Cover page

Document title	Annual Securities Report
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Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 29, 2017
Fiscal year	21st term (from April 1, 2016 to March 31, 2017)
Company name	ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*)
Company name in English	SOURCENEXT CORPORATION
Title and name of representative	Noriyuki Matsuda, President and CEO
Address of registered headquarters	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo
Telephone number	+81-3-6254-5231 (Main)
Name of contact person	Fumihiko Aoyama, Managing Director, Managing Executive Officer in charge of Administration Group
Nearest place of contact	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo
Telephone number	+81-3-6254-5231 (Main)
Name of contact person	Fumihiko Aoyama, Managing Director, Managing Executive Officer in charge of Administration Group
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

A. Company information

I. Overview of the Company

1. Summary of business results

(1) Business results of the Group

Term	17th term	18th term	19th term	20th term	21st term
Fiscal year-end	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Net sales (Thousands of yen)	5,156,693	5,736,406	6,088,755	7,025,334	9,340,988
Ordinary profit (Thousands of yen)	728,751	1,225,535	1,312,133	1,463,657	1,593,034
Profit attributable to owners of parent (Thousands of yen)	805,179	1,220,678	1,214,426	990,867	1,070,828
Comprehensive income (Thousands of yen)	806,091	1,220,868	1,218,778	988,061	1,072,918
Net assets (Thousands of yen)	1,558,082	2,788,335	4,022,659	4,905,978	5,409,474
Total assets (Thousands of yen)	3,444,651	4,120,306	5,044,766	6,047,929	9,873,006
Net assets per share (Yen)	49.10	87.87	126.77	153.29	172.81
Earnings per share (Yen)	25.37	38.47	38.27	31.23	34.31
Diluted earnings per share (Yen)	–	–	–	–	–
Equity ratio (%)	45.2	67.4	79.2	80.4	54.2
Return on equity (ROE) (%)	69.7	56.3	35.8	22.4	21.0
Price earnings ratio (PER) (Times)	10.5	19.4	20.2	14.7	16.6
Net cash provided by (used in) operating activities (Thousands of yen)	1,285,679	1,410,125	1,649,378	1,623,937	1,402,465
Net cash provided by (used in) investing activities (Thousands of yen)	(769,380)	(151,278)	(645,228)	(600,503)	(2,235,055)
Net cash provided by (used in) financing activities (Thousands of yen)	(528,220)	(412,354)	(539,808)	(121,137)	1,353,545
Cash and cash equivalents at end of period (Thousands of yen)	956,836	1,807,418	2,278,689	3,176,956	3,699,654
Number of employees (Persons)	75	78	84	100	104
[Separately, average number of temporary employees]	[3]	[3]	[2]	[3]	[5]

Notes:
1. Net sales do not include consumption taxes.
2. The Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 17th term.
3. Diluted earnings per share is not presented because there were no potential shares for the 17th term and there were no potential shares with dilutive effects for the 18th, 19th, 20th and 21st terms.
4. The number of employees indicates the number of working employees.
5. The number in the bracket in the “Number of employees” row refers to the yearly average number of temporary employees.

(2) Business results of the reporting company

Term	17th term	18th term	19th term	20th term	21st term
Fiscal year-end	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Net sales (Thousands of yen)	5,156,693	5,736,406	6,088,755	7,025,334	9,320,435
Ordinary profit (Thousands of yen)	728,395	1,224,010	1,295,050	1,453,999	1,629,528
Profit (Thousands of yen)	804,007	1,219,224	1,209,573	981,208	1,107,367
Capital stock (Thousands of yen)	1,771,226	1,771,226	1,771,226	1,771,226	1,771,226
Total number of issued shares (Shares)	15,866,000	31,732,000	31,732,000	31,732,000	31,732,000
Net assets (Thousands of yen)	1,555,918	2,783,796	4,010,138	4,885,999	5,425,807
Total assets (Thousands of yen)	3,437,766	4,114,485	5,030,937	6,023,934	9,870,847
Net assets per share (Yen)	49.03	87.73	126.38	152.66	173.34
Dividends per share (Yen) [Interim dividends per share]	– [–]	– [–]	3.83 [–]	4.68 [–]	6.19 [–]
Earnings per share (Yen)	25.34	38.42	38.12	30.92	35.48
Diluted earnings per share (Yen)	–	–	–	–	–
Equity ratio (%)	45.3	67.4	79.2	80.4	54.4
Return on equity (ROE) (%)	69.7	56.3	35.8	22.2	21.7
Price earnings ratio (PER) (Times)	10.5	19.4	20.3	14.8	16.0
Dividend payout ratio (%)	–	–	10.0	15.1	17.4
Number of employees (Persons) [Separately, average number of temporary employees]	75 [3]	78 [3]	84 [2]	100 [3]	101 [4]

Notes: 1. Net sales do not include consumption taxes.

2. The Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 17th term.

3. Diluted earnings per share is not presented because there were no potential shares for the 17th term and there were no potential shares with dilutive effects for the 18th, 19th, 20th and 21st terms.

4. The number of employees indicates the number of working employees.

5. The number in the bracket in the "Number of employees" row refers to the yearly average number of temporary employees.

2. Company history

Date	Event
August 1996	Established SOURCE CORPORATION (2-6-1 Nishi-shinjuku, Shinjuku-ku, Tokyo; 10 million yen in paid-in capital) to plan, develop, and sell application software
November 1996	Relocated head office to 1-3-3 Shinkawa, Chuo-ku, Tokyo
November 1996	Took over all operations pertaining to software-related business from ssitristar Corp. (formerly AAA, Ltd., dissolved in October, 1998)
December 1996	Launched KYOUSOKU 95, utility software to increase hard disk drive speed
June 1997	Launched typing software TOKU-UCHI
October 1999	Company name changed to SOURCENEXT Corporation from SOURCE CORPORATION
June 2000	Began eSHOP for internet-based sales on own website
February 2003	Started “commoditization” strategy whereby pricing centered on 1,980 yen was applied to core products
March 2003	Launched ezPDF, PDF creation, conversion, and editing software
September 2003	Relocated head office to 6-10-1 Roppongi, Minato-ku, Tokyo
July 2006	Launched Virus Security ZERO, security software with no annual renewal fees
December 2006	Listed on Tokyo Stock Exchange Mothers
March 2007	Acquired program copyright and trademark rights for FUDEOH, postcard creation software
November 2007	Acquired program copyright and trademark rights for the B’s Recorder GOLD series of CD/DVD writing software
June 2008	Listed on the First Section of the Tokyo Stock Exchange
November 2009	Relocated head office to 3-8-21 Toranomon, Minato-ku, Tokyo
September 2011	Launched Android GENSEN Apps series of applications for Android
December 2011	Launched security software Super Security ZERO, made using Bitdefender, SRL’s engine and involving no annual renewal fees
March 2012	Began providing applications for KDDI CORPORATION’s au Smart Pass
September 2012	Established a subsidiary, SOURCENEXT Inc., in California, U.S. (currently a consolidated subsidiary)
May 2013	Began providing applications for NTT DOCOMO, INC.’s Sugo Toku Contents service
June 2014	Launched CHOU HODAI, an all-you-can-use fixed-price PC software service
August 2014	Began providing applications for SoftBank Mobile Corp.’s App Pass service
October 2014	Launched Apps CHOU HODAI, an all-you-can-use fixed-price application service
October 2015	Acquired program copyright for Super Tools, a smartphone application
April 2016	Acquired program copyright and trademark rights for ATENA SHOKUNIN, postcard creation software
July 2016	Relocated head office to 1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo
December 2016	Acquired all shares of MIXA Co., Ltd. (currently a consolidated subsidiary)
March 2017	Acquired perpetual rights to use the trademark, exclusive sales rights, and rights to modify digital download products in Japan for the language learning program, ROSETTA STONE.
May 2017	Acquired all shares of FUDEMAME CO., LTD. (a consolidated subsidiary since May 2017)

3. Description of business

The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise two consolidated subsidiaries. The business of SOURCENEXT Group (the Group: the Company and consolidated subsidiary) constitutes a single segment of the planning, development and sales of software and other services business.

Concerning our software development method, there are three scenarios under which we plan products: conducting development in-house, outsourcing to domestic or overseas development companies, and acquiring licenses for products copyrighted to other companies. When outsourcing to domestic or overseas development companies, the Company generally retains full or partial copyright for that product.

Our three sales channels comprise providing content to smartphone carriers, direct sales through our online shop, and wholesale distribution to consumer electronics retailers and other companies' e-commerce sites.

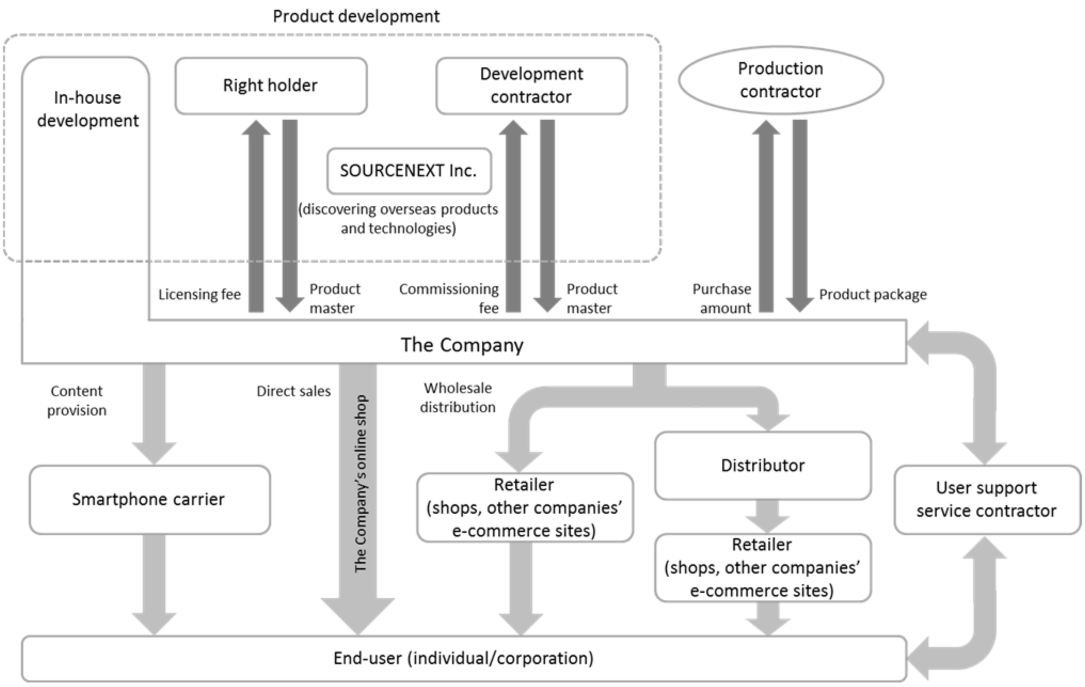
Concerning the provision of content to smartphone carriers, we provide many software titles for KDDI CORPORATION's au Smart Pass and other all-you-can-use application services operated by carriers.

In direct sales through the Company's online shop and wholesale sales to consumer electronics retailers and other companies' e-commerce sites, we make customers who purchase products into members by encouraging them to register as online users and receive e-mail newsletters. To improve sales stability, we take measures that include selling the Company's products and other companies' hardware products to our members.

We use questionnaires and other means to gather comments and requests from users through user support service contractors, then use that feedback to improve the quality of products and services.

The business activities diagram below shows the abovementioned points.

Business activities diagram



As the business of the Group consists of a single segment, segment information is not provided. An overview of the major brands of the Group's principal offerings is as follows.

Android App	The Company launched the Android GENSEN Apps series in 2011 as a line of applications tailored to Android smartphones. In addition to sales through the Company's online shop, we provide highly-rated applications which include the following to KDDI CORPORATION's au Smart Pass, NTT DOCOMO, INC.'s DOCOMO Sugo Toku Contents, and SoftBank Corp.'s App Pass.	
	KYOUSOKU Memory	This is an application that automatically resolves the slowdown in smartphone operation with repeated use. Unnecessary applications are simply deleted, increasing available capacity.
	Super Battery	This is a comprehensive battery management application that prevents indiscernible but wasteful battery consumption, such as backlights and Wi-Fi connections, and gives advance notification that the battery is flat.
	Super Tools	This is an application which comes with over 20 different unique and useful tools including light, mirror and ruler. It has a wide range of uses spanning work and private life.
Security	ZERO Virus Security	The Company has offered the Virus Security series as its own-brand security software since 2003. In 2006, we launched Virus Security ZERO with no annual renewal fee. The cumulative number of user registrations for the entire series stands at 9.87 million.
	ZERO Super Security	Super Security ZERO, launched in 2011, is the world's leading performance security software. A Bitdefender product, Bitdefender Internet Security, which uses the same engine as Super Security ZERO, was awarded BEST ANDROID SECURITY 2016 AWARD from an international performance test, AV-TEST.
Postcards	FUDEOH FUDEMAME ATENA SHOKUNIN	Novice-friendly address book and postcard creation software. In addition to the easy-to-operate FUDEOH, the Company's rich lineup includes ATENA SHOKUNIN for Mac and industry-share leader FUDEMAME.
PDF	ezPDF series	The ezPDF series is a staple software product that provides users with a simple and quick way of creating, converting, and editing PDFs. This product is a long-term best seller, selling more than any other domestic software in its category for 14 years in a row. Now used by over 4,200 corporations and other organizations, ezPDF helps to increase document management efficiency while reducing costs.

4. Overview of subsidiaries and associates

Name	Address	Capital stock (Thousands of yen)	Principal contents of business	Ratio of voting rights holding (held) (%)	Relationship
(Consolidated subsidiary) SOURCENEXT Inc.	California, United States	100 (Thousands of dollars)	Discovering and engaging in contract negotiations for overseas software and technologies, and selling the Company's products in the U.S.	100.0	Signed consulting agreement Two interlocking Directors or Auditors
MIXA Co., Ltd.	Shinjuku-ku, Tokyo	40,000	Producing and selling digital data including photos and illustrations	100.0	Licensing digital data One interlocking Director or Auditor

5. Information about employees

(1) Consolidated companies

As of March 31, 2017

Segment name	Number of employees (Persons)
Software-related business	104 [5]
Total	104 [5]

Notes: 1. The number of employees indicates the number of working employees.

2. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.

3. The business of the Group consists of a single segment.

(2) Reporting company

As of March 31, 2017

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
101 [4]	36.1	7	7,427,479

Notes: 1. The number of employees indicates the number of working employees.

2. Average annual salary includes bonuses and surplus wages.

3. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.

4. The business of the Company consists of a single segment.

(3) Status of labor union

No labor unions have been formed, but labor-management relations are amicable.

II. Overview of business

1. Overview of business results

(1) Business results

During the fiscal year ended March 31, 2017, the Japanese economic continued to recover gradually, with signs of moderate optimism in corporate activities and consumer sentiment. The economy is expected to continue growing at a moderate pace.

With regard to the business environment surrounding the Group, the period for free upgrades to Microsoft Corporation's new OS, Windows 10, came to an end, and the OS continues to prove popular with a share by OS of 25.4% (as of April 2017, Net Applications research). Support for Windows Vista ended in April, and Windows 10 devices are expected to increase steadily going forward. Furthermore, the number of mobile phone contracts stood at 160.71 million at the end of December 2016 (up 4.1% year-on-year), and the number of MVNO service contracts (included in the number of mobile phone contracts) stood at 14.85 million (up 27.7% year-on-year), with both types of contract growing strongly (March 2017, Ministry of Internal Affairs and Communications: published quarterly data on contract numbers and market shares for electronic communication services).

In these conditions, the Group worked to acquire new users for its smartphone applications and PC software and to expand its markets, guided by its corporate mission of "Creating products that inspire joy and move the world, in order to become the most exciting company in the world."

During the current fiscal year, the Company focused on releasing products that support the new OS, such as its core security software products, in conjunction with the shift to Windows 10.

At the end-of-year New Year greeting card season, the Company saw a new contribution to earnings from exclusive sales in the over-the-counter market of its postcard creation software products ATENA SHOKUNIN for Mac, acquired in April 2016, and the industry-share leader FUDEMAME, in addition to the core product FUDEOH.

Moreover, the Company started sales of the world's largest language learning program, ROSETTA STONE, from its online shop. In March 2017, we acquired perpetual rights to use the trademark, exclusive sales rights, and rights to modify digital download products in Japan for ROSETTA STONE. Then, in April the Company reached an agreement to acquire all of the shares of Rosetta Stone Japan, Inc. and make it a wholly-owned subsidiary, and resolved to conclude a share transfer agreement. Now, in addition to exclusive sales and lineup expansion of ROSETTA STONE in Japan, the Company will also be able to promote sales of new in-house developed ROSETTA STONE brand products to registered Japanese users of ROSETTA STONE. The Company will enhance and expand the ROSETTA STONE brand for the language learning business market, which is expected to see increasing demand going forward, under the mission statement of "Removing language barriers."

Selling, general and administrative expenses increased slightly, due to increases in promotion expenses associated with increasing sales resulting from the initially unanticipated start of exclusive over-the-counter sales of FUDEMAME and costs related to acquisitions such as MIXA Co., Ltd.

As a result of these activities, consolidated net sales for the current fiscal year, stood at 9,340 million yen, up 33.0% year-on-year, operating profit was 1,573 million yen, up 8.8% year-on-year, and ordinary profit was 1,593 million yen, up 8.8% year-on-year. Accordingly, operating profit and ordinary profit for the current fiscal year recorded all-time highs for the fourth year in a row. Profit attributable to owners of parent was 1,070 million yen, up 8.1% year-on-year.

In 2017, the Company was placed 9th in the 100 – 999 employees category of the Japan's Best Companies to Work For rankings for 2017, conducted by Great Place to Work® Institute Japan. The Company entered the rankings in the 2015 version, and has now been selected as one of the Best Companies for three consecutive years.

Moreover, in 2017 the Company was placed 4th in the 100 – 999 employees category of the Best Companies to Work For ranking for women, which selects the top five companies for women to work in from the top 100 companies in the Best Companies to Work For rankings.

The Company follows a basic policy of nurturing a “highly talented, elite team,” valuing the presence of each individual and their sense of professional fulfillment by fostering an esprit de corps through the combination of individual influence and team strengths, and achieving a sense of being able to change the world.

The business of the Group consists of a single segment. An overview of operations of each sales channel is provided below.

a) Smartphone carriers

In this channel, the Company focused on the provision and sales of content for all-you-can-use fixed-price application services provided by three major Japanese mobile carriers.

For au Smart Pass (KDDI) we started supplying the popular overseas apps Sun Surveyor and Planner 5D, bringing the total number of apps supplied to 35 (26 apps in the previous fiscal year). Furthermore, in January we supplied the individual VPN software Wi-Fi Security for the advanced au Smart Pass plan, au Smart Pass Premium.

For App Pass (SoftBank), we supplied 27 apps (24 apps in the previous fiscal year), with new apps including MOKUGEKI CAMERA (Drive Recorder).

For Sugu Toku Contents (NTT DOCOMO) we provided a total of five websites and 23 apps (five websites and 22 apps in the previous fiscal year), with new apps including Highly Functional Text Editor Jota+.

As a result of these activities, net sales stood at 1,563 million yen, up 25.1% year-on-year.

b) The Company’s online shop

In this channel, the Company sells software, hardware centered on PC-related hardware, and other products through the online shop, which is annexed into the Company’s own website.

The core products Virus Security ZERO and Super Security Zero contributed to earnings through the strengthening of sales of OS extension keys in line with the free upgrade period for Windows 10. We also established a special portal website for promoting the sale of the three products FUDEOH, ATENA SHOKUNIN, and FUDEMAME ahead of the New Year greeting card season in the second half of the fiscal year, which drove a steady increase in the number of users.

In new products, we started sales of the world’s largest language learning program, ROSETTA STONE. In March 2017, we conducted a limited-time sales promotion program to mark the alliance with U.S. company Rosetta Stone Ltd., which was well received.

In addition, the Company launched the latest versions of its popular PDF creation and editing software product ezPDF and the Vegas series of professional video editing software, which saw brisk sales.

As a result of these activities, net sales stood at 4,006 million yen, up 11.3% year-on-year.

c) Consumer electronics retailers and other companies’ e-commerce sites

In this channel, we sell PC software and other products to individual users mainly at consumer electronics retailers and other companies’ e-commerce sites.

During the first half of the fiscal year, we proposed enhancements and sales floor expansion for Windows 10 supported products and strengthened the deployment of core products. We also carried out a revamp to coincide with our new products, substituting in marketing materials using our new image character, model and actress Ayame Goriki.

In the second half of the fiscal year, added the two products FUDEMAME and ATENA SHOKUNIN to our existing postcard production software product FUDEOH, thereby acquiring almost a monopoly share of the market. This opened the door to strengthening collaboration with PC and printer manufacturers, and sales trended briskly as a result of advancing sales promotions involving bundled sales with printers, and so forth.

As a result of these activities, net sales stood at 3,427 million yen, up 73.1% year-on-year.

d) Other

In this channel, we primarily sell PC software and app unlimited-use services and licenses for entities such as low-cost smartphone and SIM-related operators, educational institutions, and government and municipal offices.

In May 2016, we launched the next-generation voice messaging service app Smart Voice Message, which allows users to read their voice messages. The app is supplied through consumer electronics retailers and MVNOs (Mobile Virtual Network Operators) nationwide, and has proved popular.

In January 2017, we started supplying the overseas version of the app, called iGotcha, in the U.S. In the same month, the app was displayed at the largest consumer electronics tradeshow in the U.S., CES, where it was well received.

As a result of these activities, net sales stood at 343 million yen, up 76.9% year-on-year.

In addition, during the current fiscal year, the Company acquired the shares of MIXA Co., Ltd. and made it a subsidiary.

MIXA Co., Ltd. has a stock of approximately 100,000 high quality photographs and illustrations covering a wide range of genres including people, food, houses, and sightseeing spots. It supplies these to professional designers throughout Japan producing printed materials, websites, and other media. The impact of the acquisition on performance during the current fiscal year has been negligible; however, going forward we will supply to even more buyers through our existing sales partners such as stock photo sales websites and our own online shop, which has strengths in download sales.

In April 2017, we concluded a contract for the acquisition of the shares of FUDEMAME CO., LTD., making it a subsidiary. The share acquisition was completed on May 11, 2017.

Furthermore, during the current fiscal year, the Company conducted an acquisition of treasury shares. The Company will acquire treasury shares to increase shareholder value per share, as well as part of a flexible capital strategy in response to changes in the business environment, such as using them in M&As, business alliances, and so forth.

As a result, the number of treasury shares held by the Company is 772,006 shares.

(2) Cash flows

Cash and cash equivalents as of March 31, 2017 amounted to 3,699 million yen, an increase of 522 million yen compared with the end of the previous fiscal year.

Cash flows during the current fiscal year and their causes are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to 1,402 million yen, an increase of 221 million yen in cash provided compared with the previous fiscal year.

The main factor is a 181 million yen increase in provision for sales returns.

Cash flows from investing activities

Net cash used in investing activities amounted to 2,235 million yen, an increase of 1,634 million yen in cash used compared with the previous fiscal year.

This was mainly due to expenditure of 1,033 million yen from purchase of contract based intangible assets, a 284 million yen increase in purchase of property, plant and equipment, and a 239 million yen increase in payments for purchase of software.

Cash flows from financing activities

Net cash provided by financing activities amounted to 1,353 million yen, compared to 121 million yen in cash used in the previous fiscal year.

This was mainly due to proceeds of 1,940 million yen from increase in short-term loans payable, as well as a payment of 438 million yen for purchase of treasury shares in the current fiscal year.

2. Overview of production, orders received and sales

(1) Production

Production results are not presented as the Group has no production operations.

(2) Orders received

Orders received are not presented as the Group has no built-to-order production operations.

(3) Sales

As the business of the Group consists of a single segment, sales results are presented based on product categories. Sales results by product category and overall sales results for the current fiscal year are shown below.

Product category	Sales (Thousands of yen)	Year-on-year comparison (%)
Security	1,847,397	120.7
Android App	1,744,853	131.8
Postcard creation	1,865,174	241.6
Sony series	469,426	102.5
PDF creation	341,836	103.5
Other	3,072,299	117.7
Total	9,340,988	133.0

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
Smartphone carriers	1,563,976	125.1
The Company's online shop	4,006,572	111.3
Consumer electronics retailers and other companies' e-commerce sites	3,427,222	173.1
Other	343,216	176.9
Total	9,340,988	133.0

2. Sales by major transaction partner have been omitted because the ratio of such sales to total sales is less than 10/100.
3. Consumption taxes are not included in the amounts above.

3. Management policy, management environment, issues to be addressed, etc.

(1) Management policy

i) Basic management policy

The Company was established in 1996 as a specialist in planning, development, and sales of software for consumers, with the Company name, SOURCENEXT incorporating the meaning "We source what's next." The Company's corporate mission is "Creating products that inspire joy and move the world." To achieve this, the Company aims to create a new software market by identifying useful, high quality smartphone applications and PC software, etc. from around the world and make it available to anyone at an affordable price.

ii) Target management indicators

As a market leader in the industry for consumer software, the Company is driving further market expansion by supplying products with high added value. Therefore the Company's policies emphasize the target management indicators of 1) ordinary profit and 2) ordinary profit to net sales ratio.

iii) Medium- and long-term management strategies

Currently the Company is focusing on planning, development, and sales of applications for devices other than PCs, such as smartphones and tablets, as these are expected to grow going forward. By linking PC software and other applications, the Company is stimulating the entire software market. The Company also focuses on the security market, which has a significant scale, where it aims to expand the share of its ZERO Virus Security and ZERO Super Security anti-virus products that allow installation in only one device but with no expiration by increasing their recognition and reliability. The Company's policy is to expand into the global market going forward, by developing highly original software and providing it in diverse formats.

(2) Operational and financial issues to be addressed

Regarding the industry for consumer software targeted by the Company, the Company predicts further business growth due to factors that include rapid expansion of the smartphone/tablet market, as well as a trend toward lower-priced and higher performance PCs, greater adoption of digital consumer electronics, and greater demands for security concerning personal information, etc. The result may be further increased competition. To respond to these developments and create a new market, the Company is addressing the following issues.

i) Planning and developing new products

The Company is planning and developing software tailored to devices such as smartphones and tablets, as well as PC software. Our software title expansion involves maintaining a balance among quality, cost, and development time. It also involves various strategies such as developing the Company's products and acquiring intellectual property rights from multiple development firms in and outside Japan in order to develop products for best-selling genres.

ii) Expanding sales channels

The Company is working to further expand sales channels by providing software tailored to smartphones, tablets, and other non-PC devices, as well as working with carriers to expand sales. Furthermore, the Company is expanding its sales into other countries by having its products localized into multiple languages and so forth.

iii) Diversifying our customer base

The Company's product sales consist largely of our online shop sales and over-the-counter package software sales at consumer electronics retailers and other retail stores. For reasons that include long-term brand building, we continue to view these channels as very important. At the same time, it is also essential that we build new channels by working with other companies to sell to corporations, mobile carriers, and communications carriers other than mobile carriers (ISPs, etc.). We will be actively pursuing these types of partnerships with the goal of diversifying our customer base.

iv) Improving earning power

The Company sees it as critical to conduct ongoing and effective cost management alongside efforts to expand sales. We intend to further improve earning power by continuing to commit ourselves to companywide budget control and achieve cost reductions while ensuring effective selling, general and administrative expenses.

4. Business risks

Of the items relating to the overview of business, financial information, etc. as described in the Annual Securities Report, those that may materially affect the decisions of investors are provided below.

Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) The Group's business environment

i) Software-related markets targeted by the Group

a. Smartphone market expansion

Telecommunications carriers are releasing a steady stream of new products for smartphones, and the smartphone market is expanding quickly. The Group is developing and selling its own Android GENSEN Apps series and other smartphone applications. However, the Group's business performance could be impacted in the event that smartphone market development is impeded due to unforeseen factors including new regulations, delays in technological innovation, and trends concerning telecommunications firms, which include revisions to usage fees.

b. Impact from PC unit sales to individual customers

A large proportion of the Group's product sales consists of PC software for individual customers. As such, sales are strongly affected by changes in consumer spending, PC adoption rates, and particularly by the number of PC units sold to individual customers. This creates a situation where stagnant growth in units sold to individual customers and drop-offs in consumer spending can affect the Group's business performance.

ii) Diversification of sales channels and sales models

To accommodate changes involving consumption styles driven by increased Internet penetration, broadband adoption, and delivery of software through application stores, the Group is focused on diversifying its sales channels. This includes sales of applications through its online shop as well as carriers such as smartphone carriers, in addition to over-the-counter sales. Sales through such non-over-the-counter channels comprised 63.3% of all sales for the fiscal year ended March 31, 2017. We have also begun providing applications for the rapidly growing user base for smartphones in expectation of further sales channel expansion. We will continue focusing on our online shop, which allows users to purchase and use software in a timely fashion. This diversification of sales channels and models could, however, impact the Group's business performance if the anticipated results are not achieved.

iii) Speed of technological innovation for products

Technological innovation for things such as OSs, web services, and devices is progressing quickly. To continue to succeed in the PC software and smartphone application market, we will need to continue developing technologies and enhancing functions while staying ahead of other companies in marketing new products and version upgrades. As we do not anticipate the speed of technological innovation will abate, the Group's business performance may be impacted in the event that the functions of the Group's products become obsolete or we are not able to respond quickly enough to technological innovation, regardless of efforts made to develop technologies or acquire licenses.

iv) OS trends

PC software can be categorized into OS software and application software, and the majority of the Group's product sales consists of application software. As a large part of these requires Microsoft's Windows OS, Windows version upgrades can prompt new demand and cause people to refrain from buying our products before the upgrades, affecting our business performance. Additionally, the Group's business operations and business performance could be impacted in the event that the appearance of alternative OSs causes a drop in the market share of Windows, which currently commands an overwhelming portion of the OS market.

For smartphone applications, many of the Group's products require Google's OS Android. As there is a tendency for Android OS version upgrades to be released more frequently than PC OS upgrades, the Group's business performance could be impacted if there are delays in adapting our applications to the new OS.

v) Intense competition

Competition is intense in the PC software market, and the Company may lose market share to other companies in the short term.

To remain competitive, we will need to continuously offer upgrades to existing products to respond to market changes, plan and develop unique and differentiated products, and expand profits by creating and fragmenting markets. Security software, one of the Group's core products, is a fiercely competitive category. Two products demonstrate the Group's success in creating a new market and differentiating itself from other companies. The first is Virus Security ZERO, which was launched in 2006 and requires no annual renewal fees. The second is Super Security ZERO, which was launched in 2011, requires no annual renewal fees, and is powered by the world-class technologies of Bitdefender, SRL. However, the Group's business performance may be impacted in the event that it is unable to adequately respond to markets for existing products or create new markets or fragment existing markets with new products.

Regarding the sales price of PC software for individual customers, the Group has been an industry leader in launching products at low price points ranging from 1,980 yen to 4,980 yen, including tax. However, new adopters of this pricing scheme are beginning to appear, and we may need to lower our products' prices in response to increasing competition among PC software manufacturers and among over-the-counter vendors, including consumer electronics retailers. The Group's business performance may be impacted if we are forced to lower the sales prices of products due to this kind of price competition.

For smartphone applications, such applications are now generally distributed via application stores operated by OS vendors and carriers. We may therefore be unable to achieve success with marketing strategies so far employed, making it difficult to maintain a competitive edge while differentiating ourselves from other companies. Such situations could impact the Group's business performance.

(2) The Group's management policy

i) The importance of marketing

Marketing that targets individual consumption is vital in the market for software targeting individuals. The below describes the characteristics of the Group's marketing strategies.

a. Package design

The Group places a prime emphasis on package design as a part of its over-the-counter marketing strategies. We handle all package design in-house, and make decisions about flyers, advertisements, promotional materials, web design, and other things in a holistic approach centered on package design. The Group recognizes the importance of and focuses on finding top-level designers capable of creating package designs effective in marketing operations. An inability to keep such designers could disrupt our marketing operations and affect the Group's business performance.

b. Large-scale sales promotion in the over-the-counter market

The Group views the improvement of over-the-counter exposure for its products as an important marketing strategy, and, therefore, seeks to establish specially-built areas for its products in over-the-counter spaces such as at consumer electronics retailers. Although we view this marketing involving the use of over-the-counter space as having some measure of effect, there is no guarantee of expected effect. Should such effect fail to be achieved, the Group's business performance may be impacted.

c. Brand assets and customer assets

The Group has worked to establish its brand as a software manufacturer by making effective use of advertising that includes online advertisements, television commercials, and magazine ads. Such advertisements have allowed us to lock in a variety of consumers by offering a wide range of products. As of March 31, 2017, the Group has more than 14 million registered users.

The Group expects to make its marketing operations more effective by using such intangible assets as brand and customer assets. Nevertheless, our marketing activities may not always achieve the desired effect. Our advertising expenses in the fiscal year ended March 31, 2017 were 553 million yen and promotion expenses were 543 million yen. Although we view these expenditures as contributing to our bottom line, there is no guarantee that we will achieve our intended effect and, if we do not, the Group's business performance may be impacted.

ii) The importance of corporate and product image

Due to the importance of corporate and product image in the market for software targeting individuals, we see effective advertising and the improvement of customer support functions as critical. In the event that a problem or defect is discovered in a product, or if a user starts a legal dispute or issues a complaint that cannot be predicted at present, the resulting blemish to corporate or product image may impact the Group's business performance.

iii) Group strategies for the ZERO series

The Group's core product, ZERO is an anti-virus product that allows installation in only one device but with no expiration. The product comes in ZERO Virus Security and ZERO Super Security versions to suit different applications and budgets. The Company provides the latest version until the device on which the software is first installed becomes broken, or the software ceases to meet the required specifications of the OS. However, if after-sales costs exceed the Company's expectations, it could have an adverse impact on profits.

iv) Overseas operations

The Group has endeavored to discover stand-out technologies and products in and outside of Japan, and has planned, developed, and sold PC software and Android applications in the Japanese market. We also established an overseas subsidiary in Silicon Valley, the U.S. in 2012. Through efforts that include business partnerships with six companies, including Rosetta Stone Ltd. in the current fiscal year, we successively launched sales in Japan.

However, in the course of conducting our overseas operations, there are numerous potential risks posed by each country's laws and regulations, institutions, politics, economics, exchange rates, and other factors. Consequently, incidents occurring due to these factors could impact the Group's business performance.

(3) Factors behind business performance fluctuations over the last five fiscal years

Business performance over the last five fiscal years for the Group has seen dramatic fluctuations in net sales, ordinary profit and loss, and profit and loss. The primary factors behind these fluctuations in profit and loss for each fiscal year are as follows.

Fiscal year ended March 31, 2013 (Consolidated)	Following a review of its product lineup, the Group prioritized sales of high added-value software products and the provision of services. As a result, there was a significant rise in sales for Android GENSEN Apps series products such as Super Power Saver and KYOUSOKU Memory, which have been adopted by au Smart Pass, a KDDI CORPORATION monthly subscription service for Android smartphone users. FUDEOH Ver. 17 reached the top position in its genre for 2012 based on annual unit sales. The impact of these factors was a slight drop in net sales compared with the previous fiscal year, but a significant rise in operating profit and ordinary profit, and a new high for profit.
Fiscal year ended March 31, 2014 (Consolidated)	Continuing the trend from the previous fiscal year, the Group made proactive efforts to expand and improve its lineup of PC software and Android smartphone applications. Sales were brisk for Virus Security ZERO and FUDEOH, core products, as well as new products. Along with adding titles to au Smart Pass, we provided smartphone applications to NTT DOCOMO, INC.'s Sugo Toku Contents service. Sales with a high gross margin ratio were strong, resulting in new highs for operating profit, ordinary profit, and profit.
Fiscal year ended March 31, 2015 (Consolidated)	In the area of smartphone applications, we began providing our applications to SoftBank Mobile Corp.'s App Pass service. As a result, we have succeeded in providing applications to all three major Japanese mobile carriers. We also launched Apps CHOU HODAI, our own all-you-can-use fixed-price service with over 100 smartphone application titles. At the same time, we launched CHOU HODAI, our own all-you-can-use service for over 120 PC software titles, and CHOU HODAI Business, our all-you-can-use service of business software titles for corporations. As a result of these activities, sales remained strong, and operating profit and ordinary profit recorded all-time highs for the second year in a row.
Fiscal year ended March 31, 2016 (Consolidated)	In the area of smartphone applications, we have succeeded in providing applications of over 20 titles to all three major Japanese mobile carriers. Moreover, since Microsoft Corporation's new Windows 10 has been released, Windows-related products, including core products, have made a significant contribution to sales. Our online shop sales rose steadily, and ordinary profit and operating profit marked new all-time highs for the third year in a row.
Fiscal year ended March 31, 2017 (Consolidated)	In PC software, we focused on releasing products that support the new OS, such as our core security software products, in conjunction with the shift to Windows 10. At the end-of-year New Year greeting card season, we saw a new contribution to earnings from exclusive sales in the over-the-counter market of our postcard creation software products ATENA SHOKUNIN for Mac, acquired in April 2016, and the industry-share leader FUDEMAME, in addition to the core product FUDEOH. Our smartphone applications and online shop sales rose steadily, and ordinary profit and operating profit marked new all-time highs for the fourth year in a row.

(4) Reliance on certain suppliers, etc.

Reliance on certain contractors

The Group contracts operations that include development, production, logistics, and customer support to certain third-party organizations. Although we practice operational management that includes progress, quality, and cost management for contracted operations in order to maintain the integrity of services entrusted to contractors, such efforts may be insufficient due to the indirect nature of these methods. Although we believe we will continue to be able to maintain contractual relationships with existing contractors, in the event that this becomes untenable and costs related to contracting increase, the Group's business operations and performance could be impacted.

a. Reliance on other companies for development operations

The Group relies on the development capabilities of other companies for some of the programs used in its products. In the Group, we select development contractors capable of delivering quality services with short development times. However, there are a limited number of development contractors who satisfy these conditions. Each development contractor has different technical strengths, and combining these effectively to create products is important. Although we intend to continue strengthening relationships with development contractors while securing new partners who can satisfy the conditions of the Group, failure to find and create combinations of development contractors like the ones we have now could impact our product development framework and business performance.

b. Reliance on other companies for production and logistics operations

The Group contracts production and logistics operations to other companies it deems suitable in order to achieve a balance among development and annual production schedules and costs, etc.

Although we have the option of replacing the contractors currently performing these operations, such replacement requires a certain amount of time and costs. We are therefore focused on finding and developing new contractors. Despite these efforts, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

c. Reliance on other companies for customer support operations

For its customer support services, the Group responds to inquiries concerning how to use products and product defects via a special helpline and via e-mail. We contract a portion of these services to external parties and have preparations in place to replace contractors currently conducting these operations in the event such need arises, but such replacement requires a certain amount of time and costs. As such, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

(5) Returned products and inventory

To the extent provided for in a contract and under certain conditions, the Group accepts returns of the Group's products from consumer electronics retailers and other retail stores and distributors. Although the rate of product return is currently low due to efforts to track actual sales and ensure proper shipments, this rate might increase sharply if the Group's products become obsolete as a result of technological innovations and version upgrades or other such factors. Furthermore, shifts in policy concerning inventory levels at consumer electronics retailers and other retail stores and distributors could result in an unexpectedly high volume of returns. We prepare for losses arising from returned goods after the last day of the fiscal year by recording a provision for sales returns based on past returns data. However, the Group's business performance may be impacted when the provision for sales returns increases in the event that we accept returns beyond original estimates. For inventory of Group products, including returns, we work towards and are currently achieving appropriate inventory levels. However, losses could be incurred due to product obsolescence and the Group's business performance may be impacted should a related incident occur.

(6) Intellectual property rights

i) Usage of rights belonging to third parties

In addition to products for which the Group holds all copyrights, the Group also provides products for which licenses are acquired from third parties that permit full or partial usage of things such as programs and characters.

As standard license contracts and sales contracts have an expiration, licenses and distribution rights may be withdrawn at contract end. Furthermore, the Group may decide not to renew such contracts for reasons related to things such as increasing royalties at the time of renewal. In such cases, there is also the possibility that development or sales plans created based on these contracts will be changed or scrapped, which could impact the Group's business performance. Regarding the acquisition of licenses, we use a fully pay-as-you-go system wherein royalties are paid based on sales volume. In some cases, however, we may pay a certain amount of royalties as a minimum guarantee prior to product launch. In such cases, these amounts are capitalized as advance payments - trade when paying royalties and are amortized based on estimated sales volume. Consequently, when there is a significant difference between estimated sales volume and actual sales volume, a loss due to additional amortization may be incurred and the Group's business performance may be affected.

ii) Acquisition of intellectual property rights

The Group endeavors to acquire intellectual property rights. Some of the patent rights—the products of research and development—that the Group has acquired in Japan and the U.S. include the TOKU-UCHI Method, which provides a fun way of teaching keyboard beginners finger positioning without having to look at the keyboard.

We register trademarks for the names of nearly all the products we market. The Group views trademark rights as exceedingly important to better differentiating our products from competitors' and improving the effectiveness of advertising and other marketing initiatives.

We must also protect patent rights, utility model rights, trademark rights, and copyrights for other technologies and business models, as well. Although we aim to acquire such rights for all products for which this may apply, this may not always be possible. When the Group's technologies or expertise are not protected by patent or other such rights and are patented by a competitor, this can disrupt the development or sale of the Group's products and impact our business performance.

iii) Violation of a third party's intellectual property rights

The Group utilizes a system for ensuring that third parties' rights are not violated. This involves heeding the advice of experts such as legal advisors and patent attorneys in conducting trademark investigations for product names and patent/design investigations for product functions and designs, etc. The Group is not aware of any violations of third parties' intellectual property rights for any current Group products. However, this does not preclude the possibility of future lawsuits or complaints brought against us citing intellectual property right infringement. Possible outcomes should such incidents occur include being requested to pay damages, suffering a loss of credit worthiness, and being compelled to discontinue sale of products, etc., all of which could impact the Group's business performance.

(7) Related laws and regulations

As one of the methods of selling its products, the Group sells directly to consumers over the Internet. This method is regulated by laws and regulations, and the policies and guidelines of regulatory agencies. These include the Act on Prohibition of Unauthorized Computer Access, the Consumer Contract Act, the Act on Specified Commercial Transactions, the Act on Special Provisions to the Civil Code Concerning Electronic Consumer Contracts and Electronic Acceptance Notice, and the Act on Regulation of Transmission of Specified Electronic Mail. The enactment or revision of such laws and regulations, or the creation of new guidelines and voluntary rules or revisions thereto, can place new restrictions on the Group's business. Additionally, the tightening of existing regulations can affect the Group's business operations, operating results, and financial standing.

(8) Personal information protection

i) Risks of personal information leaks in the course of providing services

In order to provide services, the Group collects and uses member information, credit card information, and other such personal information. We are therefore obligated to protect personal information under the Act on the Protection of Personal Information. We appoint a privacy officer and institute privacy policies, privacy rules, and other guidelines, and strictly manage workflows that involve the handling of personal information. We have also established a Security Committee to improve in-house education for employees and to raise awareness concerning the handling of not only personal information, but all information management companywide. We reinforce security initiatives pertaining to the Group's online systems, which handle a particularly large volume of personal information, and related departments, and we receive reviews from independent organizations and have obtained ISO 27001 certification (see note). However, serious incidents including the leak of personal information could result in claims for damages and a loss of credit worthiness, among other outcomes that could impact the Group's business operations and business performance.

Note: ISO 27001 is a standard that forms the basis of third-party conformity assessment systems aimed at building a security system to protect all information assets, including personal information, and earn the trust of stakeholders.

ii) Risks of confidential information and personal information leaks by certain contractors

For operations where confidential information is handled, the Group signs confidentiality contracts with contractors it has deemed trustworthy. In the event of the leak or unauthorized usage, etc. of confidential information by a contractor despite our rigorous efforts to manage such information, the resulting loss of credibility could impact the Group's business operations and performance. Furthermore, the Group utilizes a strict system that prevents the leak of personal information for operations that involve entrusting customers' personal information to contractors for the sake of providing customer support, shipping products, or other such operations. In principle, this includes selecting only contractors who are Privacy Mark certified and conducting regular security audits of these contractors. However, should any leaks of personal information by contractors occur despite our rigorous efforts to manage such information, the resulting claims for damages and a loss of credit worthiness, among other outcomes could impact the Group's business operations and business performance.

(9) Our management system

i) Our internal control system

The Group is an organization comprised of ten Directors and Auditors as well as 109 employees (as of March 31, 2017; includes five temporary employees), and its management system is appropriate for the organization's current size. We plan to expand our workforce and further strengthen our management system in preparation for future business growth and increased business volume. In the event that human resource recruiting and developing and the strengthening of our management system do not go as planned, the organization will be unable to take appropriate action and business operations could be disrupted.

ii) Recruiting human resources

The Group's competitive strength relies on product planning and marketing. To achieve continued growth, it is important to recruit and develop highly-capable planning and marketing personnel. However, recruiting these kinds of personnel is proving difficult due to their scarcity value in the labor market. Moreover, our system for developing human resources is not as robust as it could be due to the relatively small size of the organization. Thus, although we will continue to focus efforts on recruiting and developing human resources as a key management concern, if such efforts fail to keep up with the rate of change in the market, the Group's business performance may be impacted.

iii) Risks related to information security

In the course of conducting its operations, the Group is often in the position of handling a variety of confidential information pertaining to its customers. We therefore work to strengthen the security of information systems such as the computer networks needed to provide our services. However, losses may occur due to the leak of or damage to important data or the illegal modification, etc. of computer programs, which can result from such things as third-party intrusions into computer systems using unauthorized means, computer viruses, natural disasters, or by suddenly flooding the network. To prevent these kinds of incidents, the Group's systems department has put in place an information security management system (ISMS) to build information security and strengthen its information management system through efforts that include the provision of server load balancing to cope in times of concentrated access, which can be achieved by putting the servers in the cloud. The Group's business operations and business performance may, however, be impacted in the event that an unplanned incident occurs.

5. Critical contracts for operation

   Not applicable.

6. Research and development activities

   The Group develops new software for PCs and for devices such as smartphones and tablets.

   Our research and development system involves developing and selling products in a wide variety of categories, each of which is populated with programmers who specialize in their field and use different development languages. We are therefore focused on building flexible development systems on a per project basis by creating partnerships with multiple external partners, rather than directly hiring a number of in-house programmers.

   In conformance with software accounting standards, development costs for completely new products are recorded as research and development expenses, while version upgrade costs and copyright acquisition expenses for existing products are recorded as software assets. Research and development expenses of 2 million yen, primarily for new products launched in the coming fiscal year, were recorded for the current fiscal year.

7. Analysis of financial position, operating results and cash flows

   Items in the text below that concern the future were determined by the Group as of the end of the current fiscal year.

(1) Analysis of operating results

In the current fiscal year, with improving ordinary profit as a core management emphasis, the Group worked to actively expand applications for Android devices and other smartphones, which are a growth area, and PC software.

During the current fiscal year, we focused on releasing products that support the new OS, such as our core security software products, in conjunction with the shift to Windows 10. At the end-of-year New Year greeting card season, we saw a new contribution to earnings from exclusive sales in the over-the-counter market of our postcard creation software products ATENA SHOKUNIN for Mac, acquired in April 2016, and the industry-share leader FUDEMAME, in addition to the core product FUDEOH. Moreover, we started sales of the world’s largest language learning program, ROSETTA STONE, from our online shop. In March 2017, we acquired perpetual rights to use the trademark, exclusive sales rights, and rights to modify digital download products in Japan for ROSETTA STONE. Then, in April the Company reached an agreement to make Rosetta Stone Japan, Inc. a subsidiary, and resolved to conclude a share transfer agreement.

As a result of these activities, in the current fiscal year, net sales stood at 9,340 million yen, up 33.0% year-on-year, operating profit stood at 1,573 million yen, up 8.8% year-on-year, ordinary profit stood at 1,593 million yen, up 8.8% year-on-year, and operating profit and ordinary profit for the current fiscal year recorded an all-time high for the fourth year in a row. Profit attributable to owners of parent stood at 1,070 million yen, up 8.1% year-on-year.

(2) Analysis of financial position

Total assets as of the end of the current fiscal year stood at 9,873 million yen, an increase of 3,825 million yen compared with the end of the previous fiscal year. Current assets were 6,398 million yen, an increase of 1,681 million yen, and non-current assets were 3,474 million yen, an increase of 2,143 million yen.

The increase in current assets was due mainly to an increase in cash and deposits of 1,022 million yen, an increase in accounts receivable - trade of 595 million yen and an increase in advance payments - trade of 435 million yen. The increase in non-current assets was due mainly to contract based intangible assets with U. S. company Rosetta Stone Ltd. of 1,546 million yen.

Total liabilities as of the end of the current fiscal year stood at 4,463 million yen, an increase of 3,321 million yen compared with the end of the previous fiscal year. Current liabilities were 4,443 million yen, an increase of 3,337 million yen, and non-current liabilities were 19 million yen, a decrease of 15 million yen. The increase in current liabilities was due mainly to an increase in short-term loans payable of 1,940 million yen, an increase in accounts payable - other of 591 million yen, and an increase in income taxes payable of 312 million yen. The decrease in non-current liabilities was due to a decrease in long-term unearned revenue.

Net assets as of the end of the current fiscal year stood at 5,409 million yen, an increase of 503 million yen compared with the end of the previous fiscal year. The increase in net assets was due mainly to profit attributable to owners of parent of 1,070 million yen and a decrease of 438 million yen in association with purchase of treasury shares.

(3) Analysis of cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 3,699 million yen, an increase of 522 million yen compared with the end of the previous fiscal year.

The status as well as increases and decreases of cash flows are noted in "II. Overview of business, 1. Overview of business results, (2) Cash flows."

III. Information about facilities

1. Overview of capital expenditures, etc.

   The total amount of capital expenditures made for the current fiscal year stood at 2601 million yen. This consisted mainly of 1,550 million yen for contract based intangible assets with U.S. company Rosetta Stone Ltd., 294 million yen for interior refurbishment work and purchase of fixtures associated with the relocation of the Company's head office (facilities attached to buildings of 175 million yen and tools, furniture and fixtures of 119 million yen), 470 million yen for improvements to and purchases of software programs for sale, and 162 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2017

Office name (Location)	Segment name	Facilities	Book value (Thousands of yen)					Number of employees (Persons)
			Buildings	Tools, furniture and fixtures	Software	Contract based intangible assets	Total	
Head office (Minato-ku, Tokyo)	Software-related business	Office equipment for development and management, and EC systems	153,353	129,243	899,970	1,546,242	2,728,810	101 [4]

Notes: 1. Consumption taxes are not included in the amounts above.
2. All amounts for the buildings above are for interior equipment, etc. in offices currently being leased.
3. No facility is currently out of service.
4. The number of employees indicates the number of working employees.
5. The number in the bracket in the "Number of employees" column refers to the yearly average number of temporary employees.
6. The business of the Group consists of a single segment.
7. Head office building space is being leased. Annual leasing fees are 230,723 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions, etc. of significant facilities

As of March 31, 2017

Company name	Office name (Location)	Segment name	Facilities	Planned investment amount		Funds procurement method	Start	Scheduled completion	Increase in capacity after completion
				Total amount (Thousands of yen)	Amount already paid (Thousands of yen)				
Reporting company	Head office (Minato-ku, Tokyo)	Software-related business	Business systems	251,185	–	Own funds	April 2017	March 2018	–

Notes: 1. Consumption taxes are not included in the amount above.
2. Increase in capacity after completion is not presented as a reasonable calculation is difficult.
3. The business of the Group consists of a single segment.

(2) Retirements, etc. of significant facilities

There are no planned retirements of significant facilities except for retirements for renewal of facilities.

IV. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

i) Total number of shares

Class	Total number of authorized shares (Shares)
Common shares	90,280,000
Total	90,280,000

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2017)	Number of issued shares as of the date of filing (Shares) (June 29, 2017)	Name of financial instruments exchange where the shares of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Common shares	31,732,000	31,732,000	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	31,732,000	31,732,000	–	–

Note: "Number of issued shares as of the date of filing" does not include shares issued upon exercise of subscription rights to shares from June 1, 2017 until the filing date of this Annual Securities Report.

(2) Subscription rights to shares, etc.

The Company issues stock options based on provisions of Articles 236, 238 and 240 of the Companies Act. An overview of this system is provided below.

Resolved at the Board of Directors meeting held on August 29, 2013 (4th series)

	As of March 31, 2017	As of May 31, 2017
Number of subscription rights to shares (Rights)	511 (Note 1)	504 (Note 1)
Number of treasury subscription rights to shares (Rights)	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common shares	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	51,100 (Note 1)	50,400 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (Yen)	898 yen per share (Note 2)	Same as left
Exercise period of subscription rights to shares	August 30, 2015 – August 29, 2023	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen)	Issue price: 898 yen Additional paid-in capital: 449 yen	Same as left
Conditions for exercising subscription rights to shares	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares.	Same as left
Matters regarding transfer of subscription rights to shares	Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding surrogate payment	–	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	(Note 3)	Same as left

Resolved at the Board of Directors meeting held on August 28, 2014 (5th series)

	As of March 31, 2017	As of May 31, 2017
Number of subscription rights to shares (Rights)	12 (Note 1)	12 (Note 1)
Number of treasury subscription rights to shares (Rights)	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common shares	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	1,200 (Note 1)	1,200 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (Yen)	953 yen per share (Note 2)	Same as left
Exercise period of subscription rights to shares	August 29, 2016 – August 28, 2024	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen)	Issue price: 953 yen Additional paid-in capital: 477 yen	Same as left
Conditions for exercising subscription rights to shares	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.	Same as left
Matters regarding transfer of subscription rights to shares	Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding surrogate payment	–	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	(Note 3)	Same as left

Resolved at the Board of Directors meeting held on June 25, 2015 (6th series)

	As of March 31, 2017	As of May 31, 2017
Number of subscription rights to shares (Rights)	792 (Note 1)	779 (Note 1)
Number of treasury subscription rights to shares (Rights)	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common shares	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	79,200 (Note 1)	77,900 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (Yen)	786 yen per share (Note 2)	Same as left
Exercise period of subscription rights to shares	June 26, 2017 – June 25, 2025	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen)	Issue price: 786 yen Additional paid-in capital: 393 yen	Same as left
Conditions for exercising subscription rights to shares	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares.	Same as left
Matters regarding transfer of subscription rights to shares	Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding surrogate payment	–	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	(Note 3)	Same as left

Resolved at the Board of Directors meeting held on June 27, 2016 (7th series)

	As of March 31, 2017	As of May 31, 2017
Number of subscription rights to shares (Rights)	383 (Note 1)	383 (Note 1)
Number of treasury subscription rights to shares (Rights)	–	–
Class of shares to be issued upon exercise of subscription rights to shares	Common shares	Same as left
Number of shares to be issued upon exercise of subscription rights to shares (Shares)	38,300 (Note 1)	38,300 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (Yen)	586 yen per share (Note 2)	Same as left
Exercise period of subscription rights to shares	June 28, 2018 – June 27, 2026	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen)	Issue price: 586 yen Additional paid-in capital: 293 yen	Same as left
Conditions for exercising subscription rights to shares	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares.	Same as left
Matters regarding transfer of subscription rights to shares	Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding surrogate payment	–	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	(Note 3)	Same as left

Notes: 1. The number of shares to be issued upon exercise of one subscription right to shares shall be 100.

In the event that the Company conducts a share split (includes an allotment of the Company's common shares without contribution, the same applies below) or a share consolidation after the date of allotment of subscription rights to shares, an adjustment shall be made using the formula below. Notwithstanding, said adjustment shall be made only with respect to the number of shares to be issued upon exercise of those subscription rights to shares remaining unexercised as of the relevant date, and any fractions of less than one share that arise as a result of adjustment shall be rounded down.

$$\begin{array}{c}\text{Number of shares granted}\\\text{after adjustment}\end{array} = \begin{array}{c}\text{Number of shares granted}\\\text{before adjustment}\end{array} \times \text{Ratio of split (or consolidation)}$$

Additionally, in the event that the Company implements a merger, company split, or a decrease in the amount of capital or in equivalent cases necessitating an adjustment to the number of shares granted after the date of allotment of subscription rights to shares, the number of shares granted shall be adjusted appropriately to the extent reasonable.

2. In the event that the Company conducts a share split or a share consolidation after the date of allotment of subscription rights to shares, an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

Additionally, in the event that the Company issues new shares or disposes of treasury shares at a price below the market value of the Company's common shares after the date of allotment of subscription rights to shares (excludes issuance of new shares and disposal of treasury shares based on the exercise of subscription rights to shares and the transfer of treasury shares due to the share exchange), an adjustment shall be made to the exercise price using the formula below, and any fractions of less than one yen due to the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares already issued} + \dfrac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Market value per share before new issuance}}}{\text{Number of shares already issued} + \text{Number of shares newly issued}}$$

In the formula above, "Number of shares already issued" shall be the number obtained by subtracting the number of treasury shares (common shares) from the total number of issued shares (common shares). In the event that the Company disposes of treasury shares (common shares), "Number of shares newly issued" shall read "Number of treasury shares to be disposed." In addition, "Market value" in the formula above shall be the average value of the closing price (includes indicative quote, the same applies below) in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for 30 trading days (excludes days with no closing price) starting on the 45th trading day prior to the day following the effective date (the payment date for said issue or disposal (where a payment period is set out, the final day of said payment period)) (when there is a record date, from the day following said record date). Note that the "average value" shall be calculated in yen to two decimal places and rounded to one decimal place.

Additionally, aside from the aforementioned, in the event that the Company merges with another company, implements a company split, or in equivalent cases necessitating an adjustment to the exercise price after the date of allotment of subscription rights to shares, the exercise price shall be adjusted appropriately to the extent reasonable.

3. In the event that the Company implements a merger (limited to a case in which the Company ceases to exist due to the merger), absorption-type split, incorporation-type split, share exchange or share transfer (hereinafter collectively referred to as "act of organizational restructuring"), the Company shall grant subscription rights to shares of a company specified in (a) through (e) under Article 236, paragraph 1, item 8 of the Companies Act (hereinafter, "the restructured company") to owners of subscription rights to shares on the effective date of the act of organizational restructuring in accordance with the conditions below. This shall be limited to the case where the grant of subscription rights to shares of the restructured company is stipulated in the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan.

   (1) The number of subscription rights to shares in the restructured company to be granted

   The same number of subscription rights to shares as the number of subscription rights to shares owned by respective holders shall be granted.

   (2) The class of shares of the restructured company to be issued upon exercise of subscription rights to shares

   The class of shares shall be common shares of the restructured company.

   (3) The number of shares of the restructured company to be issued upon exercise of subscription rights to shares

   The number of shares of the restructured company to be issued upon exercise of subscription rights to shares shall be determined in accordance with the aforementioned Note 1, taking into consideration the conditions of the act of organizational restructuring.

   (4) The amount of assets to be contributed upon exercise of subscription rights to shares

   The amount of assets to be contributed upon exercise of each subscription right to shares granted shall be the amount obtained by multiplying the post restructuring exercise price obtained after adjusting the exercise price by taking into consideration the conditions and other factors of the act of organizational restructuring, by the number of shares of the restructured company to be issued upon exercise of the said subscription rights to shares determined in accordance with the aforementioned Note 3 (3).

   (5) Exercise period of subscription rights to shares

   The exercise period of subscription rights to shares shall begin on the date of commencement of the exercise period stipulated above or the effective date of the act of organizational restructuring, whichever is later, and end on the closing date of the exercise period stipulated above.

   (6) Matters concerning increase in capital stock and legal capital surplus in the event of issuance of shares upon exercise of subscription rights to shares

i) The amount of increase in capital stock in the event of issuance of shares upon exercise of subscription rights to shares shall be an amount that is half of the upper limit for an increase in capital stock to be calculated in accordance with Article 17, paragraph 1 of the Ordinance on Accounting of Companies. Any fractions of less than one yen arising as a result of the calculation shall be rounded up to the nearest one yen.

ii) The amount of increase in legal capital surplus in the event of issuance of shares upon exercise of subscription rights to shares shall be the upper limit for an increase in capital stock stated in i) above less the amount of increase in capital stock stipulated therein.

(7) Restriction on the acquisition of subscription rights to shares by transfer

Any acquisition of subscription rights to shares by transfer shall be subject to approval by the resolution of the board of directors of the restructured company.

(8) Other conditions for the exercise of subscription rights to shares

To be determined in accordance with "Conditions for exercising subscription rights to shares" above.

(9) Reasons and conditions for acquisition of subscription rights to shares

i) In the event of approval for a merger agreement under which the Company ceases to exist, a split agreement or split plan for a company split under which the Company is the splitting company, or a share exchange agreement or a share transfer plan under which the Company becomes a wholly-owned subsidiary by the shareholders meeting (the resolution of the Board of Directors in the event that approval of the shareholders meeting is not required), the Company may acquire all subscription rights to shares for no consideration on arrival of the date stipulated separately by the Company's Board of Directors.

ii) In the event that subscription rights to shares can no longer be exercised under the provisions stipulated in Note 3 (8) above before the holders of subscription rights to shares exercise such rights, the Company may acquire subscription rights to shares for no consideration.

(10) Other conditions shall be determined in accordance with the conditions of the restructured company.

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable.

(4) Description of rights plan

Not applicable.

(5) Changes in the number of issued shares, capital stock, etc.

Date	Change in the total number of issued shares (Shares)	Balance of the total number of issued shares (Shares)	Change in capital stock (Thousands of yen)	Balance of capital stock (Thousands of yen)	Change in legal capital surplus (Thousands of yen)	Balance of legal capital surplus (Thousands of yen)
October 1, 2012 (Note 1)	15,707,340	15,866,000	–	1,771,226	–	1,611,226
September 1, 2013 (Note 2)	15,866,000	31,732,000	–	1,771,226	–	1,611,226

Notes: 1. The Company implemented a 1:100 share split on common shares on October 1, 2012.

2. The Company implemented a 1:2 share split on common shares on September 1, 2013.

(6) Shareholding by shareholder category

As of March 31, 2017

Category	Shareholding status (Number of shares per share unit: 100 shares)								Fractional shares (Shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors, etc.		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Persons)	–	19	33	28	57	5	5,368	5,510	–
Number of shares held (Units)	–	19,827	13,229	88,301	41,454	409	154,078	317,298	2,200
Shareholding ratio (%)	–	6.24	4.16	27.82	13.06	0.12	48.55	100.00	–

Note: 772,006 treasury shares include 7,720 units under "Individuals, etc." and six shares under "Fractional shares."

(7) Major shareholders

As of March 31, 2017

Name	Address	Number of shares held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	8,666,400	27.31
RS Empowerment, Inc.	1-14-1 Tamagawa, Setagaya-ku, Tokyo	4,454,400	14.03
Yodobashi Camera Co., Ltd.	3-20-1 Kita-shinjuku, Shinjuku-ku, Tokyo	3,609,600	11.37
ML PRO SEGREGATION ACCOUNT (Standing proxy: Merrill Lynch Japan Securities Co., Ltd.)	THE CORPORATION TRUST COMPANY CORPORATION TRUST CENTER 1209 ORANGE ST WILMINGTON DELAWARE USA (1-4-1 Nihonbashi, Chuo-ku, Tokyo)	970,100	3.05
Satomi Matsuda	Minato-ku, Tokyo	924,000	2.91
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	TRINITY TOWER 9, THOMAS MORE STREET LONDON, E1W 1YT, UNITED KINGDOM (2-15-1 Konan, Minato-ku, Tokyo)	667,630	2.10
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	564,400	1.77
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/ LUXEMBOURG FUNDS/UCITS ASSETS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch, Custody Service Department)	33 RUE DE GASPERICH, L-5826 HOWALDHESPERANGE, LUXEMBOURG (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	460,300	1.45
Japan Trustee Services Bank, Ltd. (Held in trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	410,600	1.29
J.P.MORGAN SECURITIES LLC-CLEARING (Standing proxy: Citibank, N.A., Tokyo Branch)	FOUR CHASE METROTECH CENTER BROOKLYN, NY 11245 (6-27-30 Shinjuku, Shinjuku-ku, Tokyo)	311,600	0.98
Total	–	21,039,030	66.30

Notes: 1. 408,900 of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd. relate to the trust business.

2. In addition to the above, the Company held 772,006 treasury shares.

(8) Voting rights

i) Issued shares

As of March 31, 2017

Category	Number of shares (Shares)	Number of voting rights (Rights)	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	Common shares: 772,000	–	Standard shares without any limitations on the shareholders' rights
Shares with full voting rights (Other)	Common shares: 30,957,800	309,578	Same as above
Fractional shares	Common shares: 2,200	–	Same as above
Total number of issued shares	31,732,000	–	–
Total number of voting rights	–	309,578	–

Note: The "Fractional shares" row includes six treasury shares.

ii) Treasury shares, etc.

As of March 31, 2017

Name of shareholder	Address of shareholder	Number of shares held under own name (Shares)	Number of shares held under the name of others (Shares)	Total number of shares held (Shares)	Shareholding ratio (%)
SOURCENEXT Inc.	1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo	772,000	–	772,000	2.43
Total	–	772,000	–	772,000	2.43

(9) Details of employee stock option program

The Company has adopted a stock option program. The details of the program are as below.

Resolved at the Board of Directors meeting held on August 29, 2013 (4th series)

The issuance of subscription rights to shares was resolved at the Board of Directors meeting held on August 29, 2013, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

Resolution date	August 29, 2013
Category and number of people to whom stock options are granted	79 employees
Class of shares to be issued upon exercise of subscription rights to shares	Details are described in "(2) Subscription rights to shares, etc."
Number of shares (Shares)	Same as above
Amount to be paid in upon exercise of subscription rights to shares (Yen)	Same as above
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Matters regarding transfer of subscription rights to shares	Same as above
Matters regarding surrogate payment	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	Details are described in "(2) Subscription rights to shares, etc."

Resolved at the Board of Directors meeting held on August 28, 2014 (5th series)

The issuance of subscription rights to shares was resolved at the Board of Directors meeting held on August 28, 2014, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

Resolution date	August 28, 2014
Category and number of people to whom stock options are granted	6 employees
Class of shares to be issued upon exercise of subscription rights to shares	Details are described in "(2) Subscription rights to shares, etc."
Number of shares (Shares)	Same as above
Amount to be paid in upon exercise of subscription rights to shares (Yen)	Same as above
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Matters regarding transfer of subscription rights to shares	Same as above
Matters regarding surrogate payment	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	Details are described in "(2) Subscription rights to shares, etc."

Resolved at the Board of Directors meeting held on June 25, 2015 (6th series)

The issuance of subscription rights to shares was resolved at the Board of Directors meeting held on June 25, 2015, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

Resolution date	June 25, 2015
Category and number of people to whom stock options are granted	2 Directors, 90 employees
Class of shares to be issued upon exercise of subscription rights to shares	Details are described in "(2) Subscription rights to shares, etc."
Number of shares (Shares)	Same as above
Amount to be paid in upon exercise of subscription rights to shares (Yen)	Same as above
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Matters regarding transfer of subscription rights to shares	Same as above
Matters regarding surrogate payment	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	Details are described in "(2) Subscription rights to shares, etc."

Resolved at the Board of Directors meeting held on June 27, 2016 (7th series)

The issuance of subscription rights to shares was resolved at the Board of Directors meeting held on June 27, 2016, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

Resolution date	June 27, 2016
Category and number of people to whom stock options are granted	2 Directors, 12 employees
Class of shares to be issued upon exercise of subscription rights to shares	Details are described in "(2) Subscription rights to shares, etc."
Number of shares (Shares)	Same as above
Amount to be paid in upon exercise of subscription rights to shares (Yen)	Same as above
Exercise period of subscription rights to shares	Same as above
Conditions for exercising subscription rights to shares	Same as above
Matters regarding transfer of subscription rights to shares	Same as above
Matters regarding surrogate payment	–
Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring	Details are described in "(2) Subscription rights to shares, etc."

2. Acquisitions, etc. of treasury shares

Classes of shares, etc.	Acquisition of common shares corresponding to Article 155, item 3 of the Companies Act

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Acquisitions based on the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph 3 of the same act

Category	Number of shares (Shares)	Total value (Yen)
Resolution by the Board of Directors meeting (June 27, 2016) (Acquisition period: From June 28, 2016 to September 27, 2016)	140,000	100,000,000
Treasury shares acquired before the fiscal year ended March 31, 2017	–	–
Treasury shares acquired during the fiscal year ended March 31, 2017	140,000	69,095,500
Total number and total value of remaining shares under resolution	–	–
Ratio of exercisable shares as of the final day of the fiscal year ended March 31, 2017 (%)	–	–
Treasury shares acquired during the period from April 1, 2017 until the filing date of this Annual Securities Report	–	–
Ratio of exercisable shares as of the filing date of this Annual Securities Report (%)	–	–

Category	Number of shares (Shares)	Total value (Yen)
Resolution by the Board of Directors meeting (July 21, 2016) (Acquisition period: From July 22, 2016 to October 21, 2016)	632,000	400,000,000
Treasury shares acquired before the fiscal year ended March 31, 2017	–	–
Treasury shares acquired during the fiscal year ended March 31, 2017	632,000	369,257,900
Total number and total value of remaining shares under resolution	–	–
Ratio of exercisable shares as of the final day of the fiscal year ended March 31, 2017 (%)	–	–
Treasury shares acquired during the period from April 1, 2017 until the filing date of this Annual Securities Report	–	–
Ratio of exercisable shares as of the filing date of this Annual Securities Report (%)	–	–

(3) Acquisitions not based on resolution of shareholders meeting or Board of Directors meeting

Not applicable.

(4) Disposals or holding of acquired treasury shares

Category	Fiscal year ended March 31, 2017		From April 1, 2017 until the filing date of this Annual Securities Report	
	Number of shares (Shares)	Total disposal value (Yen)	Number of shares (Shares)	Total disposal value (Yen)
Acquired treasury shares offered for subscription	–	–	–	–
Acquired treasury shares that were disposed	–	–	–	–
Acquired treasury shares transferred for merger, share exchange and company split	–	–	–	–
Other (—)	–	–	–	–
Treasury shares held	772,006	–	772,006	–

Note: The number of treasury shares held in the "From April 1, 2017 until the filing date of this Annual Securities Report" column does not include shares through purchase or sale of fractional shares from June 1, 2017 until the filing date of this Annual Securities Report.

3. Dividend policy

The Company believes that improving performance into the future will increase corporate value and result in meeting the expectations of shareholders. The basic dividend policy is to implement the distribution of profits with comprehensive consideration of performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. Moreover, while the Company's basic policy on dividend of surplus is to pay a dividend once a year, as a rule, in the form of the year-end dividend, the Articles of Incorporation stipulate that the Company may pay an interim dividend, pursuant to the provisions of Article 454, paragraph 5 of the Companies Act. The organizational bodies that determine dividends are the Board of Directors for the interim dividend and the Shareholders Meeting for the year-end dividend.

With regards to the dividend for the current fiscal year, the Company decided to pay a dividend of 6.19 yen per share, an increase of 0.1 yen from the previous forecast (dividend payout ratio of 15% includes a 20th anniversary commemorative dividend of 1 yen). The increase reflects a decline in the number of issued shares (after deducting treasury shares), following the purchase of treasury shares conducted in June and July 2016.

With regards to the dividend for the fiscal year ending March 31, 2018, taking business conditions into account, the Company plans to pay a dividend of 5.79 yen per share, giving a forecast dividend payout ratio of 15%.

Going forward, the Company is committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account.

The distribution from surplus for the current fiscal year is as below.

Resolution date	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)
Annual Shareholders Meeting held on June 28, 2017	191,642	6.19

4. Historical records of share price

(1) Highest and lowest share price of each fiscal year in last five years

Term	17th term	18th term	19th term	20th term	21st term
Fiscal year-end	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Highest (Yen)	20,000 (Note 2) 565	1,647 (Note 3) 1,336	967	910	717
Lowest (Yen)	14,150 (Note 2) 151	408 (Note 3) 594	536	411	382

Notes: 1. The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.
2. Figures show the ex-rights share price due to a share split (October 1, 2012, 1 share: 100 shares).
3. Figures show the ex-rights share price due to a share split (September 1, 2013, 1 share: 2 shares).

(2) Highest and lowest share price of each month in last six months

Month	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Highest (Yen)	557	592	607	717	694	638
Lowest (Yen)	498	481	545	580	615	565

Note: The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

5. Information about Directors and Auditors

Men: 10, Women: 1 (Percentage of female Directors and Auditors: 9%)

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
President and CEO (Representative Director)	–	Noriyuki Matsuda	May 28, 1965	Apr. 1989	Joined IBM Japan	(Note 6)	8,666,400
				Sep. 1993	Established AAA, Ltd., Representative Director and President, AAA, Ltd.		
				Aug. 1996	Established the Company, President and CEO, the Company (current position)		
				Sep. 2012	President & CEO, SOURCENEXT Inc. (current position)		
				Dec. 2016	President and CEO, MIXA Co., Ltd. (current position)		
Executive Vice President (Representative Director)	–	Satomi Matsuda	Jul. 5, 1965	Aug. 1990	Joined KITAGAWA INDUSTRIES CO., LTD.	(Note 6)	924,000
				Jan. 1992	Joined TFC Corporation		
				Jan. 1994	Joined AAA, Ltd., Senior Managing Director, AAA, Ltd.		
				Aug. 1996	Senior Managing Director, the Company		
				May 2002	Executive Managing Director, the Company		
				Sep. 2012	Secretary, SOURCENEXT Inc. (current position)		
				Jun. 2014	Executive Vice President, the Company (current position)		
Senior Managing Director	Senior Executive Officer, In charge of Sales Group	Tomoaki Kojima	Jun. 3, 1977	Sep. 2001	Joined the Company	(Note 6)	22,300
				Jun. 2006	Executive Officer, the Company		
				Jun. 2008	Managing Director, the Company		
				Jan. 2009	Executive Director, the Company		
				Jun. 2012	Managing Director, the Company (current position)		
				May 2017	Managing Director, FUDEMAME CO., LTD. (current position)		
Managing Director	Managing Executive Officer, In charge of Administra-tion Group	Fumihiko Aoyama	Aug. 3, 1967	Oct. 1991	Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC)	(Note 6)	55,500
				Jul. 1999	Joined Deloitte Tohmatsu Consulting		
				Apr. 2000	Joined the Company		
				Apr. 2002	Executive Officer, the Company		
				Jun. 2004	Managing Director, the Company		
				Jan. 2009	Executive Director, the Company		
				Jun. 2012	Managing Director, the Company (current position)		
				May 2017	Managing Director, FUDEMAME CO., LTD. (current position)		

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	–	Masaharu Ikuta	Jan. 19, 1935	Apr. 1957	Joined Mitsui Steamship Co., Ltd. (currently Mitsui O.S.K. Lines, Ltd.)	(Note 6)	22,900
				Jun. 1994	Representative Director and President, Mitsui O.S.K. Lines, Ltd.		
				Jun. 2000	Representative Director and Chairman, Mitsui O.S.K. Lines, Ltd.		
				Apr. 2003	President, Japan Post (currently Japan Post Group)		
				Mar. 2007	Resigned as President, Japan Post		
				Apr. 2007	Corporate Advisor, Mitsui O.S.K. Lines, Ltd.		
				Jun. 2008	Outside Director, Terumo Corporation		
					Outside Director, the Company (current position)		
				May 2009	Outside Director, Aeon Co., Ltd.		
				Feb. 2010	Senior Counselor, Mitsui O.S.K. Lines, Ltd.		
				Jun. 2014	President, Nagoya Port Terminal Corporation (current position)		
Managing Director	–	Hideaki Kubori	Aug. 29, 1944	Apr. 1971	Registered as Attorney-at-Law Joined Mori Sogo	(Note 6)	5,300
				Apr. 1998	Representative, HIBIYA PARK LAW OFFICES (current position)		
				Apr. 2001	President, Daini Tokyo Bar Association, and Vice President, Japan Federation of Bar Associations		
				Oct. 2001	Outside Director, Nomura Holdings, Inc.		
				Feb. 2003	Outside Auditor, the Company		
				Jun. 2008	Member of the Supervisory Committee, The Norinchukin Bank (current position)		
				Jun. 2011	Outside Director, Tokyo Stock Exchange Group, Inc. (currently Japan Exchange Group, Inc.) (current position) Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)		
				Jun. 2014	Outside Director, the Company (current position)		
				Apr. 2015	Professor, Toin Law School (current position)		

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Managing Director	–	Kunitake Ando	Jan. 1, 1942	Apr. 1969	Joined Sony Corporation	(Note 6)	–
				Aug. 1979	Representative Director and Managing Executive Officer, Sony Prudential Life Insurance Co., Ltd.		
				Apr. 1990	President, Sony Corporation of America President, Sony Engineering and Manufacturing of America		
				Jun. 1994	Member of the Board, Sony Corporation		
				Apr. 2000	Representative Director and President, Sony Corporation		
				Jun. 2005	Chairman, Representative Director, Sony Financial Holdings Inc.		
				Jun. 2007	Chairman, Director, Sony Life Insurance Co., Ltd.		
				Jun. 2011	Honorary Chairman, Sony Life Insurance Co., Ltd.		
				Mar. 2012	Director, Japan Center for International Exchange (current position)		
				Jul. 2013	Executive Director, Japan Innovation Network (current position)		
				Oct. 2014	Outside Director, BJIT Inc. (current position)		
				Jun. 2017	Outside Director, the Company (current position)		
Standing Auditor	–	Shozaburo Takano	Jan. 11, 1938	Jan. 1968	Joined Fuji Heavy Industries Ltd.	(Note 7)	62,700
				Sep. 1980	Joined Japan Data General Co., Ltd.		
				Mar. 1991	Joined Nippon Computer Systems Corporation		
				Dec. 1999	Advisor, the Company		
				Jun. 2000	Full-time Auditor, the Company (current position)		
Standing Auditor	–	Masaaki Hirose	Aug. 26, 1948	Apr. 1971	Joined Suruga Bank Ltd.	(Note 8)	–
				Apr. 2005	Managing Executive Officer, Suruga Bank Ltd.		
				Jun. 2008	Audit & Supervisory Board Member (Full-time), Suruga Bank Ltd.		
				Jun. 2016	Senior Executive Advisor, Suruga Bank Ltd.		
				Jun. 2017	Full-time Auditor, the Company (current position)		

Title	Position	Name	Date of Birth	Career Summary		Term	Number of Shares Held (Shares)
Auditor	–	Tetsuya Kobayashi	Sep. 5, 1958	Apr. 1991	Registered as Attorney-at-Law (Daini Tokyo Bar Association)	(Note 9)	–
				Apr. 2003	Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology		
				Apr. 2004	Vice President, Daini Tokyo Bar Association		
				Jun. 2006	Outside Auditor, the Company (current position)		
				May 2007	Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and University Evaluation (current position)		
				Apr. 2008	Part-time instructor, Faculty of Law, Keio University		
				May 2010	Auditor, Utsunomiya Hotoku Hospital (current position)		
				Jun. 2011	Outside Auditor, Mochida Pharmaceutical Co., Ltd. (current position)		
				Apr. 2012	Executive Governor, Japan Federation of Bar Associations		
Auditor	–	Kakuji Takano	Apr. 7, 1940	Apr. 1963	Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION)	(Note 9)	–
				May 1968	Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC)		
				May 1981	Established Takano Sogo Accounting Firm		
				Dec. 1996	Representative Partner, Audit Corporation Ota Showa Century (currently Ernst & Young ShinNihon LLC)		
				Apr. 2007	Outside Auditor, MARUZEN CO., LTD.		
				Jun. 2007	Outside Auditor, NIPPON SHUPPAN HANBAI INC.		
				Oct. 2008	Councilor, Kanagawa Institute of Technology (current position)		
				Jul. 2010	Managing Partner, Takano Sogo Accounting Firm (current position)		
				May 2014	Auditor, Tokyo Medical and Dental Cooperative (current position)		
				Jun. 2014	Outside Auditor, the Company (current position)		
				Jun. 2016	Outside Audit & Supervisory Board Member, KDDI CORPORATION (current position)		
Total							9,759,100

Notes: 1. Executive Vice President Satomi Matsuda is the spouse of President and CEO Noriyuki Matsuda.

2. Managing Directors Masaharu Ikuta, Hideaki Kubori, and Kunitake Ando are Outside Directors.

3. Auditors Tetsuya Kobayashi and Kakuji Takano are Outside Auditors.

4. The Company adopted an executive officer system in June 2006 in order to revitalize the Board of Directors and increase management efficiency. The person with responsibility for each group is designated as the Executive

Officer, and all of the Directors, except for the Representative Directors and the Outside Directors, serve concurrently as Executive Officers. In addition, the Company has seven full-time Executive Officers.

5. At the Annual Shareholders Meeting on June 28, 2017, the Company appointed one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. The career summary of the Substitute Auditor is as shown below.

Name	Date of Birth	Career Summary		Number of Shares Held (Shares)
Ryo Tsuchida (Registered name: Ryo Teranishi)	Jul. 4, 1968	Apr. 1992	Part-time instructor, Tokyo Training Institute, National Tax College	–
		Apr. 1998	Assistant, Faculty of Law, Sophia University	
		Apr. 2000	Full-time instructor, Faculty of Law, University of East Asia	
		Apr. 2002	Assistant Professor, Faculty of Law, University of East Asia	
		Apr. 2003	Assistant Professor, Faculty of Law, Meijo University	
			Part-time instructor, Division of Laws, Total Academic Graduate Course, Correspondence Graduate School, University of East Asia (current position)	
		Apr. 2007	Part-time instructor, Nagoya University of Foreign Studies	
		Oct. 2007	Part-time instructor, Judicial Affairs Course, Omiya Law School	
		Apr. 2008	Associate Professor, Judicial Affairs Course, Omiya Law School	
			Part-time instructor, Faculty of Law, Meijo University	
		Jan. 2010	Registered as Attorney-at-Law (Daini Tokyo Bar Association)	
			Joined Frontier-Law	
		Apr. 2011	Professor, Judicial Affairs Course, Omiya Law School	
		Apr. 2012	Part-time instructor, Meiji Gakuin University Graduate Law School	
		Apr. 2014	Professor, Department of Law, School of Law, Senshu University (current position)	
			Part-time instructor, Judicial Affairs Course, Omiya Law School	
		Apr. 2015	Part-time lecturer, Faculty of Law, Komazawa University (current position)	
		Jun. 2015	Outside Auditor, Resona Bank, Limited (current position)	

Ryo Tsuchida, Substitute Auditor, meets the requirements for Outside Auditor.

6. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2017 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2018.
7. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2016 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2020.
8. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2017 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2021.
9. From the conclusion of the Annual Shareholders Meeting for the fiscal year ended March 31, 2014 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2018.
10. Number of shares held is as of March 31, 2017.

6. Explanation about corporate governance, etc.

(1) Explanation about corporate governance

Basic philosophy on corporate governance

The Company recognizes that strengthening and enhancing corporate governance is a key managerial challenge for maintaining and increasing its competitive edge in the long-term. While fulfilling our social responsibility to all stakeholders, including shareholders, consumers, and business partners, we are promoting efficient management and striving to increase corporate value, aiming for a high profit structure.

i) Implementation status of corporate governance policies

A. Basic explanation of company organizational structures

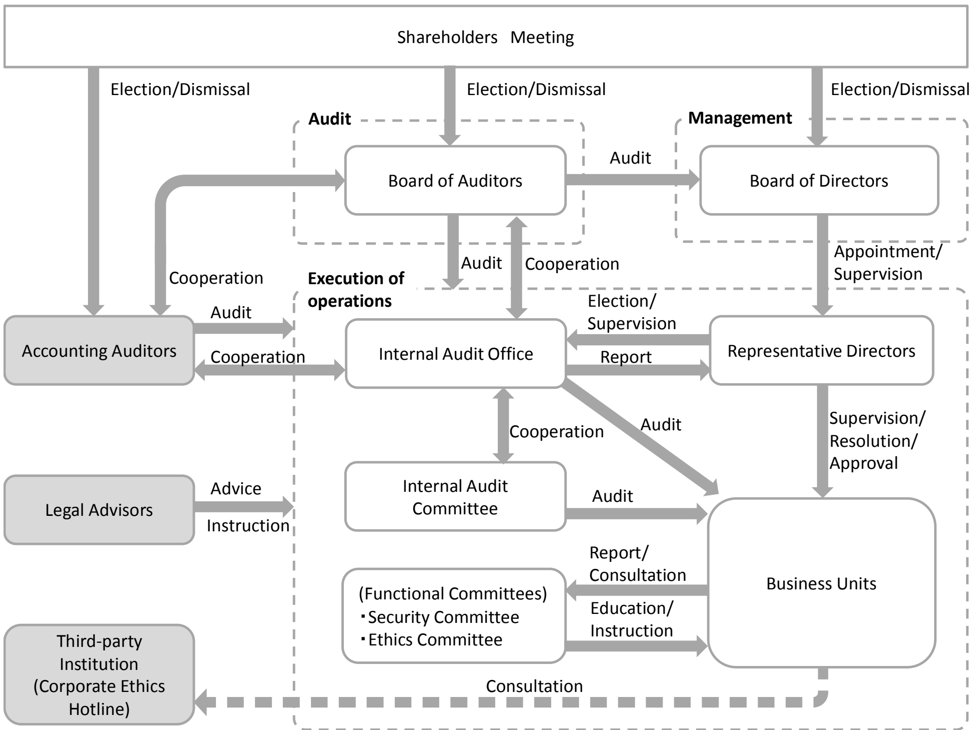
The Company has adopted an auditor system, and the Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

The Board of Directors is composed of seven Directors. It is designated as the organizational structure which deliberates on and determines matters provided for by the Companies Act and key issues, etc. related to the management of the Company. As a rule, meetings of the Board of Directors are held once a month. Auditors attend all meetings of the Board of Directors and provide their opinions. The Board of Auditors is designated as the organizational structure which comprehensively checks the legality and efficiency of management. As a rule, meetings of the Board of Auditors are held once a month. Two of the four Auditors are independent Outside Auditors. The objective of this is to ensure the soundness of management through the implementation of auditors' audits from a neutral and objective perspective by people with ample knowledge and experience in a variety of fields.

Additionally, three of the seven Directors are Outside Directors. The objective of this is to bring in perspectives from outside of management, strengthen corporate governance even more, and further reinforce the function of supervising the execution of operations.

The Company aims for effective governance, combining auditors' audits implemented through the active collaboration of the Board of Auditors, which includes a number of independent Outside Auditors with expert legal and other knowledge, with the Accounting Auditors and the internal audit departments, and planning of management strategy and supervision of execution of operations by the Board of Directors, which includes independent Outside Directors with high levels of management experience and insight. The aforementioned structures of the Company have been deemed effective in achieving and ensuring corporate governance, and capable of implementing appropriate and efficient corporate management. Consequently, the Company has adopted the said system of governance.

The status of the Company's corporate governance is as follows.



B. Establishment of internal control system

The Company ensures compliance and constantly strives to improve and enhance the internal control system in order to promote operations effectively and efficiently.

a. Basic philosophy on the internal control system

The Company has explicitly stipulated "being genuinely good" as a condition for "EXCITING," which is our ultimate strategy. Our basic policy is that every single Director, Auditor and employee not only complies with the laws and regulations inside and outside Japan, but also acts in accordance with corporate ethics to fulfill the Company's social role and responsibility.

b. Compliance system

We provide training on compliance, and the Company's regulations and other rules for all Directors and all employees through e-learning (online testing) implemented by the legal department and the Security Committee. Moreover, we also conduct group training in the form of lectures for all employees, which we offered on a total of seven themes in the current fiscal year.

In addition, the internal audit departments audit the status of compliance in operational audits and regularly report these activities to Management Meetings attended by all managers.

Apart from this, the Company has established and operates the Corporate Ethics Hotline to which employees can anonymously report legally questionable conduct to the Company through an independent third-party institution with no interests in the Company.

c. Internal audit system

The Company recognizes that the internal audit function performs a vital role in internal control. The Internal Audit Office and the Internal Audit Committee, with two members and eight members respectively, are designated as the departments with responsibility for implementing internal audits. The Internal Audit Office is a department that was newly established in July 2007 as an organizational structure directly under the Executive Vice President in order to further strengthen the internal control environment, and the Company has assigned two employees to it. The principal duties of the Internal Audit Office are formulating the fiscal year internal auditing plan, establishing the priority issues for auditing, producing the final audit report, and taking responsibility for other extraordinary audits. The Internal Audit Office implements highly independent and neutral audit operations in collaboration with the Internal Audit Committee.

Reports on the results of audits are made in writing to its supervising officer, the Executive Vice President. The internal control system is further strengthened by the process of providing audited departments with instructions for improvements based on the results of auditing and ensuring that they report on the status of improvements afterwards, without delay, to assure the effectiveness of internal audits.

Reports on the status of internal auditing are issued monthly in collaboration with the Board of Auditors.

d. Internal control in order to eliminate anti-social forces

The Company's basic policy is to block any relationships, including provision of funds, with anti-social forces that threaten the order and safety of society as a whole and to respond, with measures including both civil and criminal legal responses, to any unreasonable demands made by such anti-social forces, standing resolute as an entire organization and cooperating closely with the specialist external organizations, including the police and attorneys.

In terms of arrangements aimed at eliminating anti-social forces, the departments in charge of responding have established internal structures, employee education through once-yearly compliance training, and a response manual. In addition, the Company is a member of Tokubouren (the Special Anti-Violence Countermeasures Federation of the Metropolitan Police Department) and strives to gather information about anti-social forces and develop close cooperative relationships, by participating in training sessions and seminars, etc. organized by the Federation.

Moreover, as well as conducting an investigation into affiliations for all transactions with our business partners, we establish a clause in agreements for termination with immediate effect that allows us to terminate agreements without notification in the event that a business partner is an anti-social force or has engaged in transactions with an anti-social force. This provides a structure that allows an agreement to be terminated based on the clause in the event that these grounds become known.

ii) Establishment of risk management system

The Company, primarily the Internal Audit Office, identifies internal and external risks once a year, as a rule, and creates a map to quantitatively evaluate company-wide risks. Risks with high scores based on this risk map are reflected in the internal audit plan as priority risks, and the establishment and operation of preventive measures and crisis management measures are checked through auditing.

In addition, the Company has established the Security Committee as an internal, functional committee related to the protection of personal information, prevention of leakage of confidential information, and information security, and it provides security training and guidance for employees.

The Company's legal advisors include HIBIYA PARK LAW OFFICES to which Hideaki Kubori, an Outside Director of the Company, belongs, Murata Tamami Law Firm, CITY-YUWA PARTNERS, and Veritas General Law Office, and the Company requests advice whenever it is needed.

iii) Status of system for ensuring the appropriateness of business operations at subsidiaries

To ensure the appropriateness of business operations at the Company's subsidiaries, the Company's Board of Directors monitors subsidiaries by receiving regular reports on their operating results and status of business execution, and by requesting reports, and providing guidance and supervision commensurate with the degree of risk. Important matters at subsidiaries are discussed beforehand between the subsidiary and the Company, and important matters that are judged to have a significant impact on the subsidiary's finances and profit and loss must receive approval from the Company's Board of Directors.

Moreover, the Group works together as one to maintain and improve its internal controls to ensure compliance and so forth, and the Company's Internal Audit Committee conducts regular audits of subsidiaries.

iv) Details of remuneration for Directors and Auditors

A. Total amount of remuneration, etc. by each category of Directors, Auditors, and Outside Directors and Auditors, total amount of remuneration, etc. by type, and number of Directors, Auditors, and Outside Directors and Auditors to be paid

Category	Total amount of remuneration (Thousands of yen)	Total amount of remuneration, etc. by type (Thousands of yen)				Number to be paid (Persons)
		Basic remuneration	Stock options	Bonuses	Retirement benefits	
Directors (excluding Outside Directors)	40,200	35,982	4,217	–	–	4
Auditors (excluding Outside Auditors)	10,080	10,080	–	–	–	1
Outside Directors and Auditors	30,240	30,240	–	–	–	4

B. Total amount of consolidated remuneration, etc. per Director and Auditor

Omitted as there is no Director or Auditor for whom the total amount of consolidated remuneration, etc. is 100 million yen or more.

C. Significant employee salary for employees serving concurrently as Directors or Auditors

Total amount (Thousands of yen)	Number to be paid (Persons)	Details
29,440	2	Amount corresponding to employee salary (includes bonuses) for employees of the reporting company serving concurrently as Directors or Auditors

D. Policy on determination of remuneration, etc. for Directors and Auditors

a. Remuneration, etc. for Directors

The structure of remuneration, etc. for Directors is made up of basic remuneration and bonuses.

The basic remuneration is established as a base amount in accordance with the scope of responsibility of each Director. However, the amount is variable within a certain range according to factors such as level of contribution, ability to drive strategy and planning, and compliance. Bonuses are determined as an amount allocated separately depending on each Director's achievement of targets, ability to drive strategy and planning, etc.

b. Remuneration, etc. for Auditors

The structure of remuneration, etc. for Auditors is made up of basic remuneration and bonuses.

The amount of remuneration, etc. is determined through consultation among Auditors to ensure that the amount for each Auditor is fair and to make the auditing function operate effectively.

v) Organizational structure, personnel and procedures for internal audits and auditors' audits, and coordination of internal audits, auditors' audits and accounting audits

The Company has adopted an auditor system, and there are four Auditors, including two Outside Auditors. In addition to attending meetings of the Board of Directors, the Auditors perform tasks that include hearing about the execution of operations directly from Directors and others, attending important meetings, hearing reports on business, inspecting materials for key resolutions, etc.

Additionally, the Company has appointed an Auditor with a considerable degree of knowledge concerning finance and accounting as outlined below.

Shozaburo Takano, the Standing Auditor, was engaged in financial accounting for over 15 years in total, having been involved in financial accounting operations, including U.S. accounting, in the management department at Japan Data General Co., Ltd. and accounting and finance operations in the accounting department at Nippon Computer Systems Corporation.

The Internal Audit Office and the Internal Audit Committee, which are composed of two and eight members respectively, verify the legality and propriety of operations in operational audits and report the results to the Representative Directors. The Internal Audit Office and the Internal Audit Committee implement assessments of internal control related to financial reporting. The Internal Audit Office reports the content of internal audit implementation and the status of improvements directly to the Standing Auditor in a timely manner. The Accounting Auditors regularly exchange opinions with the Auditors and the Internal Audit Office and aim for coordination with internal audits and auditors' audits.

Moreover, the Auditors, Accounting Auditors, and the Internal Audit Office exchange information on every occasion relating to assessments of internal control, forming a framework that enables them to collaborate and identify common issues.

At the Annual Shareholders Meeting held on June 28, 2017, the Company elected one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations.

vi) Ownership of shares

A. Investment shares held for any purpose other than pure investment

Number of issues: 4 issues

Total carrying amount: 238,699 thousand yen

B. Issue, ownership category, number, carrying amount and purpose of holding of investment shares held for any purpose other than pure investment

(Fiscal year ended March 31, 2016)

Specified investment stocks

Issue	Number of shares (Shares)	Carrying amount (Thousands of yen)	Purpose of holding
Joshin Denki Co., Ltd.	10,000	8,650	To maintain and strengthen business relationships

(Fiscal year ended March 31, 2017)

Specified investment stocks

Issue	Number of shares (Shares)	Carrying amount (Thousands of yen)	Purpose of holding
Joshin Denki Co., Ltd.	10,000	11,360	To maintain and strengthen business relationships

C. Investment shares held for the purpose of pure investment

Not applicable.

vii) Names of certified public accountants who executed the audit duties, name of audit firm to which they belong, number of years of auditing in the event that the certified public accountant has been continuously engaged in audit duties related to the reporting company's financial documents, and structure of assistants who supported the audit duties

Certified public accountants who executed the audit duties		Audit firm to which they belong	Number of years of continuous auditing
Designated Limited Liability Partner Engagement Partner	Naoko Kimura	Deloitte Touche Tohmatsu LLC	1 year
Designated Limited Liability Partner Engagement Partner	Kazuyoshi Kuramoto	Deloitte Touche Tohmatsu LLC	1 year

Certified public accountant	3 persons
Other	6 persons

Note: "Other" above are people who have passed the Certified Public Accountants Examination and systems auditors.

viii) Human, capital, and business relationships with and other interests in the reporting company of the Outside Directors and Outside Auditors and mutual cooperation

The Company has three Outside Directors. There are also two Outside Auditors.

Of the three Outside Directors, Masaharu Ikuta is President at Nagoya Port Terminal Corporation. There are no capital relationships, business relationships, and interests between Nagoya Port Terminal Corporation and the Company.

Hideaki Kubori serves concurrently as Representative of HIBIYA PARK LAW OFFICES, and the Company has concluded an advisory agreement with HIBIYA PARK LAW OFFICES. The Outside Director himself has no direct interest in this transaction. Hideaki Kubori is also Outside Director at Japan Exchange Group, Inc. and Member of the Supervisory Committee at The Norinchukin Bank. There are no capital or business relationships between any of these companies and the Company.

Kunitake Ando is Director at Japan Center for International Exchange, Executive Director at Japan Innovation Network, and Outside Director at BJIT Inc. There are no capital relationships, business relationships, and interests between either of Japan Center for International Exchange and Japan Innovation Network and the Company. BJIT Inc. and the Company have concluded a license agreement for software for consumers owned by BJIT Inc.

Of the two Outside Auditors, Tetsuya Kobayashi is an attorney-at-law and has no business relationships with or interests in the Company. Tetsuya Kobayashi is also Outside Auditor at Mochida Pharmaceutical Co., Ltd. There are no capital or business relationships between Mochida Pharmaceutical Co., Ltd. and the Company.

Kakuji Takano is a certified public accountant and has no business relationships with or interests in the Company. Kakuji Takano is also Outside Audit & Supervisory Board Member at KDDI CORPORATION. Transactions between KDDI CORPORATION and the Company include sales of the Company's products. Sales of the Company's products are determined in accordance with ordinary transaction conditions.

The Outside Directors serve a role as an advisory function for the Company's management from an external perspective and further strengthen the management supervisory function of the Board of Directors by participating from a standpoint that is independent of the execution of operations. The Outside Directors also exchange opinions with the Board of Auditors whenever necessary, increasing coordination between them.

The Outside Auditors, together with the Standing Auditor, ensure the effectiveness of audits through close collaboration with the Internal Audit Office and the Accounting Auditors, including regularly exchanging information on audit plans and audit results and holding hearings on reports concerning the establishment of internal control and the results of assessments.

Moreover, as the policy concerning the independence of Outside Directors and Outside Auditors from the Company, we focus on independence when making appointments to enable each of them to provide supervision, auditing, advice and recommendations from a perspective outside of the Company utilizing their expert knowledge and experience based on a neutral and objective standpoint with no possibility of a conflict of interest with ordinary shareholders.

ix) Overview of the contracts for limitation of liability

The Company has concluded contracts for limitation of liability for damages with the Outside Directors Masaharu Ikuta, Hideaki Kubori, and Kunitake Ando, and with the Auditors Shozaburo Takano, Masaaki Hirose, Tetsuya Kobayashi, and Kakuji Takano, pursuant to the provision of Article 427, paragraph 1 of the Companies Act.

An overview of these contracts is as below.

- In the event that the Outside Director or Auditor is liable for damages to the Company due to the neglect of duties, the Outside Director or Auditor will bear the liability limited to the minimum amount prescribed in laws and regulations.
- Recognition of the above-mentioned limitation of liability shall be restricted to when the Outside Director or Auditor acted in good faith and without gross negligence in the execution of the duties that led to the liability.

x) Number of Directors

The Articles of Incorporation stipulate that the Company shall have no more than ten Directors.

xi) Requirements of resolutions for the appointment and dismissal of Directors

The Articles of Incorporation stipulate that a resolution to appoint a Director of the Company shall require a majority of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The Articles of Incorporation also stipulate that a resolution to appoint a Director shall not be held by cumulative voting.

The Articles of Incorporation further stipulate that a resolution to dismiss a Director of the Company shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance.

xii) Method for an extraordinary resolution of the shareholders meeting

The Articles of Incorporation stipulate that a resolution provided for under Article 309, paragraph 2 of the Companies Act shall require at least two thirds of the voting rights when shareholders who own at least one third of the voting rights of shareholders who can exercise voting rights are in attendance. The objective of this is to ensure a quorum at the shareholders meeting to provide for its reliable and smooth operation.

xiii) Matters for resolution by the shareholders meeting that can be resolved by the Board of Directors

The Articles of Incorporation stipulate that the Board of Directors can resolve the following without a resolution of the shareholders meeting.

A. Exemption from liability of Directors and Auditors

Pursuant to the provision of Article 426, paragraph 1 of the Companies Act, the Articles of Incorporation of the Company stipulate that a resolution by the Board of Directors may exempt Directors and Auditors (including former Directors and Auditors) from liability for damages due to neglect of duties within the limit provided for by laws and regulations when there is good faith and no gross negligence. The objective of this is for Directors and Auditors to adequately fulfill their expected duties without the chilling effect due to the possibility of bearing excessive liability.

B. Acquisition of treasury shares

Pursuant to the provision of Article 165, paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that the Company may acquire treasury shares in market and other transactions based on the resolution of the Board of Directors. The objective of this is the flexible implementation of capital strategy in response to changes in economic and other conditions.

C. Dividend policy

As prescribed in the Articles of Incorporation, the Company has adopted an interim dividend system, as provided for by the provisions of Article 454, paragraph 5 of the Companies Act, and the Board of Directors is the organizational body that determines the interim dividend. The objective of this is the flexible payment of dividends.

(2) Details of audit fee, etc.

i) Details of remuneration to certified public accountants, etc. for audits

Category	Fiscal year ended March 31, 2016		Fiscal year ended March 31, 2017	
	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)	Fees for audit certification services (Thousands of yen)	Fees for non-audit services (Thousands of yen)
Reporting company	18,000	–	19,800	–
Consolidated subsidiaries	–	–	–	–
Total	18,000	–	19,800	–

ii) Other material remuneration to certified public accountants, etc. for audits

Not applicable.

iii) Details of non-audit services rendered by certified public accountants, etc. for audits for reporting company

(Fiscal year ended March 31, 2016)

Not applicable.

(Fiscal year ended March 31, 2017)

Not applicable.

iv) Policy on determining audit fee

Not applicable.

V. Financial information

1. Preparation policy of the consolidated financial statements

The consolidated financial statements of the Company are prepared in accordance with the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976).

2. Audit certification

The consolidated financial statements for the fiscal year from April 1, 2016 to March 31, 2017 were audited by Deloitte Touche Tohmatsu LLC in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

The Company's auditor has changed as follows.

Fiscal year ended March 31, 2016	KPMG AZSA LLC
Fiscal year ended March 31, 2017	Deloitte Touche Tohmatsu LLC

The matters reported in the Extraordinary Securities Report are as follows.

(1) Names of certified public accountants, etc. for audits involved in the change

i) Name of certified public accountant, etc. for audits to be appointed	Deloitte Touche Tohmatsu LLC
ii) Name of retiring certified public accountant, etc. for audits	KPMG AZSA LLC

(2) Date of change

June 27, 2016

(3) Date of most recent appointment of the retiring certified public accountant, etc. for audits as certified public accountant, etc. for audits

June 25, 2015

(4) Matters relating to opinions, etc., in the audit report, etc., created by the retiring certified public accountant, etc. for audits in the past three years

Not applicable.

(5) Reason and background to the decision to make the change, and to the change

The term of office of KPMG AZSA LLC, which has been the Accounting Auditor of the Company, will expire at the conclusion of the 20th Annual Shareholders Meeting, to be held on June 27, 2016, and Deloitte Touche Tohmatsu LLC is to be appointed as the new Accounting Auditor thereafter.

(6) Opinions of the retiring certified public accountant, etc. for audits regarding matters included in the audit report, etc. on the reason and background in (5) above

The retiring certified public accountant, etc. for audits has replied that they have no opinion in particular.

3. Remarkable efforts to ensure fair presentation of consolidated financial statements, etc.

The Company takes remarkable efforts to ensure fair presentation of consolidated financial statements, etc. Specifically, to ensure correct understanding of accounting standards, etc. and organize the system capable of responding to these accounting standards, the Company has acquired membership in the Financial Accounting Standards Foundation, has a subscription to specialized magazines explaining accounting standards and systems, and attends training seminars held by external institutions including audit firms on changes of accounting standards and other topics.

Consolidated financial statements, etc.

(1) Consolidated financial statements

i) Consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Assets		
Current assets		
Cash and deposits	2,677,004	3,699,654
Accounts receivable - trade	1,052,248	1,648,116
Securities	499,951	–
Merchandise and finished goods	129,683	152,134
Raw materials and supplies	25,945	28,256
Advance payments - trade	166,998	602,297
Deferred tax assets	75,436	179,068
Other	89,423	89,160
Total current assets	4,716,692	6,398,688
Non-current assets		
Property, plant and equipment		
Buildings	81,820	193,877
Accumulated depreciation	(79,445)	(38,495)
Buildings, net	2,374	155,382
Vehicles	5,752	5,727
Accumulated depreciation	(3,834)	(4,963)
Vehicles, net	1,917	763
Tools, furniture and fixtures	107,482	184,498
Accumulated depreciation	(84,169)	(53,911)
Tools, furniture and fixtures, net	23,313	130,587
Total property, plant and equipment	27,605	286,733
Intangible assets		
Software	820,216	899,970
Goodwill	–	41,919
Contract based intangible assets	–	1,546,242
Other	61,522	208,883
Total intangible assets	881,738	2,697,016
Investments and other assets		
Investment securities	108,658	238,699
Deferred tax assets	67,325	47,465
Other	247,709	206,203
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	421,892	490,568
Total non-current assets	1,331,236	3,474,318
Total assets	6,047,929	9,873,006

(Thousands of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Liabilities		
Current liabilities		
Accounts payable - trade	274,070	414,210
Short-term loans payable	–	1,940,000
Accounts payable - other	328,005	919,025
Income taxes payable	205,282	517,912
Provision for bonuses	14,807	15,464
Provision for sales returns	72,745	271,951
Provision for after-sale services	19,952	18,802
Other	191,765	346,366
Total current liabilities	1,106,630	4,443,734
Non-current liabilities		
Other	35,320	19,797
Total non-current liabilities	35,320	19,797
Total liabilities	1,141,950	4,463,531
Net assets		
Shareholders' equity		
Capital stock	1,771,226	1,771,226
Capital surplus	1,611,226	1,611,226
Retained earnings	1,479,156	2,401,478
Treasury shares	(1)	(438,355)
Total shareholders' equity	4,861,607	5,345,576
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(488)	1,373
Foreign currency translation adjustment	3,136	3,364
Total accumulated other comprehensive income	2,648	4,737
Subscription rights to shares	41,722	59,159
Total net assets	4,905,978	5,409,474
Total liabilities and net assets	6,047,929	9,873,006

ii) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2015 to March 31, 2016)		Current fiscal year (From April 1, 2016 to March 31, 2017)
Net sales		7,025,334		9,340,988
Cost of sales	*1	1,969,558	*1	3,031,849
Gross profit		5,055,775		6,309,138
Provision for sales returns		72,745		271,951
Reversal of provision for sales returns		55,026		72,745
Gross profit - net		5,038,056		6,109,932
Selling, general and administrative expenses				
Promotion expenses		408,703		543,450
Salaries		571,615		628,430
Provision for bonuses		14,807		15,464
Business consignment expenses		1,008,955		1,144,819
Advertising expenses		322,497		553,927
Other	*2	1,266,004	*2	1,650,670
Total selling, general and administrative expenses		3,592,584		4,536,763
Operating profit		1,445,471		1,573,169
Non-operating income				
Interest income		1,744		628
Dividend income		160		160
Foreign exchange gains		8,729		20,762
Contribution for development		7,362		5,833
Other		190		1,354
Total non-operating income		18,186		28,738
Non-operating expenses				
Interest expenses		–		134
Commission fee		–		2,269
Loss on investments in silent partnership		–		6,469
Total non-operating expenses		–		8,874
Ordinary profit		1,463,657		1,593,034
Extraordinary income				
Gain on reversal of subscription rights to shares		341		796
Total extraordinary income		341		796
Extraordinary losses				
Loss on valuation of advance payments		197		15,963
Total extraordinary losses		197		15,963
Profit before income taxes		1,463,802		1,577,867
Income taxes - current		234,152		591,647
Income taxes - deferred		238,782		(84,608)
Total income taxes		472,935		507,039
Profit		990,867		1,070,828
Profit attributable to owners of parent		990,867		1,070,828

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Profit	990,867	1,070,828
Other comprehensive income		
Valuation difference on available-for-sale securities	(604)	1,861
Foreign currency translation adjustment	(2,200)	227
Total other comprehensive income	* (2,805)	* 2,089
Comprehensive income	988,061	1,072,918
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	988,061	1,072,918
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2015 to 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	1,771,226	1,611,226	609,822	(1)	3,992,274
Changes of items during period					
Dividends of surplus			(121,533)		(121,533)
Profit attributable to owners of parent			990,867		990,867
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	869,333	–	869,333
Balance at end of current period	1,771,226	1,611,226	1,479,156	(1)	4,861,607

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	116	5,337	5,453	24,932	4,022,659
Changes of items during period					
Dividends of surplus			–		(121,533)
Profit attributable to owners of parent			–		990,867
Net changes of items other than shareholders' equity	(604)	(2,200)	(2,805)	16,790	13,985
Total changes of items during period	(604)	(2,200)	(2,805)	16,790	883,318
Balance at end of current period	(488)	3,136	2,648	41,722	4,905,978

Current fiscal year (From April 1, 2016 to March 31, 2017)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	1,479,156	(1)	4,861,607
Changes of items during period					
Dividends of surplus			(148,505)		(148,505)
Profit attributable to owners of parent			1,070,828		1,070,828
Purchase of treasury shares				(438,353)	(438,353)
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	922,322	(438,353)	483,969
Balance at end of current period	1,771,226	1,611,226	2,401,478	(438,355)	5,345,576

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	(488)	3,136	2,648	41,722	4,905,978
Changes of items during period					
Dividends of surplus			–		(148,505)
Profit attributable to owners of parent			–		1,070,828
Purchase of treasury shares			–		(438,353)
Net changes of items other than shareholders' equity	1,861	227	2,089	17,437	19,526
Total changes of items during period	1,861	227	2,089	17,437	503,496
Balance at end of current period	1,373	3,364	4,737	59,159	5,409,474

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities		
Profit before income taxes	1,463,802	1,577,867
Depreciation	212,050	250,625
Amortization of software	222,309	303,394
Amortization of goodwill	–	3,810
Share-based compensation expenses	17,131	18,233
Amortization of trademark right	5,026	26,110
Increase (decrease) in allowance for doubtful accounts	–	(28)
Increase (decrease) in provision for bonuses	763	656
Increase (decrease) in provision for sales returns	17,718	199,205
Increase (decrease) in provision for after-sale services	(409)	(1,150)
Gain on reversal of subscription rights to shares	(341)	(796)
Interest and dividend income	(1,904)	(788)
Interest expenses	–	134
Decrease (increase) in notes and accounts receivable - trade	(133,049)	(591,079)
Decrease (increase) in inventories	(39,932)	(16,445)
Decrease (increase) in advance payments	(51,514)	(435,299)
Increase (decrease) in notes and accounts payable - trade	14,780	106,564
Increase (decrease) in accounts payable - other	27,381	123,914
Other, net	(38,024)	142,461
Subtotal	1,715,789	1,707,390
Interest and dividend income received	1,899	793
Interest expenses paid	–	(333)
Income taxes paid	(93,751)	(305,385)
Net cash provided by (used in) operating activities	1,623,937	1,402,465
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,226)	(305,722)
Purchase of software	(378,963)	(618,066)
Purchase of contract based intangible assets	–	(1,033,678)
Purchase of trademark right	–	(115,000)
Purchase of investment securities	(8)	(133,813)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(63,033)
Payments for lease and guarantee deposits	(211,350)	–
Proceeds from collection of lease and guarantee deposits	11,044	34,258
Net cash provided by (used in) investing activities	(600,503)	(2,235,055)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	–	1,940,000
Purchase of treasury shares	–	(438,353)
Cash dividends paid	(121,137)	(148,101)
Net cash provided by (used in) financing activities	(121,137)	1,353,545
Effect of exchange rate change on cash and cash equivalents	(4,029)	1,743
Net increase (decrease) in cash and cash equivalents	898,266	522,698
Cash and cash equivalents at beginning of period	2,278,689	3,176,956
Cash and cash equivalents at end of period	* 3,176,956	* 3,699,654

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries 2

Names of consolidated subsidiaries SOURCENEXT Inc.

MIXA Co., Ltd.

Among the above subsidiaries, the Company acquired shares of MIXA Co., Ltd. in the current fiscal year, and it was included within the scope of consolidation.

(2) Names of non-consolidated subsidiaries

Not applicable.

2. Application of equity method

Not applicable.

3. Fiscal years, etc. of consolidated subsidiaries

The consolidated subsidiary whose balance sheet date is different from the consolidated balance sheet date is as follows:

Company name	Balance sheet date
SOURCENEXT Inc.	December 31 *

* The financial data is based on the financial statements that were prepared on the basis of a provisional closing of its accounts as of the consolidated balance sheet date pursuant to procedures for the fiscal year-end closing.

4. Accounting policies

(1) Valuation bases and methods for significant assets

i) Securities

Other securities

Securities with available fair market values

Stated at fair value based on the market price or the like on the balance sheet date (unrealized gains and losses are included in a separate component of net assets, and cost of sales is determined based on the moving-average method).

Securities without available fair market values

Stated at cost using the moving-average method.

ii) Inventories

Merchandise and finished goods

Stated at cost using the gross average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

Supplies

Stated at cost using the last purchase cost method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).

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

i) Property, plant and equipment

Depreciated using the straight-line method.

The estimated useful lives of major items are as follows:

Buildings	six years
Tools, furniture and fixtures	five to eight years

ii) Intangible assets

Software for commercial sale

Amortized at either the amortization amount based on projected sales profit, or the equally allocated amount based on the residual estimated useful life (three years), whichever is larger.

Software for internal use

Amortized using the straight-line method over the estimated useful life as internally determined (five years).

Contract based intangible assets

Amortized using the straight-line method over the economic useful life.

Trademark right

Amortized mainly using the straight-line method over five years.

(3) Accounting policy for significant provisions

i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

ii) Provision for sales returns

To prepare for losses from sales returns, provision for sales returns is provided based on the historical rate of sales returns.

iii) Provision for bonuses

To prepare for the payment of bonuses to employees, the amount based on the historical record and expected amount to be paid is provided.

iv) Provision for after-sale services

To prepare for the provision of after-sale update services for the ZERO series of products for free, provision for after-sale services is provided based on estimated expenses for those services expected to be incurred in the period that can be reasonably estimated, according to the sales performance, so that the expenses correspond to each product's sales amount that is planned in the period.

(4) Method and period for amortization of goodwill

The Company reasonably estimates the period for which the effects of goodwill are expected to emerge and amortizes the goodwill on a straight-line basis over the estimated period.

(5) Scope of cash and cash equivalents in consolidated statement of cash flows

The funds (cash and cash equivalents) consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(6) Other significant matters for preparing the consolidated financial statements

Accounting policy for consumption taxes

Items subject to consumption taxes are accounted for at amounts exclusive of consumption taxes.

Changes in accounting policies

Changes in accounting policies that are difficult to differentiate from changes in accounting estimates

Changes in the depreciation method of property, plant and equipment

The Company mainly adopted the declining-balance method (the straight-line method for consolidated subsidiaries) primarily for the depreciation method of property, plant and equipment. However, from the current fiscal year, the Company has adopted the straight-line method.

This change was made as a result of investigating and discussing the usage status of property, plant and equipment on the occasion of relocating the Company's head office during the current fiscal year. It was found that property, plant and equipment in general is likely to be used stably and continuously over the usage period going forward, and therefore depreciation based on the straight-line method was deemed to more rationally reflect the actual usage status of the Company's property, plant and equipment.

As a result, operating profit, ordinary profit and profit before income taxes for the current fiscal year increased 39,017 thousand yen, respectively.

Changes in presentation

Consolidated statement of income

"Advertising expenses," which was included in "Other" under selling, general and administrative expenses in the previous fiscal year, is presented separately for the current fiscal year because the amount became greater than 10% of total selling, general and administrative expenses. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 1,588,501 thousand yen presented as "Other" under selling, general and administrative expenses in the previous fiscal year has been reclassified as 322,497 thousand yen in "Advertising expenses" and 1,266,004 thousand yen in "Other."

Additional information

Application of ASBJ Guidance on Recoverability of Deferred Tax Assets

Effective from the current fiscal year, the Company has applied the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

Consolidated balance sheet

Not applicable.

Consolidated statement of income

*1. The book value write-down, etc. of inventories held for ordinary sale due to their decreased profitability is as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Valuation loss on finished goods	23,953	122,177
Loss on abandonment of finished goods	35,128	15,295

*2. Research and development expenses included in general and administrative expenses are as follows:

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Research and development expenses	19,523	2,444

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Valuation difference on available-for-sale securities		
Amount arising during the year	(880)	2,698
Reclassification adjustments	–	–
Before tax effects adjustments	(880)	2,698
Tax effects	275	(836)
Valuation difference on available-for-sale securities	(604)	1,861
Foreign currency translation adjustment		
Amount arising during the year	(2,200)	227
Reclassification adjustments	–	–
Before tax effects adjustments	(2,200)	227
Tax effects	–	–
Foreign currency translation adjustment	(2,200)	227
Total other comprehensive income	(2,805)	2,089

Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2015 to March 31, 2016)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Issued shares				
Common shares (Shares)	31,732,000	–	–	31,732,000
Total	31,732,000	–	–	31,732,000
Treasury shares				
Common shares (Shares)	6	–	–	6
Total	6	–	–	6

2. Subscription rights to shares and treasury subscription rights to shares

Category	Breakdown of subscription rights to shares	Class of shares to be issued upon exercise of subscription rights to shares	Number of shares to be issued upon exercise of subscription rights to shares (Shares)				Balance as of March 31, 2016 (Thousands of yen)
			As of April 1, 2015	Increase	Decrease	As of March 31, 2016	
Reporting company (Parent company)	4th series subscription rights to shares as 2013 stock options	–	–	–	–	–	29,872
	5th series subscription rights to shares as 2014 stock options	–	–	–	–	–	1,075
	6th series subscription rights to shares as 2015 stock options	–	–	–	–	–	10,774
Total			–	–	–	–	41,722

Note: The first day of the exercise period has not yet arrived for the 5th and 6th series subscription rights to shares as stock options.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 25, 2015	Common shares	121,533	3.83	March 31, 2015	June 26, 2015

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 27, 2016	Common shares	148,505	Retained earnings	4.68	March 31, 2016	June 28, 2016

Current fiscal year (From April 1, 2016 to March 31, 2017)

1. Class and total number of issued shares and class and number of treasury shares

Class of shares	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Issued shares				
Common shares (Shares)	31,732,000	–	–	31,732,000
Total	31,732,000	–	–	31,732,000
Treasury shares				
Common shares (Note) (Shares)	6	772,000	–	772,006
Total	6	772,000	–	772,006

Note: The increase in the number of treasury shares is due to the acquisition of treasury shares by resolution of the Board of Directors.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Breakdown of subscription rights to shares	Class of shares to be issued upon exercise of subscription rights to shares	Number of shares to be issued upon exercise of subscription rights to shares (Shares)				Balance as of March 31, 2017 (Thousands of yen)
			As of April 1, 2016	Increase	Decrease	As of March 31, 2017	
Reporting company (Parent company)	4th series subscription rights to shares as 2013 stock options	–	–	–	–	–	29,075
	5th series subscription rights to shares as 2014 stock options	–	–	–	–	–	711
	6th series subscription rights to shares as 2015 stock options	–	–	–	–	–	25,510
	7th series subscription rights to shares as 2016 stock options	–	–	–	–	–	3,861
Total			–	–	–	–	59,159

Note: The first day of the exercise period has not yet arrived for the 6th and 7th series subscription rights to shares as stock options.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 27, 2016	Common shares	148,505	4.68	March 31, 2016	June 28, 2016

(2) Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Thousands of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on June 28, 2017	Common shares	191,642	Retained earnings	6.19	March 31, 2017	June 29, 2017

Consolidated statement of cash flows

* Reconciliation of cash and cash equivalents at end of period and the amount recorded in the consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash and deposits	2,677,004	3,699,654
Securities	499,951	–
Cash and cash equivalents	3,176,956	3,699,654

Financial instruments

1. Status of financial instruments

(1) Policy for financial instruments

The Group limits the fund management method to short-term deposits, etc. The policy for financial instruments is to raise funds through bank loans.

(2) Content and risks of financial instruments and risk management system therefor

Accounts receivable - trade, which are operating receivables, are exposed to credit risks of customers. To control these risks, in accordance with the Company's credit management regulations, payment dates and balances are managed for each customer, and information on the credit status of major customers is obtained where appropriate.

Since securities are short-term bonds and settled in a short period, their risks are considered low.

Investment securities are mainly stocks and exposed to credit risks of the issuers and market price fluctuation risks, but information on financial conditions of the issuers and the fair values of those securities are obtained periodically.

Most of accounts payable - trade and accounts payable - other, which are operating debts, become due within one year. Most of income taxes payable become due within two months.

Loans payable are mainly for raising funds for capital investment, investment in development of products, and operating funds.

Accounts payable, income taxes payable, and loans payable are exposed to liquidity risks, but the Company manages these liabilities by formulating a funding plan where appropriate and other methods.

(3) Supplementary remarks on fair values, etc. of financial instruments

Fair values of financial instruments include prices based on market prices as well as values that are reasonably calculated if there is no market price. Because the calculation of such values incorporates variable factors, the values may vary in case where different assumptions, etc. are used.

2. Fair values, etc. of financial instruments

Carrying amounts, fair values and their differences are as follows. The amounts shown in the following tables do not include financial instruments whose fair values are deemed to be extremely difficult to determine (see Note 2).

Previous fiscal year (As of March 31, 2016)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	2,677,004	2,677,004	–
(2) Accounts receivable - trade	1,052,248	1,052,248	–
(3) Securities	499,951	499,951	–
(4) Investment securities	8,650	8,650	–
Total assets	4,237,855	4,237,855	–
(1) Accounts payable - trade	274,070	274,070	–
(2) Short-term loans payable	–	–	–
(3) Accounts payable - other	328,005	328,005	–
(4) Income taxes payable	205,282	205,282	–
Total liabilities	807,357	807,357	–

Current fiscal year (As of March 31, 2017)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	3,699,654	3,699,654	–
(2) Accounts receivable - trade	1,648,116	1,648,116	–
(3) Securities	–	–	–
(4) Investment securities	11,360	11,360	–
Total assets	5,359,131	5,359,131	–
(1) Accounts payable - trade	414,210	414,210	–
(2) Short-term loans payable	1,940,000	1,940,000	–
(3) Accounts payable - other	919,025	919,025	–
(4) Income taxes payable	517,912	517,912	–
Total liabilities	3,791,148	3,791,148	–

Notes: 1. Methods of fair value measurement of financial instruments and matters relating to securities

Assets

(1) Cash and deposits, (2) Accounts receivable - trade, (3) Securities

The book value is used as the fair value of these assets, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

(4) Investment securities

Fair values of shares in investment securities are based on the prices on exchanges.

Liabilities

(1) Accounts payable - trade, (2) Short-term loans payable, (3) Accounts payable - other, (4) Income taxes payable

The book value is used as the fair value of these liabilities, given that the fair value is almost equivalent to the amount of the book value, as they are settled in a short time.

2. Financial instruments whose fair values are deemed to be extremely difficult to determine

(Thousands of yen)

Category	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Unlisted stocks, etc.	100,008	227,339

These items are not included in "(4) Investment securities" because they have no market prices and their fair values are deemed to be extremely difficult to determine.

3. Redemption schedule for monetary receivables and securities with maturity after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2016)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	2,677,004	–	–	–
Accounts receivable - trade	1,052,248	–	–	–
Securities and investment securities				
Other securities with maturity	499,951	–	–	–
Total	4,229,205	–	–	–

Current fiscal year (As of March 31, 2017)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	3,699,654	–	–	–
Accounts receivable - trade	1,648,116	–	–	–
Total	5,347,771	–	–	–

4. Repayment schedule for long-term loans payable and other interest-bearing debts after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2016)

Not applicable.

Current fiscal year (As of March 31, 2017)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	1,940,000	–	–	–	–	–
Total	1,940,000	–	–	–	–	–

Securities

Other securities

Previous fiscal year (As of March 31, 2016)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	499,951	499,932	19
	Subtotal	499,951	499,932	19
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	8,650	9,356	(706)
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	8,650	9,356	(706)
Total		508,601	509,288	(686)

Note: Unlisted stocks (carrying amount: 100,008 thousand yen) are not included in "Other securities" in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

Current fiscal year (As of March 31, 2017)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	11,360	9,356	2,003
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	11,360	9,356	2,003
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		11,360	9,356	2,003

Note: Unlisted stocks, etc. (carrying amount: 227,339 thousand yen) are not included in "Other securities" in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

Derivatives

Not applicable.

Retirement benefits

Not applicable.

Stock options, etc.

1. Account title and amount of stock options charged as expenses

(Thousands of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Selling, general and administrative expenses (Other)	17,131	18,233

2. Amounts recognized as gain due to vested stock options unexercised

(Thousands of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Gain on reversal of subscription rights to shares	341	796

3. Details, size and changes in the number of stock options

(1) Details of stock options

	2013 Stock Options (4th series)	2014 Stock Options (5th series)
Category and number of people to whom stock options are granted	79 employees of the Company	6 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 64,400 shares	Common shares: 3,800 shares
Grant date	September 20, 2013	September 19, 2014
Vesting conditions	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.
Vesting period	Not specified.	Not specified.
Exercise period	August 30, 2015 – August 29, 2023	August 29, 2016 – August 28, 2024

	2015 Stock Options (6th series)	2016 Stock Options (7th series)
Category and number of people to whom stock options are granted	2 Directors and 90 employees of the Company	2 Directors and 12 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 83,100 shares	Common shares: 38,300 shares
Grant date	July 24, 2015	July 27, 2016
Vesting conditions	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.	Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the “Subscription Rights to Shares Allotment Agreement” entered into between the Company and the person who has been granted subscription rights to shares.
Vesting period	Not specified.	Not specified.
Exercise period	June 26, 2017 – June 25, 2025	June 28, 2018 – June 27, 2026

Note: The number of stock options is translated into the number of shares.

(2) Size and changes in the number of stock options

The following describes the number of stock options that existed during the current fiscal year (fiscal year ended March 31, 2017). The number of stock options is translated into the number of shares.

i) Number of stock options

	2013 Stock Options (4th series)	2014 Stock Options (5th series)	2015 Stock Options (6th series)	2016 Stock Options (7th series)
Before vested (Shares)				
As of March 31, 2016	–	2,300	81,900	–
Granted	–	–	–	38,300
Forfeited	–	1,100	2,700	–
Vested	–	1,200	–	–
Unvested	–	–	79,200	38,300
After vested (Shares)				
As of March 31, 2016	52,500	–	–	–
Vested	–	1,200	–	–
Exercised	–	–	–	–
Forfeited	1,400	–	–	–
Exercisable	51,100	1,200	–	–

ii) Per share price

	2013 Stock Options (4th series)	2014 Stock Options (5th series)	2015 Stock Options (6th series)	2016 Stock Options (7th series)
Exercise price (Yen)	898	953	786	586
Average price per share upon exercise (Yen)	–	–	–	–
Fair value per share at grant date (Yen)	569	593	367	285

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2017

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

Volatility of share price (Note 1)	58.73%
Estimated remaining outstanding period (Note 2)	5.93 years
Estimated dividend (Note 3)	4.68 yen per share
Risk-free interest rate (Note 4)	(0.36)%

Notes: 1. Calculated based on the stock market performance in the period from August 26, 2010 to July 27, 2016.

2. With difficulty in reasonable estimation due to insufficient data, the remaining outstanding period is estimated based on the assumption that stock options would be exercised at a midpoint of exercise period.

3. Dividend was estimated to be 4.68 yen based on the actual dividends for the fiscal year ended March 31, 2016.

4. This is the yield of Japanese Government bonds on June 20, 2022, the redemption date, on the base date for valuation.

5. Method for estimating the number of stock options vested

   As it is difficult, in principle, to reasonably estimate the number of stock options that will be forfeited in the future, the number here reflects only stock options that have actually been forfeited.

Tax effect accounting

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

(Thousands of yen)

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Deferred tax assets		
Valuation loss on finished goods	7,392	37,703
Enterprise tax payable	15,518	27,141
Provision for sales returns	22,449	83,924
Provision for after-sale services	6,157	5,790
Loss on valuation of advance payments	1,272	5,135
Amortization of software	4,043	12,824
Amortization of trademark right	45,766	22,471
Loss carried forward	–	6,595
Other	40,712	32,939
Subtotal	143,312	234,527
Valuation allowance	(551)	(7,375)
Total deferred tax assets	142,761	227,151
Deferred tax liabilities		
Valuation difference on available-for-sale securities	–	(618)
Total deferred tax liabilities	–	(618)
Net deferred tax assets	142,761	226,533

2. Breakdown of the main items that caused differences between the normal effective statutory tax rate and the actual effective tax rate after tax effect accounting

   This note has been omitted as the difference between the normal effective statutory tax rate and the actual effective tax rate after tax effect accounting is 5% or less of the normal effective statutory tax rate.

Asset retirement obligations

The Company recognized obligations to restore the property to its original condition at the time of leaving it as asset retirement obligations under the real estate leasing agreement for the head office.

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities.

Segment information, etc.

Segment information

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Current fiscal year (From April 1, 2016 to March 31, 2017)

Segment information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Information associated with reportable segments

Previous fiscal year (From April 1, 2015 to March 31, 2016)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
23,287	4,317	27,605

3. Information by major customer

   Not applicable.

Current fiscal year (From April 1, 2016 to March 31, 2017)

1. Information by product and service

   This information has been omitted as net sales to external customers in a single product and service category account for more than 90% of net sales recorded on the consolidated statement of income.

2. Geographical information

(1) Net sales

This information has been omitted as net sales to external customers in Japan account for more than 90% of net sales recorded on the consolidated statement of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	United States	Total
282,845	3,887	286,733

3. Information by major customer

   Not applicable.

Information on impairment loss on non-current assets by reportable segment

Not applicable.

Information on amortization and unamortized balance of goodwill by reportable segment

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Not applicable.

Current fiscal year (From April 1, 2016 to March 31, 2017)

The information has been omitted since the Group operates a single segment of the planning, development and sales of software and other services business.

Information on gain on bargain purchase by reportable segment

Not applicable.

Related parties

1. Transactions with related parties

(1) Transactions between the company submitting consolidated financial statements and related parties

Directors and Auditors, and major shareholders (limited to individuals) of the company submitting consolidated financial statements

Previous fiscal year (From April 1, 2015 to March 31, 2016)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2016 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	16,317	–	–

Current fiscal year (From April 1, 2016 to March 31, 2017)

Type	Name	Location	Capital stock or investments in capital (Thousands of yen)	Nature of business or occupation	Voting rights holding (held) (%)	Relationship	Transaction details	Transaction amount (Thousands of yen)	Account title	Balance as of March 31, 2017 (Thousands of yen)
Company, etc. of which the majority of voting rights are held by a Director, Auditor, and his or her close family member (including a subsidiary of the company, etc.)	HIBIYA PARK LAW OFFICES	Chiyoda-ku, Tokyo	–	Law office	–	–	Attorney's fee (Note 2)	16,200	–	–

Notes: 1. The transaction amount does not include consumption taxes while the balance as of the fiscal year end does.

2. Attorney's fees are determined under the same conditions as fees for other attorneys by reference to the previous compensation standards regulations established by the Japan Federation of Bar Associations.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties

Not applicable.

2. Notes on the parent company and significant associates

Not applicable.

Special purpose entities subject to disclosure

Not applicable.

Per share information

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net assets per share	153.29 yen	172.81 yen
Earnings per share	31.23 yen	34.31 yen

Notes: 1. Diluted earnings per share is not presented because there were no potential shares with dilutive effects.

2. The basis for calculation of earnings per share is as follows:

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Profit attributable to owners of parent (Thousands of yen)	990,867	1,070,828
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	990,867	1,070,828
Average number of common shares outstanding during the period (Shares)	31,731,994	31,211,828
Potential shares excluded from the calculation of diluted earnings per share because they do not have dilutive effects	Stock options resolved at the Board of Directors meeting held on August 29, 2013 Common shares: 52,500 shares Stock options resolved at the Board of Directors meeting held on August 28, 2014 Common shares: 2,300 shares Stock options resolved at the Board of Directors meeting held on June 25, 2015 Common shares: 81,900 shares	Stock options resolved at the Board of Directors meeting held on August 29, 2013 Common shares: 51,100 shares Stock options resolved at the Board of Directors meeting held on August 28, 2014 Common shares: 1,200 shares Stock options resolved at the Board of Directors meeting held on June 25, 2015 Common shares: 79,200 shares Stock options resolved at the Board of Directors meeting held on June 27, 2016 Common shares: 38,300 shares

Significant events after reporting period

Acquisition of company through acquisition of shares

The Company concluded an agreement with Softfront Holdings, the parent company of FUDEMAME CO., LTD., on April 5, 2017, to transfer the shares of FUDEMAME CO., LTD.

1. Summary of business combination

(1) Name and descriptions of business of acquired company

Name of acquired company	FUDEMAME CO., LTD.
Descriptions of business	Planning, development, and sales of software such as the postcard and address book software FUDEMAME

(2) Main reasons for business combination

The Company hold IPs (Intellectual Properties) for hit products such as its core postcard creation software FUDEOH, and ezPDF, KYOUSOKU, Super Tools, and Super Battery. Furthermore, the Company's management policy is to accelerate its business expansion by expanding its IP holdings through aggressive M&As and related measures.

In holding all of the products of FUDEMAME CO., LTD., such as FUDEMAME, the Group will enable both companies to develop further by aggressively promoting sales of products at consumer electronics retailers as well as online sales using the Group's customer base and product improvements. Moreover, the Company expects to expand sales of its own products by taking over FUDEMAME CO., LTD.'s customer base. For these reasons, the Company decided to acquire the shares of FUDEMAME CO., LTD. and make it a subsidiary.

(3) Date of business combination

May 11, 2017

(4) Legal form of business combination

Acquisition of shares for cash consideration

(5) Name of company after business combination

No change in the name of company after business combination.

(6) Percentage of voting rights acquired

100%

(7) Main grounds for determination of the acquiring company

In order for the Company to acquire the shares in consideration for cash.

2. Purchase price of acquired company and breakdown by type of consideration

Consideration for the acquisition	Cash	799 million yen
Purchase price		799 million yen

3. Details and amount of main acquisition-related costs

Advisory fee (Estimated amount) 13 million yen

4. Goodwill amounts incurred, reason for being incurred, amortization method and period

Not confirmed at this stage.

5. Amounts and breakdowns for assets received, and debts assumed, on date of business combination

Not confirmed at this stage.

v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable.

Annexed consolidated detailed schedule of borrowings

Category	Balance as of April 1, 2016 (Thousands of yen)	Balance as of March 31, 2017 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	–	1,940,000	0.19	–
Total	–	1,940,000	–	–

(Note) The average interest rates show weighted average interest rates with respect to loan closing balances.

Annexed consolidated detailed schedule of asset retirement obligations

For the asset retirement obligations, the Company used the method where the amount of leasehold deposits under the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities. Thus, there is nothing to be reported in this section.

(2) Other information

Quarterly information for the fiscal year ended March 31, 2017

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	1,988,218	4,221,405	7,016,356	9,340,988
Profit before income taxes (Thousands of yen)	487,766	866,229	1,336,912	1,577,867
Profit attributable to owners of parent (Thousands of yen)	338,021	595,421	906,145	1,070,828
Earnings per share (Yen)	10.65	18.92	28.96	34.31

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (Yen)	10.65	8.25	10.04	5.32

VI. Overview of operational procedures for shares

Fiscal year	From April 1 to March 31
Annual Shareholders Meeting	Within three months after the closing of the fiscal year
Record date	March 31
Record dates for dividends of surplus	September 30 March 31
Number of shares per share unit	100 shares
Purchase of fractional shares	
Office for handling business	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited
Shareholder register administrator	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	—
Handling charge for purchase	No charge
Method of public notice	The public notices of the Company shall be given by electronic means. Provided, however, in case of unavoidable circumstances such as an accident which prevent the use of the public notice by electronic means, they shall be placed in the Nihon Keizai (Nikkei) Shimbun. The electronic public notices are presented at the following website: http://www.sourcenext.com.
Special benefits for shareholders	Not applicable.

Note: According to the Company's Articles of Incorporation, the holders of fractional shares shall not be entitled to exercise the rights of shareholders in connection with such fractional shares other than those rights listed below:

- Right set forth in items of Article 189, paragraph 2 of the Companies Act
- Right to make requests pursuant to the provisions of Article 166, paragraph 1 of the Companies Act
- Right to receive an allotment of shares for subscription or an allotment of subscription rights to shares for subscription in accordance with the number of shares held by the shareholder

VII. Reference information of reporting company

1. Information about parent company, etc. of reporting company

   The Company does not have a parent company, etc. as prescribed in Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

   From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

20th term (from April 1, 2015 to March 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 28, 2016

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 21st term (from April 1, 2016 to June 30, 2016)

Filed to Director-General of Kanto Local Finance Bureau on August 9, 2016

2nd quarter of the 21st term (from July 1, 2016 to September 30, 2016)

Filed to Director-General of Kanto Local Finance Bureau on November 10, 2016

3rd quarter of the 21st term (from October 1, 2016 to December 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on February 14, 2017

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on April 12, 2017

Extraordinary Securities Report based on Article 19, paragraph 2, item 8-2 (Decision on an Acquisition of Subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on May 15, 2017

Extraordinary Securities Report based on Article 19, paragraph 2, item 7-3 (Decision on an Absorption-type Merger) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

Filed to Director-General of Kanto Local Finance Bureau on June 20, 2017

Extraordinary Securities Report based on Article 19, paragraph 2, item 4 (Change to the Major Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(5) Share Buyback Reports

Reporting period (from June 1, 2016 to June 30, 2016)

Filed to Director-General of Kanto Local Finance Bureau on July 14, 2016

Reporting period (from July 1, 2016 to July 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on August 10, 2016

Reporting period (from August 1, 2016 to August 31, 2016)

Filed to Director-General of Kanto Local Finance Bureau on September 13, 2016

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 28, 2017

The Board of Directors
SOURCENEXT Corporation

Deloitte Touche Tohmatsu LLC

Naoko Kimura
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

Kazuyoshi Kuramoto
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

<Audit of Financial Statements>

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements presented in "Financial information," which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the significant matters forming the basis of preparing the consolidated financial statements, other notes and the annexed consolidated detailed schedules of SOURCENEXT Corporation applicable to the fiscal year from April 1, 2016 through March 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SOURCENEXT Corporation and its consolidated subsidiaries as of March 31, 2017, and their financial performance and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

<Audit of Internal Control>

Pursuant to Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act, we have audited the Internal Control Report as of March 31, 2017 of SOURCENEXT Corporation.

Management's Responsibility for the Internal Control Report

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Internal Control Report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Internal control over financial reporting may not fully prevent or detect misstatements.

Auditor's Responsibility

Our responsibility is to express an opinion on the Internal Control Report based on our internal control audit as independent auditor. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the internal control audit to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in the Internal Control Report. The procedures selected and applied depend on the auditor's judgment, including the significance of effects on the reliability of financial reporting. An internal control audit also includes evaluating disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting, as well as evaluating the overall presentation of the Internal Control Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Internal Control Report referred to above, which represents that internal control over financial reporting as of March 31, 2017 is effective, presents fairly, in all material respects, the result of the management's assessment on internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Other Matters

The consolidated financial statements for the previous fiscal year ended March 31, 2016 were respectively audited by the previous auditor. The previous auditor expressed an unqualified opinion regarding the consolidated financial statements on June 28, 2016.

Conflicts of Interest

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

End

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*1. The above report is the electronic version of the original audit report. The original version is separately retained by the reporting company of the Annual Securities Report.

2. The associated XBRL data was not included in the scope of the audit.