

Translation

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Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 (Based on Japanese GAAP)

May 9, 2017

Company name: CRESCO LTD.
 Stock exchange listing: Tokyo
 Stock code: 4674 URL <https://www.cresco.co.jp/>
 Representative: President, Operating Officer Hiroyuki Nemoto
 Director, Operating Officer, General Manager of Accounting & Finance Unit Kazuo Sugiyama TEL +81-3-5769-8011
 Inquiries: Director, Operating Officer, General Manager of Accounting & Finance Unit Kazuo Sugiyama TEL +81-3-5769-8011
 Scheduled date of Ordinary General Meeting of Shareholders: June 16, 2017
 Scheduled date to commence dividend payments: June 19, 2017
 Scheduled date to file annual securities report: June 19, 2017
 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, 2017 (from April 1, 2016 to March 31, 2017)

(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, 2017	30,893	7.4	2,707	9.0	3,078	7.7	2,042	19.8
March 31, 2016	28,775	14.8	2,484	23.4	2,857	27.5	1,705	21.3

Note: Comprehensive income
 Fiscal year ended March 31, 2017: ¥2,227 million [76.0%]
 Fiscal year ended March 31, 2016: ¥1,266 million [(21.8)%]

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, 2017	180.28	179.62	15.7	15.4	8.8
March 31, 2016	152.26	152.09	14.8	15.4	8.6

Reference: Share of profit (loss) of entities accounted for using equity method:
 Fiscal year ended March 31, 2017: ¥3 million Fiscal year ended March 31, 2016: ¥7 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, 2017	20,763	13,889	66.9	1,224.66
March 31, 2016	19,230	12,181	63.3	1,078.35

Reference: Equity
 As of March 31, 2017: ¥13,888 million As of March 31, 2016: ¥12,180 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, 2017	1,144	(505)	(604)	5,503
March 31, 2016	1,543	(1,287)	(286)	5,470

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, 2016	–	23.00	–	27.00	50.00	563	32.8	4.8
Fiscal year ended March 31, 2017	–	26.00	–	29.00	55.00	623	30.5	4.8
Fiscal year ending March 31, 2018 (Forecast)	–	29.00	–	29.00	58.00		29.5	

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

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, 2017	16,000	8.5	1,360	20.2	1,480	15.2	1,000	15.2	88.18
Full year	33,200	7.5	3,000	10.8	3,280	6.6	2,230	9.2	196.64

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: Yes

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, 2017	12,000,000 shares	As of March 31, 2016	12,000,000 shares
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Number of treasury shares at the end of the period

As of March 31, 2017	659,413 shares	As of March 31, 2016	704,220 shares
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Average number of shares during the period

Fiscal year ended March 31, 2017	11,331,202 shares	Fiscal year ended March 31, 2016	11,199,020 shares
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(Reference) Summary of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
March 31, 2017	20,197	8.6	1,970	6.5	2,461	8.0	1,694	22.0
March 31, 2016	18,602	17.8	1,849	28.9	2,278	34.5	1,388	25.9

	Earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2017	149.54	148.99
March 31, 2016	123.98	123.84

(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, 2017	17,793		12,339		69.3	1,088.10
March 31, 2016	16,879		10,986		65.1	972.56

Reference: Equity

As of March 31, 2017: ¥12,339 million

As of March 31, 2016: ¥10,985 million

2. Forecast of non-consolidated financial results for the fiscal year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

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, 2017	10,700	9.7	1,250	8.9	890	3.5	78.48
Full year	21,700	7.4	2,520	2.4	1,750	3.3	154.31

Financial results reports are not required to be audited.** 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 4 of the attached materials for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of business results forecasts.

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.....	3
(3) Overview of cash flows for the fiscal year under review.....	4
(4) Outlook for the coming year.....	4
2. Basic policy on the selection of accounting standards.....	5
3. Consolidated financial statements and significant notes thereto.....	6
(1) Consolidated balance sheets.....	6
(2) Consolidated statements of income and consolidated statements of comprehensive income.....	8
(3) Consolidated statements of changes in equity.....	11
(4) Consolidated statements of cash flows.....	13
(5) Notes on consolidated financial statements.....	15
(Changes in accounting policies).....	15
(Additional information).....	15
(Segment information, etc.).....	15
(Per share information).....	19
(Material subsequent events).....	19

1. Overview of operating results and others

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

During the fiscal year ended March 31, 2017 (from April 1, 2016–March 31, 2017) while matters of concern emerged one after another, starting with the 2016 Kumamoto earthquakes and the issue of the U.K. withdrawal from the EU and including negative interest rates, the U.S. presidential election, and changes in exchange rates and stock prices, the investment appetite of companies returned to an expansionary trend, resulting in a gradual recovery of the business environment.

In such a business environment, strategic IT investment by companies aroused new demands for software and system development under the backdrop of increasing interest in the third platform (that is, cloud services, mobility, big data, and social technologies) and advanced technologies (AI, robotics, the Internet of Things (IoT), etc.). Both sales and profit of the Group increased year on year for the fiscal year under review.

In particular, since areas pertaining to cloud services, AI, and IoT are directly related to improvements in the competitiveness and productivity of companies as well as in customer satisfaction such as “business innovation,” “work style reform,” and “qualitative improvements in customer service,” those areas are conceived to provide opportunities for the Group, which operates in a wide range of business fields, to demonstrate its superiority.

In order to make a further leap against the backdrop of such business opportunities, the Group started to uphold a new five-year vision, “CRESCO Ambition 2020,” in April 2016 and has operated accordingly.

<< Corporate Slogan >>

Lead the Digital Transformation

Under the new vision, during the fiscal year under review, the Group has not only focused on reinforcing its development system (securing and training human resources, etc.), managing quality, and strengthening cooperation within the CRESCO Group but also worked on various endeavors, including researching leading technology (inter alia, AI, robotics, IoT), 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 2016:

Implemented a significant organizational restructuring with an eye toward future business expansion and greater business efficiency.

Integrated two subsidiaries, CRESCO e-Solution Co., Ltd. and System Integration Service Co., Ltd.

June 2016:

Introduced the Operating Officer System for strengthening corporate governance, developing management executive, etc.

September 2016:

Made N-System Corporation (specializes in computer systems for travel industries) a subsidiary.

Expanded and totally renewed the head office and newly established the Future Center.

November 2016:

“Busta Shinjuku,” an expressway bus terminal, adopted “by the way[®]”, a product developed by IOS Co., Ltd., a CRESCO’s subsidiary, which uses information from a vehicle-mounted ETC device.

Presented a conference paper on the joint research project with Nagoya City University at the meeting of the Medical Imaging Conference of the Institute of Electronics, Information, and Communication Engineers (topic of presentation: “Detecting Ocular Diseases from an Optical Coherence Tomography Image by Machine Learning”).

January 2017:

Supported the development of a “robot that remembers human faces,” which was exhibited at our customer’s booth at the “1st RoboDEX: Robot Development and Application EXPO,” held from January 18 to January 20.

February 2017:

Announced the establishment of Vietnam Representative Office (Hanoi City), which eventually opened in April 2017.

March 2017:

Conducted a demonstration experiment on a traffic line analysis using the IoT Platform KEYAKI at our customer’s facility.

Announced the thorough implementation of the Refreshing Day Campaign (leaving work on time on Wednesdays) as a part of “work style reform.”

As a result of the above, both sales and profit increased, and for the fiscal year ended March 31, 2017, the Company recorded 30,893 million yen in net sales (28,775 million yen for the previous fiscal year), 2,707 million yen in operating profit (2,484 million yen for the previous fiscal year), 3,078 million yen in ordinary profit (2,857 million yen for the previous fiscal year), and 2,042 million yen in profit attributable to owners of parent (1,705 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 7.6% year on year to 25,575 million yen and segment profit (operating profit) increased 6.0% year on year to 3,077 million yen. A breakdown of net sales by industry reveals that sales for the finance sector, which is our main field, grew 482 million yen year on year because of an increase in number of projects for banks and insurance businesses. In the public service sector as well, sales rose 1,223 million yen year on year. In the distribution and other sector, net sales grew 102 million yen year on year.

(ii) Embedded software development business

For the embedded software development business, net sales rose 7.0% year on year to 5,244 million yen and segment profit (operating profit) increased 24.8% year on year to 827 million yen. In terms of products, net sales of telecom system products fell 351 million yen year on year. On the other hand, net sales of car electronics rose 141 million yen year on year. As for information appliances, etc. and other embedded products, net sales increased 552 million yen year on year.

(iii) Other

For other businesses such as the product sales business, net sales decreased 30.5% year on year to 73 million yen, and a segment loss (operating loss) of 13 million yen (39 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 20,763 million yen, a year-on-year increase of 1,532 million yen.

Currents assets rose 1,141 million yen year on year to 13,162 million yen. This was mainly because notes and accounts receivable - trade increased 537 million yen, securities grew 235 million yen and cash and deposits rose 87 million yen.

Non-current assets rose 391 million yen year on year to 7,601 million yen. This was mainly because although deferred tax assets declined 63 million yen, buildings increased 105 million yen, goodwill grew 137 million yen and investment securities rose 94 million yen.

Total liabilities at the end of the fiscal year under review were 6,873 million yen, a year-on-year decrease of 175 million yen.

Current liabilities decreased 224 million yen year on year to 4,488 million yen. This was mainly because although provision for bonuses rose 97 million yen, accounts payable - trade fell 419 million yen, income taxes payable fell 62 million yen and current portion of long-term loans payable fell 45 million yen.

Non-current liabilities rose 49 million yen year on year to 2,384 million yen. This was mainly because although long-term accounts payable - other declined 95 million yen, net defined benefit liability increased 154 million yen.

Total net assets at the end of the fiscal year under review were 13,889 million yen, a year-on-year increase of 1,707 million yen. This was mainly because retained earnings increased 1,442 million yen and valuation difference on available-for-sale securities grew 170 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 5,503 million yen, a year-on-year increase of 33 million yen.

Cash flows from operating activities

There was a net cash inflow of 1,144 million yen from operating activities, compared to a net cash inflow of 1,543 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded income taxes paid of 1,175 million yen, an increase in notes and accounts receivable - trade of 511 million yen and a decrease in notes and accounts payable - trade of 420 million yen, while the Company also recorded profit before income taxes of 3,008 million yen.

Cash flows from investing activities

There was a net cash outflow of 505 million yen from investing activities, compared to a net cash outflow of 1,287 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded proceeds from sales of securities of 1,643 million yen, proceeds from sales of investment securities of 1,091 million yen and proceeds from redemption of investment securities of 1,070 million yen but used 1,934 million yen for purchase of investment securities and 1,919 million yen for purchase of securities.

Cash flows from financing activities

There was a net cash outflow of 604 million yen from financing activities, compared to a net cash outflow of 286 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded 81 million yen in proceeds from disposal of treasury shares in association with exercise of subscription rights to shares, while the Company also recorded 600 million yen in cash dividends paid and 83 million yen in repayments of long-term loans payable.

(4) Outlook for the coming year

Regarding the economic outlook for FY 2017, it is said that “the gradual recovery trend is expected to continue” as large companies’ business outlooks improve. There were, however, many elements of uncertainty at the beginning of the first quarter, including Trumponomics, geopolitical risks, and labor shortage, and we find ourselves being unable to wipe out the sense of uncertainty of the future. It is anticipated, however, that IT investment will continue to be on an expansionary trend, supported by an increase in demand primarily for labor saving and competitiveness reinforcing and responses to Tokyo Olympic Games and inbound tourism although there may emerge differences by industries or business categories.

The trend of the information service industry as a whole capitalizes on the trend of “digital transformation,” which promotes the transformation of business models that utilizes digital technology, in addition to more active IT investment under the backdrop of a cyclical improvement in performance of companies and “aggressive IT management.” As a result, the demand for system development incorporating advanced technologies such as AI and IoT is rapidly expanding.

It is anticipated that, in FY 2017, companies' efforts for the "digital transformation" will be further accelerated under the trend seeking for advanced business infrastructure including the construction of a management infrastructure, such as AI, IoT, and big data, for using data as management resources, the utilization of API (Application Programming Interface) economy that establishes processes for constructing and developing a sustainable IT infrastructure, and the establishment of security system in response to increasingly sophisticated cyberattacks.

Above all, business categories such as finance, distribution and retail, services (including medical and nursing care), civil engineering and construction, information appliances, car electronics are considered to become areas that bring about various innovations to markets. Growth is expected for the time being in our cutting-edge technology related businesses besides software development business, which is our mainstay.

The use and application of the third platform (cloud services, mobility, big data, and social technologies) through the collaboration among various industries in a business ecosystem, an enhanced awareness of "work style reform," and the transition to the implementation phase of IoT are perceived by us to provide new business opportunities.

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 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, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	5,427,100	5,514,441
Notes and accounts receivable - trade	5,124,657	5,662,614
Electronically recorded monetary claims - operating	2,466	1,342
Securities	546,526	782,363
Money held in trust	47,027	50,896
Merchandise and finished goods	12,767	26,967
Work in process	170,276	250,748
Raw materials and supplies	4,544	895
Prepaid expenses	239,521	298,845
Deferred tax assets	418,129	499,439
Other	30,347	75,484
Allowance for doubtful accounts	(2,495)	(1,995)
Total current assets	12,020,870	13,162,044
Non-current assets		
Property, plant and equipment		
Buildings	419,655	574,046
Accumulated depreciation	(252,319)	(301,100)
Buildings, net	167,336	272,946
Tools, furniture and fixtures	422,608	475,505
Accumulated depreciation	(312,453)	(319,099)
Tools, furniture and fixtures, net	110,154	156,405
Land	19,990	19,990
Leased assets	24,272	24,272
Accumulated depreciation	(21,105)	(22,191)
Leased assets, net	3,167	2,081
Total property, plant and equipment	300,648	451,423
Intangible assets		
Goodwill	323,455	461,140
Software	266,086	241,388
Other	12,511	13,130
Total intangible assets	602,053	715,658
Investments and other assets		
Investment securities	4,841,063	4,935,650
Lease and guarantee deposits	547,168	633,370
Insurance funds	102,180	109,873
Deferred tax assets	765,062	701,148
Other	155,376	158,128
Allowance for doubtful accounts	(104,179)	(104,179)
Total investments and other assets	6,306,672	6,433,992
Total non-current assets	7,209,373	7,601,074
Total assets	19,230,244	20,763,119

(Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	1,829,254	1,410,252
Short-term loans payable	40,000	105,000
Current portion of long-term loans payable	83,480	38,480
Lease obligations	1,152	1,152
Accounts payable - other	361,357	437,201
Income taxes payable	654,393	591,565
Accrued business office taxes	27,100	28,952
Accrued consumption taxes	272,625	249,794
Provision for bonuses	964,613	1,061,821
Provision for directors' bonuses	69,200	65,800
Provision for loss on order received	–	61,634
Provision for loss on liquidation of subsidiaries and associates	–	1,621
Other	409,579	435,383
Total current liabilities	4,712,756	4,488,658
Non-current liabilities		
Long-term loans payable	101,320	62,840
Long-term accounts payable - other	571,327	475,460
Lease obligations	2,261	1,109
Provision for directors' retirement benefits	–	9,867
Net defined benefit liability	1,611,779	1,765,852
Asset retirement obligations	48,948	55,968
Deferred tax liabilities	–	2,308
Other	–	11,250
Total non-current liabilities	2,335,636	2,384,656
Total liabilities	7,048,392	6,873,314
Net assets		
Shareholders' equity		
Capital stock	2,514,875	2,514,875
Capital surplus	3,810,255	3,862,209
Retained earnings	6,432,354	7,875,260
Treasury shares	(455,045)	(426,442)
Total shareholders' equity	12,302,440	13,825,902
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(57,306)	113,138
Foreign currency translation adjustment	8,132	5,280
Remeasurements of defined benefit plans	(72,456)	(55,916)
Total accumulated other comprehensive income	(121,630)	62,501
Subscription rights to shares	411	–
Non-controlling interests	630	1,399
Total net assets	12,181,851	13,889,804
Total liabilities and net assets	19,230,244	20,763,119

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

Consolidated statements of income

	(Thousands of yen)	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	28,775,033	30,893,555
Cost of sales	23,543,622	25,147,614
Gross profit	5,231,410	5,745,940
Selling, general and administrative expenses		
Advertising expenses	24,567	30,308
Directors' compensations, salaries and allowances	1,151,568	1,292,801
Bonuses	70,961	73,089
Provision for bonuses	87,649	110,070
Provision for directors' bonuses	69,200	65,800
Retirement benefit expenses	26,768	37,475
Provision for directors' retirement benefits	–	1,633
Legal welfare expenses	170,077	183,033
Recruiting expenses	112,987	118,767
Entertainment expenses	43,191	45,062
Rents	142,988	173,463
Supplies expenses	42,157	44,511
Amortization of goodwill	88,268	86,626
Enterprise tax	89,668	150,177
Provision of allowance for doubtful accounts	2,495	–
Other	624,676	625,484
Total selling, general and administrative expenses	2,747,227	3,038,305
Operating profit	2,484,183	2,707,635
Non-operating income		
Interest income	34,496	44,835
Dividend income	128,591	150,678
Gain on sales of securities	227,592	138,258
Gain on valuation of securities	–	9,309
Gain on investments in money held in trust	–	3,869
Subsidy income	10,486	10,174
Share of profit of entities accounted for using equity method	7,664	3,952
Other	13,396	13,232
Total non-operating income	422,227	374,309
Non-operating expenses		
Interest expenses	2,093	1,144
Loss on valuation of securities	37,866	–
Foreign exchange losses	98	884
Loss on investments in money held in trust	3,476	–
Amortization of long-term prepaid expenses	2,157	–
Payment on employee disabled	880	1,140
Other	2,205	687
Total non-operating expenses	48,779	3,856
Ordinary profit	2,857,631	3,078,089

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Extraordinary income		
Gain on sales of investment securities	158,527	67,830
Insurance income	–	42,091
Other	48,979	16,250
Total extraordinary income	207,506	126,171
Extraordinary losses		
Loss on retirement of non-current assets	1,913	3,193
Loss on valuation of investment securities	121,939	100,499
Loss on development cancelation	–	22,668
Office transfer expenses	9,300	–
Provision for loss on liquidation of subsidiaries and associates	–	1,621
Impairment loss	89,370	–
Other	42,743	68,269
Total extraordinary losses	265,268	196,252
Profit before income taxes	2,799,870	3,008,008
Income taxes - current	1,054,897	1,064,335
Income taxes - deferred	32,179	(99,848)
Total income taxes	1,087,077	964,487
Profit	1,712,792	2,043,520
Profit attributable to non-controlling interests	7,647	769
Profit attributable to owners of parent	1,705,144	2,042,751

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit	1,712,792	2,043,520
Other comprehensive income		
Valuation difference on available-for-sale securities	(402,003)	170,444
Remeasurements of defined benefit plans, net of tax	(41,796)	16,540
Share of other comprehensive income of entities accounted for using equity method	(48)	(26)
Foreign currency translation adjustment	(2,938)	(2,825)
Total other comprehensive income	(446,787)	184,132
Comprehensive income	1,266,005	2,227,653
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,258,325	2,226,884
Comprehensive income attributable to non-controlling interests	7,679	769

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2016

(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	3,476,630	5,217,024	(651,332)	10,557,198
Changes of items during period					
Dividends of surplus			(489,814)		(489,814)
Profit attributable to owners of parent			1,705,144		1,705,144
Purchase of treasury shares				(640)	(640)
Disposal of treasury shares		352,286		196,926	549,213
Purchase of shares of consolidated subsidiaries		(18,661)			(18,661)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	333,625	1,215,330	196,286	1,745,241
Balance at end of current period	2,514,875	3,810,255	6,432,354	(455,045)	12,302,440

	Accumulated other comprehensive income				Subscription rights to shares	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	344,729	11,118	(30,660)	325,188	625	63,614	10,946,625
Changes of items during period							
Dividends of surplus							(489,814)
Profit attributable to owners of parent							1,705,144
Purchase of treasury shares							(640)
Disposal of treasury shares							549,213
Purchase of shares of consolidated subsidiaries							(18,661)
Net changes of items other than shareholders' equity	(402,035)	(2,986)	(41,796)	(446,818)	(213)	(62,983)	(510,015)
Total changes of items during period	(402,035)	(2,986)	(41,796)	(446,818)	(213)	(62,983)	1,235,226
Balance at end of current period	(57,306)	8,132	(72,456)	(121,630)	411	630	12,181,851

	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
Purchase of shares of consolidated subsidiaries					–
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				Subscription rights to shares	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
Purchase of shares of consolidated subsidiaries							–
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

(4) Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	2,799,870	3,008,008
Depreciation	166,977	186,300
Amortization of goodwill	88,268	86,626
Impairment loss	89,370	–
Increase (decrease) in allowance for doubtful accounts	2,495	(500)
Increase (decrease) in provision for bonuses	52,615	77,037
Increase (decrease) in provision for directors' bonuses	1,700	(3,400)
Increase (decrease) in provision for loss on order received	(3,578)	61,634
Increase (decrease) in provision for directors' retirement benefits	(208,513)	3,910
Increase (decrease) in net defined benefit liability	141,780	68,299
Interest and dividend income	(163,088)	(195,514)
Interest expenses	2,093	1,144
Loss (gain) on sales of securities	(227,592)	(138,258)
Share of (profit) loss of entities accounted for using equity method	(7,664)	(3,952)
Loss on retirement of non-current assets	1,913	3,193
Loss (gain) on sales of investment securities	(158,527)	(67,830)
Decrease (increase) in notes and accounts receivable - trade	(321,947)	(511,509)
Decrease (increase) in inventories	(44,609)	(85,824)
Increase (decrease) in notes and accounts payable - trade	220,309	(420,797)
Increase (decrease) in accounts payable - other	19,569	71,247
Increase (decrease) in long-term accounts payable - other	110,927	(95,866)
Increase (decrease) in accrued consumption taxes	(319,794)	(39,715)
Other, net	135,760	83,597
Subtotal	2,378,337	2,087,833
Interest and dividend income received	168,512	191,041
Proceeds from insurance income	–	43,003
Interest expenses paid	(1,948)	(1,171)
Income taxes paid	(1,000,904)	(1,175,851)
Net cash provided by (used in) operating activities	1,543,997	1,144,855

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from investing activities		
Payments into time deposits	(8,500)	(6,000)
Proceeds from withdrawal of time deposits	16,004	6,000
Purchase of securities	(2,912,338)	(1,919,811)
Proceeds from sales of securities	2,948,431	1,643,948
Purchase of property, plant and equipment	(141,398)	(219,312)
Purchase of intangible assets	(63,677)	(63,711)
Purchase of investment securities	(2,496,522)	(1,934,208)
Proceeds from sales of investment securities	862,870	1,091,788
Proceeds from redemption of investment securities	419,329	1,070,543
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(53,040)	(82,827)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	12,063	–
Proceeds from cancellation of insurance funds	167,501	10,851
Other, net	(38,658)	(103,172)
Net cash provided by (used in) investing activities	(1,287,935)	(505,910)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(9,200)	–
Proceeds from long-term loans payable	150,000	–
Repayments of long-term loans payable	(398,966)	(83,480)
Repayments of lease obligations	(1,138)	(1,152)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(90,528)	–
Cash dividends paid	(489,382)	(600,348)
Purchase of treasury shares	(640)	(474)
Proceeds from disposal of treasury shares from exercise of subscription rights to shares	549,000	81,000
Other, net	4,588	(380)
Net cash provided by (used in) financing activities	(286,266)	(604,835)
Effect of exchange rate change on cash and cash equivalents	(3,929)	(813)
Net increase (decrease) in cash and cash equivalents	(34,133)	33,296
Cash and cash equivalents at beginning of period	5,504,778	5,470,644
Cash and cash equivalents at end of period	5,470,644	5,503,941

(5) Notes on consolidated financial statements

(Changes in accounting policies)

Following the revision to the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result of this change, operating profit, ordinary profit and profit before income taxes for the fiscal year under review each increased 6,029 thousand yen.

(Additional information)

1. Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year under review.

2. Dissolution of a Consolidated Subsidiary

The Company resolved to dissolve and liquidate Cresco Shanghai Software CO., LTD., a consolidated subsidiary at the meeting of the Board of Directors held on August 29, 2016.

The company is now under the liquidation procedure.

(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.

As noted in “Changes in accounting policies,” following the revision to the Corporation Tax Act, the Company changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. Therefore, the depreciation method used for business segments has been changed in the same way.

As a result of this change, relative to the previous method, the segment profit of the software development business increased in the fiscal year under review by 4,068 thousand yen, and that of the embedded software development business increased by 1,022 thousand yen.

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

Fiscal year ended March 31, 2016

(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	23,767,109	4,901,511	28,668,621	106,411	28,775,033	–	28,775,033
Inter-segment sales or transactions	12,831	123	12,954	7,593	20,548	(20,548)	–
Total sales	23,779,941	4,901,634	28,681,575	114,005	28,795,581	(20,548)	28,775,033
Segment profit (loss)	2,904,149	662,960	3,567,110	(39,828)	3,527,281	(1,043,098)	2,484,183
Segment assets	7,893,538	1,767,462	9,661,000	93,113	9,754,113	9,476,130	19,230,244
Other items							
Depreciation	102,609	26,039	128,649	4,139	132,788	34,188	166,977
Increase in property, plant and equipment and intangible assets	118,153	29,826	147,979	6,152	154,132	17,658	171,790

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 1,043,098 thousand yen adjustment to segment profit includes 440 thousand yen in eliminations for inter-segment business and negative 1,043,539 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 9,476,130 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 17,658 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, 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.

[Related information]

Fiscal year ended March 31, 2016

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.	5,571,197	Software development business
Mizuho Information & Research Institute, Inc.	3,242,232	Software development business

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

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

Fiscal year ended March 31, 2016

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Impairment loss	89,370	–	89,370	–	–	89,370

Fiscal year ended March 31, 2017

There is nothing to report.

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

Fiscal year ended March 31, 2016

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	70,566	17,702	88,268	–	–	88,268
Unamortized balance at the fiscal year-end	293,951	29,503	323,455	–	–	323,455

Note: In the fiscal year under review, a loss of 89,370 thousand yen was reported as goodwill impairment loss pertaining to the software development business.

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

[Information on gain on bargain purchase by reporting segment]

There is nothing to report.

(Per share information)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net assets per share	1,078.35 yen	1,224.66 yen
Earnings per share	152.26 yen	180.28 yen
Diluted earnings per share	152.09 yen	179.62 yen

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

Item	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	1,705,144	2,042,751
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	1,705,144	2,042,751
Average number of common shares during the period (Shares)	11,199,020	11,331,202
Diluted earnings per share		
Increase in common shares (Shares)	12,739	41,709
[Of the above, subscription rights to shares (Shares)]	[12,739]	[41,709]
Overview of potential shares not included in the calculation of the diluted earnings per share because of the lack of dilution effects	3rd Series Subscription Rights to Shares 500,000 units (Common shares 500,000 shares) Issue date: November 28, 2014	–

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

Item	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Total net assets (Thousands of yen)	12,181,851	13,889,804
Amount deducted from total net assets (Thousands of yen)	1,042	1,399
[Of the above, subscription rights to shares (Thousands of yen)]	[411]	[–]
[Non-controlling interests (Thousands of yen)]	[630]	[1,399]
Net assets related to common shares at the fiscal year-end (Thousands of yen)	12,180,809	13,888,404
Number of common shares at the fiscal year-end used for the calculation of net assets per share (Shares)	11,295,780	11,340,587

(Material subsequent events)

There is nothing to report.