

Summary of Consolidated Financial Results
for the Second Quarter of Fiscal Year Ending March 31, 2019
(Six Months Ended September 30, 2018)

[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, Director and CFO	Tel:	+81-6-4560-1000
Scheduled date of filing of Quarterly Report:			November 6, 2018
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 5, 2018 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, 2018

(April 1, 2018 – September 30, 2018)

(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, 2018	8,024	14.9	263	182.6	280	136.9	175	189.6
Six months ended Sep. 30, 2017	6,984	12.2	93	278.9	118	213.1	60	618.4

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2018: 147 (up 68.5 %)
Six months ended Sep. 30, 2017: 87 (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2018	33.45	-
Six months ended Sep. 30, 2017	11.55	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2018	13,116	6,246	47.3	1,182.94
As of Mar. 31, 2018	12,308	6,246	50.4	1,181.54

Reference: Shareholders' equity (million yen) As of Sep. 30, 2018: 6,208 As of Mar. 31, 2018: 6,200

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	0.00	-	28.00	28.00
Fiscal year ending Mar. 31, 2019	-	0.00	-	-	-
Fiscal year ending Mar. 31, 2019 (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, 2019 (April 1, 2018 – March 31, 2019)

(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	15,765	0.9	865	16.7	875	11.4	585	1.0	111.47

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, 2018:	5,612,230 shares	As of Mar. 31, 2018:	5,612,230 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2018:	364,210 shares	As of Mar. 31, 2018:	364,210 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2018:	5,248,020 shares	Six months ended Sep. 30, 2017:	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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statement of Income	
For the Six-month Period	6
Quarterly Consolidated Statement of Comprehensive Income	
For the Six-month Period	7
(3) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	9
Going Concern Assumption	9
Significant Changes in Shareholders' Equity	9
Additional Information	9
Segment and Other Information	9
Subsequent Events	10
Contingent liabilities	11

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half 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 August figures), net sales continued to climb, rising 2.5% year on year in Fiscal 2017 (compared with 1.3% annual growth in Fiscal 2016). Despite the higher sales, the outlook for the IT industry is uncertain because there were some months in fiscal 2017 when sales were lower than one year earlier.

Consolidated results of operations of the Japan System Techniques Group (Japan System Techniques Co., Ltd. (JAST) and its consolidated subsidiaries, hereafter “the JAST Group”) were strong in the first half of the current fiscal year. Sales and earnings at all levels increased as follows: net sales of 8,024 million yen (up 14.9% year on year), operating income of 263 million yen (up 182.6% year on year), ordinary income of 280 million yen (up 136.9% year on year), and profit attributable to owners of parent of 175 million yen (up 189.6% year on year).

In the first quarter of the current fiscal year, the Package business segment was renamed the GAKUEN business segment. Results by segment were as follows.

In the software business (individualized contracted software development), sales in the manufacturing industry and the telecommunications industry, the service/retail industry, and to educational institutions increased while there was a decrease in sales in public sector. Net sales in this business totaled 5,492 million yen (up 13.9% year on year) and operating income was 277 million yen (up 275.4% year on year).

In the GAKUEN business (development, sale and related services of operational reform packages for schools), there were increases in implementation support sales, IT equipment sales and end user computing (EUC: contracted development of package-related systems) sales. However, there was a decline in sales of program products (PP) to universities, which are a highly profitable category of this business. Net sales in this business totaled 969 million yen (down 1.9% year on year) and operating loss was 60 million yen (vs. operating income of 62 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 increased. Net sales in this business totaled 1,180 million yen (up 48.3% year on year), and operating income was 145 million yen (vs. operating loss of 9 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), sales of automated inspection services for health insurance claims and services for data analysis and notification of the cost of medical care were strong. However, expenses increased faster than sales growth in order to build a stronger organization in this business and for other activities. Net sales in this business totaled 382 million yen (up 1.6% year on year), and operating loss totaled 103 million yen (vs. operating loss of 36 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, 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 second quarter of the current fiscal year was 8,692 million yen, down 748 million yen from the end of the previous fiscal year. This was mainly due to decreases in accounts receivable-trade and merchandise and finished goods. The balance of non-current assets was 4,424 million yen at the end of the second quarter, up 1,556 million yen from the end of the previous fiscal year. This was mainly due to long-term deposits.

The balance of current liabilities at the end of the second quarter was 5,405 million yen, up 841 million yen from the end of the previous fiscal year. This was mainly due to increases in short-term loans payable and advances received, and a decrease in notes and accounts payable-trade. The balance of non-current liabilities was 1,463million yen at the end of the second quarter, down 34 million yen from the end of the previous fiscal year.

The balance of net assets was 6,246 million yen at the end of the second quarter, up 0 million yen from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents increased 1,627 million yen from 2,785 million yen at the beginning of the current fiscal year to 4,412 million yen at the end of the first six months of the current fiscal year. (vs. 2,689 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 1,385 million yen, an increase of 483 million yen from 901 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 and a decrease in outlays for inventories while there was an increase in payments for accounts payable-trade.

Cash flows used in investing activities totaled 1,508 million yen, a decrease of 1,514 million yen from 6 million yen provided in the same period of the previous fiscal year. This decrease was mainly due to long-term deposits.

Cash flows provided by financing activities totaled 1,751 million yen, an increase of 1,921 million yen from 169 million yen used in the same period of the previous fiscal year. This increase was mainly due to an increase in short-term loans payable.

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

We maintain the May 11, 2018 forecasts for the fiscal year ending March 31, 2019: net sales of 15,765 million yen (up 0.9% year on year), operating income of 865 million yen (up 16.7% year on year), ordinary income of 875 million yen (up 11.4% year on year), and profit attributable to owners of parent of 585 million yen (up 1.0% year on year).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	2,994,700	4,466,523
Notes and accounts receivable-trade	4,991,576	2,989,189
Merchandise and finished goods	576,412	84,427
Work in process	711,654	864,507
Raw materials and supplies	2,272	1,472
Other	201,206	321,076
Allowance for doubtful accounts	(36,900)	(34,898)
Total current assets	9,440,922	8,692,298
Non-current assets		
Property, plant and equipment		
Buildings and structures	657,805	690,561
Accumulated depreciation	(375,281)	(391,914)
Buildings and structures, net	282,523	298,647
Land	142,361	142,361
Other	381,968	417,231
Accumulated depreciation	(283,798)	(298,883)
Other, net	98,170	118,348
Total property, plant and equipment	523,055	559,356
Intangible assets		
Goodwill	29,434	24,906
Software	86,997	71,758
Other	7,626	7,626
Total intangible assets	124,058	104,291
Investments and other assets		
Investment securities	705,240	693,680
Net defined benefit asset	535,482	545,673
Deferred tax assets	389,352	346,674
Guarantee deposits	390,110	409,075
Long-term deposits	-	1,680,374
Other	245,123	129,650
Allowance for doubtful accounts	(44,609)	(44,609)
Total investments and other assets	2,220,698	3,760,518
Total non-current assets	2,867,812	4,424,166
Total assets	12,308,734	13,116,464

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	2,040,633	816,718
Short-term loans payable	218,592	2,132,336
Current portion of long-term loans payable	8,400	8,400
Income taxes payable	271,702	75,896
Advances received	652,455	1,048,494
Provision for bonuses	638,152	628,856
Provision for directors' bonuses	29,087	12,910
Other	705,120	682,142
Total current liabilities	4,564,144	5,405,754
Non-current liabilities		
Long-term loans payable	20,300	16,100
Provision for directors' retirement benefits	426,250	12,084
Net defined benefit liability	920,209	943,602
Other	131,268	492,049
Total non-current liabilities	1,498,027	1,463,837
Total liabilities	6,062,172	6,869,591
Net assets		
Shareholders' equity		
Capital stock	1,076,669	1,076,669
Capital surplus	994,621	994,621
Retained earnings	4,188,119	4,216,719
Treasury shares	(266,539)	(266,539)
Total shareholders' equity	5,992,871	6,021,470
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	126,589	118,086
Foreign currency translation adjustment	(10,428)	(14,182)
Remeasurements of defined benefit plans	91,694	82,695
Total accumulated other comprehensive income	207,856	186,599
Non-controlling interests	45,835	38,802
Total net assets	6,246,562	6,246,873
Total liabilities and net assets	12,308,734	13,116,464

(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 FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Net sales	6,984,487	8,024,719
Cost of sales	5,602,511	6,319,197
Gross profit	1,381,975	1,705,521
Selling, general and administrative expenses	1,288,868	1,442,429
Operating income	93,107	263,092
Non-operating income		
Interest income	2,779	2,725
Dividend income	2,938	3,218
Rent income	6,687	2,089
Foreign exchange gains	3,923	675
Insurance premiums refunded cancellation	5,226	-
Subsidy income	5,519	8,416
Other	4,072	2,546
Total non-operating income	31,148	19,670
Non-operating expenses		
Interest expenses	711	982
Rent expenses	3,455	976
Other	1,849	683
Total non-operating expenses	6,016	2,642
Ordinary income	118,239	280,120
Profit before income taxes	118,239	280,120
Income taxes	60,321	110,003
Profit	57,917	170,117
Loss attributable to non-controlling interests	(2,691)	(5,426)
Profit attributable to owners of parent	60,609	175,544

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

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Profit	57,917	170,117
Other comprehensive income		
Valuation difference on available-for-sale securities	40,659	(8,503)
Foreign currency translation adjustment	(3,455)	(5,370)
Remeasurements of defined benefit plans, net of tax	(7,748)	(8,999)
Total other comprehensive income	29,455	(22,872)
Comprehensive income	87,373	147,244
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	89,537	154,287
Comprehensive income attributable to non-controlling interests	(2,164)	(7,042)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	118,239	280,120
Depreciation	56,189	36,334
Amortization of software	21,176	21,284
Amortization of goodwill	6,528	4,528
Increase (decrease) in provision for bonuses	(61,772)	(9,110)
Increase (decrease) in net defined benefit liability	21,235	24,325
Decrease (increase) in net defined benefit asset	(9,515)	(10,190)
Interest and dividend income	(5,718)	(5,943)
Interest expenses	711	982
Decrease (increase) in notes and accounts receivable-trade	1,251,184	1,998,868
Increase (decrease) in advances received	498,327	408,895
Decrease (increase) in inventories	(573,647)	339,505
Increase (decrease) in notes and accounts payable-trade	(71,183)	(1,223,794)
Other, net	(120,049)	(234,720)
Subtotal	1,131,705	1,631,084
Interest and dividend income received	6,361	6,434
Interest expenses paid	(712)	(964)
Income taxes paid	(235,775)	(251,161)
Net cash provided by (used in) operating activities	901,578	1,385,392
Cash flows from investing activities		
Decrease (increase) in time deposits	(17)	153,108
Purchase of property, plant and equipment	(11,144)	(47,819)
Proceeds from sales of real estate for rent	-	109,183
Purchase of software	(16,060)	(21,127)
Purchase of investment securities	(992)	(1,181)
Proceeds from sales of short-term and long-term investment securities	9,260	-
Proceeds from cancellation of insurance funds	12,275	162
Payments for guarantee deposits	(861)	(19,775)
Proceeds from collection of guarantee deposits	12,149	705
Payments for long-term deposits paid	-	(1,680,374)
Other, net	1,886	(1,122)
Net cash provided by (used in) investing activities	6,494	(1,508,241)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(22,659)	1,914,551
Repayments of lease obligations	(11,259)	(11,737)
Repayments of long-term loans payable	(3,500)	(4,200)
Cash dividends paid	(131,200)	(146,944)
Dividends paid to non-controlling interests	(764)	-
Net cash provided by (used in) financing activities	(169,384)	1,751,669
Effect of exchange rate change on cash and cash equivalents	(385)	(1,769)
Net increase (decrease) in cash and cash equivalents	738,303	1,627,050
Cash and cash equivalents at beginning of period	1,951,458	2,785,193
Cash and cash equivalents at end of period	2,689,762	4,412,244

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

Effective from the beginning of the first quarter of the current fiscal year, JAST has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018), etc. Accordingly, deferred tax assets are reclassified and included in the investments and other assets section.

Provision for directors' retirement benefits

The JAST Board of Directors resolved at a meeting held on May 11, 2018 to terminate the current system for directors' retirement benefits at the end of the 46th Annual General Meeting of Shareholders scheduled for June 26, 2018. At this meeting, shareholders approved a resolution to make benefit plan termination payments to directors. JAST plans to make these termination payments when eligible directors reach the end of their final terms or resign or retire.

Accordingly, the entire amount of the provision for directors' retirement benefits, which was included in non-current liabilities, has been deleted and there is instead a long-term accounts payable-other of 356.395 million yen for these benefit plan termination payments that is included in the "other" item of non-current liabilities.

Some consolidated subsidiaries will maintain a provision for directors' retirement benefits in non-current liabilities for the payment of retirement benefits to benefits in accordance with the payment rules of these companies.

Segment and Other Information

Segment information

I. 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	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	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.

II. First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 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	5,492,773	969,201	1,180,017	382,727	8,024,719	-	8,024,719
2. Inter-segment sales and transfers	32,049	5,833	2,775	-	40,658	(40,658)	-
Total	5,524,823	975,034	1,182,792	382,727	8,065,378	(40,658)	8,024,719
Segment profit (loss)	277,154	(60,523)	145,917	(103,161)	259,387	3,704	263,092

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.

3. In the first quarter of the current fiscal year, the Package business segment was renamed to the GAKUEN business segment. The change does not influence the segment information. The segment information for the first six months of the previous fiscal year is prepared and disclosed using the new segment name.

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

Not applicable.

Subsequent Events

Business combination through acquisition

The JAST Board of Directors resolved at a meeting held on August 21, 2018 to purchase the stock of following companies located in Malaysia: Virtual Calibre SDN. BHD. (VCSB) and Virtual Calibre MSC SDN. BHD. (VCMSC). Resolutions also include VCMSC to purchase the stock of Virtual Calibre Consulting SDN. BHD. (VCC) and all three companies (the Virtual Calibre Group) to become consolidated subsidiaries of JAST. A contract to purchase these shares was signed on August 27, 2018, and the shares of VCSB and VCMSC were purchased on October 11, 2018. As for VCC, stock acquisition procedures are currently under way.

(1) Summary of business combinations

1) Acquired companies and their business activities

i) Virtual Calibre SDN. BHD.

Business activities: Software development and consultation services

ii) Virtual Calibre MSC SDN. BHD.

Business activities: Software development and multimedia app design

2) Reasons for acquisition

The JAST Group has been active in the ASEAN region for more than 25 years, primarily at JAST TECHNIQUES PTE. LTD. in Singapore and JASTEC (THAILAND) CO., LTD. in Thailand. 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.

Adding the Virtual Calibre Group to the JAST Group will expand our operations in Malaysia as well as the entire ASEAN region. This expansion is expected to contribute to the growth of JAST subsidiaries in the ASEAN region and to more opportunities for the growth of the SAP business in Japan over the medium and long term. These benefits are expected to enable the JAST Group to grow even faster. Due to this outlook, the decision was made to acquire the Virtual Calibre Group.

3) Acquisition date

October 1, 2018 (assumed acquisition date)

4) Legal form of acquisition

Acquisition of shares

5) Company's name after acquisition

There is no change in the company's name.

6) Percentage of voting rights acquired

i) Virtual Calibre SDN. BHD.

100%

ii) Virtual Calibre MSC SDN. BHD.

100%

7) Basis for choosing the companies to acquire

JAST acquired the shares in exchange for consideration in cash.

(2) Acquisition cost of acquired companies and breakdown by type of consideration

Payment for the acquisition:	Cash	1,680.374 million yen
Acquisition cost:		1,680.374

(3) Details of major acquisition-related costs

Not yet determined.

(4) Goodwill resulting from the acquisition

Not yet determined.

(5) Breakdown of assets acquired and liabilities assumed on the acquisition date

Not yet determined.

Contingent liabilities

On November 10, 2015 JAST was sued by Plesion Co., Ltd. for payment of incentives (initial demand 40.798 million yen, which the plaintiff later increased to 145.000 million yen) based on the basic business alliance and other agreement related to medical insurance inspection systems. At the trial on August 10, 2018, the Osaka District Court delivered judgement to order JAST to pay 145.000 million yen.

Nevertheless, because the factual premises for the judgement were at variance with its perceptions, JAST has appealed the judgement to the Osaka High Court.

The judgement came with a declaration of provisional execution. In order to seek exemption from the provisional execution, JAST on August 16, 2018 deposited 120.000 million yen ("Others" under current assets) with the Regional Legal Affairs Bureau.

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.