

Notes to Financial Statements

- (1) Significant changes involving subsidiaries during the term: None
(Changes in specific subsidiaries that affected the scope of consolidation)
- (2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatements
- | | |
|----------------------------------------|------|
| i. Change in accounting policies : | None |
| ii. Changes not relating to i. : | None |
| iii. Changes in accounting estimates : | None |
| iv. Restatements : | None |
- (4) Number of shares issued (common stock)
- | | |
|-------------------------------------------------------------------------------|------------|
| i. Number of shares issued at the fiscal year end (including treasury shares) | |
| 3rd Quarter ended December 31, 2019: | 29,300,000 |
| FY ended March 31, 2019: | 29,300,000 |
| ii. Number of treasury shares at the fiscal year end | |
| 3rd Quarter ended December 31, 2019: | 1,699,247 |
| FY ended March 31, 2019: | 1,395,169 |
| iii. Average number of shares outstanding during the period | |
| 3rd Quarter ended December 31, 2019: | 27,724,070 |
| 3rd Quarter ended December 31, 2018: | 28,020,394 |

*** Financial report is not included in the scope of the audit or the certified public accountant.**

*** Advice relating to appropriate use of financial forecasts and other relevant information**

Earnings forecasts and other forward-looking statements in this release are based on data currently available to management and certain assumptions that management believes are reasonable, and it is not intended to promise its achievement. Actual results may therefore differ materially from these statements for various reasons. Some important factors that might have an effect on business performance pertain to Business Risks stated in the Company's annual securities report and other information already released, but factors influencing business performance are not limited to those released.

(Note) This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the original shall prevail.

1. Qualitative Information on the Consolidated Results for the 3rd Quarter

Qualitative Information on the Consolidated Operating Results

During the nine months from April 1, 2019 to December 31, 2019, many leading manufacturers, which are the major clients of the Company, continued steady investment in technological development looking to the next generation regardless of business conditions. Amid such a firm order environment, the number of engineers assigned to clients steadily increased. There were impacts caused by a decrease in the number of working dates partly due to special holidays occurring only in the current fiscal year and also by a decline in the number of working hours due to the reduced overtime hours work, the results turned out to be in line with the announced forecast.

As a result, consolidated net sales for the period under review increased ¥1,810 million, or 2.5%, from a year earlier to ¥75,149 million. Consolidated cost of sales rose ¥1,454 million, or 2.7%, from a year earlier to ¥54,709 million, chiefly because of higher labor costs due to an increase in the number of engineers, and consolidated selling, general and administrative expenses rose ¥777 million, or 7.9%, from a year earlier to ¥10,572 million mainly due to temporarily higher system costs.

Consolidated operating profit decreased ¥422 million, or 4.1%, from a year earlier to ¥9,867 million, and consolidated ordinary profit decreased ¥395 million, or 3.8%, from a year earlier to ¥9,900 million. Profit attributable to owners of parent decreased ¥319 million or 4.6%, from a year earlier to ¥6,702 million.

For details, please refer to the summary of the third quarter of the Fiscal Year ending March 31, 2020 on the Company's website.

2. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	Fiscal year ended March 31, 2019	The 3rd Quarter ended Dec. 31, 2019
Assets		
Current assets		
Cash and deposits	45,052	41,171
Notes and accounts receivable - trade	13,884	13,811
Work in process	170	465
Other	931	881
Allowance for doubtful accounts	(2)	(2)
Total current assets	60,036	56,328
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,601	3,566
Other, net	1,801	1,795
Total property, plant and equipment	5,402	5,362
Intangible assets		
Other	742	630
Total intangible assets	742	630
Investments and other assets		
Deferred tax assets	7,640	7,555
Other	806	799
Allowance for doubtful accounts	(14)	(12)
Total investments and other assets	8,433	8,342
Total non-current assets	14,579	14,335
Total assets	74,615	70,664
Liabilities		
Current liabilities		
Income taxes payable	2,272	1,073
Provision for bonuses for directors (and other officers)	233	168
Provision for bonuses	7,697	3,902
Other	6,723	7,878
Total current liabilities	16,927	13,023
Non-current liabilities		
Retirement benefit liability	15,317	15,686
Total non-current liabilities	15,317	15,686
Total liabilities	32,244	28,710
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	9,198	9,198
Retained earnings	35,469	36,562
Treasury shares	(5,495)	(7,198)
Total shareholders' equity	44,173	43,561
Accumulated other comprehensive income		
Revaluation reserve for land	(662)	(662)
Remeasurements of defined benefit plans	(1,139)	(945)
Total accumulated other comprehensive income	(1,802)	(1,607)
Total net assets	42,371	41,954
Total liabilities and net assets	74,615	70,664

(2) Consolidated Statements of Income and Comprehensive Income
(Consolidated Statements of Income)

(Millions of yen)

	The 3rd Quarter ended Dec. 31, 2018	The 3rd Quarter ended Dec. 31, 2019
Net sales	73,339	75,149
Cost of sales	53,255	54,709
Gross profit	20,084	20,439
Selling, general and administrative expenses	9,794	10,572
Operating profit	10,289	9,867
Non-operating income		
Interest income	1	1
Subsidy income	—	25
Other	10	13
Total non-operating income	12	39
Non-operating expenses		
Commitment fee	1	1
Commission expenses	3	2
Other	1	2
Total non-operating expenses	5	6
Ordinary profit	10,296	9,900
Extraordinary income		
Gain on sales of investment securities	11	—
Other	0	—
Total extraordinary income	11	—
Extraordinary losses		
Impairment loss	11	—
Loss on retirement of non-current assets	1	2
Total extraordinary losses	12	2
Profit before income taxes	10,294	9,898
Income taxes	3,272	3,195
Profit	7,022	6,702
Profit attributable to owners of parent	7,022	6,702

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	The 3rd Quarter ended Dec. 31, 2018	The 3rd Quarter ended Dec. 31, 2019
Profit	7,022	6,702
Other comprehensive income		
Foreign currency translation adjustment	(0)	—
Remeasurements of defined benefit plans, net of tax	188	194
Total other comprehensive income	188	194
Comprehensive income	7,210	6,897
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,210	6,897
Comprehensive income attributable to non-controlling interests	(0)	—

(3) Notes to Quaterly Financial Statements

(3)-1 Notes to Financial Statements Regarding Going Concern: None

(3)-2 Significant changes in shareholders' equity: None

(3)-3 Application of special accounting for preparing quarterly consolidated financial statements

Tax expenses

Tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the third quarter ended December 31, 2019