

Translation

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**Summary of Consolidated Financial Results
for the Fiscal Year Ended December 31, 2019
(Based on Japanese GAAP)**

February 14, 2020

Company name: ORO Co., Ltd
 Stock exchange listing: TSE
 Stock code: 3983 URL: <https://www.oro.com>
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 Scheduled date to hold ordinary general meeting of shareholders: March 26, 2020
 Scheduled date to commence dividend payments: March 27, 2020
 Scheduled date to file Securities Report: March 27, 2020
 Supplementary documents for financial results: Yes
 Financial results presentation: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the Fiscal Year Ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year Ended December 31, 2019	5,022	12.5	1,333	13.6	1,357	14.5	900	7.9
Fiscal Year Ended December 31, 2018	4,463	21.4	1,174	36.8	1,186	41.1	834	45.2

Note: Comprehensive income Fiscal Year Ended December 31, 2019: 894million yen 10.2%
 Fiscal Year Ended December 31, 2018: 811million yen 39.2%

	Earnings per share	Profit per share after full dilution	Return on equity	Ordinary profit To total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal Year Ended December 31, 2019	54.24	—	15.6	19.0	26.6
Fiscal Year Ended December 31, 2018	50.25	—	16.5	19.7	26.3

Reference: Share of profit or loss of entities accounted for using equity method: Fiscal Year Ended December 31, 2019: —million yen
 Fiscal Year Ended December 31, 2018: —million yen

*The Company conducted a 2-for-1 split of its common shares, effective on June 1, 2019, we computed per-share net income for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	7,681	6,164	80.2	371.32
As of December 31, 2018	6,637	5,394	81.3	324.96

Reference: Equity capital Fiscal Year Ended December 31, 2019: 6,163million yen Fiscal Year Ended December 31, 2018: 5,394million yen

*The Company conducted a 2-for-1 split of its common shares, effective on June 1, 2019, we computed per-share net assets for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

(3) Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year Ended December 31, 2019	853	(135)	(125)	5,135
Fiscal Year Ended December 31, 2018	941	(145)	(124)	4,550

2. Cash dividends

	Annual dividends per share					Total dividends (annual)	Payout ratio (consolidated)	Dividends / net assets (consolidated)
	1st quarter- end	2nd quarter- end	3rd quarter- end	Fiscal year- end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal Year Ended December 31, 2018	—	0.00	—	15.00	15.00	124	14.9	2.5
Fiscal Year Ended December 31, 2019	—	0.00	—	9.00	9.00	149	16.6	2.6
Fiscal Year Ended December 31, 2020 (Forecasts)	—	0.00	—	9.00	9.00		12.1	

*The Company conducted a 2-for-1 split of its common shares, effective on June 1, 2019. In pre-split terms, the year-end dividend for the fiscal year ending December 31, 2019 would come to 18.00 yen.

3. Forecast of consolidated financial results for the year ending December 31, 2020 (from January 1, 2020 to December 31, 2020)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	5,721	13.9	1,791	34.3	1,801	32.7	1,237	37.4	74.55

4. Notes

(1) Changes in significant subsidiaries during the Period
(changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revision of accounting standards: None

Changes in accounting policies due to other reasons: Yes

Changes in accounting estimates: Yes

Restatement of prior period financial statements: None

Note: For details, please refer to "3. Consolidated financial statement and key notes; Changes in accounting policies and accounting estimates.

(3) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2019	16,600,000 shares	As of December 31, 2018	16,600,000 shares
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Number of treasury shares at the end of the period

As of December 31, 2019	331 shares	As of December 31, 2018	132 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Fiscal Year Ended December 31, 2019	16,599,739 shares	Fiscal Year Ended December 31, 2018	16,599,979 shares
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Note: The Company conducted a common stock split according to a ratio of 1:2 effective on June 1, 2019, we computed per-share net income for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

Reference: Non-Consolidated Results

Non-Consolidated Operating Results and Financial Position of the Fiscal 2019 (January 1, 2019 – December 31, 2019)

(1) Non-Consolidated Operating Results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year Ended December 31, 2019	4,744	13.3	1,327	15.1	1,351	18.8	935	15.6
Fiscal Year Ended December 31, 2018	4,187	20.1	1,153	49.1	1,137	51.8	809	60.0

	Profit per share	Profit per share after full dilution
	Yen	Yen
Fiscal Year Ended December 31, 2019	56.35	—
Fiscal Year Ended December 31, 2018	48.75	—

*The Company conducted a common stock split according to a ratio of 1:2 effective on June 1, 2019, we computed per-share net income for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

(2) Non-Consolidated Financial position

	Total assets	Net assets	Ratio of shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	7,204	5,894	81.8	355.12
As of December 31, 2018	6,145	5,082	82.7	306.20

Reference: Equity capital Fiscal Year Ended December 31, 2019: 5,894million yen Fiscal Year Ended December 31, 2018: 5,082million yen

Note: The Company conducted a common stock split according to a ratio of 1:2 effective on June 1, 2019, we computed per-share net assets for the earnings forecast for the fiscal year ending December 31, 2019, based on an average intra-year number of shares reflecting the stock split.

* These Consolidated basic Results are not included in the scope of audits by certified public accountants or audit corporations.

* Explanation concerning appropriate use of the earnings forecast and other matters to note

(Caution regarding forward-looking statements)

Earnings forecasts and other forward-looking statements contained in this document are based on information available at the time of this document's preparation and on certain assumptions that are deemed to be reasonable. These forward-looking statements are not guarantees of future performance, and actual results, performance, achievements or financial position may differ materially from those expressed or implied herein due to a range of factors.

(Change in presentation of dates)

From the Summary of Consolidated Financial Results for the Three Months Ended March 31, 2019, the presentation of dates was changed from that of the Japanese calendar to the Western calendar.

(Methods of obtaining the supplementary materials and the content of the earnings briefings)

The Company is scheduled to hold a financial results briefing for institutional investors and analysts on Tuesday, February 18, 2020.

Supplementary material on financial results used at the briefing will be disclosed on TDnet and the Company's website on the same day.

1. Overview of operating results	6
(1) Analysis of full-year results.....	6
(2) Analysis of financial position	6
(3) Summary of cash flows for FY2019	7
(4) Future outlook.....	8
2. basic policy for selection of accounting standards	8
3. Consolidated financial statements and key notes.....	9
(1) Consolidated balance sheets	9
(2) Consolidated statements of income and consolidated statements of comprehensive income	11
(3) Consolidated statements of changes in net assets.....	13
(4) Consolidated cash flow statements	15
(5) Notes on consolidated financial statements.....	16
(Note on the going-concern assumption)	16
(Changes in accounting principles).....	16
(Changes in presentation methods).....	16
(Changes in accounting estimates)	16
(Segment information)	17
(Information per share).....	21
(Important events after the reporting period)	21

1. Overview of operating results

(1) Analysis of full-year results

Operating results for the consolidated fiscal year under review

The Japanese economy for the current consolidated fiscal year (January 1, 2019 to December 31, 2019) is on a moderate recovery trend due to improvements in corporate earnings, and employment and income environments. Meanwhile, the outlook for the global economy continues to be uncertain: deceleration of the economic growth in China due to the impact of the U.S.-China trade conflict, political movements in Europe, and the effects of changes in financial and capital markets. In the domestic information service industry, with the further expansion of the work style reform, demand for information systems to increase productivity and improve operational efficiency continues to grow. Companies are looking for cost-effective and user-friendly information systems, and so cloud services are growing for enterprise systems. In the internet industry, the term "digital transformation (DX)" is of great interest to major companies, and a new digitalization movement that may significantly change existing business models and industry structures is drawing attention. In such a market environment, the Group has been maintaining the integrated production and sales system, and providing cloud services and digital solutions. Cloud ERP "ZAC" and "Reforma PSA," which are main products of Cloud Solutions, have been widely accepted by a variety of industries and businesses centering on companies that require project management; therefore, they have been growing steadily and contributing to the business performance. Digital Transformation has been providing a wide range of solutions that support customers' businesses from all directions with a focus on digital including planning and production of website, digital content and application, strategy planning and operation support for utilizing SNS, and strategy planning and management of web advertising. Moreover, in order to continue to improve the corporate value, each business has been making efforts to develop new customers and strengthen relationships with major customers. As a result, with regard to the financial results for the current consolidated fiscal year, net sales were 5,022,672 thousand yen (increased by 12.5% year-on-year), operating profit amounted to 1,333,859 thousand yen (increased by 13.6% year-on-year), ordinary profit amounted to 1,357,727 thousand yen (increased by 14.5% year-on-year), and profit attributable to owners of parent was 900,306 thousand yen (increased by 7.9% year-on-year).

Results by business segment are as follows:

Note that the names of reportable segments have been changed from the current consolidated fiscal year, and comparison and analysis for the current consolidated fiscal year are based on the names after the change.

a) Cloud Solution

With the acquisition of new customers and an increase in transactions with existing customers in "ZAC" and "Reforma PSA," net sales and operating profit were both solid, and so net sales were 2,807,009 thousand yen (increased by 20.7% year-on-year) and operating profit amounted to 1,243,983 thousand yen (increased by 38.3% year-on-year).

b) Digital Transformation

Transactions with both new and existing customers increased: consequently, net sales grew steadily and amounted to 2,215,662 thousand yen (increased by 3.6% year-on-year). Operating profit decreased to 89,876 thousand yen (decreased by 67.3% year-on-year) due to an increase in personnel expenses and provision for loss on orders received relating to particular transactions.

(2) Analysis of financial position

Asset, liabilities and net assets

Total assets at the end of the current consolidated fiscal year increased by 1,044,025 thousand yen from the end of the previous consolidated fiscal year to 7,681,739 thousand yen. The increase was due mainly to increases in cash and deposits of 586,509 thousand yen, work in process of 200,665 thousand yen and buildings of 165,180 thousand yen.

Liabilities at the end of the current consolidated fiscal year increased by 274,348 thousand yen from the end of the previous consolidated fiscal year to 1,517,718 thousand yen. The increase was due mainly to increases in provision for loss on orders received of 128,116 thousand yen and asset retirement obligations of 116,495 thousand yen.

Net assets at the end of the current consolidated fiscal year increased by 769,677 thousand yen from the end of the previous consolidated fiscal year to 6,164,021 thousand yen. The increase was due mainly to an increase in retained earnings of 775,807 thousand yen by an increase in profit attributable to owners of parent of 900,306 thousand yen and a decrease in dividend payments of 124,499 thousand yen.

(3) Summary of cash flows for FY2019

The balance of cash and cash equivalents (hereinafter referred to as "net cash") at the end of the current consolidated fiscal year was 5,135,866 thousand yen, an increase of 584,947 thousand yen compared to the end of the previous consolidated fiscal year (increased by 12.9% year-on-year). Respective cash flows for the current consolidated fiscal year and their contributing factors are as follows:

(Cash flows operating activities)

Net cash provided by operating activities was 853,113 thousand yen (941,761 thousand yen was provided in the previous consolidated fiscal year). This was due mainly to profit before income taxes of 1,297,750 thousand yen, while there was payment of income taxes of 459,244 thousand yen.

(Cash flows investing activities)

Net cash used in investing activities was 135,676 thousand yen (145,531 thousand yen was used in the previous consolidated fiscal year). This was due mainly to payment for purchases of property, plant and equipment of 120,378 thousand yen.

(Cash flows financing activities)

Net cash used in financing activities was 125,027 thousand yen (124,715 thousand yen was used in the previous consolidated fiscal year). This was due mainly to dividend payments of 124,441 thousand yen.

(Reference) Indicators related to cash flows

	FY2015	FY2016	FY2017	FY2018	FY2019
Equity ratio (%)	67.4	75.5	87.5	81.3	80.2
Equity ratio based on market value (%)	—	—	333.9	512.7	826.6
The ratio of interest-bearing debt to operating cash flow (years)	—	—	—	—	—
Interest coverage ratio (times)	—	—	—	—	—

Equity ratio: Shareholders' equity / Total assets

Equity ratio based on market value: Market capitalization / Total assets

The ratio of interest-bearing debt to operating cash flow: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows / Interest payments

Note: 1. All of the above indicators are calculated based on consolidated financial figures.

2. In or before the consolidated fiscal year ended December 31, 2016, the Company's shares were not listed; therefore, an equity ratio on a market price basis was not presented.

3. Operating cash flow equals to the total net cash flows from operating activities as stated in the Consolidated Statements of Cash Flows. Interest payments are equal to interest paid as stated in the Consolidated Statements of Cash Flows.

4. Since the Company does not have interest-bearing liabilities and there are no interest payments, it presents neither the ratio of cash flows to interest-bearing liabilities nor the interest coverage ratio.

(4) Future outlook

1) Net sales

a) Cloud Solution

Also in the next fiscal year (ending December 31, 2020), the Company will increase the marketing budget and continue to promote sales of "ZAC" and "Reforma PSA." At the same time, in order to increase customer satisfaction, the Company will continue to improve the user interface (UI) and take measures to provide high value-added consulting services. Net sales in Cloud Solutions are projected by aggregating order backlogs at the end of the previous period and the total of monthly estimated net sales considering the past record, etc. As a result, net sales in Cloud Solutions are planned to be 3,288 million yen, an increase by 17.1% year-on-year.

b) Digital Transformation

The Company's policy is to expand the business by continuously strengthening relationships with existing customers and advertising agencies as well as promoting overseas sales by utilizing overseas consolidated subsidiaries. Consequently, net sales in Digital Transformation are planned to be 2,433 million yen, an increase by 9.8% year-on-year.

2) Cost of sales

Cost of sales in Cloud Solutions and Digital Transformation is mainly comprised of labor costs and subcontract expenses concerning development and introduction support. Labor costs are projected by aggregating estimated labor costs based on each department's workforce planning. Subcontract expenses are calculated taking into consideration the cost rate by business. Cost of sales is calculated by adding the balance of work in process to the total manufacturing costs calculated above. As a result, cost of sales in Cloud Solutions is planned to be 1,070 million yen, an increase by 16.1% year-on-year, and cost of sales in Digital Transformation is planned to be 1,299 million yen, an increase by 3.2% year-on-year.

3) Selling, general and administrative expenses

Selling, general and administrative expenses are mainly comprised of personnel expenses for sales and administrative divisions, and other expenses. The expenses are projected by aggregating respective expenses. As a result, selling, general and administrative expenses are planned to be 1,560 million yen, an increase by 3.5% year-on-year.

4) Non-operating income (expenses)

Non-operating income (expenses) may include interest income, foreign exchange gains (losses), etc. If they are estimated conservatively, non-operating income is planned to be 10 million yen.

5) Extraordinary gains (losses)

Extraordinary gains (losses) are not projected.

Accordingly, at this point, the Group's consolidated financial results for the next period ending December 31, 2020 are estimated as follows:

Net sales	5,721 Millions of yen (increased by 13.9% year-on-year)
Operating profit	1,791 Millions of yen (increased by 34.3% year-on-year)
Ordinary profit	1,801 Millions of yen (increased by 32.7% year-on-year)
Profit attributable to owners of parent	1,237 Millions of yen (increased by 37.4% year-on-year)

2. Basic policy for selection of accounting standards

It is the Group policy that, for the meantime, consolidated financial statements are prepared in accordance with Japanese GAAP taking into consideration the period-to-period comparability of consolidated financial statements and the comparability among companies. With regard to application of the International Financial Reporting Standards (IFRS), it is the Company's policy to properly respond to them taking various domestic and international situations into consideration.

3. Consolidated financial statements and key notes

(1) Consolidated balance sheets

(Thousands of yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	4,953,642	5,540,151
Notes and accounts receivable - trade	973,889	949,045
Work in process	196,410	397,076
Raw materials and supplies	3,381	3,147
Other	95,011	93,118
Allowance for doubtful accounts	(87)	(1,012)
Total current assets	6,222,249	6,981,527
Non-current assets		
Property, plant and equipment		
Buildings	89,853	255,034
Tools, furniture and fixtures	193,201	261,649
Other	—	97,333
Accumulated depreciation	(175,375)	(198,076)
Total property, plant and equipment	107,679	415,939
Intangible assets		
Goodwill	54,150	—
Other	52,137	27,799
Total intangible assets	106,288	27,799
Investments and other assets		
Investment securities	28,703	11,526
Deferred tax assets	101,316	147,130
Other	72,392	98,797
Allowance for doubtful accounts	(915)	(981)
Total investments and other assets	201,497	256,473
Total non-current assets	415,465	700,212
Total assets	6,637,714	7,681,739

(Thousands of yen)

	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	234,290	189,384
Income taxes payable	293,341	277,570
Provision for bonuses	50,751	51,420
Provision for loss on order received	122,168	250,284
Other	542,817	544,504
Total current liabilities	1,243,369	1,313,163
Non-current liabilities		
Asset retirement obligations	—	116,495
Other	—	88,058
Total non-current liabilities	—	204,554
Total liabilities	1,243,369	1,517,718
Net assets		
Shareholders' equity		
Capital stock	1,185,030	1,185,030
Capital surplus	1,095,030	1,095,030
Retained earnings	3,113,675	3,889,482
Treasury shares	(355)	(942)
Total shareholders' equity	5,393,379	6,168,600
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,017	4,514
Foreign currency translation adjustment	(2,052)	(9,379)
Total accumulated other comprehensive income	965	(4,865)
Non-controlling interests	—	286
Total net assets	5,394,344	6,164,021
Total liabilities and net assets	6,637,714	7,681,739

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Thousands of yen)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Net sales	4,463,678	5,022,672
Cost of sales	2,002,519	2,180,360
Gross profit	2,461,159	2,842,311
Selling, general and administrative expenses	1,286,627	1,508,452
Operating profit	1,174,531	1,333,859
Non-operating income		
Interest and dividend income	6,158	9,176
Foreign exchange gains	4,672	—
Subsidy income	19,157	—
Compensation income for damage	3,125	17,493
Others	949	2,188
Total non-operating income	34,063	28,858
Non-operating expenses		
Listing expenses	22,106	—
Foreign exchange losses	—	1,249
Loss on retirement of noncurrent assets	40	2,777
Consumption tax difference	—	939
Others	313	22
Total non-operating expenses	22,459	4,990
Ordinary profit	1,186,134	1,357,727
Extraordinary losses		
Loss on valuation of investment securities	4,781	—
Loss on liquidation of subsidiaries	—	11,931
Impairment loss	—	42,750
Others	—	5,295
Total extraordinary losses	4,781	59,976
Profit before income taxes	1,181,353	1,297,750
Income taxes - current	384,801	443,502
Income taxes - deferred	(37,576)	(46,439)
Total income taxes	347,225	397,062
Profit	834,128	900,688
Profit attributable to non-controlling interests	—	381
Profit attributable to owners of parent	834,128	900,306

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Profit	834,128	900,688
Other comprehensive income		
Valuation difference on available-for-sale securities	79	1,496
Foreign currency translation adjustment	(22,545)	(7,327)
Total other comprehensive income	(22,466)	(5,830)
Comprehensive income	811,662	894,857
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	811,662	894,570
Comprehensive income attributable to non-controlling interests	—	286

(3) Consolidated Statements of Changes in Net Assets

Fiscal Year Ended December 31, 2018

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of year	1,185,030	1,095,030	2,404,046	—	4,684,106
Changes of items during period					
Dividends of surplus			(124,500)		(124,500)
Profit attributable to owners of parent			834,128		834,128
Purchase of treasury shares				(355)	(355)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	709,628	(355)	709,272
Balance at the end of year	1,185,030	1,095,030	3,113,675	(355)	5,393,379

	Accumulated other comprehensive income			Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of year	2,938	20,492	23,431	—	4,707,538
Changes of items during period					
Dividends of surplus					(124,500)
Profit attributable to owners of parent					834,128
Purchase of treasury shares					(355)
Net changes of items other than shareholders' equity	79	(22,545)	(22,466)	—	(22,466)
Total changes of items during period	79	(22,545)	(22,466)	—	686,806
Balance at the end of year	3,017	(2,052)	965	—	5,394,344

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of year	1,185,030	1,095,030	3,113,675	(355)	5,393,379
Changes of items during period					
Dividends of surplus			(124,499)		(124,499)
Profit attributable to owners of parent			900,306		900,306
Purchase of treasury shares				(586)	(586)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	775,807	(586)	775,221
Balance at the end of year	1,185,030	1,095,030	3,889,482	(942)	6,168,600

	Accumulated other comprehensive income			Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of year	3,017	(2,052)	965	—	5,394,344
Changes of items during period					
Dividends of surplus					(124,499)
Profit attributable to owners of parent					900,306
Purchase of treasury shares					(586)
Net changes of items other than shareholders' equity	1,496	(7,327)	(5,830)	286	(5,544)
Total changes of items during period	1,496	(7,327)	(5,830)	286	769,677
Balance at the end of year	4,514	(9,379)	(4,865)	286	6,164,021

(4) Consolidated statements of cash flows

(Thousands of yen)

Fiscal Year Ended December 31, 2018 Fiscal Year Ended December 31, 2019

Cash flows from operating activities		
Profit before income taxes	1,181,353	1,297,750
Depreciation	57,355	81,767
Impairment loss	—	42,750
Amortization of goodwill	2,850	11,400
Increase (decrease) in allowance for doubtful accounts	(738)	987
Increase (decrease) in provision for bonuses	15,361	723
Increase (decrease) in provision for loss on order received	83,260	128,116
Interest and dividend income	(6,158)	(9,176)
Settlement package	—	5,295
Loss on valuation of shares of subsidiaries and associates	4,781	—
Loss (gain) on liquidation of subsidiaries	—	11,931
Decrease (increase) in notes and accounts receivable - trade	(343,839)	27,475
Decrease (increase) in inventories	(37,728)	(200,449)
Increase (decrease) in notes and accounts payable - trade	70,462	(43,743)
Other, net	138,668	(45,242)
Subtotal	1,165,627	1,309,586
Interest and dividend income received	3,936	8,066
Settlement package paid	—	(5,295)
Income taxes paid	(227,802)	(459,244)
Net cash provided by (used in) operating activities	941,761	853,113
Cash flows from investing activities		
Payments into time deposits	(36,244)	3,544
Purchase of property, plant and equipment	(48,139)	(120,378)
Purchase of intangible assets	(15,784)	(317)
Purchase of investment securities	(656)	(665)
Purchase of stocks of subsidiaries and affiliates	(20,000)	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(25,717)	—
Proceeds from liquidation of unconsolidated subsidiaries	—	8,068
Payments for lease and guarantee deposits	(1,383)	(26,028)
Other	2,394	100
Net cash provided by (used in) investing activities	(145,531)	(135,676)
Cash flows from financing activities		
Purchase of treasury shares	(355)	(586)
Cash dividends paid	(124,359)	(124,441)
Net cash provided by (used in) financing activities	(124,715)	(125,027)
Effect of exchange rate change on cash and cash equivalents	(20,281)	(7,462)
Net increase (decrease) in cash and cash equivalents	651,232	584,947
Cash and cash equivalents at beginning of period	3,899,685	4,550,918
Cash and cash equivalents at end of period	4,550,918	5,135,866

(5) Notes on consolidated financial statements

(Note on the going-concern assumption)

Not applicable

(Changes in Accounting Principles)

(Changes in the depreciation method of property, plant and equipment)

The Company had employed the declining-balance method for the Company and its domestic subsidiaries (except for buildings [excluding building fixtures] acquired on and after April 1, 1998 and building fixtures and structures acquired on and after April 1, 2016, to which the straight-line method had been applied) to depreciate property, plant and equipment. From the current consolidated fiscal year, the depreciation method for the Company and its domestic subsidiaries has been changed to the straight-line method.

Taking the opportunity of expansion of business bases in Japan and overseas, the Group discussed the depreciation method for property, plant and equipment from the perspective of integrating Group accounting policies and properly adjusting periodic income. As a result, the Group judged that the change to the straight-line method would appropriately reflect the Group's usage status, given that property, plant and equipment are expected to be used stably for the long term.

The effects of this change on the income situation for the current consolidated fiscal year are negligible.

(Changes in presentation methods)

(Change associated with Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendment of 'Accounting Standards Concerning Tax Effect Accounting'" (Business Accounting Standards No. 28, February 16, 2018) etc. were applied at the beginning of the first quarter of the consolidated fiscal year, and "Deferred tax assets" are presented under investments and other assets.

Consequently, a reclassification was made in the consolidated balance sheet of the previous fiscal year: deferred tax assets of 81,172 thousand yen, which was presented under current assets, is reclassified and presented under investments and other assets.

(Notes to Consolidated Statement of Income)

Compensation income for damage was included in "Others" under non-operating income in the previous consolidated fiscal year, but its quantitative importance increased, and so it is presented independently in the current consolidated fiscal year.

Consequently, a reclassification was made in the consolidated statements of income of the previous fiscal year: compensation for damage of 3,125 thousand yen, which was included in "Others" under non-operating income, is presented independently.

Loss on retirement of fixed assets was included in "Others" under non-operating expenses in the previous consolidated fiscal year, but its quantitative importance increased, and so it is presented independently in the current consolidated fiscal year.

Consequently, a reclassification was made in the consolidated statements of income of the previous fiscal year: loss on retirement of fixed assets of 40 thousand yen, which was included in "Others" under non-operating expenses, is presented independently.

(Notes to Consolidated Statement of cash flows)

Payments for lease and guarantee deposits was included in "Others" under cash flows from investing activities in the previous consolidated fiscal year, but its quantitative importance increased, and so it is presented independently in the current consolidated fiscal year.

Consequently, a reclassification was made in the consolidated statements of cash flows of the previous fiscal year: "Payments for lease and guarantee deposits" of 1,383 thousand yen, which was included in "Others" under cash flows from investing activities, is presented independently.

(Changes in accounting estimates)

(Changes in Accounting-based Estimates for Asset Retirement Obligations)

With regard to the office used based on the lease agreement, the Company has obligations regarding restoration to original condition when vacating the office. However, the expiration date of the leased assets related to the obligations was not clear and relocation, etc. were not scheduled; therefore, loss on retirement of fixed assets was not able to be reasonably estimated and loss on retirement of fixed assets corresponding to the obligations was not recorded.

In the current consolidated fiscal year, discussions were held on the sidelines of the massive renovation, etc. of Tokyo head office. Consequently, the expiration date of the leased assets and the time of performance of the obligation to restore to original condition became

able to be estimated; therefore, loss on retirement of fixed assets of 108,125 thousand yen are recorded. The change in the estimate did not impact the income situation in the current consolidated fiscal year because it was made at the end of the current consolidated fiscal year.

(Segment information)

1. Summary of Reportable Segments

(1) Items related to changes in reportable segments

The Company offers various digital solutions with the axes of technology and creativity. In order to appropriately express the Company's business content in service development by appropriately taking in technological advancement and changes in customer needs, the Company changed the name of "Business Solution" to "Cloud Solutions" and the name of "Communication Design" to "Digital Transformation" at the first quarter of the current consolidated fiscal year. These changes affect only the names of the segments and do not affect the segment information. Segment information for the previous consolidated fiscal year is prepared and presented according to the new names.

(2) Classification of business reportable segments

The Group's reportable segments are the Company's structural units of which segregated financial information is available and that are subject to a periodical review by the Board of Directors so that allocation of management resources can be determined and financial results can be evaluated.

The Group establishes business divisions by product and by service within the Company. Each business division plans a comprehensive strategy for domestic and overseas businesses regarding products and services handled, and conducts business activities.

Consequently, the Group is comprised of segments by product and by service based on the business divisions: Cloud Solutions and Digital Transformation are established as two reportable segments.

(3) Product and service line

Cloud Solutions provides services with a focus on development and sale of the enterprise resource planning (ERP) "ZAC" and "Reforma PSA." Digital Transformation provides one-stop services: from digital strategy planning of corporate activities to development, management and analysis of the strategy.

2. Calculation method of the amount of each reportable segment's net sales, income (loss), assets, liabilities, and other items

Accounting treatment for reported business segments is almost the same as accounting treatment adopted for the preparation of consolidated financial statements. Profits of reportable segments are figures on an operating profit basis.

3. Information on Net Sales, Profit/Loss, Assets/Liabilities and Others of Each Reportable Segment

Fiscal Year Ended December 31, 2018

(Thousands of yen)

	Reportable Segment			Adjustments (Note 2)	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Net sales					
Sales to external customers	2,325,729	2,137,949	4,463,678	—	4,463,678
Inter-segment sales or transfers	—	—	—	—	—
Total	2,325,729	2,137,949	4,463,678	—	4,463,678
Segment income (note) 1, 3	899,395	275,135	1,174,531	—	1,174,531
Identifiable assets	542,191	1,057,692	1,599,884	5,037,830	6,637,714
Other items					
Depreciation	43,162	14,192	57,355	—	57,355
Increase in tangible and intangible fixed assets	30,306	19,162	49,469	—	49,469

(note)

1. The Company's common expenses are allocated to each segment by a constant fraction.

2. Adjustments of segment assets are the Company-wide assets that are not being allocated to each reportable segment, and they are mainly cash and deposits.

3. The total segment income corresponds to operating profit in the consolidated statements of income.

	Reportable Segment			Adjustments (Note 2)	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Net sales					
Sales to external customers	2,807,009	2,215,662	5,022,672	—	5,022,672
Inter-segment sales or transfers	—	—	—	—	—
Total	2,807,009	2,215,662	5,022,672	—	5,022,672
Segment income (note) 1, 3	1,243,983	89,876	1,333,859	—	1,333,859
Identifiable assets (note) 4	768,908	1,325,650	2,094,558	5,587,181	7,681,739
Other items					
Depreciation	53,960	27,806	81,767	—	81,767
Increase in tangible and intangible fixed assets	172,942	196,681	369,623	—	369,623

(note)

1. The Company's common expenses are allocated to each segment by a constant fraction.

2. Adjustments of segment assets are the Company-wide assets that are not being allocated to each reportable segment, and they are mainly cash and deposits.

3. The total segment income corresponds to operating profit in the consolidated statements of income.

4. As described in Changes in accounting estimates, In the current consolidated fiscal year, discussions were held on the sidelines of the massive renovation, etc. of Tokyo head office. Consequently, the expiration date of the leased assets and the time of performance of the obligation to restore to original condition became able to be estimated; therefore, loss on retirement of fixed assets of 108,125 thousand yen are recorded. As a result of this change, segment assets increased by 48,870 thousand yen in "Cloud Solution" and 59,254 thousand yen in "Digital Transformation".

【Information on impairment losses on fixed assets by reporting segment】

Fiscal Year Ended December 31, 2018

Not applicable

Fiscal Year Ended December 31, 2019

(Thousands of yen)

	Reportable Segment			Adjustments	Total
	Cloud Solution	Digital Transformation	Total		
Impairment loss	—	42,750	42,750	—	42,750

(note) The amount of the “Digital Transformation Business” relates to goodwill.

【Information on goodwill amortization and unamortized balance for each reporting segment】

Fiscal Year Ended December 31, 2018

(Thousands of yen)

	Reportable Segment			Adjustments	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Amortization of goodwill	—	2,850	2,850	—	2,850
Balance at the end of year	—	54,150	54,150	—	54,150

Fiscal Year Ended December 31, 2019

(Thousands of yen)

	Reportable Segment			Adjustments	Consolidated Statements of Income
	Cloud Solution	Digital Transformation	Total		
Amortization of goodwill	—	54,150	54,150	—	54,150
Balance at the end of year	—	—	—	—	—

(Information per share)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Net assets per share	324.96 yen	371.32 yen
Earnings per share	50.25 yen	54.24 yen

Note: 1. Diluted earnings per share are not presented because dilutive shares do not exist.

2. The Company conducted a common stock split according to a ratio of 1:2 effective on June 1, 2019. Net assets per share and net income per share are calculated on the assumption that the stock split was conducted at the beginning of the previous consolidated fiscal year.

3. The basis for calculating earnings per share is as follows

:

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Earnings per share		
Profit attributable to owners of parent (thousands of yen)	834,128	900,306
Amount not attributable to common shareholders (thousands of yen)	—	—
Profit attributable to owners of parent in relation to common shares (thousands of yen)	834,128	900,306
Average number of shares during the fiscal year (shares)	16,599,979	16,599,739

(Significant subsequent events)

Not applicable