

Translation

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## Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (Based on Japanese GAAP)

May 9, 2019

Company name: CRESCO LTD.  
 Stock exchange listing: Tokyo  
 Stock code: 4674 URL <https://www.cresco.co.jp/>  
 Representative: President, Executive Officer Hiroyuki Nemoto  
 Director, Managing Executive Officer,  
 Inquiries: Kazuo Sugiyama TEL +81-3-5769-8011  
 General Manager, Accounting & Finance Unit  
 Scheduled date of Ordinary General Meeting of Shareholders: June 21, 2019  
 Scheduled date to commence dividend payments: June 24, 2019  
 Scheduled date to file annual securities report: June 24, 2019  
 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, 2019 (from April 1, 2018 to March 31, 2019)

#### (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, 2019	35,230	5.7	3,207	3.7	3,658	4.8	2,285	3.8
March 31, 2018	33,328	7.9	3,091	14.2	3,492	13.4	2,202	7.8

Note: Comprehensive income  
 Fiscal year ended March 31, 2019: ¥1,867 million [(36.2)%]  
 Fiscal year ended March 31, 2018: ¥2,927 million [31.4%]

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, 2019	208.92	-	14.6	14.8	9.1
March 31, 2018	200.25	199.97	15.2	15.6	9.3

Reference: Share of profit (loss) of entities accounted for using equity method:  
 Fiscal year ended March 31, 2019: ¥23 million Fiscal year ended March 31, 2018: ¥27 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, 2019	25,372	16,137	63.6	1,475.07
March 31, 2018	24,127	15,109	62.5	1,379.38

Reference: Equity  
 As of March 31, 2019: ¥16,137 million As of March 31, 2018: ¥15,090 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, 2019	1,824	(1,238)	(1,278)	6,201
March 31, 2018	2,174	(179)	(606)	6,892

## 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, 2018	–	29.00	–	43.00	72.00	781	36.0	5.5
Fiscal year ended March 31, 2019	–	32.00	–	34.00	66.00	722	31.6	4.6
Fiscal year ending March 31, 2020 (Forecast)	–	34.00	–	34.00	68.00		30.8	

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, 2020 (from April 1, 2019 to March 31, 2020)

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, 2019	18,460	8.3	1,500	6.7	1,704	(1.0)	1,117	3.8	102.10
Full year	37,880	7.5	3,400	6.0	3,813	4.2	2,416	5.7	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, 2019	12,000,000 shares	As of March 31, 2018	12,000,000 shares
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Number of treasury shares at the end of the period

As of March 31, 2019	1,059,912 shares	As of March 31, 2018	1,059,746 shares
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Average number of shares during the period

Fiscal year ended March 31, 2019	10,940,169 shares	Fiscal year ended March 31, 2018	11,000,061 shares
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(Reference) Summary of non-consolidated financial results

## 1. Non-consolidated financial results for the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

(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, 2019	20,925	(1.3)	2,206	2.4	2,759	4.3	1,854	5.1
March 31, 2018	21,198	5.0	2,153	9.3	2,645	7.5	1,763	4.1

	Earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2019	169.48	–
March 31, 2018	160.36	160.14

## (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, 2019	21,015		13,787		65.6	1,260.24
March 31, 2018	20,305		13,189		64.9	1,204.04

Reference: Equity

As of March 31, 2019 ¥13,787 million As of March 31, 2018 ¥13,172 million

## 2. Forecast of non-consolidated financial results for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

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, 2019	11,100	4.6	1,376	(8.0)	958	(7.2)	87.57
Full year	22,730	8.6	2,811	1.9	1,884	1.6	172.21

\* **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 earnings forecasts and cautions concerning the use of business results forecasts.

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# 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, 2018 to March 31, 2019), despite the existence of numerous matters of concern including the uncertainty in the business conditions arising from the overseas situation, trends in the foreign exchange market and the stock market and natural disasters, the business environment basically continued to be on a recovery trend, backed by a recovery of personal consumption, firm inbound demand, improvements in corporate profitability, etc.

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 tried to review its customer portfolio and business structure in response to changes in markets, including actions toward the winding-up and minimization of unprofitable projects, and, at the same time, devoted its efforts to cultivating new customers and developing new business and service incorporating advanced technology.

In addition, the Group has striven for ensuring the appropriate amount of order commensurate with resources and further improving customer satisfaction through the reinforcement of collaboration among companies of the Group and renewed efforts for thorough quality control. Besides, as a part of evangelist activities, the Group continued to promote the publication of the result of technological research and promotional activities for various services and solutions.

While a favorable business environment continued, on the other hand, an engineer shortage has become a bottleneck to performance growth in the entrusted development business. The Group has made efforts for recovery of performance not only through company-wide productivity improvement activities (in-house innovation activities) but also positive efforts for securing development resources, raising unit order prices and selectively taking orders.

Topics for the fiscal year under review are as follows.

April 2018:

- Completed the management integration between IOS Co., Ltd. and Applications Co., Ltd.
- Completed the organizational integration of subsidiaries in the Kansai Area (Mexess Co., Ltd. and the Kansai Office of IOS Co., Ltd.).
- The Company opened Osaka Center.

July 2018:

- Presented the result of joint research on the classification of corneal shape analysis images using machine learning at the IEICE (The Institute of Electronics, Information and Communication Engineers).

September 2018:

- Announced the acquisition and cancellation (as of October 10, 2018) of the 5th and 6th series share acquisition rights with exercise price amendment options (subject to exercise restrictions).

- Announced the acquisition of shares of ARS Corporation Ltd. and its conversion into a subsidiary (as of October 1, 2018).

October 2018:

- Announced the acquisition of shares of e-techno. Co., Ltd. by IOS Co., Ltd. and its conversion into the latter's subsidiary (as of November 1, 2018).

January 2019:

- Announced the absorption-type merger (simple/short-form) with Cresco KYUSHU Co. Ltd., the Company's consolidated subsidiary (as of April 1, 2019).

March 2019:

- Announced the organizational and personnel changes for the next fiscal year (as of April 1, 2019).

As a result of the above, both sales and profit increased, and for the fiscal year ended March 31, 2019, the Company recorded 35,230 million yen in net sales (33,328 million yen for the previous fiscal year), 3,207 million yen in operating profit (3,091 million yen for the previous fiscal year), 3,658 million yen in ordinary profit (3,492 million yen for the previous fiscal year), and 2,285 million yen in profit attributable to owners of parent (2,202 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 4.2% year on year to 28,898 million yen and segment profit (operating profit) decreased 5.2% year on year to 3,254 million yen. A breakdown of net sales by industry reveals that sales for the finance sector, which is our main field, fell 1,429 million yen year on year, primarily impacted by the settling down of large projects with banks. In the public service sector, sales rose 751 million yen year on year owing to an increase in projects for travel and human resource service businesses. In the distribution and other sectors, net sales grew 1,851 million yen year on year as a result of an increase in order at IOS Co., Ltd. and the consolidation of Nexus Corporation in January, 2018.

(ii) Embedded software development business

For the embedded software development business, net sales rose 15.2% year on year to 6,285 million yen and segment profit (operating profit) increased 26.6% year on year to 1,146 million yen. In terms of products, net sales of telecom system products rose 16 million yen year on year. On the other hand, net sales of car electronics rose 348 million yen year on year. As for information appliances, etc. and other embedded products, net sales increased 462 million yen year on year.

(iii) Other

For other businesses such as the product sales business, net sales decreased 67.9% year on year to 46 million yen, and a segment profit (operating profit) decreased 61.5% year on year to 4 million yen was recorded.

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

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) since the beginning of the fiscal year under review. In the overview of financial position for the fiscal year under review, comparison with the previous fiscal year and analysis based on it were made based on the figures obtained by retrospectively applying the said accounting standard, etc.

Total assets at the end of the fiscal year under review totaled 25,372 million yen, a year-on-year increase of 1,244 million yen.

Current assets rose 1,385 million yen year on year to 16,281 million yen. This was mainly because, although cash and deposits decreased by 672 million yen, notes and accounts receivable - trade, securities and accounts receivable included in "other" increased by 1,057 million yen, 493 million yen and 428 million yen, respectively.

Non-current assets decreased 141 million yen year on year to 9,091 million yen. This was mainly because, although software, deferred tax assets, and goodwill increased by 430 million yen, 309 million yen and 248 million yen, respectively, investment securities decreased by 1,106 million yen.

Total liabilities at the end of the fiscal year under review were 9,235 million yen, a year-on-year increase of 216 million yen.

Current liabilities increased 456 million yen year on year to 5,858 million yen. This was mainly because, although short-term loans payable and accounts payable - other decreased by 91 million yen and 66 million yen, respectively, acquisition of non-current assets - payable included in "other", income taxes payable, provision for bonuses and accounts payable - trade increased by 236 million yen, 154 million yen, 138 million yen and 121 million yen, respectively.

Non-current liabilities decreased 240 million yen year on year to 3,376 million yen. This was mainly because long-term loans payable decreased by 280 million yen.

Total net assets at the end of the fiscal year under review were 16,137 million yen, a year-on-year increase of 1,027 million yen. This was mainly because, while valuation difference on available-for-sale securities decreased by 419 million yen, retained earnings increased by 1,465 million yen.

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

Cash and cash equivalents at end of period was 6,201 million yen, a year-on-year decrease of 691 million yen.

#### Cash flows from operating activities

There was a net cash inflow of 1,824 million yen from operating activities, compared to a net cash inflow of 2,174 million yen for the previous fiscal year.

This was primarily for the following reasons. While the Company recorded income taxes paid of 1,112 million yen and an increase in notes and accounts receivable - trade of 949 million yen, the Company also recorded profit before income taxes of 3,386 million yen and interest and dividend income received of 351 million yen.

#### Cash flows from investing activities

There was a net cash outflow of 1,238 million yen from investing activities, compared to a net cash outflow of 179 million yen for the previous fiscal year.

This was primarily for the following reasons. While the Company recorded proceeds from redemption of investment securities of 1,191 million yen, proceeds from sales of securities of 1,007 million yen and proceeds from redemption of investment securities of 380 million yen, the Company used 1,858 million yen for purchase of securities, 1,815 million yen for purchase of investment securities and 354 million yen for purchase of shares of subsidiaries resulting in change in scope of consolidation.

#### Cash flows from financing activities

There was a net cash outflow of 1,278 million yen from financing activities, compared to a net cash outflow of 606 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded 819 million yen in cash dividends paid and 356 million yen in repayments of long-term loans payable.

#### **(4) Outlook for the coming year**

Regarding the economic outlook for FY2019, although uncertainty continues to linger in economy both in Japan and abroad, the business environment itself is projected to stay mostly favorable, supported by demand generated by the “digital transformation (DX)” of companies. According to the outlook for IT investment in the BOJ Tankan published in March 2019, there is no significant change in the trend of trying to reform business, create value and establish a competitive advantage by new products and services using technology such as cloud computing and AI, although the strength of such a trend varies by the scales of companies, business area and business type. Interest in our products and services is thus expected to continue to increase.

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 largely, 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, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	6,895,374	6,223,102
Notes and accounts receivable - trade	6,660,839	7,718,113
Electronically recorded monetary claims - operating	3,589	3,823
Securities	700,534	1,193,665
Money held in trust	52,644	55,409
Merchandise and finished goods	34,404	24,083
Work in process	149,793	208,774
Supplies	1,424	1,898
Prepaid expenses	337,922	365,969
Other	60,735	488,192
Allowance for doubtful accounts	(1,995)	(1,995)
Total current assets	14,895,266	16,281,037
Non-current assets		
Property, plant and equipment		
Buildings	639,969	685,492
Accumulated depreciation	(330,266)	(341,063)
Buildings, net	309,703	344,429
Tools, furniture and fixtures	537,131	556,933
Accumulated depreciation	(367,889)	(370,502)
Tools, furniture and fixtures, net	169,241	186,431
Vehicles	-	3,091
Accumulated depreciation	-	(3,091)
Vehicles, net	-	0
Land	19,990	19,990
Leased assets	29,636	18,624
Accumulated depreciation	(23,725)	(9,926)
Leased assets, net	5,911	8,697
Total property, plant and equipment	504,846	559,548
Intangible assets		
Goodwill	452,511	700,796
Software	211,008	641,435
Other	13,659	13,028
Total intangible assets	677,179	1,355,261
Investments and other assets		
Investment securities	6,081,190	4,974,300
Leasehold and guarantee deposits	745,726	732,368
Insurance funds	215,827	147,619
Deferred tax assets	928,015	1,237,108
Other	183,663	192,497
Allowance for doubtful accounts	(103,934)	(107,319)
Total investments and other assets	8,050,488	7,176,574
Total non-current assets	9,232,514	9,091,384
Total assets	24,127,780	25,372,421

(Thousands of yen)

	As of March 31, 2018	As of March 31, 2019
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	1,418,345	1,540,203
Short-term loans payable	131,000	40,000
Current portion of long-term loans payable	296,590	289,586
Lease obligations	1,459	2,375
Accounts payable - other	745,380	679,285
Income taxes payable	630,619	785,167
Accrued business office taxes	29,705	30,567
Accrued consumption taxes	372,891	315,199
Provision for bonuses	1,148,842	1,287,797
Provision for bonuses for directors (and other officers)	64,195	70,600
Provision for loss on order received	23,272	9,387
Other	539,697	808,623
<b>Total current liabilities</b>	<b>5,401,999</b>	<b>5,858,792</b>
<b>Non-current liabilities</b>		
Long-term loans payable	936,250	655,274
Long-term accounts payable - other	460,010	429,788
Lease obligations	4,959	7,057
Provision for retirement benefits for directors (and other officers)	111,102	14,800
Retirement benefit liability	2,021,580	2,189,290
Asset retirement obligations	78,708	80,033
Other	3,750	-
<b>Total non-current liabilities</b>	<b>3,616,362</b>	<b>3,376,244</b>
<b>Total liabilities</b>	<b>9,018,361</b>	<b>9,235,037</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	2,514,875	2,514,875
Capital surplus	4,292,277	4,292,000
Retained earnings	9,367,782	10,832,849
Treasury shares	(1,871,132)	(1,871,643)
<b>Total shareholders' equity</b>	<b>14,303,803</b>	<b>15,768,082</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	831,107	411,863
Remeasurements of defined benefit plans	(44,097)	(42,561)
<b>Total accumulated other comprehensive income</b>	<b>787,009</b>	<b>369,302</b>
Share acquisition rights	16,784	-
Non-controlling interests	1,822	-
<b>Total net assets</b>	<b>15,109,419</b>	<b>16,137,384</b>
<b>Total liabilities and net assets</b>	<b>24,127,780</b>	<b>25,372,421</b>

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

### Consolidated statements of income

(Thousands of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	33,328,477	35,230,083
Cost of sales	27,020,179	28,556,133
Gross profit	6,308,298	6,673,950
Selling, general and administrative expenses		
Advertising expenses	28,898	32,567
Remuneration, salaries and allowances for directors (and other officers)	1,285,321	1,405,360
Bonuses	68,485	72,490
Provision for bonuses	116,545	128,701
Provision for bonuses for directors (and other officers)	64,195	70,600
Retirement benefit expenses	35,674	41,476
Provision for retirement benefits for directors (and other officers)	1,743	5,178
Legal welfare expenses	189,340	211,773
Recruiting expenses	161,551	162,872
Entertainment expenses	50,840	59,056
Rents	175,972	171,286
Supplies expenses	54,621	68,192
Amortization of goodwill	88,173	102,938
Enterprise tax	149,625	167,576
Provision of allowance for doubtful accounts	-	3,384
Other	745,534	763,488
Total selling, general and administrative expenses	3,216,524	3,466,945
Operating profit	3,091,774	3,207,005
Non-operating income		
Interest income	94,731	230,672
Dividend income	126,550	114,118
Gain on sales of securities	212,947	79,285
Gain on investments in money held in trust	1,748	2,764
Gain on valuation of derivatives	-	30,608
Subsidy income	11,004	21,484
Share of profit of entities accounted for using equity method	27,831	23,232
Other	19,943	23,489
Total non-operating income	494,757	525,656
Non-operating expenses		
Interest expenses	3,890	4,460
Loss on valuation of securities	6,414	21,240
Investment advisory fee	-	46,167
Loss on valuation of derivatives	49,988	-
Commission for purchase of treasury shares	21,607	-
Issuance cost of subscription rights to shares	8,245	-
Other	4,302	2,185
Total non-operating expenses	94,447	74,053
Ordinary profit	3,492,084	3,658,607

(Thousands of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Extraordinary income		
Gain on sales of investment securities	106,665	21,191
Gain on sales of shares of subsidiaries and associates	58,405	-
Gain on redemption of investment securities	52,512	32,363
Surrender value of insurance	640	20,556
Compensation income	-	11,800
Other	10,949	-
Total extraordinary income	229,171	85,912
Extraordinary losses		
Loss on retirement of non-current assets	32,293	34,125
Loss on sales of investment securities	43,167	28
Loss on valuation of investment securities	235,288	111,225
Cost related to the anniversary of the establishment	65,570	113,576
Impairment loss	-	16,840
Other	35,967	82,525
Total extraordinary losses	412,286	358,321
Profit before income taxes	3,308,969	3,386,198
Income taxes - current	1,093,601	1,208,835
Income taxes - deferred	12,141	(108,218)
Total income taxes	1,105,743	1,100,616
Profit	2,203,226	2,285,581
Profit attributable to non-controlling interests	423	-
Profit attributable to owners of parent	2,202,803	2,285,581

## Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit	2,203,226	2,285,581
Other comprehensive income		
Valuation difference on available-for-sale securities	717,968	(419,243)
Remeasurements of defined benefit plans, net of tax	11,818	1,536
Share of other comprehensive income of entities accounted for using equity method	(16)	-
Foreign currency translation adjustment	(5,263)	-
Total other comprehensive income	724,507	(417,707)
Comprehensive income	2,927,733	1,867,874
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,927,310	1,867,874
Comprehensive income attributable to non-controlling interests	423	-

**(3) Consolidated statements of changes in equity**

Fiscal year ended March 31, 2018

(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	3,862,209	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)
Purchase of shares of consolidated subsidiaries					-
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)
Purchase of shares of consolidated subsidiaries							-
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

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,514,875	4,292,277	9,367,782	(1,871,132)	14,303,803
Changes of items during period					
Dividends of surplus			(820,514)		(820,514)
Profit attributable to owners of parent			2,285,581		2,285,581
Purchase of treasury shares				(510)	(510)
Disposal of treasury shares					-
Change of scope of equity method					-
Purchase of shares of consolidated subsidiaries		(277)			(277)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(277)	1,465,066	(510)	1,464,278
Balance at end of current period	2,514,875	4,292,000	10,832,849	(1,871,643)	15,768,082

	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	831,107	-	(44,097)	787,009	16,784	1,822	15,109,419
Changes of items during period							
Dividends of surplus							(820,514)
Profit attributable to owners of parent							2,285,581
Purchase of treasury shares							(510)
Disposal of treasury shares							-
Change of scope of equity method							-
Purchase of shares of consolidated subsidiaries							(277)
Net changes of items other than shareholders' equity	(419,243)	-	1,536	(417,707)	(16,784)	(1,822)	(436,314)
Total changes of items during period	(419,243)	-	1,536	(417,707)	(16,784)	(1,822)	1,027,964
Balance at end of current period	411,863	-	(42,561)	369,302	-	-	16,137,384

#### (4) Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	3,308,969	3,386,198
Depreciation	206,926	194,093
Amortization of goodwill	88,173	102,938
Increase (decrease) in allowance for doubtful accounts	(244)	3,384
Increase (decrease) in provision for bonuses	68,987	108,380
Increase (decrease) in provision for bonuses for directors (and other officers)	(1,605)	6,405
Increase (decrease) in provision for loss on order received	(40,811)	(13,884)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(47,423)	(108,702)
Increase (decrease) in retirement benefit liability	100,012	153,410
Interest and dividend income	(221,281)	(344,791)
Interest expenses	3,890	4,460
Loss (gain) on sales of securities	(212,947)	(79,285)
Share of loss (profit) of entities accounted for using equity method	(27,831)	(23,232)
Loss on retirement of non-current assets	32,293	34,125
Loss (gain) on valuation of investment securities	235,288	111,225
Loss (gain) on sales of investment securities	(63,498)	(21,163)
Decrease (increase) in notes and accounts receivable - trade	(878,152)	(949,218)
Decrease (increase) in inventories	106,644	(45,144)
Increase (decrease) in notes and accounts payable - trade	(18,617)	90,211
Increase (decrease) in accounts payable - other	271,605	101,074
Increase (decrease) in long-term accounts payable - other	(18,916)	(30,222)
Increase (decrease) in accrued consumption taxes	129,290	(56,006)
Other, net	(10,571)	(46,309)
Subtotal	3,010,182	2,577,949
Interest and dividend income received	217,985	351,976
Proceeds from compensation	-	11,800
Interest expenses paid	(4,564)	(4,298)
Income taxes paid	(1,048,911)	(1,112,718)
Net cash provided by (used in) operating activities	2,174,690	1,824,708

(Thousands of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from investing activities		
Payments into time deposits	(6,000)	(5,601)
Proceeds from withdrawal of time deposits	14,000	7,500
Purchase of securities	(2,508,798)	(1,858,607)
Proceeds from sales of securities	2,778,905	1,007,732
Proceeds from redemption of securities	30,000	380,000
Purchase of property, plant and equipment	(138,365)	(188,267)
Purchase of intangible assets	(84,611)	(301,179)
Purchase of investment securities	(3,338,014)	(1,815,457)
Proceeds from sales of investment securities	2,510,194	574,461
Proceeds from redemption of investment securities	500,486	1,191,202
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(38,231)	(354,838)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	94,289	20,822
Proceeds from cancellation of insurance funds	71,000	120,009
Other, net	(64,228)	(15,945)
Net cash provided by (used in) investing activities	(179,373)	(1,238,169)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(56,000)	(91,000)
Proceeds from long-term loans payable	1,300,000	10,000
Repayments of long-term loans payable	(181,472)	(356,310)
Repayments of lease obligations	(1,206)	(1,504)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(2,100)
Cash dividends paid	(640,043)	(819,998)
Purchase of treasury shares	(1,819,652)	(510)
Proceeds from disposal of treasury shares from exercise of subscription rights to shares	776,866	-
Other, net	14,868	(16,784)
Net cash provided by (used in) financing activities	(606,639)	(1,278,208)
Effect of exchange rate change on cash and cash equivalents	255	-
Net increase (decrease) in cash and cash equivalents	1,388,933	(691,669)
Cash and cash equivalents at beginning of period	5,503,941	6,892,874
Cash and cash equivalents at end of period	6,892,874	6,201,204

## **(5) Notes on consolidated financial statements**

(Notes on the premise of going concern)

There is nothing to report.

(Changes in the presentation method)

(Changes following the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018, hereinafter referred to as “Partial Amendments to Tax Effect Accounting Standard”) have been applied since the beginning of the fiscal year under review. The presentation method was so changed that deferred tax assets were presented under “investments and other assets,” and deferred tax liabilities were presented under “non-current liabilities.”

As a result, in the consolidated balance sheet for the previous fiscal year, “deferred tax assets” of 488,430 thousand yen under “current assets” were included in “deferred tax assets” of 928,015 thousand yen under “investments and other assets.”

(Matters related to consolidated statements of income)

As “surrender value of insurance” included in “other” under “extraordinary income” in the previous fiscal year exceeded one tenth of extraordinary income, it has started to be presented as a separate line item since the fiscal year under review. In order to reflect this change in the presentation method, items appearing in the consolidated financial statements for the previous fiscal year were reclassified.

As a result, 11,589 thousand yen presented in “other” under “extraordinary income” in the consolidated statement of income for the previous fiscal year has been restated as to 640 thousand yen as “surrender value of insurance” and 10,949 thousand yen as “other.”

(Matters related to consolidated statements of cash flows)

As “proceeds from redemption of securities” included in “other” under “cash flow from investment activities” in the previous fiscal year increased its importance, it has started to be presented as a separate line item since the fiscal year under review. In order to reflect this change in the presentation method, items appearing in the consolidated financial statements for the previous fiscal year were reclassified.

As a result, (34,228) thousand yen presented in “other” under “cash flow from investment activities” in the consolidated statements of cash flows for the previous fiscal year has been restated to 30,000 thousand yen as “proceeds from redemption of securities” and (64,228) thousand yen as “other.”

(Additional information)

Introduction of retirement benefits program to consolidated subsidiaries

Cresco e-Solution Co.,Ltd., a consolidated subsidiary of the Company, has introduced a retirement allowances program and a defined contribution pension plan in the fiscal year under review. Mexess Co., Ltd. introduced a defined contribution pension plan in the fiscal year under review. As a result of this change, operating profit, ordinary profit and profit before income taxes for the fiscal year under review each decreased 10,542 thousand yen.

(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, 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	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.

Fiscal year ended March 31, 2019

(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	28,898,044	6,285,257	35,183,302	46,781	35,230,083	-	35,230,083
Inter-segment sales or transactions	10,905	-	10,905	8,091	18,996	(18,996)	-
Total sales	28,908,950	6,285,257	35,194,207	54,872	35,249,080	(18,996)	35,230,083
Segment profit	3,254,310	1,146,571	4,400,882	4,480	4,405,362	(1,198,357)	3,207,005
Segment assets	11,983,180	3,110,607	15,093,788	60,879	15,154,668	10,217,753	25,372,421
Other items							
Depreciation	140,392	22,613	163,005	569	163,575	30,518	194,093
Increase in property, plant and equipment and intangible assets	538,441	106,084	644,525	3,750	648,276	64,311	712,587

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 1,198,357 thousand yen adjustment to segment profit includes 7,573 thousand yen in eliminations for inter-segment business and negative 1,205,930 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 10,217,753 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 64,311 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, 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

Fiscal year ended March 31, 2019

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.	4,714,620	Software development business

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

Fiscal year ended March 31, 2018

There is nothing to report.

Fiscal year ended March 31, 2019

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Impairment loss	16,840	-	16,840	-	-	16,840

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

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

Fiscal year ended March 31, 2019

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	102,938	-	102,938	-	-	102,938

Unamortized balance at the fiscal year-end	700,796	-	700,796	-	-	700,796
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[Information on gain on bargain purchase by reporting segment]

There is nothing to report.

## (Per share information)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net assets per share	1,379.38 yen	1,475.07 yen
Earnings per share	200.25 yen	208.92 yen
Diluted earnings per share	199.97 yen	- yen

Notes: 1. Diluted earnings per share for the fiscal year under review are not indicated because there is no potential share that has diluting effects.

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

Item	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	2,202,803	2,285,581
Amounts not attributable to common shareholders (Thousands of yen)	-	-
Profit attributable to owners of parent related to common shares (Thousands of yen)	2,202,803	2,285,581
Average number of common shares during the period (Shares)	11,000,061	10,940,169
Diluted earnings per share		
Increase in common shares (Shares)	15,531	-
[Of the above, share acquisition rights (Shares)]	[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 Share Acquisition Rights 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017  6th Series Share Acquisition Rights 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017	5th Series Share Acquisition Rights 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017  6th Series Share Acquisition Rights 2,000 units (Common shares 200,000 shares) Issue date: December 28, 2017 All those share acquisition rights were acquired and cancelled as of October 10, 2018.

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

Item	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Total net assets (Thousands of yen)	15,109,419	16,137,384
Amount deducted from total net assets (Thousands of yen)	18,606	-
[Of the above, share acquisition rights (Thousands of yen)]	[16,784]	[-]
[Non-controlling interests (Thousands of yen)]	[1,822]	[-]
Net assets related to common shares at the fiscal year-end (Thousands of yen)	15,090,812	16,137,384
Number of common shares at the fiscal year-end used for the calculation of net assets per share (Shares)	10,940,254	10,940,088

(Material subsequent events)

Absorption-type Merger with a Consolidated Subsidiary

As of April 1, 2019, the Company merged with and absorbed Cresco KYUSHU Co. Ltd., a consolidated subsidiary of the Company, pursuant to a resolution by the Board of Directors held on January 28, 2019.

(1) Purpose of the merger

It was decided to conduct an absorption-type merger with Cresco KYUSHU Co., Ltd., with the Company as the surviving company, in order to achieve business expansion, growth, and to promote efficient utilization of human resources and business efficiency within the corporate group. Looking forward, the CRESCO Group will take on the challenge of achieving further growth by applying the principle of “selection and concentration” to its management resources.

(2) Outline of the merger

(i) Merger schedule

- Date of board of directors resolution to enter merger contract: January 28, 2019
- Date of execution of merger contract: January 28, 2019
- Date of merger (effective date): April 1, 2019

(Note) This Merger is a simple merger for the Company pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act, and short-form merger for Cresco KYUSHU Co., Ltd. pursuant to the provisions of Article 784, Paragraph 1 of the Companies Act, so it will be conducted without receiving approval for the merger contract from the respective general meetings of shareholders.

(ii) Merger method

The merger shall be an absorption-type merger with the Company as the surviving company and Cresco KYUSHU Co., Ltd. as the dissolving company.

(iii) Details of share allocation pursuant to the merger

There will be no allocation of shares of the Company or other monetary compensation, etc., as the Company holds all shares of Cresco KYUSHU Co. Ltd.

(iv) Share acquisition rights and bonds with share acquisition rights of the absorbed company

There is nothing to report.

(v) Summary of involved companies

(Surviving company)

Trade name	CRESCO LTD.
Representative	Hiroyuki Nemoto, President, Executive Officer
Location	2-15-1, Kounan, Minato-ku, Tokyo
Date established	April 1988
Capital	2,514,875 thousand yen
End of the fiscal year	March 31
Line of business	· For information systems: · Consulting and solution services · Design and development · Operation management and maintenance · Investigation, analysis, evaluation, and technological support

(Absorbed company)

Trade name	Cresco KYUSHU Co. Ltd.
Representative	Takashi Mieno, President
Location	1-7-22, Hakataekimae, Hakata-ku, Fukuoka-shi, Fukuoka
Date established	September 2005
Capital	50,000 thousand yen
End of the fiscal year	March 31
Line of business	<ul style="list-style-type: none"><li>· Outsourced computer information management</li><li>· Planning, design, development, and maintenance of computer software</li><li>· Sale of computer software, hardware, and peripherals</li></ul>