

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
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| i. Change in accounting policies : | Yes |
| 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, 2016: | 31,300,000 |
| FY ended March 31, 2016: | 31,300,000 |
| ii. Number of treasury shares at the fiscal year end | |
| 3rd Quarter ended December 31, 2016: | 2,646,164 |
| FY ended March 31, 2016: | 1,936,687 |
| iii. Average number of shares outstanding during the period | |
| 3rd Quarter ended December 31, 2016: | 29,069,020 |
| 3rd Quarter ended December 31, 2015: | 30,212,893 |

*** Indication of quarterly review procedure implementation status**

At the time of disclosure of the financial results, the quarterly financial statement review procedures based upon the Financial Instruments and Exchange Act, have not been completed.

*** 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. For cautionary notes concerning assumptions for earnings forecasts and use of earning forecasts, please refer to “(3)-1. Earnings Forecasts” under “1. Qualitative Information on the Consolidated Results for the 3rd Quarter,” “(3) Explanation of Forecast Information Such as Consolidated Earnings Forecast, etc.”

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

(1) Qualitative Information on the Consolidated Operating Results

Figure 1: Summary ; Consolidated Operating Results

(Millions of yen, rounded down)	3rd Q FY ended December 31, 2015	3rd Q FY ended December 31, 2016	YoY Amount	Change (%)
Net Sales	64,399	66,817	+2,417	+3.8%
Cost of Sales	47,578	49,481	+1,903	+4.0%
SG&A Expenses	9,063	9,185	+122	+1.3%
Operating Income	7,758	8,150	+392	+5.1%
Ordinary Income	7,733	8,155	+421	+5.5%
Profit before income taxes	8,773	8,182	(591)	(6.7)%
Profit Attributable to Owners of Parent	5,840	5,596	(244)	(4.2)%

(1)-1. Consolidated Operating Results

During the nine months from April 1, 2016 to December 31, 2016, the Japanese economy continued to recover at a moderate pace due to the continued stable growth of the global economy despite some emerging countries remaining weak.

Under these circumstances, 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. Thanks to a strong order environment, the number of engineers assigned to clients steadily increased.

As a result, consolidated net sales for the period under review increased ¥2,417 million, or 3.8%, from a year earlier to ¥66,817 million. Consolidated cost of sales rose ¥1,903 million, or 4.0%, from a year earlier to ¥49,481 million, chiefly because of higher labor costs due to an increase in the number of engineers.

Consolidated selling, general and administrative expenses rose ¥122 million, or 1.3%, from a year earlier to ¥9,185 million. As a result, consolidated operating income increased ¥392 million, or 5.1%, from a year earlier to ¥8,150 million, and consolidated ordinary income rose ¥421 million, or 5.5%, from a year earlier to ¥8,155 million.

Furthermore, profit attributable to owners of parent decreased ¥244 million, or 4.2%, from a year earlier to ¥5,596 million, due to the recording of extraordinary income of approximately ¥1.0 billion for the first six months of the previous fiscal year, arising from the sale of training facilities and other facility.

(1)-2. Operating Results of Business Segments

Figure 2: Summary ; Results of Three Business Segments

(Millions of yen, rounded down)	Meitec Group (Consolidated)				
		Temporary Staffing Business	Recruiting & Placement Business	Engineering Solutions Business	Eliminations / Corporate
Net Sales	66,817	64,743	1,217	985	(129)
Component Ratio	100.0%	96.9%	1.8%	1.5%	(0.2)%
YoY Amount	+2,417	+2,543	+136	(307)	+45
%Change	+3.8%	+4.1%	+12.6%	(23.8)%	—
Operating Income	8,150	7,790	407	(47)	—
Component Ratio	100.0%	95.6%	5.0%	(0.6)%	—
YoY Amount	+392	+389	+81	(79)	+0
%Change	+5.1%	+5.3%	+25.2%	—	—

Figure 3: Meitec Group Temporary Engineer Staffing Business

		3rd Q FY ended December 31, 2015	3rd Q FY ended December 31, 2016
MT* ¹ +MF* ²	Period-End Engineering Staff ¹	8,322	8,674
	Utilization ratio(Company-wide)	96.4%	96.0%
	Utilization ratio (Excluding new hires)	98.3%	98.1%
MT* ¹	Period-End Engineering Staff ¹	6,544	6,695
	Of which assigned to internal engineering projects ¹	33	39
	Utilization ratio (Company-wide)	96.7%	96.1%
	Utilization ratio (Excluding new hires)	98.2%	97.9%
	Working Hours	8.81h/day	8.77h/day
MF* ²	Period-End Engineering Staff	1,778	1,979
	Utilization ratio (Company-wide)	95.5%	95.6%
	Utilization ratio (Excluding new hires)	98.8%	98.8%
	Working Hours	8.92h/day	8.90h/day

*1 : Meitec Corporation *2 : Meitec Fielders, Inc.

Note1 : Number of engineers for Meitec does not include engineers who are assigned to our internal engineering projects and lecturer for internal training.

See the Meitec website for monthly and quarterly utilization ratio figures:

http://www.meitec.co.jp/e/ir/financial_performance.html

(1)-2.i Temporary Staffing Business

Net sales in the Temporary Staffing Business segment for the period under review increased ¥2,543 million, or 4.1%, from a year earlier to ¥64,743 million. The main reason for the increase was an increase in the number of engineers assigned to clients in the Temporary Staffing Business, which accounts for more than 90% of consolidated net sales, particularly in the professional staffing business for engineers, the core business of this segment. Operating income increased ¥389 million, or 5.3%, from a year earlier to ¥7,790 million.

The Company's non-consolidated utilization ratio (overall) maintained a level of 96.1%, a decline compared with 96.7% in the same period of the previous fiscal year. The main reason was careful selection of work assignments for the 338 newly graduated engineers that joined the Company in April 2016, as well as the strategic rotation of engineers between clients and assignments in order to support career enhancement.

Moreover, while the order environment continued to be brisk from the first half of the year, working hours declined to 8.77 hours/day (8.81 hours/day for the same period of the previous fiscal year) because of a decline in overtime hours work at some clients, etc.

(1)-2.ii Recruiting & Placement Business

The Recruiting & Placement Business segment operates job placement and information portal site businesses for engineers.

Net sales in the Recruiting & Placement Business for the period under review increased ¥136 million, or 12.6%, from a year earlier to ¥1,217 million, and operating income increased ¥81 million, or 25.2%, to ¥407 million.

Meitec Next achieved sales and profit growth due to an increase in the number of job placements.

Also, as a part of the review of the Group strategy, as of January Meitec (China, Shanghai) has concluded the provision of placement services for new personnel.

(1)-2.iii Engineering Solutions Business

The Engineering Solutions Business segment provides technology support services for printed-circuit board business.

Net sales in the Engineering Solutions Business for the period under review declined ¥307 million, or 23.8%, from a year earlier to ¥985 million, and operating loss of ¥47 million was posted, compared with an operating income of ¥32 million a year earlier.

Also, as a part of the review of the Group strategy, on December 26, 2016, the Company carried out a transfer of all of the shares it held of APOLLO GIKEN CO., LTD.

Figure 4: Summary ; Meitec Group Results

(Millions of Yen, rounded down)	Temporary Staffing Business				Recruiting & Placement Business			Engineering Solutions Business
	Meitec	Meitec Fielders	Meitec Cast	Meitec EX	Meitec NEXT	all engineer. jp	Meitec Shanghai HR, etc.	Apollo Giken
Net Sales	51,813	11,022	2,038	70	1,098	91	45	985
YoY Amount	+1,205	+1,209	+84	+21	+149	(9)	(4)	(307)
YoY %	+2.4%	+12.3%	+4.3%	+44.8%	+15.8%	(9.5)%	(9.8)%	(23.8)%
Operating Income	6,674	1,041	82	(20)	393	24	(10)	(47)
YoY Amount	+216	+151	+21	+0	+98	(16)	+14	(78)
YoY %	+3.4%	+17.1%	+34.8%	—	+33.5%	(40.4)%	—	—
Ordinary Income	7,259	1,040	82	(20)	394	24	(9)	(47)
YoY Amount	+333	+150	+21	+0	+98	(16)	+20	(80)
YoY %	+4.8%	+16.9%	+35.4%	—	+33.5%	(40.0)%	—	—
Profit	5,153	798	61	(20)	269	19	(9)	(14)
YoY Amount	(339)	+228	+23	+0	+72	(16)	+20	(35)
YoY %	(6.2)%	+40.0%	+61.5%	—	+36.7%	(46.4)%	—	—

(2) Qualitative Information on the Consolidated Financial Position

Figure 5: Overview of the Consolidated Financial Position

(millions of yen, rounded down)	FY ended March 31, 2016	3rd Q FY ended December 31, 2016	YoY Amount	Change (%)
Total current assets	53,104	49,917	(3,187)	(6.0)%
Total non-current assets	11,363	11,411	+47	+0.4%
Total assets	64,468	61,328	(3,139)	(4.9)%
Total current liabilities	13,650	11,295	(2,354)	(17.2)%
Total non-current liabilities	13,212	13,728	+516	+3.9%
Total liabilities	26,862	25,024	(1,838)	(6.8)%
Total shareholders' equity	39,973	38,531	(1,441)	(3.6)%
Total accumulated other comprehensive income	(2,429)	(2,227)	+202	—
Non-controlling interests	61	—	(61)	(100.0)%
Total net assets	37,605	36,304	(1,301)	(3.5)%
Total liabilities and net assets	64,468	61,328	(3,139)	(4.9)%

(2)-1. Assets

Total consolidated assets at the end of the third quarter (December 31, 2016) decreased ¥3,139 million from March 31, 2016 to ¥61,328 million. This reflected a decline of ¥3,187 million in current assets from the previous fiscal year-end.

The drop in current assets was mainly due to a decrease in cash and deposits.

(2)-2. Liabilities

Total consolidated liabilities as of December 31, 2016 decreased ¥1,838 million from March 31, 2016 to ¥25,024 million. This reflected a decrease of ¥2,354 million in current liabilities from the previous fiscal year-end.

The decrease in current liabilities was mainly due to a decrease in provision for bonuses after the payment of bonuses.

(2)-3. Net Assets

Total consolidated net assets as of December 31, 2016 decreased ¥1,301 million from March 31, 2016 to ¥36,304 million. This mainly reflected an increase in profit attributable to owners of parent due to business performance in the period under review, offset by the payment of dividends and purchase of treasury shares.

(3) Explanation of Forecast Information Such as Consolidated Earnings Forecast, etc.

(3)-1. Earnings Forecasts

As the consolidated operating results for the nine months ended December 31, 2016 were mostly in line with the earnings forecasts for the period, the full-year forecasts for the fiscal year ending March 31, 2017 have not been revised.

For details of these forecasts, please refer to the Consolidated Financial Report for the Six Months ended September 30, 2016, released on November 8, 2016, and the IR presentation materials on the Company's website.

(3)-2. Dividend Forecasts

No revision has been made to the most recent dividend forecasts because the earnings forecasts for the fiscal year have not been revised, as mentioned above.

For details of our basic policy regarding profit distribution, please refer to the Consolidated Financial Report for the Fiscal Year ended March 31, 2016, released on May 10, 2016, and the IR presentation materials on the Company's website.

Note: 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. Actual results may therefore differ materially from these statements for various reasons, and it is not intended to promise the realization.

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.

2. Summary information (Notes)

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

Tax expenses

Tax expenses are calculated by multiplying the income before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the income before income taxes for the fiscal year including the third quarter ended December 31, 2016.

(2) Changes in accounting policies, changes in accounting estimates, and restatements

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company adopted the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) effective from the first quarter under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

The effect of this change on profit and loss is immaterial.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Thousands of Yen)

	Fiscal year ended March 31, 2016	The 3rd Quarter ended Dec. 31, 2016
Assets		
Current assets		
Cash and deposits	35,413,980	33,093,948
Notes and accounts receivable - trade	13,823,668	12,217,101
Work in process	253,121	426,212
Other	3,614,737	4,180,880
Allowance for doubtful accounts	(659)	(381)
Total current assets	53,104,848	49,917,760
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,932,414	3,888,826
Other, net	1,788,801	1,731,613
Total property, plant and equipment	5,721,215	5,620,439
Intangible assets		
Other	744,873	1,031,899
Total intangible assets	744,873	1,031,899
Investments and other assets		
Other	4,923,425	4,782,448
Allowance for doubtful accounts	(26,116)	(23,597)
Total investments and other assets	4,897,309	4,758,850
Total non-current assets	11,363,398	11,411,189
Total assets	64,468,247	61,328,950
Liabilities		
Current liabilities		
Accounts payable - trade	236,270	—
Income taxes payable	1,262,313	1,344,223
Provision for directors' bonuses	168,466	140,736
Provision for bonuses	6,446,314	3,219,635
Other	5,536,938	6,591,263
Total current liabilities	13,650,303	11,295,858
Non-current liabilities		
Net defined benefit liability	13,195,915	13,728,812
Other	16,603	—
Total non-current liabilities	13,212,519	13,728,812
Total liabilities	26,862,822	25,024,671
Net assets		
Shareholders' equity		
Capital stock	16,825,881	5,000,000
Capital surplus	4,491,970	16,327,354
Retained earnings	24,645,186	25,894,950
Treasury shares	(5,989,693)	(8,690,774)
Total shareholders' equity	39,973,345	38,531,530
Accumulated other comprehensive income		
Revaluation reserve for land	(662,440)	(662,440)
Foreign currency translation adjustment	8,833	1,538
Remeasurements of defined benefit plans	(1,776,060)	(1,566,348)
Total accumulated other comprehensive income	(2,429,668)	(2,227,251)
Non-controlling interests	61,747	—
Total net assets	37,605,424	36,304,279
Total liabilities and net assets	64,468,247	61,328,950

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

(Thousands of Yen)

	The 3rd Quarter ended Dec. 31, 2015	The 3rd Quarter ended Dec. 31, 2016
Net sales	64,399,570	66,817,508
Cost of sales	47,578,076	49,481,657
Gross profit	16,821,494	17,335,851
Selling, general and administrative expenses	9,063,461	9,185,519
Operating income	7,758,032	8,150,332
Non-operating income		
Interest income	6,805	1,860
Dividend income	75	225
Gain on forfeiture of unclaimed dividends	2,777	4,510
Other	10,829	10,081
Total non-operating income	20,486	16,677
Non-operating expenses		
Commitment fee	2,691	2,228
Commission fee	1,749	7,278
Taxes and dues	26,135	—
Other	13,957	1,617
Total non-operating expenses	44,533	11,124
Ordinary income	7,733,985	8,155,884
Extraordinary income		
Gain on sales of non-current assets	1,084,965	4
Gain on sales of shares of subsidiaries and associates	—	28,598
Other	—	2,733
Total extraordinary income	1,084,965	31,337
Extraordinary losses		
Loss on retirement of non-current assets	1,397	3,824
Impairment loss	25,655	1,067
Other	18,056	96
Total extraordinary losses	45,109	4,989
Profit before income taxes	8,773,842	8,182,233
Income taxes	2,929,174	2,588,108
Profit	5,844,667	5,594,124
Profit (loss) attributable to non-controlling interests	4,212	(2,245)
Profit attributable to owners of parent	5,840,454	5,596,370

(Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	The 3rd Quarter ended Dec. 31, 2015	The 3rd Quarter ended Dec. 31, 2016
Profit	5,844,667	5,594,124
Other comprehensive income		
Foreign currency translation adjustment	(1,520)	(7,295)
Remeasurements of defined benefit plans, net of tax	167,046	209,712
Total other comprehensive income	165,525	202,417
Comprehensive income	6,010,192	5,796,542
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,005,946	5,798,787
Comprehensive income attributable to non-controlling interests	4,246	(2,245)

(3) Notes to Quaterly Financial Statements

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

(3)-2 Significant changes in shareholders' equity:

Changes in capital stock and capital surplus

The reduction of capital stock and legal capital surplus was resolved at the Annual General Meeting of Shareholders held on June 23, 2016 and these accounts were reduced and transferred in the third quarter ended December 31, 2016 under review as follows:

(3)-2.i Change in capital stock

Amount of reduction in capital stock	¥11,825,881 thousand
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(3)-2.ii Change in capital surplus

Amount of reduction in legal capital surplus	¥2,960,000 thousand
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Amount of increase in other capital surplus	¥14,785,881 thousand
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