

Summary of Consolidated Financial Results
for the Third Quarter of Fiscal Year Ending March 31, 2020
(Nine Months Ended December 31, 2019)

[Japanese GAAP]

Company name: Japan System Techniques Co., Ltd. Listing: Tokyo Stock Exchange, First Section
 Stock code: 4323 URL: <http://www.jast.jp>
 Representative: Takeaki Hirabayashi, President and CEO
 Contact: Noriaki Okado, Managing Director and CFO Tel: +81-6-4560-1000
 Scheduled date of filing of Quarterly Report: February 14, 2020
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: None
 Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on February 13, 2020 at 16:00 (GMT +9).

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

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2019

(April 1, 2019 – December 31, 2019)

(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	%
Nine months ended Dec. 31, 2019	12,512	6.7	143	(43.0)	188	(25.7)	(583)	-
Nine months ended Dec. 31, 2018	11,725	11.6	251	159.8	252	79.9	125	92.4

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2019: (636) (-%)

Nine months ended Dec. 31, 2018: 86 (down 6.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2019	(109.77)	-
Nine months ended Dec. 31, 2018	23.90	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2019	12,145	5,700	46.7	1,057.68
As of Mar. 31, 2019	13,636	6,418	46.8	1,202.34

Reference: Shareholders' equity (million yen) As of Dec. 31, 2019: 5,673 As of Mar. 31, 2019: 6,381

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2019	-	0.00	-	28.00	28.00
Fiscal year ending Mar. 31, 2020	-	0.00	-		
Fiscal year ending Mar. 31, 2020 (forecasts)				28.00	28.00

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

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	18,000	6.7	925	8.5	950	9.6	15	(95.3)	2.83

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 Dec. 31, 2019:	5,612,230 shares	As of Mar. 31, 2019:	5,612,230 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2019:	248,384 shares	As of Mar. 31, 2019:	304,710 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2019:	5,311,874 shares	Nine months ended Dec. 31, 2018:	5,248,020 shares
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Note 1: The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

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 nine months of the current fiscal year, the Japanese economy continued to recover at a moderate pace despite the continuation of geopolitical risk in eastern Asia. The recovery was supported by improvements in corporate profits, the number of jobs and personal income due to the benefits of economic initiatives by the Japanese government.

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 November figures), net sales continued to climb, rising 1.5% year on year in Fiscal 2018 (compared with 2.5% annual growth in Fiscal 2017). The monthly sales figures also increased year on year for 14 straight months since October 2018, indicating that the IT industry as a whole is on a moderate growth path.

In the first nine months, the Japan System Techniques Group (Japan System Techniques Co., Ltd. (JAST) and its consolidated subsidiaries, hereafter “the JAST Group”) posted net sales of 12,512 million yen (up 6.7% year on year), operating income of 143 million yen (down 43.0% year on year), ordinary income of 188 million yen (down 25.7% year on year), and loss attributable to owners of parent of 583 million yen (vs. profit attributable to owners of parent of 125 million yen in the same period of the previous fiscal year) due to booking of impairment loss of 715 million yen. 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 service/retail industry, manufacturing industry and universities increased while there was a decrease in orders from the telecommunications industry. There was an increase in outsourced processing and other costs. As a result, net sales in this business totaled 8,775 million yen (up 4.5% year on year) and operating loss was 100 million yen (vs. operating income of 350 million yen in the same period of the previous fiscal year).

In the GAKUEN business (development, sale and related services of operational reform packages for schools), there were increases in sales of program products (PP) to universities, IT equipment sales and implementation support sales. Net sales in this business totaled 1,779 million yen (up 32.8% year on year) and operating income was 151 million yen (vs. operating loss of 112 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 to universities and the public sector decreased. Net sales in this business totaled 1,194 million yen (down 13.4% year on year) and operating income was 124 million yen (down 6.4% year on year).

Lastly, in the medical big data business (inspection, analysis and related services of medical information data), sales of automated inspection services for health insurance claims, analysis services and services for notification of the cost of medical care were strong. Net sales in this business totaled 763 million yen (up 25.6% year on year) and operating loss totaled 26 million yen (vs. operating loss of 126 million yen in the same period of the previous fiscal year).

Features of the JAST Group’s quarterly results

A feature of the Group’s software, GAKUEN 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 third quarter of the current fiscal year was 8,780 million yen, down 829 million yen from the end of the previous fiscal year. This was mainly due to a decrease in accounts receivable-trade, and increases in work in process and securities. The balance of non-current assets was 3,364 million yen at the end of the third quarter, down 661 million yen from the end of the previous fiscal year. This was mainly due to a decrease in customer-related assets.

The balance of current liabilities at the end of the third quarter was 4,886 million yen, down 701 million yen from the end of the previous fiscal year. This was mainly due to decreases in accounts payable-trade and provision for bonuses. The balance of non-current liabilities was 1,558 million yen at the end of the third quarter, down 71 million yen from the end of the previous fiscal year.

The balance of net assets was 5,700 million yen at the end of the third quarter, down 718 million yen from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents increased 103 million yen from 4,204 million yen at the beginning of the current fiscal year to 4,308 million yen at the end of the first nine months of the current fiscal year (vs. 4,657 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 428 million yen, a decrease of 772 million yen from 1,200 million yen provided in the same period of the previous fiscal year. This decrease was mainly due to a decrease in proceeds from collection of trade receivables and an increase in outlays for inventories while there was a decrease in payments for trade payables.

Cash flows used in investing activities totaled 429 million yen, an increase of 584 million yen from 1,013 million yen used in the same period of the previous fiscal year. This increase was due to a decrease in the payment for purchase of shares of subsidiaries.

Cash flows provided by financing activities totaled 127 million yen, a decrease of 1,560 million yen from 1,687 million yen provided in the same period of the previous fiscal year. This decrease was mainly due to a decrease in short-term borrowings.

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

We maintain the November 8, 2019 forecasts for the fiscal year ending March 31, 2020: net sales of 18,000 million yen (up 6.7% year on year), operating income of 925 million yen (up 8.5% year on year), ordinary income of 950 million yen (up 9.6% year on year), and profit attributable to owners of parent of 15 million yen (down 95.3% year on year).

These projections are based on information available at the time of release of this report. Actual results may differ from projections due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY3/19 (As of Mar. 31, 2019)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	4,260,305	4,309,307
Notes and accounts receivable-trade	4,341,029	2,957,952
Securities	-	200,887
Merchandise and finished goods	129,795	89,435
Work in process	569,537	986,799
Raw materials and supplies	2,695	2,098
Other	345,249	279,434
Allowance for doubtful accounts	(38,272)	(45,385)
Total current assets	9,610,340	8,780,529
Non-current assets		
Property, plant and equipment		
Buildings and structures	720,814	737,581
Accumulated depreciation	(419,276)	(446,553)
Buildings and structures, net	301,538	291,027
Land	142,361	142,361
Other	451,991	484,302
Accumulated depreciation	(337,562)	(348,700)
Other, net	114,428	135,602
Total property, plant and equipment	558,328	568,991
Intangible assets		
Goodwill	619,660	579,096
Customer-related assets	484,589	114,537
Software	68,396	57,876
Other	7,626	7,626
Total intangible assets	1,180,273	759,137
Investments and other assets		
Investment securities	688,789	521,868
Retirement benefit asset	542,920	558,498
Deferred tax assets	502,531	396,025
Guarantee deposits	414,231	437,839
Other	151,359	138,409
Allowance for doubtful accounts	(12,209)	(15,772)
Total investments and other assets	2,287,621	2,036,868
Total non-current assets	4,026,223	3,364,997
Total assets	13,636,564	12,145,526

(Thousands of yen)

	FY3/19 (As of Mar. 31, 2019)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,128,311	807,743
Short-term borrowings	1,543,696	1,800,000
Current portion of long-term borrowings	8,400	8,400
Income taxes payable	234,023	52,209
Provision for bonuses	722,520	378,024
Provision for bonuses for directors (and other officers)	27,465	22,478
Provision for loss on construction contracts	37,264	16,618
Advances received	648,746	1,069,998
Other	1,237,384	731,081
Total current liabilities	5,587,812	4,886,553
Non-current liabilities		
Long-term borrowings	11,900	5,600
Provision for share-based remuneration for directors (and other officers)	20,051	39,710
Provision for retirement benefits for directors (and other officers)	13,978	1,230
Retirement benefit liability	957,672	987,096
Deferred tax liabilities	116,888	31,734
Other	509,788	493,298
Total non-current liabilities	1,630,279	1,558,669
Total liabilities	7,218,091	6,445,223
Net assets		
Shareholders' equity		
Share capital	1,076,669	1,076,669
Capital surplus	1,085,695	1,113,912
Retained earnings	4,359,161	3,625,858
Treasury shares	(277,050)	(233,240)
Total shareholders' equity	6,244,476	5,583,198
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	114,167	136,731
Foreign currency translation adjustment	(37,345)	(97,565)
Remeasurements of defined benefit plans	60,163	50,868
Total accumulated other comprehensive income	136,986	90,034
Non-controlling interests	37,010	27,069
Total net assets	6,418,472	5,700,303
Total liabilities and net assets	13,636,564	12,145,526

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income (For the Nine-month Period)

(Thousands of yen)

	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Net sales	11,725,460	12,512,223
Cost of sales	9,283,831	9,826,555
Gross profit	2,441,628	2,685,667
Selling, general and administrative expenses	2,190,416	2,542,426
Operating income	251,211	143,241
Non-operating income		
Interest income	5,548	10,316
Dividend income	6,960	6,777
Rental income	2,836	3,832
Subsidy income	13,417	22,709
Other	6,657	13,555
Total non-operating income	35,420	57,192
Non-operating expenses		
Interest expenses	1,817	3,107
Foreign exchange losses	29,209	6,978
Rental expenses	980	135
Other	1,674	2,154
Total non-operating expenses	33,681	12,375
Ordinary income	252,950	188,058
Extraordinary losses		
Impairment loss	-	715,904
Total extraordinary losses	-	715,904
Profit (loss) before income taxes	252,950	(527,846)
Income taxes	133,320	62,538
Profit (loss)	119,630	(590,385)
Loss attributable to non-controlling interests	(5,776)	(7,298)
Profit (loss) attributable to owners of parent	125,406	(583,087)

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

(Thousands of yen)

	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Profit (loss)	119,630	(590,385)
Other comprehensive income		
Valuation difference on available-for-sale securities	(43,309)	22,563
Foreign currency translation adjustment	24,394	(59,880)
Remeasurements of defined benefit plans, net of tax	(14,166)	(9,295)
Total other comprehensive income	(33,081)	(46,612)
Comprehensive income	86,548	(636,997)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	92,151	(630,038)
Comprehensive income attributable to non-controlling interests	(5,602)	(6,958)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	252,950	(527,846)
Depreciation	57,789	59,845
Amortization of software	31,175	20,281
Amortization of goodwill	6,792	60,000
Amortization of customer-related assets	-	34,345
Impairment loss	-	715,904
Increase (decrease) in provision for bonuses	(278,367)	(343,947)
Increase (decrease) in retirement benefit liability	44,890	28,657
Decrease (increase) in retirement benefit asset	(15,197)	(15,577)
Interest and dividend income	(12,509)	(17,094)
Interest expenses	1,817	3,107
Decrease (increase) in trade receivables	2,177,988	1,396,313
Increase (decrease) in advances received	252,677	421,605
Decrease (increase) in inventories	357,893	(377,939)
Increase (decrease) in trade payables	(1,279,546)	(319,656)
Other, net	(115,479)	(522,894)
Subtotal	1,482,874	615,106
Interest and dividends received	13,242	17,823
Interest paid	(1,634)	(3,069)
Income taxes paid	(293,938)	(201,830)
Net cash provided by (used in) operating activities	1,200,544	428,029
Cash flows from investing activities		
Decrease (increase) in time deposits	153,108	56,480
Purchase of property, plant and equipment	(71,540)	(55,842)
Proceeds from sales of real estate for rent	109,183	-
Purchase of software	(21,827)	(15,417)
Purchase of investment securities	(1,974)	(2,043)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,161,140)	(416,822)
Proceeds from cancellation of insurance funds	162	-
Payments of guarantee deposits	(19,442)	(24,704)
Proceeds from refund of guarantee deposits	1,469	867
Other, net	(1,930)	28,086
Net cash provided by (used in) investing activities	(1,013,933)	(429,397)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,853,248	257,815
Repayments of lease obligations	(12,582)	(12,821)
Repayments of long-term borrowings	(6,300)	(33,881)
Dividends paid	(146,944)	(149,982)
Purchase of treasury shares	-	(80)
Proceeds from disposal of treasury shares	-	69,999
Repayments to non-controlling shareholders	-	(3,759)
Net cash provided by (used in) financing activities	1,687,421	127,289
Effect of exchange rate change on cash and cash equivalents	(1,498)	(22,396)
Net increase (decrease) in cash and cash equivalents	1,872,533	103,525
Cash and cash equivalents at beginning of period	2,785,193	4,204,722
Cash and cash equivalents at end of period	4,657,727	4,308,248

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Board Benefit Trust (BBT)

Based on the resolution of the 46th Annual General Meeting of Shareholders, JAST on June 26, 2018 terminated the directors' retirement benefit system and introduced a Board Benefit Trust (BBT, hereafter, "the Plan") for the purpose of increasing motivation for contributing to medium to long-term improvement in sales and earnings and an increase in corporate value. The Plan clearly links the compensation of directors with the JAST stock price. Furthermore, directors share with shareholders the benefits of a higher stock price as well as the risk of a lower stock price.

1) Overview of transaction

This is a stock compensation plan under which directors receive stock compensation through a trust (a trust established under the current system, hereafter "the Trust"). The Trust acquires JAST stock using cash contributions from JAST as the source of funds. Directors (excluding external directors; hereafter same unless indicated otherwise) receive stock compensation or a monetary amount equivalent to the market value of the stock in lieu of stock compensation (hereafter "JAST stock") in accordance with the rules on the stock compensation plan for directors. In principle, a director becomes eligible for stock compensation only upon retirement.

2) JAST stock held by the trust

The book value (excluding associated expenses) of JAST stock held by the trust is shown as treasury shares in the net assets section of the consolidated balance sheet. As of the end of the third quarter, the BBT held 47,800 shares of JAST with a book value of 87.713 million yen.

Segment and Other Information

Segment information

I. First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)

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

	Software business	GAKUEN 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	8,398,560	1,340,203	1,378,956	607,739	11,725,460	-	11,725,460
2. Inter-segment sales and transfers	48,955	7,652	3,242	-	59,850	(59,850)	-
Total	8,447,516	1,347,855	1,382,198	607,739	11,785,310	(59,850)	11,725,460
Segment profit (loss)	350,900	(112,098)	133,028	(126,406)	245,424	5,786	251,211

Notes: 1. Segment profit (loss) in the above adjustment 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 third quarter of FY3/19, the Software business purchased the stock of the following companies located in Malaysia: Virtual Calibre SDN. BHD. and Virtual Calibre MSC SDN. BHD. In addition, Virtual Calibre MSC SDN. BHD. purchased the stock of Virtual Calibre Consulting SDN. BHD, making it a consolidated subsidiary. The goodwill arising from these transactions is 999.538 million yen.

The amount of goodwill is calculated provisionally because the allocation of the acquisition cost is incomplete at the end of the third quarter.

II. First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)

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

	Software business	GAKUEN 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	8,775,626	1,779,214	1,194,174	763,207	12,512,223	-	12,512,223
2. Inter-segment sales and transfers	39,509	11,513	26,972	-	77,995	(77,995)	-
Total	8,815,135	1,790,728	1,221,147	763,207	12,590,219	(77,995)	12,512,223
Segment profit (loss)	(100,703)	151,905	124,515	(26,044)	149,673	(6,432)	143,241

Notes: 1. Segment profit (loss) in the above adjustment 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 impairment losses related to non-current assets

In the software business, there was an impairment loss for customer-related assets.

The amount of this loss in the first nine months of FY3/20 was 320.074 million yen.

Significant change in goodwill

In the software business, there was an impairment loss for goodwill.

The amount of this loss in the first nine months of FY3/20 was 395.830 million yen.

In this business, JAST purchased the stock of AG NET PTE. LTD. (AG NET) located in Singapore and made it a consolidated subsidiary in the first quarter of FY3/20. Goodwill of 455.805 million yen emerged related to the purchases.

The amount of goodwill is calculated provisionally because the allocation of the acquisition cost is incomplete at the end of the third quarter.

Business Combinations

Business combination through acquisition

1. Summary of business combination

(1) Acquired companies and their business activities

AG NET PTE. LTD.

Business activities: Software development and consultation services

(2) Reasons for acquisition

The JAST Group has been active in the ASEAN region, primarily at JAST TECHNIQUES PTE. LTD. in Singapore, JASTEC (THAILAND) CO., LTD. in Thailand, and the Virtual Calibre Group (Malaysia). JAST believes this region is a highly attractive market because of the outlook for a continuation of rapid economic expansion and a growing middle class that will create a large consumer market.

This inclusion of AG NET in the JAST Group will add new HRM products currently not covered in our Group's brand lineup, enabling multi-directional coverage of personnel, vacation requests, expense reimbursement workflows, salary computations, telework support, and employee performance management. We believe that adding AG NET to the JAST Group will strengthen our business foundation not only in Singapore but throughout the ASEAN region and lead to business expansion of our subsidiaries throughout the ASEAN region, thereby further enhancing the JAST Group's growth potential. Due to this outlook, the decision was made to acquire AG NET.

(3) Acquisition date

May 31, 2019 (stock acquisition date)

June 30, 2019 (assumed acquisition date)

(4) Legal form of acquisition

Acquisition of shares with cash

(5) Company's name after acquisition

There is no change in the company's name.

(6) Percentage of voting rights acquired

100%

(7) Basis for choosing the company to acquire

JAST acquired the shares in exchange for consideration in cash.

2. Period of the acquired companies' performance included in the quarterly consolidated statement of income

From July 1, 2019 to September 30, 2019

3. Acquisition cost of acquired companies and breakdown by type of consideration

Payment for the acquisition:	Cash	486.526 million yen
Acquisition cost:		486.526 million yen

4. Details of major acquisition-related costs

Remuneration for advisory members and other related fees: 27.466 million yen

5. Goodwill resulting from the acquisition

(1) Value of goodwill

455.805 million yen

The amount of goodwill is calculated provisionally because the allocation of the acquisition cost is incomplete at the end of the third quarter.

(2) Source of goodwill

The source is primarily the expectation of excess earnings power emerging from business development in the future.

(3) Amortization method and amortization period

Goodwill is amortized over ten years by the straight-line method.

Finalization of provisional accounting treatment for business combinations

A provisional accounting treatment was used in the previous fiscal year for the JAST Group's acquisition of Virtual Calibre SDN. BHD., Virtual Calibre MSC SDN. BHD. and Virtual Calibre Consulting SDN. BHD. on October 11, 2018 and November 26, 2018. It was finalized in the first quarter of the current fiscal year.

In line with the finalization of this provisional accounting treatment, a material review has been reflected in the allocated amount of the acquisition cost in the comparative information included in the quarterly consolidated financial statements for the first nine months of the current fiscal year.

As a result, the value of goodwill decreased by 390.863 million yen from the provisionally calculated value of 999.538 million yen to 608.675 million yen. The decrease of goodwill was due to increases of 514.293 million yen in customer-related assets and 123.430 million yen in deferred tax liabilities. At the end of the previous fiscal year, goodwill decreased by 368.288 million yen, and customer-related assets and deferred tax liabilities increased by 484.589 million yen and 116.301 million yen, respectively.

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.