



Financial Statements 2017

Year ended March 31, 2017

Contents

- 01 Consolidated Financial Statements
 - Consolidated Balance Sheets
- 03 Consolidated Statements of Income and
 - Consolidated Statements of Comprehensive Income
 - Consolidated Statements of Income
- 04 Consolidated Statements of Comprehensive Income
- 05 Consolidated Statements of Changes in Net Assets
- 07 Consolidated Statements of Cash Flows
- 09 Notes to Consolidated Financial Statements
- 32 Independent Auditors' Report

Consolidated Balance Sheets

SMS CO., LTD. and Its Consolidated Subsidiaries
As of March 31, 2016 and 2017

	Thousands of yen	
	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	5,291,707	7,829,843
Accounts receivable - trade	3,982,752	3,932,588
Merchandise and finished goods	95,830	81,624
Work in process	31,185	18,829
Supplies	6,770	36,163
Accounts receivable - other	1,891,531	2,491,065
Prepaid expenses	685,224	722,169
Deferred tax assets	268,219	239,450
Other	140,001	11,695
Allowance for doubtful accounts	(217,510)	(128,366)
Total current assets	12,175,712	15,235,064
Non-current assets		
Property, plant and equipment		
Buildings	383,400	375,144
Accumulated depreciation	(151,756)	(185,299)
Buildings, net	231,643	189,844
Tools, furniture and fixtures	515,019	573,211
Accumulated depreciation	(366,414)	(418,963)
Tools, furniture and fixtures, net	148,605	154,247
Machinery, equipment and vehicles	110,080	43,197
Accumulated depreciation	(61,999)	(19,231)
Machinery, equipment and vehicles, net	48,081	23,965
Total property, plant and equipment	428,330	368,057
Intangible assets		
Goodwill	12,874,322	11,166,859
Software	1,335,532	1,544,567
Trademark rights	10,046,813	9,703,617
Customer-related assets	3,046,910	2,692,375
Other	50	50
Total intangible assets	27,303,627	25,107,468
Investments and other assets		
Investment securities	* 1,025,966	* 1,665,781
Deferred tax assets	211,138	209,836
Lease and guarantee deposits	516,448	612,147
Other	28,578	33,390
Total investments and other assets	1,782,132	2,521,154
Total non-current assets	29,514,090	27,996,681
Total assets	41,689,802	43,231,745

See the accompanying Notes to Consolidated Financial Statements.

Thousands of yen

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	451,116	311,524
Short-term loans payable	19,002,638	—
Current portion of long-term loans payable	—	1,201,200
Accounts payable - other	3,443,188	4,236,387
Accrued expenses	232,160	182,252
Income taxes payable	947,942	1,139,932
Accrued consumption taxes	100,331	242,002
Advances received	1,102,636	1,077,864
Deposits received	45,718	52,826
Provision for bonuses	373,715	315,632
Provision for refund	129,785	143,006
Other	85,266	8,016
Total current liabilities	25,914,499	8,910,645
Non-current liabilities		
Long-term loans payable	44,742	10,210,200
Net defined benefit liability	111,938	135,613
Deferred tax liabilities	2,442,393	2,374,428
Other	18,563	17,463
Total non-current liabilities	2,617,637	12,737,705
Total liabilities	28,532,136	21,648,350
Net assets		
Shareholders' equity		
Capital stock	304,166	2,153,046
Capital surplus	—	4,148,192
Retained earnings	9,145,508	11,662,700
Treasury shares	(1,036,485)	(173)
Total shareholders' equity	8,413,190	17,963,766
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,888	199
Foreign currency translation adjustments	135,593	(838,440)
Total accumulated other comprehensive income	145,482	(838,240)
Subscription rights to shares	80,108	110,204
Non-controlling interests	4,518,884	4,347,664
Total net assets	13,157,666	21,583,394
Total liabilities and net assets	41,689,802	43,231,745

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2016 and 2017

	Thousands of yen	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	19,069,101	23,054,956
Cost of sales	2,204,290	3,727,283
Gross profit	16,864,810	19,327,673
Selling, general and administrative expenses	*1, *2 14,108,270	*1, *2 15,681,247
Operating income	2,756,539	3,646,425
Non-operating income		
Interest income	10,885	9,778
Interest on securities	453	212
Share of profit of entities accounted for using equity method	781,798	863,663
Other	39,059	31,162
Total non-operating income	832,197	904,816
Non-operating expenses		
Foreign exchange losses	35,957	11,333
Interest expenses	35,738	47,999
Share issuance cost	-	29,973
Other	7,256	31,087
Total non-operating expenses	78,952	120,394
Ordinary income	3,509,785	4,430,847
Extraordinary income		
Gain on sales of investment securities	240,038	-
Gain on sales of shares of subsidiaries and associates	-	55,963
Total extraordinary income	240,038	55,963
Extraordinary losses		
Loss on sales and retirement of non-current assets	4,853	-
Impairment loss	16,000	20,753
Loss on valuation of investment securities	83,257	-
Loss on sales of investment securities	-	20,000
Loss on sales of shares of subsidiaries and associates	*3 18,985	*3 151,247
Provision of allowance for doubtful accounts	50,567	-
Total extraordinary losses	173,662	192,000
Profit before income taxes	3,576,161	4,294,810
Income taxes - current	1,265,170	1,384,538
Income taxes - deferred	(98,415)	(93,825)
Total income taxes	1,166,754	1,290,712
Profit	2,409,406	3,004,097
Profit attributable to non-controlling interests	143,893	203,006
Profit attributable to owners of parent	2,265,512	2,801,090

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2016 and 2017

Thousands of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit	2,409,406	3,004,097
Other comprehensive income		
Valuation difference on available-for-sale securities	(571)	(9,550)
Foreign currency translation adjustments	(95,369)	(1,263,573)
Share of other comprehensive income of entities accounted for using equity method	12,001	(5,643)
Total other comprehensive income	* (83,939)	* (1,278,767)
Comprehensive income	2,325,467	1,725,330
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,113,068	1,816,646
Comprehensive income attributable to non-controlling interests	212,398	(91,316)

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2016 and 2017

Thousands of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2015	304,166	–	7,249,161	(1,036,485)	6,516,843
Changes of items during period					
Issuance of new shares	–	–	–	–	–
Dividends of surplus	–	–	(283,898)	–	(283,898)
Profit attributable to owners of parent	–	–	2,265,512	–	2,265,512
Net increase (decrease) due to change in scope of consolidation	–	–	(23,025)	–	(23,025)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	(62,241)	–	(62,241)
Purchase of treasury shares	–	–	–	–	–
Disposal of treasury shares	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–
Total changes of items during the year	–	–	1,896,347	–	1,896,347
Balance at March 31, 2016	304,166	–	9,145,508	(1,036,485)	8,413,190

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2015	10,403	287,523	297,926	47,339	61,133	6,923,242
Changes of items during period						
Issuance of new shares	–	–	–	–	–	–
Dividends of surplus	–	–	–	–	–	(283,898)
Profit attributable to owners of parent	–	–	–	–	–	2,265,512
Net increase (decrease) due to change in scope of consolidation	–	–	–	–	–	(23,025)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	(62,241)
Purchase of treasury shares	–	–	–	–	–	–
Disposal of treasury shares	–	–	–	–	–	–
Net changes of items other than shareholders' equity	(514)	(151,929)	(152,444)	32,769	4,457,751	4,338,076
Total changes of items during the year	(514)	(151,929)	(152,444)	32,769	4,457,751	6,234,423
Balance at March 31, 2016	9,888	135,593	145,482	80,108	4,518,884	13,157,666

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Thousands of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2016	304,166	—	9,145,508	(1,036,485)	8,413,190
Changes of items during period					
Issuance of new shares	1,848,879	1,848,879	—	—	3,697,758
Dividends of surplus	—	—	(283,898)	—	(283,898)
Profit attributable to owners of parent	—	—	2,801,090	—	2,801,090
Net increase (decrease) due to change in scope of consolidation	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	(3,272)	—	—	(3,272)
Purchase of treasury shares	—	—	—	(117)	(117)
Disposal of treasury shares	—	2,302,585	—	1,036,428	3,339,014
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during the year	1,848,879	4,148,192	2,517,192	1,036,311	9,550,576
Balance at March 31, 2017	2,153,046	4,148,192	11,662,700	(173)	17,963,766

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2016	9,888	135,593	145,482	80,108	4,518,884	13,157,666
Changes of items during period						
Issuance of new shares	—	—	—	—	—	3,697,758
Dividends of surplus	—	—	—	—	—	(283,898)
Profit attributable to owners of parent	—	—	—	—	—	2,801,090
Net increase (decrease) due to change in scope of consolidation	—	—	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	(3,272)
Purchase of treasury shares	—	—	—	—	—	(117)
Disposal of treasury shares	—	—	—	—	—	3,339,014
Net changes of items other than shareholders' equity	(9,688)	(974,034)	(983,723)	30,095	(171,220)	(1,124,847)
Total changes of items during the year	(9,688)	(974,034)	(983,723)	30,095	(171,220)	8,425,728
Balance at March 31, 2017	199	(838,440)	(838,240)	110,204	4,347,664	21,583,394

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal year ended March 31, 2016 and 2017

Thousands of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	3,576,161	4,294,810
Depreciation	557,450	876,573
Amortization of goodwill	425,672	640,164
Loss (gain) on sales and retirement of non-current assets	4,853	—
Impairment loss	16,000	20,753
Loss (gain) on sales of investment securities	(240,038)	20,000
Loss (gain) on valuation of investment securities	83,257	—
Loss (gain) on sales of shares of subsidiaries and associates	18,985	95,283
Share of (profit) loss of entities accounted for using equity method	(219,277)	(681,601)
Increase (decrease) in allowance for doubtful accounts	25,804	(37,576)
Increase (decrease) in provision for bonuses	132,142	(46,422)
Increase (decrease) in provision for refund	(6,050)	13,221
Increase (decrease) in net defined benefit liability	22,303	23,675
Foreign exchange losses (gains)	35,957	11,333
Decrease (increase) in notes and accounts receivable - trade	(262,710)	(10,293)
Increase (decrease) in accrued consumption taxes	(277,234)	141,372
Decrease (increase) in accounts receivable - other	(584,976)	(599,537)
Decrease (increase) in prepaid expenses	33,585	(20,093)
Increase (decrease) in advances received	(103,575)	13,612
Increase (decrease) in accounts payable - other	243,886	821,582
Decrease (increase) in lease and guarantee deposits	(29,032)	(122,625)
Other, net	103,854	(284,785)
Subtotal	3,557,017	5,169,447
Interest and dividend income received	10,669	10,578
Interest expenses paid	(35,947)	(48,289)
Income taxes paid	(1,287,252)	(1,211,804)
Net cash provided by (used in) operating activities	2,244,486	3,919,932
Cash flows from investing activities		
Payments into time deposits	(116,512)	(1,199,655)
Proceeds from withdrawal of time deposits	—	655,145
Purchase of property, plant and equipment	(129,952)	(67,157)
Purchase of intangible assets	(772,738)	(815,185)
Proceeds from sales of investment securities	502,341	13,647
Purchase of investment securities	(8,330)	(40,387)
Payments of loans receivable	(37,680)	(38,500)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	381,892
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(17,907,051)	—
Other, net	68,020	76,620
Net cash provided by (used in) investing activities	(18,401,902)	(1,033,579)

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Thousands of yen

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from financing activities		
Increase in short-term loans payable	19,004,038	—
Decrease in short-term loans payable	(1,588)	(19,000,000)
Proceeds from long-term loans payable	—	12,012,000
Repayments of long-term loans payable	(13,007)	(600,600)
Proceeds from issuance of common shares	—	3,679,747
Proceeds from sales of treasury shares	—	3,324,989
Cash dividends paid	(282,744)	(289,268)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42,114)	(3,311)
Other, net	(8,330)	1,118
Net cash provided by (used in) financing activities	18,656,253	(875,324)
Effect of exchange rate change on cash and cash equivalents	(54,803)	(17,402)
Net increase (decrease) in cash and cash equivalents	2,444,033	1,993,626
Cash and cash equivalents at beginning of year	2,694,008	5,147,343
Increase in cash and cash equivalents from newly consolidated subsidiary	9,301	—
Cash and cash equivalents at end of year	* 5,147,343	* 7,140,969

See the accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Significant basis of presenting consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 33

Names of major consolidated subsidiaries

SMS Career CO., LTD.

SENIOR MARKETING SYSTEM ASIA PTE. LTD.

MIMS Pte. Ltd.

MIMS (Shanghai) Ltd.

MIMS (NZ) Limited and other

For the fiscal year ended March 31, 2017, SMS TAIWAN Co., Ltd., eChannelling PLC and other two subsidiaries were excluded from the scope of consolidation since SMS Co., Ltd. (the Company) sold its holding shares.

SMS Shanghai Co., Ltd. was excluded from the scope of consolidation since its liquidation was completed.

Wadoc Pte. Ltd. was excluded from the scope of consolidation since it merged with MIMS Pte. Ltd.

(2) Number of non-consolidated subsidiaries: 1

Name of non-consolidated subsidiary

This Source (Pvt) Ltd

(Reason for exclusion from consolidation)

The non-consolidated subsidiary is small in size, and the company's total assets, net sales, profit (amount corresponding to equity holdings) and retained earnings (amount corresponding to equity holdings) do not have a material effect on the consolidated financial statements., and, therefore, it is excluded from the scope of consolidation.

2. Application of equity method

(1) Number of affiliates accounted for using equity method: 3

Name of major affiliate

M3 Career, Inc.

(2) Number of affiliates not accounted for using equity method: 1

Name of affiliate not accounted for using equity method

HelpingDoc Private Limited

(3) Number of non-consolidated subsidiaries not accounted for using equity method: 1

Name of non-consolidated subsidiary not accounted for using equity method

This Source (Pvt) Ltd

(Reason for exclusion from application of equity method)

The non-consolidated subsidiary not accounted for using equity method does not have a material impact in aggregate, and the company's profit (amount corresponding to equity holdings) and retained earnings (amount corresponding to equity holdings) do not have a material effect on the consolidated financial statements. Therefore, it is not accounted for using equity method.

3. Fiscal year of consolidated subsidiaries

The fiscal year-end of SMS Career CO., LTD., SMS Support Service CO., LTD., EIR Inc., SMS Medicare Service CO., LTD. and SMS Financial Service CO., LTD. is March 31, the same as the Company's consolidated balance sheet date.

The balance sheet date of consolidated subsidiaries other than above is December 31. Since the difference in balance sheet dates is not more than three months, financial statements as of December 31 are used in preparing the consolidated financial statements. For significant transactions that occurred in the period from their balance sheet date to the consolidated balance sheet date, necessary adjustments have been made upon consolidation.

4. Significant accounting policies

(1) Basis and method of valuation of significant assets

a. Securities

Available-for-sale securities

Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

b. Inventories

Merchandise and finished goods, work in process and supplies

Inventories are mainly measured at cost determined by the weighted-average method. (The carrying amount is measured at lower of cost or net selling value.)

(2) Depreciation and amortization method of significant depreciable assets

a. Property, plant and equipment

Property, plant and equipment are depreciated by the declining-balance method. As for fixtures and structures acquired on or after April 1, 2016, the straight-line method is applied.

Major useful lives are as follows:

Buildings	6 to 15 years
Tools, furniture and fixtures	3 to 9 years
Machinery, equipment and vehicles	2 to 5 years

b. Intangible assets

Intangible assets are amortized by the straight-line method.

Major useful lives are as follows:

Software	Estimated period of internal use (within 5 years)
Trademark rights	Not amortized
Customer-related assets	12 years

(3) Basis of significant allowance and provision

a. Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to normal trade receivables. For specific doubtful receivables, uncollectible amounts are individually estimated.

b. Provision for bonuses

Provision for bonuses is provided for the payment of employees' bonuses based on the estimate of future payments attributed to the fiscal year.

c. Provision for refund

In order to meet refund payments due to applicants' resignation based on the refund provision stipulated in job placement contracts between the Company and clients, provision for refund is provided at an amount estimated based on historical experience.

(4) Methods for significant hedge accounting

a. Hedge accounting method

Deferral hedge accounting is applied. For interest rate swaps, the special accounting treatment is applied if the criteria for the special accounting treatment are met. For currency swaps, the allocation method is applied if the criteria for the allocation method are met.

b. Hedging instruments and hedged items

Hedging instruments: Interest rate swaps and currency swaps

Hedged items: Long-term loans payable and associated interests denominated in foreign currencies

c. Hedge policy

As a policy, the Company uses interest rate swaps and currency swaps in order to mitigate and avoid the interest rate fluctuation risk and the foreign exchange fluctuation risk.

d. Method of evaluating hedge effectiveness

Hedge effectiveness is evaluated by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. For interest rate swaps which meet the criteria for the special accounting treatment, the evaluation of hedge effectiveness is omitted.

(5) Accounting treatments for retirement benefit

a. The method of attributing expected benefit to periods

The straight-line method is used as the method of attributing expected benefit to periods through the balance sheet date in calculating the projected benefit obligations.

b. The method of recognizing actuarial gain or loss

Actuarial gain or loss is charged to income in the fiscal year when such gain or loss is incurred.

(6) Basis of translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, and income and expenses are translated into yen at average exchange rates during the year. Differences arising from the translations are included in “Foreign currency translation adjustments” and “Non-controlling interests” under net assets.

(7) Amortization of goodwill – method and period of amortization

Goodwill is amortized over its effective period, not exceeding 20 years, on a straight-line basis.

(8) Cash and cash equivalents in consolidated statements of cash flows

The Company considers cash on hand, readily available deposits, and all highly liquid short-term instruments with a maturity of three months or less when purchased that are exposed to insignificant risk of changes in value to be cash and cash equivalents.

(9) Other significant matters for preparation of consolidated financial statements

a. Accounting treatment of consumption taxes

National and local consumption taxes are accounted for by the tax-excluded method. Non-deductible consumption tax and local consumption taxes are recorded as expenses as incurred.

b. Consolidated taxation system

The Company and certain consolidated subsidiaries have applied the consolidated taxation system effective from the year ended March 31, 2017.

(Changes in accounting policy)

(Application of the Practical Guideline for Depreciation Method in connection with Tax Reform 2016)

With the promulgation of the Japan Tax Reform 2016, the Company has applied the “Practical Guideline for Depreciation Method in connection with Tax Reform 2016” (Practical Guideline No. 32, June 17, 2016) effective from the year ended March 31, 2017 and has changed the method of depreciation of fixtures and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. The effect on profit or loss is immaterial.

(Changes in presentation)

(Consolidated balance sheets)

As of March 31, 2017, long-term loans payable, which was previously included in other under non-current liabilities, is presented as a separate line item since it became significant in amount. The prior year’s consolidated financial statements have been restated in order to reflect this change in presentation.

As a result, ¥63,305 thousand of other under non-current liabilities previously shown on the consolidated balance sheet as of March 31, 2016 is reclassified to ¥44,742 thousand of long-term loans payable and ¥18,563 thousand of other.

(Consolidated statements of cash flows)

Decrease (increase) in accounts receivable-other, which was previously included in other under net cash provided by (used in) operating activities, is presented as a separate line item since it became significant in amount. The prior year’s consolidated financial statements have been restated in order to reflect this change in presentation.

As a result, ¥(481,122) thousand of other under net cash provided by (used in) operating activities previously shown on the consolidated statement of cash flows for the year ended March 31, 2016 is reclassified to ¥(584,976) thousand of decrease (increase) in accounts receivable-other and ¥103,854 thousand of other.

(Additional information)

(Implementation guidance on recoverability of deferred tax assets)

Effective from the year ended March 31, 2017, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(Consolidated taxation system)

Effective from the year ended March 31, 2017, the Company and certain consolidated subsidiaries have applied the consolidated taxation system.

(Consolidated balance sheets)

* Investment in non-consolidated subsidiaries and affiliates included in investment securities is as follows: (Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Investment securities (shares)	958,951	1,635,776

(Consolidated statements of income)

*1 Major items and amounts included in selling, general and administrative expenses are as follows: (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Salaries and allowance	4,678,830	5,072,884
Advertising expenses	2,772,896	2,787,505
Amortization of goodwill	425,672	640,164
Depreciation	557,450	876,573
Business consignment expenses	2,117,667	2,261,057
Legal welfare expenses	697,945	727,094
Rents	579,930	891,454
Provision for bonuses	282,668	334,125
Retirement benefit expenses	30,794	37,152
Provision of allowance for doubtful accounts	45,861	32,004

*2 Research and development expenses included in general and administrative expenses are as follows: (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
	24,422	4,991

*3 Loss on sales of shares of subsidiaries and associates is as follows: (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Loss on sale of shares of SMS VIETNAM CO.,LTD.		Losses mainly on sale of shares of eChannelling PLC

(Consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects in connection with other comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Valuation difference on available-for-sale securities:		
Amount arising during the year	(824)	(12)
Reclassification adjustments	—	(9,541)
Amount before tax effects	(824)	(9,554)
Tax effects	252	3
Valuation difference on available-for-sale securities	(571)	(9,550)
Foreign currency translation adjustments:		
Amount arising during the year	(114,519)	(1,212,513)
Reclassification adjustments	19,150	(51,060)
Foreign currency translation adjustments	(95,369)	(1,263,573)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	12,001	(5,643)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method	12,001	(5,643)
Total other comprehensive income	(83,939)	(1,278,767)

(Consolidated statements of changes in net assets)

Fiscal year ended March 31, 2016

1. Matters regarding class and number of issued shares and class and number of treasury shares

(Shares)

	Number of shares at beginning of year	Increase	Decrease	Number of shares at end of year
Issued shares:				
Common stock	41,887,200	—	—	41,887,200
Total	41,887,200	—	—	41,887,200
Treasury shares:				
Common stock	1,330,272	—	—	1,330,272
Total	1,330,272	—	—	1,330,272

2. Matters regarding subscription rights to shares

Classification	Description of subscription rights to shares	Class of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of year (Thousands of yen)
			Beginning of year	Increase	Decrease	End of year	
The Company (Parent company)	August 2011 No.7 Stock Option	Common stock	54,400	—	16,000	38,400	4,021
	July 2012 No.8 Stock Option	Common stock	91,200	—	19,200	72,000	15,813
	July 2013 No.9 Stock Option	Common stock	100,800	—	28,800	72,000	18,073
	July 2014 No.10 Stock Option	Common stock	200,000	—	—	200,000	42,200
Total		—	446,400	—	64,000	382,400	80,108

(Notes) 1. The stock options above will be exercisable in the following schedule: No. 7 Stock Option on August 19, 2016; No.8 Stock Option on July 20, 2017; No.9 Stock Option on July 18, 2018 and No.10 Stock Option on July 17, 2021.

2. Decreases are due to the expiration of subscription rights to shares.

3. Matters regarding dividend

(1) Dividend payment

Resolution	Class	Dividend amount (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2015	Common stock	283,898	7	March 31, 2015	June 25, 2015

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2016, the dividend whose effective date falls in the fiscal year ending March 31, 2017.

Resolution	Class	Recourse	Dividend amount (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2016	Common stock	Retained earnings	283,898	7	March 31, 2016	June 27, 2016

Fiscal year ended March 31, 2017

1. Matters regarding class and number of issued shares and class and number of treasury shares

(Shares)

	Number of shares at beginning of year	Increase	Decrease	Number of shares at end of year
Issued shares:				
Common stock (Note 1)	41,887,200	1,495,400	—	43,382,600
Total	41,887,200	1,495,400	—	43,382,600
Treasury shares:				
Common stock (Note 2)	1,330,272	41	1,330,200	113
Total	1,330,272	41	1,330,200	113

(Notes) 1. Increase in issued shares (1,495,400 shares) is due to the issuance of new shares (1,469,800 shares) in overseas markets and the exercise of subscription rights to shares (25,600 shares).

2. Decrease in treasury shares is due to the disposal of treasury shares (1,330,200 shares) in overseas markets.

2. Matters regarding subscription rights to shares

Classification	Description of subscription rights to shares	Class of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of year (Thousands of yen)
			Beginning of year	Increase	Decrease	End of year	
The Company (Parent company)	August 2011 No.7 Stock Option	Common stock	38,400	—	32,000	6,400	718
	July 2012 No.8 Stock Option	Common stock	72,000	—	14,400	57,600	16,024
	July 2013 No.9 Stock Option	Common stock	72,000	—	9,600	62,400	21,363
	July 2014 No.10 Stock Option	Common stock	200,000	—	—	200,000	66,314
	July 2016 No.11 Stock Option	Common stock	—	18,000	—	18,000	4,548
	July 2016 No.12 Stock Option	Common stock	—	206,000	—	206,000	1,236
Total		—	382,400	224,000	56,000	550,400	110,204

- (Notes) 1. The stock options above will be exercisable in the following schedule: No. 7 Stock Option on August 19, 2016; No.8 Stock Option on July 20, 2017; No.9 Stock Option on July 18, 2018, No.10 Stock Option on July 17, 2021, No.11 Stock Option on July 20, 2019 and No.12 Stock Option on July 1, 2019.
2. Decreases are due to the exercise and the expiration of subscription rights to shares.

3. Matters regarding dividend

(1) Dividend payment

Resolution	Class	Dividend amount (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2016	Common stock	283,898	7	March 31, 2016	June 27, 2016

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2017, the dividend whose effective date falls in the fiscal year ending March 31, 2018.

Resolution	Class	Recourse	Dividend amount (Thousands of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 22, 2017	Common stock	Retained earnings	477,207	11	March 31, 2017	June 23, 2017

(Consolidated statements of cash flows)

* Reconciliation of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash and deposits	5,291,707	7,829,843
Time deposits with maturity in excess of three months	(144,364)	(688,874)
Cash and cash equivalents	5,147,343	7,140,969

(Leases)

The disclosure is omitted because all lease transactions for the fiscal year ended March 31, 2017 are not material in view of the Company's business, and each transaction is small in size.

(Financial instruments)

1. Status of financial instruments

(1) Policy on financial instruments

As a policy, the Company generally operates its business using funds provided by operating activities, and invests temporary surplus funds in very safe financial instruments. The Company does not enter into financial transactions for trading or speculative purposes.

(2) Types of financial instruments and related risk, and risk management

Accounts receivable - trade and accounts receivable - other are exposed to the credit risk of customers; however, the risk is limited because most of these receivables become due within two months. In accordance with the Company's credit management policy, the Company manages such risk by monitoring due dates and outstanding balances by customer and evaluating their credit status.

Lease and guarantee deposits are primarily associated with lease contracts for the headquarters and other office buildings. In order to assess the credit risk of the lessors who hold deposits, the Company investigates and evaluates their credit status before concluding the lease contracts.

Accounts payable - other and income taxes payable have payment due dates within one year, in general. Current liabilities including these payables are exposed to liquidity risk at time of settlement. However, the Company avoids such risk by reviewing the cash management plan on a monthly basis.

Long-term loans payable are primarily for share acquisitions related to M&A transactions. The Company manages interest rate fluctuation risk and the foreign exchange fluctuation risk of each contract by using derivative transactions such as interest rate swaps and currency swaps as hedging instruments.

(3) Supplemental information regarding fair value of financial instruments

The fair value of financial instruments is based on their market prices, if available. Where there is no market price available, fair value is reasonably estimated. Because estimations of fair value incorporate variable factors, the fair value may vary when different assumptions are applied.

2. Matters regarding fair value of financial instruments

The carrying amount, fair value and the difference between them are as follows. Financial instruments for which fair value is extremely difficult to estimate are excluded from the following table (See Note 2 below).

As of March 31, 2016		(Thousands of yen)	
	Carrying amount	Fair value	Difference
(1) Cash and deposits	5,291,707	5,291,707	—
(2) Accounts receivable - trade	3,982,752		
Allowance for doubtful accounts (*1)	(171,014)		
	3,811,737	3,811,737	—
(3) Accounts receivable - other	1,891,531	1,891,531	—
(4) Lease and guarantee deposits	516,448	503,627	(12,821)
Total assets	11,511,425	11,498,604	(12,821)
(5) Short-term loans payable	19,002,638	19,002,638	—
(6) Long-term loans payable	44,742	44,742	—
(7) Accounts payable - other	3,443,188	3,443,188	—
(8) Income taxes payable	947,942	947,942	—
Total liabilities	23,438,511	23,438,511	—

(*1) The amount is presented as allowance for doubtful accounts receivable - trade.

As of March 31, 2017		(Thousands of yen)	
	Carrying amount	Fair value	Difference
(1) Cash and deposits	7,829,843	7,829,843	—
(2) Accounts receivable - trade	3,932,588		
Allowance for doubtful accounts (*1)	(128,366)		
	3,804,222	3,804,222	—
(3) Accounts receivable - other	2,491,065	2,491,065	—
(4) Lease and guarantee deposits	612,147	586,694	(25,453)
Total assets	14,737,278	14,711,825	(25,453)
(5) Short-term loans payable	—	—	—
(6) Long-term loans payable (*2)	11,411,400	11,280,977	(130,422)
(7) Accounts payable - other	4,236,387	4,236,387	—
(8) Income taxes payable	1,139,932	1,139,932	—
Total liabilities	16,787,719	16,657,297	(130,422)
Derivative transactions	—	—	—

(*1) The amount is presented as allowance for doubtful accounts receivable - trade.

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

(Notes) 1. Measurement method of fair value of financial instruments and information on securities

Assets

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

Since these items are settled in a short period of time, their carrying amount approximates fair value. Since it is extremely difficult to estimate credit risk of each receivable, the Company estimates the fair value of accounts receivable - trade by deducting allowance for doubtful receivables from the carrying amount, considering that allowance for doubtful accounts approximates the amount of credit risk.

(4) Lease and guarantee deposits

These deposits are principally associated with lease contracts for the headquarters and other offices. The fair value is based on the present value discounted by reasonable rates after deducting estimated restoration expenses from respective amounts of lease and guarantee deposits.

Liabilities

(6) Long-term loans payable (including current portion)

Since the interests on these loans payable are fixed using interest rate swaps, the fair value is calculated by discounting the total of principal and interest classified by the remaining period to the maturity using an assumed interest rates applicable to a similar type of new borrowings.

(5) Short-term loans payable, (7) Accounts payable - other, (8) Income taxes payable

Since these items are settled in a short period of time, their carrying amount approximates fair value.

Derivative transactions

Interest rate swaps under the special accounting treatment and currency swaps under the allocation method are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

2. Financial instruments whose fair value is extremely difficult to determine

(Thousands of yen)

Classification	As of March 31, 2016	As of March 31, 2017
Investment securities		
Unlisted shares	1,025,966	1,665,781

These securities are not included in the table above, as there were no market prices available and it is extremely difficult to determine the fair value.

3. Maturity analysis for financial assets and securities with contractual maturities

As of March 31, 2016

(Thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	5,263,019	—	—	—
Accounts receivable -trade	3,982,752	—	—	—
Investment securities				
Available-for-sale securities with maturities				
Bonds (Corporate bonds)	—	40,150	—	—
Total	9,245,771	40,150	—	—

As of March 31, 2017

(Thousands of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	7,792,289	—	—	—
Accounts receivable -trade	3,932,588	—	—	—
Investment securities				
Available-for-sale securities with maturities				
Bonds (Corporate bonds)	—	—	—	—
Total	11,724,878	—	—	—

4. Maturity analysis for loans payable and other interest-bearing debts

As of March 31, 2016

(Thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	19,002,638	—	—	—	—	—
Long-term loans payable	—	44,742	—	—	—	—
Total	19,002,638	44,742	—	—	—	—

As of March 31, 2017

(Thousands of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	—	—	—	—	—	—
Long-term loans payable	1,201,200	1,201,200	1,201,200	1,201,200	1,201,200	5,405,400
Total	1,201,200	1,201,200	1,201,200	1,201,200	1,201,200	5,405,400

(Securities)

1. Impairment of securities

Fiscal year ended March 31, 2016

The Company omitted disclosure due to immateriality.

Fiscal year ended March 31, 2017

None to report.

(Derivative transactions)

1. Derivatives transactions for which hedge accounting has not been applied

None to report.

2. Derivatives transactions for which hedge accounting has been applied

(1) Currency-related

As of March 31, 2016

None to report.

As of March 31, 2017

(Thousands of yen)

Hedge accounting method	Transaction	Hedged item	Contract amount	Contract amount over one year	Fair value
Allocation method	Currency swaps Receive: U.S. dollar / Pay: Yen	Long-term loans payable	12,012,000	10,210,200	(Note)

(Note) Currency swaps under the allocation method are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

(2) Interest rate-related

As of March 31, 2016

None to report.

As of March 31, 2017

(Thousands of yen)

Hedge accounting method	Transaction	Hedged item	Contract amount	Contract amount over one year	Fair value
Special accounting treatment	Interest rate swaps Receive: Floating / Pay: Fix	Long-term loans payable	12,012,000	10,210,200	(Note)

(Note) Interest rate swaps under special accounting treatment are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

(Retirement benefit)

1. Summary of retirement benefit plans

The Group has a lump-sum payment plan.

2. Defined benefit plan

(1) Reconciliation between beginning balance and ending balance of projected benefit obligations (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Balance at beginning of year	89,634	111,938
Service cost	22,721	31,518
Interest cost	308	(50)
Actuarial gain or loss	7,764	5,683
Retirement benefits paid	(8,490)	(9,610)
Decrease due to change in scope of consolidation	—	(3,866)
Balance at end of year	111,938	135,613

(2) Reconciliation between the ending balance of projected benefit obligations and net defined benefit liability recorded on the consolidated balance sheets (Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Unfunded retirement benefit obligations	111,938	135,613
Net defined benefit liability	111,938	135,613

(3) The components of retirement benefit expenses (Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Service cost	22,721	31,518
Interest cost	308	(50)
Amortization of actuarial gain or loss	7,764	5,683
Total retirement benefit expenses	30,794	37,152

(4) The major assumptions used for the actuarial calculation (weighted average)

	As of March 31, 2016	As of March 31, 2017
Discount rate	0.3%	0.1%

(Stock options)

1. The amount of costs incurred for the stock option plans and the account recorded are as follows:

(Thousands of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Share-based compensation expenses included in general and administrative expenses	32,769	31,732

2. Outline, number and status of changes in number of stock options

(1) Outline of stock options

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Position and number of grantee	4 directors, 9 employees	5 directors, 9 employees	4 directors, 13 employees
Number of options granted (Notes 1 and 2)	54,400 shares	91,200 shares	100,800 shares
Date of grant	August 18, 2011	July 19, 2012	July 18, 2013
Vesting condition	The grantee shall be in the position of director or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	The grantee shall be in the position of director or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	The grantee shall be in the position of director or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.
Service period	August 18, 2011 – August 18, 2016	July 19, 2012 – July 19, 2017	July 18, 2013 – July 18, 2018
Exercise period	August 19, 2016 – August 18, 2021	July 20, 2017 – July 19, 2022	July 19, 2018 – July 18, 2023

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Position and number of grantee	1 director	3 directors	3 directors, 40 employees
Number of options granted (Notes 1 and 2)	200,000 shares	18,000 shares	206,000 shares
Date of grant	July 17, 2014	August 9, 2016	August 9, 2016
Vesting condition	The grantee shall be in the position of director of the Company. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	The grantee shall be in the position of director of the Company. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	Only when EBITDA for the fiscal year ended March 31, 2019 exceeds (a), (b), or (c) stated below, subscription rights to shares shall become exercisable. Of the subscription rights allotted to each grantee, the number of rights which become exercisable (“exercisable ratio”) shall be determined as follows: (a) EBITDA exceeds ¥4,977 million: exercisable ratio is 10% (b) EBITDA exceeds ¥6,462 million: exercisable ratio is 50% (c) EBITDA exceeds ¥8,216 million: exercisable ratio is 100% Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.
Service period	July 17, 2014 – July 17, 2021	August 9, 2016 – July 20, 2019	—
Exercise period	July 17, 2021 – July 16, 2024	July 20, 2019 – July 19, 2026	July 1, 2019 – June 30, 2024

(Notes) 1. It is converted and stated as number of shares.

2. Based on the resolution of the Board of Directors’ meeting held on November 19, 2014, the Company implemented a 2-for-1 stock split effective January 1, 2015. The number of shares above represents those after the stock split.

(2) Number and status of changes in number of stock options

The following tables are based on the stock options that existed for the year ended March 31, 2017. The number of stock options is converted and stated as the number of shares.

a. Number of stock options

(Shares)

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Non-vested:			
Outstanding at March 31, 2016	38,400	72,000	72,000
Granted	—	—	—
Increase due to stock split	—	—	—
Forfeited	6,400	14,400	9,600
Vested	32,000	—	—
Outstanding at March 31, 2017	—	57,600	62,400
Vested:			
Outstanding at March 31, 2016	—	—	—
Vested	32,000	—	—
Increase due to stock split	—	—	—
Exercised	25,600	—	—
Forfeited	—	—	—
Outstanding at March 31, 2017	6,400	—	—

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Non-vested:			
Outstanding at March 31, 2016	200,000	—	—
Granted	—	18,000	206,000
Increase due to stock split	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at March 31, 2017	200,000	18,000	206,000
Vested:			
Outstanding at March 31, 2016	—	—	—
Vested	—	—	—
Increase due to stock split	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at March 31, 2017	—	—	—

(Note) Based on the resolution of the Board of Directors' meeting held on November 19, 2014, the Company implemented a 2-for-1 stock split effective January 1, 2015. The number of shares above represents those after the stock split.

b. Price information of stock options (Yen)

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Exercise price	213	468	743
Average market price of the stock at the time of exercise	2,412	—	—
Fair value (date of grant)	112	293	457

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Exercise price	1,471	2,409	2,380
Average market price of the stock at the time of exercise	—	—	—
Fair value (date of grant)	844	1,137	6

(Note) Based on the resolution of the Board of Directors' meeting held on November 19, 2014, the Company implemented a 2-for-1 stock split effective January 1, 2015. The number of shares above represents those after the stock split.

3. Methods to estimate fair values of stock options

The methods to estimate fair values of No.11 and No. 12 stock options granted for the fiscal year ended March 31, 2017 are as follows:

(1) No.11 Stock Option

a. Valuation technique Black-Scholes option pricing model

b. Assumptions and estimation method

	No.11 Stock Option
Volatility of stock price (Note 1)	54.05%
Estimated remaining period (Note 2)	6.45 years
Estimated dividend (Note 3)	¥7 per share
Risk-free interest rate (Note 4)	(0.157)%

(Note) 1. Volatility of stock price is estimated based on the actual stock prices from March 1, 2010 to August 9, 2016.

2. Since it is difficult to reasonably estimate remaining period due to insufficient historical data, the outstanding period is estimated based on the assumption that the rights are exercised in the middle of the exercise period.

3. Actual dividend for the year ended March 31, 2016.

4. Yield of Japanese government bonds corresponding to the estimated remaining period.

(2) No.12 Stock Option

a. Valuation technique Monte Carlo simulation

b. Assumptions and estimation method

	No.12 Stock Option
Volatility of stock price (Note 1)	55.23%
Estimated remaining period to maturity	7.9 years
Estimated dividend (Note 2)	¥7 per share
Risk-free interest rate (Note 3)	(0.314)%

(Note) 1. Volatility of stock price is estimated based on the actual stock prices from August 28, 2008 to July 19, 2016.

2. Actual dividend for the year ended March 31, 2016.

3. Yield of Japanese government bonds corresponding to the estimated remaining period.

4. Method of estimating number of stock options vested

Since it is difficult to reasonably estimate the number of stock options that will expire in the future, the number of options that has been forfeited is reflected.

(Tax-effect accounting)

1. Major components of deferred tax assets and deferred tax liabilities (Thousands of yen)

	As of March 31, 2016	As of March 31, 2017
Deferred tax assets:		
Enterprise tax payable	40,267	50,478
Provision for bonuses	79,563	67,487
Provision for refund	45,179	49,782
Legal welfare expenses payable	18,346	22,220
Allowance for doubtful accounts	27,293	31,335
Provision for sales returns	1,203	1,418
Amortization of software	93,427	125,213
Provision for retirement benefits	35,834	45,086
Incidental costs of share acquisition	88,348	88,348
Loss carryforward	406,418	579,564
Other	50,199	64,432
Subtotal	886,084	1,125,368
Valuation allowance	(406,725)	(579,628)
Total deferred tax assets	479,358	545,740
Offset by deferred tax liabilities	—	(96,453)
Deferred tax assets, net	479,358	449,286
Deferred tax liabilities:		
Customer-related assets	2,442,301	2,458,222
Valuation difference on available-for-sale securities	91	88
Other	—	12,571
Total deferred tax liabilities	2,442,393	2,470,881
Offset by deferred tax assets	—	(96,453)
Deferred tax liabilities, net	2,442,393	2,374,428

2. Reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income

The disclosure is omitted because the difference between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income is less than 5% of the statutory tax rate.

(Asset retirement obligations)

The Group has obligations to restore assets to their original state on leaving the properties based on real estate lease contracts for office spaces, which are asset retirement obligations.

Based on the lease contracts, the Group has paid deposits, which normally cover significant portion of restoration costs, and recorded the amounts as lease and guarantee deposits. Instead of recording liabilities for asset retirement obligations, the Group reasonably estimates the amounts which would not be recoverable at the end of the lease periods and recognizes expenses for the year by amortizing the amounts of deposits over the expected periods of use.

For the estimate, the Group assumes the expected periods of use to be 3 years, an average remaining lease period from the commencement of real estate lease contracts.

The total amount assumed to be non-recoverable as of March 31, 2017 is ¥97,750 thousand, of which the amount recognized as expenses for the fiscal year ended March 31, 2017 is ¥24,106 thousand.

(Segment information and other)

【Segment information】

Overview of reportable segments

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto.

Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

【Related information】

Fiscal year ended March 31, 2016

1. Information by products and services

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto. Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

2. Information by geographical areas

(1) Net sales

Information on sales by geographical area is omitted since sales to external customers in Japan exceeded 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	Other	Total
229,212	199,117	428,330

3. Information on major customers

Information on major customers is omitted since there is no single customer with 10% or more of the amount of net sales presented in the consolidated statements of income.

Fiscal year ended March 31, 2017

1. Information by products and services

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto. Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

2. Information by geographical areas

(1) Net sales

(Thousands of yen)

Japan	Other	Total
18,268,365	4,786,591	23,054,956

(Note) The amount of net sales is classified by country and region based on customers' location.

(2) Property, plant and equipment

(Thousands of yen)

Japan	Other	Total
216,960	151,097	368,057

3. Information on major customers

Information on major customers is omitted since there is no single customer with 10% or more of the amount of net sales presented in the consolidated statements of income.

Fiscal year ended March 31, 2017

The disclosure is omitted since there is only one segment in the Group.

【Information on amortization of goodwill and balance of unamortized goodwill by reportable segment】

None to report.

【Information on negative goodwill incurred by reportable segment】

None to report.

【Related party transactions】

1. Related party transactions

Transactions between the Company and related parties

Fiscal year ended March 31, 2016

None to report.

Fiscal year ended March 31, 2017

None to report.

2. Notes on parent company or major affiliates

Summary of financial information of major affiliates

As of and for the fiscal year ended March 31, 2017, M3 Career, Inc. was a major affiliate of the Company and its condensed financial information is as follows:

(Thousands of yen)

	M3 Career, Inc.	
	2016	2017
Total current assets	2,861,133	3,315,212
Total non-current assets	228,339	1,263,095
Total current liabilities	1,239,479	1,378,868
Total non-current liabilities	—	—
Total net assets	1,849,992	3,199,438
Net sales	6,924,623	8,495,064
Profit before income taxes	2,292,466	2,556,991
Profit	1,533,564	1,723,551

(Amounts per share)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net assets per share (Yen)	211.03	394.76
Profit per share (Yen)	55.86	67.49
Diluted profit per share (Yen)	55.69	67.28

(Note) 1. The basis for calculating profit per share and diluted profit per share is as follows:

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit per share:		
Profit attributable to owners of parent (Thousands of yen)	2,265,512	2,801,090
Amount not attributable to common stock shareholders (Thousands of yen)	—	—
Profit attributable to common stock owners of parent (Thousands of yen)	2,265,512	2,801,090
Weighted average number of shares (Shares)	40,556,928	41,504,114
Diluted profit per share:		
Adjustment to profit attributable to owners of parent (Thousands of yen)	—	—
Increase in number of common stock (Shares)	122,019	131,866
(Of which, exercise of subscription rights to shares [Shares])	(122,019)	(131,866)
Details of residual shares excluded from calculation of diluted profit per share due to no dilutive effect	Subscription rights to shares based on the resolution of the general meeting of shareholders held on June 20, 2014: Common stock 200,000 shares	No.11 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 20, 2016: Common stock 18,000 shares No.12 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 20, 2016: Common stock 205,298 shares

(Significant subsequent events)

None to report.

【Consolidated statements schedules】

【Details of bonds】

None to report.

【Details of loans payable】

Classification	Balance at beginning of year (Thousands of yen)	Balance at end of year (Thousands of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	19,002,638	—	0.19	—
Current portion of long-term loans payable	—	1,201,200	0.27	—
Long-term loans payable (excluding current portion)	44,742	10,210,200	0.27	From 2018 to 2026
Total	19,047,380	11,411,400	—	—

(Notes) 1. The average interest rate represents the weighted-average rate applicable to the balance at end of year.

2. The five-year repayment schedule of long-term loans payable (excluding current portion) subsequent to the fiscal year end is as follows:

	(Thousands of yen)			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	1,201,200	1,201,200	1,201,200	1,201,200

【Detail of asset retirement obligations】

For asset retirement obligations, instead of recording liabilities for asset retirement obligations, the Group reasonably estimates the amounts which would not be recoverable at the end of the lease periods and recognizes expenses for the year by amortizing the amounts of deposits over the expected periods of use.

Thus, there is nothing to report.

【Other】

Quarterly information for the fiscal year ended March 31, 2017

Year-to-date data	First quarter	Second quarter	Third quarter	Fiscal year ended March 31, 2017
Net sales (Thousands of yen)	6,618,796	11,990,790	16,713,361	23,054,956
Profit before income taxes (Thousands of yen)	2,221,641	2,825,557	2,935,364	4,294,810
Profit attributable to owners of parent (Thousands of yen)	1,570,833	1,843,028	1,805,864	2,801,090
Profit per share (Yen)	38.73	45.44	44.18	67.49

Quarterly data	First quarter	Second quarter	Third quarter	Fourth quarter
Profit (loss) per share (Yen)	38.73	6.71	(1.26)	23.31

TRANSLATION

This is a translation of the original Independent Auditor's Report filed under the Financial Instruments and Exchange Act, prepared in the Japanese language. This report is presented merely as supplemental information. Ernst & Young ShinNihon LLC has not audited the English language version of the consolidated financial statements of SMS CO., LTD. for the fiscal year from April 1, 2016 to March 31, 2017.

Independent Auditor's Report

June 22, 2017

To the Board of Directors of
SMS CO., LTD.

Ernst & Young ShinNihon LLC

Designated and Engagement Partner, Certified Public Accountant

Hisafumi Nomoto (Seal)

Designated and Engagement Partner, Certified Public Accountant

Keiichi Wakimoto (Seal)

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows, the significant matters forming the basis for the preparation of consolidated financial statements, the other notes and consolidated supplementary schedules of SMS CO., LTD. for the fiscal year from April 1, 2016 to March 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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 SMS CO., LTD. and its consolidated subsidiaries as at March 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles 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.

SMS CO., LTD.

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