Cover page

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Fiscal year	22nd term (from April 1, 2017 to March 31, 2018)
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
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A. Company information

I. Overview of the Company

1. Summary of business results

(1) Business results of the Group

Term	18th term	19th term	20th term	21st term	22nd term
Fiscal year-end	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Net sales (Thousands of yen)	5,736,406	6,088,755	7,025,334	9,340,988	9,494,658
Ordinary profit (Thousands of yen)	1,225,535	1,312,133	1,463,657	1,593,034	1,258,729
Profit attributable to owners of parent (Thousands of yen)	1,220,678	1,214,426	990,867	1,070,828	1,261,194
Comprehensive income (Thousands of yen)	1,220,868	1,218,778	988,061	1,072,918	1,261,643
Net assets (Thousands of yen)	2,788,335	4,022,659	4,905,978	5,409,474	6,504,101
Total assets (Thousands of yen)	4,120,306	5,044,766	6,047,929	9,873,006	10,250,413
Net assets per share (Yen)	43.94	63.38	76.65	86.41	103.84
Earnings per share (Yen)	19.23	19.14	15.61	17.15	20.37
Diluted earnings per share (Yen)	–	–	–	–	20.36
Equity ratio (%)	67.4	79.2	80.4	54.2	62.7
Return on equity (ROE) (%)	56.3	35.8	22.4	21.0	21.4
Price earnings ratio (PER) (Times)	19.4	20.2	14.7	16.6	37.8
Net cash provided by (used in) operating activities (Thousands of yen)	1,410,125	1,649,378	1,623,937	1,402,465	(181,406)
Net cash provided by (used in) investing activities (Thousands of yen)	(151,278)	(645,228)	(600,503)	(2,235,055)	(1,000,739)
Net cash provided by (used in) financing activities (Thousands of yen)	(412,354)	(539,808)	(121,137)	1,353,545	(607,217)
Cash and cash equivalents at end of period (Thousands of yen)	1,807,418	2,278,689	3,176,956	3,699,654	1,906,252
Number of employees (Persons) [Separately, average number of temporary employees]	78 [3]	84 [2]	100 [3]	104 [5]	133 [6]

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. Furthermore, the Company implemented a 1:2 share split on common shares on February 1, 2018. Accordingly, net assets per share, earnings per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 18th term.

3. Diluted earnings per share is not presented because 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	18th term	19th term	20th term	21st term	22nd term
Fiscal year-end	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Net sales (Thousands of yen)	5,736,406	6,088,755	7,025,334	9,320,435	9,359,167
Ordinary profit (Thousands of yen)	1,224,010	1,295,050	1,453,999	1,629,528	1,172,406
Profit (Thousands of yen)	1,219,224	1,209,573	981,208	1,107,367	1,199,687
Capital stock (Thousands of yen)	1,771,226	1,771,226	1,771,226	1,771,226	1,776,817
Total number of issued shares (Shares)	31,732,000	31,732,000	31,732,000	31,732,000	63,481,000
Net assets (Thousands of yen)	2,783,796	4,010,138	4,885,999	5,425,807	6,461,449
Total assets (Thousands of yen)	4,114,485	5,030,937	6,023,934	9,870,847	10,392,500
Net assets per share (Yen)	43.86	63.19	76.33	86.67	103.15
Dividends per share (Yen) [Interim dividends per share]	– [–]	3.83 [–]	4.68 [–]	6.19 [–]	3.05 [–]
Earnings per share (Yen)	19.21	19.06	15.46	17.74	19.37
Diluted earnings per share (Yen)	–	–	–	–	19.36
Equity ratio (%)	67.4	79.2	80.4	54.4	61.5
Return on equity (ROE) (%)	56.3	35.8	22.2	21.7	20.4
Price earnings ratio (PER) (Times)	19.4	20.3	14.8	16.0	39.7
Dividend payout ratio (%)	–	10.0	15.1	17.4	15.7
Number of employees (Persons) [Separately, average number of temporary employees]	78 [3]	84 [2]	100 [3]	101 [4]	101 [6]

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. Furthermore, the Company implemented a 1:2 share split on common shares on February 1, 2018. Accordingly, net assets per share, earnings per share and diluted earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 18th term.

3. Diluted earnings per share is not presented because 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.
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. (currently a consolidated subsidiary)
June 2017	Acquired all shares of Rosetta Stone Japan, Inc. (currently a consolidated subsidiary)
July 2017	Completed merger with MIXA Co., Ltd.
December 2017	Launched POCKETALK translation device, the Company’s first IoT product

3. Description of business

The subsidiaries and associates of SOURCENEXT Corporation (the Company) comprise four 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.

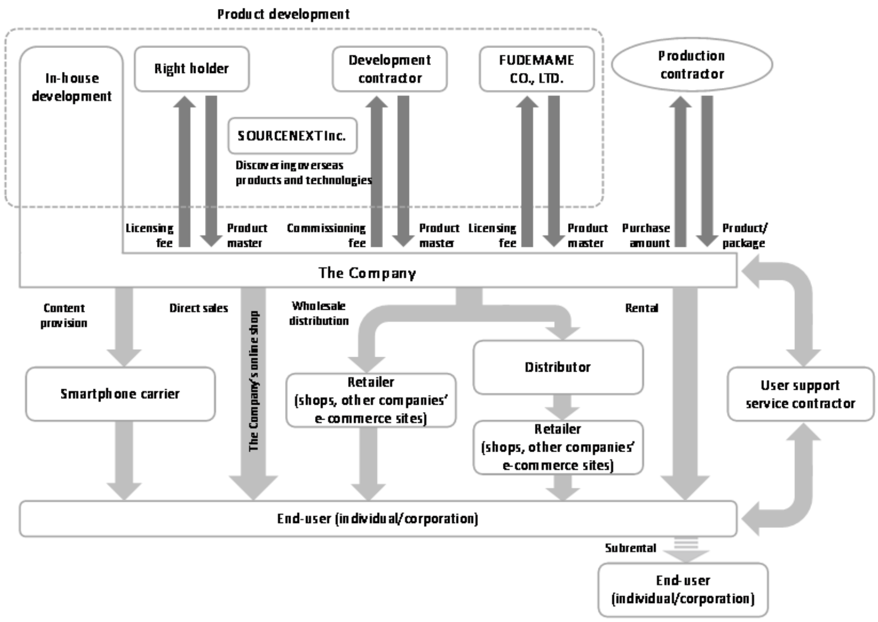
In direct sales through the Company's online shop and wholesale sales to consumer electronics retailers and other companies' e-commerce sites, we make customers who purchase products into members by encouraging them to register as online users and receive e-mail newsletters. To improve sales stability,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

In addition, the Company's first IoT product, the POCKETALK translation device, which was launched in December 2017, is procured from overseas production contractors, and is distributed to consumer electronics retailers nationwide and to other companies' e-commerce sites, as well as being sold directly through our online shop. In addition to these traditional sales channels, we are offering the product for rental to corporates where there is a high level of inbound travel demand, such as airline and railway companies, and major commercial facilities.

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.

<table>
<tr><td rowspan="4">Android App</td><td colspan="2">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.</td></tr>
<tr><td>KYOUSOKU Memory</td><td>This is an application that automatically resolves the slowdown in smartphone operation with repeated use. If the operation of the smartphone become sluggish after continued use of applications, this can be resolved simply by pressing a button.</td></tr>
<tr><td>Super Battery</td><td>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.</td></tr>
<tr><td>Super Tools</td><td>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.</td></tr>
<tr><td rowspan="2">Security</td><td>ZERO Virus Security</td><td>The Company has offered the Virus Security series as its own-brand security software since 2003. In 2006, we shattered the established customs of the industry to suspend the annual renewal fees. The cumulative number of user registrations for the entire series stands at 10 million.</td></tr>
<tr><td>ZERO Super Security</td><td>This is a high-performance model of the ZERO series that has been on sale since 2011. This uses an engine provided by Bitdefender, whose world-leading performance is attested by its winning of the Product of the Year 2017 prize awarded by the international third-party organization AV-Comparatives.</td></tr>
<tr><td>Postcards</td><td>FUDEOH
FUDEMAME
ATENA SHOKUNIN</td><td>In addition to being easy to use, our comprehensive lineup includes FUDEMAME and FUDEOH, which have the No.1 and No.2 shares on Windows computers, respectively, and ATENA SHOKUNIN, which has the No.1 share on Mac computers. Each of these address book and postcard creation software packages is easy for first-time users to get to grips with.</td></tr>
<tr><td>PDF</td><td>ezPDF series</td><td>The ezPDF series is a low-priced staple software product that provides users with a simple 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 15 years in a row. More than 4,200 companies have deployed this software, which helps improve operational efficiency and reduce costs.</td></tr>
<tr><td>Language learning</td><td>ROSETTA STONE</td><td>This language learning software covers 24 languages, including English and Chinese, and is used by 5 million people worldwide. In 2018, we began offering the ROSETTA STONE Library online service, which may be used on smartphones and tablets.</td></tr>
</table>

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
FUDEMAME CO., LTD.	Minato-ku, Tokyo	100,000	Planning, development, and sales of software such as the postcard and address book software FUDEMAME	100.0	License contracts Three interlocking Directors or Auditors
Rosetta Stone Japan, Inc.	Minato-ku, Tokyo	135,300	Sales of the language learning software ROSETTA STONE	100.0	One interlocking Director or Auditor
One other company					

5. Information about employees

(1) Consolidated companies

As of March 31, 2018

Segment name	Number of employees (Persons)
Software-related business	133 [6]
Total	133 [6]

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.
4. The number of employees increased by 29 over the previous fiscal year due to the acquisition of all of the shares of FUDEMAME CO., LTD., making it a consolidated subsidiary.

(2) Reporting company

As of March 31, 2018

Number of employees (Persons)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
101 [6]	36.8	7.6	7,496,515

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. 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. In December 2017, we launched the Company’s first IoT product, the POCKETALK translation device. Going forward we will also expand the IoT product business.

ii) Target management indicators

As a market leader in the industry for consumer software, and as an IoT manufacturer, the Company is driving further market expansion by supplying products with high added value, as well as creating new markets with IoT products. 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. Furthermore, last year we made FUDEMAME CO., LTD., the vendor of FUDEMAME, the industry’s No.1 New Year greeting card software by sales volume, a wholly owned subsidiary, as well as acquiring perpetual rights to use the trademark, exclusive sales rights, and rights to modify digital download products in Japan for ROSETTA STONE, the world’s largest language learning service. Through promoting such M&A activities and the acquisition of major brands’ IPs (Intellectual Properties), we are pushing forward to further expand our software business. In addition, in December 2017, we launched the Company’s first IoT product, the POCKETALK translation device. Going forward, the Company’s policy is to expand into the global market by developing highly original software, including IoT products, 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. Moreover, in addition to the Company’s POCKETALK product, new products are being announced one after the other, both by large companies in Japan and globally, and we predict that, going forward, translation devices using translation technology will become a significant market. 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. With regard to new product development of IoT products, we expect the ability of these devices to connect to the Internet to lead to the creation of a new market that did not previously exist. In addition to the next generation of translation devices, we will strengthen the IoT business in areas other than translation devices by fusing hardware with software, leveraging the Company's experience in software development, which stretches back more than 20 years.

ii) Expanding sales channels

In Japan, the Company is working to maintain and further expand sales channels by promoting sales in partnership with major consumer electronics retailers and carriers. 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 while considering diversifying our customer base not only by expanding sales channels, but also through M&A, etc.

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.

2. 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) 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.

c. Translation device market

With regard to the translation device market, which is relevant to the IoT product POCKETALK, in 2020 it is expected that there will be an increase in the number of people visiting Japan to more than 40 million people, and it is predicted that this will continue to increase going forward. In this market, new products are being announced one after the other, not only by large companies in Japan, but also globally. The Group's business performance could be impacted if we were to obviously lose our distinctiveness.

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 66.2% of all sales for the fiscal year ended March 31, 2018. We also expect to expand overseas sales channels, primarily in the U.S., through our overseas subsidiaries. This diversification of sales channels and models could 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, devices and communications technology is progressing quickly. To continue to succeed in such areas as PC software, smartphone application and IoT products, 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 translation device 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 through the use of effective advertising. 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. With regard to IoT products, including translation devices, this new market is developing on a global scale with the participation of a variety of companies from diverse industries, as well as major domestic companies, and the Group's business performance may be impacted if we are unable to develop products, expand sales channels and maintain our superiority in advertising, etc. over other companies.

(2) The Group's management policy

i) The importance of marketing

Marketing that targets individual consumption is vital in the market for software and hardware 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, 2018, the Group has more than 16 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, 2018 were 580 million yen and promotion expenses were 498 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 and hardware 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) Hardware products

We expect the cost of manufacturing parts, etc. for hardware products, including POCKETALK, will be high compared to the software products that the Company has traditionally dealt in. Accordingly, if the Company's forecasts were to misread demand significantly compared to the initial forecasts, this could result in a negative impact to profits through such factors as increases in production and scrapping costs.

v) 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 a business partnership with Rosetta Stone Ltd., which owns the ROSETTA STONE language learning software brand that has the world's largest number of users, we successively launched sales in Japan. In addition, we are moving ahead with sales of our POCKETALK translation device in overseas markets. 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, 2014 (Consolidated)	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.
Fiscal year ended March 31, 2018 (Consolidated)	In May 2017 we made FUDEMAME CO., LTD., the vendor of FUDEMAME, a wholly owned subsidiary, and in June of the same year we completed the process of making Rosetta Stone Japan, Inc., a subsidiary. In December 2017, we launched the Company's first IoT product, the translation device POCKETALK, which has recorded strong sales. However, due to increases in costs caused by such factors as personnel expenses and amortization of goodwill related to the subsidiaries, and higher advertising expenses associated with media events for new products, operating profit and ordinary profit declined year on year. In addition, due to the sale of investment securities, profit reached a new high.

(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

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 11 Directors and Auditors as well as 139 employees (as of March 31, 2018; includes six 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.

3. Management analysis of financial position, operating results and cash flows

Overview of business results

(1) Business results

During the fiscal year ended March 31, 2018, the Japanese economy maintained recovery of business conditions, centered around the corporate sector, and against the backdrop of resilient domestic and overseas demand. It is expected that growth in fiscal year ended March 31, 2018 and fiscal year ending March 31, 2019 will remain above the estimated potential growth rate of 1% or so.

With regard to the business environment surrounding the Group, personal computer shipments during the current fiscal year held up well, declining by 3.0% year-on-year (as of March 2018, JEITA research).

In addition, as of the end of December 2017, the number of mobile phone contracts stood at 167.27 million (up 3.7% year-on-year), and the number of MVNO service contracts (included in the number of mobile phone contracts) stood at 17.64 million (up 18.7% year-on-year), representing further strong growth. (March 2018, Ministry of Internal Affairs and Communications: published quarterly data on contract numbers and market shares for electronic communication services).

In other areas, the number of visitors to Japan in March 2018 rose 18.2% year-on-year to 2.608 million, an increase of more than 400,000 people over the same period of the previous year. Against the backdrop of the 2020 Tokyo Olympics, recent global conditions, and the diversification of travel destinations, the environment surrounding the tourism market of overseas visitors to Japan has remained strong (April 2018, Japan National Tourism Organization: March 2018 statistics for visitor arrivals to Japan).

In these conditions, the Group worked to acquire new users for IoT products, in addition to its smartphone applications and PC software, and to expand its markets.

In May 2017, during the current fiscal year, the Company completed the process of making a subsidiary of FUDEMAME CO., LTD., the maker of the postcard and address book software FUDEMAME. In June of the same year we also completed the process of making Rosetta Stone Japan, Inc., a subsidiary. As a result of these moves, the postcard creation software FUDEMAME, and the language learning software ROSETTA STONE were both added to the lineup as core products.

Among existing core products, in anticipation of the number of registered users for the Virus Security security software reaching 10 million users in the near future, we implemented a commemorative program to increase sales, leading to a steady increase in registrations.

In December 2017, we released the POCKETALK translation device, our first IoT product. More than 500 companies have made inquiries about POCKETALK following its positive reception, illustrated by the fact that the initial production run sold out a mere eleven days after launch, and by the attention it attracted after being covered by various mass media sources. Backed by growing inbound travel demand running up to the Tokyo Olympics to be held in 2020, major companies including JAL ABC, Inc., which operates airport luggage transfer and mobile Wi-Fi rental services in and outside Japan, Vision Inc., which offers Wi-Fi rental services, cosmetics supplier Shiseido Company, Limited, and, as a means of dealing with regional inbound traffic, Fujikyu Travel, CO., LTD. have decided to put POCKETALK to use, demonstrating its widespread appeal.

As a result of these activities, consolidated net sales for the current fiscal year, stood at 9,494 million yen, up 1.6% year-on-year. However, due to an increase in selling, general and administrative expenses, caused by higher personnel expenses as a result of making FUDEMAME CO., LTD. a wholly owned subsidiary from the current fiscal year, amortization of goodwill associated with the acquisition of subsidiaries, and higher advertising expenses associated with media events for new ROSETTA STONE and POCKETALK products, operating profit was 1,237 million yen, down 21.3% year-on-year, and ordinary profit was 1,258 million yen, down 21.0% year-on-year.

Profit attributable to owners of parent was boosted by a gain on sales of investment securities to 1,261 million yen, up 17.8% year-on-year, and a record high.

In 2018, the Company was placed 10th in the 100 – 999 employees category of the Japan's Best Companies to Work For rankings for 2018, 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 four consecutive years. Moreover, in 2018 the Company was placed 2nd 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) 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.

Sales of the main unit of the new POCKETALK have been strong, but in addition we launched official options, such as an extended warranty service and a silicon case to allow carefree use of the device even after purchase, that contributed to sales.

For the core postcard creation software products FUDEOH and FUDEMAME, we won plaudits for holding a "Five Big Brands Fair" which we came up with as a means of efficiently giving such major brands concentrated exposure, along with the language learning software ROSETTA STONE, the video editing software VEGAS, and the image editing software PaintShop.

In the case of ROSETTA STONE, we pushed ahead with internal development, launched mid- and high-end "Business" and "Private" versions respectively, and worked to increase sales.

In addition, keeping in mind the impact of the termination of support for Microsoft Office 2007, we strengthened efforts to expand Thinkfree office NEO, software compatible with the latest, 2016, version of Office. We also took steps to upgrade popular products, such as the PITARI SHIKAKU software for easily correcting distortions caused by the camera angle.

As a result of these activities, net sales stood at 4,390 million yen, up 9.6% year-on-year.

b) 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 currently provide 41 apps, mostly popular apps from overseas (35 apps in the previous fiscal year). Among new products, Wi-Fi Security, which is provided as part of au Smart Pass Premium, made a particularly significant contribution to sales.

For App Pass (Softbank), we currently provide 28 apps (27 apps in the previous fiscal year). During the current fiscal year, we began to offer the new products SunSurvayor and Instant Life Log, but sales fell slightly, due to steady increases in the number of new products offered by other companies, and a rise in the number of apps offered for the service as a whole.

For Sugo Toku Contents (NTT DOCOMO), we currently provide five websites and 24 apps (5 websites and 23 apps in the previous fiscal year). We also began offering the new product ROSETTA STONE Nichijo Kaiwa during the current fiscal year.

For the core apps, we attempted to increase the number of users by adding resident functions, and functions to link to other products, but slowing growth in the number of members for the all-you-can-use fixed-price application services provided by each carrier has resulted in limited funds available for distribution, in addition to which there was an impact from the rethinking of streaming advertisements in certain area, leading to net sales falling by 22.8% year-on-year to 1,206 million yen.

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 current fiscal year we also conducted a refresh of our promotional goods timed to coincide with sales of new versions of ROSETTA STONE, FUDEOH, and FUDEMAME, and strengthened our efforts to grow the products.

For our core security software, we implemented a program at consumer electronics retailers nationwide to expand sales of the core product Virus Security, in order to commemorate it reaching 10 million registered users.

From December onwards, we exhibited and gave demonstrations for POCKETALK, primarily at larger retailers, in order to raise awareness among visitors to the stores and to promote the growth of the product.

However, due to a slight slowdown in the Company's core security products as a result of the emphasis placed on strengthening the growth of the above-mentioned products, and due to an overall contraction in over-the-counter sales areas for PC software, net sales came to 3,206 million yen, down 6.5% 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.

During the current fiscal year, we expanded our unlimited-use, fixed-fee services for popular PC software and Android apps, primarily for the major mobile phone stores. These included CHOU HODAI and Apps CHOU HODAI as well as the next-generation voice messaging service app Smart Voice Message, which allows users to read their voice messages.

From December 2017 onward, we began offering a rental service for POCKETALK, aimed at corporations. Because there is high demand for this as a communication tool for use with visitors to Japan who speak foreign languages, we have been promoting the product to corporations operating in areas where there is a high level of inbound travel demand, including department stores, drugstores, airline and railway companies, and major commercial facilities.

As a result of these activities, net sales stood at 691 million yen, up 101.5% year-on-year.

(2) Cash flows

Cash and cash equivalents as of March 31, 2018 amounted to 1,906 million yen, a decrease of 1,793 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 used in operating activities amounted to 181 million yen, compared to 1,402 million yen in cash provided in the previous fiscal year.

The main factors behind this were a decrease in provision for sales returns resulting in increased outflows of 270 million yen, an increase in advance payments - trade of 334 million yen, and an increase in income taxes paid of 450 million yen.

Cash flows from investing activities

Net cash used in investing activities amounted to 1,000 million yen, a decrease of 1,234 million yen in cash used compared with the previous fiscal year.

This was mainly due to a 638 million yen decrease in purchase of contract based intangible assets, a 291 million yen decrease in purchase of property, plant and equipment, and a 115 million yen decrease in payments for purchase of trademark right.

Cash flows from financing activities

Net cash used in financing activities amounted to 607 million yen, compared to 1,353 million yen in cash provided in the previous fiscal year.

This was mainly due to a payment of 2,070 million yen for repayments of short-term loans payable, as well as proceeds of 2,110 million yen from long-term loans payable in the current fiscal year.

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	1,097,048	59.4
Android App	1,582,961	90.7
Postcard creation	1,619,054	86.8
Vegas series	286,202	61.0
PDF creation	388,512	113.7
Other	4,520,878	147.1
Total	9,494,658	101.6

Notes: 1. Sales by sales channel

Sales channel	Sales (Thousands of yen)	Year-on-year comparison (%)
The Company's online shop	4,390,146	109.6
Smartphone carriers	1,206,904	77.2
Consumer electronics retailers and other companies' e-commerce sites	3,206,153	93.5
Other	691,453	201.5
Total	9,494,658	101.6

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.

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 growth areas such as smartphone applications, primarily for Android devices, PC software and IoT products.

We also added new core products to our lineup, such as postcard and address book software FUDEMAME and the ROSETTA STONE language learning software during the current fiscal year, as a consequence of making FUDEMAME CO., LTD, the maker of FUDEMAME a subsidiary in May 2017, and of making Rosetta Stone Japan, Inc. a subsidiary in June of the same year. In December, we launched the POCKETALK translation device, the Company's first IoT product. Ahead of the 2020 Tokyo Olympics, and with inbound demand rising, there has been an extraordinary level of interest in this product, which a number of major companies have made the decision to adopt and use.

As a result of these activities, in the current fiscal year, net sales stood at 9,494 million yen, up 1.6% year-on-year. However, due to an increase in selling, general and administrative expenses, caused by higher personnel expenses as a result of making FUDEMAME CO., LTD. a wholly owned subsidiary from the current fiscal year, amortization of goodwill associated with the acquisition of subsidiaries, and higher advertising expenses associated with media events for new ROSETTA STONE and POCKETALK products, operating profit fell 21.3% year-on-year to 1,237 million yen, while ordinary profit declined 21.0% year-on-year to 1,258 million yen.

Profit attributable to owners of parent was boosted by a gain on sales of investment securities to 1,261 million yen, up 17.8% year-on-year, and a record high.

(2) Analysis of financial position

Total assets as of the end of the current fiscal year stood at 10,250 million yen, an increase of 377 million yen compared with the end of the previous fiscal year.

Current assets were 6,303 million yen, a decrease of 95 million yen, and non-current assets were 3,947 million yen, an increase of 473 million yen.

The decrease in current assets was due mainly to a decrease in cash and deposits of 1,793 million yen, an increase in accounts receivable - trade of 383 million yen, an increase in accounts receivable - other in association with sales of investment securities of 679 million yen and an increase in advance payments - trade of 429 million yen. The increase in non-current assets was due mainly to an increase in goodwill of 557 million yen.

Total liabilities as of the end of the current fiscal year stood at 3,746 million yen, a decrease of 717 million yen compared with the end of the previous fiscal year. Current liabilities were 2,249 million yen, a decrease of 2,194 million yen, and non-current liabilities were 1,496 million yen, an increase of 1,476 million yen.

The decrease in current liabilities was due mainly to a decrease in short-term loans payable of 1,940 million yen, an increase in current portion of long-term loans payable of 422 million yen and a decrease in accounts payable - other of 377 million yen. The increase in non-current liabilities was due to an increase in long-term loans payable.

Net assets as of the end of the current fiscal year stood at 6,504 million yen, an increase of 1,094 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 1,261 million yen.

(3) Analysis of cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 1,906 million yen, a decrease of 1,793 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 “Overview of business results, (2) Cash flows.”

4. Critical contracts for operation

Not applicable.

5. 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 9 million yen, primarily for new products launched in the coming fiscal year, were recorded for the current fiscal year.

III. Information about facilities

1. Overview of capital expenditures, etc.

   The total amount of capital expenditures made for the current fiscal year stood at 557 million yen. This consisted mainly of 354 million yen for improvements to and purchases of software programs for sale, and 187 million yen for software for in-house use.

2. Major facilities

   Reporting company

As of March 31, 2018

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	124,282	114,287	1,041,788	1,466,107	2,746,466	101 [6]

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 198,563 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions, etc. of significant facilities

As of March 31, 2018

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	165,460	–	Own funds	April 2018	March 2019	–

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	180,560,000
Total	180,560,000

ii) Issued shares

Class	Number of issued shares as of the fiscal year-end (Shares) (March 31, 2018)	Number of issued shares as of the date of filing (Shares) (June 27, 2018)	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	63,481,000	63,481,000	First section of the Tokyo Stock Exchange	The number of shares per share unit is 100 shares.
Total	63,481,000	63,481,000	–	–

Note: "Number of issued shares as of the date of filing" does not include shares issued upon exercise of share acquisition rights from June 1, 2018 until the filing date of this Annual Securities Report.

(2) Share acquisition rights, etc.

i) Details of employee stock option program

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, 2018	As of May 31, 2018
Number of share acquisition rights (Rights)	460 (Note 1)	460 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	92,000 (Note 1)	92,000 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	449 yen per share (Note 2)	Same as left
Exercise period of share acquisition rights	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 share acquisition rights (Yen)	Issue price: 449 yen Additional paid-in capital: 225 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights 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, 2018	As of May 31, 2018
Number of share acquisition rights (Rights)	12 (Note 1)	12 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	2,400 (Note 1)	2,400 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	477 yen per share (Note 2)	Same as left
Exercise period of share acquisition rights	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 share acquisition rights (Yen)	Issue price: 477 yen Additional paid-in capital: 239 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights 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 "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights 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, 2018	As of May 31, 2018
Number of share acquisition rights (Rights)	722 (Note 1)	722 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	144,400 (Note 1)	144,400 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	393 yen per share (Note 2)	Same as left
Exercise period of share acquisition rights	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 share acquisition rights (Yen)	Issue price: 393 yen Additional paid-in capital: 197 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights 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 "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights 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, 2018	As of May 31, 2018
Number of share acquisition rights (Rights)	383 (Note 1)	383 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	76,600 (Note 1)	76,600 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	293 yen per share (Note 2)	Same as left
Exercise period of share acquisition rights	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 share acquisition rights (Yen)	Issue price: 293 yen Additional paid-in capital: 147 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights 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 "Share Acquisition Rights Allotment Agreement" entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company's Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 3)	Same as left

Resolved at the Board of Directors meeting held on August 30, 2017 (8th series)

	As of March 31, 2018	As of May 31, 2018
Number of share acquisition rights (Rights)	1,528 (Note 1)	1,516 (Note 1)
Class of shares to be issued upon exercise of share acquisition rights	Common shares	Same as left
Number of shares to be issued upon exercise of share acquisition rights (Shares)	305,600 (Note 1)	303,200 (Note 1)
Amount to be paid in upon exercise of share acquisition rights (Yen)	277 yen per share (Note 2)	Same as left
Exercise period of share acquisition rights	August 31, 2019 – August 30, 2027	Same as left
Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of share acquisition rights (Yen)	Issue price: 277 yen Additional paid-in capital: 139 yen	Same as left
Conditions for exercising share acquisition rights	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Same as left
Matters regarding transfer of share acquisition rights	Acquisition of share acquisition rights through transfer shall be subject to approval by the resolution of the Company’s Board of Directors.	Same as left
Matters regarding delivery of share acquisition rights accompanied by act of organizational restructuring	(Note 3)	Same as left

Notes: 1. The number of shares to be issued upon exercise of one share acquisition rights shall be 200.

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 share acquisition rights, 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 share acquisition rights 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.

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

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 share acquisition rights, 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 share acquisition rights, 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 share acquisition rights (excludes issuance of new shares and disposal of treasury shares based on the exercise of share acquisition rights 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 share acquisition rights, 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 share acquisition rights 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 share acquisition rights 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 share acquisition rights 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 share acquisition rights in the restructured company to be granted

The same number of share acquisition rights as the number of share acquisition rights owned by respective holders shall be granted.

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

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 share acquisition rights

The number of shares of the restructured company to be issued upon exercise of share acquisition rights 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 share acquisition rights

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 share acquisition rights determined in accordance with the aforementioned Note 3 (3).

(5) Exercise period of share acquisition rights

The exercise period of share acquisition rights 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 share acquisition rights

i) The amount of increase in capital stock in the event of issuance of shares upon exercise of share acquisition rights 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 Regulation 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 share acquisition rights 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 share acquisition rights by transfer

Any acquisition of share acquisition rights 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 share acquisition rights

To be determined in accordance with "Conditions for exercising share acquisition rights" above.

(9) Reasons and conditions for acquisition of share acquisition rights

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 share acquisition rights for no consideration on arrival of the date stipulated separately by the Company's Board of Directors.

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

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

ii) Description of rights plan

Not applicable.

iii) Other information about share acquisition rights, etc.

Not applicable.

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

Not applicable.

(4) 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)
September 1, 2013 (Note 1)	15,866,000	31,732,000	–	1,771,226	–	1,611,226
December 1, 2017 – January 31, 2018 (Note 3)	4,800	31,736,800	3,065	1,774,292	3,065	1,614,292
February 1, 2018 (Note 2)	31,736,800	63,473,600	–	1,774,292	–	1,614,292
February 1, 2018 – February 28, 2018 (Note 3)	7,400	63,481,000	2,525	1,776,817	2,525	1,616,817

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

2. The Company implemented a 1:2 share split on common shares on February 1, 2018.

3. This increase was the result of the exercise of share acquisition rights as stock options.

(5) Shareholding by shareholder category

As of March 31, 2018

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)	–	23	29	61	67	21	12,951	13,152	–
Number of shares held (Units)	–	86,773	14,794	88,172	64,577	964	379,454	634,734	7,600
Shareholding ratio (%)	–	13.67	2.33	13.89	10.17	0.15	59.78	100.00	–

Note: 1,544,012 treasury shares include 15,440 units under “Individuals, etc.” and 12 shares under “Fractional shares.”

(6) Major shareholders

As of March 31, 2018

Name	Address	Number of shares held (Shares)	Shareholding ratio (%)
Noriyuki Matsuda	Minato-ku, Tokyo	17,151,600	27.69
Yodobashi Camera Co., Ltd.	3-20-1 Kita-shinjuku, Shinjuku-ku, Tokyo	7,219,200	11.65
Japan Trustee Services Bank, Ltd. (Held in trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	3,090,500	4.99
Satomi Matsuda	Minato-ku, Tokyo	1,848,000	2.98
The Master Trust Bank of Japan, Ltd. (Held in trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	1,614,200	2.60
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB) (Standing proxy: Nomura Securities Co., Ltd.)	1 ANGEL LANE, LONDON, EC4R 3AB, UNITED KINGDOM (1-9-1 Nihonbashi, Chuo-ku, Tokyo)	1,400,538	2.26
Shin Shin Co., Ltd.	2-17-25 Mita, Minato-ku, Tokyo	1,128,800	1.82
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)	825,478	1.33
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.)	PETERBOROUGH COURT 133 FLEET STREET LONDON EC4A 2BB UNITED KINGDOM (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	699,472	1.12
Trust & Custody Services Bank, Ltd. (Held in securities investment trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	663,700	1.07
Total	–	35,641,488	57.54

Notes: 1. 3,004,700 of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd. relate to the trust business. 1,614,200 of the above-mentioned number of shares held by The Master Trust Bank of Japan, Ltd. relate to the trust business. 663,700 of the above-mentioned number of shares held by Trust & Custody Services Bank, Ltd. relate to the trust business.

2. In addition to the above, the Company held 1,544,012 treasury shares.

3. RS Empowerment, Inc., which was a major shareholder at the end of the previous fiscal year, is no longer a major shareholder as of the end of the current fiscal year.

4. Based on a Statement of Changes to a Statement of Large-Volume Holdings submitted to the Director-General of the Kanto Local Finance Bureau on November 7, 2017 by Sumitomo Mitsui Asset Management Company, Limited, we have received reports to the effect that the following shares were held as of October 31, 2017, but as of March 31, 2018, the Company has been unable to ascertain the number of shares under beneficial ownership, for which reason the shareholding has not been included in Major shareholders, above.

   On February 1, 2018, the Company carried out a 1:2 split of its common shares, but the information presented below shows the status of shareholdings as it was before the stock split.

Name	Address	Number of shares held (Shares)	Ownership ratio of share certificates, etc. (%)
Sumitomo Mitsui Asset Management Company, Limited	2-5-1 Atago, Minato-ku, Tokyo	1,072,000	3.38

5. Based on a Statement of Changes to a Statement of Large-Volume Holdings submitted to the Director-General of the Kanto Local Finance Bureau on March 7, 2018 by Mizuho Securities Co., Ltd., we have received reports to the effect that the following various shareholdings were held as of February 28, 2018, but as of March 31, 2018, the Company has been unable to ascertain the number of shares under beneficial ownership, for which reason the shareholding has not been included in Major shareholders, above.

Name	Address	Number of shares held (Shares)	Ownership ratio of share certificates, etc. (%)
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo	186,200	0.29
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo	2,928,200	4.61
Asset Management One International Ltd.	Mizuho House, 30 Old Bailey, London, EC4M 7AU, UK	435,600	0.69
Total	–	3,550,000	5.59

(7) Voting rights

i) Issued shares

As of March 31, 2018

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: 1,544,000	–	Standard shares without any limitations on the shareholders' rights
Shares with full voting rights (Other)	Common shares: 61,929,400	619,294	Same as above
Fractional shares	Common shares: 7,600	–	Same as above
Total number of issued shares	63,481,000	–	–
Total number of voting rights	–	619,294	–

Notes: 1. The "Fractional shares" row includes 12 treasury shares.

2. The Company implemented a 1:2 share split on common shares on February 1, 2018. Consequently, the total number of issued shares increased by 31,736,800 shares to 63,473,600 shares.

ii) Treasury shares, etc.

As of March 31, 2018

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	1,544,000	–	1,544,000	2.43
Total	–	1,544,000	–	1,544,000	2.43

Note: The Company implemented a 1:2 share split on common shares on February 1, 2018.

2. Acquisitions, etc. of treasury shares

Classes of shares, etc. Common shares

(1) Acquisitions by resolution of shareholders meeting

Not applicable.

(2) Acquisitions by resolution of Board of Directors meeting

Not applicable.

(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, 2018		From April 1, 2018 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	1,544,012	–	1,544,012	–

Note: The number of treasury shares held in the "From April 1, 2018 until the filing date of this Annual Securities Report" column does not include shares through purchase or sale of fractional shares from June 1, 2018 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.

Based on this policy, the Company has set a dividend payout ratio of 15% (dividend payout ratio for the previous fiscal year: 15%), and has decided to pay a dividend of 3.05 yen per share.

Furthermore, on February 1, 2018, the Company carried out a 1:2 split of its common shares. With regard to the dividend for the fiscal year ended March 31, 2017, the actual dividend per share paid before the stock split was implemented was 6.19 yen (including a commemorative dividend of 1 yen), but if recalculated based on the number of shares after the stock split was implemented, this becomes an annual dividend per share of 3.10 yen (including a commemorative dividend of 0.50 yen).

With regards to the dividend for the fiscal year ending March 31, 2019, taking business conditions into account, the Company plans to pay a dividend of 4.40 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 26, 2018	188,907	3.05

4. Historical records of share price

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

Term	18th term	19th term	20th term	21st term	22nd term
Fiscal year-end	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Highest (Yen)	1,647 (Note 2) 1,336	967	910	717	1,663 (Note 3) 815
Lowest (Yen)	408 (Note 2) 594	536	411	382	461 (Note 3) 502

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 (September 1, 2013, 1 share: 2 shares).

3. Figures show the ex-rights share price due to a share split (February 1, 2018, 1 share: 2 shares).

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

Month	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Highest (Yen)	767	1,138	1,470	1,663 (Note 2) 815	757	815
Lowest (Yen)	538	674	1,039	1,182 (Note 2) 727	502	603

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 (February 1, 2018, 1 share: 2 shares).

5. Information about Directors and Auditors

Men: 11, Women: 1 (Percentage of female Directors and Auditors: 8%)

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)	17,151,600
				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)		
				Jun. 2017	President and CEO, Rosetta Stone Japan, Inc. (current position)		
Executive Vice President (Representative Director)	–	Satomi Matsuda	Jul. 5, 1965	Aug. 1990	Joined KITAGAWA INDUSTRIES CO., LTD.	(Note 6)	1,848,000
				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)	46,300
				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	Senior Executive Officer, In charge of the Business Development Office	Kousuke Fujimoto	Sep. 9, 1964	Oct. 1988	Joined Recruit Co., Ltd.	(Note 6)	61,200
				Nov. 1999	Joined the Company		
				Dec. 1999	Managing Director, the Company		
				Oct. 2009	Executive Officer, the Company		
				Jul. 2013	Managing Executive Officer, the Company		
				Apr. 2015	Senior Executive Officer, the Company		
				Jun. 2018	Managing Director, the Company (current position)		
Managing Director	Managing Executive Officer, In charge of Operations Group	Fumihiko Aoyama	Aug. 3, 1967	Oct. 1991	Joined Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC)	(Note 6)	114,300
				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)	46,000
				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		
				May 2017	Representative Director and President, Nagoya-Yokkaichi International Port Corporation (current position)		
Managing Director	–	Hideaki Kubori	Aug. 29, 1944	Apr. 1971	Registered as Attorney-at-Law Joined Mori Sogo	(Note 6)	13,800
				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)		
				Apr. 2018	Outside Director, Coincheck, Inc. (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)	1,800
				Aug. 1979	Representative Director, Sony Prudential Life Insurance Co., Ltd.		
				Apr. 1990	President, Sony Corporation of America President, Sony Engineering and Manufacturing of America		
				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.		
				Mar. 2012	Director, Japan Center for International Exchange (current position)		
				Jul. 2013	Director, Japan Innovation Network (current position)		
				Jun. 2017	Outside Director, the Company (current position)		
				Apr. 2018	Chairman, The University of Nagano (current position)		
Standing Auditor	–	Shozaburo Takano	Jan. 11, 1938	Jan. 1968	Joined Fuji Heavy Industries Ltd.	(Note 7)	128,800
				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)	20,900
				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		
				Jan. 2006	Established Kobayashi Sogo Law Office		
				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 Quality Enhancement of Higher Education (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		
				May 2016	Committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and Quality Enhancement of Higher Education (current position)		
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							19,432,700

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 six full-time Executive Officers.
5. At the Annual Shareholders Meeting on June 26, 2018, 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. 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. 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	
		Jun. 2015	Outside Auditor, Resona Bank, Limited (current position)	
		Nov. 2017	Outside Director, UPR Corporation (current position)	
		Apr. 2018	Part-time instructor, College of Economics, Rikkyo University (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, 2018 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2019.
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, 2018 to the conclusion of the Annual Shareholders Meeting for the fiscal year ending March 31, 2022.
10. Number of shares held is as of March 31, 2018.

6. Explanation about corporate governance, etc.

(1) Explanation about corporate governance

Basic philosophy on corporate governance

The Company's vision is one of "Creating products that inspire joy and move the world, in order to become the most exciting company in the world," which clearly indicates the direction that the Company should take. The Company also 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

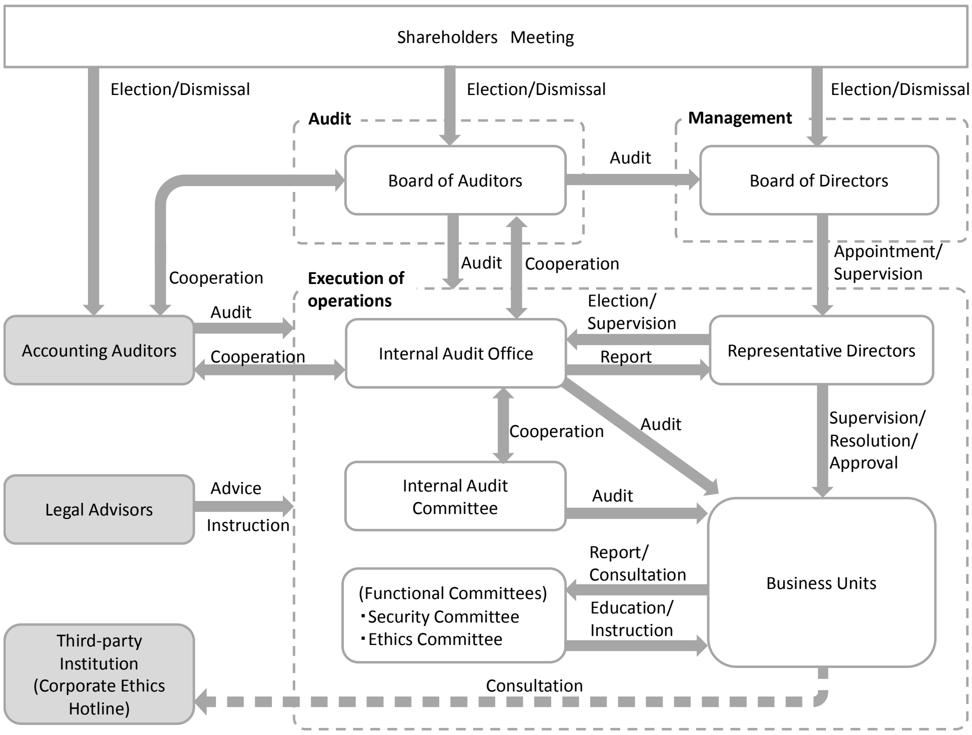
The Company has adopted an auditor system, and the Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

The Board of Directors is composed of eight 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 eight 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. In addition, in accordance with this basic policy, the Company believes that it is necessary to pursue the optimal corporate governance at all times, and to continually work on initiatives to further enhance corporate governance. In order for corporate governance to function effectively, every fiscal year the Board of Directors itself analyzes and evaluates the effectiveness of the Board of Directors as a whole, by verifying the contribution the Board of Directors is making, identifying the issues involved, working to improve them, and disclosing a summary of the result.

b. Compliance system

We provide training on compliance, and the Company’s regulations and other rules for all Directors and all employees of the Group 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 Directors and all employees of the Group, 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 Internal Audit Committee is composed of a Committee chair selected by the Internal Audit Office and Committee members who are chosen by the Committee chair. 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.

Also, the internal auditing plan for the following fiscal year is drawn up by the final day of each fiscal year by the Internal Audit Office, and is finalized upon obtaining the approval of the Board of Directors. The same Board of Directors then compiles an internal audit outcome overview report, in accordance with the internal auditing plan for the current fiscal year. Reports on the results of audits are submitted 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.

e. Disclosure system

With regard to the disclosure system, we will consider with great care the effect on stakeholders, including investors, and independently disclose, as necessary, financial information and non-financial information, appropriately, and in accordance with laws and regulations and the regulations of the Tokyo Stock Exchange, and even information that is not necessarily required to be disclosed under laws and regulations and the regulations of the Tokyo Stock Exchange. Going forward we will work to strengthen this even further, enhancing the information that we provide via the Internet, etc., and taking pains to implement timely and accurate disclosure.

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.

A. System for reporting to the Company matters related to the performance of duties of Directors, etc. of subsidiaries

In accordance with the basic policy related to management of affiliated companies with the objective of developing the Group as a whole and improving performance, affiliated companies deliberate with, or provide reports to, the Company.

B. System to manage the risk of losses at subsidiaries

In accordance with the Company's risk management policy, risks intrinsic to the Group are managed, and risk management is also implemented at Group companies in ways appropriate to the scale and nature of the business.

C. System to ensure that duties are being performed efficiently by Directors, etc. of subsidiaries

Within the Group, in addition to setting out decision-making rules and clarifying authority in accordance with the scale and nature of the business, discussions are held and reports made on important matters related to the business operations of the Group as a whole.

D. System to ensure that duties of Directors, etc. and employees of subsidiaries are performed in conformance with laws and regulations, and the articles of incorporation

The Group has drawn up a unified ethics policy, and has put in place initiatives aimed at ensuring that Group companies are in compliance with ethics laws and regulations. In addition, in the event that problems are found that affect upper management, Directors in charge of subsidiaries submit reports to the Company in a timely fashion, and the Company provides appropriate guidance, etc. on how to respond, as necessary.

E. Compliance system for subsidiaries

As described in i) B. b. above, training on compliance and on the Company's rules, etc. is implemented for all Directors and employees of subsidiaries. The Company also implements lecture-style group training sessions for all Directors and employees of its subsidiaries, and completed training sessions on seven themes during the current fiscal year.

F. System to ensure the appropriateness of operations

Transactions with the parent company that depart from common practice are inspected by the legal department and audited by the Auditors. In addition, the Internal Audit Committee conducts audits that cover subsidiaries and affiliated companies, and take the steps to understand and evaluate the audit results of internal audits at the companies in question, as required.

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)	40,913	35,982	4,931	–	–	4
Auditors (excluding Outside Auditors)	17,360	17,360	–	–	–	2
Outside Directors and Auditors	37,520	37,520	–	–	–	5

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
29,400	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. Also, Full-time Auditor Masaaki Hirose served in the roles of Managing Executive Officer and Audit & Supervisory Board Member (Full-time) at Suruga Bank Ltd. for a total of more than 11 years.

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 26, 2018, 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: 5 issues

Total carrying amount: 179,826 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, 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

(Fiscal year ended March 31, 2018)

Specified investment stocks

Issue	Number of shares (Shares)	Carrying amount (Thousands of yen)	Purpose of holding
Joshin Denki Co., Ltd.	5,000	19,425	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	2 years
Designated Limited Liability Partner Engagement Partner	Kazuyoshi Kuramoto	Deloitte Touche Tohmatsu LLC	2 years

Certified public accountant	5 persons
Other	9 persons

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

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 Representative Director and President at Nagoya-Yokkaichi International Port Corporation. There are no capital relationships, business relationships, and interests between Nagoya-Yokkaichi International Port 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, Director at Japan Innovation Network, and Chairman at the University of Nagano. There are no capital or business relationships between any of these companies and the Company.

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, 2017		Fiscal year ended March 31, 2018	
	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	19,800	–	23,000	–
Consolidated subsidiaries	–	–	–	–
Total	19,800	–	23,000	–

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, 2017)

Not applicable.

(Fiscal year ended March 31, 2018)

Not applicable.

iv) Policy on determining audit fee

The Company gives full consideration to the audit plan, audit details and time required for audits by certified public accountants, etc. for audits, and determines an appropriate audit fee, having first obtained the approval of the Board of Auditors.

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, 2017 to March 31, 2018 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, 2017)	Current fiscal year (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	3,699,654	1,906,252
Accounts receivable - trade	1,648,116	2,031,188
Merchandise and finished goods	152,134	300,849
Raw materials and supplies	28,256	42,122
Advance payments - trade	602,297	1,031,642
Accounts receivable - other	237	679,510
Deferred tax assets	179,068	183,548
Other	88,922	127,909
Total current assets	6,398,688	6,303,025
Non-current assets		
Property, plant and equipment		
Buildings	193,877	209,127
Accumulated depreciation	(38,495)	(79,301)
Buildings, net	155,382	129,826
Vehicles	5,727	6,997
Accumulated depreciation	(4,963)	(5,423)
Vehicles, net	763	1,573
Tools, furniture and fixtures	184,498	205,838
Accumulated depreciation	(53,911)	(89,641)
Tools, furniture and fixtures, net	130,587	116,197
Total property, plant and equipment	286,733	247,597
Intangible assets		
Software	899,970	1,061,937
Goodwill	41,919	599,651
Contract based intangible assets	1,546,242	1,466,107
Other	208,883	96,644
Total intangible assets	2,697,016	3,224,340
Investments and other assets		
Investment securities	238,699	179,826
Deferred tax assets	47,465	83,254
Other	206,203	214,170
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	490,568	475,451
Total non-current assets	3,474,318	3,947,388
Total assets	9,873,006	10,250,413

(Thousands of yen)

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	414,210	396,830
Short-term loans payable	1,940,000	–
Current portion of long-term loans payable	–	422,000
Accounts payable - other	919,025	541,977
Income taxes payable	517,912	305,597
Provision for bonuses	15,464	30,962
Provision for sales returns	271,951	200,704
Provision for after-sale services	18,802	20,393
Other	346,366	331,239
Total current liabilities	4,443,734	2,249,705
Non-current liabilities		
Long-term loans payable	–	1,437,000
Other	19,797	59,606
Total non-current liabilities	19,797	1,496,606
Total liabilities	4,463,531	3,746,311
Net assets		
Shareholders' equity		
Capital stock	1,771,226	1,776,817
Capital surplus	1,611,226	1,616,817
Retained earnings	2,401,478	3,471,031
Treasury shares	(438,355)	(438,355)
Total shareholders' equity	5,345,576	6,426,311
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,373	4,345
Foreign currency translation adjustment	3,364	841
Total accumulated other comprehensive income	4,737	5,186
Share acquisition rights	59,159	72,603
Total net assets	5,409,474	6,504,101
Total liabilities and net assets	9,873,006	10,250,413

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

Consolidated statement of income

(Thousands of yen)

		Previous fiscal year (From April 1, 2016 to March 31, 2017)		Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales		9,340,988		9,494,658
Cost of sales	*1	3,031,849	*1	3,214,408
Gross profit		6,309,138		6,280,249
Provision for sales returns		271,951		200,704
Reversal of provision for sales returns		72,745		271,951
Gross profit - net		6,109,932		6,351,496
Selling, general and administrative expenses				
Promotion expenses		543,450		498,580
Salaries		628,430		740,505
Provision for bonuses		15,464		20,335
Business consignment expenses		1,144,819		1,326,003
Advertising expenses		553,927		580,464
Other	*2	1,650,670	*2	1,947,664
Total selling, general and administrative expenses		4,536,763		5,113,554
Operating profit		1,573,169		1,237,942
Non-operating income				
Interest income		628		266
Dividend income		160		160
Foreign exchange gains		20,762		18,516
Contribution for development		5,833		5,833
Gain on redemption of investment securities		–		2,745
Other		1,354		1,850
Total non-operating income		28,738		29,372
Non-operating expenses				
Interest expenses		134		7,908
Commission fee		2,269		–
Loss on investments in silent partnership		6,469		–
Other		–		676
Total non-operating expenses		8,874		8,585
Ordinary profit		1,593,034		1,258,729
Extraordinary income				
Gain on sales of investment securities		–		570,292
Gain on reversal of share acquisition rights		796		985
Total extraordinary income		796		571,278
Extraordinary losses				
Loss on valuation of advance payments		15,963		12,062
Total extraordinary losses		15,963		12,062
Profit before income taxes		1,577,867		1,817,945
Income taxes - current		591,647		547,044
Income taxes - deferred		(84,608)		9,705
Total income taxes		507,039		556,750
Profit		1,070,828		1,261,194
Profit attributable to owners of parent		1,070,828		1,261,194

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Profit	1,070,828	1,261,194
Other comprehensive income		
Valuation difference on available-for-sale securities	1,861	2,971
Foreign currency translation adjustment	227	(2,522)
Total other comprehensive income	* 2,089	* 448
Comprehensive income	1,072,918	1,261,643
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,072,918	1,261,643
Comprehensive income attributable to non-controlling interests	–	–

iii) Consolidated statement of changes in equity

Previous 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			Share acquisition rights	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

Current fiscal year (From April 1, 2017 to March 31, 2018)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	2,401,478	(438,355)	5,345,576
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	5,591	5,591			11,182
Dividends of surplus			(191,642)		(191,642)
Profit attributable to owners of parent			1,261,194		1,261,194
Net changes of items other than shareholders' equity					–
Total changes of items during period	5,591	5,591	1,069,552	–	1,080,734
Balance at end of current period	1,776,817	1,616,817	3,471,031	(438,355)	6,426,311

	Accumulated other comprehensive income			Share acquisition rights	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	1,373	3,364	4,737	59,159	5,409,474
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights			–		11,182
Dividends of surplus			–		(191,642)
Profit attributable to owners of parent			–		1,261,194
Net changes of items other than shareholders' equity	2,971	(2,522)	448	13,443	13,892
Total changes of items during period	2,971	(2,522)	448	13,443	1,094,627
Balance at end of current period	4,345	841	5,186	72,603	6,504,101

iv) Consolidated statement of cash flows

(Thousands of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Profit before income taxes	1,577,867	1,817,945
Depreciation	250,625	350,510
Amortization of software	303,394	388,732
Amortization of goodwill	3,810	140,455
Share-based compensation expenses	18,233	18,437
Amortization of trademark right	26,110	27,757
Increase (decrease) in allowance for doubtful accounts	(28)	–
Increase (decrease) in provision for bonuses	656	(8,978)
Increase (decrease) in provision for sales returns	199,205	(71,247)
Increase (decrease) in provision for after-sale services	(1,150)	1,591
Gain on reversal of share acquisition rights	(796)	(985)
Interest and dividend income	(788)	(426)
Interest expenses	134	7,908
Loss (gain) on sales of investment securities	–	(570,292)
Loss (gain) on redemption of investment securities	–	(2,745)
Decrease (increase) in notes and accounts receivable - trade	(591,079)	(367,376)
Decrease (increase) in inventories	(16,445)	(150,867)
Decrease (increase) in advance payments	(435,299)	(770,096)
Increase (decrease) in notes and accounts payable - trade	106,564	(9,977)
Increase (decrease) in accounts payable - other	123,914	(92,018)
Other, net	142,461	(126,675)
Subtotal	1,707,390	581,650
Interest and dividend income received	793	426
Interest expenses paid	(333)	(7,519)
Income taxes paid	(305,385)	(755,964)
Net cash provided by (used in) operating activities	1,402,465	(181,406)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	10,000
Purchase of property, plant and equipment	(305,722)	(14,492)
Purchase of software	(618,066)	(493,618)
Purchase of contract based intangible assets	(1,033,678)	(395,640)
Purchase of trademark right	(115,000)	–
Purchase of investment securities	(133,813)	(70,513)
Proceeds from redemption of investment securities	–	36,558
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(63,033)	*2 (74,939)
Payments for lease and guarantee deposits	–	(457)
Proceeds from collection of lease and guarantee deposits	34,258	2,363
Net cash provided by (used in) investing activities	(2,235,055)	(1,000,739)

(Thousands of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,940,000	(2,070,000)
Proceeds from long-term loans payable	–	2,110,000
Repayments of long-term loans payable	–	(463,229)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	–	7,173
Purchase of treasury shares	(438,353)	–
Cash dividends paid	(148,101)	(191,161)
Net cash provided by (used in) financing activities	1,353,545	(607,217)
Effect of exchange rate change on cash and cash equivalents	1,743	(4,038)
Net increase (decrease) in cash and cash equivalents	522,698	(1,793,401)
Cash and cash equivalents at beginning of period	3,176,956	3,699,654
Cash and cash equivalents at end of period	*1 3,699,654	*1 1,906,252

Notes

Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries 4

Names of consolidated subsidiaries SOURCENEXT Inc.
FUDEMAME CO., LTD.
Rosetta Stone Japan, Inc.
One other company

Among the above subsidiaries, the Company acquired all shares of FUDEMAME CO., LTD. and Rosetta Stone Japan, Inc. in the current fiscal year, and they were included within the scope of consolidation.

In addition, MIXA Co., Ltd., which had been a consolidated subsidiary of the Company, was dissolved effective July 1, 2017, as part of an absorption-type merger in which the Company was the surviving entity, and was thus excluded from 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.

New accounting standards to be applied

- "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, revised by the Accounting Standards Board of Japan on February 16, 2018)
- "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, revised by the Accounting Standards Board of Japan on February 16, 2018)

(1) Overview

When the practical guidelines on tax effect accounting issued by the Japanese Institute of Certified Public Accountants (JICPA) were transferred to the Accounting Standards Board of Japan (ASBJ), the ASBJ made necessary changes mentioned below to the practical guidelines while maintaining the basic framework and issued the "Guidance on Accounting Standard for Tax Effect Accounting" and the other above.

Major changes to accounting treatments

- Treatment of taxable temporary differences pertaining to shares of subsidiaries and associates in non-consolidated financial statements
- Treatment of recoverability of deferred tax assets for an entity classified as type 1

(2) Scheduled date of application

These ASBJ guidances will be applied at the start of the fiscal year beginning on April 1, 2018.

(3) Effects of application of the accounting standards

The impact of the application of the Guidance on Accounting Standard for Tax Effect Accounting and the other above on the consolidated financial statements is currently under evaluation.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2021.

(3) Effects of application of the accounting standard, etc.

The impact of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

Changes in presentation

Consolidated balance sheet

"Accounts receivable - other," which was included in "Other" under current assets in the previous fiscal year, is presented separately for the current fiscal year because the amount became greater than 5% of total assets. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 89,160 thousand yen presented as "Other" under current assets in the previous fiscal year has been reclassified as 237 thousand yen in "Accounts receivable - other" and 88,922 thousand yen in "Other."

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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Valuation loss on finished goods	122,177	13,486
Loss on abandonment of finished goods	15,295	24,547

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

(Thousands of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Research and development expenses	2,444	9,147

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Valuation difference on available-for-sale securities		
Amount arising during the year	2,698	574,570
Reclassification adjustments	–	(570,292)
Before tax effects adjustments	2,698	4,277
Tax effects	(836)	(1,306)
Valuation difference on available-for-sale securities	1,861	2,971
Foreign currency translation adjustment		
Amount arising during the year	227	(2,522)
Reclassification adjustments	–	–
Before tax effects adjustments	227	(2,522)
Tax effects	–	–
Foreign currency translation adjustment	227	(2,522)
Total other comprehensive income	2,089	448

Consolidated statement of changes in equity

Previous 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. Share acquisition rights and treasury share acquisition rights

Category	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights (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 share acquisition rights as 2013 stock options	–	–	–	–	–	29,075
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	25,510
	7th series share acquisition rights 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 share acquisition rights 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

Current fiscal year (From April 1, 2017 to March 31, 2018)

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

Class of shares	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Issued shares				
Common shares (Shares) (Note 2)	31,732,000	31,749,000	–	63,481,000
Total	31,732,000	31,749,000	–	63,481,000
Treasury shares				
Common shares (Shares) (Note 3)	772,006	772,006	–	1,544,012
Total	772,006	772,006	–	1,544,012

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018.

2. The 31,749,000-share increase in the total number of issued shares of common shares was the result of a share split, which gave rise to a 31,736,800-share increase, and of an increase of 12,200 shares resulting from the exercise of share acquisition rights as stock options.

3. The increase of 772,006 shares in the number of treasury shares of common shares was caused by the share split.

2. Share acquisition rights and treasury share acquisition rights

Category	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights (Shares)				Balance as of March 31, 2018 (Thousands of yen)
			As of April 1, 2017	Increase	Decrease	As of March 31, 2018	
Reporting company (Parent company)	4th series share acquisition rights as 2013 stock options	–	–	–	–	–	26,174
	5th series share acquisition rights as 2014 stock options	–	–	–	–	–	711
	6th series share acquisition rights as 2015 stock options	–	–	–	–	–	26,497
	7th series share acquisition rights as 2016 stock options	–	–	–	–	–	9,545
	8th series share acquisition rights as 2017 stock options	–	–	–	–	–	9,675
Total			–	–	–	–	72,603

Note: The first day of the exercise period has not yet arrived for the 7th and 8th series share acquisition rights 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 28, 2017	Common shares	191,642	6.19	March 31, 2017	June 29, 2017

(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 26, 2018	Common shares	188,907	Retained earnings	3.05	March 31, 2018	June 27, 2018

Consolidated statement of cash flows

*1 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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash and deposits	3,699,654	1,906,252
Cash and cash equivalents	3,699,654	1,906,252

*2 Main components of assets and liabilities of companies that became new consolidated subsidiaries through share acquisition during the current fiscal year

The relationship between the breakdown of assets and liabilities at the beginning of the consolidation arising from the consolidation of FUDEMAME CO., LTD. after its shares were acquired, the acquisition value of the shares of FUDEMAME CO., LTD., and the payment (net amount) made for the acquisition of FUDEMAME CO., LTD., is as follows.

	(Thousands of yen)
Current assets	863,770
Non-current assets	171,706
Goodwill	614,524
Current liabilities	(315,794)
Non-current liabilities	(534,208)
Acquisition value of the shares	799,999
Cash and cash equivalents	(760,080)
Remainder: payment made for acquisition	39,918

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 accounts receivable - other is mainly resulting from sales of investment securities and settled in a short period, the risk is 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 acquisition of IPs (Intellectual Properties), 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 values 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, 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) Accounts receivable - other	237	237	–
(4) Investment securities	11,360	11,360	–
Total assets	5,359,369	5,359,369	–
(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	–
(5) Long-term loans payable	–	–	–
Total liabilities	3,791,148	3,791,148	–

Current fiscal year (As of March 31, 2018)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	1,906,252	1,906,252	–
(2) Accounts receivable - trade	2,031,188	2,031,188	–
(3) Accounts receivable - other	679,510	679,510	–
(4) Investment securities	19,425	19,425	–
Total assets	4,636,377	4,636,377	–
(1) Accounts payable - trade	396,830	396,830	–
(2) Short-term loans payable	–	–	–
(3) Accounts payable - other	541,977	541,977	–
(4) Income taxes payable	305,597	305,597	–
(5) Long-term loans payable (*)	1,859,000	1,859,782	782
Total liabilities	3,103,405	3,104,187	782

(*) The amount includes current portion of long-term loans payable.

Changes in presentation

"Accounts receivable - other" has become more material, for which reason, beginning in the current fiscal year, we have made it the subject of notes. In order to reflect the change in presentation, we have also provided this information for the previous fiscal year.

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) Accounts receivable - other

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.

(5) Long-term loans payable

The fair value of long-term loans payable is calculated using the current value derived by discounting the total amount of principal and interest by the assumed interest rate that would be applied if the same loan were to be borrowed anew.

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, 2017)	Current fiscal year (As of March 31, 2018)
Unlisted stocks, etc.	227,339	160,401

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, 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	–	–	–
Accounts receivable - other	237	–	–	–
Total	5,348,009	–	–	–

Current fiscal year (As of March 31, 2018)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	1,906,252	–	–	–
Accounts receivable - trade	2,031,188	–	–	–
Accounts receivable - other	679,510	–	–	–
Total	4,616,952	–	–	–

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, 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	–	–	–	–	–

Current fiscal year (As of March 31, 2018)

(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
Long-term loans payable	422,000	422,000	422,000	422,000	171,000	–
Total	422,000	422,000	422,000	422,000	171,000	–

Securities

1. Other securities

Previous 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.

Current fiscal year (As of March 31, 2018)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Items whose carrying amount exceeds acquisition cost	(1) Stocks	19,425	9,356	10,068
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	19,425	9,356	10,068
Items whose carrying amount does not exceed acquisition cost	(1) Stocks	–	–	–
	(2) Bonds	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Total		19,425	9,356	10,068

Note: Unlisted stocks, etc. (carrying amount: 160,401 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.

2. Other securities sold

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

Not applicable.

Current fiscal year (From April 1, 2017 to March 31, 2018)

(Thousands of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Stocks	669,285	570,292	–
(2) Bonds	–	–	–
(3) Other	–	–	–
Total	669,285	570,292	–

Derivatives

Not applicable.

Retirement benefits

1. Overview of the retirement benefit plans being used

Some consolidated subsidiaries use defined contribution pension plans.

2. Defined contribution pension plans

During the current fiscal year, the contributions required for the defined contribution pension plans at consolidated subsidiaries came to 6,990 thousand yen.

Stock options, etc.

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

(Thousands of yen)

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Selling, general and administrative expenses (Other)	18,233	18,437

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

(Thousands of yen)

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Gain on reversal of share acquisition rights	796	985

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: 128,800 shares	Common shares: 7,600 shares
Grant date	September 20, 2013	September 19, 2014
Vesting conditions	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.
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: 166,200 shares	Common shares: 76,600 shares
Grant date	July 24, 2015	July 27, 2016
Vesting conditions	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.	Not specified.
Exercise period	June 26, 2017 – June 25, 2025	June 28, 2018 – June 27, 2026

	2017 Stock Options (8th series)
Category and number of people to whom stock options are granted	2 Directors and 89 employees of the Company
Number of stock options by class of shares (Note)	Common shares: 312,800 shares
Grant date	September 27, 2017
Vesting conditions	Holders of the share acquisition rights 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 “Share Acquisition Rights Allotment Agreement” entered into between the Company and the person who has been granted share acquisition rights.
Vesting period	Not specified.
Exercise period	August 31, 2019 – August 30, 2027

Note: The number of stock options is translated into the number of shares. Furthermore, the number of shares presented here assumes the share split that was implemented on February 1, 2018 (at a ratio of two shares for every one share of common shares) has taken place.

(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, 2018). 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)	2017 Stock Options (8th series)
Before vested (Shares)					
As of March 31, 2017	–	–	158,400	76,600	–
Granted	–	–	–	–	312,800
Forfeited	–	–	2,600	–	7,200
Vested	–	–	155,800	–	–
Unvested	–	–	–	76,600	305,600
After vested (Shares)					
As of March 31, 2017	102,200	2,400	–	–	–
Vested	–	–	155,800	–	–
Exercised	8,800	–	8,200	–	–
Forfeited	1,400	–	3,200	–	–
Exercisable	92,000	2,400	144,400	–	–

Note: The numbers of shares presented here reflect the numbers of shares assuming the share split that was implemented on February 1, 2018 (at a ratio of two shares for every one share of common shares) has taken place.

ii) Per share price

	2013 Stock Options (4th series)	2014 Stock Options (5th series)	2015 Stock Options (6th series)	2016 Stock Options (7th series)	2017 Stock Options (8th series)
Exercise price (Yen) (Note)	449	477	393	293	277
Average price per share upon exercise (Yen)	687	–	696	–	–
Fair value per share at grant date (Yen)	569	593	367	285	239

Note: The numbers of shares presented here reflect the numbers of shares assuming the share split that was implemented on February 1, 2018 (at a ratio of two shares for every one share of common shares) has taken place.

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2018

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

Volatility of share price (Note 1)	55.86%
Estimated remaining outstanding period (Note 2)	5.93 years
Estimated dividend (Note 3)	5.19 yen per share
Risk-free interest rate (Note 4)	(0.094)%

Notes: 1. Calculated based on the stock market performance in the period from October 28, 2011 to September 27, 2017.

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 5.19 yen based on the actual dividends (excluding commemorative dividend) for the fiscal year ended March 31, 2017.
4. This is the yield of Japanese Government bonds on September 20, 2023, 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, 2017)	Current fiscal year (As of March 31, 2018)
Deferred tax assets		
Valuation loss on finished goods	37,703	24,126
Enterprise tax payable	27,141	18,005
Provision for sales returns	83,924	61,808
Provision for after-sale services	5,790	6,244
Loss on valuation of advance payments	5,135	5,243
Depreciation	4,453	26,980
Amortization of software	12,824	12,414
Amortization of trademark right	22,471	17,941
Recognized value of tax sales	12,050	47,609
Loss carried forward	6,595	463,366
Other	16,435	29,501
Subtotal	234,527	713,243
Valuation allowance	(7,375)	(444,517)
Total deferred tax assets	227,151	268,726
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(618)	(1,924)
Total deferred tax liabilities	(618)	(1,924)
Net deferred tax assets	226,533	266,802

Changes in presentation

“Depreciation” and “Recognized value of tax sales,” which were included in “Other” under deferred tax assets in the previous fiscal year, are presented separately for the current fiscal year because they have become more material. The notes of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 32,939 thousand yen presented as “Other” under deferred tax assets in the previous fiscal year has been reclassified as 4,453 thousand yen in “Depreciation,” 12,050 thousand yen in “Recognized value of tax sales,” and 16,435 thousand yen in “Other.”

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.

Business combination, etc.

Business combination through acquisition

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 holds 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 (Date on which shares were acquired)

May 1, 2017 (Date on which acquisition deemed to have taken place)

(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

The Company was deemed the acquiring company because it acquired shares using cash as consideration.

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

From May 1, 2017 to March 31, 2018

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

Consideration for the acquisition	Cash	799,999 thousand yen
Purchase price		799,999 thousand yen

4. Details and amount of main acquisition-related costs

Advisory fee 5,534 thousand yen

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

(1) Goodwill amounts incurred

614,524 thousand yen

(2) Reason for being incurred

Primarily as excess earnings power that is expected to materialize as the business is developed going forward.

(3) Amortization method and period

Straight-line amortization method over five years

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

	(Thousands of yen)
Current assets	863,770
Non-current assets	171,706
Total assets	1,035,477
Current liabilities	315,794
Non-current liabilities	534,208
Total liabilities	850,002

7. Estimated amount for the impact on the consolidated statement of income for the current fiscal year, and the method of calculation used, if it is assumed that the business combination was completed on the first day of the fiscal year

The details have been omitted here because the impact on the consolidated statement of income for the current fiscal year is negligible.

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, 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)

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, 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)

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
243,798	3,798	247,597

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, 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)

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

i) Parent company and major shareholders (limited to companies, etc.) of the company submitting consolidated financial statements

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

Not applicable.

Current fiscal year (From April 1, 2017 to March 31, 2018)

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, 2018 (Thousands of yen)
Major shareholder	Yodobashi Camera Co., Ltd.	Shinjuku-ku, Tokyo	30,000	Sales of PC/office automation equipment, etc.	(Held) Direct 11.65	Sales of the Group's finished goods	Sales of the Group's finished goods (Note 2)	440,587	Accounts receivable - trade	175,540

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

2. For sales of the Group's finished goods, we take into account the market price or the like, and decide the price after negotiation.

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

Previous 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	–	–

Current fiscal year (From April 1, 2017 to March 31, 2018)

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, 2018 (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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net assets per share	86.41 yen	103.84 yen
Earnings per share	17.15 yen	20.37 yen
Diluted earnings per share	–	20.36 yen

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018. 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 previous fiscal year.

2. Diluted earnings per share for the previous fiscal year is not presented because there were no potential shares with dilutive effects.

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

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	1,070,828	1,261,194
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	1,070,828	1,261,194
Average number of common shares outstanding during the period (Shares)	62,423,656	61,923,704
Diluted earnings per share		
Increase in number of common shares (Shares)	–	29,530
[Number of share acquisition rights included] (Shares)	–	[29,530]
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: 102,200 shares Stock options resolved at the Board of Directors meeting held on August 28, 2014 Common shares: 2,400 shares Stock options resolved at the Board of Directors meeting held on June 25, 2015 Common shares: 158,400 shares Stock options resolved at the Board of Directors meeting held on June 27, 2016 Common shares: 76,600 shares	Stock options resolved at the Board of Directors meeting held on August 29, 2013 Common shares: 92,000 shares Stock options resolved at the Board of Directors meeting held on August 28, 2014 Common shares: 2,400 shares Stock options resolved at the Board of Directors meeting held on August 30, 2017 Common shares: 305,600 shares

Note: The average number of common shares outstanding during the period, and the number of potential shares excluded from the calculation of diluted earnings per share because they do not have dilutive effects, reflect the numbers of shares assuming the share split that was implemented on February 1, 2018 (at a ratio of two shares for every one share of common shares) has taken place.

Significant events after reporting period

Issuance of the 9th and 10th series share acquisition rights with exercise price amendment clause by allotment to third party

At the Board of Directors meeting held on May 15, 2018, the Company resolved to issue the 9th and 10th series share acquisition rights with exercise price amendment clause by allotment to third party, and at the Board of Directors meeting held on May 23, 2018, it resolved the issuing terms and conditions. Furthermore, on June 7, 2018, the paying-in of the total issue value of said share acquisition rights was completed. A summary of the above follows.

(1)	Date of allotment	June 7, 2018
(2)	Total number of share acquisition rights	61,200 units 9th series share acquisition rights: 51,200 units 10th series share acquisition rights: 10,000 units
(3)	Paid-in amount	21,180,000 yen in total 400 yen per each 9th series share acquisition right 70 yen per each 10th series share acquisition right
(4)	Number of dilutive shares resulting from the issuance	6,120,000 shares (100 shares per share acquisition right) 9th series share acquisition rights: 5,120,000 shares 10th series share acquisition rights: 1,000,000 shares The number of dilutive shares is 6,120,000 shares even in the case of the lower limit exercise price.
(5)	Amount of funds to be raised	5,183,980,000 yen (estimated amount of net proceeds)
(6)	Increases in capital stock and legal capital surplus in the event of issuance of shares upon exercise of share acquisition rights	The amount of capital stock to be increased in the event of issuance of shares upon exercise of these share acquisition rights 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 of the Regulation 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. The amount of legal capital surplus to be increased in such event shall be the amount obtained by deducting the amount of capital stock to be increased from the upper limit for an increase in capital stock.
(7)	Exercise price and amendment terms and conditions of exercise price	9th series share acquisition rights Initial exercise price: 815 yen Lower limit exercise price: 757 yen 10th series share acquisition rights Initial exercise price: 1,000 yen Lower limit exercise price: 1,000 yen From June 12, 2018, onward, the exercise price of these share acquisition rights will be amended to an amount equivalent to 92% of the closing price of ordinary trading of common shares of the Company on the Tokyo Stock Exchange on the trading day immediately preceding each date of notification of exercise request for these share acquisition rights. However, when such modified amount falls below the lower limit exercise price, the lower limit exercise price is deemed to be the exercise price after the amendment.
(8)	Offer or allotment method	Third-party allotment
(9)	Expected allottee	Nomura Securities Co., Ltd.
(10)	Exercise period	From June 12, 2018 to June 11, 2021

<table>
<tr><td>(11)</td><td>Uses of funds</td><td>
<table>
<tr><th></th><th>Concrete use of funds</th><th>Amount
(Millions of yen)</th></tr>
<tr><td>i)</td><td>New product development</td><td>1,000</td></tr>
<tr><td>ii)</td><td>Advertising expenses associated with new product development</td><td>1,000</td></tr>
<tr><td>iii)</td><td>Operating funds associated with new product development</td><td>2,000</td></tr>
<tr><td>iv)</td><td>Funds used for M&A and to obtain IP, etc.</td><td>1,183</td></tr>
<tr><td></td><td>Total</td><td>5,183</td></tr>
</table>
</td></tr>
<tr><td>(12)</td><td>Others</td><td>The Company plans to reach an agreement with Nomura Securities Co., Ltd., the expected allottee, after the effective date of the offering statement of these share acquisition rights under the Financial Instruments and Exchange Act, in a purchase agreement to be entered into by the two companies that includes provisions regarding the following matters that: the Company can designate that these share acquisition rights for each series should be exercised and designate the number of share acquisition rights to be exercised for each series; with regard to all or part of the share acquisition rights for each series, the Company can designate a period in which the share acquisition rights may not be exercised by the expected allottee; in certain cases, the expected allottee can, upon notifying the Company, request the Company to acquire the share acquisition rights, and if such requests are made, the Company shall, in accordance with the essential points of the share acquisition rights for each series, acquire the share acquisition rights for each series; and the expected allottee shall not transfer the share acquisition rights for each series without obtaining the approval of the Board of Directors of the Company.</td></tr>
</table>

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, 2017 (Thousands of yen)	Balance as of March 31, 2018 (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	1,940,000	–	–	–
Current portion of long-term loans payable	–	422,000	0.32	–
Long-term loans payable (excluding current portion)	–	1,437,000	0.32	2022
Total	1,940,000	1,859,000	–	–

Notes: 1. The average interest rates show weighted average interest rates with respect to loan closing balances.

2. Repayment schedule for long-term loans payable (excluding current portion) during the five years after the consolidated balance sheet date is as follows.

(Thousands of yen)

	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	422,000	422,000	422,000	171,000

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, 2018

(Cumulative period)	First three months	First six months	First nine months	Current fiscal year
Net sales (Thousands of yen)	1,578,805	3,920,232	6,733,177	9,494,658
Profit before income taxes (Thousands of yen)	63,425	439,068	838,552	1,817,945
Profit attributable to owners of parent (Thousands of yen)	86,115	327,696	586,251	1,261,194
Earnings per share (Yen)	1.39	5.29	9.47	20.37

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (Yen)	1.39	3.90	4.18	10.90

Notes: 1. The Company implemented a 1:2 share split on common shares on February 1, 2018. Earnings per share is calculated on the assumption that the said share splits were implemented at the beginning of the previous fiscal year.

2. In the first quarter of the fiscal year, the Company implemented some provisional accounting treatment related to business combination, which was subsequently finalized in the fourth quarter of the fiscal year, but there is no impact on the related figures for the first, second and third quarters.

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 share acquisition rights 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

21st term (from April 1, 2016 to March 31, 2017)

Filed to Director-General of Kanto Local Finance Bureau on June 29, 2017

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 29, 2017

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 22nd term (from April 1, 2017 to June 30, 2017)

Filed to Director-General of Kanto Local Finance Bureau on August 9, 2017

2nd quarter of the 22nd term (from July 1, 2017 to September 30, 2017)

Filed to Director-General of Kanto Local Finance Bureau on November 10, 2017

3rd quarter of the 22nd term (from October 1, 2017 to December 31, 2017)

Filed to Director-General of Kanto Local Finance Bureau on February 14, 2018

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on June 30, 2017

Extraordinary Securities Report based on Article 19, paragraph 2, item 9-2 (Results of exercise of voting rights at the Shareholders Meeting) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

(5) Securities Registration Statement (9th and 10th series share acquisition rights with exercise price amendment clause) and Appendices

Filed to Director-General of Kanto Local Finance Bureau on May 15, 2018

(6) Notification of Amendment to Securities Registration Statement

Filed to Director-General of Kanto Local Finance Bureau on May 23, 2018

Filed to Director-General of Kanto Local Finance Bureau on May 25, 2018

This is a notification of amendment to the securities registration statement filed on May 15, 2018.

B. Information about company which provides guarantee to reporting company

Not applicable.

Independent Auditor's Audit Report and Internal Control Audit Report

June 26, 2018

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, 2017 through March 31, 2018.

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, 2018, and their financial performance and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

Matters to emphasize

As recorded in significant events after reporting period, at the Board of Directors meeting held on May 15, 2018, the Company resolved to issue the 9th and 10th series share acquisition rights with exercise price amendment clause by allotment to third party, and at the Board of Directors meeting held on May 23, 2018, it resolved the issuing terms and conditions. Furthermore, on June 7, 2018, the paying-in of the total issue value of said share acquisition rights was completed.

These matters do not affect our opinion.

<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, 2018 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, 2018 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.

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.