

Translation

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Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (Based on Japanese GAAP)

May 8, 2018

Company name: CRESCO LTD.
 Stock exchange listing: Tokyo
 Stock code: 4674 URL: <https://www.cresco.co.jp/>
 Representative: President, Operating Officer Hiroyuki Nemoto
 Director, Managing Executive Officer,
 Inquiries: General Manager of Accounting & Finance Kazuo Sugiyama TEL +81-3-5769-8011
 Unit
 Scheduled date of Ordinary General Meeting of Shareholders: June 15, 2018
 Scheduled date to commence dividend payments: June 18, 2018
 Scheduled date to file annual securities report: June 18, 2018
 Preparation of supplementary material on financial results: No
 Holding of financial results meeting: Yes for analysts

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(1) Consolidated operating results

Percentages indicate year-on-year changes

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2018	33,328	7.9	3,091	14.2	3,492	13.4	2,202	7.8
March 31, 2017	30,893	7.4	2,707	9.0	3,078	7.7	2,042	19.8

Note: Comprehensive income
 Fiscal year ended March 31, 2018: ¥2,927 million [31.4%]
 Fiscal year ended March 31, 2017: ¥2,227 million [76.0%]

Fiscal year ended	Earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
	Yen	Yen	%	%	%
March 31, 2018	200.25	199.97	15.2	15.6	9.3
March 31, 2017	180.28	179.62	15.7	15.4	8.8

Reference: Share of profit (loss) of entities accounted for using equity method:
 Fiscal year ended March 31, 2018: ¥27 million Fiscal year ended March 31, 2017: ¥3 million

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2018	24,127	15,109	62.5	1,379.38
March 31, 2017	20,763	13,889	66.9	1,224.66

Reference: Equity
 As of March 31, 2018: ¥15,090 million As of March 31, 2017: ¥13,888 million

(3) Consolidated cash flows

Fiscal year ended	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2018	2,174	(179)	(606)	6,892
March 31, 2017	1,144	(505)	(604)	5,503

2. Cash dividends

	Annual dividends per share					Total dividend payments	Dividend payout ratio (Consolidated)	Dividend on equity (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2017	–	26.00	–	29.00	55.00	623	30.5	4.8
Fiscal year ended March 31, 2018	–	29.00	–	43.00	72.00	781	36.0	5.5
Fiscal year ending March 31, 2019 (Forecast)	–	32.00	–	32.00	64.00		29.0	

Note: Breakdown of year-end dividends in fiscal year ended March 31, 2018

Ordinary dividends: ¥33.00 Commemorative dividends: ¥10.00

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2018	17,300	6.4	1,480	0.7	1,620	(4.0)	1,096	(5.3)	100.18
Full year	35,500	6.5	3,280	6.1	3,580	2.5	2,416	9.7	220.84

4. Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2018	12,000,000 shares	As of March 31, 2017	12,000,000 shares
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Number of treasury shares at the end of the period

As of March 31, 2018	1,059,746 shares	As of March 31, 2017	659,413 shares
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Average number of shares during the period

Fiscal year ended March 31, 2018	11,000,061 shares	Fiscal year ended March 31, 2017	11,331,202 shares
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(Reference) Summary of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

(1) Non-consolidated operating results Percentages indicate year-on-year changes

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2018	21,198	5.0	2,153	9.3	2,645	7.5	1,763	4.1
March 31, 2017	20,197	8.6	1,970	6.5	2,461	8.0	1,694	22.0

	Earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2018	160.36	160.14
March 31, 2017	149.54	148.99

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio	Net assets per share
As of	Millions of yen		Millions of yen		%	Yen
March 31, 2018	20,305		13,189		64.9	1,204.04
March 31, 2017	17,793		12,339		69.3	1,088.10

Reference: Equity

As of March 31, 2018 ¥13,172 million As of March 31, 2017 ¥12,339 million

2. Forecast of non-consolidated financial results for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

Percentages indicate year-on-year changes

	Net sales		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2018	11,110	5.4	1,375	0.3	986	(1.1)	90.13
Full year	22,400	5.7	2,700	2.1	1,866	5.8	170.56

* **Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company makes no promise regarding achievement of any content in the forward-looking statements. Actual business and other results may differ substantially due to various factors. Please refer to “(4) Outlook for the coming year, 1. Overview of operating results and others” on page 5 of the attached materials for the suppositions that form the assumptions for

Contents

1. Overview of operating results and others.....	2
(1) Overview of operating results for the fiscal year under review.....	2
(2) Overview of financial position for the fiscal year under review.....	4
(3) Overview of cash flows for the fiscal year under review.....	5
(4) Outlook for the coming year.....	5
2. Basic policy on the selection of accounting standards.....	6
3. Consolidated financial statements and significant notes thereto.....	7
(1) Consolidated balance sheets.....	7
(2) Consolidated statements of income and consolidated statements of comprehensive income.....	9
(3) Consolidated statements of changes in equity.....	12
(4) Consolidated statements of cash flows.....	14
(5) Notes on consolidated financial statements.....	16
(Notes on the premise of going concern).....	16
(Segment information, etc.).....	16
(Per share information).....	20

1. Overview of operating results and others

(1) Overview of operating results for the fiscal year under review

During the fiscal year under review (from April 1, 2017 to March 31, 2018), despite the existence of numerous matters of concern including the uncertainty in the business conditions arising from the overseas situation and trends in the foreign exchange market and the stock market, the business environment continued to improve on the back of, among others, improvements in corporate earnings and the employment situation and the expansion of domestic demand.

In such a business environment, efforts to address the “fourth industrial revolution,” “work style reform,” and “labor shortage” to strengthen the competitiveness and the growth potential of enterprises are generating further demand for software and systems development that contributes to productivity improvements. These trends are providing opportunities for the Group, which operates in a wide range of business fields encompassing advanced technologies (AI, robotics, IoT, etc.) in addition to its traditional core technologies (application development technology, IT infrastructure construction technology, and embedded technology), to demonstrate its superiority.

In order to make a further leap by capitalizing on such business opportunities, the Group started to uphold a new five-year vision, “CRESCO Ambition 2020,” adopting “Lead the Digital Transformation” as the corporate slogan, in April 2016 and aims to achieve performance targets, implement key strategies, and enhance corporate value.

<< Corporate Slogan >>

Lead the Digital Transformation

Under this vision, during the fiscal year under review, the Group has not only continued to focus on reinforcing its development system (securing and training human resources, etc.), managing quality, and strengthening cooperation within the CRESCO Group but also continued to work on various endeavors, including researching leading technology, creating new businesses, and expanding sales of various services and solutions, in order to cope appropriately and speedily with the maintenance and expansion of the order volume and the development of services in response to changes in the market and the incorporation of advanced technologies.

Topics for the fiscal year under review are as follows.

April 2017:

- Started the sales of “Minervae PoCKET,” which is a service to support the introduction of IBM Watson.
- Employees of the Company made presentations at the 2017 Spring Research Workshop of the Society of Project Management.

May 2017:

- CRESCO HOKURIKU. LTD., a consolidated subsidiary of the Company, ran a booth at “e-messe kanazawa 2017” hosted by the Ishikawa Information System Association.
- An employee of the Company gave a lecture at PMI Japan Forum 2017 under the theme of “Agile Project Management.”

June 2017:

- SoftBank Corp. started to sell “Minervae PoCKET.”
- Announced a call center support system based on the coordination between AI (artificial intelligence) and LINE.
- Announced the acquisition of treasury shares and tender offer of treasury shares.

August 2017:

- Nagoya Center started operation.
- Selected as a constituent stock of the JPX-Nikkei Mid and Small Cap Index.
- An employee of the Company contributed an article to a biomedical science magazine, “Medical Science Digest.”

September 2017:

- Started the sales of “Minervae ViBOT,” which is a chatbot that makes use of visual images.

- Employees of the Company made a presentation at the 2017 Fall Research Workshop of the Society of Project Management.
- Completed the liquidation of Cresco Shanghai Software CO., LTD., a consolidated subsidiary of the Company.
- Announced that IOS Co., Ltd., a consolidated subsidiary of the Company, made Applications Co., Ltd. its subsidiary.
- Awarded the highest level “Eruboshi” certification based on the Act of Promotion of Women’s Participation and Advancement in the Workplace.

October 2017:

- An employee of the Company made a presentation at a session of “AI Business Forum TOKYO.”
- Announced a restructuring of subsidiaries in the Kansai Region in which the Kasai Office of IOS Co., Ltd. was to be integrated into Media Magic Co., Ltd.

November 2017:

- An employee of the Company made a presentation at an IoT technology seminar of “IoT Technology 2017.”
- LTS, Inc., an equity method associate of the Company, announced that the listing of its shares on the TSE Mothers market was approved.
- * LTS, Inc. is no longer an equity method associate of the Company, effective December 14, 2017.
- An employee of the Company made a presentation at the “Skill Standards User’s Conference 2018.”
- An employee of the Company made a presentation at the “Japanese Society for Artificial Intelligence Joint Research Workshop 2017.”
- Announced an AI engine “Minervae SCOPE” designed to be used for the screening of eye diseases.

December 2017:

- Announced the development of an AI-assisted electronic medical records system and assistant robots for dental clinics.
- Issued the 4th series subscription rights to shares with exercise price amendment clause (subject to exercise restrictions) through third-party allotment and 5th and 6th series subscription rights to shares with exercise price amendment options (subject to exercise restrictions).

January 2018:

- Acquired shares of Nexus Corporation and noticed conversion into a subsidiary.
- An employee of the Company made a presentation of “A Case Study of the Effective Use of a Medical Equipment Development Support Network” at the 4th National Conference on Medical Equipment Development.
- Designated as an Amazon Web Services (AWS) “APN Advanced Consulting Partner.”
- Announced a change of the trade name of Media Magic Co., Ltd. and the relocation of its head office.
- Announced an absorption-type merger of Applications Co., Ltd. by IOS Co., Ltd.

February 2018:

- Announced the completion of the exercise of 4th Series Subscription Rights to Shares with Exercise Price Amendment Clause (Subject to Exercise Restrictions).

March 2018:

- Employees of the Company made a presentation at the 2018 Spring Research Workshop of the Society of Project Management.
- An employee of the Company made a presentation at the “Overseas Study Tour Debriefing Session” hosted by the Frontier Region of Multimedia Okinawa Initiative.
- Held “CRESCO Open House 2018,” a research workshop of the Technology Laboratory.
- Announced the revision of the forecast of year-end dividend (an increase in dividend and commemorative dividend).

As a result of the above, both sales and profit increased, and for the fiscal year ended March 31, 2018, the Company recorded 33,328 million yen in net sales (30,893 million yen for the previous fiscal year), 3,091 million yen in operating profit (2,707 million yen for the previous fiscal year), 3,492 million yen in ordinary profit (3,078 million yen for the previous fiscal year), and 2,202 million yen in profit attributable to owners of parent (2,042 million yen for the previous fiscal year).

Business results for each segment are as follows.

(i) Software development business

For the software development business, net sales rose 8.4% year on year to 27,724 million yen and segment profit (operating profit) increased 11.5% year on year to 3,431 million yen. A breakdown of net sales by industry reveals that sales for the finance sector, which is our main field, fell 617 million yen year on year. In the public service sector, sales rose 997 million yen year on year. In the distribution and other sector, net sales grew 1,769 million yen year on year.

(ii) Embedded software development business

For the embedded software development business, net sales rose 4.1% year on year to 5,458 million yen and segment profit (operating profit) increased 9.5% year on year to 905 million yen. In terms of products, net sales of telecom system products fell 8 million yen year on year. Net sales of car electronics fell 48 million yen year on year. As for information appliances, etc. and other embedded products, net sales increased 271 million yen year on year.

(iii) Other

For other businesses such as the product sales business, net sales increased 96.9% year on year to 145 million yen, and a segment profit (operating profit) of 11 million yen (13 million yen of segment loss for the previous fiscal year) was recorded.

(2) Overview of financial position for the fiscal year under review

Total assets at the end of the fiscal year under review totaled 24,127 million yen, a year-on-year increase of 3,364 million yen.

Current assets rose 2,221 million yen year on year to 15,383 million yen. This was mainly because although work in process declined 100 million yen, cash and deposits increased 1,380 million yen and notes and accounts receivable - trade rose 998 million yen.

Non-current assets rose 1,143 million yen year on year to 8,744 million yen. This was mainly because although deferred tax assets declined 261 million yen, investment securities increased 1,145 million yen, lease and guarantee deposits grew 112 million yen and insurance funds rose 105 million yen.

Total liabilities at the end of the fiscal year under review were 9,018 million yen, a year-on-year increase of 2,145 million yen.

Current liabilities increased 913 million yen year on year to 5,401 million yen. This was mainly because accounts payable - other increased 308 million yen, current portion of long-term loans payable grew 258 million yen, accrued consumption taxes rose 123 million yen, provision for bonuses increased 87 million yen and accrued expenses included in "other" grew 48 million yen.

Non-current liabilities rose 1,231 million yen year on year to 3,616 million yen. This was mainly because long-term loans payable increased 873 million yen, net defined benefit liability grew 255 million yen and provision for directors' retirement benefits rose 101 million yen.

Total net assets at the end of the fiscal year under review were 15,109 million yen, a year-on-year increase of 1,219 million yen. This was mainly because although treasury shares increased 1,444 million yen, retained earnings increased 1,492 million yen, valuation difference on available-for-sale securities grew 717 million yen and capital surplus rose 430 million yen.

(3) Overview of cash flows for the fiscal year under review

The balance of cash and cash equivalents at the end of the fiscal year under review was 6,892 million yen, a year-on-year increase of 1,388 million yen.

Cash flows from operating activities

There was a net cash inflow of 2,174 million yen from operating activities, compared to a net cash inflow of 1,144 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded income taxes paid of 1,048 million yen and an increase in notes and accounts receivable - trade of 878 million yen, while the Company also recorded profit before income taxes of 3,308 million yen, increase in accounts payable - other of 271 million yen, interest and dividend income received of 217 million yen and depreciation of 206 million yen.

Cash flows from investing activities

There was a net cash outflow of 179 million yen from investing activities, compared to a net cash outflow of 505 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded proceeds from sales of investment securities of 2,510 million yen, proceeds from redemption of investment securities of 500 million yen, proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of 94 million yen and proceeds from cancellation of insurance funds of 71 million yen but used 3,338 million yen for purchase of investment securities.

Cash flows from financing activities

There was a net cash outflow of 606 million yen from financing activities, compared to a net cash outflow of 604 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded 1,300 million yen in proceeds from long-term loans payable and 776 million yen in proceeds from disposal of treasury shares from exercise of subscription rights to shares, while the Company also recorded 1,819 million yen in purchase of treasury shares, 640 million yen in cash dividends paid and 181 million yen in repayments of long-term loans payable.

(4) Outlook for the coming year

Regarding the economic outlook for FY2018, although uncertainty arising from, among others, geopolitical risks and economic policies of the U.S. and China continues to linger, the economy in general is on the growth path. The BOJ Tankan published in March 2018 suggests active capital investment going forward. In particular, the amount of investment in software is expected to increase. As the financial results of Japanese companies remain generally strong, we forecast that the number of companies that direct their ample cash reserves to IT investments will continue to increase going forward.

Within the major segments of the Company, the following areas are particularly expected to grow:

- Software development: Human resources, travel, logistics
- Embedded software development: Car electronics, information appliances

With the advent of “digital transformation,” these areas are experiencing further expansion of customer base and are expected to grow for the time being. We expect that promising business opportunities will arise from, among others, the renewal of the enterprise system, system to support new services, embedded systems for new products, systems designed to address the needs for productivity improvements arising from manpower shortage (AI, RPA), hardware, and transition to cloud for the purpose of reducing operation cost.

The Group is active in various technical fields, and its services are in a position that they can capture demand from these trends, and we are expected as a main IT partner of companies, organizations, and industries to bring about a “digital transformation.” In order to lead the “digital transformation” and to offer speedily realistic proposals which enable customers to realize their own growth through the innovation of their business model, the Group intends to reinforce our technology and quality aspects further in software development and embedded software development businesses, which constitute the pillar of the Group’s business. At the same

time, we will contribute to society by actively incorporating advanced technology and enriching services and solutions contributing to customers' growth.

2. Basic policy on the selection of accounting standards

Taking into consideration the ability to compare not only consolidated financial statements for different accounting periods but also the Company to other companies, the Group has adopted, for the time being, a policy of creating consolidated financial statements based on Japanese generally accepted accounting principles.

As for the application of International Financial Reporting Standards (IFRS), the Company plans on appropriately responding after considering conditions both in Japan and overseas.

3. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

	(Thousands of yen)	
	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	5,514,441	6,895,374
Notes and accounts receivable - trade	5,662,614	6,660,839
Electronically recorded monetary claims - operating	1,342	3,589
Securities	782,363	700,534
Money held in trust	50,896	52,644
Merchandise and finished goods	26,967	34,404
Work in process	250,748	149,793
Supplies	895	1,424
Prepaid expenses	298,845	337,922
Deferred tax assets	499,439	488,430
Other	75,484	60,735
Allowance for doubtful accounts	(1,995)	(1,995)
Total current assets	13,162,044	15,383,696
Non-current assets		
Property, plant and equipment		
Buildings	574,046	639,969
Accumulated depreciation	(301,100)	(330,266)
Buildings, net	272,946	309,703
Tools, furniture and fixtures	475,505	537,131
Accumulated depreciation	(319,099)	(367,889)
Tools, furniture and fixtures, net	156,405	169,241
Land	19,990	19,990
Leased assets	24,272	29,636
Accumulated depreciation	(22,191)	(23,725)
Leased assets, net	2,081	5,911
Total property, plant and equipment	451,423	504,846
Intangible assets		
Goodwill	461,140	452,511
Software	241,388	211,008
Other	13,130	13,659
Total intangible assets	715,658	677,179
Investments and other assets		
Investment securities	4,935,650	6,081,190
Lease and guarantee deposits	633,370	745,726
Insurance funds	109,873	215,827
Deferred tax assets	701,148	439,585
Other	158,128	183,663
Allowance for doubtful accounts	(104,179)	(103,934)
Total investments and other assets	6,433,992	7,562,058
Total non-current assets	7,601,074	8,744,084
Total assets	20,763,119	24,127,780

(Thousands of yen)

As of March 31, 2017

As of March 31, 2018

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,410,252	1,418,345
Short-term loans payable	105,000	131,000
Current portion of long-term loans payable	38,480	296,590
Lease obligations	1,152	1,459
Accounts payable - other	437,201	745,380
Income taxes payable	591,565	630,619
Accrued business office taxes	28,952	29,705
Accrued consumption taxes	249,794	372,891
Provision for bonuses	1,061,821	1,148,842
Provision for directors' bonuses	65,800	64,195
Provision for loss on order received	61,634	23,272
Provision for loss on liquidation of subsidiaries and associates	1,621	-
Other	435,383	539,697
Total current liabilities	4,488,658	5,401,999
Non-current liabilities		
Long-term loans payable	62,840	936,250
Long-term accounts payable - other	475,460	460,010
Lease obligations	1,109	4,959
Provision for directors' retirement benefits	9,867	111,102
Net defined benefit liability	1,765,852	2,021,580
Asset retirement obligations	55,968	78,708
Deferred tax liabilities	2,308	-
Other	11,250	3,750
Total non-current liabilities	2,384,656	3,616,362
Total liabilities	6,873,314	9,018,361
Net assets		
Shareholders' equity		
Capital stock	2,514,875	2,514,875
Capital surplus	3,862,209	4,292,277
Retained earnings	7,875,260	9,367,782
Treasury shares	(426,442)	(1,871,132)
Total shareholders' equity	13,825,902	14,303,803
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	113,138	831,107
Foreign currency translation adjustment	5,280	-
Remeasurements of defined benefit plans	(55,916)	(44,097)
Total accumulated other comprehensive income	62,501	787,009
Share acquisition rights	-	16,784
Non-controlling interests	1,399	1,822
Total net assets	13,889,804	15,109,419
Total liabilities and net assets	20,763,119	24,127,780

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

	(Thousands of yen)	
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net sales	30,893,555	33,328,477
Cost of sales	25,147,614	27,020,179
Gross profit	5,745,940	6,308,298
Selling, general and administrative expenses		
Advertising expenses	30,308	28,898
Directors' compensations, salaries and allowances	1,292,801	1,285,321
Bonuses	73,089	68,485
Provision for bonuses	110,070	116,545
Provision for directors' bonuses	65,800	64,195
Retirement benefit expenses	37,475	35,674
Provision for directors' retirement benefits	1,633	1,743
Legal welfare expenses	183,033	189,340
Recruiting expenses	118,767	161,551
Entertainment expenses	45,062	50,840
Rents	173,463	175,972
Supplies expenses	44,511	54,621
Amortization of goodwill	86,626	88,173
Enterprise tax	150,177	149,625
Other	625,484	745,534
Total selling, general and administrative expenses	3,038,305	3,216,524
Operating profit	2,707,635	3,091,774
Non-operating income		
Interest income	44,835	94,731
Dividend income	150,678	126,550
Gain on sales of securities	138,258	212,947
Gain on valuation of securities	9,309	-
Gain on investments in money held in trust	3,869	1,748
Subsidy income	10,174	11,004
Share of profit of entities accounted for using equity method	3,952	27,831
Other	13,232	19,943
Total non-operating income	374,309	494,757
Non-operating expenses		
Interest expenses	1,144	3,890
Loss on valuation of securities	-	6,414
Loss on valuation of derivatives	-	49,988
Commission for purchase of treasury shares	-	21,607
Issuance cost of share acquisition rights	-	8,245
Other	2,712	4,302
Total non-operating expenses	3,856	94,447
Ordinary profit	3,078,089	3,492,084

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Extraordinary income		
Gain on sales of investment securities	67,830	106,665
Insurance income	42,091	-
Gain on sales of shares of subsidiaries and associates	-	58,405
Gain on redemption of investment securities	10,931	52,512
Other	5,318	11,589
Total extraordinary income	126,171	229,171
Extraordinary losses		
Loss on retirement of non-current assets	3,193	32,293
Loss on sales of investment securities	-	43,167
Loss on valuation of investment securities	100,499	235,288
Loss on development cancelation	22,668	-
Provision for loss on liquidation of subsidiaries and associates	1,621	-
Cost related to the anniversary of the establishment	-	65,570
Other	68,269	35,967
Total extraordinary losses	196,252	412,286
Profit before income taxes	3,008,008	3,308,969
Income taxes - current	1,064,335	1,093,601
Income taxes - deferred	(99,848)	12,141
Total income taxes	964,487	1,105,743
Profit	2,043,520	2,203,226
Profit attributable to non-controlling interests	769	423
Profit attributable to owners of parent	2,042,751	2,202,803

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	2,043,520	2,203,226
Other comprehensive income		
Valuation difference on available-for-sale securities	170,444	717,968
Remeasurements of defined benefit plans, net of tax	16,540	11,818
Share of other comprehensive income of entities accounted for using equity method	(26)	(16)
Foreign currency translation adjustment	(2,825)	(5,263)
Total other comprehensive income	184,132	724,507
Comprehensive income	2,227,653	2,927,733
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,226,884	2,927,310
Comprehensive income attributable to non-controlling interests	769	423

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,514,875	3,810,255	6,432,354	(455,045)	12,302,440
Changes of items during period					
Dividends of surplus			(599,846)		(599,846)
Profit attributable to owners of parent			2,042,751		2,042,751
Purchase of treasury shares				(474)	(474)
Disposal of treasury shares		51,953		29,077	81,031
Change of scope of equity method					-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	51,953	1,442,905	28,603	1,523,462
Balance at end of current period	2,514,875	3,862,209	7,875,260	(426,442)	13,825,902

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(57,306)	8,132	(72,456)	(121,630)	411	630	12,181,851
Changes of items during period							
Dividends of surplus							(599,846)
Profit attributable to owners of parent							2,042,751
Purchase of treasury shares							(474)
Disposal of treasury shares							81,031
Change of scope of equity method							-
Net changes of items other than shareholders' equity	170,444	(2,852)	16,540	184,132	(411)	769	184,490
Total changes of items during period	170,444	(2,852)	16,540	184,132	(411)	769	1,707,952
Balance at end of current period	113,138	5,280	(55,916)	62,501	-	1,399	13,889,804

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,514,875	3,862,209	7,875,260	(426,442)	13,825,902
Changes of items during period					
Dividends of surplus			(640,349)		(640,349)
Profit attributable to owners of parent			2,202,803		2,202,803
Purchase of treasury shares				(1,797,818)	(1,797,818)
Disposal of treasury shares		430,068		353,128	783,196
Change of scope of equity method			(69,931)		(69,931)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	430,068	1,492,522	(1,444,690)	477,900
Balance at end of current period	2,514,875	4,292,277	9,367,782	(1,871,132)	14,303,803

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	113,138	5,280	(55,916)	62,501	-	1,399	13,889,804
Changes of items during period							
Dividends of surplus							(640,349)
Profit attributable to owners of parent							2,202,803
Purchase of treasury shares							(1,797,818)
Disposal of treasury shares							783,196
Change of scope of equity method							(69,931)
Net changes of items other than shareholders' equity	717,968	(5,280)	11,818	724,507	16,784	423	741,714
Total changes of items during period	717,968	(5,280)	11,818	724,507	16,784	423	1,219,614
Balance at end of current period	831,107	-	(44,097)	787,009	16,784	1,822	15,109,419

(4) Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	3,008,008	3,308,969
Depreciation	186,300	206,926
Amortization of goodwill	86,626	88,173
Increase (decrease) in allowance for doubtful accounts	(500)	(244)
Increase (decrease) in provision for bonuses	77,037	68,987
Increase (decrease) in provision for directors' bonuses	(3,400)	(1,605)
Increase (decrease) in provision for loss on order received	61,634	(40,811)
Increase (decrease) in provision for directors' retirement benefits	3,910	(47,423)
Increase (decrease) in net defined benefit liability	68,299	100,012
Interest and dividend income	(195,514)	(221,281)
Interest expenses	1,144	3,890
Loss (gain) on sales of securities	(138,258)	(212,947)
Share of loss (profit) of entities accounted for using equity method	(3,952)	(27,831)
Loss on retirement of non-current assets	3,193	32,293
Loss (gain) on valuation of investment securities	100,499	235,288
Loss (gain) on sales of investment securities	(67,830)	(63,498)
Decrease (increase) in notes and accounts receivable - trade	(511,509)	(878,152)
Decrease (increase) in inventories	(85,824)	106,644
Increase (decrease) in notes and accounts payable - trade	(420,797)	(18,617)
Increase (decrease) in accounts payable - other	71,247	271,605
Increase (decrease) in long-term accounts payable - other	(95,866)	(18,916)
Increase (decrease) in accrued consumption taxes	(39,715)	129,290
Other, net	(16,902)	(10,571)
Subtotal	2,087,833	3,010,182
Interest and dividend income received	191,041	217,985
Proceeds from insurance income	43,003	-
Interest expenses paid	(1,171)	(4,564)
Income taxes paid	(1,175,851)	(1,048,911)
Net cash provided by (used in) operating activities	1,144,855	2,174,690

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from investing activities		
Payments into time deposits	(6,000)	(6,000)
Proceeds from withdrawal of time deposits	6,000	14,000
Purchase of securities	(1,919,811)	(2,508,798)
Proceeds from sales of securities	1,643,948	2,778,905
Purchase of property, plant and equipment	(219,312)	(138,365)
Purchase of intangible assets	(63,711)	(84,611)
Purchase of investment securities	(1,934,208)	(3,338,014)
Proceeds from sales of investment securities	1,091,788	2,510,194
Proceeds from redemption of investment securities	1,070,543	500,486
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(82,827)	(38,231)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	94,289
Proceeds from cancellation of insurance funds	10,851	71,000
Other, net	(103,172)	(34,228)
Net cash provided by (used in) investing activities	(505,910)	(179,373)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-	(56,000)
Proceeds from long-term loans payable	-	1,300,000
Repayments of long-term loans payable	(83,480)	(181,472)
Repayments of lease obligations	(1,152)	(1,206)
Cash dividends paid	(600,348)	(640,043)
Purchase of treasury shares	(474)	(1,819,652)
Proceeds from disposal of treasury shares from exercise of share acquisition rights	81,000	776,866
Other, net	(380)	14,868
Net cash provided by (used in) financing activities	(604,835)	(606,639)
Effect of exchange rate change on cash and cash equivalents	(813)	255
Net increase (decrease) in cash and cash equivalents	33,296	1,388,933
Cash and cash equivalents at beginning of period	5,470,644	5,503,941
Cash and cash equivalents at end of period	5,503,941	6,892,874

(5) Notes on consolidated financial statements

(Notes on the premise of going concern)

There is nothing to report.

(Segment information, etc.)

[Segment information]

1. Summary of reportable segments

The Company's reportable segments are based on those units within the Company where separate financial information is available and where the Board of Directors periodically reviews matters such as the distribution of management resources and financial performance.

The Company has established divisions for product and service type, and each division creates a comprehensive strategy for the products and services it handles and conducts related business activities.

Therefore, the Company's product and service segments are based on its divisions. There are two reportable segments—software development segment and embedded software development segment.

Details of each segment's business are provided below.

Business segment	Main products and role
Software development business	Application development, IT infrastructure system development, solutions and services
Embedded software development business	Telecom system, embedded software development for telecom systems, car electronics, and digital home appliances

2. Method for calculating net sales, profit (loss), assets, liabilities, and other items for each segment

The accounting treatment for business segments reported is generally the same as those given in "Significant Matters Forming the Basis of Preparing the Consolidated Financial Statements."

Segment profit is based on operating profit.

Internal earnings and transfers between segments are based on actual market prices.

3. Information regarding amounts of net sales, profit (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2017

(Thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Amounts on consolidated financial statements (Note 3)
	Software development business	Embedded software development business	Total				
Net sales							
Sales to external customers	25,575,359	5,244,281	30,819,640	73,915	30,893,555	–	30,893,555
Inter-segment sales or transactions	12,011	–	12,011	31,922	43,934	(43,934)	–
Total sales	25,587,370	5,244,281	30,831,652	105,837	30,937,489	(43,934)	30,893,555
Segment profit (loss)	3,077,774	827,274	3,905,048	(13,426)	3,891,622	(1,183,986)	2,707,635
Segment assets	8,896,852	2,135,602	11,032,455	66,581	11,099,036	9,664,082	20,763,119
Other items							
Depreciation	116,274	26,716	142,991	2,466	145,458	40,842	186,300
Increase in property, plant and equipment and intangible assets	197,219	45,499	242,719	–	242,719	47,801	290,521

Notes: 1. The "Other" segment refers to business segments not included in reportable segments and includes product sales business.

2. The following adjustments have been made.

- (1) The negative 1,183,986 thousand yen adjustment to segment profit includes 12,953 thousand yen in eliminations for inter-segment business and negative 1,196,940 thousand yen in all corporate expenses not allocated to reportable segments. All corporate expenses are mainly general and administrative expenses not attributed to reportable segments.
 - (2) The 9,664,082 thousand yen adjustment to segment assets is all corporate assets not allocated to reportable segments. All corporate assets are primarily unused operating funds not attributed to reportable segments (cash and deposits and securities), long-term investments funds (investment securities), and assets, etc. related to administrative divisions.
 - (3) The 47,801 thousand yen adjustment to increase in property, plant and equipment and intangible assets is for capital expenditures by the headquarters' administrative divisions.
3. Segment profit is calculated by making adjustments to the operating profit appearing in the consolidated statement of income.

Fiscal year ended March 31, 2018

(Thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Amounts on consolidated financial statements (Note 3)
	Software development business	Embedded software development business	Total				
Net sales							
Sales to external customers	27,724,736	5,458,221	33,182,958	145,519	33,328,477	–	33,328,477
Inter-segment sales or transactions	10,523	–	10,523	8,979	19,502	(19,502)	–
Total sales	27,735,260	5,458,221	33,193,481	154,498	33,347,980	(19,502)	33,328,477
Segment profit (loss)	3,431,643	905,912	4,337,556	11,627	4,349,183	(1,257,409)	3,091,774
Segment assets	10,569,237	2,608,894	13,178,132	119,727	13,297,859	10,829,920	24,127,780
Other items							
Depreciation	141,475	27,195	168,671	1,700	170,371	36,555	206,926
Increase in property, plant and equipment and intangible assets	191,562	20,787	212,350	1,789	214,140	23,590	237,730

Notes: 1. The "Other" segment refers to business segments not included in reportable segments and includes product sales business.

2. The following adjustments have been made.

- (1) The negative 1,257,409 thousand yen adjustment to segment profit includes 10,235 thousand yen in eliminations for inter-segment business and negative 1,267,645 thousand yen in all corporate expenses not allocated to reportable segments. All corporate expenses are mainly general and administrative expenses not attributed to reportable segments.
 - (2) The 10,829,920 thousand yen adjustment to segment assets is all corporate assets not allocated to reportable segments. All corporate assets are primarily unused operating funds not attributed to reportable segments (cash and deposits and securities), long-term investments funds (investment securities), and assets, etc. related to administrative divisions.
 - (3) The 23,590 thousand yen adjustment to increase in property, plant and equipment and intangible assets is for capital expenditures by the headquarters' administrative divisions.
3. Segment profit is calculated by making adjustments to the operating profit appearing in the consolidated statement of income.

[Related information]

Fiscal year ended March 31, 2017

1. Information by product and service

This has been omitted since the same information is provided in segment information.

2. Information by geographical area

(1) Net sales

This has been omitted because net sales to external Japanese customers account for more than 90% of net sales on the consolidated statement of income.

(2) Property, plant and equipment

This has been omitted because the value of property, plant and equipment in Japan accounts for more than 90% of the value of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer or individual	Net sales	Related segment name
IBM Japan, Ltd.	5,196,838	Software development business
Mizuho Information & Research Institute, Inc.	3,422,132	Software development business

Fiscal year ended March 31, 2018

1. Information by product and service

This has been omitted since the same information is provided in segment information.

2. Information by geographical area

(1) Net sales

This has been omitted because net sales to external Japanese customers account for more than 90% of net sales on the consolidated statement of income.

(2) Property, plant and equipment

This has been omitted because the value of property, plant and equipment in Japan accounts for more than 90% of the value of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer or individual	Net sales	Related segment name
IBM Japan, Ltd.	4,697,689	Software development business

[Information on impairment loss of non-current assets by reportable segment]

There is nothing to report.

[Information on amortization and unamortized balance of goodwill by reportable segment]

Fiscal year ended March 31, 2017

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	68,924	17,702	86,626	–	–	86,626
Unamortized balance at the fiscal year-end	449,338	11,801	461,140	–	–	461,140

Fiscal year ended March 31, 2018

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	76,371	11,801	88,173	–	–	88,173
Unamortized balance at the fiscal year-end	452,511	–	452,511	–	–	452,511

[Information on gain on bargain purchase by reporting segment]

There is nothing to report.

(Per share information)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net assets per share	1,224.66 yen	1,379.38 yen
Earnings per share	180.28 yen	200.25 yen
Diluted earnings per share	179.62 yen	199.97 yen

Notes: 1. The basis of calculating earnings per share and diluted earnings per share is as follows:

Item	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	2,042,751	2,202,803
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	2,042,751	2,202,803
Average number of common shares during the period (Shares)	11,331,202	11,000,061
Diluted earnings per share		
Increase in common shares (Shares)	41,709	15,531
[Of the above, subscription rights to shares (Shares)]	[41,709]	[15,531]
Overview of potential shares not included in the calculation of the diluted earnings per share because of the lack of dilution effects	–	5th Series Subscription Rights to Shares 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017 6th Series Subscription Rights to Shares 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017

2. The basis of calculating net assets per share is as follows:

Item	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Total net assets (Thousands of yen)	13,889,804	15,109,419
Amount deducted from total net assets (Thousands of yen)	1,399	18,606
[Of the above, subscription rights to shares (Thousands of yen)]	[–]	[16,784]
[Non-controlling interests (Thousands of yen)]	[1,399]	[1,822]
Net assets related to common shares at the fiscal year-end (Thousands of yen)	13,888,404	15,090,812
Number of common shares at the fiscal year-end used for the calculation of net assets per share (Shares)	11,340,587	10,940,254

(Material subsequent events)

1. Integration of Subsidiaries in the Kansai Region

Pursuant to the resolution passed at the Board of Directors meeting held on October 30, 2017, the Company completed the integration of the Kansai Office of IOS Co., Ltd., a consolidated subsidiary, into Mexess Co., Ltd., another consolidated subsidiary, on April 1, 2018.

Prior to this organizational integration, Media Magic Co., Ltd. changed its trade name to Mexess Co., Ltd. and its head office was relocated on March 10, 2018.

(1) Reason for integration

The Group's business conducted in the Kansai region has mainly been carried out by two separate arms of the Group: the Kansai Office of IOS Co., Ltd., and Mexess Co., Ltd. However, judging that the unification of these business operations will enhance development efficiency and that a strategic consolidation will also enable the provision of more value-added services to customers, the Company decided to execute the integration. This integration will bring about not only the fusion of both company's strengths but also the integration of tasks, currently being performed redundantly, and the promotion of management efficiency.

(2) Integration outline

(i) Date of implementation of integration

April 1, 2018

(ii) Integration method

Business transfer

(iii) Summary of involved companies

Trade name	Mexess Co.,Ltd.
Representative	Naoko Nakasu, President
Location	4-2-12, Honmachi, Chuo-ku, Osaka-shi, Osaka
Date established	April 1995
Capital	100,000 thousand yen
End of the fiscal year	March 31
Line of business	Development of computer software, IT consulting, system integration, web design

Trade name	IOS Co., Ltd.
Representative	Daichi Miyamoto, President
Location	1-6-31, Kounan, Minato-ku, Tokyo
Date established	June 1989
Capital	313,365 thousand yen
End of the fiscal year	March 31
Line of business	Development of computer software, IT consulting, design, development and manufacturing of information and communication equipment and facilities and peripheral equipment

2. Management integration of subsidiaries, etc.

Pursuant to the resolution passed at the Board of Directors meeting held on January 29, 2018, the Company completed the integration of two consolidated subsidiaries, IOS Co., Ltd. and Applications Co., Ltd., on April 1, 2018.

(1) Reason for integration

Since its foundation in 1989, IOS Co., Ltd. has mainly provided industry infrastructure construction, application development and maintenance services as core businesses to customers including financial institutions, manufacturing companies, public institutions, and social infrastructure.

In October 2017, IOS Co., Ltd. acquired Applications Co., Ltd. as a subsidiary to overcome urgent challenges (1. Improve the ability to receive orders, 2. Raise the overall technological strength, 3. Reinforce human resources, and 4. Expand the business domain). The integration is expected to strengthen the development system and customer base of IOS Co., Ltd., as well as to realize drastic efficiency improvement and accelerate business reform, driving further improvement of its corporate value.

(2) Integration outline

(i) Date of implementation of integration

April 1, 2018

(ii) Integration method

An absorption-type merger in which IOS Co., Ltd. is the surviving company and Applications Co., Ltd., is the absorbed company

(iii) Summary of involved companies

(Surviving company)

Trade name	IOS Co., Ltd.
Representative	Daichi Miyamoto, President
Location	1-6-31, Kounan, Minato-ku, Tokyo
Date established	June 1989
Capital	313,365 thousand yen
End of the fiscal year	March 31
Line of business	Development of computer software, IT consulting, design, development and manufacturing of information and communication equipment and facilities and peripheral equipment

(Absorbed company)

Trade name	Applications Co., Ltd.
Representative	Daichi Miyamoto, President
Location	2-15-10 Kitasaiwai, Nishi-ku, Yokohama-shi, Kanagawa
Date established	August 1978
Capital	27,300 thousand yen
End of the fiscal year	March 31
Line of business	Contracted development and maintenance of information systems, development of smartphone applications, website design and production, development and sales of software packages, SaaS cloud service