## Cover page

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|---|---|
| Document title | Annual Securities Report |
| Clause of stipulation | Article 24, paragraph 1 of the Financial Instruments and Exchange Act |
| Place of filing | Director-General of the Kanto Local Finance Bureau |
| Filing date | June 28, 2016 |
| Fiscal year | 20th term (from April 1, 2015 to March 31, 2016) |
| Company name | ソースネクスト株式会社 (*SOURCENEXT Kabushiki Kaisha*) |
| Company name in English | SOURCENEXT CORPORATION |
| Title and name of representative | Noriyuki Matsuda, President and CEO |
| Address of registered headquarters | 3-8-21 Toranomon, Minato-ku, Tokyo<br>Note: The Company's head office is scheduled to be relocated to the following location on July 19, 2016.<br>1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo |
| Telephone number | +81-3-6430-6406 (Main)<br>Note: The Company's telephone number is scheduled to change to the following on July 19, 2016.<br>+81-3-6254-5231 (Main) |
| Name of contact person | Fumihiko Aoyama, Managing Director, Managing Executive Officer in charge of Administration Group |
| Nearest place of contact | 3-8-21 Toranomon, Minato-ku, Tokyo |
| Telephone number | +81-3-6430-6406 (Main) |
| Name of contact person | Fumihiko Aoyama, Managing Director, Managing Executive Officer in charge of Administration Group |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

# A. Company information

## I. Overview of the Company

### 1. Summary of business results

#### (1) Business results of the Group

| Term | 16th term | 17th term | 18th term | 19th term | 20th term |
|---|---|---|---|---|---|
| Fiscal year-end | March 31, 2012 | March 31, 2013 | March 31, 2014 | March 31, 2015 | March 31, 2016 |
| Net sales (Thousands of yen) | 5,287,209 | 5,156,693 | 5,736,406 | 6,088,755 | 7,025,334 |
| Ordinary income (Thousands of yen) | 266,679 | 728,751 | 1,225,535 | 1,312,133 | 1,463,657 |
| Profit attributable to owners of parent (Thousands of yen) | 421,055 | 805,179 | 1,220,678 | 1,214,426 | 990,867 |
| Comprehensive income (Thousands of yen) | 421,055 | 806,091 | 1,220,868 | 1,218,778 | 988,061 |
| Net assets (Thousands of yen) | 751,991 | 1,558,082 | 2,788,335 | 4,022,659 | 4,905,978 |
| Total assets (Thousands of yen) | 3,064,810 | 3,444,651 | 4,120,306 | 5,044,766 | 6,047,929 |
| Net assets per share (Yen) | 23.70 | 49.10 | 87.87 | 126.77 | 153.29 |
| Earnings per share (Yen) | 13.27 | 25.37 | 38.47 | 38.27 | 31.23 |
| Diluted earnings per share (Yen) | – | – | – | – | – |
| Equity ratio (%) | 24.5 | 45.2 | 67.4 | 79.2 | 80.4 |
| Return on equity (ROE) (%) | 77.8 | 69.7 | 56.3 | 35.8 | 22.4 |
| Price earnings ratio (PER) (Times) | 6.8 | 10.5 | 19.4 | 20.2 | 14.7 |
| Net cash provided by (used in) operating activities (Thousands of yen) | 1,088,910 | 1,285,679 | 1,410,125 | 1,649,378 | 1,623,937 |
| Net cash provided by (used in) investing activities (Thousands of yen) | (324,857) | (769,380) | (151,278) | (645,228) | (600,503) |
| Net cash provided by (used in) financing activities (Thousands of yen) | (231,034) | (528,220) | (412,354) | (539,808) | (121,137) |
| Cash and cash equivalents at end of period (Thousands of yen) | 967,328 | 956,836 | 1,807,418 | 2,278,689 | 3,176,956 |
| Number of employees (Persons) | 70 | 75 | 78 | 84 | 100 |
| [Separately, average number of temporary employees] | [3] | [3] | [3] | [2] | [3] |

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

2. The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 16th term.
3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 16th, 18th, 19th and 20th terms and there were no potential shares for the 17th term.
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.
6. The Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and related standards, and changed the presentation of "net income" to "profit attributable to owners of parent" from the fiscal year ended March 31, 2016.

(2) Business results of the reporting company

| Term | | 16th term | 17th term | 18th term | 19th term | 20th term |
|---|---|---|---|---|---|---|
| Fiscal year-end | | March 31, 2012 | March 31, 2013 | March 31, 2014 | March 31, 2015 | March 31, 2016 |
| Net sales | (Thousands of yen) | 5,287,209 | 5,156,693 | 5,736,406 | 6,088,755 | 7,025,334 |
| Ordinary income | (Thousands of yen) | 266,560 | 728,395 | 1,224,010 | 1,295,050 | 1,453,999 |
| Profit | (Thousands of yen) | 421,042 | 804,007 | 1,219,224 | 1,209,573 | 981,208 |
| Capital stock | (Thousands of yen) | 1,771,226 | 1,771,226 | 1,771,226 | 1,771,226 | 1,771,226 |
| Total number of issued shares | (Shares) | 158,660 | 15,866,000 | 31,732,000 | 31,732,000 | 31,732,000 |
| Net assets | (Thousands of yen) | 752,287 | 1,555,918 | 2,783,796 | 4,010,138 | 4,885,999 |
| Total assets | (Thousands of yen) | 3,044,676 | 3,437,766 | 4,114,485 | 5,030,937 | 6,023,934 |
| Net assets per share | (Yen) | 23.71 | 49.03 | 87.73 | 126.38 | 152.66 |
| Dividends per share<br>[Interim dividends per share] | (Yen) | –<br>[–] | –<br>[–] | –<br>[–] | 3.83<br>[–] | 4.68<br>[–] |
| Earnings per share | (Yen) | 13.27 | 25.34 | 38.42 | 38.12 | 30.92 |
| Diluted earnings per share | (Yen) | – | – | – | – | – |
| Equity ratio | (%) | 24.7 | 45.3 | 67.4 | 79.2 | 80.4 |
| Return on equity (ROE) | (%) | 77.7 | 69.7 | 56.3 | 35.8 | 22.2 |
| Price earnings ratio (PER) | (Times) | 6.8 | 10.5 | 19.4 | 20.3 | 14.8 |
| Dividend payout ratio | (%) | – | – | – | 10.0 | 15.1 |
| Number of employees<br>[Separately, average number of temporary employees] | (Persons) | 70<br>[3] | 75<br>[3] | 78<br>[3] | 84<br>[2] | 100<br>[3] |

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

2. The Company implemented a 1:100 share split on common shares on October 1, 2012. Furthermore, the Company implemented a 1:2 share split on common shares on September 1, 2013. Accordingly, net assets per share and earnings per share are calculated on the assumption that the said share splits were implemented at the beginning of the 16th term.

3. Diluted earnings per share is not presented because there were no potential shares with dilutive effects for the 16th, 18th, 19th and 20th terms and there were no potential shares for the 17th term.

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 |

3. Description of business

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

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

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

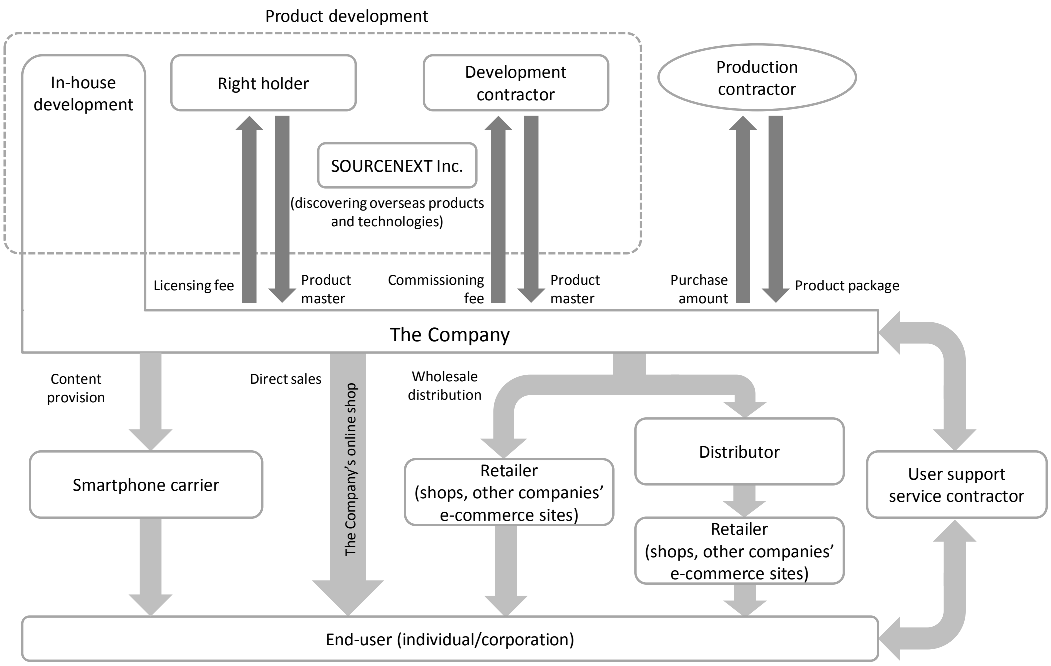
Concerning the provision of content to smartphone carriers, we provide many software titles for KDDI CORPORATION's au Smart Pass and other all-you-can-use application services operated by carriers.

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

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

The business activities diagram below shows the abovementioned points.

**Business activities diagram**



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

| | | |
|---|---|---|
| Android App | The Company launched the Android GENSEN Apps series in 2011 as a line of applications tailored to Android smartphones. In addition to sales through the Company's online shop, we provide highly-rated applications which include the following to KDDI CORPORATION's au Smart Pass, NTT DOCOMO, INC.'s DOCOMO Sugo Toku Contents, and SoftBank Corp.'s App Pass. | |
| | KYOUSOKU Memory | This is an application that automatically resolves the slowdown in smartphone operation with repeated use. Unnecessary applications are simply deleted, increasing available capacity. |
| | Super Battery | This is a comprehensive battery management application that prevents indiscernible but wasteful battery consumption, such as backlights and Wi-Fi connections, and gives advance notification that the battery is flat. |
| | Super Tools | This is an application which comes with over 20 different unique and useful tools including light, mirror and ruler. It has a wide range of uses spanning work and private life. |
| Security | Virus Security ZERO | The Company has offered the Virus Security series as its own-brand security software since 2003. In 2006, we launched Virus Security ZERO with no annual renewal fee. The cumulative number of user registrations for the entire series stands at 9.57 million. |
| | Super Security ZERO | Super Security ZERO, launched in 2011, is the world's leading performance security software. A Bitdefender product, Bitdefender Internet Security, which uses the same engine as Super Security ZERO, was awarded BEST PERFORMANCE 2015 AWARD from an international performance test, AV-TEST. |
| Postcards | FUDEOH series | A novice-friendly address book and postcard creation software. The Company acquired trademark rights and copyright in 2007. This software has enjoyed broad user support, selling more than any other domestic over-the-counter software in its category for four years in a row (*). |
| PDF | ezPDF series | The ezPDF series is a staple software product that provides users with a simple and quick way of creating, converting, and editing PDFs. This product is a long-term best seller, selling more than any other domestic software in its category for 13 years in a row. It has sold over 2.29 million copies in total and is used by some 4,200 companies. |

* Share by unit sales for select products in the postcard subcategory of PC software / practical software (Ver. 17 in 2012, Ver. 18 in 2013, Ver. 19 in 2014 and Ver. 20 in 2015)

Compiled by GfK Japan from actual sales at major consumer electronics retailers nationwide

## 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<br>Two interlocking Directors or Auditors |
| (Other associate) | | | | | |
| RS Empowerment, Inc. | Setagaya-ku, Tokyo | 66,000 | Securities business | (20.1) | One interlocking Director or Auditor |

## 5. Information about employees

### (1) Consolidated companies

As of March 31, 2016

| Segment name | Number of employees (Persons) |
|---|---|
| Software-related business | 100 [3] |
| Total | 100 [3] |

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 16 from the end of the previous fiscal year, reflecting mid-career and new graduate hires associated with expanded business operations.

### (2) Reporting company

As of March 31, 2016

| Number of employees (Persons) | Average age (Years old) | Average years of service (Years) | Average annual salary (Yen) |
|---|---|---|---|
| 100 [3] | 35.6 | 6.3 | 7,254,437 |

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.
5. The number of employees increased by 16 from the end of the previous fiscal year, reflecting mid-career and new graduate hires associated with expanded business operations.

### (3) Status of labor union

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

## II. Overview of business

1. Overview of business results

(1) Business results

During the fiscal year ended March 31, 2016, the Japanese economy continued to lack vigor, remaining at a standstill while consumer confidence declined and production was subdued because of inventory adjustments.

With regards to the business environment surrounding the Group, Microsoft Corporation's new OS, Windows 10 was released in July 2015 and had sold more than 270 million copies worldwide by March 31, 2016. The penetration speed is considered the fasted of any Windows product yet, more than double that of Windows 7, and almost four times that of Windows 8. Windows 10 devices are expected to increase going forward (according to US Microsoft Corporation announcement in March 2016). Furthermore, the number of mobile phone contracts stood at 154.22 million at the end of December 2015 (up 4.8% year-on-year), and the number of MNVO service contracts (included in the number of mobile phone contracts) stood at 11.55 million (up 29.0% year-on-year), with both types of contract growing strongly (March 2016, Ministry of Internal Affairs and Communications: published quarterly data on contract numbers and market shares for electronic communication services).

In these conditions, the Group worked to actively expand applications for smartphones and PC software, based on the acquisition of new users and market expansion.

During the current fiscal year, valid OS extension and added functionality versions for Windows 10 of the Company's flagship Virus Security ZERO, Super Security ZERO and other products contributed greatly to sales. With the rise in the number of people who use online shopping sites for all age groups, our EC shop sales rose steadily as well. (March 2016, Ministry of Internal Affairs and Communications: Household Consumption Status Survey). The Company also made a focused effort to provide apps to major national carriers, low-cost smartphone and SIM related operators, and to acquire intellectual property rights such as copyrighting the popular smartphone app Super Tools.

As a result of these activities, consolidated net sales for the current fiscal year, stood at 7,025 million yen, up 15.4% year-on-year, operating income was 1,445 million yen, up 11.0% year-on-year, and ordinary income was 1,463 million yen, up 11.5% year-on-year. Accordingly, operating income and ordinary income for the current fiscal year recorded all-time highs for the third year in a row. Profit attributable to owners of parent declined to 990 million yen, down 18.4% year-on-year due to an increase in income taxes following the allocation in the current fiscal year of the full amount of tax-related losses carried forward up to the previous fiscal year.

In 2016, the Company was placed 17th in the 100 – 999 employees category of the Japan's Best Companies to Work For rankings for 2016, conducted by Great Place to Work® Institute Japan. Moreover, this is a second consecutive year to attain a position in the ranking, as the Company was placed 27th in the 25 – 99 employees category in 2015.

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. Furthermore, due to the partial revision of sales channel classifications, a comparison is drawn to the previous fiscal year using the modified classifications.

a) Smartphone carriers

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

For au Smart Pass we supplied 26 apps (compared to the same period of the previous fiscal year: 19 apps), with new apps including Relax Melodies Premium: SUIMIN & Yoga, Staccal, and GAZO SHUKUSHO Image Shrink.

For App Pass, we supplied 24 apps (compared to the same period of the previous fiscal year: 18 apps), with new apps including OSHABERI HONYAKU KI – 10 KA KOKUGO, Pro Baseball SOKUHO Widget 2015, and Staccal.

For Sugu Toku Contents we provided a total of five websites and 22 apps (compared to the same period of the previous fiscal year: five websites and 14 apps), with new apps including OSHABERI Timer, Paper Camera, and CHOU Scan.

In the current fiscal year, our total number of titles provided to all three carriers surpassed 20, and net sales stood at 1,250 million yen, up 33.3% year-on-year.

b) The Company's online shop

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

In PC software, sales of Windows 10 OS extension keys, such as those for core products Virus Security ZERO and Super Security ZERO, made a significant contribution due to the release of the new OS, Windows 10. Sales were particularly strong immediately after the OS release, and are expected to continue at a high level during the free OS upgrade period.

The Company also focused on products exclusive to its website. We conducted monthly sales promotion covering all high-performance video editing software, such as Vegas Pro 13 from Sony Creative Software Inc., which were well received. In new products, image processing software such PITARI SHIKAKU and Photo KESHIGOMU also proved popular, with a steady increase in users.

Other activities included website renewals, centered on the security products website, in order to unify the brand image. On our Facebook page, we advertised the launch of new products and disseminated information on sales promotions to create a website that users support even more.

As a result of these activities, net sales stood at 3,601 million yen, up 28.8% year-on-year.

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

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

During the current fiscal year, we promoted sales expansion, mainly of Windows 10 supported versions of our core security software products, and saw the number of units sold increase.

In March 2016, we selected model and actress Ayame Goriki to be the new image character for our products and revamped our marketing materials, reinforcing our initiatives for consumer electronics retailers nationwide.

FUDEOH Ver.20 continued to face adverse conditions, with the instore sales market slightly softer than the average year. However, we successively launched new products such as the Vegas series of high-performance image editing software, Dropbox, and Money Forward Cloud Accounting.

As a result of these activities, net sales stood at 1,979 million yen, down 9.9% year-on-year.

d) Other

We primarily sold 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. Net sales in the Other sales channel stood at 194 million yen, up 23.2% year-on-year.

(2) Cash flows

Cash and cash equivalents as of March 31, 2016 amounted to 3,176 million yen, an increase of 898 million yen compared with the end of the previous fiscal year.

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

*Cash flows from operating activities*

Net cash provided by operating activities amounted to 1,623 million yen, a decrease of 25 million yen in cash provided compared with the previous fiscal year.

The main factors were a 137 million yen increase in profit before income taxes, a 59 million yen decrease in accounts payable - other, a 38 million yen decrease in notes and accounts payable - trade, a 25 million yen increase in advance payments, and a 21 million yen increase in inventories.

*Cash flows from investing activities*

Net cash used in investing activities amounted to 600 million yen, a decrease of 44 million yen in cash used compared with the previous fiscal year.

This was mainly due to expenditure of 211 million yen from payments for lease deposits, and a 156 million yen decrease in payments for purchase of software.

*Cash flows from financing activities*

Net cash used in financing activities amounted to 121 million yen, a decrease of 418 million yen in cash used compared with the previous fiscal year.

This was mainly due a payment of 519 million yen as the full prepayment of long-term debt (syndicated loans) during the previous fiscal year, as well as a payment of 121 million yen for dividends in the current fiscal year.

2. Overview of production, orders received and sales

(1) Production

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

(2) Orders received

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

(3) Sales

As the business of the Group consists of a single segment, sales results are presented based on product categories. Sales results by product category and overall sales results for the current fiscal year are shown below. Due to the partial revision of sales channel classifications in the current fiscal year, comparisons to the previous fiscal year are made using the modified classifications.

| Product category | Sales (Thousands of yen) | Year-on-year comparison (%) |
|---|---|---|
| Security | 1,530,402 | 119.4 |
| Android App | 1,323,603 | 134.6 |
| FUDEOH | 771,948 | 93.8 |
| Sony series | 457,852 | 169.0 |
| PDF creation | 330,165 | 89.1 |
| Other | 2,611,361 | 110.7 |
| Total | 7,025,334 | 115.4 |

Notes: 1. Sales by sales channel

| Sales channel | Sales (Thousands of yen) | Year-on-year comparison (%) |
|---|---|---|
| Smartphone carriers | 1,250,040 | 133.3 |
| The Company’s online shop | 3,601,390 | 128.8 |
| Consumer electronics retailers and other companies’ e-commerce sites | 1,979,867 | 90.1 |
| Other | 194,035 | 123.2 |
| Total | 7,025,334 | 115.4 |

2. Sales by major transaction partner have been omitted because the ratio of such sales to total sales is less than 10/100.

3. Consumption taxes are not included in the amounts above.

3. Issues to be addressed

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

i) Expanding sales channels

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

ii) 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.

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, communications carriers other than mobile carriers (ISPs, etc.), and the children's smartphone/tablet market (educational market). We will be actively pursuing these types of partnerships with the goal of diversifying our customer base.

iv) Improving earning power

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

4. Business risks

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

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

(1) The Group's business environment

i) Software-related markets targeted by the Group

a. Smartphone market expansion

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

b. Impact from PC unit sales to individual customers

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

ii) Diversification of sales channels and sales models

To accommodate changes involving consumption styles driven by increased Internet penetration, broadband adoption, and delivery of software through application stores, the Group is focused on diversifying its sales channels. This includes sales of applications through its online shop as well as carriers such as smartphone carriers, in addition to over-the-counter sales. Sales through such non-over-the-counter channels comprised 71.8% of all sales for the fiscal year ended March 31, 2016. We have also begun providing applications for the rapidly growing user base for smartphones in expectation of further sales channel expansion. We will continue focusing on our online shop, which allows users to purchase and use software in a timely fashion. This diversification of sales channels and models could, however, impact the Group's business performance if the anticipated results are not achieved.

iii) Speed of technological innovation for products

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

iv) OS trends

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

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

v) Intense competition

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

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

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

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

(2) The Group's management policy

i) The importance of marketing

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

a. Package design

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

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

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

c. Brand assets and customer assets

The Group has worked to establish its brand as a software manufacturer by making effective use of advertising that includes online advertisements, television commercials, and magazine ads. Such advertisements have allowed us to lock in a variety of consumers by offering a wide range of products. As of March 31, 2016, the Group has more than 13.25 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, 2016 were 322 million yen and promotion expenses were 408 million yen. Although we view these expenditures as contributing to our bottom line, there is no guarantee that we will achieve our intended effect and, if we do not, the Group's business performance may be impacted.

ii) The importance of corporate and product image

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

iii) Group strategies for the ZERO series

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

iv) Overseas operations

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

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

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

Business performance over the last five fiscal years for the Group has seen dramatic fluctuations in net sales, ordinary income 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, 2012 (Consolidated) | The Group launched 10 new titles under the Android GENSEN Apps series for the rapidly-growing smartphone market in September 2011. Then in December 2011 we launched Super Security ZERO, featuring no annual renewal fees and powered by the world-class technologies of Bitdefender, SRL. This brought a dramatic increase in net sales over the previous fiscal year. Reducing selling, general and administrative expenses achieved a significant rise in our income structure, with gains recorded for both ordinary income and profit. |
| Fiscal year ended March 31, 2013 (Consolidated) | Following a review of its product lineup, the Group prioritized sales of high added-value software products and the provision of services. As a result, there was a significant rise in sales for Android GENSEN Apps series products such as Super Power Saver and KYOUSOKU Memory, which have been adopted by au Smart Pass, a KDDI CORPORATION monthly subscription service for Android smartphone users. FUDEOH Ver. 17 reached the top position in its genre for 2012 based on annual unit sales. The impact of these factors was a slight drop in net sales compared with the previous fiscal year, but a significant rise in operating income and ordinary income, and a new high for profit. |
| Fiscal year ended March 31, 2014 (Consolidated) | Continuing the trend from the previous fiscal year, the Group made proactive efforts to expand and improve its lineup of PC software and Android smartphone applications. Sales were brisk for Virus Security ZERO and FUDEOH, core products, as well as new products. Along with adding titles to au Smart Pass, we provided smartphone applications to NTT DOCOMO, INC's Sugo Toku Contents service. Sales with a high gross margin ratio were strong, resulting in new highs for operating income, ordinary income, 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 income and ordinary income 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 income and operating income marked new all-time highs for the third year in a row. |

(4) Reliance on certain suppliers, etc.

Reliance on certain contractors

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

a. Reliance on other companies for development operations

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

b. Reliance on other companies for production and logistics operations

The Group contracts production and logistics operations to other companies it deems suitable in order to achieve a balance among development and annual production schedules and costs, etc. Although we have the option of replacing the contractors currently performing these operations, such replacement requires a certain amount of time and costs. We are therefore focused on finding and developing new contractors. Despite these efforts, the Group's business operations and performance could be impacted if we are unable to find alternative contractors in the event of an immediate need for contracted services that cannot be addressed by current contractors.

c. Reliance on other companies for customer support operations

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

(5) Returned products and inventory

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

(6) Intellectual property rights

i) Usage of rights belonging to third parties

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

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

ii) Acquisition of intellectual property rights

The Group endeavors to acquire intellectual property rights. Some of the patent rights—the products of research and development—that the Group has acquired in Japan and the U.S. include the TOKU-

UCHI Method, which provides a fun way of teaching keyboard beginners finger positioning without having to look at the keyboard.

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

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

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

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

(7) Related laws and regulations

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

(8) Personal information protection

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

In order to provide services, the Group collects and uses member information, credit card information, and other such personal information. We are therefore obligated to protect personal information under the Act on the Protection of Personal Information. We appoint a privacy officer and institute privacy policies, privacy rules, and other guidelines, and strictly manage workflows that involve the handling of personal information. We have also established a Security Committee to improve in-house education for employees and to raise awareness concerning the handling of not only personal information, but all information management companywide. We reinforce security initiatives pertaining to the Group's online systems, which handle a particularly large volume of personal information, and related departments, and we receive reviews from independent organizations and have obtained ISO27001 certification (see note). However, serious incidents including the leak of personal information could result in claims for damages and a loss of credit worthiness, among other outcomes that could impact the Group's business operations and business performance.

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

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

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

(9) Our management system

i) Our internal control system

The Group is an organization comprised of ten Directors and Auditors as well as 103 employees (as of March 31, 2016; includes three temporary employees), and its management system is appropriate for the organization's current size. We plan to expand our workforce and further strengthen our management system in preparation for future business growth and increased business volume. In the event that human resource recruiting and developing and the strengthening of our management system do not go as planned, the organization will be unable to take appropriate action and business operations could be disrupted.

ii) Recruiting human resources

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

iii) Risks related to information security

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

5. Critical contracts for operation

   Not applicable.

6. Research and development activities

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

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

   In conformance with software accounting standards, development costs for completely new products are recorded as research and development expenses, while version upgrade costs and copyright acquisition expenses for existing products are recorded as software assets. Research and development expenses of 19 million yen, primarily for new products launched in the coming fiscal year, were recorded for the current fiscal year.

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

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

(1) Analysis of operating results

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

In the area of PC software, the Company quickly launched products that support Microsoft Corporations's newly released OS, Windows 10, such as the Company's anti-virus software. These products contributed significantly to sales. Moreover, the exclusive domestic sales of high-performance image editing software by Sony Creative Software Inc. and the successive launch of new products such as products sold exclusively on our website also contributed to the increase in sales.

In the area of smartphone applications, we have succeeded in providing Android applications of over 20 titles to all three major Japanese mobile carriers. In other efforts, we also focused on supplying apps to low-cost smartphone and SIM-related operators and acquiring intellectual property rights by copyrighting the popular smartphone app Super Tools.

As a result of these activities, net sales stood at 7,025 million yen, up 15.4% year-on-year, operating income stood at 1,445 million yen, up 11.0% year-on-year, ordinary income stood at 1,463 million yen, up 11.5% year-on-year, and ordinary income recorded an all-time high for the third year in a row. Profit attributable to owners of parent stood at 990 million yen, down 18.4% year-on-year, due to an increase in income taxes following the allocation in the current fiscal year of the full amount of losses carried forward up to the previous fiscal year.

(2) Analysis of financial position

Total assets as of the end of the current fiscal year stood at 6,047 million yen, an increase of 1,003 million yen compared with the end of the previous fiscal year. Current assets were 4,716 million yen, an increase of 911 million yen, and non-current assets were 1,331 million yen, an increase of 91 million yen.

The increase in current assets was due mainly to an increase in cash and deposits of 898 million yen, an increase in accounts receivable - trade of 133 million yen and a decrease in deferred tax assets of

213 million yen. The increase in non-current assets was due mainly to an increase in lease deposits for a planned office relocation of 211 million yen.

Total liabilities as of the end of the current fiscal year stood at 1,141 million yen, an increase of 119 million yen compared with the end of the previous fiscal year. Current liabilities were 1,106 million yen, an increase of 131 million yen, and non-current liabilities were 35 million yen, a decrease of 11 million yen. The increase in current liabilities was due mainly to an increase in income taxes payable of 145 million yen. The decrease in non-current liabilities was due mainly to a decrease in long-term unearned revenue of 11 million yen.

Net assets as of the end of the current fiscal year stood at 4,905 million yen, an increase of 883 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 990 million yen. As a result of this increase in net assets, the equity ratio stood at 80.4%, an increase of 1.2 percentage points from 79.2% at the end of the previous fiscal year.

(3) Analysis of cash flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 3,176 million yen, an increase of 898 million yen compared with the end of the previous fiscal year.

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

## III. Information about facilities

1. Overview of capital expenditures, etc.

The total amount of capital expenditures made for the current fiscal year stood at 359 million yen. This consisted mainly of 232 million yen for improvements to and purchases of software programs for sale and 105 million yen for software for in-house use.

2. Major facilities

Reporting company

As of March 31, 2016

| Office name (Location) | Segment name | Facilities | Book value (Thousands of yen) | | | | Number of employees (Persons) |
|---|---|---|---|---|---|---|---|
| | | | Buildings | Tools, furniture and fixtures | Software | Total | |
| Head office (Minato-ku, Tokyo) | Software-related business | Office equipment for development and management, and EC systems | 0 | 23,287 | 820,216 | 843,503 | 100 [3] |

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 62,312 thousand yen.

3. Planned additions, retirements, etc. of facilities

(1) Additions, etc. of significant facilities

As of March 31, 2016

| 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 | 284,924 | – | Own funds | April 2016 | March 2017 | – |
| | Head office (Minato-ku, Tokyo) | Software-related business | Head office relocation | 236,920 | – | Own funds | April 2016 | July 2016 | – |

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.
4. The Company plans to relocate the head office to Higashi-Shimbashi, Minato-ku, Tokyo in July 2016.

(2) Retirements, etc. of significant facilities

The Company plans to relocate its head office in July 2016 and therefore expects to retire facilities for internal manufacturing conducted at its current head office site in conjunction with restoring the site to its original condition.

## IV. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

i) Total number of shares

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

ii) Issued shares

| Class | Number of issued shares as of the fiscal year-end (Shares) (March 31, 2016) | Number of issued shares as of the date of filing (Shares) (June 28, 2016) | Name of financial instruments exchange where the shares of the Company is traded or the name of authorized financial instruments firms association where the Company is registered | Details |
|---|---|---|---|---|
| Common shares | 31,732,000 | 31,732,000 | First section of the Tokyo Stock Exchange | The number of shares per share unit is 100 shares. |
| Total | 31,732,000 | 31,732,000 | – | – |

Note: "Number of issued shares as of the date of filing" does not include shares issued upon exercise of subscription rights to shares from June 1, 2016 until the filing date of this Annual Securities Report.

(2) Subscription rights to shares, etc.

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

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

| | As of March 31, 2016 | As of May 31, 2016 |
|---|---|---|
| Number of subscription rights to shares (Rights) | 525 (Note 1) | 525 (Note 1) |
| Number of treasury subscription rights to shares (Rights) | – | – |
| Class of shares to be issued upon exercise of subscription rights to shares | Common shares | Same as left |
| Number of shares to be issued upon exercise of subscription rights to shares (Shares) | 52,500 (Note 1) | 52,500 (Note 1) |
| Amount to be paid in upon exercise of subscription rights to shares (Yen) | 898 yen per share (Note 2) | Same as left |
| Exercise period of subscription rights to shares | August 30, 2015 – August 29, 2023 | Same as left |
| Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen) | Issue price: 898 yen<br>Additional paid-in capital: 449 yen | Same as left |
| Conditions for exercising subscription rights to shares | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights.<br>Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause.<br>Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. | Same as left |
| Matters regarding transfer of subscription rights to shares | Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors. | Same as left |
| Matters regarding surrogate payment | – | – |
| Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring | (Note 3) | Same as left |

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

| | As of March 31, 2016 | As of May 31, 2016 |
|---|---|---|
| Number of subscription rights to shares (Rights) | 23 (Note 1) | 12 (Note 1) |
| Number of treasury subscription rights to shares (Rights) | – | – |
| Class of shares to be issued upon exercise of subscription rights to shares | Common shares | Same as left |
| Number of shares to be issued upon exercise of subscription rights to shares (Shares) | 2,300 (Note 1) | 1,200 (Note 1) |
| Amount to be paid in upon exercise of subscription rights to shares (Yen) | 953 yen per share (Note 2) | Same as left |
| Exercise period of subscription rights to shares | August 29, 2016 – August 28, 2024 | Same as left |
| Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen) | Issue price: 953 yen<br>Additional paid-in capital: 477 yen | Same as left |
| Conditions for exercising subscription rights to shares | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause.<br>Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. | Same as left |
| Matters regarding transfer of subscription rights to shares | Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors. | Same as left |
| Matters regarding surrogate payment | – | – |
| Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring | (Note 3) | Same as left |

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

| | As of March 31, 2016 | As of May 31, 2016 |
|---|---|---|
| Number of subscription rights to shares (Rights) | 819 (Note 1) | 819 (Note 1) |
| Number of treasury subscription rights to shares (Rights) | – | – |
| Class of shares to be issued upon exercise of subscription rights to shares | Common shares | Same as left |
| Number of shares to be issued upon exercise of subscription rights to shares (Shares) | 81,900 (Note 1) | 81,900 (Note 1) |
| Amount to be paid in upon exercise of subscription rights to shares (Yen) | 786 yen per share (Note 2) | Same as left |
| Exercise period of subscription rights to shares | June 26, 2017 – June 25, 2025 | Same as left |
| Issue price of shares and additional paid-in capital in cases where shares are issued upon exercise of subscription rights to shares (Yen) | Issue price: 786 yen<br>Additional paid-in capital: 393 yen | Same as left |
| Conditions for exercising subscription rights to shares | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights.<br>Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause.<br>Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. | Same as left |
| Matters regarding transfer of subscription rights to shares | Acquisition of subscription rights to shares through transfer shall be subject to approval by the resolution of the Company's Board of Directors. | Same as left |
| Matters regarding surrogate payment | – | – |
| Matters regarding delivery of subscription rights to shares accompanied by act of organizational restructuring | (Note 3) | Same as left |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Exercise period of subscription rights to shares

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable.

## (4) Description of rights plan

Not applicable.

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

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

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

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

## (6) Shareholding by shareholder category

As of March 31, 2016

| 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) | – | 20 | 36 | 18 | 65 | 7 | 4,558 | 4,704 | – |
| Number of shares held (Units) | – | 37,716 | 8,625 | 106,403 | 20,996 | 427 | 143,136 | 317,303 | 1,700 |
| Shareholding ratio (%) | – | 11.88 | 2.71 | 33.53 | 6.61 | 0.13 | 45.11 | 100.00 | – |

Note: Six treasury shares are included and stated in "Fractional shares."

## (7) Major shareholders

As of March 31, 2016

| Name | Address | Number of shares held (Shares) | Shareholding ratio (%) |
|---|---|---|---|
| Noriyuki Matsuda | Minato-ku, Tokyo | 8,966,400 | 28.25 |
| RS Empowerment, Inc. | 1-14-1 Tamagawa, Setagaya-ku, Tokyo | 6,389,000 | 20.13 |
| Yodobashi Camera Co., Ltd. | 3-20-1 Kita-shinjuku, Shinjuku-ku, Tokyo | 3,609,600 | 11.37 |
| Japan Trustee Services Bank, Ltd. (Held in trust account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 1,955,200 | 6.16 |
| Satomi Matsuda | Minato-ku, Tokyo | 924,000 | 2.91 |
| Shin Shin Co., Ltd. | 2-17-25 Mita, Minato-ku, Tokyo | 564,400 | 1.77 |
| The Master Trust Bank of Japan, Ltd. (Held in trust account) | 2-11-3 Hamamatsucho, Minato-ku, Tokyo | 531,000 | 1.67 |
| Trust & Custody Services Bank, Ltd. (Held in securities investment trust account) | 1-8-12 Harumi, Chuo-ku, Tokyo | 290,700 | 0.91 |
| CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department) | TRINITY TOWER 9 THOMAS MORE STREET LONDON, E1W 1YT, UNITED KINGDOM (2-15-1 Konan, Minato-ku, Tokyo) | 278,500 | 0.87 |
| SOURCENEXT Employee Shareholding Association | 3-8-21 Toranomon, Minato-ku, Tokyo | 231,800 | 0.73 |
| Total | – | 23,740,600 | 74.81 |

Note: 1,935,300 of the above-mentioned number of shares held by Japan Trustee Services Bank, Ltd. relate to the trust business. 521,000 of the above-mentioned number of shares held by The Master Trust Bank of Japan, Ltd. relate to the trust business. 290,700 of the above-mentioned number of shares held by Trust & Custody Services Bank, Ltd. relate to the trust business.

(8) Voting rights

i) Issued shares

As of March 31, 2016

| 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.) | – | – | – |
| Shares with full voting rights (Other) | Common shares: 31,730,300 | 317,303 | Standard shares without any limitations on the shareholders' rights |
| Fractional shares | Common shares: 1,700 | – | Same as above |
| Total number of issued shares | 31,732,000 | – | – |
| Total number of voting rights | – | 317,303 | – |

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

ii) Treasury shares, etc.

As of March 31, 2016

| 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 (%) |
|---|---|---|---|---|---|
| – | – | – | – | – | – |
| Total | – | – | – | – | – |

(9) Details of employee stock option program

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

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

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

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

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

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

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

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

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

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

2. Acquisitions, etc. of treasury shares

Classes of shares, etc. Not applicable.

(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, 2016 | | From April 1, 2016 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 | 6 | – | 6 | – |

Note: The number of treasury shares held in the "From April 1, 2016 until the filing date of this Annual Securities Report" column does not include shares through purchase or sale of fractional shares from June 1, 2016 until the filing date of this Annual Securities Report.

3. Dividend policy

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

With regards to the dividend for the current fiscal year, the Company decided to pay a dividend of 4.68 yen per share with a dividend payout ratio of 15% (previous fiscal year: 10%) based on the aforementioned policy.

Profit attributable to owners of parent also stood at 990 million yen, exceeding the initial forecast of 905 million yen by 85 million yen. As a result, the dividend payment was also higher than the initial forecast of 4.28 yen.

With regards to the dividend for the fiscal year ending March 31, 2017, taking business conditions into account, the Company plans to pay a dividend of 5.09 yen per share, giving a forecast dividend payout ratio of 15%.

Furthermore, in the fiscal year ending March 31, 2017 (August 2, 2016) the Company will mark its 20th founding anniversary. To express our gratitude to our shareholders for their support up until now, we plan to pay a commemorative dividend. As a result, we plan to pay the ordinary dividend of 5.09 yen per share plus an additional commemorative dividend of 1.00 yen, for an annual dividend of 6.09 yen (dividend payout ratio: 17.9%).

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 27, 2016 | 148,505 | 4.68 |

4. Historical records of share price

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

| Term | 16th term | 17th term | 18th term | 19th term | 20th term |
|---|---|---|---|---|---|
| Fiscal year-end | March 31, 2012 | March 31, 2013 | March 31, 2014 | March 31, 2015 | March 31, 2016 |
| Highest (Yen) | 21,860 | 20,000<br>(Note 2) 565 | 1,647<br>(Note 3) 1,336 | 967 | 910 |
| Lowest (Yen) | 13,500 | 14,150<br>(Note 2) 151 | 408<br>(Note 3) 594 | 536 | 411 |

Notes: 1. The highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

2. Figures show the ex-rights share price due to a share split (October 1, 2012, 1 share: 100 shares).

3. Figures show the ex-rights share price due to a share split (September 1, 2013, 1 share: 2 shares).

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

| Month | October 2015 | November 2015 | December 2015 | January 2016 | February 2016 | March 2016 |
|---|---|---|---|---|---|---|
| Highest (Yen) | 536 | 648 | 679 | 625 | 555 | 484 |
| Lowest (Yen) | 430 | 488 | 576 | 448 | 411 | 431 |

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

5. Information about Directors and Auditors

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

| Title | Position | Name | Date of Birth | Career Summary | | Term | Number of Shares Held (Shares) |
|---|---|---|---|---|---|---|---|
| President and CEO (Representative Director) | – | Noriyuki Matsuda | May 28, 1965 | Apr. 1989 | Joined IBM Japan | (Note 6) | 8,966,400 |
| | | | | Sep. 1993 | Established AAA, Ltd., Representative Director and President, AAA, Ltd. | | |
| | | | | Aug. 1996 | Established the Company, President and CEO, the Company (current position) | | |
| | | | | Sep. 2012 | President & CEO, SOURCENEXT Inc. (current position) | | |
| Executive Vice President (Representative Director) | – | Satomi Matsuda | Jul. 5, 1965 | Aug. 1990 | Joined KITAGAWA INDUSTRIES CO., LTD. | (Note 6) | 924,000 |
| | | | | Jan. 1992 | Joined TFC Corporation | | |
| | | | | Jan. 1994 | Joined AAA, Ltd., Senior Managing Director, AAA, Ltd. | | |
| | | | | Aug. 1996 | Senior Managing Director, the Company | | |
| | | | | May 2002 | Executive Managing Director, the Company | | |
| | | | | Sep. 2012 | Secretary, SOURCENEXT Inc. (current position) | | |
| | | | | Jun. 2014 | Executive Vice President, the Company (current position) | | |
| Senior Managing Director | Senior Executive Officer, In charge of Sales Group | Tomoaki Kojima | Jun. 3, 1977 | Sep. 2001 | Joined the Company | (Note 6) | 21,200 |
| | | | | 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) | | |
| Managing Director | Managing Executive Officer, In charge of Administra-tion Group | Fumihiko Aoyama | Aug. 3, 1967 | Oct. 1991 | Joined Deloitte Touche Tohmatsu LLC | (Note 6) | 53,300 |
| | | | | 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) | | |

| Title | Position | Name | Date of Birth | Career Summary | | Term | Number of Shares Held (Shares) |
|---|---|---|---|---|---|---|---|
| Managing Director | – | Masaharu Ikuta | Jan. 19, 1935 | Apr. 1957 | Joined Mitsui Steamship Co., Ltd. (currently Mitsui O.S.K. Lines, Ltd.) | (Note 6) | 22,900 |
| | | | | Jun. 1994 | Representative Director and President, Mitsui O.S.K. Lines, Ltd. | | |
| | | | | Jun. 2000 | Representative Director and Chairman, Mitsui O.S.K. Lines, Ltd. | | |
| | | | | Apr. 2003 | President, Japan Post (currently Japan Post Group) | | |
| | | | | Mar. 2007 | Resigned as President, Japan Post | | |
| | | | | Apr. 2007 | Corporate Advisor, Mitsui O.S.K. Lines, Ltd. | | |
| | | | | Jun. 2008 | Outside Director, Terumo Corporation | | |
| | | | | | Outside Director, the Company (current position) | | |
| | | | | May 2009 | Outside Director, Aeon Co., Ltd. (current position) | | |
| | | | | Feb. 2010 | Senior Counselor, Mitsui O.S.K. Lines, Ltd. | | |
| | | | | Jun. 2014 | President, Nagoya Port Terminal Corporation (current position) | | |
| Managing Director | – | Hiroshi Takasawa | Jun. 13, 1960 | Apr. 1984 | Joined Kajima Corporation | (Note 6) | – |
| | | | | Apr. 1988 | Joined Nomura Securities Co., Ltd. | | |
| | | | | Jan. 2000 | CFO, GMAC Commercial Mortgage Japan | | |
| | | | | May 2001 | Representative Director, GMAC Commercial Holdings Japan | | |
| | | | | May 2005 | Representative Director, Rakuten Strategic Partners, Inc. | | |
| | | | | Nov. 2006 | Executive Officer, Rakuten, Inc. | | |
| | | | | Aug. 2009 | Representative Director, RS Empowerment, Inc. (current position) | | |
| | | | | Jun. 2010 | Outside Director, the Company (current position) | | |
| | | | | Nov. 2012 | Chairman of the Board, Rakuten Investment Management, Inc. (non-executive) (current position) | | |
| | | | | Nov. 2012 | Vice President and Director, Rakuten Securities, Inc. (non-executive) (current position) | | |
| | | | | Nov. 2012 | Vice President and Representative Director, AIRIO Life Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.) | | |
| | | | | Jun. 2015 | Representative Director and President, Rakuten Life Insurance Co., Ltd. (current position) | | |
| | | | | Apr. 2016 | Managing Executive Officer, Rakuten, Inc. (current position) | | |

| Title | Position | Name | Date of Birth | Career Summary | | Term | Number of Shares Held (Shares) |
|---|---|---|---|---|---|---|---|
| Managing Director | – | Hideaki Kubori | Aug. 29, 1944 | Apr. 1971 | Registered as Attorney-at-Law<br>Joined Mori Sogo | (Note 6) | 3,000 |
| | | | | 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)<br>Outside Governor, Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation) (current position) | | |
| | | | | Jun. 2014 | Outside Director, the Company (current position) | | |
| | | | | Apr. 2015 | Professor, Toin Law School (current position) | | |
| Standing Auditor | – | Shozaburo Takano | Jan. 11, 1938 | Jan. 1968 | Joined Fuji Heavy Industries Ltd. | (Note 7) | 61,400 |
| | | | | 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) | | |
| Auditor | – | Tetsuya Kobayashi | Sep. 5, 1958 | Apr. 1991 | Registered as Attorney-at-Law (Daini Tokyo Bar Association) | (Note 8) | – |
| | | | | Jul. 1999 | Temporary staff in charge of judicial system reform, Japan Federation of Bar Associations | | |
| | | | | Apr. 2003 | Member of Examination Board for foundation of incorporated educational institution and university (Law school special examination board), Ministry of Education, Culture, Sports, Science and Technology | | |
| | | | | Apr. 2004 | Vice President, Daini Tokyo Bar Association | | |
| | | | | Jun. 2006 | Outside Auditor, the Company (current position) | | |
| | | | | May 2007 | Expert committee member, Committee for Certified Evaluation and Accreditation of Law Schools, National Institution for Academic Degrees and University Evaluation (current position) | | |
| | | | | Jun. 2007 | Chairman, Training Center, Japan Federation of Bar Associations | | |
| | | | | Apr. 2008 | Part-time instructor, Faculty of Law, Keio University | | |
| | | | | Jun. 2011 | Outside Auditor, Mochida Pharmaceutical Co., Ltd. (current position) | | |
| | | | | Apr. 2012 | Executive Governor, Japan Federation of Bar Associations | | |

| Title | Position | Name | Date of Birth | Career Summary | | Term | Number of Shares Held (Shares) |
|---|---|---|---|---|---|---|---|
| Auditor | – | Kakuji Takano | Apr. 7, 1940 | Apr. 1963 | Joined Kohkoku Chemical Industry (currently ACHILLES CORPORATION) | (Note 8) | – |
| | | | | 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 | | | | | | | 10,052,200 |

Notes:
1. Executive Vice President Satomi Matsuda is the spouse of President and CEO Noriyuki Matsuda.
2. Managing Directors Masaharu Ikuta, Hiroshi Takasawa, and Hideaki Kubori are Outside Directors.
3. Auditors Tetsuya Kobayashi and Kakuji Takano are Outside Auditors.
4. The Company adopted an executive officer system in June 2006 in order to revitalize the Board of Directors and increase management efficiency. The person with responsibility for each group is designated as the Executive Officer, and all of the Directors, except for the Representative Directors and the Outside Directors, serve concurrently as Executive Officers. In addition, the Company has seven full-time Executive Officers.
5. At the Annual Shareholders Meeting on June 27, 2016, the Company appointed one Substitute Auditor to be ready in case the number of Auditors falls short of the number stipulated by laws and regulations. The career summary of the Substitute Auditor is as shown below.

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

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

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

6. Explanation about corporate governance, etc.

(1) Explanation about corporate governance

Basic philosophy on corporate governance

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

i) Implementation status of corporate governance policies

A. Basic explanation of company organizational structures

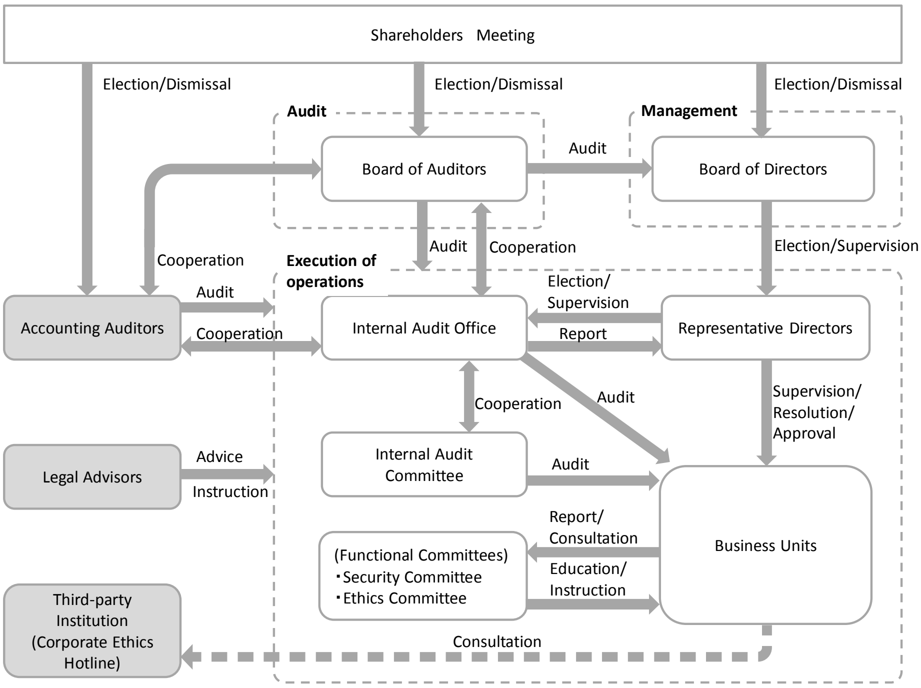
The Company has adopted an auditor system, and the Board of Directors and the Board of Auditors monitor and supervise the execution of operations.

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

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

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

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




B. Establishment of internal control system

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

a. Basic philosophy on the internal control system

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

b. Compliance system

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

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

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

c. Internal audit system

The Company recognizes that the internal audit function performs a vital role in internal control. The Internal Audit Office and the Internal Audit Committee, with one member 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 one full-time employee to it. The principal duties of the Internal Audit Office are formulating the fiscal year internal auditing plan, establishing the priority issues for auditing, producing the final audit report, and taking responsibility for other extraordinary audits. The Internal Audit Office implements highly independent and neutral audit operations in collaboration with the Internal Audit Committee.

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

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

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

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

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

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

ii) Establishment of risk management system

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

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

The Company's legal advisors include HIBIYA PARK LAW OFFICES to which Hideaki Kubori, an Outside Director of the Company, belongs, KATO-NISHIDA & HASEGAWA LAW FIRM, Murata Tamami Law Firm, and CITY-YUWA PARTNERS, 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 Board of Directors monitors subsidiaries by receiving regular reports on their operating results and status of business execution, and by requesting reports, and providing guidance and supervision commensurate with the degree of risk. Important matters at subsidiaries are discussed beforehand between the subsidiary and the Company, and important matters that are judged to have a significant impact on the subsidiary's finances and profit and loss must receive approval from the Company's Board of Directors.

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

iv) Details of remuneration for Directors and Auditors

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

| Category | Total amount of remuneration (Thousands of yen) | Total amount of remuneration, etc. by type (Thousands of yen) | | | | Number to be paid (Persons) |
|---|---|---|---|---|---|---|
| | | Basic remuneration | Stock options | Bonuses | Retirement benefits | |
| Directors (excluding Outside Directors) | 36,252 | 34,857 | 1,394 | – | – | 4 |
| Auditors (excluding Outside Auditors) | 10,080 | 10,080 | – | – | – | 1 |
| Outside Directors and Auditors | 30,240 | 30,240 | – | – | – | 4 |

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

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

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

| Total amount (Thousands of yen) | Number to be paid (Persons) | Details |
|---|---|---|
| 29,225 | 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 and 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 three 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, and inspecting materials for key resolutions, etc.

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

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

The Internal Audit Office and the Internal Audit Committee, which are composed of one 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 27, 2016, 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: 2 issues

Total carrying amount: 108,658 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, 2015)

Specified investment stocks

| Issue | Number of shares (Shares) | Carrying amount (Thousands of yen) | Purpose of holding |
|---|---|---|---|
| Joshin Denki Co., Ltd. | 10,000 | 9,530 | To maintain and strengthen business relationships |

(Fiscal year ended March 31, 2016)

Specified investment stocks

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

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 | Hideaki Takao | KPMG AZSA LLC | 4 years |
| Designated Limited Liability Partner Engagement Partner | Toshio Akiyama | KPMG AZSA LLC | 2 years |

| | |
|---|---|
| Certified public accountant | 7 persons |
| Other | 8 persons |

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

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

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

Of the three Outside Directors, Masaharu Ikuta is Outside Director at Aeon Co., Ltd. and President at Nagoya Port Terminal Corporation. There are no capital relationships, business relationships, and interests between either of these companies and the Company.

Hiroshi Takasawa is Managing Executive Officer at Rakuten, Inc., Chairman of the Board (non-executive) at Rakuten Investment Management, Inc., Representative Director at RS Empowerment, Inc., Vice President and Director (non-executive) at Rakuten Securities, Inc., and Representative Director and President at Rakuten Life Insurance Co., Ltd.

RS Empowerment, Inc. is a shareholder of the Company. There is no direct capital relationship between Rakuten, Inc., Rakuten Investment Management, Inc., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd. and the Company. There is no business relationship between Rakuten Investment Management, Inc., RS Empowerment, Inc., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd. and the Company. However, transactions between Rakuten, Inc., the sole parent company of RS Empowerment, Inc., and the Company include sales of the Company's products. Sales of the Company's products are determined in accordance with ordinary transaction conditions.

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., Outside Governor at Japan Exchange Regulation, and Member of the Supervisory Committee, The Norinchukin Bank. 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.

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, Hiroshi Takasawa, and Hideaki Kubori, and with the Auditors Shozaburo Takano, 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.

| Category | Fiscal year ended March 31, 2015 | | Fiscal year ended March 31, 2016 | |
|---|---|---|---|---|
| | Fees for audit certification services (Thousands of yen) | Fees for non-audit services (Thousands of yen) | Fees for audit certification services (Thousands of yen) | Fees for non-audit services (Thousands of yen) |
| Reporting company | 18,000 | 1,800 | 18,000 | – |
| Consolidated subsidiaries | – | – | – | – |
| Total | 18,000 | 1,800 | 18,000 | – |

ii) Other material remuneration to certified public accountants

Not applicable.

iii) Details of non-audit services rendered by reporting companies such as certified public accountants

(Fiscal year ended March 31, 2015)

The details of non-audit services for which the Company paid remuneration to certified public accountants, etc. consist of “financial due diligence services” commissioned as services other than the services in Article 2, paragraph 1 of the Certified Public Accountants Act (non-audit services).

(Fiscal year ended March 31, 2016)

Not applicable.

iv) Policy on determining audit fee

Not applicable.

## V. Financial information

1. Preparation policy of the consolidated financial statements

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

2. Audit certification

   The consolidated financial statements for the fiscal year from April 1, 2015 to March 31, 2016 were audited by KPMG AZSA LLC in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

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, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,778,758 | 2,677,004 |
| Accounts receivable - trade | 919,199 | 1,052,248 |
| Securities | 499,931 | 499,951 |
| Merchandise and finished goods | 82,904 | 129,683 |
| Raw materials and supplies | 32,791 | 25,945 |
| Advance payments - trade | 115,484 | 166,998 |
| Deferred tax assets | 288,897 | 75,436 |
| Other | 87,190 | 89,423 |
| Total current assets | 3,805,157 | 4,716,692 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 79,417 | 81,820 |
| Accumulated depreciation | (75,215) | (79,445) |
| Buildings, net | 4,202 | 2,374 |
| Vehicles | 6,134 | 5,752 |
| Accumulated depreciation | (2,862) | (3,834) |
| Vehicles, net | 3,271 | 1,917 |
| Tools, furniture and fixtures | 108,811 | 107,482 |
| Accumulated depreciation | (94,084) | (84,169) |
| Tools, furniture and fixtures, net | 14,727 | 23,313 |
| Total property, plant and equipment | 22,200 | 27,605 |
| Intangible assets | | |
| Software | 848,065 | 820,216 |
| Other | 118,920 | 61,522 |
| Total intangible assets | 966,985 | 881,738 |
| Investments and other assets | | |
| Investment securities | 109,530 | 108,658 |
| Deferred tax assets | 92,372 | 67,325 |
| Other | 50,319 | 247,709 |
| Allowance for doubtful accounts | (1,800) | (1,800) |
| Total investments and other assets | 250,422 | 421,892 |
| Total non-current assets | 1,239,608 | 1,331,236 |
| Total assets | 5,044,766 | 6,047,929 |

(Thousands of yen)

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 259,290 | 274,070 |
| Accounts payable - other | 341,326 | 328,005 |
| Income taxes payable | 59,464 | 205,282 |
| Provision for bonuses | 14,044 | 14,807 |
| Provision for sales returns | 55,026 | 72,745 |
| Provision for after-sale services | 20,362 | 19,952 |
| Other | 225,288 | 191,765 |
| Total current liabilities | 974,803 | 1,106,630 |
| Non-current liabilities | | |
| Other | 47,302 | 35,320 |
| Total non-current liabilities | 47,302 | 35,320 |
| Total liabilities | 1,022,106 | 1,141,950 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,771,226 | 1,771,226 |
| Capital surplus | 1,611,226 | 1,611,226 |
| Retained earnings | 609,822 | 1,479,156 |
| Treasury shares | (1) | (1) |
| Total shareholders' equity | 3,992,274 | 4,861,607 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 116 | (488) |
| Foreign currency translation adjustment | 5,337 | 3,136 |
| Total accumulated other comprehensive income | 5,453 | 2,648 |
| Subscription rights to shares | 24,932 | 41,722 |
| Total net assets | 4,022,659 | 4,905,978 |
| Total liabilities and net assets | 5,044,766 | 6,047,929 |

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

Consolidated statement of income

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net sales | 6,088,755 | 7,025,334 |
| Cost of sales | *1 1,631,567 | *1 1,969,558 |
| Gross profit | 4,457,188 | 5,055,775 |
| Provision for sales returns | 55,026 | 72,745 |
| Reversal of provision for sales returns | 55,306 | 55,026 |
| Gross profit - net | 4,457,468 | 5,038,056 |
| Selling, general and administrative expenses | | |
| Promotion expenses | 449,517 | 408,703 |
| Salaries | 453,450 | 571,615 |
| Provision of allowance for doubtful accounts | (5,195) | – |
| Provision for bonuses | 14,044 | 14,807 |
| Business consignment expenses | 899,904 | 1,008,955 |
| Other | *2 1,343,004 | *2 1,588,501 |
| Total selling, general and administrative expenses | 3,154,725 | 3,592,584 |
| Operating income | 1,302,742 | 1,445,471 |
| Non-operating income | | |
| Interest income | 394 | 1,744 |
| Dividend income | 160 | 160 |
| Refunded consumption taxes | 3,719 | – |
| Foreign exchange gains | – | 8,729 |
| Gain on adjustment of account payable | 5,098 | – |
| Contribution for development | 5,833 | 7,362 |
| Other | 677 | 190 |
| Total non-operating income | 15,882 | 18,186 |
| Non-operating expenses | | |
| Interest expenses | 872 | – |
| Foreign exchange losses | 5,295 | – |
| Other | 324 | – |
| Total non-operating expenses | 6,491 | – |
| Ordinary income | 1,312,133 | 1,463,657 |
| Extraordinary income | | |
| Gain on sales of patent right | 18,000 | – |
| Gain on reversal of subscription rights to shares | – | 341 |
| Total extraordinary income | 18,000 | 341 |
| Extraordinary losses | | |
| Loss on valuation of advance payments | 3,476 | 197 |
| Total extraordinary losses | 3,476 | 197 |
| Profit before income taxes | 1,326,656 | 1,463,802 |
| Income taxes - current | 104,847 | 234,152 |
| Income taxes - deferred | 7,382 | 238,782 |
| Total income taxes | 112,230 | 472,935 |
| Profit | 1,214,426 | 990,867 |
| Profit attributable to owners of parent | 1,214,426 | 990,867 |

Consolidated statement of comprehensive income

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Profit | 1,214,426 | 990,867 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,222 | (604) |
| Foreign currency translation adjustment | 3,129 | (2,200) |
| Total other comprehensive income | * 4,352 | * (2,805) |
| Comprehensive income | 1,218,778 | 988,061 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,218,778 | 988,061 |
| Comprehensive income attributable to non-controlling interests | – | – |

iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(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 | (604,603) | (1) | 2,777,847 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | | |
| Profit attributable to owners of parent | | | 1,214,426 | | 1,214,426 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | – | 1,214,426 | – | 1,214,426 |
| Balance at end of current period | 1,771,226 | 1,611,226 | 609,822 | (1) | 3,992,274 |

| | Accumulated other comprehensive income | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | (1,106) | 2,207 | 1,101 | 9,386 | 2,788,335 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | | |
| Profit attributable to owners of parent | | | | | 1,214,426 |
| Net changes of items other than shareholders' equity | 1,222 | 3,129 | 4,352 | 15,545 | 19,897 |
| Total changes of items during period | 1,222 | 3,129 | 4,352 | 15,545 | 1,234,324 |
| Balance at end of current period | 116 | 5,337 | 5,453 | 24,932 | 4,022,659 |

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

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 1,771,226 | 1,611,226 | 609,822 | (1) | 3,992,274 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (121,533) | | (121,533) |
| Profit attributable to owners of parent | | | 990,867 | | 990,867 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | – | 869,333 | – | 869,333 |
| Balance at end of current period | 1,771,226 | 1,611,226 | 1,479,156 | (1) | 4,861,607 |

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

iv) Consolidated statement of cash flows

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 1,326,656 | 1,463,802 |
| Depreciation | 185,470 | 212,050 |
| Amortization of software | 210,757 | 222,309 |
| Share-based compensation expenses | 15,545 | 17,131 |
| Amortization of trademark right | 5,026 | 5,026 |
| Increase (decrease) in allowance for doubtful accounts | (6,756) | – |
| Increase (decrease) in provision for bonuses | (687) | 763 |
| Increase (decrease) in provision for sales returns | (279) | 17,718 |
| Increase (decrease) in provision for after-sale services | (5,844) | (409) |
| Gain on reversal of subscription rights to shares | – | (341) |
| Interest and dividend income | (554) | (1,904) |
| Interest expenses | 872 | – |
| Decrease (increase) in notes and accounts receivable - trade | (154,803) | (133,049) |
| Decrease (increase) in inventories | (18,630) | (39,932) |
| Decrease (increase) in advance payments | (26,481) | (51,514) |
| Increase (decrease) in notes and accounts payable - trade | 52,944 | 14,780 |
| Increase (decrease) in accounts payable - other | 87,331 | 27,381 |
| Other, net | 99,102 | (38,024) |
| Subtotal | 1,769,671 | 1,715,789 |
| Interest and dividend income received | 657 | 1,899 |
| Interest expenses paid | (2,512) | – |
| Income taxes paid | (118,437) | (93,751) |
| Net cash provided by (used in) operating activities | 1,649,378 | 1,623,937 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (9,807) | (21,226) |
| Purchase of software | (535,421) | (378,963) |
| Purchase of investment securities | (100,000) | (8) |
| Payments for lease and guarantee deposits | – | (211,350) |
| Proceeds from collection of lease and guarantee deposits | – | 11,044 |
| Net cash provided by (used in) investing activities | (645,228) | (600,503) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (20,000) | – |
| Repayments of long-term loans payable | (519,808) | – |
| Cash dividends paid | – | (121,137) |
| Net cash provided by (used in) financing activities | (539,808) | (121,137) |
| Effect of exchange rate change on cash and cash equivalents | 6,929 | (4,029) |
| Net increase (decrease) in cash and cash equivalents | 471,271 | 898,266 |
| Cash and cash equivalents at beginning of period | 1,807,418 | 2,278,689 |
| Cash and cash equivalents at end of period | * 2,278,689 | * 3,176,956 |

## Notes

### Significant matters forming the basis of preparing the consolidated financial statements

1. Scope of consolidation

   (1) Number of consolidated subsidiaries 1

   Name of consolidated subsidiary SOURCENEXT Inc.

   (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 mainly using the declining-balance 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).

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) 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.

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

Accounting policy for consumption taxes

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

**Changes in accounting policies**

Application of accounting standard for business combinations, etc.

Effective from the current fiscal year, the Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), and related standards, leading to changes in the presentation of net income and related items and the renaming of "minority interests" to "non-controlling interests." Consolidated financial statements for the previous fiscal year have been revised accordingly.

**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, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Valuation loss on finished goods | 24,302 | 23,953 |
| Loss on abandonment of finished goods | 9,089 | 35,128 |

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

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Research and development expenses | 5,893 | 19,523 |

**Consolidated statement of comprehensive income**

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Valuation difference on available-for-sale securities | | |
| Amount arising during the year | 1,280 | (880) |
| Reclassification adjustments | – | – |
| Before tax effects adjustments | 1,280 | (880) |
| Tax effects | (57) | 275 |
| Valuation difference on available-for-sale securities | 1,222 | (604) |
| Foreign currency translation adjustment | | |
| Amount arising during the year | 3,129 | (2,200) |
| Reclassification adjustments | – | – |
| Before tax effects adjustments | 3,129 | (2,200) |
| Tax effects | – | – |
| Foreign currency translation adjustment | 3,129 | (2,200) |
| Total other comprehensive income | 4,352 | (2,805) |

**Consolidated statement of changes in equity**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

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

| Class of shares | As of April 1, 2014 | Increase | Decrease | As of March 31, 2015 |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares (Shares) | 31,732,000 | – | – | 31,732,000 |
| Total | 31,732,000 | – | – | 31,732,000 |
| Treasury shares | | | | |
| Common shares (Shares) | 6 | – | – | 6 |
| Total | 6 | – | – | 6 |

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

| Category | Breakdown of subscription rights to shares | Class of shares to be issued upon exercise of subscription rights to shares | Number of shares to be issued upon exercise of subscription rights to shares (Shares) | | | | Balance as of March 31, 2015 (Thousands of yen) |
|---|---|---|---|---|---|---|---|
| | | | As of April 1, 2014 | Increase | Decrease | As of March 31, 2015 | |
| Reporting company (Parent company) | Subscription rights to shares as stock options | – | – | – | – | – | 24,932 |
| Total | | | – | – | – | – | 24,932 |

Note: The first day of the exercise period for the subscription rights to shares has not yet arrived.

3. Dividends

(1) Dividends paid

Not applicable.

(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 25, 2015 | Common shares | 121,533 | Retained earnings | 3.83 | March 31, 2015 | June 26, 2015 |

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

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

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

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

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

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

3. Dividends

(1) Dividends paid

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

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

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

**Consolidated statement of cash flows**

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

(Thousands of yen)

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Cash and deposits | 1,778,758 | 2,677,004 |
| Securities | 499,931 | 499,951 |
| Cash and cash equivalents | 2,278,689 | 3,176,956 |

**Financial instruments**

1. Status of financial instruments

(1) Policy for financial instruments

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

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

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

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

Investment securities are 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.

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

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

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

2. Fair values, etc. of financial instruments

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

Previous fiscal year (As of March 31, 2015)

(Thousands of yen)

| | Carrying amount | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | 1,778,758 | 1,778,758 | – |
| (2) Accounts receivable - trade | 919,199 | 919,199 | – |
| (3) Securities | 499,931 | 499,931 | – |
| (4) Investment securities | 9,530 | 9,530 | – |
| Total assets | 3,207,419 | 3,207,419 | – |
| (1) Accounts payable - trade | 259,290 | 259,290 | – |
| (2) Accounts payable - other | 341,326 | 341,326 | – |
| (3) Income taxes payable | 59,464 | 59,464 | – |
| Total liabilities | 660,081 | 660,081 | – |

Current fiscal year (As of March 31, 2016)

(Thousands of yen)

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

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

Assets

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

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

(4) Investment securities

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

Liabilities

(1) Accounts payable - trade, (2) Accounts payable - other, (3) Income taxes payable

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

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

(Thousands of yen)

| Category | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Unlisted stocks | 100,000 | 100,008 |

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, 2015)

(Thousands of yen)

| | Within one year | Over one year within five years | Over five years within ten years | Over ten years |
|---|---|---|---|---|
| Cash and deposits | 1,778,758 | – | – | – |
| Accounts receivable - trade | 919,199 | – | – | – |
| Securities and investment securities | | | | |
| Other securities with maturity | 499,931 | – | – | – |
| Total | 3,197,889 | – | – | – |

Current fiscal year (As of March 31, 2016)

(Thousands of yen)

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

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, 2015)

Not applicable.

Current fiscal year (As of March 31, 2016)

Not applicable.

## Securities

Other securities

Previous fiscal year (As of March 31, 2015)

(Thousands of yen)

| | Type | Carrying amount | Acquisition cost | Difference |
|---|---|---|---|---|
| Items whose carrying amount exceeds acquisition cost | (1) Stocks | 9,530 | 9,356 | 173 |
| | (2) Bonds | – | – | – |
| | (3) Other | 499,931 | 499,893 | 37 |
| | Subtotal | 509,461 | 509,250 | 211 |
| Items whose carrying amount does not exceed acquisition cost | (1) Stocks | – | – | – |
| | (2) Bonds | – | – | – |
| | (3) Other | – | – | – |
| | Subtotal | – | – | – |
| Total | | 509,461 | 509,250 | 211 |

Note: Unlisted stocks (carrying amount: 100,000 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, 2016)

(Thousands of yen)

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

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

## Derivatives

Not applicable.

## Retirement benefits

Not applicable.

**Stock options, etc.**

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

(Thousands of yen)

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Selling, general and administrative expenses (Other) | 15,545 | 17,131 |

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

(Thousands of yen)

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Gain on reversal of subscription rights to shares | – | 341 |

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) | 2015 Stock Options (6th series) |
|---|---|---|---|
| Category and number of people to whom stock options are granted | 79 employees of the Company | 6 employees of the Company | 2 Directors and 90 employees of the Company |
| Number of stock options by class of shares (Note) | Common shares: 64,400 shares | Common shares: 3,800 shares | Common shares: 83,100 shares |
| Grant date | September 20, 2013 | September 19, 2014 | July 24, 2015 |
| Vesting conditions | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. | Holders of the subscription rights to shares are required to have a position in the Company or a subsidiary and associate of the Company as director, auditor or employee at the time of exercising such rights. Notwithstanding, this shall not apply when the Board of Directors deems there to be just cause. Other terms and conditions shall be as per specifications in the "Subscription Rights to Shares Allotment Agreement" entered into between the Company and the person who has been granted subscription rights to shares. |
| Vesting period | Not specified. | Not specified. | Not specified. |
| Exercise period | August 30, 2015 – August 29, 2023 | August 29, 2016 – August 28, 2024 | June 26, 2017 – June 25, 2025 |

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

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

The following describes the number of stock options that existed during the current fiscal year (fiscal year ended March 31, 2016). 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) |
|---|---|---|---|
| Before vested (Shares) | | | |
| As of March 31, 2015 | 54,300 | 3,800 | – |
| Granted | – | – | 83,100 |
| Forfeited | 1,200 | 1,500 | 1,200 |
| Vested | 53,100 | – | – |
| Unvested | – | 2,300 | 81,900 |
| After vested (Shares) | | | |
| As of March 31, 2015 | – | – | – |
| Vested | 53,100 | – | – |
| Exercised | – | – | – |
| Forfeited | 600 | – | – |
| Exercisable | 52,500 | – | – |

ii) Per share price

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

4. Method for estimating the fair value per share of stock options granted during the fiscal year ended March 31, 2016

(1) Valuation method Black-Scholes Model

(2) Main basic numerical values and estimation method

| | |
|---|---|
| Volatility of share price (Note 1) | 66.40% |
| Estimated remaining outstanding period (Note 2) | 5.93 years |
| Estimated dividend (Note 3) | 3.83 yen per share |
| Risk-free interest rate (Note 4) | 0.12% |

Notes: 1. Calculated based on the stock market performance in the period from August 20, 2009 to July 24, 2015.

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 3.83 yen based on the actual dividends for the fiscal year ended March 31, 2015.

4. This is the yield of Japanese Government bonds on June 21, 2021, 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, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Deferred tax assets | | |
| Valuation loss on finished goods | 8,044 | 7,392 |
| Enterprise tax payable | 6,344 | 15,518 |
| Provision for sales returns | 18,213 | 22,449 |
| Provision for after-sale services | 6,699 | 6,157 |
| Loss on valuation of advance payments | 1,933 | 1,272 |
| Amortization of software | 8,304 | 4,043 |
| Amortization of trademark right | 76,507 | 45,766 |
| Loss carried forward | 221,873 | – |
| Other | 42,747 | 40,712 |
| Subtotal | 390,667 | 143,312 |
| Valuation allowance | (9,340) | (551) |
| Total deferred tax assets | 381,326 | 142,761 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | 57 | – |
| Total deferred tax liabilities | 57 | – |
| Net deferred tax assets | 381,269 | 142,761 |

### Changes in presentation

"Enterprise tax payable," which was included in "Other" under deferred tax assets in the previous fiscal year, is presented separately for the current fiscal year because its materiality has increased. The notes of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, an amount of 49,091 thousand yen presented as "Other" under deferred tax assets in the previous fiscal year has been reclassified as 6,344 thousand yen in "Enterprise tax payable" and 42,747 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

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Normal effective statutory tax rate | 35.6% | 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. |
| (Adjustments) | | |
| Permanent differences not deductible for tax purposes such as entertainment expenses | 0.5 | |
| Per capita inhabitant taxes | 0.2 | |
| Reduction in year-end deferred tax assets due to tax rate change | 2.3 | |
| Valuation allowance | (29.8) | |
| Other | (0.3) | |
| Actual effective tax rate after tax effect accounting | 8.5 | |

3. Adjustment of deferred tax assets and liabilities due to change in corporate tax rates

   On March 29, 2016, the Diet enacted the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016), and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016), which lower the corporation tax rate from the fiscal year starting on or after April 1, 2016. Accordingly, the normal effective statutory tax rate of 32.3% previously applied in calculating the amount of deferred tax assets and liabilities has been reduced to 30.9% with respect to the temporary differences expected to be resolved in the fiscal years beginning April 1, 2016 and 2017, and to 30.6% with respect to the temporary differences expected to be resolved in the fiscal year beginning April 1, 2018 and subsequent fiscal years.

   As a result of these tax rate changes, deferred tax assets decreased by 6,624 thousand yen, income taxes - deferred increased by 6,614 thousand yen, and valuation difference on available-for-sale securities increased by 9 thousand yen.

**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, 2014 to March 31, 2015)

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, 2015 to March 31, 2016)

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

*Information associated with reportable segments*

Previous fiscal year (From April 1, 2014 to March 31, 2015)

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 |
|---|---|---|
| 18,774 | 3,426 | 22,200 |

3. Information by major customer

   Not applicable.

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

1. Information by product and service

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

2. Geographical information

   (1) Net sales

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

   (2) Property, plant and equipment

(Thousands of yen)

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

3. Information by major customer

   Not applicable.

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

Not applicable.

*Information on amortization and unamortized balance of goodwill by reportable segment*

Not applicable.

*Information on gain on bargain purchase by reportable segment*

Not applicable.

*Related parties*

1. Transactions with related parties

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

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

Previous fiscal year (From April 1, 2014 to March 31, 2015)

| 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, 2015 (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, 2015 to March 31, 2016)

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

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, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net assets per share | 126.77 yen | 153.29 yen |
| Earnings per share | 38.27 yen | 31.23 yen |

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

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

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Profit attributable to owners of parent (Thousands of yen) | 1,214,426 | 990,867 |
| Amounts not attributable to common shareholders (Thousands of yen) | – | – |
| Profit attributable to owners of parent related to common shares (Thousands of yen) | 1,214,426 | 990,867 |
| Average number of common shares outstanding during the period (Shares) | 31,731,994 | 31,731,994 |
| 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<br>Common shares: 54,300 shares<br><br>Stock options resolved at the Board of Directors meeting held on August 28, 2014<br>Common shares: 3,800 shares | Stock options resolved at the Board of Directors meeting held on August 29, 2013<br>Common shares: 52,500 shares<br><br>Stock options resolved at the Board of Directors meeting held on August 28, 2014<br>Common shares: 2,300 shares<br><br>Stock options resolved at the Board of Directors meeting held on June 25, 2015<br>Common shares: 81,900 shares |

## Significant events after reporting period

Not applicable.

v) Annexed consolidated detailed schedules

*Annexed consolidated detailed schedule of corporate bonds*

Not applicable.

*Annexed consolidated detailed schedule of borrowings*

Not applicable.

*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, 2016

| (Cumulative period) | First three months | First six months | First nine months | Current fiscal year |
|---|---|---|---|---|
| Net sales (Thousands of yen) | 1,540,563 | 3,295,584 | 5,380,640 | 7,025,334 |
| Profit before income taxes (Thousands of yen) | 281,656 | 743,754 | 1,237,378 | 1,463,802 |
| Profit attributable to owners of parent (Thousands of yen) | 186,496 | 505,303 | 834,535 | 990,867 |
| Earnings per share (Yen) | 5.88 | 15.92 | 26.30 | 31.23 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| Earnings per share (Yen) | 5.88 | 10.05 | 10.38 | 4.93 |

## 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<br>March 31 |
| Number of shares per share unit | 100 shares |
| Purchase of fractional shares | |
| Office for handling business | (Special account)<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo<br>Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited |
| Shareholder register administrator | (Special account)<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo<br>Sumitomo Mitsui Trust Bank, Limited |
| Forwarding office | — |
| Handling charge for purchase | No charge |
| Method of public notice | The public notices of the Company shall be given by electronic means. Provided, however, in case of unavoidable circumstances such as an accident which prevent the use of the public notice by electronic means, they shall be placed in the Nihon Keizai (Nikkei) Shimbun. The electronic public notices are presented at the following website: http://www.sourcenext.com. |
| Special benefits for shareholders | Not applicable. |

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

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

## VII. Reference information of reporting company

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

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

2. Other reference information

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

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

19th term (from April 1, 2014 to March 31, 2015)

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2015

(2) Internal Control Report and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 26, 2015

(3) Quarterly Securities Reports and Written Confirmations

1st quarter of the 20th term (from April 1, 2015 to June 30, 2015)

Filed to Director-General of Kanto Local Finance Bureau on August 7, 2015

2nd quarter of the 20th term (from July 1, 2015 to September 30, 2015)

Filed to Director-General of Kanto Local Finance Bureau on November 13, 2015

3rd quarter of the 20th term (from October 1, 2015 to December 31, 2015)

Filed to Director-General of Kanto Local Finance Bureau on February 12, 2016

(4) Extraordinary Securities Reports

Filed to Director-General of Kanto Local Finance Bureau on May 24, 2016

Extraordinary Securities Report based on Article 19, paragraph 2, item 9-4 (Change to the Certified Public Accountant, etc. for Audits) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.

## B. Information about company which provides guarantee to reporting company

Not applicable.

# Independent Auditor's Audit Report and Internal Control Audit Report

June 28, 2016

The Board of Directors
SOURCENEXT Corporation

KPMG AZSA LLC

Hideaki Takao
Certified Public Accountant
Designated Limited Liability Partner
Engagement Partner

Toshio Akiyama
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, 2015 through March 31, 2016.

*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 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 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, 2016, and their financial performance and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

**<Audit of Internal Control>**

Pursuant to Article 193-2, paragraph 2 of the Financial Instruments and Exchange Act, we have audited the Internal Control Report as of March 31, 2016 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 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, 2016 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*

We have no interest in the Company which should be disclosed in compliance with 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.