

MKSystem Corporation released its Summary of Financial Results on May 7 which was subsequently revised and released on June 29. This document is a translation of the revised Summary of Financial Results.

May 7, 2018

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2018

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)
 Stock code: 3910 URL: <https://www.mks.jp>
 Representative: Noboru Miyake, Representative Director and President
 Contact: Tsutomu Tsutsui, Director, General Manager of Management Planning Office
 Tel: +81-3-6895-3700

Scheduled date of Annual General Meeting of Shareholders: June 21, 2018
 Scheduled date of payment of dividend: June 22, 2018
 Scheduled date of filing of Annual Securities Report: June 21, 2018
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and securities analysts)
 (All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2018	1,887	17.9	314	1.9	317	3.1	204	9.7
Fiscal year ended Mar. 31, 2017	1,600	-	309	-	308	-	186	-

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2018: 213 (up 7.2%)

Fiscal year ended Mar. 31, 2017: 198 (-%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2018	37.66	-	20.7	15.0	16.6
Fiscal year ended Mar. 31, 2017	34.70	-	22.4	18.8	19.3

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2018: - Fiscal year ended Mar. 31, 2017: -

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2018	2,178	1,136	48.9	196.26
As of Mar. 31, 2017	2,050	974	44.5	168.12

Reference: Shareholders' equity (million yen) As of Mar. 31, 2018: 1,065 As of Mar. 31, 2017: 912

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Mar. 31, 2018	444	(248)	(173)	653
Fiscal year ended Mar. 31, 2017	287	(590)	196	630

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Mar. 31, 2017	-	0.00	-	19.00	19.00	51	27.4	6.1
Fiscal year ended Mar. 31, 2018	-	0.00	-	22.00	22.00	59	29.2	6.0
Fiscal year ending Mar. 31, 2019 (forecast)	-	0.00	-	8.00	8.00		20.5	

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018.

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 profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	1,028	11.3	100	(30.6)	100	(30.3)	1	(98.2)	00.30
Full year	2,318	22.8	431	37.2	431	35.8	211	3.7	39.05

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): Yes

Newly added: - Excluded: 1 (Business Net Assist Corporation)

(2) 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

(3) Number of issued shares (common stock)

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

As of Mar. 31, 2018: 5,428,000 shares As of Mar. 31, 2017: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2018: 238 shares As of Mar. 31, 2017: 92 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2018: 5,427,888 shares Fiscal year ended Mar. 31, 2017: 5,370,752 shares

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Number of shares issued at the end of period, number of treasury shares at the end of period, and average number of shares during the period were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Non-consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2018	1,309	9.5	315	21.3	317	22.0	225	23.8
Fiscal year ended Mar. 31, 2017	1,196	21.1	259	14.3	259	15.2	182	30.0

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Mar. 31, 2018	41.53	-
Fiscal year ended Mar. 31, 2017	33.89	-

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2018	1,879	1,081	57.6	199.33
As of Mar. 31, 2017	1,688	908	53.8	167.33

Reference: Shareholders' equity (million yen) As of Mar. 31, 2018: 1,081 As of Mar. 31, 2017: 908

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the MKSystem's management at the time the materials were prepared but are not promises by MKSystem regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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1. Overview of Results of Operations, etc.

(1) Results of Operations

In the fiscal year ended in March 31, 2018 (hereinafter “the current fiscal year”), the Japanese economy remained on a gradual recovery trend as corporate earnings improved as a result of various measures implemented by the government with improved employment and corporate capital investments. While the global economy has moderately recovered in general, it is necessary to pay attention to the outlook for Chinese and other emerging Asian economies, the impact of uncertainty concerning policies and the development of trade disputes.

The domestic information service industries have been seeing an accelerated trend of providing services typically through the cloud computing. Amid such a trend, the motivation for investment in personnel and labor related systems is increasing to realize efficient and diversified ways of working in line with the government-promoted “work style reform.” Such personnel and labor related systems include operation systems and talent management systems to manage human resources. These industries also utilize the latest technologies such as AI (Artificial Intelligence) and RPA (Robotic Process Automation).

Under these circumstances, MKSystem and its group companies (hereinafter collectively “the Group”) worked to expand its business by promoting sales of the Shalom System (which literally means a dream system for labor and social security attorneys) in the Shalom Business and by developing new services in the CuBe Business.

For the current fiscal year, the Group reported consolidated net sales of 1,887 million yen (up 17.9% year on year), gross profit of 1,133 million yen (up 22.5%), operating profit of 314 million yen (up 1.5%), ordinary profit of 317 million yen (up 3.1%) and profit attributable to owners of parent of 204 million yen (up 9.7%).

Results by business segment were as follows.

The Shalom Business

In the market for labor and social security attorneys, the main customers for the Shalom Business, new system installation is increasing with the necessity of online use of administrative procedures promoted by the government and improvement in operational efficiency. In addition, there is an increasing number of labor and social security attorney offices that shift from existing systems to a highly value-added cloud service. In the general corporate market, there is a growing demand for systems as an increasing number of companies advance online administrative procedures to increase the operational efficiency in the personnel and general affairs sector or perform application procedures in-house.

Under these circumstances, we have worked to respond to revisions to various laws and regulations to enhance the functions and usability of the Shalom System, and promoted the introduction of the Shalom System by offering discount campaigns to encourage customers’ adoption and by registering ourselves as a business operator to support introduction of IT systems so that our customers can apply for the subsidy under the Project to Support Introduction of IT for Improvement of Service Productivity.

As a result, sales of the cloud service were 1,203 million yen (up 16.8% year on year). One reason for this increase is ASP service sales of 1,039 million yen (up 13.6%) thanks to the accumulation of monthly usage fee with a steady increase in users of our main services: “Net de Shalom” and “Shalom House.” Another reason is sales of system construction service of 163 million yen (up 41.7%) thanks to new installations using the above-mentioned subsidies and campaigns, mainly in the first half of the current fiscal year.

In addition, sales from system product sales was 102 million yen (down 32.7% year on year) due to lack of large-scale system orders as received in the previous fiscal year, and sales from the other services was 3 million yen (down 73.2%) because the demand for My Number acquisition agent services settled down.

Selling, general and administrative expenses increased as a result of strengthened sales activities for corporate customers and expanding the system to provide our services, resulting in an increase in costs compared to the previous fiscal year.

Consequently, the segment recorded net sales of 1,309 million yen (up 9.5% year on year), gross profit of 891 million yen (up 21.3%) and operating profit of 315 million yen (up 21.3%).

The CuBe Business

The CuBe Business provides consultation services primarily to the personnel and general affairs divisions of major companies with a focus on their business processes by customizing, developing and delivering front-end systems for each customer to help enhance their operational efficiency. “Jinzai (human resources) CuBe,” one of the systems provided by this business connects employees and the personnel division in various HR-related business processes from recruitment to evaluation, training and assignment, with a focus on target and performance management. We also provide “Shugyo (work) CuBe,” “Shinsei (application) CuBe” and “Seisan (expense reimbursement) CuBe” that systemize business processes such as attendance management, personnel related notification, and expense reimbursement. These front-end systems help improve operational efficiency of not only personnel and general affairs divisions but also the customer’s entire organization, and they are relevant to the purpose of the government-promoted “work style reform.” In addition, we are also developing cloud services by leveraging our know-how of front-end systems for major companies.

During the current fiscal year, we successfully delivered large-scale projects and system renewal projects, mainly on “Jinzai CuBe” and “Seisan CuBe,” while at the same time we were engaged in order-receiving activities and customer developments. In addition, regarding the development of cloud services we had been fully engaged in since the start of business, we began offering our new services, “Net de Seisan” (which literally means expense reimbursement through the Internet) in June 2017 and “Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud” in October 2017, and have developed “Jinzai (human resources) CuBe Cloud”, which began offering in April 2018.

“Net de Seisan” was developed by Business Net Corporation Co., Ltd., our consolidated subsidiary, and its infrastructure for cloud services and marketing activities were implemented and provided by MKSystem. For “Nenmatsu-chosei CuBe Cloud” and “Jinzai CuBe Cloud,” the Business Net Corporation is responsible for all the activities including development, infrastructure for cloud services and marketing.

On the other hand, both cost of sales and selling, general and administrative expenses increased. The main factors include reduced development efficiency due to an increase in smaller scale contracted development projects in general, and change in the weight on hiring and development systems as a result of the aggressive investment in cloud service development.

In the CuBe Business, sales of large-scale projects tend to be weighted toward the second half, and profit margins tend to be relatively low in the first half. The consolidated financial statements for the previous fiscal year reflect only the second half of the period, while those for the current fiscal year reflect the first half as well.

As a result, the segment recorded net sales of 578 million yen (up 43.1% year on year), gross profit of 242 million yen (up 34.2%), and operating loss of 3 million yen (compared with operating profit of 72 million yen for the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 38 million yen.

Sales and composition by segment

	Amount (Millions of yen)	Percentage Composition (%)
Shalom Business	1,309	69.4
Cloud service	1,203	63.8
System product sale	102	5.4
Other services	3	0.2
CuBe Business	578	30.7
Inter-segment sales and transfers	(1)	(0.1)
Total	1,887	100.0

(2) Financial Position**Assets**

The balance of current assets at the end of the current fiscal year was 1,329 million yen, consisting primarily of 720 million yen in cash and deposits and 391 million yen in accounts receivable - trade.

The balance of non-current assets was 848 million yen, consisting primarily of 330 million yen in goodwill, 216 million yen in software in progress, and 139 million yen in software.

As a result, total assets was 2,178 million yen.

Liabilities

The balance of current liabilities at the end of the current fiscal year was 991 million yen, consisting primarily of 542 million yen in accounts payable-other, 112 million yen in current portion of long-term loans payable and 100 million yen in short-term loans payable.

The balance of non-current liabilities was 50 million yen, consisting solely of long-term loans payable.

As a result, total liabilities was 1,042 million yen.

Net assets

Shareholders' equity was 1,065 million yen at the end of the current fiscal year, consisting primarily of 219 million yen in capital stock, 198 million yen in capital surplus, and 648 million yen in retained earnings.

As a result, net assets was 1,136 million yen.

(3) Cash Flows

The balance of cash and cash equivalents (hereinafter "net cash") at the end of the current fiscal year was 653 million yen. The cash flow components during the current fiscal year and the main reasons for changes are described as follows.

Cash flows from operating activities

Net cash provided by operating activities was 444 million yen. Major positive factors include profit before income taxes of 316 million yen, depreciation of 94 million yen, and a 42 million yen decrease in notes and accounts receivable - trade. Major negative factors include income taxes paid of 108 million yen and a 65 million yen decrease in notes and accounts payable - trade.

Cash flows from investing activities

Net cash used in investing activities was 248 million yen. Major negative factors include purchase of intangible assets of 226 million yen and purchase of property, plant and equipment of 36 million yen.

Cash flows from financing activities

Net cash used in financing activities was 173 million yen. Major negative factors include repayments of long-term loans payable of 114 million yen and cash dividends paid of 51 million yen.

(4) Outlook

In the personnel and labor related market in which the Group provides services, we forecast that the further introduction of system will continue for the purposes of enhancing operational efficiency and supporting the various ways of working as the government-promoted "work style reform" progresses. Meanwhile, IT introduction subsidies (from the Project to Support Introduction of IT for Improvement of Service Productivity), which contributed to earnings in the fiscal year ended March 31, 2018, will be also offered in the same manner. However, considering the nature of the IT introduction subsidies, uncertainty remains whether we can obtain the same level of benefit as the previous fiscal year from the subsidies.

Under such circumstances, in our Shalom Business, we will revise prices for our main “Shalom” series and enhance the convenience of ASP services, including functional improvements. Also, we will continue the exploration of new demand from customers in the market of labor and social security attorneys and improve the functions of the corporate sales and service development. As a result, we will accelerate the cultivation of general corporate markets. Furthermore, we plan to introduce new services such as RPA available services and those for small general corporations. We will cultivate new customer segments while continuing to offer more value-added services to existing customers.

Meanwhile, in the CuBe Business, to increase the number of contract development of CuBe products for large companies, we will carry out improvement and maintenance works as well as develop and deliver large-scale projects for “Jinzai CuBe” and “Shugyo CuBe” for which we have received orders. With respect to cloud services, we aim for the early earnings contribution by continuing proactive investments to aggressively expand sales of “Jinzai CuBe Cloud,” which will be introduced in the coming first year and strengthen the functions of “Nenmatsu-chosei CuBe Cloud,” which was introduced in the fiscal year ended March 31, 2018, to prepare for the substantial revisions of laws and regulations.

As a result, we forecast net sales of 2,318 million yen (up 22.8% year on year), operating profit of 431 million yen (up 37.2%), ordinary profit of 431 million yen (up 35.8%), and profit attributable to owners of parent of 211 million yen (up 3.7%) for the fiscal year ending March 31, 2019.

Details of net sales, cost of sales and selling, general and administrative (SG&A) expenses for each business segment, year-on-year changes and major factors for the changes are presented as follows.

Shalom Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	1,675	+27.9	-
Cloud service	1,583	+31.5	An increase in sales is expected due to acquiring new customers, introducing new services, and price revisions.
System product sales	91	-13.1	A decrease in sales is expected because we do not plan to sell labor compliance-compliant products that strongly contributed to sales for the fiscal year ended March 31, 2018.
Cost of sales	564	+35.0	An increase in cost of sales is expected due mainly to increases in licensing expense and software amortization.
SG&A expenses	652	+13.7	An increase in SG&A expenses is expected as personnel-related expenses will increase due to an increase in the number of personnel.
Operating profit	458	+45.5	-

CuBe Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	642	+11.0	An increase in sales is expected as the full-scaled cloud service business will start.
Cost of sales	354	+5.3	An increase in cost of sales is expected due mainly to increases in software amortization and operating expenses for the cloud services.
SG&A expenses	315	+10.9	An increase in SG&A expenses is expected due mainly to increases in the number of personnel and advertising expenses to strengthen sales promotion of the cloud services.
Operating profit	(27)	-	-

Note: The difference between the sum of net sales, cost of sales and SG&A expenses of each business segment and the amounts of net sales, cost of sales and SG&A expenses of the consolidated earnings forecast is attributable to inter-segment transactions.

(5) Basic Policy for Profit Distribution and Dividends in the Current and Next Fiscal Years

We position the return of profits to shareholders as one of the priority management issues while aiming for sustainable increase in corporate value. From this point of view, we are to determine the payment of dividends considering the business environment surrounding us and based on the following dividend policy.

With regard to the dividends of surplus, our basic policy is to consistently distribute a year-end dividend with our target dividend payout ratio of 20%, taking into consideration such factors as our performance, financial position and future business developments.

Based on the above policy, we plan to pay a year-end dividend of 22 yen per share for the fiscal year ended March 31, 2018 as a result of comprehensively taking into consideration our financial position and other factors.

For the fiscal year ending March 31, 2019, we forecast an annual dividend of 8 yen per share based on the dividend policy, reflecting the effect of a 2-for-1 split of common stock dated on April 1, 2018.

2. Basic Approach to the Selection of Accounting Standards

The Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. This decision was made in consideration primarily of burdens for developing a system to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/17 (As of Mar. 31, 2017)	FY3/18 (As of Mar. 31, 2018)
Assets		
Current assets		
Cash and deposits	667,536	720,192
Accounts receivable - trade	433,859	391,808
Merchandise	3,691	5,011
Work in process	13,948	9,718
Supplies	213	299
Prepaid expenses	20,822	26,723
Deferred tax assets	22,874	162,342
Other	15,237	13,320
Total current assets	1,178,184	1,329,416
Non-current assets		
Property, plant and equipment		
Buildings, net	17,150	24,540
Vehicles, net	8,791	5,863
Tools, furniture and fixtures, net	54,084	49,221
Leased assets, net	7,343	821
Total property, plant and equipment	87,369	80,447
Intangible assets		
Software	76,985	139,035
Software in progress	102,860	216,627
Trademark right	309	1,384
Telephone subscription right	1,218	1,218
Goodwill	369,188	330,326
Total intangible assets	550,563	688,592
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	46,960	53,846
Insurance funds	75,269	23,881
Deferred tax assets	112,159	1,967
Other	98	98
Total investments and other assets	234,557	79,864
Total non-current assets	872,490	848,903
Total assets	2,050,674	2,178,320

	(Thousands of yen)	
	FY3/17 (As of Mar. 31, 2017)	FY3/18 (As of Mar. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	102,740	37,527
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	116,745	112,985
Lease obligations	7,357	1,254
Accounts payable-other	43,479	542,594
Accrued expenses	20,462	33,039
Income taxes payable	57,673	82,510
Accrued consumption taxes	7,649	27,116
Advances received	25,499	24,083
Provision for bonuses	45,004	48,926
Other	5,506	8,855
Total current liabilities	532,118	525,964
Non-current liabilities		
Long-term loans payable	160,966	50,315
Long-term accounts payable-other	381,536	-
Lease obligations	1,254	-
Total non-current liabilities	543,756	50,315
Total liabilities	1,075,874	1,042,091
Net assets		
Shareholders' equity		
Capital stock	219,110	219,110
Capital surplus	198,290	198,290
Retained earnings	495,238	648,098
Treasury shares	(79)	(265)
Total shareholders' equity	912,558	1,065,232
Non-controlling interests	62,241	70,996
Total net assets	974,799	1,136,229
Total liabilities and net assets	2,050,674	2,178,320

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

(Thousands of yen)

	FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)
Net sales	1,600,787	1,887,269
Cost of sales	675,405	753,276
Gross profit	925,381	1,133,992
Selling, general and administrative expenses	615,959	819,843
Operating profit	309,422	314,149
Non-operating income		
Interest income	23	18
Dividend income	1	1
Subsidy income	1,500	1,696
Trademark fee income	400	300
Insurance premiums refunded cancellation	-	8,470
Purchase discounts	26	907
Other	1,502	133
Total non-operating income	3,453	11,528
Non-operating expenses		
Interest expenses	1,793	2,277
Indemnity	1,100	-
Other	1,458	5,424
Total non-operating expenses	4,353	7,701
Ordinary profit	308,521	317,975
Extraordinary losses		
Loss on retirement of non-current assets	3,043	1,080
Total extraordinary losses	3,043	1,080
Profit before income taxes	305,478	316,895
Income taxes - current	104,395	129,193
Income taxes - deferred	2,286	(25,477)
Total income taxes	106,682	103,715
Profit	198,796	213,180
Profit attributable to non-controlling interests	12,454	8,755
Profit attributable to owners of parent	186,342	204,425

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)
Profit	198,796	213,180
Comprehensive income	198,796	213,180
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	186,342	204,425
Comprehensive income attributable to non-controlling interests	12,454	8,755

(3) Consolidated Statement of Changes in Equity

FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	212,610	191,790	348,630	-	753,031	-	753,031
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights	6,500	6,500			13,000		13,000
Dividends of surplus			(39,735)		(39,735)		(39,735)
Profit attributable to owners of parent			186,342		186,342		186,342
Purchase of treasury shares				(79)	(79)		(79)
Net changes of items other than shareholders' equity						62,241	62,241
Total changes of items during period	6,500	6,500	146,607	(79)	159,527	62,241	221,768
Balance at end of current period	219,110	198,290	495,238	(79)	912,558	62,241	974,799

FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	219,110	198,290	495,238	(79)	912,558	62,241	974,799
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights							-
Dividends of surplus			(51,565)		(51,565)		(51,565)
Profit attributable to owners of parent			204,425		204,425		204,425
Purchase of treasury shares				(185)	(185)		(185)
Net changes of items other than shareholders' equity						8,755	8,755
Total changes of items during period	-	-	152,859	(185)	152,674	8,755	161,429
Balance at end of current period	219,110	198,290	648,098	(265)	1,065,232	70,996	1,136,229

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)
Cash flows from operating activities		
Profit before income taxes	305,478	316,895
Depreciation	70,441	94,288
Amortization of goodwill	19,430	38,861
Increase (decrease) in provision for bonuses	3,166	3,922
Interest and dividend income	(24)	(19)
Interest expenses	1,793	2,277
Loss on retirement of non-current assets	3,043	1,080
Decrease (increase) in notes and accounts receivable - trade	(99,308)	42,050
Decrease (increase) in inventories	7,435	2,823
Increase (decrease) in notes and accounts payable - trade	74,086	(65,213)
Increase (decrease) in accrued consumption taxes	(10,939)	(9,898)
Increase (decrease) in long-term accounts payable-other	113,808	111,392
Other, net	(71,734)	12,536
Subtotal	416,678	550,998
Interest and dividend income received	15	10
Interest expenses paid	(1,793)	(2,277)
Income taxes paid	(127,843)	(108,603)
Income taxes refund	-	4,639
Net cash provided by (used in) operating activities	287,056	444,767
Cash flows from investing activities		
Payments into time deposits	(10,000)	(30,000)
Purchase of property, plant and equipment	(37,573)	(36,960)
Proceeds from sales of property, plant and equipment	14,382	-
Purchase of intangible assets	(143,705)	(226,142)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(411,937)	-
Payments for lease and guarantee deposits	(2,096)	(6,986)
Proceeds from collection of lease and guarantee deposits	64	100
Purchase of insurance funds	-	(5,970)
Proceeds from cancellation of insurance funds	-	57,358
Net cash provided by (used in) investing activities	(590,865)	(248,601)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	100,000	-
Proceeds from long-term loans payable	200,000	-
Repayments of long-term loans payable	(69,840)	(114,411)
Repayments of lease obligations	(7,069)	(7,357)
Proceeds from issuance of stocks	13,000	-
Purchase of treasury shares	(79)	(185)
Cash dividends paid	(39,735)	(51,565)
Net cash provided by (used in) financing activities	196,275	(173,519)
Net increase (decrease) in cash and cash equivalents	(107,534)	22,646
Cash and cash equivalents at beginning of period	737,931	630,397
Cash and cash equivalents at end of period	630,397	653,043

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Segment and Other Information

Segment information

1. Overview of reportable segment

(1) Method of determining the reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group consists of business segments sorted by merchandise, products and services based on MKSystem and its consolidated subsidiaries. The Group has two reportable segments: Shalom Business and CuBe Business.

(2) Products and services by each reportable segment

The Shalom Business segment provides software to support the business processes associated primarily with social insurance and labor insurance as an application service provider (ASP).

The CuBe Business segment provides consultation services focused on the business processes to the human resources and general affairs divisions of companies to customize, develop and provide front-end systems that help enhance efficiency of operations for each customer.

2. Information related to net sales, profit/loss, assets, liabilities and other items for each reportable segment

FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	1,196,330	404,456	1,600,787	-	1,600,787
Inter-segment sales and transfers	-	-	-	-	-
Total	1,196,330	404,456	1,600,787	-	1,600,787
Segment profit	259,743	72,342	332,085	(22,663)	309,422
Segment assets	1,088,319	962,516	2,050,836	(162)	2,050,674
Other items					
Depreciation	69,160	1,280	70,441	-	70,441
Amortization of goodwill	-	19,430	19,430	-	19,430
Increase in property, plant and equipment and intangible assets	162,978	29,237	192,216	-	192,216

Note: The negative adjustment of 22 million yen to segment profit consists primarily of corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	1,308,847	578,421	1,887,269	-	1,887,269
Inter-segment sales and transfers	623	428	1,051	(1,051)	0
Total	1,309,470	578,850	1,888,320	(1,051)	1,887,269
Segment profit	315,054	(3,282)	311,772	2,377	314,149
Segment assets	1,279,391	899,321	2,178,712	(392)	2,178,320
Other items					
Depreciation	73,970	20,317	94,288	-	94,288
Amortization of goodwill	-	38,861	38,861	-	38,861
Increase in property, plant and equipment and intangible assets	135,823	156,441	292,264	-	292,264

Note: The adjustment of 2 million yen to segment profit consists primarily of corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

Per Share Information

(Yen)

	FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)
Net assets per share	168.12	196.26
Basic earnings per share	34.70	37.66

Notes: 1. Diluted earnings per share is not presented since MKSystem had no dilutive potential shares.

2. MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Net assets per share and basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

3. The basis of calculating basic earnings per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/17 (Apr. 1, 2016 – Mar. 31, 2017)	FY3/18 (Apr. 1, 2017 – Mar. 31, 2018)
Profit attributable to owners of parent	186,342	204,425
Amounts not available to common shareholders	-	-
Profit attributable to owners of parent available to common stock	186,342	204,425
Average number of common stock during the period (Shares)	5,370,752	5,427,888

4. The basis of calculating net assets per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/17 (As of Mar. 31, 2017)	FY3/18 (As of Mar. 31, 2018)
Total net assets	974,799	1,136,229
Deduction on total net assets	62,241	70,996
[of which share acquisition rights]	[62,241]	[70,996]
[of which non-controlling interests]	[912,558]	[1,065,232]
Net assets applicable to common stock	5,427,908	5,427,762
Number of common stock at the fiscal year end used in calculation of net assets per share (Shares)	5,427,908	5,427,762

Subsequent Events

Stock split

With an effective date of April 1, 2018, MKSystem conducted the following stock split by the resolution of the Board of Directors meeting held on March 15, 2018.

(1) Purpose of stock split

The purpose of the stock split is to make investment easier for investors by reducing the value of MKSystem's investment unit, thereby expanding the investor base and increasing the liquidity of its shares.

(2) Overview of stock split

1) Method of stock split

Each share of common stock owned by the shareholders recorded in the closing register of shareholders on the record date of Saturday, March 31, 2018 was split into two shares. Because the record date of Saturday, March 31, 2018 was a holiday for the administrator of the MKSystem's shareholder register, the effective record date was Friday, March 30, 2018.

2) Number of shares increased by the stock split

Total number of shares issued prior to the stock split:	2,714,000 shares
Number of shares to be increased by the stock split:	2,714,000 shares
Total number of shares issued following the stock split:	5,428,000 shares
Total number of authorized shares following the stock split:	16,000,000 shares

3) Schedule of stock split

Public notice of record date:	Thursday, March 15, 2018
Record date (Note):	Saturday, March 31, 2018
Effective date:	Sunday, April 1, 2018

Note: The effective record date is Friday, March 30, 2018 because the record date of Saturday, March 31, 2018 was a holiday for the administrator of the MKSystem's shareholder register.

4) Impact on per share information

To present the impact on per share information, per share information is calculated based on the assumption that the stock split was conducted at the beginning of the current fiscal year. The impact of the stock split is described in notes to "Per Share Information."

5) Other

The amount of capital stock will not change as a result of this stock split.

Extraordinary loss resulting from additional prior-year license payments

(1) Overview

After the end of the fiscal year that ended on March 31, 2018, a difference in the interpretations of a contract by MKSystem and a software licensor was discovered. The contract involves software of another company that MKSystem is using in accordance with the contract. After examining the contract terms, MKSystem concluded that there was a need to correct prior-year financial reports based on the stance of the software licensor. On June 19, 2018, the MKSystem Board of Directors approved a resolution to place a revised order using a distributor designated by the software licensor with regard to a software utilization license for prior years. For this revised order, MKSystem paid the reporting shortage for prior years as of June 30, 2018 and a penalty as stipulated in the contract.

MKSystem plans to recognize the penalty portion of the payment as an extraordinary loss.

(2) Effect on earnings

The amount of the contractual penalty may change depending on the outcome of upcoming negotiations. Currently, MKSystem estimates that the extraordinary loss for this penalty will be approximately 94 million yen.

MKSystem is currently examining this matter to determine if there will be any effects other than this extraordinary loss on its financial condition and results of operations in the fiscal year ending on March 31, 2019.

This financial report is solely a translation of MKSystem's Kessan Tanshin (including attachments) in Japanese, 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.