Other Business	60.4	Concurrent post held by officer Partial outsourcing of commissioned operations by the Company
Frontier Capital Inc. (Note)	Minato-ku, Tokyo	500	Investment Business	100.0	Concurrent post held by officer Partial outsourcing of commissioned operations by the Company Acceptance of seconded employees of the Company
(Equity method affiliate)					
FCD Partners Inc.	Minato-ku, Tokyo	6	Other Business (Financial support)	50.0	Concurrent post held by officer Acceptance of seconded employees of the Company
Frontier Nanto Investment Godo Kaisha	Nara City, Nara Prefecture	5	Other Business (Financial support)	50.0	Outsourcing of fund management support operations to the Company

(Note) It corresponds to a specified subsidiary.

5. Status of Employees

(1) Status of consolidated subsidiaries

As of December 31, 2022

Segment name	Number of employees (Persons)
Consulting and Advisory Business	324
Investment Business	11
Total	335

- (Notes)
1. Number of employees represents the number of the Group's full-time staff members (excluding seconded persons from the Group to companies outside the Group).
 2. The 67-person increase in the number of employees of the Consulting and Advisory Business from the end of the previous fiscal year is due to aggressive recruitment and Celebrain Corporation's becoming a consolidated subsidiary.
 3. The Investment Business is a new reporting segment from the fiscal year under review. The 11-person increase in the number of employees of the Investment Business from the end of the previous fiscal year is due to the establishment of Frontier Capital Inc.

(2) Status of submitter company

As of December 31, 2022

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Thousands of yen)
304	37.8	3.0	12,575

Segment name	Number of employees (Persons)
Consulting and Advisory Business	304
Total	304

- (Notes)
1. Number of employees represents the number of the Group's full-time staff members (excluding seconded persons from the Company to companies outside the Company).
 2. Average annual salary includes bonuses and non-standard wages.

(3) Status of labor union

No labor union has been formed, and the management-labor relationship is sound.

II. Business Status

1. Management Policy, Management Environment and Issues to Address

Forward-looking statements in this document are based on the views of the Group as of December 31, 2022.

(1) Management environment

(i) Consulting market

According to International Data Corporation Japan, the business consulting market was significantly affected by the spread of the novel coronavirus disease (COVID-19) in the middle of 2020, causing stagnation in new projects and suspension of existing projects. Subsequently, however, demand rapidly recovered, and in 2021 the market was ¥572.4 billion, an 11.4% increase compared to the previous year. Further, given the projection that the market will grow at an average rate of 8.8% between 2021 and 2026 and reach ¥873.2 billion in 2026 and that the U.S. market will be approximately ¥10 trillion, we view that there is still adequate room for growth.

(ii) M&A market

Information released by RECOF Corporation states that M&A deals have been on the rise since 2011. In 2020, M&A temporarily declined due to the spread of COVID-19. However, the market turned around and marked a record-high number of M&A deals for two consecutive years in 2021 and 2022. It is expected that M&A will continue to grow going forward, backed by an increase in business-succession-type M&A deals due to the advancement of the aging population and an increase in business-reconstruction-type M&A deals. The M&A market is expected to continue to increase, with increases in M&As for reorganization by domestic small and medium-sized enterprises (SMEs) due to market contraction in Japan associated with the population decline and low birthrate, M&As for business restructuring in response to changes in business structures prompted by the spread of COVID-19, and increases in cross-border M&As due to the COVID-19 pandemic reducing.

(iii) Business revitalization market

According to TEIKOKU DATABANK, LTD., 6,376 companies went bankrupt in 2022 (up 6.0% from a year earlier), which was the first increase in three years, since 2019. The record-low level of corporate bankruptcies, which was due to the subsidy program for sustaining businesses and other de facto capital injection measures introduced by the government, as well as the implementation by financial institutions of no-interest, no-collateral (so-called zero-zero) loans, a moratorium for existing loans and other multilayered measures for SMEs under public-private collaboration, shifted to an upwards trend from May 2022 and this phase of gradual increasing is expected to continue in the future, leading us to perceive the need for business revitalization expanding.

(2) Future management policy

In order to expand our existing businesses and provide client companies with optimal services for their challenges under such management environment described above, we have positioned the following measures as priority issues and are working to strengthen and enhance the management base.

(i) Strengthening the organizational sales system

To maximize the sales of the Group, we will further enhance the organizational coverage system for companies that constituted a growth driver for us in recent years.

In addition to expanding the Company's Marketing Department to conduct multi-layered and multifaceted sales with multiple departments of large client companies, we are also conducting sales training for front office staff that is provided by people with sales experience at large financial institutions and we will continue to strengthen the Group's organizational sales system.

(ii) Expanding and strengthening solutions

As client companies' needs for support efforts to address ESG, sustainability, and DX grow each year, the Group will continue to recruit expert professionals and widen the scope of its consulting services.

Until now we have addressed expanding our solutions in the areas of IR/SR, DX, TCFD, GRC (Governance, Risk, Compliance) and HR consulting, and we will continue to expand and strengthen new solutions.

(iii) Rebuilding our location strategy

Currently in Japan, in addition to the Tokyo head office, Osaka Branch and Nagoya Branch, we opened a Fukuoka Branch in January 2023. In order to expand the number of locations in the future and provide high-quality services to customers at these locations, we will employ excellent local human resources and utilize IT to collaborate with the Tokyo head office with the aim of expanding the scope of the Group's business and contributing to the local community.

Outside of Japan too, we have established a subsidiary in China, opened Singapore and New York Branches, and are currently considering establishing locations in Europe.

(iv) Improving profitability

We are working earnestly on improving the unit price of projects and the efficiency of operations in order to improve the Group's profitability.

In the fiscal year ending in December 2022, improvement in the unit price of projects in the M&A Advisory Business has been realized by actively working on projects with a high degree of difficulty. In the future, we will aim to improve profitability by focusing on expanding the range of solutions in the Management Consulting Business and Revitalization Support Business too, as well as earnestly promoting operational efficiency.

(v) Initiating the Investment Business

Domestic companies are required to change their business models through working to: address sustainability; achieve increased productivity through digitalization; vitalize regional economies beset with low birth rates and an aging population and business succession issues; and take post-COVID-19 measures.

The consolidated subsidiary Frontier Capital Inc. will commence full-scale operations of its medium- to long-term investment business involving the dispatch of management personnel from the fiscal 2023, with the aim of solving social issues by resolving these important issues in client companies, and will work to improve the corporate value of the Group in addition to contributing to growth through business model reform and industry reorganization at the companies that have been invested in.

(3) Issues to address

The Group is focusing on the following issues as medium- to long-term initiatives in order to develop and grow sustainably.

(i) Promoting work style reforms and DE&I (creating a comfortable work environment for employees)

Human resources are the most important management resource for the Group, and we will build an environment in which diverse staff can thrive, and recruit such staff and enhance their retention by promoting the Company's Basic Sustainability Policy centered on human capital and key issues (materiality) as well as diversity, equity, and inclusion (DE&I), while continuing to work to limit overtime work, eliminate harassment, and train management executives.

(ii) Increasing visibility and brand power

In order to increase the trust placed in us by our potential clients, it is necessary for us to enhance our visibility and brand power.

As measures to address this, the Group's front office staff contributes specialized and current affairs articles to the Group's owned media "FRONTIER EYES ONLINE," which is aimed at the managers and management levels of potential customers, and disseminates timely information in webinars. We are also working to increase the name recognition of the Group's front office staff and the Company by contributing to magazines and web media, publishing books, and appearing in various media.

2. Business and Other Risks

Matters that are likely to be risk factors in the business development of the Group are indicated below. Matters that are not necessarily risks associated with business but are considered important for decision-making by investors are also indicated from the perspective of active information disclosure to investors. Forward-looking statements are included in some of these matters that are based on the views of the Group as of December 31, 2022.

The Group recognizes the possibility that these risks could occur and works to avoid their occurrence and to respond should risks occur.

(1) Risks arising from external environmental factors

(i) External environment and market trends, etc.

The Group engages in the Management Consulting Business, the M&A Advisory Business, the Revitalization Support Business, and Other Business primarily in Japan and Asia, including China, as well as in Europe and the U.S. If, due to the impact of economic fluctuations on the management status of client companies, there is a change in the quality or volume of projects entrusted with the Company, it may affect the financial position and operating results of the Group.

(ii) Intensifying competition

The Group's business does not require approval or a license to execute operations, making barriers to entry low while competition in the relevant fields is intensifying.

We will strive to differentiate ourselves from competitors in the business by providing various management support services on a one-stop basis, increasing sophistication of service details provided and taking other steps. However, it is possible that competition will continue to intensify, causing severer competition in prices. Such a situation may affect the financial position and operating results of the Group.

(iii) Change in performance due to success fees for large projects

Sales of the M&A Advisory Business, which is one of the primary businesses of the Group, consist of the basic remuneration mainly composed of a mobilization fee, pay received for hours of work performed and monthly fixed remuneration, and contingency remuneration which can be received only when certain conditions, such as signing of the contract for a project, are satisfied. Particularly in a large project, if a contract for the project cannot be signed between a client company and the other party, the profit of the Group will decline. On the other hand, if our remuneration increases more than expected, the Group's profit will significantly increase.

Further, in terms of our quarterly results, performance might fluctuate considerably from a quarter in which no success fee for a large project is recorded to a quarter where success fees of large projects are recorded.

The Group strives to stabilize profits through engaging in the Management Consulting Business, Revitalization Support Business, and Other Business in addition to the M&A Advisory Business. At the same time, we handle a number of smaller projects without being dependent on large projects. However, our performance may fluctuate depending on the amount of success fees from large projects in the M&A Advisory Business.

For reference, sales along with the amount of M&A Advisory Business success fees included and the operating income/loss by quarter for the 16th fiscal year are provided below.

	(Thousands of yen)				
	First quarter of 16th fiscal year (FY2022)	Second quarter of 16th fiscal year (FY2022)	Third quarter of 16th fiscal year (FY2022)	Fourth quarter of 16th fiscal year (FY2022)	16th fiscal year (FY2022)
Net sales	2,224,878	1,747,964	1,916,621	2,026,189	7,915,655
[success fees from the M&A Advisory Business]	[657,054]	[297,694]	[299,806]	[411,188]	[1,665,744]
Operating income	408,404	135,012	135,795	228,919	908,131

(iv) Legal restrictions

The Group views that there are no legal provisions that directly impose restrictions on its primary businesses. However, if legal provisions that can directly or indirectly impose restrictions on the Group's businesses are set in the future, or if any changes are made to the operation of conventional legal provisions, it is possible that the Group's business development may be subject to restrictions, and this may affect the business strategies and operating results of the Group.

The Company engages in the intermediation of loan agreements as a service that complements its primary business. In regard to this business, the Company has made the necessary registration under the Money Lending Business Act. In addition, the Company has received authorization to engage in the worker dispatch business and the fee-based job placement business.

(v) Possibility of lawsuits

The Group works to establish an effective compliance structure. However, it is possible that in the course of carrying out its business, a lawsuit or such action may be brought against the Group regardless of whether or not there was any legal violation on its part.

If such lawsuit is brought against it and depending on the results thereof, this may affect the Group's social credibility and operating results.

(vi) Overseas business activities and fluctuations in foreign exchange rates

Business activities that the Group engages in overseas are exposed to the following risks.

- a) Changes in laws and regulations that are normally unexpected
- b) Presence or occurrence of economically disadvantageous factors, such as difficulty in hiring and securing human resources
- c) Social or political confusion due to terrorism, war or other such events

If these risks become tangible, it is possible that the overseas business activities of the Group may be disrupted, affecting the operating results of the Group.

Further, in the Group's overseas business, items that are denominated in local currencies are influenced by the value after conversion into yen using foreign exchange rates, and this may affect the operating results and financial position of the Group.

(vii) Impact of COVID-19

The restrictions on physical travel to overseas caused by COVID-19 have impacted the Group's M&A Advisory Business in that there have been interruptions and delays in the progress of cross-border M&A deals between domestic companies and overseas companies. If the COVID-19 pandemic carries on in the future too, such impact may affect the financial position and operating results of the Group.

(2) Risks arising from internal environmental factors

(i) Recruitment and development of personnel

The Group allocates experienced persons in each of its businesses and departments as core staff in those fields, and our human capital comprises a wide variety of specialists. To expand the businesses of the Group, it is important to recruit and develop talented individuals. In particular, securing personnel with abundant experience and high expertise is an immense issue in carrying out the business activities of the Group.

Therefore, if the Group is unable to adequately and in a timely way secure the necessary personnel or if there is an outflow of individuals with high expertise who undertake key roles in the Group, such situations may affect the future business execution.

Furthermore, even when the Group can smoothly secure human resources, there is a likelihood of a rise in the cost for hiring talented individuals in conjunction with the tightening demand-supply balance and of increases in fixed costs including personnel and facility expenses. Such situation may affect the financial position and operating results of the Group.

(ii) Development of frameworks for internal control

As of December 31, 2022, the Group's organization has become five Directors (including two part-time Outside Directors), three Audit & Supervisory Board Members (including two part-time Outside Audit & Supervisory Board Members) and 335 employees, but our frameworks for internal control and business execution are in line with the size of our organization.

The Group will strive to develop and operate more systematic frameworks for internal control than before by continuing to develop employees and hiring new employees from outside. If in the course of our efforts, however, a rapid business expansion or such like occurs, we may not be able to make an adequate human and organizational response. Such a situation may affect the business development and expansion of the Group.

(iii) Information management and insider trading

The Group's business is based on the acquisition of confidential information of client companies. Therefore, the Group has a duty of confidentiality to client companies and to potential future client companies under a confidentiality agreement or such like.

The Group ensures it promotes strict information management and provides guidance and education to its employees about compliance with the duty of confidentiality. However, in the event of a leakage of confidential information to unauthorized parties for some reason, the Group's credibility will be impaired, and this may affect the business strategies and operating results of the Group.

Furthermore, the Group ensures proper information management and provides guidance and education on compliance with the duty of confidentiality to its employees as described above. It also prohibits officers and employees from carrying out stock transactions, etc. as a general rule set out under the internal rules regardless of inside or outside the country or of whether the transaction pertains to a client company or not, from the perspective of preventing insider trading. However, if by any chance an officer or employee of the Group conducts insider trading based on the confidential information of a client company, the Group's credibility will be impaired, and this may affect the business strategies and operating results of the Group.

(iv) Realizing profits in overseas business

With the purpose of providing services to Chinese and other Asian companies and Japanese companies aiming to make inroads in China and other countries in Asia, the Company established Frontier Management (Shanghai) Inc. as a wholly-owned subsidiary in Shanghai, China in October 2011 and opened the Singapore Branch in December 2012. In addition, the New York Branch was opened in June 2017 for the purpose of strengthening the support system for the advancement and business expansion of Japanese companies in North America. However, these entities were affected by the spread of COVID-19 while in the course of attaining earnings, and if the business plan cannot be realized smoothly going forward, this may affect the financial position and operating results of the Group.

(v) Realizing profits in investment business

In April 2022 the Group established Frontier Capital Inc., which conducts investment business involving the dispatch of management personnel. It has repeatedly conducted fundraising activities to solicit funds from financial institutions that agree with the purpose of its establishment, and at the board of directors meeting held on December 27, 2022, it resolved to raise a total of ¥2,666,400 thousand from seven financial institutions. It plans to commence full-scale investment activities from the fiscal 2023 and onwards, but if the realization of the business plan does not proceed smoothly in the future this may affect the operating results and financial position of the Group.

In addition, if an impairment loss occurs due to the companies in which Frontier Capital Inc. has invested suffering significant losses in earnings due to changes in the external environment, etc., this may affect the operating results and financial position of the Group.

(vi) Dependence on certain individuals

Representative Director Shoichiro Onishi and Representative Director Masahiro Matsuoka who are the Company's founders and business promoters hold vital roles in the overall business activities of the Group such as making decisions on management policies and strategies.

At present, we do not expect Representative Directors Shoichiro Onishi and Masahiro Matsuoka to exit from the business of the Group. However, if a situation arises where they will withdraw from the management of the Group due to resignation or other reasons, it may affect the business strategies, organizational operation, operating results and other matters of the Group.

(3) Other

(i) Policy regarding shareholder return

The Group maintains a basic policy of paying stable dividends on a continual basis, while securing sufficient internal reserves to develop future business and enhance the management structure of the Group.

Recognizing that appropriate return of profits to shareholders is an important management issue, the Group intends to aggressively distribute profit in order to meet the expectations of shareholders going forward. However, with a view to maximizing shareholder value through business expansion based on comprehensively taking into account the profit level of each fiscal year, forecasts for the following fiscal year and beyond, capital needs, status of internal reserves and other factors, the Group may not distribute dividends.

(ii) Exercise of stock options and dilution of stock value due to issuance of shares subject to transfer restriction

The Group adopts a stock option plan as a means of offering an incentive for officers and employees. If, in addition to the stock options currently granted as of the end of the fiscal year under review, stock options to be granted in the future are exercised, it is possible that the value of shares held by existing shareholders will be diluted.

As of December 31, 2022, there are 205,720 diluted shares caused by exercise of stock options, accounting for 1.79% of the total number of shares issued.

The Group also adopts a restricted stock compensation plan for the Company's Directors, excluding Outside Directors, and employees. If shares are issued or disposed of under the plan, it is possible that the value of shares held by existing shareholders will be diluted as in the case with the stock option plan.

3. Management's Discussion & Analysis of Financial Condition, Operating Results and Cash Flows

(1) Overview of results of operations

An overview of the financial condition, operating results and cash flows (hereinafter, "results of operations") of the Group (the Company, consolidated subsidiaries and equity method affiliates) for the fiscal year ended December 31, 2022 is as follows.

(i) Operating results

During the fiscal year (from January 1, 2022 to December 31, 2022), the Japanese economy experienced a gradual relaxation of behavioral restrictions associated with the spread of COVID-19 and the normalization of social and economic activities, and also saw signs of an economic recovery. Nonetheless, the economic outlook remains largely uncertain, as evidenced by the supply shortages of natural resources due to the prolonged situation in Russia and Ukraine, soaring energy prices, and rising prices associated with the depreciation of the yen.

In this management environment, the Group continued to focus on proposing and executing one-stop solutions to issues faced by companies by providing comprehensive services that leverage management consulting, M&A advisory, revitalization support, and other functions. In January, we welcomed Celebrain Corporation, which engages in a personnel-related consulting business, to the Group, and expanded the solutions domain in management consulting. In April, we established Frontier Capital Inc., which engages in an investment business involving the dispatch of management personnel, and made preparations for the start of the business.

As a result of the above, the Group reported consolidated net sales of ¥7,915,655 thousand (up 37.9% from the previous fiscal year), operating income of ¥908,131 thousand (up 81.2%), ordinary income of ¥921,511 thousand (up 79.1%), and net income attributable to owners of parent of ¥556,722 thousand (up 64.4%) for the fiscal year under review.

Operating results by segment are as follows. Net sales include inter-segment sales.

The business of the Group had been a single segment, however from this fiscal year we have changed it to two segments: the Consulting and Advisory Business and the Investment Business. The details are as described in the "Notes (Segment Information)" of the Consolidated Financial Statements. As a result, year-on-year comparisons and analyses have not been performed, except with respect to net sales and operating income in the Consulting and Advisory Business, and net sales by business.

(Consulting and Advisory Business Segment)

For the fiscal year, in the Consulting and Advisory Business segment, the Management Consulting Business and the M&A Advisory Business performed well, with net sales of ¥7,912,655 thousand (up 37.8% from the previous year) and operating income of ¥1,099,403 thousand (up 119.3%).

Results of operations by business are as follows.

<Management Consulting Business>

In the fiscal year ended December 31, 2022, the Management Consulting Business recorded net sales of ¥4,351,972 thousand (up 32.7% from the previous fiscal year). In the fiscal year under review, sales increased substantially compared with the previous fiscal year. In addition to the effect of increased personnel resulting from aggressive recruitment, the expansion of the consulting-related services, including SR/IR services, DX services, and human resources, contributed to such increase.

<M&A Advisory Business>

In the M&A Advisory Business, net sales for the fiscal year under review were ¥2,793,464 thousand (up 61.9% from the previous year). In the fiscal year, sales increased substantially compared with the previous fiscal year as a result of the successful completion of large- and medium-sized M&A deals.

<Revitalization Support Business>

In the fiscal year ended December 31, 2022, the Revitalization Support Business recorded net sales of ¥601,236 thousand (down 9.2% from the previous fiscal year). In the fiscal year under review, the continued support provided by financial institutions in providing loans to companies continued to prevent the need for revitalization support from expanding, and net sales decreased compared with the previous fiscal year.

<Other Business>

In the fiscal year ended December 31, 2022, the Other Business recorded net sales of ¥165,981 thousand (up 124.9% from the previous fiscal year).

(Investment Business Segment)

In the Investment Business segment, net sales and operating loss for the fiscal year ended December 31, 2022 were ¥17,603 thousand and ¥191,272 thousand, respectively, due to personnel expenses and other expenses associated with the launch of this business.

(ii) Financial condition

Total assets at the end of the fiscal year were ¥5,658,644 thousand (¥3,819,274 thousand at the end of the previous fiscal year), an increase of ¥1,839,369 thousand from the end of the previous fiscal year. Total liabilities were ¥2,642,688 thousand (¥1,365,207 thousand at the end of the previous fiscal year), up ¥1,277,480 thousand from the end of the previous fiscal year. Net assets were ¥3,015,956 thousand (¥2,454,066 thousand at the end of the previous fiscal year), an increase of ¥561,889 thousand from the end of the previous fiscal year.

(iii) Status of cash flows

Cash and cash equivalents (hereinafter, “funds”) on December 31, 2022 increased ¥1,414,871 thousand from the end of the previous fiscal year to ¥3,199,089 thousand.

The status of cash flows and their factors for the fiscal year ended December 31, 2022 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,250,257 thousand (net cash provided of ¥316,813 thousand in the previous fiscal year). This was mainly attributable to income before income taxes of ¥868,006 thousand, decrease in notes and accounts receivable-trade of ¥215,932 thousand, increase in accrued bonuses of ¥211,471 thousand, charges for stock compensation of ¥88,167 thousand, write-down of investment securities of ¥53,505 thousand and depreciation and amortization of ¥47,495 thousand, which were factors increasing cash, and to income taxes paid of ¥343,093 thousand, which was a factor decreasing cash.

(Cash flows from investing activities)

Net cash used in investing activities was ¥486,911 thousand (net cash used of ¥31,524 thousand in the previous fiscal year). This was mainly attributable to additional investments in newly consolidated entities of ¥238,932 thousand, proceeds from collection of lease and guarantee deposits of ¥148,174, and purchases of tangible fixed assets of ¥87,142 thousand.

(Cash flows from financing activities)

Net cash used in financing activities was ¥646,534 thousand (net cash used of ¥404,765 thousand in the previous fiscal year). This was mainly attributable to proceeds from long-term debt of ¥860,000 thousand, which was a factor increasing cash, and dividends paid of ¥113,750 thousand and repayments of long-term debt of ¥90,284 thousand, which were factors decreasing cash.

(iv) Results of production, orders received and sales

a) Production

Not applicable.

b) Orders received

Not applicable.

c) Sales

Sales in the fiscal year ended December 31, 2022 were as follows.

Segment name	Name of sales category	Current fiscal year (January 1, 2022 to December 31, 2022)	
		Sales (Thousands of yen)	YoY change (%)
	Management Consulting Business	4,351,972	132.7

Segment name	Name of sales category	Current fiscal year (January 1, 2022 to December 31, 2022)	
		Sales (Thousands of yen)	YoY change (%)
Consulting and Advisory Business segment	M&A Advisory Business	2,793,464	161.9
	Revitalization Support Business	601,236	90.8
	Other Business	165,981	224.9
Investment Business segment	Investment Business	17,603	–
Removal of transactions between segments		(14,603)	–
Total		7,915,655	137.9

(Note) Includes transactions between segments.

- (2) Analysis and considerations concerning the status of results of operations from the management’s perspective
The contents of analysis and considerations concerning the status of results of operations from the management’s perspective are as follows.

Forward-looking statements in this document are based on the views as of December 31, 2022.

- (i) Significant accounting policies and estimates

The Company’s consolidated financial statements are prepared in accordance with generally accepted accounting principles in Japan. In preparing the consolidated financial statements, estimations were made in part within the scope of certain accounting standards and have been reflected in the figures for assets, liabilities, income and expenses. These estimates are evaluated on a continual basis and are revised as needed. However, since estimates involve uncertainties, the actual results may differ from such estimates. The details of significant accounting policies and accounting estimates are stated in (Significant Matters Forming the Basis for Preparation of Consolidated Financial Statements) in “Notes to Consolidated Financial Statements” of “1. Consolidated Financial Statements” in “V. Accounting.” Accounting estimates and assumptions related to the impact of COVID-19 are stated in (Additional Information) in “1. Consolidated Financial Statements” in “V. Accounting.”

- (ii) Recognition, analysis and considerations concerning the status of results of operations for the fiscal year ended December 31, 2022

(A) Analysis of results of operations

a. Net sales

In the fiscal year ended December 31, 2022, net sales were ¥7,915,655 thousand (up 37.9% from the previous fiscal year). The breakdown by business segment is as follows: ¥7,912,655 thousand in the Consulting and Advisory Business (up 37.8% from the previous fiscal year), and ¥17,603 thousand in the Investment Business (including ¥14,603 thousand for inter-segment sales). Further, the breakdown by business segment within the Consulting and Advisory Business is as follows: ¥4,351,972 thousand (up 32.7% from the previous fiscal year) in the Management Consulting Business, ¥2,793,464 thousand (up 61.9% from the previous fiscal year) in the M&A Advisory Business, ¥601,236 thousand (down 9.2% from the previous fiscal year) in the Revitalization Support Business, and ¥165,981 thousand (up 124.9% from the previous fiscal year) in Other Business.

In the Consulting and Advisory Business segment, although sales declined in the Revitalization Support Business, where the market’s needs for revitalization did not expand due to financial institutions continuing to provide funding support to companies, sales significantly increased in the Management Consulting Business due to the realization of the effects of proactively increasing the number of employees and the contribution of the strengthening and expansion of consulting services such as SR/IR-related, DX-related, and personnel-related, while sales significantly increased in the M&A Advisory Business as a result of successfully concluding large- and medium-sized M&A projects.

b. Operating income

Operating income for the fiscal year ended December 31, 2022 came to ¥908,131 thousand (up 81.2% from the previous fiscal year) after recording cost of sales of ¥3,230,126 thousand (up 43.7% from the previous fiscal year) and selling, general and administrative expenses of ¥3,777,396 thousand (up 26.2% from the previous fiscal year). The main components of cost of sales are personnel expenses, such as salaries and allowances of ¥1,544,440 thousand and provision for bonuses of

¥410,953 thousand, and outsourcing costs of ¥364,076 thousand, and the major factor that contributed to the rise was an increase in salaries and allowances of ¥307,014 thousand and provision for bonuses of ¥130,430 thousand as a result of actively hiring personnel, and an increase on outsourcing costs of ¥212,415 thousand due to the utilization of suppliers. The main components of selling, general and administrative expenses are personnel expenses, such as salaries and allowances of ¥1,419,541 thousand and provision for bonuses of ¥364,820 thousand, and recruiting expenses of ¥469,080 thousand, and the major factor that contributed to the rise was an increase in salaries and allowances of ¥116,797 thousand, provision for bonuses of ¥95,778 thousand and recruiting expenses of ¥237,245 thousand as a result of actively hiring personnel.

c. Ordinary income

Ordinary income for the fiscal year ended December 31, 2022 came to ¥921,511 thousand (up 79.1% from the previous fiscal year) after recording non-operating income of ¥21,057 thousand and non-operating expenses of ¥7,676 thousand. Main components of non-operating income are foreign exchange gains of ¥9,158 thousand and equity in earnings of affiliates of ¥8,059 thousand while the main component of non-operating expenses is interest expense of ¥7,429 thousand.

d. Income before income taxes

Income before income taxes for the fiscal year ended December 31, 2022 came to ¥868,006 thousand (up 68.7% from the previous fiscal year) after recording write-down of investment securities of ¥53,505 thousand.

e. Net income attributable to owners of parent

Net income attributable to owners of parent for the fiscal year ended December 31, 2022 came to ¥556,722 thousand (up 64.4% from the previous fiscal year) after recording income taxes of ¥301,670 thousand and net income attributable to owners of non-controlling interests of ¥9,614 thousand.

(B) Financial condition

a. Assets

Total assets at the end of the fiscal year were ¥5,658,644 thousand (¥3,819,274 thousand at the end of the previous fiscal year), an increase of ¥1,839,369 thousand from the end of the previous fiscal year. Current assets were ¥4,276,116 thousand (¥2,998,206 thousand at the end of the previous fiscal year), non-current assets were ¥1,375,149 thousand (¥821,068 thousand at the end of the previous fiscal year) and deferred assets were ¥7,379 thousand (¥0 thousand at the end of the previous fiscal year). Current assets increased ¥1,277,909 thousand, non-current assets increased ¥554,081 thousand and deferred assets increased ¥7,379 thousand compared with the levels at the end of the previous fiscal year. The main changes in current assets were an increase of ¥1,414,871 thousand in cash and deposits and a decrease of ¥160,549 thousand in notes, accounts receivable and contract assets (notes and accounts receivable-trade in the previous fiscal year). The main changes in non-current assets were increases of ¥265,130 thousand in goodwill, ¥149,347 thousand in lease deposits, ¥88,738 thousand in facilities attached to buildings, and ¥68,838 thousand in deferred tax assets, and a decrease of ¥53,209 thousand in investment securities. The change in deferred assets was an increase of ¥7,379 thousand in organization expenses.

b. Liabilities

Total liabilities at the end of the fiscal year were ¥2,642,688 thousand (¥1,365,207 thousand at the end of the previous fiscal year), an increase of ¥1,277,480 thousand from the end of the previous fiscal year. Current liabilities were ¥1,868,624 thousand (¥1,282,944 thousand at the end of the previous fiscal year) and fixed liabilities were ¥774,063 thousand (¥82,262 thousand at the end of the previous fiscal year). Current liabilities increased ¥585,680 thousand and fixed liabilities increased ¥691,800 thousand compared with the levels at the end of the previous fiscal year. The main changes in current liabilities were increases of ¥211,471 thousand in provision for bonuses, ¥138,388 thousand in current portion of long-term debt, ¥135,647 thousand in other current liabilities such as increases in accrued consumption taxes and accrued expenses, ¥34,161 thousand in accounts payable-other, ¥28,510 in income taxes payable and ¥25,606 in accounts payable. The main changes in fixed liabilities were increases of ¥639,313 thousand in long-term debt and ¥52,487 thousand in asset retirement obligations.

c. Net assets

Total assets at the end of the fiscal year were ¥3,015,956 thousand (¥2,454,066 thousand at the end of the previous fiscal year), an increase of ¥561,889 thousand from the end of the previous fiscal year. This was mainly due to the recording of ¥556,722 thousand in net income attributable to owners of parent.

(iii) Sources of capital and liquidity of capital

The status of cash flows is stated in “(iii) Status of cash flows” in “(1) Overview of results of operations” in “3. Management’s Discussion & Analysis of Financial Condition, Operating Results and Cash Flows.” The Group adopts the basic approach of covering the funds for working capital and capital investments with cash on hand and pursues financing by bank borrowings if needed.

(iv) Factors having a significant impact on operating results

The M&A Advisory Business, which is one of the core businesses of the Group, accounted for 35.3% of net sales in the fiscal year ended December 31, 2022. In this business, we provide customers with M&A advisory services. Due to the nature of the business, the ratio of success fees tends to be high. Whether success fees can be earned in M&A advisory services is dependent on whether clients can close their M&A deals, which is beyond the control of the Group. Closing and non-closing of M&A deals can possibly impact the operating results of the Group.

For details on the factors that have a significant impact on operating results, see “2. Business and Other Risks” in “II. Business Status.”

(v) Objective indicators for determining the status of achievement of management policies and strategies or management targets

The Group, in its medium-term management plan, has set out targets to achieve net sales of ¥8,700,000 thousand and operating income of ¥1,740,000 thousand (operating margin of 20.0%) in fiscal 2023. For this purpose, the Group focuses on the following indicators and determines the status of achievement.

	Target	Actual amount
CAGR	18.8%	23.5%
Increase in number of employees in a year	40	78
Operating margin	20.0%	11.5%
ROE	20.0%	20.9%
Dividend payout ratio (consolidated)	30.0%	57.5%

(Note) The actual value of CAGR is calculated with FY2020 as the base fiscal year.

4. Significant Contracts, ETC. in Business

Not applicable.

5. Research and Development Activities

Not applicable.

III. Facilities

1. Outline of Capital Expenditure

Capital expenditure (tangible fixed assets and intangible fixed assets; excluding goodwill and customer-related assets) for the fiscal year under review totaled ¥153,841 thousand, of which the major items were equipment installation, furniture and fixtures, etc. of ¥110,556 thousand (including the increase in tangible fixed assets related to retirement of assets) due to expansion of the head office.

There was no retirement or selling of significant facilities during the fiscal year under review.

2. Main Facilities

Main facilities in the Group are as follows.

(Submitter company)

As of December 31, 2022

Business office name (Address)	Segment name	Description of facilities	Book value			Number of employees (Persons)
			Buildings (Thousands of yen)	Tools, furniture and fixtures (Thousands of yen)	Total (Thousands of yen)	
Head office (Minato-ku, Tokyo)	Consulting and Advisory Business	Office facilities	167,893	28,102	195,995	304

(Note) In addition to the above, the following is the main rented facility.

Business office name (Address)	Segment name	Description of facilities	Annual rent (Thousands of yen)
Head office (Minato-ku, Tokyo)	Consulting and Advisory Business	Office	255,199

3. Planned New Facilities and Retirement

(1) Significant new facilities

Not applicable.

(2) Retirement of significant facilities

Not applicable.

IV. Submitter Company

1. Shares

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of shares authorized to be issued (Shares)
Common stock	45,648,000
Total	45,648,000

(ii) Number of shares outstanding

Class	Number of shares issued as of the end of fiscal year (Shares) (December 31, 2022)	Number of shares issued as of the submission day (Shares) (March 24, 2023)	Name of financial instruments exchange listed on or registered authorized financial instruments firms association	Description
Common stock	11,468,478	11,481,998	Tokyo Stock Exchange Prime Market	It is full voting stock without any restriction on its rights, and is standard stock of the Company. There are 100 shares per unit.
Total	11,468,478	11,481,998	–	–

(Note) The section of “Number of shares issued as of the submission day” does not include the number of shares that have been issued by the exercise of stock acquisition rights from March 1, 2023 to the day of submitting this securities report.

(2) Stock acquisition rights

(i) Description of stock option

Date of resolution	Annual general meeting of shareholders held on March 29, 2018 Board of Directors meeting held on May 15, 2018
Grantee categories and count (Persons)	Director: 3 Employee: 140
Number of stock acquisition rights ^(Note)	15,865 [15,425]
Class, description and number of shares underlying stock acquisition rights (Shares) ^(Note)	Common stock: 126,920 [123,400] (Note 1)
Payment of money at the exercise of stock acquisition rights (Yen) ^(Note)	75 (Note 2)
Exercise period of stock acquisition rights ^(Note)	From May 16, 2020 to May 15, 2028
Issue price and the amount to be included in capital when issuing shares by the exercise of stock acquisition rights (Yen) ^(Note)	Issue price: 75 Amount to be included in capital: 37.5 (Note 3)
Conditions for exercise of the stock acquisition rights ^(Note)	(Note 4)
Transfer of stock acquisition rights ^(Note)	Approval of the Board of Directors of the Company shall be required to obtain stock acquisition rights by transfer.
Issuance of stock acquisition rights due to the act of reorganization ^(Note)	(Note 5)

(Note) The description is as of the end of the fiscal year under review (December 31, 2022). For the items that had been changed from the end of the fiscal year under review to the end of the previous month (February 28, 2023), their description as of the end of the previous month to the submission day was included in brackets, while there was no change from the description for other items.

- (Notes) 1. When the Company splits shares (including allotment of shares without contribution; the same shall apply hereinafter) or consolidates them, the number of shares issued shall be adjusted using the following formula. However, such adjustments shall be made only for the number of shares to be issued upon the exercise of stock acquisition rights that have not been exercised among stock acquisition rights.
Number of shares after adjustment = Number of shares before adjustment × Ratio of split/consolidation.
Moreover, in the case of succession of stock acquisition rights due to the absorption-type merger or consolidation-type merger by the Company with other companies, or in the case of succession of stock acquisition rights due to share exchange or share transfer in which the Company becomes a wholly-owned subsidiary, the Company may adjust the number of shares deemed necessary according to the merger ratio and others.
2. The value of property to be contributed upon exercise of the stock acquisition rights shall be the one calculated by multiplying the amount of contribution per share to be made upon exercise of stock acquisition rights (the “exercise price”) by the number of shares to be issued per unit of stock acquisition rights.
However, if there is one of the following events, the amount shall be calculated by multiplying the exercise price adjusted by each formula below by the number of shares to be issued per unit of stock acquisition rights. For the exercise price after adjustment, any fraction less than one yen shall be rounded up.

- (1) When the Company conducts a stock split or consolidation

$$\text{Exercise price after adjustment} = \frac{\text{Exercise price before adjustment}}{\text{Split/consolidation ratio}} \times 1$$

- (2) When the Company issues shares for subscription or disposes of treasury stock shares below the market price (including the issuance of shares by allotment of shares without contribution and delivery of treasury stock shares, but excluding the exercise of stock acquisition rights (including corporate bonds with share options) and the conversion of securities that can be converted into common stock shares of the Company)

$$\text{Exercise price after adjustment} = \frac{\text{Exercise price before adjustment} \times \left(\frac{\text{Number of shares already issued}}{\text{Number of shares already issued} + \text{Number of shares newly issued}} + \frac{\text{Number of shares newly issued} \times \text{Amount of payment per share}}{\text{Stock price before issuance of shares for subscription}} \right)}{\text{Number of shares already issued} + \text{Number of shares newly issued}}$$

However, the number of shares already issued in the formula shall be the total number of shares outstanding on the day before the effective day of the issuance of the above shares less the number of treasury stock shares owned by the Company at the time; if treasury stock shares are to be disposed of, the number of shares newly issued and the stock price before issuance of shares for subscription shall be replaced with the number of treasury stock shares to be disposed of and the stock price before disposal of treasury stock shares, respectively. Moreover, the stock price before issuance of shares for subscription in the formula shall be the exercise price before adjustment if there is no

market price for the Company stock, while it shall be the last traded price in the priority exchange of the Company immediately before issuance if there is a market price for the Company stock.

- (3) The Company shall adjust the exercise price as deemed necessary when conducting an absorption-type merger in which the Company becomes an existing entity by absorption, when conducting an absorption-type company split in which the Company becomes a successor entity by divestiture, when conducting a share exchange by which the Company becomes a parent of a wholly owned subsidiary, or when needing to adjust the exercise price in other cases pursuant to these cases.
3. The amount to be included in capital is as follows.
 - (1) The amount of paid-in capital to be increased when issuing shares by exercising stock acquisition rights shall be half of the upper limit of increases in paid-in capital, etc., calculated in accordance with Article 17, Paragraph (1) of the Regulation on Corporate Accounting, with any fraction less than one yen rounded up.
 - (2) The amount of capital reserve to be increased when issuing shares by exercising stock acquisition rights shall be the upper limit of increases in paid-in capital, etc. stated in (1) above less the amount of paid-in capital to be increased stipulated in (1) above.
 4. Conditions for exercise of the stock acquisition rights are as follows.
 - (1) The person who is allotted stock acquisition rights (the “holder of share options”) must be a Director, Audit & Supervisory Board Member, or employee even when exercising the rights, and shall have five years or more of total service. However, stock acquisition rights may be exercised if employees of the Company or its subsidiaries resign due to reaching a specified retirement age and when exercise is approved by the Board of Directors of the Company.
 - (2) Stock acquisition rights may not be inherited if the holder of share options has died.
 - (3) Holders of share options may exercise their stock acquisition rights after the start date of exercising their rights or the listing date of the Company stock on any of the financial instruments exchanges in Japan, whichever is later.
 5. Treatment at the time of reorganization is as follows.
 If stock acquisition rights of the following stock companies are to be issued in accordance with the provisions of the agreement, plan, or the like stipulated at the time of reorganization, stock acquisition rights of the following stock companies shall be issued according to the ratio of such reorganization.
 - (1) Merger (only in the case where the Company ceases to exist)
 Stock company that survives the merger or stock company incorporated as a result of the merger
 - (2) Absorption-type company split
 Stock company in which all or part of its rights and obligations related to its business are to be succeeded by a stock company conducting an absorption-type company split
 - (3) Incorporation-type company split
 Stock company to be established by incorporation-type company split
 - (4) Share exchange
 Stock company acquiring all the issued shares of a stock company to conduct a share exchange with.
 - (5) Share transfer
 Stock company to be established by share transfer

Date of resolution	Board of Directors meeting held on March 25, 2021
Grantee categories and count (Persons)	Executive Officer: 5 Employee: 10
Number of stock acquisition rights ^(Note)	57
Class, description and number of shares underlying stock acquisition rights (Shares) ^(Note)	Common stock: 5,700 (Note 1)
Payment of money at the exercise of stock acquisition rights (Yen) ^(Note)	1
Exercise period of stock acquisition rights ^(Note)	From March 26, 2022 to March 25, 2026
Issue price and the amount to be included in capital when issuing shares by the exercise of stock acquisition rights (Yen) ^(Note)	Issue price: 1 Amount to be included in capital: 1 (Note 2)
Conditions for exercise of the stock acquisition rights ^(Note)	(Note 3)
Transfer of stock acquisition rights ^(Note)	Approval of the Board of Directors of the Company shall be required to obtain stock acquisition rights by transfer.
Issuance of stock acquisition rights due to the act of reorganization ^(Note)	(Note 4)

(Note) The description is as of the end of the fiscal year under review (December 31, 2022). As the details that should be stated as of the end of the month prior to the submission day have not changed from the details as of the end of the fiscal year under review, the description of details as of the end of the month prior to the submission day has been omitted.

- (Notes) 1. When conducting a stock split, allotment of shares without contribution, or stock consolidation of common stock of the Company, the number of shares granted shall be adjusted using the following formula, with any fraction less than one share as a result of the adjustment rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split, allotment of shares without contribution, or stock consolidation.

The number of shares granted after adjustment shall be applied after the day following the record date (effective date if the record date is not decided) for the stock split or allotment of shares without contribution in the case of a stock split or allotment of shares without contribution, while after the effective date for a stock consolidation. However, if a stock split or allotment of shares without contribution is conducted on condition that a proposal to increase paid-in capital or reserves by decreasing surplus is approved by the Company's general meeting of shareholders, and the record date for the stock split or allotment of shares without contribution is a date before the concluding date of such general meeting of shareholders, the number of shares granted after adjustment shall be applied after the day following the concluding date of such general meeting of shareholders.

Moreover, in the case of succession of stock acquisition rights due to an absorption-type merger or consolidation-type merger by the Company, or in the case of succession of stock acquisition rights due to share exchange or share transfer in which the Company becomes a wholly-owned subsidiary, or in other cases of requiring adjustment of the number of shares granted pursuant to these cases, the Company may adjust the number of shares granted appropriately within a reasonable scope.

2. The amount to be included in capital is as follows.

(1) The amount of paid-in capital to be increased when issuing shares by exercising stock acquisition rights shall be the amount calculated by multiplying the upper limit of increases in paid-in capital, etc., by 0.5 in accordance with Article 17, Paragraph (1) of the Regulation on Corporate Accounting, with any fraction less than one yen rounded up.

(2) The amount of capital reserve to be increased when issuing shares by exercising stock acquisition rights shall be the upper limit of increases in paid-in capital, etc. stated in (1) above less the amount of paid-in capital to be increased stipulated in (1) above.

3. Conditions for exercise of the stock acquisition rights are as follows.

(1) The holder of share options must be either a Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company or a subsidiary of the Company even when exercising the rights. However, stock acquisition rights are allowed to be exercised if the person resigns due to reaching a specified retirement age, Company reasons, or industrial illness, or if the person is transferred to a different company, or if exercise is approved by its Board of Directors as having a legitimate reason.

(2) Stock acquisition rights may not be inherited if the holder of share options has died.

4. Treatment at the time of reorganization is as follows.

When the Company conducts a merger (limited to cases where the Company ceases to exist due to merger), absorption-type company split (limited to cases where the Company becomes a divesting entity to a successor entity by divestiture), incorporation-type company split, share exchange (limited to cases where the Company becomes a wholly-owned subsidiary), or share transfer (collectively, the "acts of reorganization"), stock acquisition rights of stock companies listed in Article 236, Paragraph (1), Item (viii) from (a) to (e) of the Companies Act (hereinafter, "target company of reorganization"), shall be issued to the holders of share options who hold remaining stock acquisition rights immediately before the effective date of acts of reorganization (hereinafter, the "Remaining Stock Acquisition Rights") (the effective date of absorption-type merger for an absorption-type merger, that of an incorporation-type merger for an incorporation-type merger, that of an absorption-type of company split for an absorption-type company split, that of an incorporation-type of company split for an incorporation-type company split, that of a share exchange for a share exchange, and the date of establishment of a newly established parent company of a wholly owned subsidiary by transfer of shares for a share transfer) in respective cases. However, it is conditional upon stipulating in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that stock acquisition rights of target companies of reorganization shall be issued in accordance with the following conditions.

- (1) Number of stock acquisition rights for target company of reorganization to be issued

The same number as that of the Remaining Stock Acquisition Rights held by the holder of share options shall be issued, respectively.

- (2) Class of stock of target company of reorganization underlying stock acquisition rights

Common stock of target company of reorganization

- (3) Number of shares of target company of reorganization underlying stock acquisition rights

To be decided pursuant to 1. above, taking into account conditions for the acts of reorganization, and others

- (4) Value of property to be contributed upon exercise of the stock acquisition rights

(i) The value of property to be contributed upon exercise of the stock acquisition rights shall be the amount obtained by multiplying the amount of payment after reorganization stipulated in (ii) below by the number of shares of the target company of reorganization underlying stock acquisition rights to be decided in accordance with (3) above.

(ii) The amount of payment after reorganization shall be one yen per share of the target company of reorganization that can be issued by exercising the stock acquisition rights granted.

- (5) Period for exercise of stock acquisition rights

It shall be from the start date of the period for exercising stock acquisition rights or the effective date for the acts of reorganization, whichever is later, to the expiration date of the period for exercising stock acquisition rights.

- (6) Matters regarding paid-in capital and capital reserve that increase when issuing shares by exercising stock acquisition rights
To be decided pursuant to 2. above.
- (7) Restriction on acquisition of stock acquisition rights by transfer
Acquisition of stock acquisition rights by transfer needs approval of the target company of reorganization.
- (8) Conditions for exercise of the stock acquisition rights
To be decided pursuant to 3. above.

Date of resolution	Board of Directors meeting held on February 10, 2022
Grantee categories and count (people)	Employee: 182
Number of stock acquisition rights ^(Note)	631
Class, description and number of shares underlying stock acquisition rights (Shares) ^(Note)	Common stock: 63,100 (Note 1)
Payment of money at the exercise of stock acquisition rights (Yen) ^(Note)	1
Exercise period of stock acquisition rights ^(Note)	(February 11, 2025 to February 10, 2028)
Issue price and the amount to be included in capital when issuing shares by the exercise of stock acquisition rights (Yen) ^(Note)	Issue price: 1 Amount to be included in capital: 1 (Note 2)
Conditions for exercise of the stock acquisition rights ^(Note)	(Note 3)
Transfer of stock acquisition rights ^(Note)	Approval of the Board of Directors of the Company shall be required to obtain stock acquisition rights by transfer.
Issuance of stock acquisition rights due to the act of reorganization ^(Note)	(Note 4)

(Note) The description is as of the end of the fiscal year under review (December 31, 2022). As the details that should be stated as of the end of the month prior to the submission day have not changed from the details as of the end of the fiscal year under review, the description of details as of the end of the month prior to the submission day has been omitted.

(Notes) 1. When conducting a stock split, allotment of shares without contribution, or stock consolidation, the number of shares granted shall be adjusted using the following formula, with any fraction less than one share as a result of the adjustment rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split, allotment of shares without contribution, or stock consolidation.

The number of shares granted after adjustment shall be applied after the day following the record date (effective date if the record date is not decided) for the stock split or allotment of shares without contribution in the case of a stock split or allotment of shares without contribution, while after the effective date for a stock consolidation. However, if a stock split or allotment of shares without contribution is conducted on condition that a proposal to increase paid-in capital or reserves by decreasing surplus is approved by the Company's general meeting of shareholders, and the record date for the stock split or allotment of shares without contribution is a date before the concluding date of such general meeting of shareholders, the number of shares granted after adjustment shall be applied after the day following the concluding date of such general meeting of shareholders.

Moreover, in the case of succession of stock acquisition rights due to an absorption-type merger or consolidation-type merger by the Company, or in the case of succession of stock acquisition rights due to share exchange or share transfer in which the Company becomes a wholly-owned subsidiary, or in other cases of requiring adjustment of the number of shares granted pursuant to these cases, the Company may adjust the number of shares granted appropriately within a reasonable scope.

2. The amount to be included in capital is as follows.

(1) The amount of paid-in capital to be increased when issuing shares by exercising stock acquisition rights shall be the amount calculated by multiplying the upper limit of increases in paid-in capital, etc., by 0.5 in accordance with Article 17, Paragraph (1) of the Regulation on Corporate Accounting, with any fraction less than one yen rounded up.

(2) The amount of capital reserve to be increased when issuing shares by exercising stock acquisition rights shall be the upper limit of increases in paid-in capital, etc. stated in (1) above less the amount of paid-in capital to be increased stipulated in (1) above.

3. Conditions for exercise of the stock acquisition rights are as follows.

(1) The holder of share options must be either a Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company or a subsidiary of the Company even when exercising the rights, and shall have five years or more of total service when exercising the rights that are held. However, stock acquisition rights are allowed to be exercised if the person resigns due to reaching a specified retirement age, Company reasons, or industrial illness, or if the person is transferred to a different company, or if exercise is approved by its Board of Directors as having a legitimate reason.

(2) Stock acquisition rights may not be inherited if the holder of share options has died.

4. Treatment at the time of reorganization is as follows.

When the Company conducts a merger (limited to cases where the Company ceases to exist due to merger), absorption-type company split (limited to cases where the Company becomes a divesting entity to a successor entity by divestiture), incorporation-type company split, share exchange (limited to cases where the Company becomes a wholly-owned subsidiary), or share transfer (collectively, the "acts of reorganization"), stock acquisition rights of stock companies listed in Article 236, Paragraph (1), Item (viii) from (a) to (e) of the Companies Act (hereinafter, "target company of

reorganization”), shall be issued to the holders of share options who hold remaining stock acquisition rights immediately before the effective date of acts of reorganization (hereinafter, the “Remaining Stock Acquisition Rights”) (the effective date of absorption-type merger for an absorption-type merger, that of an incorporation-type merger for an incorporation-type merger, that of an absorption-type of company split for an absorption-type company split, that of an incorporation-type of company split for an incorporation-type company split, that of a share exchange for a share exchange, and the date of establishment of a newly established parent company of a wholly owned subsidiary by transfer of shares for a share transfer) in respective cases. However, it is conditional upon stipulating in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that stock acquisition rights of target companies of reorganization shall be issued in accordance with the following conditions.

- (1) Number of stock acquisition rights for target company of reorganization to be issued
The same number as that of the Remaining Stock Acquisition Rights held by the holder of share options shall be issued, respectively.
- (2) Class of stock of target company of reorganization underlying stock acquisition rights
Common stock of target company of reorganization
- (3) Number of shares of target company of reorganization underlying stock acquisition rights
To be decided pursuant to 1. above, taking into account conditions for the acts of reorganization, and others
- (4) Value of property to be contributed upon exercise of the stock acquisition rights
 - (i) The value of property to be contributed upon exercise of the stock acquisition rights shall be the amount obtained by multiplying the amount of payment after reorganization stipulated in (ii) below by the number of shares of the target company of reorganization underlying stock acquisition rights to be decided in accordance with (3) above.
 - (ii) The amount of payment after reorganization shall be one yen per share of the target company of reorganization that can be issued by exercising the stock acquisition rights granted.
- (5) Period for exercise of stock acquisition rights
It shall be from the start date of the period for exercising stock acquisition rights or the effective date for the acts of reorganization, whichever is later, to the expiration date of the period for exercising stock acquisition rights.
- (6) Matters regarding paid-in capital and capital reserve that increase when issuing shares by exercising stock acquisition rights
To be decided pursuant to 2. above.
- (7) Restriction on acquisition of stock acquisition rights by transfer
Acquisition of stock acquisition rights by transfer needs approval of the target company of reorganization.
- (8) Conditions for exercise of the stock acquisition rights
To be decided pursuant to 3. above.

Date of resolution	Board of Directors meeting held on February 10, 2022
Grantee categories and count (people)	Employee: 1
Number of stock acquisition rights ^(Note)	100 [-]
Class, description and number of shares underlying stock acquisition rights (Shares) ^(Note)	Common stock: 10,000 [-] (Note 1)
Payment of money at the exercise of stock acquisition rights (Yen) ^(Note)	1
Exercise period of stock acquisition rights ^(Note)	(February 11, 2023 to February 10, 2028)
Issue price and the amount to be included in capital when issuing shares by the exercise of stock acquisition rights (Yen) ^(Note)	Issue price: 1 Amount to be included in capital: 1 (Note 2)
Conditions for exercise of the stock acquisition rights ^(Note)	(Note 3)
Transfer of stock acquisition rights ^(Note)	Approval of the Board of Directors of the Company shall be required to obtain stock acquisition rights by transfer.
Issuance of stock acquisition rights due to the act of reorganization ^(Note)	(Note 4)

(Note) The description is as of the end of the fiscal year under review (December 31, 2022). For the items that had been changed from the end of the fiscal year under review to the end of the previous month (February 28, 2023), their description as of the end of the previous month to the submission day was included in brackets, while there was no change from the description for other items.

- (Notes) 1. When conducting a stock split, allotment of shares without contribution, or stock consolidation, the number of shares granted shall be adjusted using the following formula, with any fraction less than one share as a result of the adjustment rounded down.
- Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split, allotment of shares without contribution, or stock consolidation.
- The number of shares granted after adjustment shall be applied after the day following the record date (effective date if the record date is not decided) for the stock split or allotment of shares without contribution in the case of a stock split or allotment of shares without contribution, while after the effective date for a stock consolidation. However, if a stock split or allotment of shares without contribution is conducted on condition that a proposal to increase paid-in capital or reserves by decreasing surplus is approved by the Company's general meeting of shareholders, and the record date for the stock split or allotment of shares without contribution is a date before the concluding date of such general meeting of shareholders, the number of shares granted after adjustment shall be applied after the day following the concluding date of such general meeting of shareholders.
- Moreover, in the case of succession of stock acquisition rights due to an absorption-type merger or consolidation-type merger by the Company, or in the case of succession of stock acquisition rights due to share exchange or share transfer in which the Company becomes a wholly-owned subsidiary, or in other cases of requiring adjustment of the number of shares granted pursuant to these cases, the Company may adjust the number of shares granted appropriately within a reasonable scope.
2. The amount to be included in capital is as follows.
- (1) The amount of paid-in capital to be increased when issuing shares by exercising stock acquisition rights shall be the amount calculated by multiplying the upper limit of increases in paid-in capital, etc., by 0.5 in accordance with Article 17, Paragraph (1) of the Regulation on Corporate Accounting, with any fraction less than one yen rounded up.
- (2) The amount of capital reserve to be increased when issuing shares by exercising stock acquisition rights shall be the upper limit of increases in paid-in capital, etc. stated in (1) above less the amount of paid-in capital to be increased stipulated in (1) above.
3. Conditions for exercise of the stock acquisition rights are as follows.
- (1) The holder of share options must be either a Director, Audit & Supervisory Board Member, Executive Officer, or employee of the Company or a subsidiary of the Company even when exercising the rights. However, stock acquisition rights are allowed to be exercised if the person resigns due to reaching a specified retirement age, Company reasons, or industrial illness, or if the person is transferred to a different company, or if exercise is approved by its Board of Directors as having a legitimate reason.
- (2) Stock acquisition rights may not be inherited if the holder of share options has died.
4. Treatment at the time of reorganization is as follows.
- When the Company conducts a merger (limited to cases where the Company ceases to exist due to merger), absorption-type company split (limited to cases where the Company becomes a divesting entity to a successor entity by divestiture), incorporation-type company split, share exchange (limited to cases where the Company becomes a wholly-owned subsidiary), or share transfer (collectively, the "acts of reorganization"), stock acquisition rights of stock companies listed in Article 236, Paragraph (1), Item (viii) from (a) to (e) of the Companies Act (hereinafter, "target company of

reorganization”), shall be issued to the holders of share options who hold remaining stock acquisition rights immediately before the effective date of acts of reorganization (hereinafter, the “Remaining Stock Acquisition Rights”) (the effective date of absorption-type merger for an absorption-type merger, that of an incorporation-type merger for an incorporation-type merger, that of an absorption-type of company split for an absorption-type company split, that of an incorporation-type of company split for an incorporation-type company split, that of a share exchange for a share exchange, and the date of establishment of a newly established parent company of a wholly owned subsidiary by transfer of shares for a share transfer) in respective cases. However, it is conditional upon stipulating in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that stock acquisition rights of target companies of reorganization shall be issued in accordance with the following conditions.

- (1) Number of stock acquisition rights for target company of reorganization to be issued
The same number as that of the Remaining Stock Acquisition Rights held by the holder of share options shall be issued, respectively.
 - (2) Class of stock of target company of reorganization underlying stock acquisition rights
Common stock of target company of reorganization
 - (3) Number of shares of target company of reorganization underlying stock acquisition rights
To be decided pursuant to 1. above, taking into account conditions for the acts of reorganization, and others
 - (4) Value of property to be contributed upon exercise of the stock acquisition rights
 - (i) The value of property to be contributed upon exercise of the stock acquisition rights shall be the amount obtained by multiplying the amount of payment after reorganization stipulated in (ii) below by the number of shares of the target company of reorganization underlying stock acquisition rights to be decided in accordance with (3) above.
 - (ii) The amount of payment after reorganization shall be one yen per share of the target company of reorganization that can be issued by exercising the stock acquisition rights granted.
 - (5) Period for exercise of stock acquisition rights
It shall be from the start date of the period for exercising stock acquisition rights or the effective date for the acts of reorganization, whichever is later, to the expiration date of the period for exercising stock acquisition rights.
 - (6) Matters regarding paid-in capital and capital reserve that increase when issuing shares by exercising stock acquisition rights
To be decided pursuant to 2. above.
 - (7) Restriction on acquisition of stock acquisition rights by transfer
Acquisition of stock acquisition rights by transfer needs approval of the target company of reorganization.
 - (8) Conditions for exercise of the stock acquisition rights
To be decided pursuant to 3. above.
- (ii) Description of the rights plan
Not applicable.
- (iii) Other stock acquisition rights
Not applicable.

(3) Status of exercise of corporate bonds with share options with an amended exercise price

Not applicable.

(4) Changes in the total number of shares outstanding, paid-in capital and others

Date	Changes in the total number of shares outstanding (Shares)	Total number of shares outstanding (Shares)	Changes in the amount of paid-in capital (Thousands of yen)	Balance of paid-in capital (Thousands of yen)	Changes in the amount of capital reserve (Thousands of yen)	Balance of capital reserve (Thousands of yen)
July 13, 2018 (Note 1)	2,850,147	2,853,000	—	158,137	—	158,137
October 1, 2019 (Note 2)	2,853,000	5,706,000	—	158,137	—	158,137
January 1, 2020- December 31, 2020 (Note 3)	71,900	5,777,900	5,392	163,530	5,392	163,530
January 1, 2021 (Note 2)	5,777,900	11,555,800	—	163,530	—	163,530
April 15, 2021 (Note 4)	19,998	11,575,798	—	163,530	—	163,530
May 31, 2021 (Note 5)	(200,000)	11,375,798	—	163,530	—	163,530
January 1, 2021- December 31, 2021 (Note 3)	42,600	11,418,398	1,597	165,127	1,597	165,127
December 31, 2021 (Note 6)	—	11,418,398	13,596	178,723	13,596	178,723
January 1, 2022- December 31, 2022 (Note 3)	50,080	11,468,478	26,806	205,530	26,806	205,530
December 31, 2022 (Note 6)	—	11,468,478	4,532	210,062	4,532	210,062

- (Notes) 1. It is an increase due to a share split (1:1,000).
2. It is an increase due to a share split (1:2).
3. It is an increase due to the exercise of stock acquisition rights.
4. It is an increase due to the issuance of new shares as restricted stock awards.
Issue price: ¥1,813 per share
Persons to be allotted: Three Directors (excluding Outside Directors)
5. It is a decrease due to the retirement of treasury stocks.
6. It is an increase due to the provision of services for restricted stock awards issued without contribution as remuneration for Directors.
7. During the period from January 1, 2023 to February 28, 2023, the total number of shares outstanding increased 13,520 shares, and paid-in capital and capital reserve grew by ¥137 thousand, respectively, due to the exercise of stock acquisition rights.

(5) Status by owner

As of December 31, 2022

Category	Status of shares (100 shares per unit)								Shares less than one unit (Shares)
	Central and local governments	Financial institutions	Financial instrument business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	—	8	26	25	52	10	3,622	3,743	—
Number of shares held (Unit)	—	17,615	9,166	329	3,563	38	83,903	114,614	7,078
Ratio of shares owned (%)	—	15.37	8.00	0.29	3.11	0.03	73.20	100.00	—

(Notes) Among 5,821 shares of treasury stock, 58 units are included in “Individuals and others” and 21 shares in “Shares less than one unit.”

(6) Major shareholders

As of December 31, 2022

Name	Address	Number of shares held (Shares)	Ratio of shares owned to the total number of shares outstanding (excluding treasury stock) (%)
Shoichiro Onishi	Suginami-ku, Tokyo	2,169,974	18.93
Masahiro Matsuoka	Minato-ku, Tokyo	2,169,974	18.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	875,300	7.64
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	805,600	7.03
SBI Securities Co., Ltd.	1-6-1 Roppongi, Minato-ku, Tokyo, Japan	622,715	5.43
Masaya Yajima	Minato-ku, Tokyo	614,880	5.36
Tomohiro Murata	Ota-ku, Tokyo	266,880	2.33
Takahiro Yamaguchi	Minato-ku, Tokyo	160,000	1.40
Toshiyuki Mitsuzawa	Nakano-ku, Tokyo	146,000	1.27
Akinori Nishida	Minato-ku, Tokyo	112,200	0.98
Total	—	7,943,523	69.30

(Notes) Among the above number of shares held, the number of shares for trust business is as follows.

The Master Trust Bank of Japan, Ltd. (Trust Account): 875,300

Custody Bank of Japan, Ltd. (Trust Account): 805,600

(7) Voting rights

(i) Number of shares outstanding

As of December 31, 2022

Category	Number of shares (Shares)	Number of voting rights (Units)	Description
Stock with no voting rights	—	—	—
Shares with restricted voting rights (treasury stock, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury stock, etc.)	Common stock 5,800	—	—
Shares with full voting rights (others)	Common stock 11,455,600	114,556	It is stock without any restriction on its rights as shareholders, and is standard stock of the Company. There are 100 shares per unit.
Shares less than one unit	Common stock 7,078	—	—
Total number of shares outstanding	11,468,478	—	—
Voting rights of all shareholders	—	114,556	—

(Note) In the section of “Number of shares” for “Shares less than one unit” there are 21 shares of treasury stock.

(ii) Treasury stock

As of December 31, 2022

Name of owner	Address of owner	Number of shares owned under own name (Shares)	Number of shares owned under another person’s name (Shares)	Total of shares owned (Shares)	Ratio of shares owned to the total number of shares outstanding (%)
(Shares held by oneself) Frontier Management Inc.	3-2-1 Roppongi, Minato- ku, Tokyo, Japan	5,800	—	5,800	0.05
Total	—	5,800	—	5,800	0.05

2. Purchase of Treasury Stock

Class of stock, etc. Not applicable.

(1) Purchase by resolution of the general meeting of shareholders
Not applicable.

(2) Purchase by resolution of the Board of Directors
Not applicable.

(3) Description of acquisition not by resolution of the general meeting of shareholders or the Board of Directors
Not applicable.

(4) Disposal and holding of the acquired treasury stock

Category	Current fiscal year		Current period	
	Number of shares (Shares)	Total amount of disposition (Yen)	Number of shares (Shares)	Total amount of disposition (Yen)
Acquired treasury stock solicited for subscribers	–	–	–	–
Acquired treasury stock disposed of by cancellation	–	–	–	–
Acquired treasury stock transferred for merger, share exchange, share issuance and company split	–	–	–	–
Other (Disposal of treasury stock due to restricted stock awards)	19,998	20,997,900	–	–
Number of treasury stock held	5,821	–	5,821	–

(Notes) The number of treasury stock held during the current period does not include the number of shares for the purchase of shares less than one unit and the gratis acquisition of shares subject to transfer restriction from March 1, 2023 to the submission date of the securities report.

3. Dividend Policy

For the profit distribution for the fiscal year under review (FYE December 2022), the Company has decided on a year-end dividend of ¥28 per share, wishing to aggressively return profit in order to meet the expectations of shareholders, with a basic policy of paying stable dividends on a continual basis, while securing sufficient internal reserves to develop future business and enhance the management structure.

Regarding the profit distribution for the next fiscal year (FYE December 2023), considering the fact we believe that to allow the loss related to the establishment of the consolidated subsidiary Frontier Capital Inc. to reduce the dividend resources to be paid to our shareholders is inconsistent with our basic dividend policy, and considering the fact that in the future, if Frontier Capital Inc. invests in a company which becomes a consolidated subsidiary of Frontier Capital Inc., it will temporarily increase or decrease the Company's consolidated net income for accounting purposes, but will not actually affect the increase or decrease in the Company's dividend resources, we will target 40% of consolidated net income exclusive of Frontier Capital Inc., and intend to decide upon the dividend after considering the full-year consolidated business performance, financial position, economic situation and the like of the Group.

We would like to make effective use of internal reserves to develop businesses in Japan and abroad, and secure excellent human resources.

For dividends of surplus, we have a basic policy of paying them as an annual year-end dividend. The general meeting of shareholders decides dividends of surplus. Moreover, it is stipulated in the Articles of Incorporation that the Company may pay an interim dividend by a resolution of the Board of Directors.

Dividends of surplus for the fiscal year under review are as follows.

Date of resolution	Total cash dividends paid (Thousands of yen)	Dividend per share (Yen)
Resolution of annual general meeting of shareholders held on March 24, 2023	320,954	28

4. Corporate Governance

(1) Outline of corporate governance

(i) Basic policy of corporate governance

The Company recognizes that it is extremely important to promote efficient management through the facilitation of decision-making, and at the same time reinforce risk control in management, in order to improve enterprise value on a continual basis. The Company has adopted the Board of Directors system and the Audit & Supervisory Board system, to monitor management risks through the Board of Directors and the Audit & Supervisory Board Member audit, and thoroughly implement compliance and strive to strengthen its self-purification capability through audits by the Internal Audit Office.

Through these measures, we will secure the effectiveness of corporate governance to further enhance business administration organizations in the Group.

(ii) Outline of the corporate governance system and reasons for adopting such system

The Company has adopted the Audit & Supervisory Board Member system for the Board of Directors and the Audit & Supervisory Board to make decisions on important business executions, and conduct supervision and audits. The Board of Directors consists of six Directors (including two Outside Directors), with the authority to decide business execution of the Company and supervise the execution of duties by Directors. The Audit & Supervisory Board consists of three Audit & Supervisory Board Members (all of them are Outside Audit & Supervisory Board Members) to monitor corporate governance and its operations, and audit daily activities, including the execution of duties by Directors.

The Board of Directors and the Audit & Supervisory Board hold regular meetings once a month in principle, and extraordinary ones as necessary.

Moreover, the Company has established the Nomination and Compensation Advisory Committee as a voluntary advisory organization for the Board of Directors. The Nomination and Compensation Advisory Committee consists of two Representative Directors and four independent officers, to deliberate matters concerning the appointment and compensation for Directors and Audit & Supervisory Board Members upon consultation by the Board of Directors, and make recommendations to the Board of Directors. For decision-making on the appointment and compensation for Directors and Audit & Supervisory Board Members, we are striving to further enhance and strengthen the corporate governance system by securing appropriate opportunities for the involvement and advice of independent officers to improve the fairness, objectivity and transparency of the decision-making process at the Board of Directors.

For the business execution system, we have elected two Representative Directors, under whom an Executive Officer system has been adopted.

While checking each other, the two Representative Directors direct Executive Officers to manage the business execution of the entire company. Moreover, Representative Director Shoichiro Onishi, having served as an attorney, possesses knowledge in the area of law to demonstrate his expertise especially in the management of the general meeting of shareholders and the Board of Directors meeting, etc., while Representative Director Masahiro Matsuoka utilizes his experience as an analyst at a securities company to demonstrate his expertise in such areas as IR.

The Executive Officer system has been introduced to strengthen, streamline and expediate the business execution in management. Moreover, we have established the Executive Committee and the Management Committee for the Board of Directors to consult with in advance. The Executive Committee is held monthly in principle, and extraordinarily as necessary, to share information on the execution of duties and discuss matters related to important business execution, with the attendance of Representative Directors, full-time Directors, the President and Executive Officer, the Deputy President and Executive Officer, the Senior Managing Executive Officer, Managing Executive Officers, full-time Audit & Supervisory Board Members, the Head of the Internal Audit Office and other Executive Officers, Heads of Department, and Deputy Heads of Department or General Managers who are designated by the Representative Director. The Management Meeting is held monthly in principle, and when there is a matter in need of swiftness and that requires confidentiality such as important personnel affairs and business alliances with other companies, to have discussions, with the attendance of Representative Directors, full-time Directors, the President and Executive Officer, the Deputy President and Executive Officer, the Senior Managing Executive Officer, Managing Executive Officers, person(s) designated by the Chairperson and full-time Audit & Supervisory Board Members.

The members of each meeting are as follows.

(Board of Directors)

Chairperson: Shoichiro Onishi, Representative Director

Member: Masahiro Matsuoka, Representative Director; Tadaaki Komori, Director; Masao Nishihara, Director; Kazuhito Osugi, Outside Director; Keiko Unotoro, Outside Director; Takeshi Umemoto, Outside Audit & Supervisory Board Member;

Kazuhiko Shimokobe, Outside Audit & Supervisory Board Member; Nobumichi Hattori, Outside Audit & Supervisory Board Member

Outside Audit & Supervisory Board Members always attend the Board of Directors meetings and state their opinions as necessary.

(Audit & Supervisory Board)

Chairperson: Takeshi Umemoto, Outside Audit & Supervisory Board Member

Member: Kazuhiko Shimokobe, Outside Audit & Supervisory Board Member; Nobumichi Hattori, Outside Audit & Supervisory Board Member

(Nomination and Compensation Advisory Committee)

Chairperson: Kazuhito Osugi, Outside Director

Member: Shoichiro Onishi, Representative Director; Masahiro Matsuoka, Representative Director; Keiko Unotoro, Outside Director; Kazuhiko Shimokobe, Outside Audit & Supervisory Board Member; Nobumichi Hattori, Outside Audit & Supervisory Board Member

(Management Committee)

Chairperson: Shoichiro Onishi, Representative Director, Co-President and Executive Officer

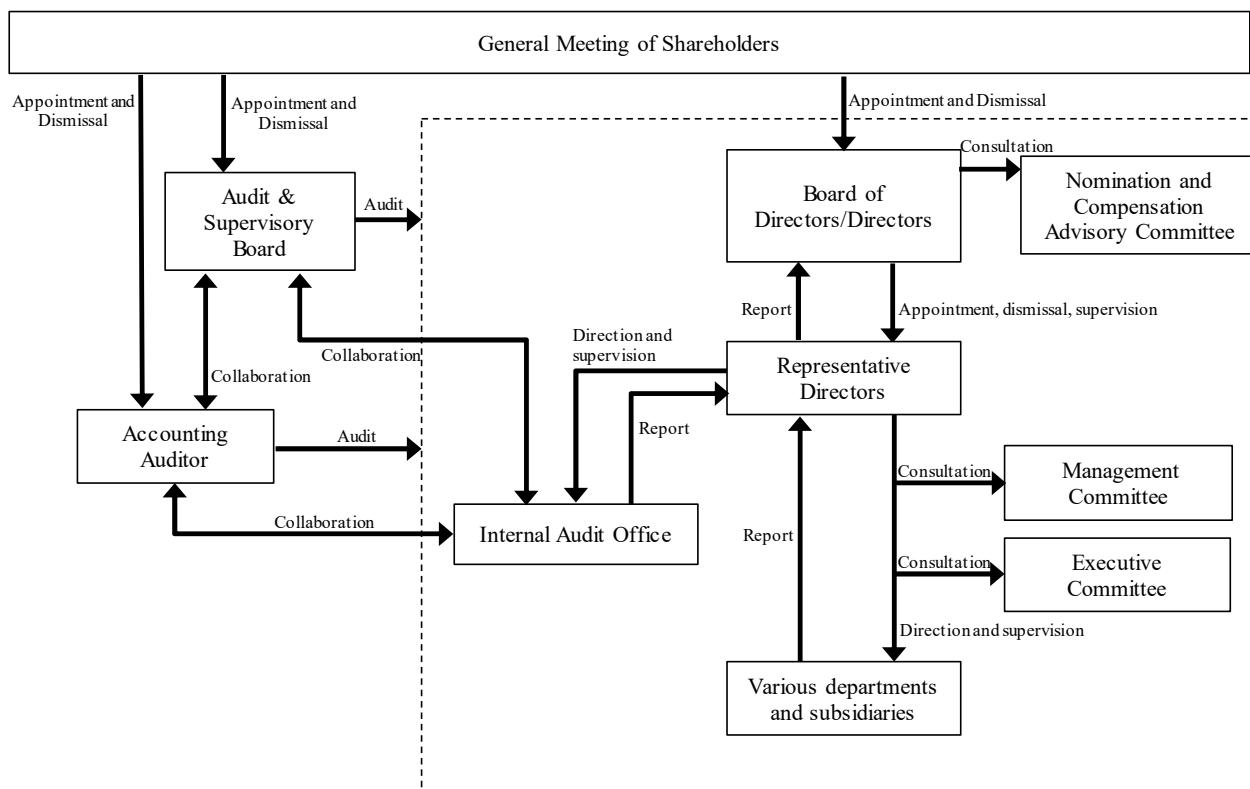
Member: Masahiro Matsuoka, Representative Director, Co-President and Executive Officer; Tadaaki Komori, Director, Deputy President and Executive Officer; Toshiyuki Mitsuzawa, Senior Managing Executive Officer; Sumio Nishizawa, Managing Executive Officer; Akinori Nishida, Managing Executive Officer; Takeshi Umemoto, Full-time Audit & Supervisory Board Member (Observer)

(Executive Committee)

Chairperson: Shoichiro Onishi, Representative Director, Co-President and Executive Officer

Member: Masahiro Matsuoka, Representative Director, Co-President and Executive Officer; Tadaaki Komori, Director, Deputy President and Executive Officer; Toshiyuki Mitsuzawa, Senior Managing Executive Officer; Sumio Nishizawa, Managing Executive Officer; Akinori Nishida, Managing Executive Officer; Shinji Hikoe, Executive Officer; Tomohiro Murata, Executive Officer; Hiroaki Hamada, Executive Officer; Takeshi Umemoto, Full-time Audit & Supervisory Board Member (Observer); Nobuhiro Yanagida, Head of Internal Audit Office (Observer)

<Schematic diagram of the corporate governance structure>



(iii) Development of the internal control systems

The Group has determined the basic policy for the internal control systems as follows, in order to realize the management philosophy of “contributing to the interests of clients,” “contributing to the interests of stakeholders,” and “contributing to society.”

- A. System to ensure that the execution of duties by Directors and employees conforms to laws and regulations and the Articles of Incorporation
 - (a) Recognizing that thorough compliance is indispensable for ensuring the survival and sustainable growth of an enterprise, the Company shall strive to make all Directors and all the employees aware of compliance, and provide compliance training to them.
 - (b) The Audit & Supervisory Board Members shall conduct audits and the Internal Audit Office shall conduct internal audits to confirm that the execution of duties by Directors and employees is properly performed without violating laws and regulations, the Articles of Incorporation, and the internal rules.
 - (c) Establish a reporting system for violations of laws and regulations by stipulating the compliance rules and the internal reporting rules so that the Company can promptly recognize and deal with such acts.
- B. System for storing and managing information related to the execution of duties by Directors
 - (a) Documents (including electromagnetic documents) related to the execution of duties by Directors shall be stored and managed in accordance with laws and regulations, the Articles of Incorporation, the documentation management rules, and other relevant rules.
 - (b) These documents (including electromagnetic documents) shall be available per request from Directors and Audit & Supervisory Board Members.
- C. Frameworks for managing the risks of loss including the relevant internal regulations
 - (a) The Representative Director shall be the Chief Risk Management Officer, and the Company shall establish the risk management rules and frameworks for risk management across the organizations.
 - (b) Establish the crisis management rules and the reporting and command structure in an emergency so that the Company can identify emergencies promptly and minimize losses.

D. System to ensure that Directors perform their duties efficiently

- (a) In principle, the Board of Directors holds a regular meeting once a month and an extraordinary meeting as necessary to make decisions on important matters in accordance with the rules of the Board of Directors and supervise the execution of duties by Directors.
- (b) Matters to be submitted to a Board of Directors meeting shall be subject to discussion at a voluntary meeting of the Nomination and Compensation Committee and by the Management Committee or the Executive Committee.

E. System to ensure appropriateness of business operations in the corporate group comprising the Company and its subsidiaries

- (a) Establish subsidiary management rules to ensure the appropriateness of the business conducted by the corporate group comprising the Company and its subsidiaries, and manage the subsidiaries in accordance with the rules.
- (b) Communicate with the Directors of the subsidiaries on a daily basis to discuss management of the corporate group, and confirm that the subsidiaries are properly operated in accordance with the Company's management policies.

F. Matters concerning employees who assist in the duties of Audit & Supervisory Board Members when such Audit & Supervisory Board Members request to have such employees assigned

If Audit & Supervisory Board Members request the assignment of employees who are to assist in Audit & Supervisory Board Members' duties, Directors and Audit & Supervisory Board Members shall discuss and decide the assignment.

G. Matters related to independence of employees in F. above from Directors

If putting in place employees set forth in F. above, such employees shall not belong to the business operation and follow the instructions of the Audit & Supervisory Board Members. The opinions of the Audit & Supervisory Board shall be respected regarding the transfer of such employees, personnel assessments, and disciplinary actions.

H. Matters on securing the effectiveness of instruction to employees set forth in F. above for Audit & Supervisory Board Members

If putting in place employees set forth in F. above, the Full-time Audit & Supervisory Board Member should check the status of duty execution by such employees by having a meeting with them periodically.

I. System for reporting by Directors and employees to Audit & Supervisory Board Members and other systems involving reporting to Audit & Supervisory Board Members

- (a) Directors and employees shall make a business report upon request from the Audit & Supervisory Board Members.
- (b) Full-time Audit & Supervisory Board Members attend the Board of Directors meetings and other important meetings, and receive reports on important matters from Directors and employees.

J. The system to ensure that a person who has submitted a report as described in the preceding item is not treated disadvantageously on account of having reported it

As the internal reporting rules provide that a person who has done whistle-blowing shall not be treated disadvantageously on account of having done so, operations will be run in conformity to the rules.

K. Matters on the policy to process expenses and liabilities that are incurred due to execution of duties by Audit & Supervisory Board Members

- (a) The Audit & Supervisory Board secures a budget required for executing an audit plan it approves.
- (b) If being requested by an Audit & Supervisory Board Member to pay an expense for execution of his/her duties, the Company pays it swiftly unless deeming it evidently unnecessary for the execution.
- (c) Control and payment of expenses for execution of duties by Audit & Supervisory Board Members are done by Audit & Supervisory Board Members and employees who assist in their duties.

L. Other systems for ensuring effective auditing by the Audit & Supervisory Board Members

- (a) The Audit & Supervisory Board shall establish the Audit & Supervisory Board rules and auditing standards for corporate audits, prepare an audit plan, explain its contents at the Board of Directors meetings, and obtain understanding and cooperation regarding the implementation of audits.
- (b) Audit & Supervisory Board Members shall exchange opinions with Representative Directors through regular meetings.
- (c) Audit & Supervisory Board Members shall witness internal audits conducted by internal auditors, exchange opinions with internal auditors and coordinate closely with related departments to ensure the effectiveness of audits.

M. System to ensure appropriateness of financial reports

Directors and employees shall ensure the appropriateness of financial reports through business execution in compliance with the “Basic policy for the maintenance, operation and evaluation of internal controls related to financial reporting.”

N. Basic thinking on exclusion of antisocial forces and development status

The Company will confront any antisocial forces sternly and blocks any relationship with them.

In addition, in order to block relationships with antisocial forces, the Company shall establish the compliance rules and other internal rules.

(iv) Development of frameworks for risk management

As internal rules for risk management, the Company has established the “risk management rules” and is developing frameworks for appropriate risk management in order to minimize losses or disadvantages arising from business activities.

Specifically, the Risk Management Committee, which consists of the “Chief Risk Management Officer,” who is decided by mutual election between the Representative Directors and serves as the Chairperson, the other Representative Director as Vice Chairperson, and an Officer responsible for management, who is the “Risk Management Officer,” the Head of Internal Audit Office, and other Risk Management Committee Members who are designated by the Chairperson, provide guidance and supervision to each department of the Company to ensure appropriate risk management.

In normal times, under the guidance of the Risk Management Committee, each department identifies risks on a regular basis, reports to the Risk Management Committee and receives guidance on measures to address risks; whether there are problems in compliance with laws, regulations and various rules as well as risk management is verified by conducting regular internal audits, and risk management is strengthened by finding fraudulent acts early and correcting them. Moreover, we have established the “crisis management rules” and developed frameworks so that even when there is an emergency that may lead to serious losses or events causing damage to the Company physically, economically, or reputationally such as natural disasters, accidents or system failures, the Company shall establish an emergency headquarters with the Representative Director as its head, and the headquarters, or officers/employees instructed by the headquarters shall take the necessary measures.

(v) Summary of details of limited liability agreement

The Company has stipulated in the Articles of Incorporation that pursuant to the provisions of Article 427, Paragraph (1) of the Companies Act, the Company may, by resolution of the Board of Directors, exempt the liability of Outside Directors and Outside Audit & Supervisory Board Members for the acts under Article 423, Paragraph (1) of the Act to the extent permitted by law. This aims to establish an environment where Directors (excluding Executive Directors, etc.) and Audit & Supervisory Board Members can fully demonstrate their abilities and fulfil their expected roles in executing their duties.

The Company has entered into limited liability agreements with Outside Directors Kazuhito Osugi and Keiko Unotoro, as well as Outside Audit & Supervisory Board Members Takeshi Umemoto, Kazuhiko Shimokobe and Nobumichi Hattori, based on which their liability for damages shall be the amount stipulated by law.

(vi) Outline of directors and officers liability insurance policy

The Company has entered into a directors and officers liability insurance policy as provided for in Article 430-3, Paragraph (1) of the Companies Act with an insurance company, thereby covering losses that may arise from a Director or an Audit & Supervisory Board Member, an insured person, assuming liability incurred in the course of the performance of duties or receiving claims pertaining to the pursuit of such liability. Directors and Audit & Supervisory Board Members will be included as insured persons in such policy.

(vii) Fixed number of Directors

The Company has stipulated in the Articles of Incorporation that the fixed number of Directors shall be seven or less.

(viii) Requirements for resolution on election of Directors

The Company has stipulated in the Articles of Incorporation that a resolution on election of Directors shall be approved by a majority of the voting rights of attending shareholders, with the attendance of shareholders with no less than one-third of voting rights of shareholders who can exercise voting rights at the general meeting of shareholders, and shall not be approved by cumulative voting.

(ix) Matters that may be resolved by the Board of Directors among those to be resolved by the general meeting of shareholders

In order to flexibly return profit to shareholders by delegating the interim dividend from the general meeting of shareholders to the Board of Directors, the Company has stipulated in the Articles of Incorporation that by a resolution of the Board of Directors,

the Company may give dividends of surplus stipulated by Article 454, Paragraph (5) of the Companies Act to shareholders or registered pledgees listed in the final shareholder register of June 30 every year.

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

In order to operate the general meeting of shareholders smoothly by relaxing the quorum for special resolution at the general meeting of shareholders, the Company has stipulated in the Articles of Incorporation that resolutions stipulated by Article 309, Paragraph (2) of the Companies Act shall be approved by no less than two-thirds of voting rights with the attendance of shareholders who have no less than one-third of voting rights of shareholders who can exercise voting rights.

(xi) Purchase of treasury stock

The Company has stipulated in the Articles of Incorporation that pursuant to Article 165, Paragraph (2) of the Companies Act, treasury stock may, by resolution of the Board of Directors, be purchased through market transactions, etc. This is to enable the execution of flexible capital policies in response to changes in the business environment.

(2) Officers

(i) List of officers

Male: Eight Female: One (Ratio of women among officers: 11.1%)

Position	Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)
Representative Director Co-President and Executive Officer	Shoichiro Onishi	September 25, 1963	<p>Apr. 1992 Joined Okuno & Partners Law Office (currently OKUNO & PARTNERS)</p> <p>Apr. 1997 Partner</p> <p>June 2003 Joined Industrial Revitalization Corporation of Japan</p> <p>Nov. 2003 Managing Director</p> <p>Jan. 2004 Outside Corporate Auditor of Mitsui Mining Co., Ltd. (currently NIPPON COKE & ENGINEERING. CO., LTD.)</p> <p>June 2004 Outside Director of Kanebo, Ltd.</p> <p>Mar. 2005 Outside Director of The Daiei, Inc.</p> <p>Jan. 2007 Counsel of OKUNO & PARTNERS (current position)</p> <p>Jan. 2007 Founded the Company, Representative Director (current position)</p> <p>Sept. 2012 Representative Director and President of Frontier Turnaround Inc.</p> <p>July 2016 Representative Director and Chairman</p> <p>Nov. 2017 Representative Director of FCD Partners Inc. (current position)</p> <p>June 2020 Outside Director of Tokyo Electric Power Company Holdings, Incorporated (current position)</p> <p>Apr. 2022 President, CEO and COO of Frontier Capital Inc. (current position)</p>	(Note 3)	2,169,974
Representative Director Co-President and Executive Officer	Masahiro Matsuoka	September 20, 1967	<p>Apr. 1990 Joined Nomura Research Institute, Ltd.</p> <p>July 1994 Joined Barclays Securities Japan Co., Ltd. (currently Barclays Securities Japan Limited)</p> <p>Sept. 1997 Joined SBC Warburg Securities Japan (currently UBS Securities Japan Co., Ltd.)</p> <p>Sept. 1999 General Manager of Equity Research Department and Managing Director</p> <p>July 2003 Joined Industrial Revitalization Corporation of Japan</p> <p>Feb. 2004 Managing Director</p> <p>June 2004 Outside Director of Kanebo, Ltd.</p> <p>Mar. 2005 Outside Director of The Daiei, Inc.</p> <p>Jan. 2007 Founded the Company, Representative Director (current position)</p> <p>Aug. 2012 Chairman and CEO of Frontier Management (Shanghai) Inc.</p> <p>Sept. 2015 Chairman (current position)</p> <p>Nov. 2017 Representative Director of FCD Partners Inc. (current position)</p> <p>July 2018 Outside Director of ORENO Corporation</p> <p>June 2020 Outside Director of RIZAP GROUP, Inc. (current position)</p> <p>Nov. 2020 Representative Director and Chairman of ORENO Corporation (current position)</p> <p>Jan. 2022 Director of Celebrain Corporation (current position)</p> <p>Apr. 2022 Representative Director of Frontier Capital Inc. (current position)</p>	(Note 3)	2,169,974

Position	Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)
Director Deputy President and Executive Officer	Tadaaki Komori	March 2, 1962	<p>Apr. 1985 Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation)</p> <p>Apr. 2006 Head of Financial Sponsor Dept., Corporate Advisory Div.</p> <p>Apr. 2013 Head of Corporate Sales Dept. at Yokohama</p> <p>Apr. 2015 Vice President and Head of Corporate Sales Dept. at Yokohama</p> <p>Apr. 2016 Vice President and Deputy Head of Corporate Advisory Div.</p> <p>July 2017 Executive Officer and Head of Corporate Business Div. of SMBC Nikko Securities Inc. (joined the company)</p> <p>Mar. 2018 Managing Executive Officer and Head of Investment Banking Div.</p> <p>Mar. 2019 Managing Executive Officer and Head of M&A Advisory Div.</p> <p>Mar. 2020 Managing Executive Officer, Deputy Head of Wholesale Business, and Head of M&A Advisory Div.</p> <p>Apr. 2020 Managing Executive Officer and Deputy Head of Wholesale Business of Sumitomo Mitsui Financial Group, Inc. (concurrently serving at SMBC Nikko Securities Inc.)</p> <p>Aug. 2021 Deputy President and Executive Officer of the Company</p> <p>Jan. 2022 Deputy President and Executive Officer, Head of Financial Advisory Department, Head of Financial Advisory Division 1, and Head of Marketing Department</p> <p>Mar. 2022 Director of the Company (current position)</p> <p>May 2022 Deputy President and Executive Officer, Head of M&A Advisory Business, and Head of Marketing Department (current position)</p>	(Note 3)	11,122
Director	Masao Nishihara	May 18, 1951	<p>Apr. 1975 Joined the Ministry of Finance</p> <p>July 2004 Director-General of the Inspection Bureau of the Financial Services Agency</p> <p>July 2007 Director-General of the Supervision Bureau</p> <p>July 2008 Secretary-General of the Executive Bureau of Securities and Exchange Surveillance Commission</p> <p>Aug. 2009 Senior Managing Director of Organization for Promoting Urban Development</p> <p>June 2013 Vice Chairman and Senior Managing Director of Regional Banks Association of Japan</p> <p>Aug. 2022 Advisor of the Company</p> <p>Mar. 2023 Director of the Company (current position)</p>	(Note 4)	–

Position	Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)
Director	Kazuhiro Osugi	July 31, 1953	<p>Apr. 1977 Joined Bank of Japan</p> <p>Nov. 1986 Economist of Bank for International Settlements (BIS)</p> <p>June 1999 Branch Manager of Matsumoto Branch of Bank of Japan</p> <p>May 2001 Deputy Branch Manager of Osaka Branch</p> <p>May 2003 RM Manager and Senior Director of Industrial Revitalization Corporation of Japan</p> <p>July 2005 Deputy Director-General of Financial System and Bank Examination Department and Head of Center for Advanced Financial Technology of Bank of Japan</p> <p>May 2006 Internal Auditor and Director-General of Internal Auditors' Office</p> <p>Apr. 2007 Director-General of Secretariat of the Policy Board</p> <p>Apr. 2009 Visiting Professor of Ochanomizu University</p> <p>Sept. 2011 Auditor of Bank of Japan</p> <p>Oct. 2015 Advisor of Security Transport Business Division of Nippon Express Company, Limited</p> <p>Apr. 2016 Part-time Advisor of the Company</p> <p>June 2016 Independent Outside Director of the Board of Nissha Printing Co., Ltd. (currently Nissha Co., Ltd.) (current position)</p> <p>Aug. 2018 Outside Director of the Company (current position)</p> <p>June 2021 Outside Director of The Gunma Bank, Ltd. (current position)</p>	(Note 3)	—
Director	Keiko Unotoro	October 26, 1954	<p>Apr. 1977 Joined Secretariat of Japan Fair Trade Commission</p> <p>Apr. 2000 Part-time Lecturer of Graduate School of Economics of Senshu University (current position)</p> <p>June 2004 Chief Hearing Examiner of General Secretariat of Japan Fair Trade Commission</p> <p>Jan. 2007 Director General of Trade Practices Department</p> <p>June 2008 Senior Deputy Secretary General of Secretariat</p> <p>Jan. 2011 Director General of Economic Affairs Bureau</p> <p>Nov. 2012 Advisor of OH-EBASHI LPC & PARTNERS (current position)</p> <p>Apr. 2013 Professor of Faculty of Business Administration of Toyo Gakuen University</p> <p>June 2013 Outside Director of Olympus Corporation</p> <p>Mar. 2015 Outside Director of Bridgestone Corporation</p> <p>June 2019 Outside Director of SAN-AI OIL CO., LTD. (currently SAN-AI OBBLI CO., LTD.) (current position)</p> <p>Dec. 2019 Member of Investment and Miscellaneous Issues Working Group of Council for Regulatory Reform</p> <p>Apr. 2020 Specially Appointed Professor of Faculty of Business Administration of Toyo Gakuen University</p> <p>Apr. 2020 Outside Director (Audit and Supervisory Committee Member) of OS Co., Ltd. (current position)</p> <p>Aug. 2020 Outside Director of OHBA CO., LTD. (current position)</p> <p>Jan. 2021 Commissioner of Public Security Examination Commission (current position)</p> <p>Mar. 2021 Outside Director of the Company (current position)</p> <p>Sept. 2022 Auditor of Tokyo Metropolitan Public University Corporation (current position)</p>	(Note 3)	—

Position	Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)
Standing Audit & Supervisory Board Member	Takeshi Umemoto	June 8, 1950	<p>Mar. 1973 Joined Ito-Yokado Co., Ltd.</p> <p>Nov. 1992 Securities General Manager</p> <p>Jan. 1998 General Manager of Treasury and Securities Department</p> <p>Jan. 2004 General Manager of Business Development Department of IY Bank Co., Ltd. (currently Seven Bank, Ltd.)</p> <p>July 2005 General Manager of General Affairs Division</p> <p>May 2006 General Manager of Planning Division</p> <p>Oct. 2007 General Manager of Audit & Supervisory Board Members' Office</p> <p>June 2011 Counselor of Audit & Supervisory Board Members' Office</p> <p>Feb. 2012 Outside Audit & Supervisory Board Member of the Company (current position)</p>	(Note 5)	40,000
Audit & Supervisory Board Member	Kazuhiko Shimokobe	December 12, 1947	<p>Apr. 1974 Registered as an attorney</p> <p>Apr. 1996 Civil Conciliation Commissioner of Tokyo District Court</p> <p>May 2000 Corporate reorganization provisional administrator and trustee for LIFE CO., LTD.</p> <p>Nov. 2001 Corporate reorganization provisional administrator and trustee for Taisei Fire and Marine Insurance Co., Ltd. (currently Sampo Japan Insurance Inc.)</p> <p>Oct. 2002 Representative Director and President of Taisei Reinsurance Company, Limited</p> <p>Apr. 2003 Advisor of Industrial Revitalization Corporation of Japan</p> <p>Oct. 2005 Director</p> <p>Oct. 2005 Industrial Revitalization Committee Member</p> <p>Apr. 2007 President of Tokyo Bar Association</p> <p>Apr. 2007 Vice President of Japan Federation of Bar Associations</p> <p>Oct. 2007 Outside Director (Audit Committee Member) of JAPAN POST HOLDINGS Co., Ltd.</p> <p>Apr. 2011 President of Fujiwara Natural History Foundation</p> <p>May 2011 Chairman of Management and Finance Examination Commission for Tokyo Electric Power</p> <p>June 2011 Outside Audit & Supervisory Board Member of CHORI CO., LTD.</p> <p>July 2011 Outside Audit & Supervisory Board Member of the Company (current position)</p> <p>Oct. 2011 Chairperson of Management Committee of Nuclear Damage Compensation Facilitation Corporation</p> <p>June 2012 Director and Chairman of Tokyo Electric Power Company, Incorporated</p> <p>Dec. 2014 Outside Auditor of Industrial Growth Platform, Inc. (current position)</p> <p>June 2015 Outside Director of CHORI CO., LTD.</p> <p>June 2016 Outside Director (Audit & Supervisory Committee Member)</p> <p>June 2017 Outside Director of Japan Display Inc.</p>	(Note 5)	—

Position	Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)	
Audit & Supervisory Board Member	Nobumichi Hattori	December 25, 1957	Apr. 1981	Joined Nissan Motor Co., Ltd.	(Note 5)	—
			June 1989	Joined Goldman Sachs & Co., New York headquarters		
			Nov. 1998	Managing Director M&A advisory manager in Japan		
			Oct. 2003	Visiting Associate Professor of School of International Corporate Strategy of Hitotsubashi University Business School		
			June 2005	Outside Director of Miraca Holdings Inc. (currently H.U. Group Holdings, Inc.)		
			Nov. 2005	External Director of FAST RETAILING CO., LTD. (current position)		
			Oct. 2006	Visiting Professor of School of International Corporate Strategy of Hitotsubashi University Business School		
			Apr. 2009	Visiting Professor, Graduate School of Finance, Accounting and Law of Waseda University		
			Mar. 2015	Outside Audit & Supervisory Board Member of the Company (current position)		
			June 2015	Outside Director of Hakuholdo DY Holdings Inc. (current position)		
			July 2016	Special Visiting Professor of Graduate School of Business Administration of Keio University		
			Apr. 2017	Visiting Professor of Graduate School of Business and Finance of Waseda University (current position)		
Apr. 2017	Visiting Professor of Graduate School of Business Administration of Keio University (current position)					
Total					4,391,070	

- (Notes)
1. Directors Kazuhito Osugi and Keiko Unotoro are Outside Directors.
 2. Audit & Supervisory Board Members Takeshi Umemoto, Kazuhiko Shimokobe, and Nobumichi Hattori are Outside Audit & Supervisory Board Members.
 3. From the conclusion of the annual general meeting of shareholders held on March 24, 2022 to the conclusion of the annual general meeting of shareholders for the fiscal year ending December 2023.
 4. From the conclusion of the annual general meeting of shareholders held on March 24, 2023 to the conclusion of the annual general meeting of shareholders for the fiscal year ending December 2023.
 5. From the conclusion of the annual general meeting of shareholders held on March 24, 2022 to the conclusion of the annual general meeting of shareholders for the fiscal year ending December 2025.
 6. In preparation for a case where the number of statutory auditors comes to fall below that stipulated by law, the Company has appointed one Substitute Audit & Supervisory Board Member, as prescribed in Article 329, Paragraph (3) of the Companies Act.

The career summary of the Substitute Audit & Supervisory Board Member is as follows.

Name	Date of birth	Career summary	Term of office	Number of shares held (Shares)
Hiroko Noda	July 3, 1960	<p>Apr. 1987 Joined Minato Audit Corporation (current KPMG AZSA LLC)</p> <p>Aug. 1987 Joined Prudential Securities Incorporated, Tokyo Branch</p> <p>Aug. 1992 Joined Banque Indosuez S.A., Tokyo Branch (current Credit Agricole CIB)</p> <p>June 2000 Joined Canadian Imperial Bank of Commerce, Tokyo Branch</p> <p>July 2006 Joined BUSICOM Co., Ltd.</p> <p>Sept. 2007 Representative Director of Prominent Consulting Co., Ltd.</p> <p>May 2010 Representative Director of Probity Consulting Co., Ltd. (current position)</p> <p>Apr. 2014 Part-time Lecturer at Graduate School of Asian and International Business Strategy of Asia University (current position)</p> <p>Mar. 2019 External Director of MODEC, Inc. (current position)</p> <p>Mar. 2019 Outside Director (Audit and Supervisory Committee Member) of Okabe Co., Ltd. (current position)</p> <p>Mar. 2021 Substitute Audit & Supervisory Board Member of Pigeon Corporation (current position)</p> <p>June 2021 Outside Director of S.T. CORPORATION (current position)</p> <p>June 2022 Outside Director of CHORI CO., LTD. (current position)</p> <p>Mar. 2023 Substitute Audit & Supervisory Board Member of the Company (current position)</p>	(Note 1)	—

(Notes) 1. The term of office of the Substitute Audit & Supervisory Board Member is from the time of their appointment until the end of the term of the Audit & Supervisory Board Member who resigned.

2. Substitute Audit & Supervisory Board Member Hiroko Noda meets the requirements for Outside Audit & Supervisory Board Members.

7. The Company has introduced the Executive Officer system to invigorate the Board of Directors meetings by separating decision-making/supervision and execution. Executive Officers (excluding those who concurrently serve as Director) are as follows.

Senior Managing Executive Officer	Toshiyuki Mitsuzawa	(Responsible for promoting M&A Advisory Business projects and Head of Global Innovation Support Section)
Managing Executive Officer	Sumio Nishizawa	(General Manager of Business Development Department, Branch Manager of Osaka Branch, Branch Manager of Fukuoka Branch, and Director of Frontier Capital Inc.)
Managing Executive Officer	Akinori Nishida	(Head of Management Executive Support Department and Manager of Investment Business Promotion Office)
Executive Officer	Shinji Hikoe	(Deputy Head of Management Consulting Department, General Manager of Management Innovation Support Division and General Manager of Transaction Advisory Department)
Executive Officer	Tomohiro Murata	(General Manager of Industry Research Department)
Executive Officer	Hiroaki Hamada	(Head of Company Planning and Administration Department and Auditor of Frontier Management (Shanghai) Inc., Audit & Supervisory Board Member of Celebrain Corporation and Audit & Supervisory Board Member of Frontier Capital Inc.)

(ii) Outside officers

The Company has elected two Outside Directors and three Outside Audit & Supervisory Board Members. The number of the Company's shares held by the Outside Directors and Outside Audit & Supervisory Board Members is as described in the "Number of shares held" column of "(i) List of officers."

The Company decided that Outside Director Kazuhito Osugi would utilize his in-depth knowledge of economy, finance and business rehabilitation, accumulated in serving in key positions at the Bank of Japan and Industrial Revitalization Corporation of Japan, in strengthening the supervisory function of the Company's Board of Directors, while Keiko Unotoro would utilize her in-depth insights into economic laws, competition policy and corporate compliance as well as abundant experience, accumulated in serving in key positions at the Japan Fair Trade Commission, in strengthening the supervisory function of the Company's Board of Directors, and elected them as Outside Directors. These two persons meet the requirements for independent officers stipulated by the Tokyo Stock Exchange, and the Company has decided that there is no conflict of interest with general shareholders and designated them as independent officers.

The Company decided that Outside Audit & Supervisory Board Member Takeshi Umemoto would utilize his long experience in audits in monitoring management and providing appropriate advice as an Outside Audit & Supervisory Board Member, Kazuhiko Shimokobe would utilize his experience in handling many corporate rehabilitation cases as an attorney in monitoring management and providing appropriate advice as an Outside Audit & Supervisory Board Member, and Nobumichi Hattori would utilize his expertise at a U.S. major investment bank and knowledge in the management field as a university professor in monitoring management and providing appropriate advice as an Outside Audit & Supervisory Board Member. Accordingly, the Company elected them as Outside Audit & Supervisory Board Members. These three persons meet the requirements for independent officers stipulated by the Tokyo Stock Exchange, and the Company has decided that there is no conflict of interest with general shareholders and designated them as independent officers.

As the criteria and policy on independence for the election of Outside Directors, the Company has determined the composition of the Board of Directors and the policy on the election of candidates for Directors. For the election of candidates for Outside Directors, based on the policy, the Company nominates as candidates those who are deemed to be able to ensure sufficient independence for executing their duties as an Outside Director in a position independent from the management of the Company. For the election of candidates for Outside Audit & Supervisory Board Members, in consideration of their career histories and relationships with the Company, the Company nominates as candidates those who are deemed to be able to ensure sufficient independence for executing their duties as an Outside Audit & Supervisory Board Member in a position independent from the management of the Company, while there is no criteria or policy on independence for the election of Outside Audit & Supervisory Board Members.

(iii) Supervision or audit by Outside Directors or Outside Audit & Supervisory Board Members, mutual coordination of internal audits, audits by Audit & Supervisory Board Members and accounting audits, and relationship with the internal control department

Outside Directors are supervising the execution of business at the Board of Directors meetings. Outside Audit & Supervisory Board Members are auditing the supervision of the execution of business as well as the decision-making at the Board of Directors meetings.

For the audit system of Audit & Supervisory Board Members, the Audit & Supervisory Board of the Company consists of three Outside Audit & Supervisory Board Members for whom independence is secured. In addition, Audit & Supervisory Board Members are striving to share information on audit matters in cooperation with internal auditors and Accounting Auditor. For the internal audit system, the Company has established the Internal Audit Office, with one of the internal auditors conducting audits on the "effectiveness of internal control and the appropriateness of the management targets" across the company. The status of internal audits is reported by the Internal Audit Office at the Board of Directors and Audit & Supervisory Board meetings.

(3) Status of audits

(i) Status of audits by Audit & Supervisory Board Members

With the basic policy of ensuring sound and sustainable growth of a company and contributing to the establishment of a quality corporate governance system that can be worthy of the trust placed in the company by society, by appropriately exercising the granted broad authority and auditing the execution of duties by Directors from an independent position, the Audit & Supervisory Board of the Company has determined the audit plan and is conducting audits primarily on the development and operation of the internal control system, and the promotion system of compliance and risk management. Each Audit & Supervisory Board Member is conducting audits by attending the Board of Directors meetings and other important meetings, exchanging opinions with Representative Directors, hearing about the execution of business from Directors, etc. on a regular basis, inspecting important internal approval documents such as requests for managerial decision, and examining the operations and assets at the Head Office, as well as for subsidiaries, communicating and exchanging information with Directors and Audit & Supervisory Board Members of subsidiaries, and receiving reports on business from subsidiaries as necessary. The Standing Audit & Supervisory Board Member is conducting audits, by attending important meetings including those of the Board of Directors, the Management Committee, and the Executive Committee, hearing from each department, and inspecting important documents, etc., while sharing information with Part-time Audit & Supervisory Board Members.

During the fiscal year under review, the Company held 14 meetings of the Audit & Supervisory Board. Attendance by individual Audit & Supervisory Board Members is as follows.

Name	Number of meetings held	Number of times of attendance
Takeshi Umemoto	14	14
Kazuhiko Shimokobe	14	14
Nobumichi Hattori	14	14

(ii) Status of internal audits

It is as described in “(iii) Supervision or audit by Outside Directors or Outside Audit & Supervisory Board Members mutual coordination of internal audits, audits by Audit & Supervisory Board Members and accounting audits, and relationship with the internal control department” in “(2) Officers.”

(iii) Status of accounting audits

A. Name of the audit firm

KPMG AZSA LLC

B. Continuous audit period

Seven years

C. Certified public accountants who executed the operation

Masaki Sugiyama, Designated Limited Liability Partner and Executive Member

Hidenori Kawamura, Designated Limited Liability Partner and Executive Member

D. Composition of assistants for audit operations

Assistants for accounting audit of the Company consist of three certified public accountants and three other people.

E. Policy and reasons for the selection of the audit firm

In the selection of the Accounting Auditor, the Company makes a comprehensive assessment by considering that the quality management system of the audit firm is appropriate and without problems of independence, and audit plans and fees are appropriate, among others.

F. Evaluation of the audit firm by Audit & Supervisory Board Members and the Audit & Supervisory Board

Audit & Supervisory Board Members and the Audit & Supervisory Board have evaluated that there is no reason falling under a cause for dismissal or non-reappointment of Accounting Auditor in terms of its execution of duties, audit system and independence among others.

(iv) Description of audit fees

A. Fees for auditing certified public accountants and others

(Thousands of yen)

Category	Previous fiscal year		Current fiscal year	
	Fees for audit certification services	Fees for non-audit services	Fees for audit certification services	Fees for non-audit services
Submitter company	20,272	–	28,608	–
Consolidated subsidiary	–	–	5,000	–
Total	20,272	–	33,608	–

- (Notes) 1. During the previous fiscal year, the Company paid additional fees of ¥770 thousand for audit in the fiscal year before the previous one to Accounting Auditor KPMG AZSA LLC.
2. During the current fiscal year, the Company paid additional fees of ¥5,964 thousand for the audit in the previous fiscal year to Accounting Auditor KPMG AZSA LLC.

B. Fees for organizations belonging to the same network of auditing certified public accountants (excluding A.)

(Previous fiscal year)

Not applicable.

(Current fiscal year)

Not applicable.

C. Description of fees for other important audit certification services

(Previous fiscal year)

Not applicable.

(Current fiscal year)

Not applicable.

D. Policy for the decision on audit fees

The Company decides audit fees for auditing certified public accountants and others by considering the business size and characteristics of operations of the Company, the audit plan, details of audits, number of staff, auditing hours, etc. for audit certification services, and by consulting with auditing certified public accountants and others.

E. Reasons for the consent of the Audit & Supervisory Board to fees for Accounting Auditor

Based on the actual audits in the past fiscal years, the Audit & Supervisory Board confirmed and examined as to whether the Accounting Auditor's audit plan, audit status and the basis for calculating the estimated compensation were appropriate, and the result of this was that it decided they were appropriate, and therefore, agreed on the amount.

(4) Compensation for officers

(i) Matters for the policy on the decision on the amount of compensation for officers and its calculation method

The Company has set a policy to decide on the amount of compensation for officers and its calculation method, and the description is as follows. The Board of Directors judged the compensation for individual Directors for the fiscal year under review to be consistent with the policy since the Board checked that: i) the determined details of the compensation and the method for determining them were consistent with the determination policy resolved by the Board; and ii) the details were determined by the Board of Directors within a range of the total compensation amount resolved beforehand by a general meeting of shareholders in light of voluntary deliberations by the Nomination and Compensation Advisory Committee and its recommendation.

A. Basic policy

To provide compensation that enables the Company to appoint as Directors the finest persons who practice the corporate mission and contribute to the achievement of short-term performance targets, achievement of medium- to long-term performance targets, and continuous enhancement of corporate value. At the Company, we will create a compensation system that is highly transparent, fair, and reasonable to ensure accountability to our stakeholders.

B. Compensation composition

Compensation for Directors (excluding Outside Directors) is comprised of basic compensation, which is fixed compensation, and single-fiscal-year performance-based compensation and medium- to long-term performance-based compensation, which vary depending on performance, while balancing the elements listed in the above basic policy. Compensation for Outside Directors is comprised of only basic compensation, from the perspective of their role and independence.

The compensation structure ratio of each performance-based compensation to basic compensation for Directors (excluding Outside Directors) will be determined in accordance with the category of the officers.

C. Basic compensation

Basic compensation, which is fixed compensation, will be paid monthly to Directors. The amount of basic compensation for Directors (excluding Outside Directors) will be determined by taking into account the work duties they are in charge of, scope of responsibility, years of service, degree of contribution to short-term and medium- to long-term performance, degree of contribution to enhancement of corporate value, and the like, as well as taking into consideration the level of other companies in the same industry. The amount of basic compensation for Outside Directors will be determined by taking into consideration the work responsibilities and the level of other companies.

D. Single-fiscal-year performance-based compensation

Single-fiscal-year performance-based compensation (cash bonuses and stock-based compensation A) is linked to consolidated results for a single fiscal year and the amount of compensation is determined based on the Company's performance results and the like for a single year, and the determined amount of compensation will be paid to Directors (excluding Outside Directors; "Eligible Directors") in the form of cash bonuses and restricted stock (stock-based compensation A) after the results of each fiscal year are fixed.

The maximum amount of single-fiscal-year performance-based compensation (total amount to be paid to all Eligible Directors) is the smaller of either one-third of an amount in excess of targeted operating income, or a total amount of 18-month basic compensation for the Representative Directors and nine-month basic compensation for Eligible Directors (excluding Representative Directors).

The amount of single-fiscal-year performance-based compensation to be paid to Eligible Directors is determined in light of: i) the degree of contribution to performance in relation to an amount in excess of targeted operating income; and ii) the maximum amount of compensation for the Eligible Directors, and the like.

The structure ratio of single-fiscal-year performance-based compensation for each Eligible Director is composed of a cash bonus, representing two-thirds of such compensation, and stock-based compensation A, representing one-third of such compensation.

We chose the performance indicator because operating income, representing income from principal business activities, is an evaluation metric that reflects results very directly.

This performance indicator could potentially be changed in the future by a resolution of the Board of Directors.

Shown below are the target for the indicator for single-fiscal-year performance-based compensation and the actual amount for the fiscal year under review.

(Thousands of yen)

	Target	Actual amount
Consolidated operating income	800,000	908,131

E. Medium- to long-term performance-based compensation

Medium- to long-term performance-based compensation (stock-based compensation B) is linked to the degree of achievement of the management target for the medium-term management plan, the degree of enhancement of corporate

value, and the like, and restricted stock (stock-based compensation B) will be delivered to the Eligible Directors at the beginning of each fiscal year based on the compensation base amount in accordance with their position.

In principle, after the end of the period falling under the medium-term management plan, the number of shares with respect to which the transfer restriction is lifted will be determined, regarding such shares granted during such period, in accordance with the degree of achievement of the management target for the medium-term management plan, the degree of enhancement of corporate value, and the like.

The performance indicators for the medium-term management plan from 2021 to 2023 include the level of achievement of consolidated net sales, consolidated operating margin, consolidated ROE and ESG/SDGs.

We chose these performance indicators because we thought it appropriate to consider them exhaustively in order to reflect the Company's performance in Directors' compensation in a multi-faceted manner while attaching importance to growth potential and profitability in light of the purpose of the performance-based compensation scheme, namely to further contribute to raising our corporate value in the medium to long term. This was after linking this type of compensation to business targets specified in the medium-term management plan as it is linked to performance for the plan.

If a new medium-term management plan is formulated in the future, the performance indicators serving as the basis for computing this type of compensation could potentially be changed by a resolution of the Board of Directors.

Shown below are the targets for the indicators for medium- to long-term performance-based compensation. After the term of the medium-term management plan, we will conduct performance evaluations.

	Target	Evaluation ratio
Consolidated net sales	¥8,700,000 thousand	30%
Consolidated operating margin	20%	30%
Consolidated ROE	At least 20%	30%
ESG, SDGs	Items shown in the medium-term management plan	10%

F. Compensation governance

Compensation for Directors (basic compensation, single-fiscal-year performance-based compensation and medium- to long-term performance-based compensation) will be determined by a resolution of the Board of Directors in light of voluntary deliberations and reports by the Nomination and Compensation Advisory Committee.

Clawback provisions are set out to the effect that if a certain event such as material accounting fraud, a huge amount of loss, or the like occurs, all or part of stock-based compensation A and stock-based compensation B that has already been paid will be returned without any consideration in accordance with each officer's liability.

The General Meeting of Shareholders held on March 24, 2022 passed a resolution for setting monetary compensation, comprised of the basic compensation and single-fiscal-year performance-based compensation at ¥400 million or less per year (including ¥25 million or less per year for Outside Directors but excluding employee salaries for Directors concurrently serving as employees). The number of Directors (including two Outside Directors) at the conclusion of said General Meeting of Shareholders was five.

The Annual General Meeting of Shareholders held on March 25, 2021 passed a resolution for stock-based compensation for the Company's Directors excluding Outside Directors, separately from the aforementioned monetary compensation: the total value and total number of shares of the Company's common stock to be issued or disposed of as stock-based compensation A at ¥100 million or less per year and 40,000 shares or less per year, respectively; and the total value and total number of shares of the Company's common stock to be issued or disposed of as stock-based compensation B at ¥50 million or less per year and 20,000 shares or less per year, respectively. The number of Directors (excluding Outside Directors) at the conclusion of said General Meeting of Shareholders was three.

The total amount of compensation for the Audit & Supervisory Board Members was decided by a resolution at the Extraordinary General Meeting of Shareholders held on August 14, 2018 to be ¥50 million or less per year. The number of Audit & Supervisory Board Members at the conclusion of said General Meeting of Shareholders was three.

(ii) Total amount of compensation, etc. for each officer category, total amount of compensation, etc. by category and the number of target officers

Officer category	Total amount of compensation, etc. (Thousands of yen)	Total amount of compensation, etc. by category (Thousands of yen)				Number of target officers
		Basic compensation	Performance-based compensation	Performance-based stock compensation	of which at left, non-monetary compensation	
Directors (excluding Outside Directors)	196,312	171,500	–	24,812	24,812	4 persons
Outside Officers	45,000	45,000	–	–	–	5 persons

(iii) Total amount of consolidated compensation, etc. for each officer

It is not described, as there is no officer whose total amount of consolidated compensation, etc. is ¥100 million or more.

(iv) Most important employee salary for officers concurrently serving as an employee

Not applicable.

(5) Stocks held

(i) Criteria and approach to category of investment stocks

Regarding the category of investment stocks which are held for the purpose of pure investment and those for purposes other than pure investment, the Company defines pure investment purpose as cases solely aiming to receive profit by changes in the value of stocks or dividends of stocks, while purposes other than that as purposes other than pure investment.

(ii) Investment stocks held for purposes other than pure investment purpose

A. Method of verifying the policy for holding and the rationality of holding, as well as the description of verification of the appropriateness of holding individual issues at the meeting of Board of Directors, etc.

Description is omitted, as the Company does not hold listed stocks.

B. Number of issues and amount recorded on non-consolidated balance sheet

	Number of issues (Issues)	Total amount recorded on the non-consolidated balance sheet (Thousands of yen)
Non-listed stocks	1	3,294
Stocks other than non-listed stocks	–	–

(Issues whose number of shares increased during the current fiscal year)

Not applicable.

(Issues whose number of shares decreased during the current fiscal year)

Not applicable.

C. Information on the number of specified investment stocks and deemed holding of stocks by issue, amount recorded on the non-consolidated balance sheet, etc.

Not applicable.

(iii) Investment stocks held for pure investment purposes

Not applicable.

V. Accounting

1. Consolidated Financial Statements and Preparation Method

- (1) The Company's consolidated financial statements are prepared in accordance with the Regulations on Terms, Forms, and Preparation Method for Consolidated Financial Statements (Ministry of Finance Ordinance No. 28 of 1976).
- (2) The Company's non-consolidated financial statements are prepared in accordance with the Regulations on Terms, Forms, and Preparation Method for Non-consolidated Financial Statements (Ministry of Finance Ordinance No. 59 of 1963; hereinafter the "Financial Statement Regulations").
Further, the Company falls under the definition of a special company submitting financial statements, and financial statements are prepared pursuant to the provisions of Article 127 of the Financial Statement Regulations.

2. Audit Certification

KPMG AZSA LLC audited the Company's consolidated financial statements and non-consolidated financial statements for the fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022) in accordance with the provision of Article 193-2, Paragraph (1) of the Financial Instruments and Exchange Act.

3. Particular Efforts to Ensure the Appropriateness of Consolidated Financial Statements

The Company makes particular efforts to ensure the appropriateness of its consolidated financial statements. Specifically, to develop a platform allowing it to properly understand accounting principles and aptly respond to any change to them, the Company joined the Financial Accounting Standards Foundation, obtaining various pieces of information while having its personnel participate in training and seminars hosted by organizations having specialized information.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	1,784,218	3,199,089
Notes and accounts receivable	1,073,376	–
Notes, accounts receivable and contract assets	–	Note 1) 912,827
Operational investment securities	9,837	23,833
Other	147,710	164,580
Allowance for doubtful accounts	(16,936)	(24,214)
Total current assets	2,998,206	4,276,116
Fixed assets		
Tangible fixed assets		
Buildings, net	193,854	282,593
Tools, furniture and fixtures, net	14,473	31,122
Total tangible fixed assets	Note 2) 208,328	Note 2) 313,716
Intangible fixed assets		
Software	11,267	10,471
Goodwill	–	265,130
Customer-related assets	–	18,750
Other	102	102
Total intangible fixed assets	11,369	294,454
Investments and other assets		
Investment securities	56,800	3,591
Investments in affiliates	43,633	51,707
Investments in capital of subsidiaries and associates	–	2,485
Lease deposits	212,055	361,403
Deferred tax assets	277,356	346,194
Other	11,524	1,595
Total investments and other assets	601,370	766,978
Total fixed assets	821,068	1,375,149
Deferred assets		
Organization expenses	–	7,379
Total deferred assets	–	7,379
Total assets	3,819,274	5,658,644

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable	45,424	71,030
Current portion of long-term debt	–	138,388
Accounts payable-other	94,699	128,860
Income taxes payable	259,633	288,143
Provision for bonuses	553,014	764,486
Provision for directors' bonuses	–	5,050
Provision for shareholder benefit program	7,079	13,924
Other	323,095	Note 3) 458,742
Total current liabilities	1,282,944	1,868,624
Fixed liabilities		
Long-term debt	–	639,313
Asset retirement obligations	82,262	134,750
Total fixed liabilities	82,262	774,063
Total liabilities	1,365,207	2,642,688
Net assets		
Shareholders' equity		
Paid-in capital	178,723	210,062
Capital surplus	558,745	577,503
Retained earnings	1,696,822	2,139,619
Treasury stock	(36,575)	(8,246)
Total shareholders' equity	2,397,717	2,918,939
Other accumulated comprehensive income		
Foreign currency translation adjustments	9,380	8,352
Total other accumulated comprehensive income	9,380	8,352
Stock acquisition rights	46,969	34,673
Non-controlling interests	–	53,990
Total net assets	2,454,066	3,015,956
Total liabilities and net assets	3,819,274	5,658,644

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

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net sales	5,741,654	Note) 7,915,655
Cost of sales	2,247,959	3,230,126
Gross income	3,493,695	4,685,528
Selling, general and administrative expenses		
Salaries and allowances	1,302,744	1,419,541
Provision for bonuses	269,041	364,820
Provision for directors' bonuses	–	2,025
Recruiting expenses	231,835	469,080
Retirement benefit expenses	23,174	23,259
Provision for shareholder benefit program	7,079	6,845
Provision for allowance for doubtful accounts	1,303	6,903
Other	1,157,231	1,484,921
Total selling, general and administrative expenses	2,992,409	3,777,396
Operating income	501,285	908,131
Non-operating income		
Interest income	125	158
Equity in earnings of affiliates	6,506	8,059
Insurance dividend income	1,125	1,802
Administrative fees received	2,268	1,502
Income from subsidies	686	–
Foreign exchange gains	6,751	9,158
Other	239	375
Total non-operating income	17,702	21,057
Non-operating expenses		
Interest expense	1,253	7,429
Charges for stock compensation	2,902	–
Other	256	247
Total non-operating expenses	4,411	7,676
Ordinary income	514,576	921,511
Extraordinary losses		
Loss on valuation of investment securities	–	53,505
Total extraordinary losses	–	53,505
Income before income taxes	514,576	868,006
Income taxes	228,988	366,689
Income taxes-deferred	(53,119)	(65,019)
Total income taxes	175,868	301,670
Net income	338,707	566,336
Net income attributable to owners of non-controlling interests	–	9,614
Net income attributable to owners of parent	338,707	556,722

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net income	338,707	566,336
Other comprehensive income		
Foreign currency translation adjustments	(2,603)	(1,027)
Total other comprehensive income	Note) (2,603)	Note) (1,027)
Comprehensive income	336,103	565,308
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	336,103	555,694
Comprehensive income attributable to non-controlling interests	—	9,614

(iii) Consolidated Statements of Changes in Shareholders' Equity
 Previous fiscal year (January 1, 2021 to December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Opening balance	163,530	835,220	1,496,027	(58,163)	2,436,614
Change during the period					
Issuance of new shares (exercise of subscription rights to shares)	1,597	1,597			3,195
Dividends of surplus			(137,912)		(137,912)
Net income attributable to owners of parent			338,707		338,707
Purchase of treasury stock				(270,080)	(270,080)
Retirement of treasury stock		(291,668)		291,668	—
Restricted stock awards	13,596	13,596			27,192
Net changes of items other than shareholders' equity (net)					
Total changes during the period	15,193	(276,474)	200,794	21,588	(38,897)
Ending balance	178,723	558,745	1,696,822	(36,575)	2,397,717

	Other accumulated comprehensive income		Stock acquisition rights	Total net assets
	Foreign currency translation adjustments	Total other accumulated comprehensive income		
Opening balance	11,984	11,984	—	2,448,598
Change during the year				
Issuance of new shares (exercise of subscription rights to shares)				3,195
Dividends of surplus				(137,912)
Net income attributable to owners of parent				338,707
Purchase of treasury stock				(270,080)
Retirement of treasury stock				—
Restricted stock awards				27,192
Net changes of items other than shareholders' equity (net)	(2,603)	(2,603)	46,969	44,365
Total changes during the period	(2,603)	(2,603)	46,969	5,467
Ending balance	9,380	9,380	46,969	2,454,066

Current fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Opening balance	178,723	558,745	1,696,822	(36,575)	2,397,717
Change during the period					
Issuance of new shares (exercise of subscription rights to shares)	26,806	26,806			53,613
Dividends of surplus			(113,925)		(113,925)
Net income attributable to owners of parent			556,722		556,722
Restricted stock awards	4,532	(8,048)		28,329	24,812
Net changes of items other than shareholders' equity (net)					
Total changes during the period	31,338	18,758	442,796	28,329	521,222
Ending balance	210,062	577,503	2,139,619	(8,246)	2,918,939

	Other accumulated comprehensive income		Stock acquisition right	Non-controlling interests	Total net assets
	Foreign currency translation adjustments	Total other accumulated comprehensive income			
Opening balance	9,380	9,380	46,969	–	2,454,066
Change during the period					
Issuance of new shares (exercise of subscription rights to shares)					53,613
Dividends of surplus					(113,925)
Net income attributable to owners of parent					556,722
Restricted stock awards					24,812
Net changes of items other than shareholders' equity (net)	(1,027)	(1,027)	(12,295)	53,990	40,666
Total changes during the period	(1,027)	(1,027)	(12,295)	53,990	561,889
Ending balance	8,352	8,352	34,673	53,990	3,015,956

(iv) Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net cash provided by (used in) operating activities		
Income before income taxes	514,576	868,006
Depreciation and amortization	36,478	47,495
Amortization of deferred assets	–	1,302
Amortization of goodwill	–	29,458
Amortization of customer-related assets	–	6,250
Equity in losses (earnings) of investments	(6,506)	(8,059)
Charges for stock compensation	102,189	88,167
Loss (gain) on valuation of investment securities (–: profit)	–	53,505
Increase (decrease) in provision for bonuses	47,277	211,471
Increase (decrease) in provision for directors' bonuses	(1,000)	5,050
Increase (decrease) in provision for shareholder benefit program	7,079	6,845
Increase (decrease) in allowance for doubtful accounts	1,303	6,952
Interest income	(125)	(158)
Interest expense	1,253	7,429
Decrease (increase) in notes and accounts receivable-trade	(109,713)	215,932
Decrease (increase) in operational investment securities	(8,473)	(13,995)
Increase (decrease) in notes and accounts payable-trade	(14,741)	11,792
Increase (decrease) in accounts payable-other	(51,600)	22,160
Other	4,685	42,018
Subtotal	522,681	1,601,625
Interest received	125	158
Interest paid	(1,253)	(8,433)
Income taxes paid	(204,740)	(343,093)
Net cash provided by (used in) operating activities	316,813	1,250,257
Net cash provided by (used in) investing activities		
Purchases of tangible fixed assets	(25,876)	(87,142)
Purchase of intangible assets	(4,800)	(3,133)
Additional investments in newly consolidated entities	–	Note 2) (238,932)
Disbursement for investments in capital of subsidiaries and associates	–	(2,500)
Payments for lease and guarantee deposits	(847)	(148,174)
Proceeds from collection of lease and guarantee deposits	–	1,652
Purchase of deferred charges	–	(8,681)
Net cash provided by (used in) investing activities	(31,524)	(486,911)
Net cash provided by (used in) financing activities		
Proceeds from long-term debt	–	860,000
Repayments of long-term debt	–	(90,284)
Purchase of treasury stock	(270,080)	–
Dividends paid	(137,880)	(113,750)
Dividends paid to non-controlling interests	–	(11,100)
Proceeds from exercise of stock options	3,195	1,669
Net cash provided by (used in) financing activities	(404,765)	646,534
Effect of exchange rate changes on cash and cash equivalents	4,593	4,991
Net (decrease) increase in cash and cash equivalents	(114,882)	1,414,871
Cash and cash equivalents at beginning of period	1,899,100	1,784,218
Cash and cash equivalents at end of period	Note 1) 1,784,218	Note 1) 3,199,089

Notes to Consolidated Financial Statements

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

1. Matters regarding the scope of consolidation

All subsidiaries of the Company are consolidated.

Number of consolidated subsidiaries 3

Names of consolidated subsidiaries

Frontier Management (Shanghai) Inc.

Celebrain Corporation

Frontier Capital Inc.

Of the above, because the shares of Celebrain Corporation were acquired on January 14, 2022, and Frontier Capital Inc. was newly established on April 1, 2022, they are included in the scope of consolidation from the current fiscal year.

2. Matters regarding application of the equity method

(1) Number of equity method affiliates 2

Names of equity method affiliates

FCD Partners Inc.

Frontier Nanto Investment Godo Kaisha

Of the above, because Frontier Nanto Investment Godo Kaisha was newly established on May 16, 2022, it is included in the scope of equity method from the current fiscal year.

(2) For an equity method affiliate whose balance sheet date differs from the consolidated balance sheet date of Company, the former's fiscal year balance sheets are used.

3. Matters regarding consolidated subsidiary fiscal years

Balance sheet dates of all consolidated subsidiaries of the Company are identical to its consolidated balance sheet date.

4. Matters regarding accounting policies

(1) Valuation standards and valuation methods for significant assets

Securities

Available-for-sale securities (including operational investment securities)

Securities without market value, etc.

Available-for-sale securities without market value are stated at cost using the moving-average method.

(2) Depreciation and amortization methods for significant depreciable and amortizable assets

A. Tangible fixed assets

Tangible fixed assets of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method and those of its overseas consolidated subsidiaries are depreciated using the straight-line method.

However, buildings (fixtures) acquired on or after April 1, 2016 are depreciated using the straight-line method.

Useful lives are mainly as follows:

Buildings (fixtures) 2 to 15 years

Tools, furniture and fixtures 2 to 20 years

B. Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method in accordance with an internally usable period (5 years).

Also, customer-related assets are amortized using the straight-line method in accordance with their effective period (4 years).

(3) Treatment method for deferred assets

Organization expenses: amortized using the straight-line method over a five-year period.

(4) Standard for recording allowances or provisions of importance

A. Allowance for doubtful accounts

To prepare for a potential loss from a default on receivables, an estimated uncollectible amount is recorded for ordinary receivables in an amount determined by our historical loss experience ratio and for specific receivables feared to be defaulted on in an amount determined by considering the recoverability on a case-by-case basis.

B. Provision for bonuses

To prepare for paying bonuses to employees, we recorded a provision for bonuses in an amount required to be paid in the current fiscal year as part of an amount likely to be paid as bonuses for them.

C. Provision for directors' bonuses

To prepare for paying bonuses to directors, we recorded a provision for bonuses in an amount required to be paid in the current fiscal year as part of an amount likely to be paid as bonuses for them.

D. Provision for shareholder benefit program

To prepare for spending of shareholder benefit points granted to shareholders under the shareholder benefit program, we at the end of the current fiscal year recorded a provision for shareholder benefit program in an amount likely to be incurred correspondingly in the future.

(5) Accounting treatment for retirement benefits

The Company has adopted a defined contribution pension program. Expenses related to retirement benefits under the defined contribution pension program are recognized at the time of contribution.

(6) Standard for recording revenues and expenses of importance

Details of the main performance obligations and the usual timing of satisfying the performance obligations (ordinary timing of recognizing revenue) in the main businesses of the Company and its consolidated subsidiaries related to revenue from contracts with customers are as follows.

- Recognition of revenue related to Consulting and Advisory (excluding success fees)

In the Consulting and Advisory Business, services such as management consulting, M&A advisory, and revitalization support are provided based on outsourcing contracts concluded with customers, and these services which are agreed to with customers are the performance obligations. Since these performance obligations are generally satisfied during the outsourcing period stipulated in the outsourcing contract, revenue is recognized over the outsourcing period.

- Success fees

Success fees, which are generated mainly in M&A advisory services, are recognized when the conditions for accruing success fees defined in an outsourcing contract are met, such as when a contract is concluded between the client company and its counterparty.

- Revenue recognition related to agency transactions

Regarding usage fees, etc. for services related to the talent management system provided by our consolidated subsidiary, the role of the consolidated subsidiary is determined as corresponding to that of an agent, and revenue is recognized as the net amount after relevant costs are deducted from the total consideration received from the customer.

(7) Goodwill amortization method and amortization term for goodwill

Goodwill is amortized using the straight-line method over a ten-year period.

(8) Standard for translation of amounts of important foreign-currency-denominated assets or liabilities into Japanese yen

Amounts of foreign-currency-denominated receivables and payables are translated into Japanese yen at the spot exchange rate on the balance sheet date and any translation difference is recorded as a profit or loss. Amounts of assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rate on the balance sheet date. Their revenues and expenses are translated into Japanese yen at the average foreign exchange rate during each term and any translation difference is recorded as foreign currency translation adjustments under net assets.

(9) Scope of funds in a consolidated statement of cash flows

Funds in a consolidated statement of cash flows consist of cash on hand, deposits able to be withdrawn any time, and short-term investments that are able to be cashed easily and are exposed to only a minuscule value fluctuation risk and mature within three months from the date of acquisition.

(Changes to Accounting Policies)

(Application of accounting standard for revenue recognition, etc.)

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan; hereinafter the “Revenue Recognition Accounting Standard”), etc. have been applied from the beginning of the current fiscal year, and revenue is recognized at the amount expected to be received in exchange for promised goods or services when control of the relevant goods or services is transferred to the customer.

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment prescribed in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, and the cumulative effect of applying the new accounting policy retroactively prior to the beginning of the current fiscal year is added to or subtracted from the retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied to the opening balance from the beginning of the current fiscal year; however, there is no cumulative effect that requires an adjustment to retained earnings at the beginning of the current fiscal year.

It also does not have an effect on the profit or loss of the current fiscal year.

Due to the adoption of the Revenue Recognition Accounting Standard, etc., “Notes and accounts receivable” which was presented under “Current assets” in the consolidated balance sheet for the previous fiscal year has been changed to “Notes, accounts receivable and contract assets” from the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification based on the new presentation method has been made for the previous fiscal year.

Further, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Revenue Recognition Accounting Standard, no “Revenue recognition” notes have been presented for the previous fiscal year.

(Application of accounting standard for fair value measurement, etc.)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan), etc. have been applied from the beginning of the current fiscal year, and in accordance with the transitional treatment in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan), we have decided that the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, etc. will be applied in the future. This will not have an effect on the consolidated financial statements.

Further, we have decided to add notes on matters related to the breakdown of the fair value of financial products by level in the notes for “Financial products.” However, in accordance with the transitional treatment prescribed in Paragraph 7-4 of the “Implementation Guideline for Disclosures about Fair Value of Financial Instruments” (ASBJ Application Standard No. 19, July 4, 2019), matters related to the previous fiscal year are not presented in the relevant notes.

(Change in Presentation Method)

(Consolidated statement of income)

Because “Recruiting expenses” that were included in “Other” under “Selling, general and administrative expenses” exceeded 10% of the total selling, general and administrative expenses in the previous fiscal year, we have decided to list it separately from the current fiscal year. In order to reflect this change in presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, the ¥1,389,067 thousand shown in “Other” under “Selling, general and administrative expenses” in the consolidated statement of income for the previous fiscal year has been reclassified as ¥231,835 thousand in “Recruiting expenses” and ¥1,157,231 thousand in “Other.”

(Additional Information)

(Accounting estimate of the impact of spread of COVID-19)

With respect to the status of COVID-19, we make accounting estimates such as for recoverability of deferred tax assets, based on currently available information, assuming that current conditions will continue for at least FY2023.

As a consequence, we are not aware of any material impact on the valuation of our accounting estimates; however, due to the highly uncertain impact of the spread of COVID-19, financial condition and results of operations of the Group may be impacted in the future.

(Consolidated Balance Sheet)

Note 1) Among notes, accounts receivable and contract assets, the amount of liabilities arising from contracts with customers is presented in “Notes (Revenue recognition) of 3. (1) Balance of contract assets and contract liabilities, etc.” of the consolidated financial statements.

Note 2) Cumulative depreciation of tangible fixed assets

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
	99,533	134,531

Note 3) Among other current liabilities, the amount of contract liabilities is presented in “Notes (Revenue recognition) of 3. (1) Balance of contract assets and contract liabilities, etc.” of the consolidated financial statements.

(Consolidated Statement of Income)

Note) Revenue from contracts with customers

Net sales are not presented as being categorized into revenue from contracts with customers and other revenue. The amount of revenue from contracts with customers is presented in “Notes (Revenue recognition), 1. Disaggregated information on revenue from contracts with customers” in the consolidated financial statements.

(Consolidated Statements of Comprehensive Income)

Note) Amounts of adjustments and tax effects associated with comprehensive income

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Foreign currency translation adjustments:		
Amounts recorded for the current fiscal year	(2,603)	(1,027)
Total other comprehensive income	(2,603)	(1,027)

(Consolidated Statements of Changes in Shareholders' Equity)

Previous fiscal year (January 1, 2021 to December 31, 2021)

1. Matters regarding the classes and total numbers of shares outstanding and treasury stock shares

	Beginning Number of shares for the current fiscal year (Shares)	Increase in number of shares during the current fiscal year (Shares)	Decrease in number of shares during the current fiscal year (Shares)	Ending Number of shares for the current fiscal year (Shares)
Number of shares outstanding				
Common stock (Notes 1., 3.)	5,777,900	5,840,498	200,000	11,418,398
Total	5,777,900	5,840,498	200,000	11,418,398
Treasury stock				
Common stock (Notes 2., 3.)	31,540	194,279	200,000	25,819
Total	31,540	194,279	200,000	25,819

- (Notes) 1. An increase of 5,840,498 shares in the total number of common stock shares outstanding consisted of 5,777,900 shares caused by a stock split, 19,998 shares by a new share issuance for restricted stock awards, and 42,600 shares by exercise of stock options.
2. An increase of 194,279 shares in the number of treasury common stock shares was comprised of 31,540 shares caused by a stock split and 2,739 shares by gratis purchasing of restricted stock shares, and 160,000 shares by acquisition of treasury stock shares by resolution of the Board of Directors.
3. A decrease of 200,000 shares in the number of common stock shares and treasury common stock shares was caused by retirement of treasury stock shares.

2. Matters regarding stock acquisition rights and new treasury stock share subscription rights

Category	Breakdown of stock acquisition rights	Class of stock underlying stock acquisition rights	Number of shares of stock underlying stock acquisition rights (Shares)				Ending balance for the current fiscal year (Thousands of yen)
			Start of the current fiscal year	Increase during the current fiscal year	Decrease during the current fiscal year	End of the current fiscal year	
Submitter company (Parent company)	Stock acquisition right in the form of a stock option	—	—	—	—	—	46,969
Total		—	—	—	—	—	46,969

3. Matters regarding dividend

(1) Dividends paid

(Resolution)	Class of stock	Total cash dividends paid (Thousands of yen)	Sources of dividends	Dividend per share (Yen)	Record date	Effective date
March 25, 2021 Annual general meeting of shareholders	Common stock	137,912	Retained earnings	24	December 31, 2020	March 26, 2021

(Note) Although we conducted a 2-for-1 common stock split on January 1, 2021 by resolution of a Board of Directors meeting held on November 12, 2020, dividend per share shown is that prior to the stock split.

(2) Of dividends whose record dates were in the current fiscal year, dividends whose effective dates will be in the next fiscal year

(Resolution)	Class of stock	Total cash dividends paid (Thousands of yen)	Sources of dividends	Dividend per share (Yen)	Record date	Effective date
March 24, 2022 Annual general meeting of shareholders	Common stock	113,925	Retained earnings	10	December 31, 2021	March 25, 2022

Current fiscal year (January 1, 2022 to December 31, 2022)

1. Matters regarding the classes and total numbers of shares outstanding and treasury stock shares

	Current fiscal year Beginning number of shares (Shares)	Current fiscal year Increase in number of shares (Shares)	Current fiscal year Decrease in number of shares (Shares)	Ending number of shares for the current fiscal year (Shares)
Number of shares outstanding				
Common stock (Note 1)	11,418,398	50,080	–	11,468,478
Total	11,418,398	50,080	–	11,468,478
Treasury stock				
Common stock (Note 2)	25,819	–	19,998	5,821
Total	25,819	–	19,998	5,821

(Notes) 1. An increase of 50,080 shares in the total number of common stock shares outstanding was caused by exercise of stock options.

2. A decrease of 19,998 shares in the number of treasury common stock shares was caused by disposing of treasury stock shares for restricted stock compensation.

2. Matters regarding stock acquisition rights and new treasury stock share subscription rights

Category	Breakdown of stock acquisition rights	Class of stock underlying stock acquisition rights	Number of shares of stock underlying stock acquisition rights (Shares)				Ending balance for the current fiscal year (Thousands of yen)
			Start of the current fiscal year	Increase during the current fiscal year	Decrease during the current fiscal year	End of the current fiscal year	
Submitter company (Parent company)	Stock acquisition right in the form of a stock option	–	–	–	–	–	34,673
Total		–	–	–	–	–	34,673

3. Matters regarding dividend

(1) Dividends paid

(Resolution)	Class of stock	Total cash dividends paid (Thousands of yen)	Sources of dividends	Dividend per share (Yen)	Record date	Effective date
March 24, 2022 Annual general meeting of shareholders	Common stock	113,925	Retained earnings	10	December 31, 2021	March 25, 2022

(2) Of dividends whose record dates were in the current fiscal year, dividends whose effective dates will be in the next fiscal year

(Resolution)	Class of stock	Total cash dividends paid (Thousands of yen)	Sources of dividends	Dividend per share (Yen)	Record date	Effective date
March 24, 2023 Annual general meeting of shareholders	Common stock	320,954	Retained earnings	28	December 31, 2022	March 27, 2023

(Consolidated Statements of Cash Flows)

Note 1) Relation between cash and cash equivalents at end of period and account amounts shown in consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Cash and deposits	1,784,218	3,199,089
Cash and cash equivalents	1,784,218	3,199,089

Note 2) Main breakdown of assets and liabilities of the company that became a new consolidated subsidiary through the acquisition of shares in the current fiscal year

The breakdown of assets and liabilities at the time of the consolidation of Celebrain Corporation, which was newly consolidated through the acquisition of shares, and the relationship between the acquisition price of shares and the expenditure (net amount) for the acquisition are as follows.

	(Thousands of yen)
Current assets	181,469
Fixed assets	39,843
Goodwill	294,589
Current liabilities	(97,930)
Fixed liabilities	(11,434)
Non-controlling interests	(44,375)
Acquisition cost of stock	362,161
Cash and cash equivalents	(123,229)
Subtract: Expenditure for the acquisition	238,932

3) Description of non-monetary transactions

Please see “Notes (Asset retirement obligation)” regarding the recording of significant asset retirement obligations.

(Lease transactions)

(Lessee)

1. Financial lease transactions

Not applicable.

2. Operating lease transactions

Unearned lease fees for operating lease transactions that are unable to be terminated

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Within one year	224,416	385,524
In excess of one year	273,988	238,105
Total	498,404	623,629

(Financial products)

1. Matters regarding financial products

(1) Policy on handling financial products

We manage funds solely through deposits that are short in period and highly safe as we have a policy to refrain from entering into speculative transactions. We procure funds required in light of our business plans (mainly through loans from banks).

(2) Descriptions of financial products and their risks

Notes and accounts receivable, operating receivables, are exposed to customer credit risk.

Most of accounts payable, accounts payable-other, operating payables, are due within one month.

Lease deposits, being associated mainly with the lease agreement for our head office space, are exposed to lessor credit risk.

Long-term debt is mainly used for capital payments for the establishment of subsidiaries and the procurement of funding for the acquisition of shares of subsidiaries, and is exposed to liquidity risk and interest rate fluctuation risk.

(3) Framework for risk management for financial products

(i) Management of credit risk

We curb credit risk associated with operating receivables by managing due dates and balances for individual business partners.

(ii) Market risks (management of fluctuation risk in exchange rates, interest rates, etc.)

Fluctuation risk in interest rates for long-term debt is managed by monitoring fluctuations in interest rates at all times.

(iii) Management of liquidity risk from obtaining financing

Our unit responsible manages liquidity risk by keeping liquidity on hand in consideration of cash flow control.

(4) Supplementary description of matters relating to fair value of financial products

In computing the fair value of financial products, variable factors are factored in, meaning that they could potentially vary if different premises are used.

2. Matters regarding fair value of financial products

Shown below are amounts recorded on the consolidated balance sheet, fair value, and their differences.

Previous fiscal year (As of December 31, 2021)

(Thousands of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Lease deposits	212,055	210,637	(1,418)
Total assets	212,055	210,637	(1,418)

Current fiscal year (As of December 31, 2022)

(Thousands of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Lease deposits	361,403	352,080	(9,323)
Total assets	361,403	352,080	(9,323)
Long-term debt (Note)	777,701	777,700	(0)
Total liabilities	777,701	777,700	(0)

(Note) The amount recorded on the consolidated balance sheet and fair value of long-term debt includes the current portion of long-term debt (amount recorded on the consolidated balance sheet: ¥138,388 thousand).

- (Notes) 1. Cash is omitted from the notes, and regarding deposits, notes, accounts receivable and contract assets, accounts payable, accounts payable-other, and income taxes payable, the fair value should be close to the book value because they are settled in a short period of time, and therefore their presentation is omitted.
2. Securities without market value, etc. are not included in the above table. The amount recorded on the consolidated balance sheet for the relevant financial products are as follows.

(Thousands of yen)

Category	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Operational investment securities	9,837	23,833
Investment securities	56,800	3,591
Investments in affiliates	43,633	51,707
Investments in capital of subsidiaries and associates	—	2,485

3. Amounts of planned redemptions of receivables after balance sheet date

Previous fiscal year (As of December 31, 2021)

	Within one year (Thousands of yen)	In excess of one year and within five years (Thousands of yen)	In excess of five years and within ten years (Thousands of yen)	In excess of ten years (Thousands of yen)
Cash and deposits	1,784,218	—	—	—
Notes and accounts receivable	1,073,376	—	—	—
Lease deposits	5,048	3,406	203,028	573
Total	2,862,642	3,406	203,028	573

Current fiscal year (As of December 31, 2022)

	Within one year (Thousands of yen)	In excess of one year and within five years (Thousands of yen)	In excess of five years and within ten years (Thousands of yen)	In excess of ten years (Thousands of yen)
Cash and deposits	3,199,089	—	—	—
Notes, accounts receivable and contract assets	912,827	—	—	—
Lease deposits	10,855	39,991	309,984	573
Total	4,122,771	39,991	309,984	573

4. Amounts of planned repayments of interest-bearing debt after balance sheet date

Previous fiscal year (As of December 31, 2021)

Not applicable.

Current fiscal year (As of December 31, 2022)

	Within one year (Thousands of yen)	In excess of one year and within five years (Thousands of yen)	In excess of five years and within ten years (Thousands of yen)	In excess of ten years (Thousands of yen)
Long-term debt	138,388	495,313	144,000	—
Total	138,388	495,313	144,000	—

3. Matters related to the breakdown of the fair value of financial products

The fair value of financial products is classified into the following three levels according to the observability and significance of the inputs used in the calculation of the fair value.

Level 1 fair value: Fair value calculated from the (unadjusted) market price in active markets for identical assets or liabilities

Level 2 fair value: Fair value calculated using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value: Fair value calculated using significant unobservable inputs

If multiple inputs that have a significant impact on the calculation of fair value are used, it is categorized as the lowest level of priority in the calculation of fair value from among the levels to which each input belongs.

(1) Financial products recorded at fair value in the consolidated balance sheet
Not applicable.

(2) Financial products other than the financial products recorded at fair value in the consolidated balance sheet
Current fiscal year (As of December 31, 2022)

Category	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Lease deposits	–	352,080	–	352,080
Total assets	–	352,080	–	352,080
Long-term debt	–	777,700	–	777,700
Total liabilities	–	777,700	–	777,700

(Note) Explanation of the valuation method and inputs used in the calculation of the fair value

Lease deposits

The fair value of lease deposits is calculated based on the present value which is obtained by discounting the future cash flow by an interest rate that is based on an appropriate index such as government bond yields corresponding to the remaining period, and classified as Level 2.

Long-term debt

For long-term debt with variable interest rates, because the fair value approximates the book value, since they reflect market interest rates over the short term and the credit conditions have not changed significantly since execution, so they are listed according to the relevant book value.

The fair value of long-term debt with fixed interest rates is calculated using the discounted present value method based on the total amount of principal and interest and an interest rate that takes into account the remaining period of the debt and credit risk, and is classified as Level 2 fair value.

(Securities)

1. Available-for-sale securities

Previous fiscal year (As of December 31, 2021)

The fair values of operational investment securities (¥9,837 thousand recorded on the consolidated balance sheet), investment securities (¥56,800 thousand recorded likewise), and investments in affiliates (¥43,633 thousand recorded likewise) are not disclosed as they are deemed to be highly difficult to know in the absence of market prices.

Current fiscal year (As of December 31, 2022)

The fair values of operational investment securities (¥23,833 thousand recorded on the consolidated balance sheet), investment securities (¥3,591 thousand recorded likewise), investments in affiliates (¥51,707 thousand recorded likewise) and investments in capital of subsidiaries and associates (¥2,485 thousand recorded likewise) are not disclosed as they are securities without market value, etc.

2. Available-for-sale securities sold

Not applicable.

3. Securities subject to recording of impairment loss

In the current fiscal year, ¥53,505 thousand of investment securities (¥53,505 thousand of available-for-sale securities) were recorded as impairment losses.

Regarding impairment losses on securities without market value, etc., if the substantial value declines by 50% or more compared to the acquisition cost due to the deterioration of the issuing company's financial condition, impairment losses are recorded with consideration given to the possibility of recovery.

(Retirement benefits)

Previous fiscal year (January 1, 2021 to December 31, 2021)

1. Outline of a retirement benefit program adopted

The Company adopted a selective defined contribution pension program in order to pay retirement benefits to employees.

2. Defined contribution pension program

The Company is required to contribute ¥42,552 thousand to its defined contribution pension program.

Current fiscal year (January 1, 2022 to December 31, 2022)

1. Outline of a retirement benefit program adopted

The Company adopted a selective defined contribution pension program in order to pay retirement benefits to employees.

2. Defined contribution pension program

The Company is required to contribute ¥46,663 thousand to its defined contribution pension program.

(Stock option, etc.)

(Stock option(s))

1. Expense amount to be recorded for stock options and the account

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Cost of sales	26,024	22,269
Selling, general and administrative expenses	20,945	17,379

2. Description and number of stock options and their change

(1) Description of stock option

	11th Stock Acquisition Rights	12th Stock Acquisition Rights	13th Stock Acquisition Rights	14th Stock Acquisition Rights
Company	Submitter company	Submitter company	Submitter company	Submitter company
Date of resolution	Annual general meeting of shareholders held on March 29, 2018 Board of Directors meeting held on May 15, 2018	Board of Directors meeting held on March 25, 2021	Board of Directors meeting held on February 10, 2022	Board of Directors meeting held on February 10, 2022
Grantee categories and count	Director: 3 persons Employee: 140 persons	Executive Officer: 5 persons Employee: 10 persons	Employee: 182 persons	Employee: 1 person
Number of stock options by stock class (Note)	Common stock 335,200	Common stock 34,900	Common stock 63,100	Common stock 10,000
Date of granting	June 15, 2018	April 13, 2021	March 31, 2022	March 31, 2022
Requirements for determining rights	The requirements for determining rights are as shown in “(2) Stock acquisition rights” in “1. Shares” in “IV. Status of Submitting Company.”	Same as on the left	Same as on the left	Same as on the left
Applicable term of service	From June 15, 2018 to May 15, 2020	From March 15, 2021 to March 25, 2022	From February 11, 2022 to February 10, 2025	From February 11, 2022 to February 10, 2023
Period for rights exercise	From May 16, 2020 to May 15, 2028	From March 26, 2022 to March 25, 2026	From February 11, 2025 to February 10, 2028	From February 11, 2023 to February 10, 2028

(Note) Stated by translating into the number of shares. Stated by translating into the number of shares after a stock split conducted on July 13, 2018 (1,000-for-1 stock split), and one conducted on October 1, 2019 (2-for-1 stock split), and one conducted on January 1, 2021 (2-for-1 stock split).

(2) Number of stock options and their change

Stated by translating the number of stock options in existence for the current fiscal year into the number of shares.

(i) Number of stock options

	11th Stock Acquisition Rights	12th Stock Acquisition Rights	13th Stock Acquisition Rights	14th Stock Acquisition Rights
Company	Submitter company	Submitter company	Submitter company	Submitter company
Date of resolution	Annual general meeting of shareholders held on March 29, 2018 Board of Directors meeting held on May 15, 2018	Board of Directors meeting held on March 25, 2021	Board of Directors meeting held on February 10, 2022	Board of Directors meeting held on February 10, 2022
Prior to determining rights (Shares)				
End of previous fiscal year	57,160	33,900	-	-
Granting	-	-	63,100	10,000
Lapse	-	-	-	-
Determination of rights	36,800	33,900	-	-
Balance of undetermined rights	20,360	-	63,100	10,000
After determining rights (Shares)				
End of previous fiscal year	91,640	-	-	-
Determination of rights	36,800	33,900	-	-
Exercise of rights	21,880	28,200	-	-
Lapse	-	-	-	-
Balance of rights not exercised	106,560	5,700	-	-

(Note) Stated by translating into the number of shares after a stock split conducted on July 13, 2018 (1,000-for-1 stock split), and one conducted on October 1, 2019 (2-for-1 stock split), and one conducted on January 1, 2021 (2-for-1 stock split).

(ii) Unit price information

	11th Stock Acquisition Rights	12th Stock Acquisition Rights	13th Stock Acquisition Rights	14th Stock Acquisition Rights
Company	Submitter company	Submitter company	Submitter company	Submitter company
Date of resolution	Annual general meeting of shareholders held on March 29, 2018 Board of Directors meeting held on May 15, 2018	Board of Directors meeting held on March 25, 2021	Board of Directors meeting held on February 10, 2022	Board of Directors meeting held on February 10, 2022
Rights exercise price (Yen)	75	1	1	1
Average stock price at rights exercise (Yen)	1,116	1,041	-	-
Fairly valued unit price on date of grant (Yen)	-	1,842	1,062	1,072

(Note) Stated by translating into values after a stock split conducted on July 13, 2018 (1,000-for-1 stock split), and one conducted on October 1, 2019 (2-for-1 stock split), and one conducted on January 1, 2021 (2-for-1 stock split).

3. Estimation method for a stock option unit price that is valued fairly

Shown below are estimation methods used for estimating a fairly valued unit price of the 13th Stock Acquisition Rights and 14th Stock Acquisition Rights granted in the current fiscal year.

(1) Valuation method used Black-Scholes equation

(2) Main basic numbers and estimation methods

	13th Stock Acquisition Rights	14th Stock Acquisition Rights
Stock price variability (Note 1)	54.56%	52.76%
Expected residual period (Note 2)	4.37 years	3.36 years
Expected dividend (Note 3)	¥10 per share	¥10 per share
Risk-free interest rate (Note 4)	0.03%	(0.01%)

- (Notes)
1. Stock price variability was calculated in reference to stock prices from September 2018 to March 2022.
 2. Since it is difficult to reasonably estimate a residual period in the absence of sufficient data accumulated, we estimated it by presuming that the stock options would be exercised at the midpoint of the option exercise period.
 3. Expected dividend was in reference to the dividend for the fiscal year ended December 31, 2021.
 4. The yield on Japanese government bonds for the expected residual period was used as risk-free interest rate.

4. Estimation method for the number of stock option rights determined

Since it is essentially difficult to reasonably estimate the number of future lapses, we adopted a method by which to reflect only the number of lapses done.

5. Total intrinsic value at the end of the current fiscal year for when computing using a stock option's intrinsic value per unit and the total intrinsic value at the exercise date of stock options exercised at the end of the current fiscal year

- | | |
|---|-------------------|
| (1) Total intrinsic value at the end of the current fiscal year | ¥150,527 thousand |
| (2) Total intrinsic value of options exercised during the current fiscal year | ¥22,889 thousand |

(Restricted stock awards)

1. Description and number of advance grant-based stock options and their change, among options to be granted at no charge as director remuneration

(1) Description of advance grant-based stock options

	Advance grant-based stock options for 2021	Advance grant-based stock options for 2022
Grantee categories and count (Persons)	Directors (excluding Outside Directors), 3 persons	Directors (excluding Outside Directors), 3 persons
Number of granted shares by class of stock	Common stock, 19,998 shares	Common stock, 19,998 shares
Date of granting	April 15, 2021	April 15, 2022
Conditions for removing the restriction	The restriction will be removed at expiration of the transfer restriction period by determining, by resolution of the Board of Directors, the number of shares for which the transfer restriction is to be removed. This will be in consideration of deliberations by a voluntary meeting of the Compensation Advisory Committee and its recommendation in accordance with the fact that grantees were consecutively in office as Directors of the Company over the transfer restriction period and to the achievement rate for Medium-term Business Plan operational targets and the extent of corporate value improvement. If, before the expiration of the Transfer Restriction Period, an Eligible Director retires due to expiration of the term of office, death, or other justifiable reason, (i) where such retirement occurs during the period from the time of granting such shares to the time prior to determining the number of shares with respect to which the Transfer Restriction will be removed, the number of such shares with respect to which the Transfer Restriction will be removed and the timing of removing the Transfer Restriction will be reasonably adjusted and determined as necessary in accordance with the degree of achievement of the management targets for the medium-term management plan and the degree of enhancement of corporate value as of that time, and the like, and (ii) where such retirement occurs during the period from the time of determining the number of shares with respect to which the Transfer Restriction will be removed to the time of expiration of the Transfer Restriction Period, the timing of removing the Transfer Restriction will be reasonably adjusted and determined as necessary. The number of shares and the timing of removing the Transfer Restriction in case of (i) and the timing of removing the Transfer Restriction in case of (ii) will be determined by resolution of the Board of Directors in consideration of deliberations by a voluntary meeting of the Compensation Advisory Committee and its recommendation.	Same as on the left
Transfer Restriction Period	From April 15, 2021 to April 14, 2024	From April 15, 2022 to April 14, 2025

(2) Number of advance grant-based stock options and their change

Stated by targeting advance grant-based stock options on which unremoved transfer restriction applied to a number of shares for the current fiscal year (the fiscal year ended December 31, 2022).

(i) Amount of expense recognized and account

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Cost of sales	–	–
Selling, general and administrative expenses	27,192	24,812

(ii) Number of shares

	Advance grant-based stock options for 2021	Advance grant-based stock options for 2022
Closing balance of restricted stock options for the previous fiscal year (Shares)	19,998	–
Granting (Shares)	–	19,998
Gratis acquisition (Shares)	–	–
Transfer restriction removed (Shares)	–	–
Closing balance of restricted stock options for the current fiscal year (Shares)	19,998	19,998

(iii) Unit price information

	Advance grant-based stock options for 2021	Advance grant-based stock options for 2022
Fairly valued unit price on date of grant (Yen)	1,813	1,050

2. Estimation method for fairly valued unit price

The advance grant-based stock options for 2021 used the closing price of the Company's common stock on the Tokyo Stock Exchange on the date of granting as the fairly valued unit price.

The advance grant-based stock options for 2022 used the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day prior to the date of resolution of Board of Directors meeting as the fairly valued unit price.

3. Estimation method for the number of shares whose transfer restriction will be removed

For advance grant-based stock options, it is essentially difficult to reasonably estimate the number of shares to be acquired at no charge in the future, so we adopted a method by which to reflect only the number of shares acquired at no charge in the past.

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Deferred tax assets		
Income taxes payable	20,498	25,369
Provision for bonuses	169,359	234,122
Statutory welfare expenses payable	18,861	26,928
Disallowance of cost of sales	489	2,595
Loss carried forward	-	50,636
Allowance for doubtful accounts	4,727	7,300
Operational investment securities	16,779	16,779
Investment securities	-	16,385
Asset retirement obligations	25,192	39,116
Restricted stock awards	10,990	18,251
Charges for stock compensation	14,384	10,618
Other	15,555	14,354
Deferred tax assets subtotal	296,839	462,460
Valuation reserve	-	(75,362)
Total deferred tax assets	296,839	387,097
Deferred tax liabilities		
Disallowance of net sales	(1,343)	(6,246)
Asset retirement expenses	(18,139)	(28,915)
Customer-related assets	-	(5,741)
Total deferred tax liabilities	(19,483)	(40,903)
Net deferred tax assets	277,356	346,194

2. Breakdown of main matters that caused a significant difference to occur between the statutory effective tax rate and income tax rate after application of tax effect accounting

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Statutory effective tax rate	30.6%	30.6%
(Adjustment)		
Items not expensed without limit in time such as entertainment expenses	3.3	2.7
Per-capita inhabitant tax	0.3	0.2
Equity in losses (earnings) of investments	(0.4)	(0.3)
Change in valuation reserve	0.7	8.6
Amortization of goodwill	-	1.0
Tax deduction related to tax incentives for securing human resources	-	(7.8)
Other	(0.3)	(0.3)
Income tax rate after application of tax effect accounting	34.2	34.7

(Business Combination, etc.)

Business Combination through Acquisition

At a meeting of the Board of Directors held on December 27, 2021, we resolved to acquire shares of Celebrain Corporation and make it a consolidated subsidiary. On the same day, we concluded a share transfer agreement and acquired the shares on January 14, 2022.

1. Outline of Business Combination

(1) Name of the company whose shares will be purchased and description of its business

Name of company whose shares will be purchased: Celebrain Corporation

Business: Human Resource Strategy Consulting, Human Resource Development and Education Training, and HR Technology Consulting

(2) Main reasons for the business combination

In HR consulting, there is growing demand from clients who face issues such as the promotion of work style reforms and retention due to a shortage of human resources. By providing HR-related consulting functions as an integrated solution for the Group, we can enhance our functions as a comprehensive consulting firm.

In addition, HR consulting will enable us to transform our clients' corporate culture from the perspective of *people* and enhance our ability to realize strategies. At the same time, by broadly exploring CXO candidates from our networks, we will be able to provide management personnel that are suitable for our clients.

In addition, we will be able to develop the HR Tech domain, which is growing through collaboration between our Digital Strategy Office and HR Consulting.

We believe that we can expect significant synergies between the two companies through this matter, and we will further accelerate our growth strategy as a comprehensive consulting firm for the Group.

(3) Business Combination Date

January 14, 2022

(4) Legal form of business combination

Acquisition of shares

(5) Name following business combination

Celebrain Corporation

(6) Percentage of voting rights acquired

60%

(7) Main grounds for deciding on the company whose shares will be purchased

This is due to our acquisition of shares in exchange for cash.

2. Period of the results of the acquired company that is included in the consolidated financial statements

From January 1, 2022 to December 31, 2022

3. Acquisition cost of the company whose shares will be purchased and breakdown by type of consideration

Price of acquisition	Cash	¥362,161 thousand
Cost of acquisition		¥362,161 thousand

4. Details and amount of major acquisition-related expenses

Advisory fees, commissions, etc.: ¥10,651 thousand

5. Goodwill, reason for recognizing goodwill, amortization method and amortization term

(1) Value of goodwill

¥294,589 thousand

(2) Reason for recognition

Mainly due to the excess earning power which is expected from future business development.

(3) Amortization method and amortization term

Amortization using the straight-line method over a ten-year period

6. The amount of assets accepted and liabilities assumed on the date of the Business Combination, and major breakdown thereof

	(Thousands of yen)
Current assets	181,469
Fixed assets	39,843
Total assets	<u>221,312</u>
Current liabilities	97,930
Fixed liabilities	11,434
Total liabilities	<u>109,364</u>

7. Determination of provisional treatment related to business combination

Provisional accounting was applied to the end of the first, second and third quarters of the consolidated fiscal year because the allocation of the cost of acquisition had not been completed, but the allocation of the cost of acquisition had been determined at the end of the current fiscal year. With the determination of this provisional accounting treatment, the tentatively calculated amount of goodwill of ¥305,059 thousand decreased by ¥10,469 thousand to ¥294,589 thousand, and this decrease was allocated as ¥25,000 thousand to customer-related assets, ¥7,655 thousand to deferred tax liabilities and ¥6,875 thousand to non-controlling interests.

(Asset retirement obligation)

Asset retirement obligation recorded on the consolidated balance sheet

1. Outline of the asset retirement obligation

Obligation to restore our head office space to its original condition under the real estate lease agreement

2. Method for computing the asset retirement obligation

The asset retirement obligation is computed with a discount rate for a proper indicator such as the yield on Japanese government bonds for an estimated usage period (0.000% to 0.980%) while predicting the period to be 3 to 15 years from acquisition.

3. Change in the total asset retirement obligation

	(Thousands of yen)	
	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Opening balance	82,257	82,262
Increase in amount due to acquisition of tangible fixed assets	-	52,827
Increase in amount due to changes to estimates	-	2,279
Amount adjusted due to the passage of time	4	61
Reduction due to performance of asset retirement obligations	-	(2,680)
Ending balance	<u>82,262</u>	<u>134,750</u>

4. Changes to estimates of the relevant asset retirement obligation

In the current fiscal year, regarding asset retirement obligations that are recorded as a restoration obligation associated with the Company's real estate lease agreement, a change in the estimates of the restoration cost has been made due to the acquisition of new information, such as an estimate of the expected costs when the facility is vacated.

The increase in amount due to changes to estimates of ¥2,279 thousand has been added to the pre-change asset retirement obligations balance.

Due to this change in estimates, operating income, ordinary income and income before income taxes for the current fiscal year decreased by ¥2,279 thousand.

(Revenue recognition)

1. Disaggregated information on revenue from contracts with customers
Current fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Consulting and Advisory Business					Investment Business	Total
	Management Consulting	M&A Advisory	Revitalization Support	Other	Consulting and Advisory Business Total	Investment	
Consulting and advisory fees, etc. (excluding success fees)	4,351,972	1,127,720	601,236	126,547	6,207,477	3,000	6,210,477
Success fees	—	1,665,744	—	39,433	1,705,177	—	1,705,177
Revenue from contracts with customers	4,351,972	2,793,464	601,236	165,981	7,912,655	3,000	7,915,655
Other revenue	—	—	—	—	—	—	—
Sales to external customers	4,351,972	2,793,464	601,236	165,981	7,912,655	3,000	7,915,655

2. Base information in order to understand revenue from contracts with customers

The information that forms the base for understanding revenue arising from contracts with customers is presented in the “Notes (Significant Matters Forming the Basis for Preparation of Consolidated Financial Statements), 4. Matters regarding accounting policies, (6) Standard for recording revenues and expenses of importance.”

3. Information related to the relationship between the satisfaction of performance obligations under contracts with customers and cash flows arising from such contracts, and the amount and timing of revenue expected to be recognized in the next fiscal year onward from contracts with customers existing at the end of the current fiscal year

(1) Balance of contract assets and contract liabilities, etc.

(Thousands of yen)

	Current fiscal year	
	Opening balance	Ending balance
Liabilities from contracts with customers		
Notes and accounts receivable	1,045,910	752,474
Contract assets	27,466	160,352
Contract liabilities	35,713	19,868

Contract assets primarily relate to the Group’s rights to unclaimed consideration for revenue from satisfying performance obligations in the Consulting and Advisory Business. Contract assets are transferred to liabilities from contracts with customers when the Group’s right to the consideration becomes unconditional.

Contract liabilities are mainly advances received from customers in the Consulting and Advisory Business. Contract liabilities are reversed upon recognition of the revenue.

Of the amount of revenue recognized during the current fiscal year, the amount included in the balance of contract liabilities as of the beginning of the fiscal year was ¥35,713 thousand.

(2) Transaction price allocated to outstanding performance obligations

As the Group does not have any significant transactions with an initial expected contract period of more than one year, their presentation is omitted through the application of practical expediency. In addition, there are no significant amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Segment Information)

Segment Information

1. Outline of reporting segments

The Group's reporting segments are those units among the constituent units of the Group for which separate financial information is available, and are subject to regular review by decision-making bodies such as the Board of Directors in order to determine the allocation of management resources and evaluate performance.

The Group's businesses consist of segments based on business type, and the two reporting segments are the "Consulting and Advisory Business" and the "Investment Business."

The "Consulting and Advisory Business" operates the Management Consulting Business, M&A Advisory Business and Revitalization Support Business. The "Investment Business" performs investment business involving the dispatch of management personnel with the purpose of improving the long-term, sustainable corporate value of the companies which receive investment.

2. Matters related to changes in reporting segments

The segments of the Group had been a single segment. However, we added the Investment Business as a new reportable segment to change it to two segments from the current fiscal year—the Consulting and Advisory Business and the Investment Business—as we established Frontier Capital Inc. to commence an investment business involving the dispatch of management personnel.

However, the segment information for the previous fiscal year that was created using the reporting segment classification method for the current fiscal year is not disclosed due to the addition of the "Investment Business" from the current fiscal year.

3. Calculation method for net sales, profit and loss, assets, liabilities and other items for each reporting segment

Accounting methods for reporting business segments are generally the same as presented in "Significant Matters Forming the Basis for Preparation of Consolidated Financial Statements."

The income of reporting segments are figures based on operating income.

Internal revenue between segments and transfer amounts are based on the prevailing market price.

4. Information regarding net sales, profit and loss, assets, liabilities and other items for each reporting segment

Previous fiscal year (January 1, 2021 to December 31, 2021)

Presentation is omitted because the Group has only one segment.

Current fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Reporting Segment			Adjustment	Amount Recorded in the Consolidated Financial Statements
	Consulting and Advisory Business	Investment Business	Total		
Net sales					
Sales to external customers	7,912,655	3,000	7,915,655	—	7,915,655
Internal net sales and transfer amounts between segments	—	14,603	14,603	(14,603)	—
Total	7,912,655	17,603	7,930,258	(14,603)	7,915,655
Segment profit or loss (-:loss)	1,099,403	(191,272)	908,131	—	908,131
Segment assets	4,800,439	858,204	5,658,644	—	5,658,644
Other items					
Depreciation and amortization	47,495	—	47,495	—	47,495
Amortization of goodwill	29,458	—	29,458	—	29,458
Amortization of customer-related assets	6,250	—	6,250	—	6,250
Investment in equity method affiliates	54,193	—	54,193	—	54,193
Increase in tangible fixed assets and intangible fixed assets	473,430	—	473,430	—	473,430

(Note) "Segment profit or loss" matches the operating income in the consolidated statement of income.

Related Information

Previous fiscal year (January 1, 2021 to December 31, 2021)

1. Information on individual products and services

(Thousands of yen)

	Management consulting service	M&A advisory service	Rehabilitation support service	Other	Total
Sales to external customers	3,280,302	1,725,210	662,331	73,810	5,741,654

2. Information on individual areas

(1) Net sales

Presentation is omitted because sales to external customers in Japan exceeded 90% of net sales on the consolidated statement of income.

(2) Tangible fixed assets

Presentation is omitted because the value of tangible fixed assets in Japan exceeded 90% of the value of tangible fixed assets on the consolidated balance sheet.

3. Information on individual main customers

Presentation is omitted because no external customer accounted for 10% or more of net sales on the consolidated statement of income.

Current fiscal year (January 1, 2022 to December 31, 2022)

1. Information on individual products and services

(Thousands of yen)

	Consulting and Advisory Business				Investment Business	Total
	Management consulting service	M&A advisory service	Rehabilitation support service	Other	Investment	
Sales to external customers	4,351,972	2,793,464	601,236	165,981	30,000	7,915,655

(Note) From the current fiscal year, the name of the “Financial Advisory Business” has been changed to the “M&A Advisory Business.” There is no effect due to the change of name.

2. Information on individual areas

(1) Net sales

Presentation is omitted because sales to external customers in Japan exceeded 90% of net sales on the consolidated statement of income.

(2) Tangible fixed assets

Presentation is omitted because the value of tangible fixed assets in Japan exceeded 90% of the value of tangible fixed assets on the consolidated balance sheet.

3. Information on individual main customers

Presentation is omitted because no external customer accounted for 10% or more of net sales on the consolidated statement of income.

Information on impairment loss on fixed assets of individual reporting segments

Not applicable.

Information on goodwill amortization and unamortized balance of individual reporting segments

Previous fiscal year (January 1, 2021 to December 31, 2021)

Not applicable.

Current fiscal year (January 1, 2022 to December 31, 2022)

(Thousands of yen)

	Consulting and Advisory Business	Investment Business	Company-wide / Removal	Total
Amount of depreciation and amortization for the current fiscal year	29,458	—	—	29,458
Ending balance for the current fiscal year	265,130	—	—	265,130

Information on gain on negative goodwill in individual reporting segments

Not applicable.

Information on Related Parties

Information on transactions with related parties

- (1) Transactions between the company submitting consolidated financial statements and related parties
- (i) The parent of the company submitting consolidated financial statements and its major shareholders (limited to corporations)
Not applicable.
- (ii) Officers and major shareholders (limited to individuals) of the company submitting consolidated financial statements
Not applicable.
- (2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties
Not applicable.

(Per Share Information)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net assets per share	JPY215.40	JPY255.37
Net income per share	JPY29.70	JPY48.67
Net income per share-diluted	JPY29.24	JPY47.93

(Note) Shown below is the basis for calculating net income per share and diluted net income per share:

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net income per share		
Net income attributable to owners of parent (Thousands of yen)	338,707	556,722
Amount not attributable to common stock (Thousands of yen)	–	–
Net income attributable to owners of parent attributable to common stock (Thousands of yen)	338,707	556,722
Average number of shares of common stock outstanding during the period (Shares)	11,404,286	11,437,677
Net income per share-diluted		
Adjustment of net income attributable to owners of parent (Thousands of yen)	–	–
Increase in common stock (Shares)	177,288	176,925
(Of which, stock acquisition rights (Shares))	(177,288)	(176,925)
Explanation of residual stock not included in calculation of diluted net income per share due to lack of dilutive potential	–	–

(Significant Subsequent Events)

(Capital Increase of a Subsidiary)

1. At the Board of Directors meeting held on December 27, 2022, the Company resolved that its consolidated subsidiary, Frontier Capital Inc., would raise funds from seven financial institutions through a third-party allocation of shares, and payment was completed on January 18, 2023.

(1) Purpose of capital increase

The funds were procured as investment funds for the investment business involving the dispatch of management personnel conducted by Frontier Capital Inc.

The investment business of Frontier Capital Inc., makes direct investments aimed at improving the corporate value of the companies which receive investment over the medium to long term, which makes growth through business model reform and industry reorganization at the companies that have been invested in possible; at the same time, we believe that accelerating the expansion of the Group's scale will also contribute to the enhancement of our corporate value.

In promoting the Investment Business, in addition to dispatching management personnel from Frontier Capital Inc. to the companies which receive investment, the Company also provides consulting services as necessary.

In addition, The Bank of Fukuoka, Ltd., JAPAN POST BANK Co., Ltd., and The Bank of Yokohama, Ltd. are positioned as anchor investors, and because investment was also received from four other banks (Saitama Resona Bank, Limited, The Daishi Hokuetsu Bank, Ltd., The Hokuriku Bank, Ltd., and Sumitomo Mitsui Banking Corporation), the combination and utilization of the regional relations and financial business know-how held by each bank with the consulting, M&A, management personnel dispatch, and revitalization support know-how held by the Company and Frontier Capital Inc. becomes possible, and the promotion of this business will be further strengthened. Through these efforts, we will increase the corporate value of the Company and Frontier Capital Inc. by increasing the corporate value of the companies which receive investment.

(2) Outline of consolidated subsidiary

(i) Name	Frontier Capital Inc.
(ii) Address	3-2-1 Roppongi, Minato-ku, Tokyo, Japan
(iii) Job Title/Name of Representative	Shoichiro Onishi, Representative Director, President, CEO and COO Masahiro Matsuoka, Representative Director
(iv) Description of business	Investment business involving the dispatch of management personnel
(v) Paid-in capital prior to increase	¥500 million (Capital: ¥500 million; Capital reserve: ¥500 million)
(vi) Date of Incorporation	April 1, 2022
(vii) Fiscal year end	December 31 of each year
(viii) Shareholding ratio and voting rights ratio of the Company before the capital increase	Shareholding ratio: 100%; Voting rights ratio: 100%

(3) Outline of financing activities

(i) Number of shares newly issued	26,673 (26,664 Class A shares and 9 Class B shares)
(ii) Issue price:	¥100,000 per share
(iii) Amount to be included in capital	¥1,333 million (¥50,000 per share)
(iv) Payment date	January 18, 2023
(v) Allottees	Class A shares The Bank of Fukuoka, Ltd., JAPAN POST BANK Co., Ltd., The Bank of Yokohama, Ltd., Saitama Resona Bank, Limited, The Daishi Hokuetsu Bank, Ltd., The Hokuriku Bank, Ltd., Sumitomo Mitsui Banking Corporation Class B shares The Bank of Fukuoka, Ltd., JAPAN POST BANK Co., Ltd., The Bank of Yokohama, Ltd.
(vi) Paid-in capital after increase	¥1,833 million
(vii) Number of shares outstanding after increase	36,673
(viii) Shareholding ratio and voting rights ratio of the Company after the capital increase	Shareholding ratio: 27.3%; Voting rights ratio: 91.0%
(ix) Description of share classes	Class A shares • Dividends of surplus in cash are made to Class A shareholders prior to shareholders, etc. who hold other types of shares. • The distribution of residual assets to allottees shall be made prior to shareholders, etc. who hold other types of shares. • The allottees cannot exercise voting rights at the general meeting of shareholders of Frontier Capital Inc. • The Class A shareholders may demand acquisition of all or a part of the Class A shares against Frontier Capital Inc. in exchange for the payment of money after 10 years has passed from the date of the first issuance of the Class A Shares. Class B shares • The payment of dividends of surplus will not be made to Class B shareholders. • The distribution of residual assets to allottees shall be made to Class B shareholders, etc. prior to Class C shareholders, etc. and common shareholders, etc. in the case of further distribution of residual assets after distribution of residual assets to Class A shareholders. • The allottees hold one voting right for each Class B shares at the general meeting of shareholders of Frontier Capital Inc.

2. At the meeting of the Board of Directors held on February 10, 2023, it was resolved that the Company and its consolidated subsidiary Frontier Capital Inc. would enter into agreements with The Joyo Bank, Ltd., Tokai Tokyo Financial Holdings, Inc., and JAPAN POST BANK Co., Ltd. regarding a capital increase to Frontier Capital Inc. through third-party allotment; the contracts were entered into on February 17, 2023, and payment was completed on February 28, 2023.

(1) Purpose of capital increase

An investment of a total of ¥2,667,300 thousand as investment funds for the investment business involving the dispatch of management personnel conducted by Frontier Capital Inc. was received on January 18, 2023, then additional investment was newly obtained from The Joyo Bank, Ltd., Tokai Tokyo Financial Holdings, Inc., and JAPAN POST BANK Co., Ltd. At the meeting of the Board of Directors held on February 10, 2023, it was resolved to enter into underwriting agreements with The Joyo Bank, Ltd., Tokai Tokyo Financial Holdings, Inc., and JAPAN POST BANK Co., Ltd. regarding a total capital increase of ¥1,500 million in stages and that the initial funding would be a total of ¥333,300 thousand, and said payment was received. The conclusion of new underwriting agreements with these three companies has resulted in the aim of achieving a total of ¥15,000 million in funding, including the underwriting agreements concluded on December 28, 2022 and the additional investment of ¥500 million from the Company (cumulative investment of ¥1,500 million). The capital increase in January and February 2023 will be total ¥3,000,600 thousand as the initial portion of the total ¥15,000 million in the staged capital increase.

(2) Outline of consolidated subsidiary

(i) Name	Frontier Capital Inc.
(ii) Address	3-2-1 Roppongi, Minato-ku, Tokyo, Japan
(iii) Job Title/Name of Representative	Shoichiro Onishi, Representative Director, President, CEO and COO Masahiro Matsuoka, Representative Director
(iv) Description of business	Investment business involving the dispatch of management personnel
(v) Paid-in capital prior to increase	¥1,833 million (Capital: ¥1,833 million; Capital reserve: ¥1,833 million)
(vi) Date of Incorporation	April 1, 2022
(vii) Fiscal year end	December 31 of each year
(viii) Shareholding ratio and voting rights ratio of the Company before the capital increase	Shareholding ratio: 27.3%; Voting rights ratio: 91.0%

(3) Outline of financing activities

(i) Number of shares newly issued	3,333 Class A shares
(ii) Issue price	¥100,000 per share
(iii) Amount to be included in capital	¥166 million (¥50,000 per share)
(iv) Payment date	February 28, 2023
(v) Allottees	Class A shares The Joyo Bank, Ltd., Tokai Tokyo Financial Holdings, Inc., JAPAN POST BANK Co., Ltd.
(vi) Paid-in capital after increase	¥2,000 million
(vii) Number of shares outstanding after increase	40,006
(viii) Shareholding ratio and voting rights ratio of the Company after the capital increase	Shareholding ratio: 25.0%; Voting rights ratio: 91.0%
(ix) Description of class shares	Class A shares <ul style="list-style-type: none"> • Dividends of surplus in cash are made to Class A shareholders prior to shareholders, etc. who hold other types of shares. • The distribution of residual assets to allottees shall be made prior to shareholders, etc. who hold other types of shares. • The allottees cannot exercise voting rights at the general meeting of shareholders of Frontier Capital Inc. • The Class A shareholders may demand acquisition of all or a part of the Class A shares against Frontier Capital Inc. in exchange for the payment of money after 10 years has passed from the date of the first issuance of the Class A shares.

(v) Consolidated Supplementary Schedule

Breakdown of corporate bonds

Not applicable.

Breakdown of borrowings

Category	Opening balance for the current fiscal year (Thousands of yen)	Ending balance for the current fiscal year (Thousands of yen)	Average interest rate (%)	Repayment due date
Current portion of long-term debt	–	138,388	0.85	–
Long-term debt (excluding the current portion)	–	639,313	0.85	2024 to 2031
Total	–	777,701	–	–

- (Notes) 1. The average interest rate is the weighted average interest rate for the balance of borrowings at the end of the fiscal year.
2. Long-term debt (excluding the current portion) that are due to be repaid within five years after the consolidated balance sheet date are as follows.

	In excess of one year and within two years (Thousands of yen)	In excess of two years and within three years (Thousands of yen)	In excess of three years and within four years (Thousands of yen)	In excess of four years and within five years (Thousands of yen)
Long-term debt	137,313	136,000	136,000	86,000

Schedule of asset retirement obligations

Presentation of schedule of asset retirement obligations is omitted as information required to be stated in such schedule is shown in notes as provided for in Article 15-23 of the Regulations of Consolidated Financial Statements.

(2) Other

Quarterly information for the current fiscal year

(Cumulative periods)	First quarter	Second quarter	Third quarter	Current fiscal year
Net sales (Thousands of yen)	2,224,878	3,972,843	5,889,465	7,915,655
Quarterly income before income taxes (Thousands of yen)	416,064	503,270	643,156	868,006
Quarterly net income attributable to owners of parent (Thousands of yen)	236,713	277,805	351,338	556,722
Quarterly net income per share (Yen)	20.77	24.32	30.73	48.67

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Quarterly net income per share (Yen)	20.77	3.59	6.42	17.92

2. Non-consolidated Financial Statements

(1) Non-consolidated Financial Statements

(i) Non-consolidated Balance Sheet

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	1,751,698	2,187,359
Notes and accounts receivable	Note) 1,077,761	–
Notes, accounts receivable and contract assets	–	Note) 857,016
Operational investment securities	9,837	23,833
Prepaid expenses	115,227	120,335
Advances paid	Note) 23,294	Note) 41,232
Other	Note) 8,858	Note) 8,423
Allowance for doubtful accounts	(16,936)	(23,839)
Total current assets	2,969,741	3,214,359
Fixed assets		
Tangible fixed assets		
Buildings, net	193,854	275,435
Tools, furniture and fixtures, net	14,357	31,057
Total tangible fixed assets	208,212	306,493
Intangible fixed assets		
Software	11,194	10,244
Other	102	102
Total intangible fixed assets	11,296	10,346
Investments and other assets		
Investment securities	56,800	3,294
Investments in affiliates	3,000	1,380,613
Investments in capital of subsidiaries and associates	0	2,500
Long-term loans receivable from subsidiaries and associates	30,000	30,000
Long-term accounts receivable - other	Note) 20,601	Note) 20,601
Lease deposits	211,373	333,584
Deferred tax assets	277,356	347,568
Other	26,975	–
Allowance for doubtful accounts	(15,186)	(2,747)
Total investments and other assets	610,920	2,115,415
Total fixed assets	830,429	2,432,254
Total assets	3,800,171	5,646,614

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable	52,016	71,215
Current portion of long-term debt	–	136,000
Accounts payable-other	93,682	115,650
Accrued expenses	119,221	139,316
Income taxes payable	259,633	274,196
Accrued consumption taxes	118,051	174,031
Advances received	35,713	14,220
Deposits received	48,211	59,848
Provision for bonuses	553,014	745,174
Provision for shareholder benefit program	7,079	13,924
Other	1,897	1,934
Total current liabilities	1,288,520	1,745,513
Fixed liabilities		
Long-term debt	–	638,000
Asset retirement obligations	82,262	127,010
Total fixed liabilities	82,262	765,010
Total liabilities	1,370,783	2,510,524
Net assets		
Shareholders' equity		
Paid-in capital	178,723	210,062
Capital surplus		
Capital reserve	178,723	210,062
Other capital surplus	380,022	367,441
Total capital surplus	558,745	577,503
Retained earnings		
Other retained earnings		
Retained earnings carried forward	1,681,523	2,322,095
Total retained earnings	1,681,523	2,322,095
Treasury stock	(36,575)	(8,246)
Total shareholders' equity	2,382,418	3,101,416
Stock acquisition rights	46,969	34,673
Total net assets	2,429,387	3,136,089
Total liabilities and net assets	3,800,171	5,646,614

(ii) Non-consolidated Statement of Income

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Net sales	Note) 5,732,196	Note) 7,546,117
Cost of sales	Note) 2,244,842	Note) 3,014,856
Gross income	3,487,353	4,531,261
Selling, general and administrative expenses		
Salaries and allowances	1,299,291	1,306,198
Provision for bonuses	269,041	347,589
Recruiting expenses	231,835	438,761
Retirement benefit expenses	23,174	23,259
Depreciation and amortization	18,768	22,305
Provision for shareholder benefit program	7,079	6,845
Provision recorded for allowance for doubtful accounts	1,303	6,903
Other	1,123,951	1,300,545
Total selling, general and administrative expenses	Note) 2,974,445	Note) 3,452,408
Operating income	512,908	1,078,852
Non-operating income		
Interest income	Note) 345	Note) 169
Insurance dividend income	1,125	1,802
Administrative fees received	2,268	3,115
Income from subsidies	686	–
Foreign exchange gains	–	4,840
Other	Note) 158	Note) 182
Total non-operating income	4,584	10,110
Non-operating expenses		
Interest expense	1,253	7,353
Charges for stock compensation	2,902	–
Foreign exchange losses	23	–
Other	256	–
Total non-operating expenses	4,435	7,353
Ordinary income	513,057	1,081,609
Extraordinary income		
Reversal of allowance for doubtful accounts for subsidiaries and associates	8,142	12,438
Total extraordinary income	8,142	12,438
Extraordinary losses		
Loss on valuation of investment securities	–	53,505
Total extraordinary losses	–	53,505
Income before income taxes	521,200	1,040,542
Income taxes	228,866	356,257
Income taxes-deferred	(53,119)	(70,212)
Total income taxes	175,746	286,045
Net income	345,454	754,497

(iii) Non-consolidated Statement of Shareholders' Equity
Previous fiscal year (January 1, 2021 to December 31, 2021)

	Shareholders' equity					
	Paid-in capital	Capital surplus			Retained earnings	
		Capital reserve	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
Opening balance	163,530	163,530	671,690	835,220	1,473,982	1,473,982
Change during the period						
Issuance of new shares (exercise of subscription rights to shares)	1,597	1,597		1,597		
Dividends of surplus					(137,912)	(137,912)
Net income					345,454	345,454
Purchase of treasury stock						
Retirement of treasury stock			(291,668)	(291,668)		
Restricted stock awards	13,596	13,596		13,596		
Net changes of items other than shareholders' equity (net)						
Total changes during the period	15,193	15,193	(291,668)	(276,474)	207,541	207,541
Ending balance	178,723	178,723	380,022	558,745	1,681,523	1,681,523

(Thousands of yen)

	Shareholders' equity		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity		
Opening balance	(58,163)	2,414,569	—	2,414,569
Change during the period				
Issuance of new shares (exercise of subscription rights to shares)		3,195		3,195
Dividends of surplus		(137,912)		(137,912)
Net income		345,454		345,454
Purchase of treasury stock	(270,080)	(270,080)		(270,080)
Retirement of treasury stock	291,668	—		—
Restricted stock awards		27,192		27,192
Net changes of items other than shareholders' equity (net)			46,969	46,969
Total changes during the period	21,588	(32,151)	46,969	14,818
Ending balance	(36,575)	2,382,418	46,969	2,429,387

Current fiscal year (January 1, 2022 to December 31, 2022)

	Shareholders' equity					
	Paid-in capital	Capital surplus			Retained earnings	
		Capital reserve	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
Opening balance	178,723	178,723	380,022	558,745	1,681,523	1,681,523
Change during the period						
Issuance of new shares (exercise of subscription rights to shares)	26,806	26,806		26,806		
Dividends of surplus					(113,925)	(113,925)
Net income					754,497	754,497
Restricted stock awards	4,532	4,532	(12,580)	(8,048)		
Net changes of items other than shareholders' equity (net)						
Total changes during the period	31,338	31,338	(12,580)	18,758	640,571	640,571
Ending balance	210,062	210,062	367,441	577,503	2,322,095	2,322,095

(Thousands of yen)

	Shareholders' equity		New share subscription rights	Total net assets
	Treasury stock	Total shareholders' equity		
Opening balance	(36,575)	2,382,418	46,969	2,429,387
Change during the period				
Issuance of new shares (exercise of subscription rights to shares)		53,613		53,613
Dividends of surplus		(113,925)		(113,925)
Net income		754,497		754,497
Restricted stock awards	28,329	24,812		24,812
Net changes of items other than shareholders' equity (net)			(12,295)	(12,295)
Total changes during the period	28,329	718,997	(12,295)	706,702
Ending balance	(8,246)	3,101,416	34,673	3,136,089

Notes to Non-consolidated Financial Statements

(Significant Accounting Policies)

1. Valuation standards and valuation methods for securities

(1) Investments in shares and capital of subsidiaries and affiliates

Investments in shares and capital of subsidiaries and affiliates are stated at cost using the moving-average method.

(2) Available-for-sale securities (including operational investment securities)

Securities without market value, etc.

Available-for-sale securities without market value are stated at cost using the moving-average method.

2. Depreciation method for fixed assets

(1) Tangible fixed assets

Tangible fixed assets are amortized using the declining-balance method.

However, buildings (fixtures) acquired on or after April 1, 2016 are depreciated using the straight-line method.

Useful lives are mainly as follows:

Buildings (fixtures)	2 to 15 years
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Tools, furniture and fixtures	2 to 20 years
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(2) Intangible fixed assets

Intangible fixed assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method in accordance with an estimated internal usage period (5 years).

3. Standard for translation of amounts of foreign-currency-denominated assets and liabilities into Japanese yen

Amounts of foreign-currency-denominated receivables and payables are translated into Japanese yen at the spot exchange rate on the balance sheet date and any translation difference is recorded as profit or loss.

4. Standard for recording allowances or provisions

(1) Allowance for doubtful accounts

To prepare for a potential loss from a default on receivables, an estimated uncollectible amount is recorded for ordinary receivables in an amount determined by our historical loss experience ratio and for specific receivables feared to be defaulted on in an amount determined by considering the recoverability on a case-by-case basis.

(2) Provision for bonuses

To prepare for paying bonuses to employees, we recorded a provision for bonuses in an amount required to be paid in the current fiscal year as part of an amount likely to be paid as bonuses for them.

(3) Provision for shareholder benefit program

To prepare for spending of shareholder benefit points granted to shareholders under the shareholder benefit program, we at the end of the current fiscal year recorded a provision for shareholder benefit program in an amount likely to be incurred correspondingly in the future.

5. Standard for recording revenues and expenses

Details of the main performance obligations and the usual timing of satisfying the performance obligations (ordinary timing of recognizing revenue) in the main businesses of the Company related to revenue from contracts with customers are as follows.

- Recognition of revenue related to the Consulting and Advisory Business (excluding success fees)

In the Consulting and Advisory Business, services such as management consulting, M&A advisory, and revitalization support are provided based on outsourcing contracts concluded with customers, and these services which are agreed to with customers are the performance obligations. Since these performance obligations are generally satisfied during the outsourcing period stipulated in the outsourcing contract, revenue is recognized over the outsourcing period.

- Success fees

Success fees, which are generated mainly in M&A advisory services, are recognized when the conditions for accruing success fees defined in an outsourcing contract are met, such as when a contract is concluded between the client company and its counterparty.

(Changes to accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan; hereinafter the “Revenue Recognition Accounting Standard”), etc. have been applied from the beginning of the fiscal year under review, and revenue is recognized at the amount expected to be received in exchange for promised goods or services when control of the relevant goods or services is transferred to the customer.

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment prescribed in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, and the cumulative effect of applying the new accounting policy retroactively prior to the beginning of the fiscal year under review is added to or subtracted from the retained earnings carried forward at the beginning of the fiscal year under review, and the new accounting policy is applied to the balance from the beginning of the fiscal year under review; however, there is no cumulative effect that requires an adjustment to retained earnings carried forward at the beginning of the fiscal year under review.

It also does not have an effect on the profit or loss of the fiscal year under review.

Due to the adoption of the Revenue Recognition Accounting Standard, etc., “Notes and accounts receivable” which was presented under “Current assets” in the balance sheet for the previous fiscal year has been changed to “Notes, accounts receivable and contract assets” from the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification based on the new presentation method has been made for the previous fiscal year.

Further, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Revenue Recognition Accounting Standard, no “Revenue recognition” notes have been presented for the previous fiscal year.

(Application of accounting standard for fair value measurement, etc.)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan), etc. have been applied from the beginning of the fiscal year under review, and in accordance with the transitional treatment in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan), we have decided that the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement will be applied in the future. This will not have an effect on the financial statements.

(Change in presentation method)

(Standards for preparation of financial statements of a special company submitting financial statements)

As the Company is a special company submitting financial statements, from the current fiscal year, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of shareholders’ equity, schedule of tangible fixed assets, and schedule of allowances and provisions are prepared based on the format stipulated in Article 127, Paragraph 1 of the Financial Statement Regulations.

In addition, the notes for each item listed in Article 127, Paragraph 2 of the Financial Statement Regulations have been changed to notes on the matters listed in the Regulations on Corporate Accounting for each item.

Non-consolidated Statement of Income

Because “Recruiting expenses” that were included in “Other” under “Selling, general and administrative expenses” exceeded 10% of the total selling, general and administrative expenses in the previous fiscal year, we have decided to list it separately from the current fiscal year. In order to reflect this change in presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, the ¥1,355,787 thousand shown in “Other” under “Selling, general and administrative expenses” in the non-consolidated statement of income for the previous fiscal year has been reclassified as ¥231,835 thousand in “Recruiting expenses” and ¥1,123,951 thousand in “Other.”

(Additional Information)

(Accounting Estimate of the Impact of Spread of COVID-19)

With respect to the status of COVID-19, we make accounting estimates such as for recoverability of deferred tax assets, based on currently available information, assuming that current conditions will continue for at least FY2023.

As a consequence, we are not aware of any material impact on the valuation of our accounting estimates; however, due to the highly uncertain impact of the spread of COVID-19, our financial condition and results of operations may be impacted in the future.

(Non-consolidated Balance Sheet)

(Note) Monetary claims and monetary liabilities against affiliate companies (excluding those presented as categories)

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Short-term monetary claims	25,310	37,069
Long-term monetary claims	20,601	20,601
Short-term monetary liabilities	7,251	29,599

(Non-consolidated Statement of Income)

(Note) (Balance of transactions with affiliate companies)

(Thousands of yen)

	Previous fiscal year (January 1, 2021 to December 31, 2021)	Current fiscal year (January 1, 2022 to December 31, 2022)
Balance of transactions due to sales transactions		
Net sales	22,465	33,490
Operating expenses	11,700	71,268
Balance of transactions due to non-sales transactions	2,597	3,265

(Securities)

Investments in shares and capital of subsidiaries and affiliates (¥1,377,613 thousand recorded as shares of subsidiaries, ¥3,000 thousand recorded as shares of affiliates, ¥0 thousand recorded as investments in the capital of subsidiaries and ¥2,500 thousand recorded as investments in the capital of affiliates on the non-consolidated balance sheet for the current fiscal year and ¥3,000 thousand recorded as shares of affiliates and ¥0 thousand as investments in the capital of subsidiaries on the non-consolidated balance sheet for the previous fiscal year) are not presented as they are shares without a market value.

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Thousands of yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Deferred tax assets		
Income taxes payable	20,498	24,163
Provision for bonuses	169,359	228,207
Statutory welfare expenses payable	18,861	24,470
Disallowance of cost of sales	489	2,595
Allowance for doubtful accounts	9,837	8,142
Operational investment securities	16,779	16,779
Investment securities	–	16,385
Asset retirement obligations	25,192	38,896
Restricted stock awards	10,990	18,251
Charges for stock compensation	14,384	10,618
Other	15,555	11,905
Deferred tax assets subtotal	301,950	400,417
Valuation reserve	(5,110)	(17,686)
Total deferred tax assets	296,839	382,730
Deferred tax liabilities		
Disallowance of net sales	(1,343)	(6,246)
Asset retirement expenses	(18,139)	(28,915)
Total deferred tax liabilities	(19,483)	(35,161)
Net deferred tax assets	277,356	347,568

2. Breakdown of main matters that caused a significant difference to occur between the statutory effective tax rate and income tax rate after application of tax effect accounting

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Statutory effective tax rate (Adjustment)	30.6%	30.6%
Items not expensed without limit in time such as entertainment expenses	3.3	2.1
Per-capita inhabitant tax	0.3	0.1
Change in valuation reserve	(0.5)	1.2
Tax deduction related to tax incentives for securing human resources	–	(6.5)
Other	0.0	0.0
Income tax rate after application of tax effect accounting	33.7	27.5

(Business Combination, etc.)

Business Combination through Acquisition

Because the description is the same as that presented in “Notes (Business Combination, etc.)” of the consolidated financial statements, the notes have been omitted.

(Revenue Recognition)

Because the base information in order to understand revenue from contracts with customers are the same as the description presented in “Notes (Revenue Recognition)” of the consolidated financial statements, the notes have been omitted.

(Significant Subsequent Events)

Not applicable.

(iv) Supplementary Schedule

Schedule of tangible fixed assets

Category	Asset type	Opening balance for the current fiscal year (Thousands of yen)	Increase during the current fiscal year (Thousands of yen)	Decrease during the current fiscal year (Thousands of yen)	Depreciation for the current fiscal year (Thousands of yen)	Closing balance for the current fiscal year (Thousands of yen)	Cumulative depreciation and amortization (Thousands of yen)
Property, plant and equipment	Buildings	193,854	116,515	0	34,934	275,435	94,349
	Tools, furniture and fixtures	14,357	23,891	0	7,192	31,057	37,404
	Total	208,212	140,407	0	42,126	306,493	131,754
Intangible fixed assets	Software	11,194	3,494	–	4,445	10,244	25,246
	Other	102	–	–	–	102	–
	Total	11,296	3,494	–	4,445	10,346	25,246

(Note) Shown below are the main amounts of increase for the current fiscal year.

Buildings Equipment work at the head office ¥55,453 thousand

Asset retirement expenses of the head office ¥34,434 thousand

Asset retirement expenses of the Yodoyabashi office of the Osaka Branch ¥10,652 thousand

Tools, furniture and fixtures Furniture and fixtures at the head office ¥20,668 thousand

Schedule of allowances and provisions

Account	Opening balance for the current fiscal year (Thousands of yen)	Amount of increase for the current fiscal year (Thousands of yen)	Amount of decrease for the current fiscal year (Thousands of yen)	Ending balance for the current fiscal year (Thousands of yen)
Provision for bonuses	553,014	745,174	553,014	745,174
Allowance for doubtful accounts	32,123	6,903	12,438	26,587

Account	Opening balance for the current fiscal year (Thousands of yen)	Amount of increase for the current fiscal year (Thousands of yen)	Amount of decrease for the current fiscal year (Thousands of yen)	Ending balance for the current fiscal year (Thousands of yen)
Provision for shareholder benefit program	7,079	16,041	9,195	13,924

(2) Breakdown of Main Assets and Liabilities

Presentation is omitted as consolidated financial statements were prepared.

(3) Other

Not applicable.

VI. Outline of Stock Administration by Submitter Company

Fiscal year	From January 1 to December 31 of each year																																		
Annual general meeting of shareholders	Within three months from the last day of each fiscal year																																		
Record date	December 31 of each year																																		
Record date for dividends of surplus	December 31 of each year June 30 of each year																																		
Number of shares per unit	100																																		
Repurchase of shares less than one unit																																			
Service place	1-4-5, Marunouchi, Chiyoda-ku, Tokyo Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation																																		
Shareholder register manager	1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation																																		
Intermediary place	-																																		
Repurchase fee	An amount to be separately determined as a handling free for agency service for stock trading																																		
Public notification method	To be done electronically. However, if this is not possible for an unavoidable reason, notification will be done by posting it in the <i>Nikkei</i> newspaper. Public notification posting on: URL https://www.frontier-mgmt.com/																																		
Privileges for shareholders	<p>We grant shareholder benefit points to shareholders recorded on the shareholder register on June 30 and December 31, each year who hold at least one unit (100 shares) of Frontier Management Inc. shares, in accordance with the number of shares held. Shareholders are allowed to exchange their shareholder benefit points for a benefit product choice from among at least 2,000 items on shareholder-only website Frontier Management Premium Benefit Club.</p> <table border="1"> <thead> <tr> <th>Number of shares held</th> <th>June 30</th> <th>December 31</th> </tr> </thead> <tbody> <tr> <td>100 to 199 shares</td> <td>1,000 points</td> <td>1,000 points</td> </tr> <tr> <td>200 to 299 shares</td> <td>1,500 points</td> <td>1,500 points</td> </tr> <tr> <td>300 to 399 shares</td> <td>2,000 points</td> <td>2,000 points</td> </tr> <tr> <td>400 to 499 shares</td> <td>2,500 points</td> <td>2,500 points</td> </tr> <tr> <td>500 to 599 shares</td> <td>3,000 points</td> <td>3,000 points</td> </tr> <tr> <td>600 to 699 shares</td> <td>3,500 points</td> <td>3,500 points</td> </tr> <tr> <td>700 to 799 shares</td> <td>4,000 points</td> <td>4,000 points</td> </tr> <tr> <td>800 to 899 shares</td> <td>4,500 points</td> <td>4,500 points</td> </tr> <tr> <td>900 to 999 shares</td> <td>5,000 points</td> <td>5,000 points</td> </tr> <tr> <td>At least 1,000 shares</td> <td>5,500 points</td> <td>5,500 points</td> </tr> </tbody> </table>		Number of shares held	June 30	December 31	100 to 199 shares	1,000 points	1,000 points	200 to 299 shares	1,500 points	1,500 points	300 to 399 shares	2,000 points	2,000 points	400 to 499 shares	2,500 points	2,500 points	500 to 599 shares	3,000 points	3,000 points	600 to 699 shares	3,500 points	3,500 points	700 to 799 shares	4,000 points	4,000 points	800 to 899 shares	4,500 points	4,500 points	900 to 999 shares	5,000 points	5,000 points	At least 1,000 shares	5,500 points	5,500 points
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(Note) As regards shares less than one unit that are held by shareholders of the Company, the Articles of Incorporation provide that they may not exercise rights other than those set forth in the items of Article 189, Paragraph (2) of the Companies Act.

VII. Reference Information on Submitter Company

1. Information on Parent of Submitter Company

The Company has no parent as set forth in Article 24-7, Paragraph (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

The Company has submitted the following documents during the period from the first day of the current fiscal year to the day of submitting this securities report.

(1) Securities report, its attachment and a letter of confirmation

The 15th fiscal year (from January 1, 2021 to December 31, 2021). Submitted to the Director-General of the Kanto Local Finance Bureau on March 24, 2022

(2) Internal control report

Submitted to the Director-General of the Kanto Local Finance Bureau on March 24, 2022

(3) Quarterly report and a letter of confirmation

(The first quarter of the 16th fiscal year) (from January 1, 2022 to March 31, 2022). Submitted to the Director-General of the Kanto Local Finance Bureau on May 13, 2022

(The second quarter of the 16th fiscal year) (from April 1, 2022 to June 30, 2022). Submitted to the Director-General of the Kanto Local Finance Bureau on August 12, 2022

(The third quarter of the 16th fiscal year) (from July 1, 2022 to September 30, 2022). Submitted to the Director-General of the Kanto Local Finance Bureau on November 11, 2022

(4) Ad hoc report

An ad hoc report based on the provisions of Article 19, Paragraph (2), Item (ix)-2 “Result of voting rights exercise at general meeting of shareholders” of the Cabinet Office ordinance on disclosure of corporate information. Submitted to the Director-General of the Kanto Local Finance Bureau on March 25, 2022

An ad hoc report based on the provisions of Article 19, Paragraph (2), Items (iii) and (xiii)-2 “Decision about a change to a specified subsidiary company and acquisition of a subsidiary company” of the Cabinet Office ordinance on disclosure of corporate information. Submitted to the Director-General of the Kanto Local Finance Bureau on May 26, 2022

An ad hoc report based on the provisions of Article 19, Paragraph (2), Item (iii) “Change to a specified subsidiary company” of the Cabinet Office ordinance on disclosure of corporate information. Submitted to the Director-General of the Kanto Local Finance Bureau on May 26, 2022

Section II. Information on Guarantor Company for Submitter Company

Not applicable.