

Summary of Consolidated Financial Results
for the Second Quarter of Fiscal Year Ending March 31, 2018
(Six Months Ended September 30, 2017)

[Japanese GAAP]

Company name: Japan System Techniques Co., Ltd. Listing: Tokyo Stock Exchange, First Section
 Stock code: 4323 URL: <http://www.jast.jp>
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 Scheduled date of filing of Quarterly Report: November 8, 2017
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts)

Note: The original disclosure in Japanese was released on November 7, 2017 at 16:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2017

(April 1, 2017 – September 30, 2017)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2017	6,984	12.2	93	278.9	118	213.1	60	618.4
Six months ended Sep. 30, 2016	6,226	12.0	24	(29.8)	37	(29.9)	8	(80.0)

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2017: 87 (- %)

Six months ended Sep. 30, 2016: (16) (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2017	11.55	-
Six months ended Sep. 30, 2016	1.61	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2017	10,306	5,696	54.8	1,076.81
As of Mar. 31, 2017	10,281	5,741	55.4	1,084.74

Reference: Shareholders' equity (million yen) As of Sep. 30, 2017: 5,651 As of Mar. 31, 2017: 5,692

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2017	-	0.00	-	25.00	25.00
Fiscal year ending Mar. 31, 2018	-	0.00	-	-	-
Fiscal year ending Mar. 31, 2018 (forecasts)	-	-	-	25.00	25.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	14,625	2.8	790	38.3	795	27.4	470	14.4	89.56

Note: Revisions to the most recently announced consolidated earnings forecasts: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Sep. 30, 2017:	5,612,230 shares	As of Mar. 31, 2017:	5,612,230 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2017:	364,210 shares	As of Mar. 31, 2017:	364,210 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2017:	5,248,020 shares	Six months ended Sep. 30, 2016:	5,248,020 shares
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Note 1: The current quarterly summary report is not subject to quarterly review procedures.

Note 2: Cautionary statement with respect to forward-looking statements

Forecasts of future performance in these materials are based on assumption judged to be valid and information available to the Company's management at the time the materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the overall Japanese economy continued to recover at a moderate pace. The recovery is backed by the benefits of economic initiatives along with ongoing improvements in corporate profits, the number of jobs and personal income. However, the outlook remains unclear mainly because of concerns over increased uncertainty about overseas economies, such as political trends in the United States and Europe, slowing economic growth in China and other emerging countries in Asia, the U.K. leaving the EU, and continuous terrorism attacks.

In the IT industry in Japan, according to the latest statistics in the “Survey of Selected Service Industries” by the Ministry of Economy, Trade and Industry (the final August figures), net sales rose 1.3% year on year in Fiscal 2016 (compared with 2.6% annual growth in Fiscal 2015), keeping a positive trend. The monthly sales figures increased year on year for 12 straight months until July 2017, indicating that the IT industry as a whole is on a moderate growth path.

In the first half, the Japan System Techniques Group (Japan System Techniques Co., Ltd. and its consolidated subsidiaries, hereafter “the Group”) posted net sales of 6,984 million yen (up 12.2% year on year), operating income of 93 million yen (up 278.9% year on year), ordinary income of 118 million yen (up 213.1% year on year), and profit attributable to owners of parent of 60 million yen (up 618.4% year on year). Operations were solid as net sales and all profit levels increased year-on-year. Results by segment were as follows.

In the software business (individualized contracted software development), net sales increased but profits decreased. Sales remained strong because orders from the manufacturing industry, the telecommunications industry, educational institutions and the service/retail industry increased while there was a decrease in orders from the finance/insurance/brokerage industry and public sector. There was an increase in outsourced processing and other costs. As a result, net sales in this business totaled 4,823 million yen (up 7.2% year on year) and operating income was 73 million yen (down 39.9% year on year).

In the package business (development, sale and related services of operational reform packages for schools), both net sales and profits increased. There was an increase in sales of highly profitable items including end user computing (EUC: contracted development of package-related systems) sales, implementation support and program product (PP) sales to universities while the IT equipment sales and operation services declined. As a result, net sales totaled 988 million yen (up 11.4% year on year) and operating income was 62 million yen (vs. operating loss of 45 million yen in the same period of the previous fiscal year).

In the system sales business (IT equipment sales and IT/telecom infrastructure construction), sales remained strong as earnings from universities and public sectors were strong while less profitable equipment sales increased. As a result, net sales totaled 795 million yen (up 57.6% year on year), and operating loss was 9 million yen (vs. operating loss of 8 million yen in the same period of the previous fiscal year).

Lastly, in the medical big data business (inspection, analysis and related services of medical information), introduction of cloud services for managing health insurance claims at local governments was strong. As a result, net sales totaled 376 million yen (up 12.9% year on year), and operating loss totaled 36 million yen (vs. operating loss of 43 million yen in the same period of the previous fiscal year).

Features of the Group’s quarterly results

A feature of the Group’s software, package and systems sales businesses is that the delivery inspection period of most customers concentrates in March, the last month of the fiscal year for most companies, and then in September, the last month of the second quarter. This means that the Group’s earnings in the first and third quarters tend to be much smaller than in the second and fourth quarters.

(2) Explanation of Financial Position

1) Balance sheet position

The balance of current assets at the end of the second quarter of the current fiscal year was 7,824 million yen, up 73 million yen from the end of the previous fiscal year. This was mainly due to the collection of accounts receivable-trade, an increase in cash and deposits due to advances received, and an increase in work in process. The balance of non-current assets was 2,482 million yen at the end of the second quarter, down 48 million yen from the end of the previous fiscal year.

The balance of current liabilities at the end of the second quarter was 3,150 million yen, up 72 million yen from the end of the previous fiscal year. This was mainly due to an increase in advances received and a decrease in income taxes payable. The balance of non-current liabilities was 1,459 million yen at the end of the second quarter, down 2 million yen from the end of the previous fiscal year.

The balance of net assets was 5,696 million yen at the end of the second quarter, down 44 million yen from the end of the previous fiscal year. This was mainly due to an increase in accumulated other comprehensive income in the first half and the payment of dividends.

2) Cash flows

Cash and cash equivalents increased 738 million yen from 1,951 million yen at the beginning of the current fiscal year to 2,689 million yen at the end of the first six months of the current fiscal year. (vs. 2,353 million yen at the end of the same period of the previous fiscal year). Cash flows by category were as follows.

Cash flows provided by operating activities totaled 901 million yen, an increase of 154 million yen from 747 million yen provided in the same period of the previous fiscal year. This increase was mainly due to an increase in proceeds from collection of notes and accounts receivable-trade while there was an increase in outlays for inventories.

Cash flows provided by investing activities totaled 6 million yen, a decrease of 29 million yen from 35 million yen provided in the same period of the previous fiscal year. This decrease was mainly due to decreases in purchases of property, plant and equipment and shares of subsidiaries while there was a decrease in proceeds from cancellation of time deposits.

Cash flows used in financing activities totaled 169 million yen, a decrease of 294 million yen from 125 million yen provided in the same period of the previous fiscal year. This decrease was mainly due to a decrease in short-term loans payable.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

We maintain the May 12, 2017 forecasts for the fiscal year ending March 31, 2018: net sales of 14,625 million yen (up 2.8% year on year), operating income of 790 million yen (up 38.3% year on year), ordinary income of 795 million yen (up 27.4% year on year), and profit attributable to owners of parent of 470 million yen (up 14.4% year on year).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY3/17 (As of Mar. 31, 2017)	Second quarter of FY3/18 (As of Sep. 30, 2017)
Assets		
Current assets		
Cash and deposits	2,365,633	3,104,769
Notes and accounts receivable-trade	4,374,348	3,121,750
Merchandise and finished goods	86,509	236,099
Work in process	505,244	930,472
Raw materials and supplies	3,317	2,177
Deferred tax assets	270,257	236,595
Other	149,429	194,439
Allowance for doubtful accounts	(3,858)	(2,187)
Total current assets	7,750,879	7,824,118
Non-current assets		
Property, plant and equipment		
Buildings and structures	669,615	649,805
Accumulated depreciation	(347,533)	(357,743)
Buildings and structures, net	322,081	292,062
Land	142,361	142,361
Other	375,955	383,796
Accumulated depreciation	(241,349)	(261,942)
Other, net	134,606	121,853
Total property, plant and equipment	599,049	556,278
Intangible assets		
Goodwill	40,491	33,963
Software	109,996	89,105
Other	7,626	7,626
Total intangible assets	158,114	130,695
Investments and other assets		
Investment securities	625,020	674,199
Net defined benefit asset	479,037	488,552
Deferred tax assets	76,560	55,322
Guarantee deposits	376,763	371,512
Other	260,605	250,499
Allowance for doubtful accounts	(44,649)	(44,609)
Total investments and other assets	1,773,336	1,795,475
Total non-current assets	2,530,500	2,482,449
Total assets	10,281,379	10,306,568

	(Thousands of yen)	
	FY3/17 (As of Mar. 31, 2017)	Second quarter of FY3/18 (As of Sep. 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,122,286	1,051,077
Short-term loans payable	26,678	4,062
Current portion of long-term loans payable	8,400	8,400
Income taxes payable	281,537	46,980
Provision for bonuses	615,341	553,513
Provision for directors' bonuses	29,174	13,925
Provision for loss on construction contracts	1,561	-
Other	993,321	1,472,636
Total current liabilities	3,078,301	3,150,596
Non-current liabilities		
Long-term loans payable	28,000	24,500
Provision for directors' retirement benefits	413,048	412,198
Net defined benefit liability	870,683	892,113
Other	150,188	130,593
Total non-current liabilities	1,461,920	1,459,405
Total liabilities	4,540,222	4,610,002
Net assets		
Shareholders' equity		
Capital stock	1,076,669	1,076,669
Capital surplus	994,621	994,621
Retained earnings	3,740,158	3,669,567
Treasury shares	(266,539)	(266,539)
Total shareholders' equity	5,544,909	5,474,318
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	85,686	126,345
Foreign currency translation adjustment	(13,063)	(17,046)
Remeasurements of defined benefit plans	75,227	67,479
Total accumulated other comprehensive income	147,850	176,779
Non-controlling interests	48,396	45,467
Total net assets	5,741,157	5,696,565
Total liabilities and net assets	10,281,379	10,306,568

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Net sales	6,226,979	6,984,487
Cost of sales	5,043,395	5,602,511
Gross profit	1,183,583	1,381,975
Selling, general and administrative expenses	1,159,009	1,288,868
Operating income	24,573	93,107
Non-operating income		
Interest income	3,189	2,779
Dividend income	2,988	2,938
Rent income	7,018	6,687
Foreign exchange gains	-	3,923
Insurance premiums refunded cancellation	-	5,226
Subsidy income	4,220	5,519
Other	11,677	4,072
Total non-operating income	29,094	31,148
Non-operating expenses		
Interest expenses	580	711
Foreign exchange losses	5,425	-
Rent expenses	8,697	3,455
Other	1,206	1,849
Total non-operating expenses	15,909	6,016
Ordinary income	37,758	118,239
Profit before income taxes	37,758	118,239
Income taxes	33,490	60,321
Profit	4,268	57,917
Loss attributable to non-controlling interests	(4,168)	(2,691)
Profit attributable to owners of parent	8,436	60,609

Quarterly Consolidated Statement of Comprehensive Income**(For the Six-month Period)**

	(Thousands of yen)	
	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Profit	4,268	57,917
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,788)	40,659
Foreign currency translation adjustment	(9,012)	(3,455)
Remeasurements of defined benefit plans, net of tax	(9,311)	(7,748)
Total other comprehensive income	(21,111)	29,455
Comprehensive income	(16,843)	87,373
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(6,621)	89,537
Comprehensive income attributable to non-controlling interests	(10,222)	(2,164)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Cash flows from operating activities		
Profit before income taxes	37,758	118,239
Depreciation	35,266	56,189
Amortization of software	18,786	21,176
Amortization of goodwill	6,264	6,528
Increase (decrease) in provision for bonuses	65,606	(61,772)
Increase (decrease) in net defined benefit liability	32,704	21,235
Decrease (increase) in net defined benefit asset	(8,401)	(9,515)
Interest and dividend income	(6,178)	(5,718)
Interest expenses	580	711
Decrease (increase) in notes and accounts receivable-trade	797,069	1,251,184
Increase (decrease) in advances received	413,321	498,327
Decrease (increase) in inventories	(281,157)	(573,647)
Increase (decrease) in notes and accounts payable-trade	(117,258)	(71,183)
Other, net	(154,848)	(120,049)
Subtotal	839,515	1,131,705
Interest and dividend income received	6,919	6,361
Interest expenses paid	(697)	(712)
Income taxes paid	(98,565)	(235,775)
Net cash provided by (used in) operating activities	747,171	901,578
Cash flows from investing activities		
Decrease (increase) in time deposits	114,337	(17)
Purchase of property, plant and equipment	(46,264)	(11,144)
Purchase of software	(3,375)	(16,060)
Purchase of investment securities	(900)	(992)
Proceeds from sales of short-term and long-term investment securities	-	9,260
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(26,827)	-
Proceeds from cancellation of insurance funds	-	12,275
Payments for guarantee deposits	(564)	(861)
Proceeds from collection of guarantee deposits	583	12,149
Other, net	(1,242)	1,886
Net cash provided by (used in) investing activities	35,746	6,494
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	269,692	(22,659)
Repayments of lease obligations	(10,250)	(11,259)
Proceeds from long-term loans payable	42,000	-
Repayments of long-term loans payable	(43,835)	(3,500)
Cash dividends paid	(131,200)	(131,200)
Dividends paid to non-controlling interests	(1,164)	(764)
Net cash provided by (used in) financing activities	125,241	(169,384)
Effect of exchange rate change on cash and cash equivalents	(2,358)	(385)
Net increase (decrease) in cash and cash equivalents	905,801	738,303
Cash and cash equivalents at beginning of period	1,447,493	1,951,458
Cash and cash equivalents at end of period	2,353,295	2,689,762

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

I. First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	Package business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	4,501,166	887,474	504,706	333,631	6,226,979	-	6,226,979
2. Inter-segment sales and transfers	41,062	-	42,540	-	83,602	(83,602)	-
Total	4,542,229	887,474	547,246	333,631	6,310,582	(83,602)	6,226,979
Segment profit (loss)	122,775	(45,416)	(8,886)	(43,176)	25,297	(723)	24,573

Notes: 1. Adjustment to segment profit (loss) represents eliminations for inter-segment transactions.

2. Segment profit is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant change in goodwill

In the software business, the Company purchased the stock of ISR Co.,Ltd. and made it a consolidated subsidiary in the first three months of FY3/17. Goodwill of 45,284 thousand yen emerged related to the purchases.

II. First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	Package business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	4,823,911	988,229	795,615	376,730	6,984,487	-	6,984,487
2. Inter-segment sales and transfers	32,370	-	19,152	-	51,523	(51,523)	-
Total	4,856,281	988,229	814,768	376,730	7,036,010	(51,523)	6,984,487
Segment profit (loss)	73,829	62,243	(9,056)	(36,226)	90,790	2,317	93,107

Notes: 1. Adjustment to segment profit (loss) represents eliminations for inter-segment transactions.

2. Segment profit is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.