Annual Securities Report

(Report based on the provision of Article 24, paragraph (1) of
the Financial Instruments and Exchange Act)

Fiscal year	From February 1, 2019
(Reporting Period 58)	To January 31, 2020

Artner Co., Ltd.

5-2, Nishidaimotsucho, Amagasaki, Hyogo

(E05717)

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[Reported Document]	Annual Securities Report
[Clause Serving as Basis]	Article 24, paragraph (1) of the Financial Instruments and Exchange Act
[Recipient]	Director General of the Kinki Local Finance Bureau
[Submission Date]	April 23, 2020
[Fiscal Year]	Reporting Period 58 (FY2020) (February 1, 2019 to January 31, 2020)
[Company Name]	Artner Co., Ltd.
[Name and Title of Representative]	SEKIGUCHI Sozo, President and CEO
[Address of Head Office]	5-2, Nishidaimotsucho, Amagasaki, Hyogo
	(This address is the location of the registered head office. The company's business is conducted in the nearest contact location shown below.)
[Telephone No.]	06(6445)7551
[Name of Administrative Contact]	HARIGAE Tomonori, Director and Head of the Management Division
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[Name of Administrative Contact]	HARIGAE Tomonori, Director and Head of the Management Division
[Location for Public Inspection]	Tokyo Stock Exchange, Inc.
	(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

Part I Company Information

I. Overview of the Company

1 Key Financial Data

State of the Reporting Company

Fiscal Year		FY2016	FY2017	FY2018	FY2019	FY2020
Year end		January 2016	January 2017	January 2018	January 2019	January 2020
Net sales	(thousands of yen)	4,761,224	5,153,319	5,765,117	6,331,692	7,002,175
Ordinary profit	(thousands of yen)	432,557	564,242	690,426	794,098	893,656
Profit	(thousands of yen)	276,492	363,555	480,977	540,973	613,377
Share of profit of entities accounted for using equity method	(thousands of yen)	—	—	—	—	—
Capital	(thousands of yen)	238,284	238,284	238,284	238,284	238,284
Total number of shares issued	(shares)	2,656,980	2,656,980	5,313,960	10,627,920	10,627,920
Net assets	(thousands of yen)	1,357,786	1,616,193	1,963,726	2,333,306	2,728,380
Total assets	(thousands of yen)	2,102,552	2,289,912	2,763,619	3,264,188	3,801,139
Net assets per share	(yen)	255.56	152.10	184.81	219.59	256.77
Dividend amount per share (Interim dividend per share included therein)	(yen)	35.00 15.00	45.00 20.00	30.00 13.00	18.00 7.50	20.50 10.00
Earnings per share	(yen)	52.04	34.21	45.26	50.91	57.73
Diluted earnings per share	(yen)	—	—	—	—	—
Equity ratio	(%)	64.6	70.6	71.1	71.5	71.8
Return on equity	(%)	22.0	24.4	26.9	25.2	24.2
Price Earnings Ratio	(times)	11.4	12.4	23.8	18.1	14.3
Payout ratio	(%)	33.6	32.9	33.1	35.4	35.5
Net cash provided by (used in) operating activities	(thousands of yen)	307,717	192,324	471,209	612,537	591,153
Net cash provided by (used in) investing activities	(thousands of yen)	(3,110)	(15,717)	(25,833)	(75,542)	(42,723)
Net cash provided by (used in) financing activities	(thousands of yen)	(79,359)	(105,677)	(134,729)	(169,438)	(215,920)
Cash and cash equivalents at end of period	(thousands of yen)	1,301,799	1,372,728	1,683,375	2,050,932	2,383,441
Number of employees	(people)	680	736	801	881	1,002
Total Shareholder Return (Comparison index: TOPIX total return index)	(%) (%)	173.3 103.2	252.0 112.0	257.7 123.3	225.5 107.5	207.7 118.5
Highest stock price	(yen)	1,648	1,998 [879]	2,344	2,370 [1,367]	1,075
Lowest stock price	(yen)	690	839 [833]	791	1,706 [560]	665

Notes: 1. Since we do not create consolidated financial statements, key financial data pertaining to the consolidated fiscal year are not included.

2. Net sales do not include consumption tax.
3. Shares of profit of entities accounted for using equity method are not shown because we do not have an affiliate.
4. Diluted earnings per share are not shown because we have no dilutive shares.
5. On February 1, 2017, we carried out a 2-for-1 stock split (common shares). The net assets per share and the earnings per share have been calculated on the assumption that this stock split was carried out at the beginning of FY2016. In addition, on April 1, 2018, we carried out a 2-for-1 stock split (common shares). The net assets per share and the earnings per share have been calculated on the assumption that this stock split was carried out at the beginning of FY2017.The dividend amounts per share shown here are the actual dividends paid out prior to the stock splits. The total shareholder return has been calculated on the assumption that these stock splits were carried out at the beginning of FY2016.
6. The highest and lowest stock prices refer to those that were quoted in the Second Section of the Tokyo Stock Exchange on or after October 26, 2017, and those in the First Section of the Tokyo Stock Exchange on or after July 3, 2018. Prices posted any time earlier were in the Tokyo Stock Exchange JASDAQ (Standard). The stock prices shown for FY2017 and FY2019 were the highest and lowest prices before the stock splits. The highest and lowest stock prices after the stock splits are shown in the parentheses.
7. The dividend per share for FY2018 includes the commemorative dividend of JPY 2 for the Company's 55th anniversary of establishment and the 10th anniversary of listing on JASDAQ (now Prime Market).
8. The dividend per share for FY2019 includes the commemorative dividend of JPY 2.50 for the stock moving up to the First Section of the Tokyo Stock Exchange.

2 History

In August 1953, Sekiguchi Kogyo Co., Ltd. was established as a manufacturer of gloves for industrial use, and as a blueprint printing business. In the late 1950s, as Japan began to enjoy the economic boom, the company decided to switch to design creation and tracing services for design drawings. Sekiguchi Kogyo and the family of SEKIGUCHI Sozo, current President and CEO, made investments as capital, and in September 1962, Osaka Technology Center Co., Ltd., which is currently Artner, was established.

The timeline below shows how the business of Osaka Technology Center Co., Ltd. has developed.

Month and Year	Event
September 1962	Sekiguchi Kogyo Co., Ltd. and the family of current President and CEO SEKIGUCHI Sozo invest 300,000 yen as capital to establish Osaka Technology Center Co., Ltd. to start the main business of design creation and design drawing services.
June 1964	Headquarters (current Osaka headquarters) move to Fukushima Ward, Osaka City.
March 1980	Headquarters move to Kita Ward, Osaka City.
November 1986	The Company launches its specified worker dispatching business as the Worker Dispatching Business Act was enforced.
April 1998	The Company changes its trade name from Osaka Technology Center Co., Ltd. to Artner Co., Ltd.
December 2003	The Company obtains its license for general worker dispatching business.
February 2004	The Company obtains its license for the paid employment agency business.
	The Company establishes two headquarters in Osaka and Tokyo. The Tokyo headquarters opens in Minato Ward, Tokyo.
October 2007	Company stock listed on JASDAQ.
February 2010	The Tokyo headquarters move to Kohoku Ward, Yokohama City.
April 2010	With the merger between the JASDAQ Securities Exchange and the Osaka Securities Exchange (OSE), the Company lists its stock on the OSE JASDAQ.
	The learning centers open in Suita, Osaka, for centralized management of education and training for newly graduated engineers.
February 2011	The Company goes through reorganization to open business offices (in Utsunomiya, Yokohama, Nagoya, and Osaka) under the Engineer Business Division.
	The Human Resources Business Department and the Hyper Artner Business Department are established under the Human Resources Business Division.
February 2012	The Hyper Artner Business Department is renamed the Hyper Artner Business Division.
February 2013	The Engineer Agency Business Division is established.
July 2013	With the integration of the Tokyo Stock Exchange (TSE) and the OSE, the Company lists its stock on the TSE JASDAQ (Standard).
February 2016	The Company integrates its business divisions to reorganize them into the Engineer Business Division and

Month and Year	Event
	Human Resources Business Division.
	The Engineer Business Division and the Hyper Artner Business Department are established under the Engineer Business Division.
	The Technology Development Department and Engineer Agency Business Department are established under the Human Resources Business Division.
October 2017	Stock listing moved to the Second Section of the Tokyo Stock Exchange.
February 2018	The Engineer Business Division and the Hyper Artner Business Department under the Engineer Business Division are disbanded.
	The High Value Group, the Wide Value Group, the Product Value Group, and the Contracting Group are established under the Engineer Business Division.
July 2018	Stock listing moved up to the First Section of the Tokyo Stock Exchange.
January 2019	The recruitment, education, and sales departments are integrated into learning centers (current learning centers in West Japan) and relocated to a different part of Suita.
March 2020	The learning centers in East Japan open in Kohoku Ward, Yokohama City.

3 Business Fields

(1) Engineer dispatching and contracting businesses

Currently, Artner offers design engineer dispatching services as its primary business. We have offices in Utsunomiya, Yokohama, Nagoya, and Osaka.

In the engineer dispatching business, our design engineers provide technical services in the fields of machinery (design of how a machine works using 2D/3D CAD), electronics (e.g., design of a circuit board at the heart of a device or instrument; reliability assessment), control software (e.g., development of software for operating electronic equipment with CPUs, including vehicles with increasingly advanced technologies and IoT devices), and data processing (e.g., development of systems and application software to offer services to users; development of web and open systems, and package software), among others, thereby assisting our clients' design and development teams.

We also operate a contracting business that offers design and development services outsourced by our clients.

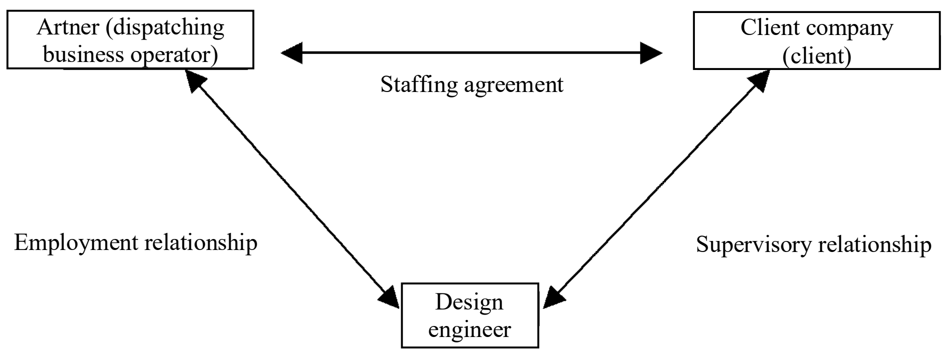
(2) Types of contracts with our clients

We execute staffing agreements and service agreements with our clients to conduct our business. While our business is based mostly on staffing agreements executed with our clients, we also sign service agreements with some of our clients.

(i) Staffing agreement

A staffing agreement is signed between Artner (dispatching business operator) as the employer of a design engineer and a client company (client) as the user of the engineer's services. The design engineer engages in work at the client company under the supervision of the client in accordance with the agreement.

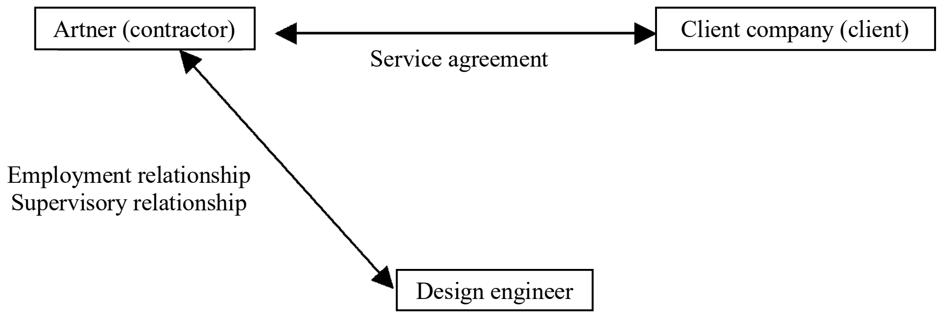
The figure below is a graphic representation of the relationships between Artner (dispatching business operator), a client company (client), and a design engineer (dispatched worker).



(ii) Service agreement

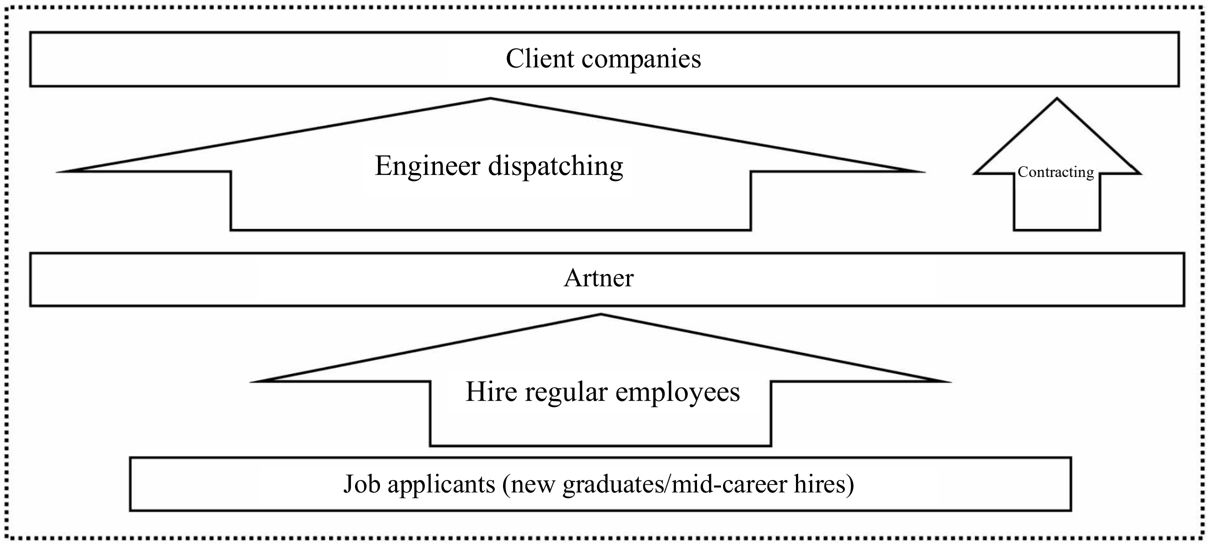
Under a service agreement, a client company outsources work to Artner, who takes full responsibility for giving instructions on the work and managing the design engineer’s labor, among other tasks, in order to deliver completed work to the client.

The figure below is a graphic representation of the relationships between Artner (contractor), a client company (client), and a design engineer.



[Systematic diagram of Artner's business]

The figure below graphically shows how the business stated above is structured.



4 Information about the Affiliates

Not applicable.

5 Employees

(1) State of the reporting company

As of January 31, 2020

Number of employees (people)	Average age (years old)	Average years of service (years)	Average annual wage (yen)
1,002	30.1	6.3	4,279,812

Notes: 1. The number of employees is that of staff members working at Artner. It does not include registered employees.

2. The average annual wage includes bonuses and nonstandard wages.

3. Since we have only one reportable segment, figures sorted by segment have been omitted.

4. The increase of 121 employees compared to the end of the previous fiscal year is primarily as a result of new hires due to business expansion.

(2) Labor union

Artner's labor union is named Artner Workers' Union, which has 1,085 members as of January 31, 2020. The superior body it belongs to is UA ZENSEN.

We have stable labor-management relations.

II. Business Conditions

1 Management Policy, Business Environment, and Issues to be Addressed

The statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2023.

(1) Management policy

Based on our management philosophy of being an Engineer Support Company, we are committed to serving as a technical partner that contributes to the sustainable growth of our clients. This basic stance, developed over many years, has built up a lot of trust and achievements, establishing our firm position as a pioneer in the industry.

We will continue to expand our corporate value by promoting management that will win the support and approval of our clients, shareholders, employees, and all other members of society.

(2) Corporate planning and strategy

(Guiding principle for the Medium-Term Business Plan)

"Build a foundation for sustainable and next-generation growth"

"Make Value! For the Next 2020-2022"

(Priority measures for the Medium-Term Business Plan)

(i) Promote strategies by segment

- Develop strategies for each segment (recruitment - education - assignment - system).
- Establish approaches to markets by segment.
- Explore and seek new specialist fields of technology.

(ii) Promote diversity and inclusion in talent management

- Utilize workers of retirement age, women, and foreign workers (overseas students) as personnel.
- Utilize and organize partner companies (set up a contracting system).

(3) Objective indicators for assessing the achievement status of management goals, etc.

In the engineer dispatching business, our main business, the following indicators are used. Net sales: the amount calculated by the number of operative personnel (number of engineers × utilization rate) × unit price of engineers × total work person-hours; cost of sales: labor costs for engineers assigned to our clients; and selling, general and administrative expenses: labor costs for engineers undergoing in-house training (standby status) and labor costs for other staffers.

We consider the engineer count, utilization rate, and unit price of engineers as particularly important management indicators, and will focus on efforts to improve them further.

(4) Business environment

Major manufacturers—our main clients—have seen steady rises in their R&D costs and design and development costs, which generated great demand for engineers for various projects.In the recruitment market, however, competition with manufacturers and other companies in our industry has been intensifying.

We are working to secure talented students who major in science or engineering as well as career engineers as our management priority.

(5) Business and financial issues that should be addressed

Our main business, which is the engineer dispatching business, consists of a cycle of recruitment, training, sales, and support activities. We must address the following issues for future business expansion..

(Recruitment activities)

We view securing and increasing the number of talented engineers as an essential requirement for the expansion of our business. Therefore, we will strive to secure high-quality talents that meet the market needs by implementing measures such as improving our recruitment criteria, securing recruitment opportunities, hiring diverse and inclusive talents, optimizing the composition of engineers by field and business domain, and optimizing the composition of new graduate and career hires.

With regard to the recruitment of new graduates, we will regularly provide detailed follow-ups to universities and prospective employees, and hold get-togethers for prospective employees in an effort to increase the percentage of prospective employees who join the Company.

(Training activities)

We will improve the skills of our engineers by providing general, external, basic, customized, and/or career training based on our long-accumulated experience.

In addition, we will strive to improve the technical and human skills of our staff by holding skill development seminars for all employees and human development training for managers.

(Sales activities)

We will secure and expand our business partners by strengthening our new business development and sales capabilities and making proposals for the selection of engineers, team dispatching, and organization of contracting services in response to client needs.

In addition, we will negotiate with client companies to assign and place appropriate engineers for improved business terms and conditions, such as an increase in the unit price of engineers.

(Support activities)

We will strive to improve the retention rate by providing guidance and advice according to the engineers' wishes and actual conditions through regular interviews with them, and by providing dedicated counselors for improved mental health and motivation.

2. Business and Other Risks

Of the matters regarding business conditions and financial information included in the Annual Securities Report, those that may have a material impact on investors are stated below.

Please note that the statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2020.

(Performance trends in the manufacturing industry)

Our major clients belong to the manufacturing industry, and we dispatch engineers primarily to their design and development departments. If these major clients were to reduce their capital investments, R&D costs, and the use of external engineers due to economic recession and other factors in the countries or regions in which they operate, our financial status and business performance may be affected.

In addition, if significant changes in the business environment take place for automobile-related manufacturers, which account for a large share of our sales, our financial status and business performance may be affected.

(Competition with other companies in the industry)

If competition with other companies intensifies due to market contraction or new entrants in the engineer staffing industry, where we operate our business, and this results in a fierce price competition, our financial status and business performance may be affected.

(Effectiveness of education and training)

We strive to improve the skills of our engineers by providing training programs that have been developed based on many years of experience. However, if the training does not turn out to be as effective as expected, customer satisfaction does not improve, the unit price of engineers does not increase, and/or if we fail to satisfy the requests from clients and they start to make complaints, our financial status and business performance may be affected.

(Securing suitable clients for our dispatching business)

Although we always strive to secure and expand our clients for our engineer dispatching business, if we are unable to find suitable clients that match our engineers and cannot maintain or improve the unit price of engineers and/or utilization rates, our financial status and business performance may be affected.

(Regulations on total work person-hours)

The total work person-hours of our engineers is determined based on the business conditions of the client company. If the revisions to relevant laws and regulations generate a larger pressure against long working hours, which may result in a significant decrease in the total work person-hours of engineers, our financial status and business performance may be affected.

(Securing science and engineering graduates)

We consider science and engineering graduates to be an important managerial resource, but if the population of science and engineering graduates were to decrease due to the declining birth rate and other factors, making it significantly more difficult to hire talented graduates, our financial status and business performance may be affected.

(Securing career engineers)

We consider engineers with work experience to be an important managerial resource. However, if the competition to secure career hires intensifies due to a shortage of engineers who wish to change jobs as a result of booming design and development activities in the manufacturing industry, making it significantly more difficult to hire talented career engineers, our financial status and business performance may be affected.

(Information management)

By introducing measures such as acquiring the "PrivacyMark," we have been committed to properly managing personal information, confidential information, and all other information obtained in the course of our business operations. However, if such information is leaked to outside parties for some reason, our social credibility will be damaged, and our financial status and business performance may be affected.

(Laws, regulations, licenses, and permits)
The following laws and regulations apply for each of our business categories:

(i) Worker dispatching business
Dispatching of engineers, which is our main business, is carried out under the license from the Minister of Health, Labour and Welfare as described below, based on the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers (hereinafter referred to as “Worker Dispatching Act”):

License name	Supervisory authority	License number	Licensed date	Expiration date
Worker dispatching business	Ministry of Health, Labour and Welfare	派 27-020513	December 1, 2003	November 30, 2021

We consider compliance with the Worker Dispatching Act and relevant laws and regulations to be one of our highest priorities, and strive to maintain a legal compliance system by monitoring compliance with laws and regulations via internal audits and by regularly confirming compliance with laws and regulations at different meetings. However, in the unlikely event that we violate such laws and regulations, which would hinder the continuity of our business, our financial status and business performance may be affected.
In addition, Article 14 of the Worker Dispatching Act stipulates that if a dispatching business operator falls under any of the disqualification grounds provided in Article 6 of the Worker Dispatching Act (main possible grounds: if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Worker Dispatching Act, the Employment Security Act or other labor-related laws, or the Health Insurance Act, the Employment Insurance Act or other laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.) or violates the Worker Dispatching Act and the Employment Security Act, the business operator shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to continue our business, and our financial status and business performance may be affected.
The Worker Dispatching Act and other relevant laws and regulations are being revised from time to time by means of adding modifications in response to changes in the labor environment, social conditions, and other factors.
We take appropriate measures whenever such laws and regulations are revised. However, if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected depending on the details of the revised laws and regulations.

(ii) Paid employment agency business
Our paid employment agency business is conducted under the license from the Minister of Health, Labour and Welfare as described below, based on the Employment Security Act:

License name	Supervisory authority	License number	Licensed date	Expiration date
Paid employment agency business	Ministry of Health, Labour and Welfare	27-ユ-020355	February 1, 2004	January 31, 2022

Article 32-9 of the Employment Security Act stipulates that if a provider of paid employment placement services (including its executives in case of a company) falls under any of the disqualification grounds as a paid employment agency business (if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Employment Security Act, the Worker Dispatching Act, or other labor-related laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.), or violates the Employment Security Act and the Worker Dispatching Act, the service provider shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to continue our business, and our financial status and business performance may be affected.

In addition, if such laws and regulations are revised in the future and if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected.

(Disasters, accidents, etc.)

We have established a manual to deal with natural disasters, man-made disasters, and other disasters and accidents (hereinafter referred to as “Disasters, etc.”) in an effort to minimize the damage. However, if any Disasters, etc. that significantly exceed our prediction take place, our financial status and business performance may be affected.

In addition, in the event that our business activities are hindered as a result of the spread of COVID-19 infections and other factors, our financial status and business performance may be affected.

3 Management Analysis of Financial Status, Business Performance and Cash Flows

(1) Overview of business performance and other conditions

Artner’s financial status, business performance, and cash flows (hereinafter referred to as “financial performance and other conditions”) for the fiscal year ended January 31, 2023, are summarized as below.

(i) Financial status and business performance

For this fiscal year, the Japanese economy has slowly recovered although there are signs of weakness.

Development of product software accelerated at our main clients, and the demand for software engineers increased more than that for hardware engineers. In the advanced development projects in the transportation equipment field mainly for automobiles, there has been solid demand for engineers that specialize in eco cars, such as electric vehicles and hybrid vehicles, and automotive driver assistance technologies. In addition, as we actively hired software engineers, we strengthened our efforts to develop new clients for their placement. As a result, demand for engineers in the information and communications field also grew.

Amid this situation, the number of engineers increased compared to the same period of the previous year, as 156 newly graduated engineers and 32 career engineers joined us this fiscal year.

The engineer dispatching business saw the utilization rate remain high, and newly graduated engineers who joined us in April 2019 were placed to their work ahead of the initial schedule, which led to a year-on-year increase in the number of operative personnel. Moreover, unit price negotiations with client companies based on engineers’ work performance led the unit price of engineers to surpass the unit price for the same period of the previous year. Total work person-hours saw a downward trend following work style reforms. The contracting business actively engaged in sales activities. Consequently, the number of contracted projects increased.

As part of our upfront investment, we enhanced employee treatment, increased recruitment expenses, hired more staff and newly graduated engineers, and expanded our education and training facilities. Although these measures led to increases in cost of sales and SG&A expenses, they were absorbed by an increase in net sales. As a result, profit increased year on year.

As a result of all this, our financial status and business performance for this fiscal year are as stated below.

a. Financial status

The total assets at the end of this fiscal year increased JPY 536,950 thousand compared to the end of the previous fiscal year to JPY 3,801,139 thousand.

The total liabilities at the end of this fiscal year increased JPY 141,877 thousand compared to the end of the previous fiscal year to JPY 1,072,759 thousand.

The total net assets at the end of this fiscal year increased JPY 395,073 thousand compared to the end of the previous fiscal year to JPY 2,728,380 thousand.

b. Business performance

Net sales for this fiscal year totaled JPY 7,002,175 thousand (up 10.6% year on year), operating profit JPY 886,007 thousand (up 12.8% year on year), ordinary profit JPY 893,656 thousand (up 12.5% year on year), and profit JPY 613,377 thousand (up 13.4% year on year).

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) at the end of this fiscal year increased JPY 332,508 thousand compared to the end of the previous fiscal year to JPY 2,383,441 thousand.

Cash flows for the fiscal year and factors therein are as stated below.

(Net cash provided by (used in) operating activities)

The cash gained as a result of operating activities totaled JPY 591,153 thousand (down JPY 21,384 thousand year on year). This is mostly because we recorded JPY 893,656 thousand in profit before income taxes, whereas we also recorded JPY 304,355 thousand in income taxes paid.

(Net cash provided by (used in) investing activities)

The cash used as a result of investing activities totaled JPY 42,723 thousand (down JPY 32,818 thousand year on year). This is mostly because we recorded JPY 15,507 thousand in purchase of property, plant and equipment, JPY 13,958 thousand in purchase of intangible assets, and JPY 13,401 thousand in payments of leasehold and guarantee deposits.

(Net cash provided by (used in) financing activities)
The cash used as a result of financing activities totaled JPY 215,920 thousand (up JPY 46,482 thousand year on year). This is because we recorded JPY 215,920 thousand in dividends paid.

(iii) Records of production, orders received, and sales

a. Record of production

A record of production has been omitted because the mainstay of our business is the engineer dispatching business for machinery design and development, electronics design and development, and software development, among others. The business, based on the nature of services provided, is not fit to be presented for a production record.

b. Record of orders received

A record of orders received has been omitted because orders received are almost equal to sales in terms of monetary amounts due to how our business works.

c. Record of sales

Sales results by business category for this fiscal year are as shown below.

Business Category	FY2020 (Fiscal year ended January 31, 2020)	
	Amount (thousands of yen)	YoY (%)
Engineer Dispatching Business	6,753,819	108.7
Contracting Business	228,158	228.8
Other businesses	20,197	95.2
Total	7,002,175	110.6

Notes: 1. Since we have only one reportable segment, the figures are sorted by business category.

2. The table below shows sales results sorted by major client and percentages they make up of overall sales for the last two fiscal years.

Client	FY2019 (Fiscal year ended January 31, 2019)		FY2020 (Fiscal year ended January 31, 2020)	
	Amount (thousands of yen)	Percentage (%)	Amount (thousands of yen)	Percentage (%)
Honda R&D Co., Ltd.	1,094,249	17.3	1,340,047	19.1

3. The amounts presented above do not include consumption tax.

(2) Analysis and discussion of the state of business performance and other conditions from the perspective of the management

The management of Artner understands, analyzes, and discusses the Company's business performance and other conditions as stated below.

Please note that the statements about the future in the text are judgments made at the end of the fiscal year ended January 31, 2020.

(i) Significant accounting estimates and assumptions used in the estimates

Artner prepares its financial statements based on accounting standards that are generally accepted as fair and appropriate in Japan. The significant accounting policies we have used to prepare the financial statements are as stated in "V. Financial Information 1. Financial Statements and Other Documents (1) Financial statements." The financial statements and other documents include projections, which is based on our decision as of the end of the fiscal year ended January 31, 2020. We made these projections based on logical judgments that consider results in the past. However, since estimates are by their nature uncertain, results may turn out to differ from the projections.

(ii) Understanding, analysis, and discussion of the state of business performance and other conditions for the fiscal year ended January 31, 2020

a. Business performance

(Net sales)

The engineer dispatching business saw the number of engineers and the unit price of engineers surpass those in the same period of the previous year and the utilization rate remain at the same level as the previous year. As a result, net sales for this fiscal year increased 10.6% year on year to JPY 7,002,175 thousand.

(Operating profit, ordinary profit, and profit)

While cost of sales, including labor cost of engineers, and SG&A expenses, including recruitment expenses, increased year on year, the increase in net sales more than offset them. As a result, operating profit for this fiscal year increased 12.8% year on year to JPY 886,007 thousand, ordinary profit increased 12.5% year on year to JPY 893,656 thousand, and profit increased 13.4% year on year to JPY 613,377 thousand.

b. Financial status

(Assets)

The total assets at the end of this fiscal year increased JPY 536,950 thousand compared to the end of the previous fiscal year to JPY 3,801,139 thousand. This is mostly because we recorded an increase of JPY 332,508 thousand in cash and deposits and an increase of JPY 115,227 thousand in trade receivables.

(Liabilities)

Liabilities at the end of this fiscal year increased JPY 141,877 thousand compared to the end of the previous fiscal year to JPY 1,072,759 thousand. This is mostly because we recorded an increase of JPY 80,588 thousand in provision for retirement benefits and an increase of JPY 66,910 thousand in accrued consumption taxes.

(Net assets)

Net assets at the end of this fiscal year increased JPY 395,073 thousand yen compared to the end of the previous fiscal year to JPY 2,728,380 thousand. This is mostly because we recorded an increase of JPY 395,552 thousand in retained earnings.

c. Sources of capital and liquidity of funds

The cash we have demand for is primarily to cover personnel expenses for engineers we dispatch to client companies. As a rule, we allocate our own funds to working capital, funds for equipment, and other required funds. Yet we also turn to borrowings from a bank to raise capital if the situation demands.

The state of cash flows is as stated in "II. Business Conditions 3 Management Analysis of Financial Status, Business Performance and Cash Flows (1) Summary of business performance and other conditions (ii) Cash flows."

The table below shows indicators related to our cash flows.

	FY2016	FY2017	FY2018	FY2019	FY2020
Equity ratio (%)	64.6	70.6	71.1	71.5	71.8
Market value-based equity ratio (%)	149.7	196.5	413.9	300.1	230.9
Ratio of cash flows to interest-bearing liabilities (year)	―	―	―	―	―
Interest coverage ratio (times)	7,413.8	5,777.8	6,131.6	16,772.7	―

Equity ratio: Equity / Total assets

Market value-based equity ratio: Market capitalization / Total assets

Ratio of cash flows to interest-bearing liabilities: Interest-bearing liabilities / Operating cash flow Interest coverage ratio: Operating cash flow / Interest payments

Notes: 1. The calculation of market capitalization is based on the number of shares issued, excluding treasury shares.

2. The ratios of cash flows to interest-bearing liabilities are not shown because there are no year-end interest-bearing liabilities.

3. The interest coverage ratio for the fiscal year ended January 2020 is not shown because there were no interest payments.

d. Factors that may have a material impact on business performance

In regard to factors that may have a material impact on business performance, we are aware that our business environment, business fields, how we operate our businesses, and a variety of risk factors may have a material impact on our business performance, as stated in "II. Business Conditions 2. Business and Other Risks."

Therefore, while keeping an eye on market trends at all times, we plan to strengthen our internal management structure, hire and retain talented employees, and offer services designed to match market needs, thereby diversifying and reducing risks that may have a material impact on our business performance and taking appropriate actions.

e. Objective indicators for assessing management policies, corporate planning and strategies, and the achievement status of management goals

We consider the engineer count, utilization rate, and unit price of engineers as particularly important management indicators, and focus on efforts to improve them further. With newly graduated and career engineers who joined us this fiscal year, the term-end engineer count totaled 901 (up 116 year on year). As the demand for engineers from our clients grew, the utilization rate remained high at 97.4% (down 0.2 percentage points year on year). Attributable to unit price negotiations with our clients based on engineers' work performance, the unit price of engineers stood at JPY 4,183 (up 0.7% year on year).

4 Important Business Contracts

Not applicable.

5 R&D Activities

Not applicable.

III. Facilities and Equipment

1 Overview of Capital Investments and Others

No important capital investments were made during the fiscal year.

No important facilities/equipment were/was retired or sold during the fiscal year, either.

2 Major Facilities

The table below shows our major facilities.

Since we have only one reportable segment, figures sorted by segment have been omitted.

As of January 31, 2020

Office (Location)	Description	Carrying amount					Number of employees (people)
		Building (thousands of yen)	Tools, furniture and fixtures (thousands of yen)	Software (thousands of yen)	Other (thousands of yen)	Total (thousands of yen)	
Osaka headquarters (Kita Ward, Osaka City)	Headquarters	2,712	6,161	41,125	29,519	79,518	28
Yokohama Office of Tokyo headquarters (Kohoku Ward, Yokohama City)	Headquarters, business office and technical center	3,093	2,185	6,615	24,160	36,054	30
Nagoya office (Nakamura Ward, Nagoya City)	Business office and technical center	241	401	–	5,895	6,538	8
Utsunomiya office (Utsunomiya City, Tochigi Prefecture)	Business office and technical center	4,999	1,128	–	5,315	11,444	15
Learning centers (Suita City, Osaka Prefecture)	Training facilities and business office	10,097	4,750	9,746	17,337	41,931	39

Notes: 1. The amounts presented above do not include consumption tax.

2. The above offices are leased facilities. What these buildings contain are mostly furnishings.

3. The numbers of employees are those of staff members working at these offices. They do not include engineers assigned to client companies.

4. Other than the above, we own land containing unutilized assets that is worth JPY 59,159 thousand (733 m2 in Kamigori, Ako District, Hyogo Prefecture; 1,631 m2 in Sasayama City, Hyogo Prefecture; 550 m2 in Kita Ward, Kobe City; 155.47 m2 in Amagasaki City, Hyogo Prefecture; and 168.23 m2 in Amagasaki City, Hyogo Prefecture).

5. "Others" in the carrying amount are leasehold and guarantee deposits.

6. Other than the above, major facilities leased from others are as shown in the table below.

As of January 31, 2020

Office (Location)	Description	Leased areas (m^2)	Annual rent (thousands of yen)
Osaka headquarters (Kita Ward, Osaka City)	Leased building	536.61	27,075
Yokohama Office of Tokyo headquarters (Kohoku Ward, Yokohama City)	Leased building	460.53	14,210
Nagoya office (Nakamura Ward, Nagoya City)	Leased building	125.98	5,895
Utsunomiya office (Utsunomiya City, Tochigi Prefecture)	Leased building	196.91	3,276
Learning centers (Suita City, Osaka Prefecture)	Leased building	795.88	24,561

3 Plans for Installation, Retirement, etc. of Facilities

(1) Installation of new important facilities

Not applicable.

(2) Retirement of important facilities

Not applicable.

IV. State of the Reporting Company

1 The Company's Shares

(1) Total number of shares

(i) Total number of shares

Type	Total number of authorized shares (shares)
Common shares	36,000,000
Total	36,000,000

(ii) Total number of shares issued

Type	Number of shares issued - year-end (As of January 31, 2020)	Number of shares issued - submission date (As of April 21, 2020)	Financial instruments exchange where the Company is listed or Registered/Authorized financial instruments firms association	Definition
Common shares	10,627,920	10,627,920	First Section of the Tokyo Stock Exchange	Number of shares per share unit
Total	10,627,920	10,627,920	—	—

Note: The Company was listed on the First Section of the Tokyo Stock Exchange before the reorganization of the Tokyo Stock Exchange sections effective as of April 4, 2020. From this date onward, the Company's stock shares are traded on the Prime Market of the Tokyo Stock Exchange.

(2) Stock acquisition rights

(i) Stock option plans

Not applicable.

(ii) Rights plans

Not applicable.

(iii) Other stock acquisition rights

Not applicable.

(3) Status of corporate bond certificates, etc. with share options subject to exercise value change

Not applicable.

(4) Total number of shares issued and capital

Date	Change in the total number of shares issued (shares)	Balance of total shares issued (shares)	Change in capital (thousands of yen)	Balance of capital (thousands of yen)	Change in legal capital surplus (thousands of yen)	Balance of legal capital surplus (thousands of yen)
As of February 1, 2017 (Notes)	2,656,980	5,313,960	—	238,284	—	168,323
As of April 1, 2018 (Notes)	5,313,960	10,627,920	—	238,284	—	168,323

Note: A 2-for-1 stock split was carried out.

(5) Details by shareholder

As of January 31, 2020

Classification	Shareholder and shares held (number of shares per unit: 100)								Shares less than one share unit (shares)
	National and local governments	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders (people)	—	16	21	14	27	4	3,308	3,390	—
Number of shares owned (units)	—	6,107	1,721	48,147	1,774	6	48,494	106,249	3,020
Ratio of shares owned (%)	—	5.75	1.62	45.31	1.67	0.01	45.64	100.00	—

Note: Of treasury shares of 2,329, 23 units are included in the figures under "Individuals and others" and 29 shares in those under "Shares less than one share unit."

(6) Major shareholders

As of January 31, 2020

Name / Company name	Address	Number of shares owned (shares)	The number of shares owned as a proportion of the total number of issued shares (excluding treasury stock)
Sekiguchi Kogyo Co., Ltd.	3-20, Nangocho, Nishinomiya City, Hyogo	4,310,000	40.56
Artner Employee Stock Ownership Association	3-2-18, Nakanoshima, Kita-ku, Osaka City	937,848	8.82
Osaka Small and Medium Business Investment and Consultation Co., Ltd.	3-3-23, Nakanoshima, Kita-ku, Osaka City	480,000	4.51
HARIGAE Tomonori	Tsukuba City, Ibaraki	270,240	2.54
OKUSAKA Kazuya	Kishiwada City, Osaka	254,880	2.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku Tokyo	194,700	1.83
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	124,000	1.16
EGAMI Yoji	Ichikawa City, Chiba	101,552	0.95
Artner Officer Stocks Society	3-2-18, Nakanoshima, Kita-ku, Osaka City	100,200	0.94
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1-8-11, Harumi, Chuo-ku, Tokyo	88,500	0.83
Total	―	6,861,920	64.57

Note: The number of shares owned by The Master Trust Bank of Japan, Ltd. (Trust Account), Japan Trustee Services Bank, Ltd. (Trust Account), and Japan Trustee Service s Bank, Ltd. (Trust Account 5) is all for trust services.

(7) Voting rights

(i) Shares issued

As of January 31, 2020

Classification	Number of shares (shares)	Number of voting rights	Definition
Non-voting shares	―	―	―
Shares with restricted voting rights (e.g., treasury shares)	―	―	―
Shares with restricted voting rights (other)	―	―	―
Shares with full voting rights (e.g., treasury shares)	Common shares: 2,300	―	―
Shares with full voting rights (other)	Common shares: 10,622,600	106,226	―
Shares less than one share unit	Common shares: 3,020	―	―
Total number of shares issued	10,627,920	―	―
Voting rights held by all shareholders	―	106,226	―

Note: The figure for “Shares less than one share unit” includes 29 treasury shares less than one share unit owned by Artner.

(ii) Treasury shares

As of January 31, 2020

Shareholder name / Company name	Address of shareholder	Number of shares held in the shareholder’s name (shares)	Number of shares held in others’ name (shares)	Total shares owned (shares)	Ratio of shares owned as a proportion of the total number of issued shares (%)
Artner Co., Ltd.	5-2, Nishidaimotsucho, Amagasaki, Hyogo	2,300	―	2,300	0.02
Total	―	2,300	―	2,300	0.02

2 Acquisition of Treasury Shares

Type of shares: Common shares

(1) Acquisition of shares based on a resolution at the General Meeting of Shareholders: Not applicable.

(2) Acquisition of shares based on a resolution by the Board of Directors: Not applicable.

(3) Acquisition of shares not based on a resolution at the General Meeting of Shareholders or by the Board of Directors: Not applicable.

(4) Acquired treasury shares disposed of/held

Classification	Fiscal year ended January 31, 2023		Acquisition period	
	Number of shares (shares)	Total value of shares for disposition (yen)	Number of shares (shares)	Total value of shares for disposition (yen)
Acquired treasury shares placed for subscription	—	—	—	—
Acquired treasury shares retired	—	—	—	—
Acquired treasury shares transferred for merger, share exchange, share delivery, or company split	—	—	—	—
Other	—	—	—	—
Number of treasury shares held	2,329	—	2,329	—

Note: The number of treasury shares held during the period does not include that of shares less than one share unit purchased or sold during the period between April 1, 2020, and the date of submission of this Annual Securities Report.

3 Dividend Policy

In terms of profit distribution, Artner comprehensively considers future business developments, earnings, the management environment, as well as the strengthening of its management foundations, and positions the supply of stable dividends to its shareholders as top-priority management tasks.

While taking into account earnings trends and other factors, Artner's basic policy calls for the biannual distribution of retained earnings in the form of interim and year-end dividends. The distributions of retained earnings are decided by the general shareholders meeting in the case of the year-end dividend and by the Board of Directors in the case of the interim dividend. Artner's Articles of Incorporation specifies that the Company may pay out dividends of surplus by resolutions of the Board of Directors pursuant to Article 459, paragraph (1) of the Companies Act.

Shareholders will receive a year-end dividend payment of 10.50 yen per share for this fiscal year. Combined with the interim dividend of 10 yen a share that was already paid, the dividend for the full year totals 20.50 yen per share. This makes the payout ratio for this fiscal year 35.5%.

Internal reserves are set aside to address projected future changes in the management environment and invest efficiently in enriching our pool of human resources, etc.

The table below shows the dividends of surplus for this fiscal year.

Date of resolution	Total amount of dividends (thousands of yen)	Dividend per share (yen)
Resolution by the Board of Directors on September 9, 2019	106,255	10.00
Resolution at the Ordinary General Meeting of Shareholders on April 23, 2020	111,568	10.50

4 Corporate Governance

(1) Overview of corporate governance

(i) Basic views on corporate governance

1. Artner's No.1 business challenge is steadily improving shareholder value over the long term. So in addition to expanding our business and ensuring profitability, we want to grow as a "technical partner" together with our client companies in various industries, as a collective of engineers focused on developing more and more advanced levels of technical expertise. At the same time, with a constant awareness of what society needs most, and a desire to create a demand for it, we strive for business efficiency and soundness to help in the sustainable development of the Company.
2. At Artner, we are highly conscious of our social responsibility as a company, so in addition to strictly observing all applicable laws and regulations, we strive to sustain and develop favorable relationships with shareholders, with our local community, with all of our client companies, and with all employees.
3. We are committed to further strengthening our internal control and risk management efforts through the application of business management systems (including internal control systems) to enable flexible adaptation to changes in the business environment. Artner also will promptly disclose relevant information both inside and outside the company and enhance business transparency.

(ii) Overview of Artner's corporate governance framework and why this framework is used

Artner is a company with an audit and supervisory committee, an organizational design defined by the Companies Act. The Company has in place the following bodies in the framework.

(Board of Directors)

The Board of Directors, chaired by President and CEO SEKIGUCHI Sozo, is composed of eight members including five directors (SEKIGUCHI Sozo, OKUSAKA Kazuya, HARIGAE Tomonori, EGAMI Yoji, SATO So) (directors who are members of the Audit and Supervisory Committee are excluded) and three outside directors (MITANI Takaaki, KANAI Hiroki, FUKUMURO Kozaburo) who are members of the Audit and Supervisory Committee. The Board meets twice a month. At a mid-month business report board meeting, the members deliberate on the Company's monthly business performance; and at a regular month-end board meeting, they deliberate and decide on matters relating to the Company's management plan, as well as significant matters relating to day-do-day business operations.

(Audit and Supervisory Committee)

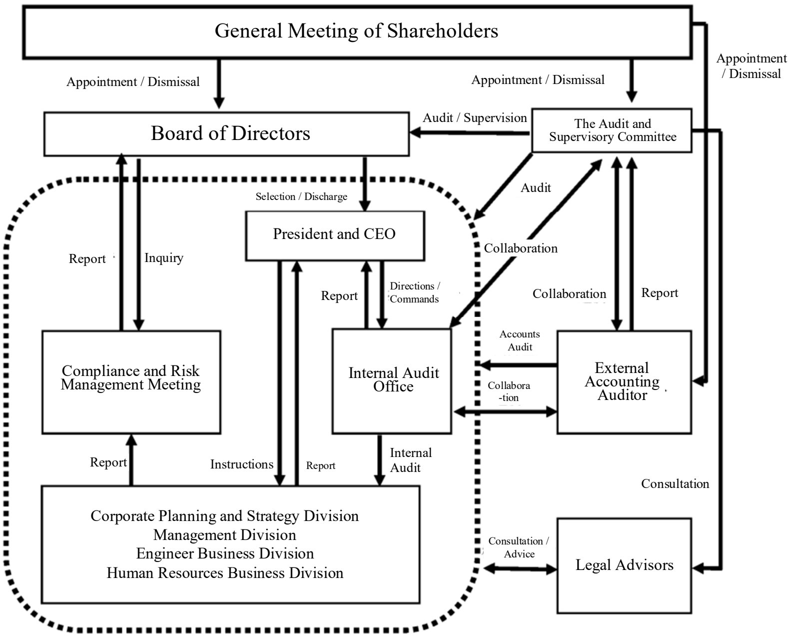
The Audit and Supervisory Committee, chaired by Standing Audit and Supervisory Committee member MITANI Takaaki, is composed of three Audit and Supervisory Committee members who are outside directors. The committee meets twice a month. Directors who are members of the committee also attend board meetings and other important internal meetings. The committee provides impartial and independent oversight of the Company's corporate management, based on the audit standards as well as the audit policy and plans established by the committee.

(Compliance and Risk Management Meeting)

The Compliance and Risk Management Meeting, chaired by the President and CEO, is composed mainly of Heads of Divisions and Departments in addition to eight directors. The meeting is held monthly. In these meetings, members discuss policies and actions to ensure that all officers and employees of the Company abide by laws and the Company's Articles of Incorporation, and draw up the Risk Management Guidelines.

Artner currently uses this framework because the mutual supervision of business operations by directors works well, as do the audits and supervision of the Board of Directors by the Audit and Supervisory Committee.

The chart below shows the Company’s bodies and how internal control works.



(iii) Other matters regarding corporate governance

(a) Design of the Internal Control System

Artner has designed its internal control system in accordance with the following basic policies on the internal control system that has been established by the Board of Directors.

a. System to ensure that directors and employees execute their duties in compliance with applicable laws and regulations and the Company’s Articles of Incorporation

1) At Artner, we have implemented the Compliance and Risk Management Meeting, chaired by the President and CEO, as part of a system aimed at thoroughly educating employees regarding all applicable laws and regulations and the Articles of Incorporation, and also ensuring such compliance.

2) We have set up an internal whistleblowing system, under which directors, employees, and other people engaged in work for the Company can report corruption or wrongdoing to the Whistleblowing Committee, which has a duty of confidentiality. It is prohibited to subject persons who submit whistleblower reports using the system to any disadvantageous treatment as a result of such reporting. The system is designed to ensure the effectiveness of whistleblowing to prevent or quickly detect violations of applicable laws and regulations.

3) The Internal Audit Office, operating independently of other divisions that execute business practices, conducts internal audits. Through such audits, it verifies the appropriateness and effectiveness of the internal management system of each division, and by promoting the improvement of the systems, it ensures that all employees lawfully execute their duties.

b. System to ensure the appropriateness of financial reporting

1) Directors and employees ensure the appropriateness of financial reporting by executing their duties in compliance with the “Basic Framework of Internal Control Related to Financial Reporting.”

2) Directors and employees smoothly operate the system to ensure the appropriateness of financial reporting.

3) The Internal Audit Office audits the operation of the system to ensure the appropriateness of financial reporting.

c. System to store and manage information relating to the execution of duties by directors

1) Information and documents relating to the execution of duties by directors are appropriately stored and managed in accordance with the “Document Management Rules,” other applicable rules and regulations, and related information management system manuals.

2) The Internal Audit Office conducts internal audits to confirm that this information and related documents are appropriately stored and managed.

d. Rules and system to manage the risk of loss

1) We have formulated guidelines, “Structure to Conduct Risk Management,” to define a clear system for managing different risks.

2) We have classified and defined management risks in accordance with these policies, and each responsible division identifies and analyzes the risk situation for each type of risk. We have set up a system in which the various kinds of risks are managed through the Compliance and Risk Management Meeting. Management and countermeasures for each type of risk are

clarified and managed in the meeting.

3) The Internal Audit Office, which is directly overseen by the President and CEO, is responsible for audits in accordance with an internal audit plan. The office examines the method and details of audit implementation and revises the audit method as and when needed.

e. System to ensure that directors execute their duties efficiently

1) Board of Directors meetings are held twice a month, as the basis of a system to ensure that directors execute their duties efficiently. The first board meeting of the month is a performance board meeting and the second is a regular board meeting. Special board meetings are also held as and when needed. The scope of authority of the Board of Directors is clearly defined in the "Board of Directors Rules."

2) To ensure efficient business management by the directors, we have formulated "Organizational Rules," "Administrative Authority Rules," "Division of Duties Rules," "Division of Duties (Administrative Authority) Statement," and other internal rules.

f. System to ensure appropriate business practices in a corporate group consisting of companies, parent companies, and subsidiaries

The company does not currently have any parent companies or subsidiaries.

g. Matters relating to employees who assist with the duties of the Audit and Supervisory Committee, independence of such employees from other directors who are not members of the committee, and ensuring the effectiveness of the committee's instructions to such employees

1) If requested by the Audit and Supervisory Committee, an employee can be appointed to assist with the duties of the committee.

2) The appointment or dismissal, reassignment, and performance evaluation of such employees require the approval of the Audit and Supervisory Committee.

3) If the Audit and Supervisory Committee requests the appointment of an employee to assist with its work, the appointment of a suitable employee to assist with the work needed by the committee is made in consultation with the committee. The appointment is made with the prior approval of the committee, and with an assurance of independence. To ensure the effectiveness of the instructions of the Audit and Supervisory Committee to the applicable employee, the employee works exclusively for the committee, without being assigned any other work.

h. System to enable directors who are not members of the Audit and Supervisory Committee and employees to report to the Audit and Supervisory Committee

1) Directors who are members of the Audit and Supervisory Committee attend meetings of the Board of Directors and other important meetings and receive reports on the state of business practice execution from other directors who are not members of the committee.

2) Directors who are members of the Audit and Supervisory Committee are able to view important internal decision request circulars, written decisions, and reports that are not discussed at the important meetings mentioned above, and they also receive explanation of the contents of such documents as and when needed.

3) Directors or employees should report to the Audit and Supervisory Committee any of the following: a risk that may significantly harm the company; misconduct relating to execution of duties by directors who are not members of the Audit and Supervisory Committee; significant violation of an applicable law, regulation, or the Articles of Incorporation; reports relating to the state of internal audits; facts reported based on the internal whistleblowing system; and any other matter requested for the purposes of the Audit and Supervisory Committee.

i. System to ensure that persons who make whistleblower reports to the Audit and Supervisory Committee are not subjected to any disadvantageous treatment as a result of such reporting

The operation status of the internal whistleblowing system is reported to the Audit and Supervisory Committee as appropriate, and in accordance with internal rules, it is prohibited to subject persons who submit whistleblower reports using the system to disadvantageous treatment in retaliation for whistleblowing.

j. Matters relating to policies concerning procedures for prepayment or reimbursement of expenses arising from the execution of duties by the Audit and Supervisory Committee members or other processing of expenses or monetary obligations arising from the execution of such duties

The procedures for prepayment or reimbursement of expenses arising from the execution of duties by members of the Audit and Supervisory Committee or other processing of expenses or monetary obligations arising from the execution of such duties are carried out appropriately through applications made by members of the Audit and Supervisory Committee.

k. Other systems to ensure that audits of the Audit and Supervisory Committee are effectively conducted

1) The President and CEO and the Head of the Internal Audit Office strive to enable sufficient opportunities for consultation

with the Audit and Supervisory Committee members to examine the establishment of a suitable working environment for the committee, in order to ensure the effectiveness of audits.

2) To ensure the effectiveness of audits by the Audit and Supervisory Committee, the committee members demand that the President and CEO and the Board of Directors strive to make continuous improvements to the auditing system.

3) The Internal Audit Office, which is the internal auditing department of the Company, and the division responsible for oversight of compliance and risk management meet regularly with the Audit and Supervisory Committee to exchange opinions regarding issues to be addressed.

4) If the Audit and Supervisory Committee deems it necessary to appoint legal advisors or other external advisors when conducting an audit, such advisors can be appointed.

l. Basic approach to the exclusion of antisocial forces

1) To fulfill its obligations of corporate social responsibility and to protect the Company, any relations with antisocial forces are cut off.

2) In the event that the company is subjected to any unreasonable demands by antisocial forces, we respond resolutely by legal means.

3) We set up a "System for Cutting off Relations with Antisocial Forces" based on the manual for dealing with antisocial forces.

4) In preparation for unreasonable demands by antisocial forces, we are building close partnerships with an external specialized agency, and in the event that we are subjected to an unreasonable demand by antisocial forces, we will consult with the agency regarding how to respond, or request a response from the agency.

5) Under no circumstances do we, for the sake of convenience, respond by engaging in behind-the-scenes dealing with or providing money to antisocial forces.

6) We regularly inform directors and employees of our "System for Cutting off Relations with Antisocial Forces" and promote awareness of it.

m. Internal system for exclusion of antisocial forces

1) Under the Head of the Management Division, the General Affairs Group, as department responsible for exclusion of antisocial forces, strives to prevent the Company from being subjected to any unreasonable demands from such forces.

2) We have concluded advisory agreements with a legal advisor and retired police officers, and collaborate with a specialized agency.

3) In collaboration with the Head of the Management Division, the General Affairs Group receives guidance and advice from the legal advisor as circumstances demand, and maintains a database of information on antisocial forces. As and when needed, the group also reports the details of such information to the Board of Directors. Based on the information, each division and the Compliance and Risk Management Meetings examine approaches to the exclusion of antisocial forces.

4) We distribute a manual for dealing with antisocial forces to all employees and promote awareness of it.

5) The General Affairs Group raises awareness of issues relating to the exclusion of antisocial forces regularly at internal training sessions.

(b) Risk management framework

Artner is aware that risk management is critical to its business. We also acknowledge that risk management related to compliance with laws and regulations as well as internal rules is particularly important. To ensure the risk is fully managed, we have set up the Compliance and Risk Management Meeting. To properly manage personal information, we use a personal information protection management system that conforms to the Personal Information Protection Management Systems -- Requirements (JIS Q 15001). We have also set up an internal whistleblowing system in order to prevent violations of laws and regulations and avoid risks, thereby developing and enhancing our risk management framework.

(c) Agreements limiting liability

a. Directors

Artner has an agreement in place that limits the liability for damages specified in Article 423, paragraph (1) of the Companies Act with each director (non-Executive Director) pursuant to Article 427, paragraph (1) of the said Act. The limit of liability based on the agreement is an amount prescribed by laws and regulations.

b. Accounting Auditor

Artner has an agreement in place that limits the liability for damages specified in Article 423, paragraph (1) of the Companies Act with KPMG AZSA LLC who is our Accounting Auditor pursuant to Article 427, paragraph (1) of the said Act. The limit of liability based on the agreement is an amount prescribed by laws and regulations.

(d) Number of directors

Artner specifies in its Articles of Incorporation that it shall have up to ten directors (excluding directors who are members of the

Audit and Supervisory Committee) and up to five directors who are members of the Audit and Supervisory Committee.

(e) Election of directors

Artner specifies in its Articles of Incorporation that resolutions on the election of directors shall be made with the approval of a majority of the votes of the shareholders who are present and hold at least one-third of the total votes of the shareholders who are entitled to exercise such rights.

The Articles of Incorporation also prescribes that no cumulative voting shall be allowed on the resolutions of the election of directors.

(f) Resolutions that may be passed by the Board of Directors instead of the General Meeting of Shareholders and reasons thereof

a. Acquisition of treasury shares

Artner's Articles of Incorporation specifies that the Company may acquire its treasury shares following a resolution by the Board of Directors, pursuant to Article 165, paragraph (2) of the Companies Act. The purpose of this provision is to acquire treasury shares through market transactions or by other means so that we are able to carry out flexible capital policies to adapt to change of the business environment.

b. Organ deciding dividends of surplus

Artner specifies in its Articles of Incorporation that, to ensure flexible capital policies and dividend policies, the Company's Board of Directors may resolve on the matters such as dividends of surplus prescribed in the items under Article 459, paragraph (1) of the Companies Act, unless otherwise provided for in laws and regulations.

c. Release from liability of directors

Artner specifies in its Articles of Incorporation that, pursuant to Article 426, paragraph (1) of the Companies Act, the Company's Board of Directors, instead of the General Meeting of Shareholders, may resolve to release directors (including former directors) from their liability related to the acts defined in Article 423, paragraph (1) of the said Act to the extent legally permissible. The purpose of this provision is to provide an environment that enables directors to fulfill their expected role as they perform their duties by achieving their full potential.

d. Release from liability of Accounting Auditors

Artner specifies in its Articles of Incorporation that, pursuant to Article 426, paragraph (1) of the Companies Act, the Company's Board of Directors, instead of the General Meeting of Shareholders, may resolve to release an Accounting Auditor (or a former Accounting Auditor) from their liability related to the acts defined in Article 423, paragraph (1) of the said Act to the extent legally permissible. This provision has been set in the wake of the enforcement of the Companies Act that has made accounting auditors subject to shareholder derivative suits, so that a balance is kept between our directors and Accounting Auditor.

(g) Requirements for special resolutions at the General Meeting of Shareholders

Artner specifies in its Articles of Incorporation that, regarding the requirement for a special resolution at the General Meeting of Shareholders as prescribed in Article 309, paragraph (2) of the Companies Act, the resolution is adopted if shareholders with at least one-third of the total votes of the shareholders who are entitled to exercise their right to vote are present, and at least two-thirds of the votes approve the resolution. The purpose of this provision is to ensure the smooth running of the General Meeting of Shareholders by relaxing the quorum of the General Meeting of Shareholders for a special resolution.

(2) Executive Officers

(i) Executive Team

Males: 8: Females: - (ratio of women in the Executive Team: -%)

Title	Name	Date of birth	Career summary	Terms of office	Number of shares owned (shares)
President and CEO	SEKIGUCHI Sozo	December 31, 1964	June 1983: Joined MEITEC CORPORATION April 1988: Joined Osaka Technology Center Co., Ltd. (previous name of the Company) March 1993: Appointed Director; Head of the Business Planning Office February 1998: Appointed Director; Vice President February 2002: Appointed President and CEO (current) February 2012: Appointed Head of the Hyper Artner Business Division	Note 3	6,644
Director Head of the Engineer Business Division	OKUSAKA Kazuya	September 3, 1955	April 1978: Joined Osaka Technology Center Co., Ltd. (previous name of the Company) October 1993: Appointed Head of the No.3 Business Dept. February 2002: Appointed Standing Auditor April 2004: Appointed Managing Director; Head of the Human Resources Dept. February 2007: Appointed Managing Director; Head of the Human Resources Division April 2007: Appointed Managing Director; Head of the Business Management Division March 2009: Appointed Managing Director; Head of the Technology Development Division February 2010: Appointed Managing Director; Head of the Business Promotion Division February 2011: Appointed Managing Director; Head of the Engineer Business Division April 2011: Appointed Director; Head of the Engineer Business Division February 2013: Appointed Director; Head of the Human Resources Business Division February 2016: Appointed Director; Head of the Engineer Business Division (current)	Note 3	275,962
Director and Head of the Management Division	HARIGAE Tomonori	May 24, 1954	April 1978: Joined Toyobo Interior Co., Ltd. March 1982: Joined Osaka Technology Center Co., Ltd. (previous name of the Company) March 1990: Appointed Head of the Kanto Business Dept. March 1991: Appointed Director March 1993: Appointed Managing Director; Head of the General Affairs Dept. February 2007: Appointed Managing Director; Head of the Management Division May 2008: Appointed Director; Head of the Management Division (current)	Note 3	280,144
Director Head of the Human Resources Business Division	EGAMI Yoji	September 26, 1958	April 1981: Joined Osaka Technology Center Co., Ltd. (previous name of the Company) February 2007: Appointed Head of the Technology Development Dept. of the Human Resources Division April 2007: Appointed Director; Head of the Human Resources Division February 2010: Appointed Director; Head of the Business Promotion Division February 2011: Appointed Director; Head of the Human Resources Business Division February 2013: Appointed Director; Head of the Engineer Business Division February 2016: Appointed Director; Head of the Human Resources Business Division (current)	Note 3	126,725
Director Head of the Corporate Planning	SATO So	August 14, 1973	April 1998: Joined Nihon Bayer Agrochem (now Bayer Crop Science) June 2004: Joined Aon Affinity April 2007: Joined Artner Co., Ltd. Appointed Head of the Corporate Planning and Strategy Division February 2013: Appointed Head of the Corporate Planning and Strategy Division; Head of the Engineer Agency Business Division April 2015: Appointed Director; Head of the Corporate Planning and Strategy Division; Head of the Engineer Agency Business Division February 2016: Appointed Director; Head of the Corporate Planning and Strategy Division (current)	Note 3	5,927

Title	Name	Date of birth	Career summary	Terms of office	Number of shares owned (shares)
Director (Audit and Supervisory Committee member)	MITANI Takaaki	October 18, 1950	April 1973: Joined NEC Engineering, Ltd. (Now NEC Platforms, Ltd.) July 1994: Appointed Deputy Head of the Accounts Dept. April 2002: Appointed Head of the Accounts Dept. of Business Management Division April 2005 Appointed Head of the Accounts Dept. June 2010: Appointed Senior Professional of the Accounts Dept. April 2011: Joined Artner Co., Ltd. as Standing Auditor April 2017: Appointed Outside Director and standing member of the Audit and Supervisory Committee (current)	Note 4	15,701
Director (Audit and Supervisory Committee member)	KANAI Hiroki	September 18, 1955	April 1979: Joined Dohi Certified Public Tax Accountants' Office September 1985: Joined Seki Certified Public Accountants' Office April 1991: Established Kanai Certified Public Tax Accountants' General Office; assumed the office of Principal (current) Established Keiei Clinic Co., Ltd.; assumed the office of Representative Director (current) April 2007: Joined Artner Co., Ltd. as Auditor April 2017: Appointed Director and member of the Audit and Supervisory Committee (current)	Note 4	60,563
Director (Audit and Supervisory Committee member)	FUKUMURO Kozaburo	February 21, 1948	April 1971: Joined Nissan Diesel Motor Co., Ltd. (now UD Trucks Corp.) July 1997: Appointed General Manager of the Vehicle Design Department May 2000: Appointed Managing Executive Officer June 2003: Joined Nissan Diesel Technical Research Institute Co., Ltd. (now PERSOL R&D Co., Ltd.); assumed the office of Managing Director May 2006: Appointed President and Representative Director April 2011: Joined Artner Co., Ltd. as Auditor April 2017: Appointed Director and member of the Audit and Supervisory Committee (current)	Note 4	15,701
Total					787,367

Notes: 1. The numbers of shares owned are real holdings that contain each owner's equity in the Artner Officer Stocks Society, including shares less than one unit. The number of shares acquired by the Artner Officer Stocks Society was not confirmed as of the date of submission of this report. Hence, the number shown is the real holdings as of the end of the fiscal year ended January 31, 2020.
2. Messrs. MITANI, KANAI and FUKUMURO are outside directors.
3. One year from the conclusion of the Ordinary General Meeting of Shareholders held on April 23, 2020
4. Two years from the conclusion of the Ordinary General Meeting of Shareholders held on April 25, 2019

(ii) Status of Outside Directors

Artner has three outside directors, all of whom hold shares of the Company. Apart from this shareholding position, none of the three outside directors has any vested interests in he Company, including personal, capital, or business relationships.

Each outside director plays a role in ensuring that highly effective audits are conducted, from an objective and neutral view point, and we believe that the current system satisfactorily fulfills its management monitoring and advisory functions. The three outside directors are designated as independent directors as defined by the Tokyo Stock Exchange and they are registered with the exchange.

Although the Company does not have any specific standards or policies regarding independence for the appointment of outside directors, when making such appointments we not only meet the regulatory requirements established by the Companies Act, but also take into account the Tokyo Stock Exchange's criteria for ensuring the independence of independent directors.

(iii) Mutual cooperation between supervision or audits by outside directors and internal audits, audits by Audit and Supervisory Committee members, and accounting audits; relations with the internal control department

Artner has three outside directors, and they are directors who are members of the Audit and Supervisory Committee.

The Head of the Internal Audit Office and the Audit and Supervisory Committee consult with each other and exchange information and views when preparing their annual audit plans and creating audit reports. This enables them to share information and conduct audits efficiently.

The Internal Audit Office and the Audit and Supervisory Committee exchange information and views with an external accounting auditor of record in order to have a common understanding of issues subject to audits and other relevant matters. They also seek professional advice and guidance from the Accounting Auditor as needed.

(3) Audits

(i) Internal audits and audits by the Audit and Supervisory Committee

An internal audit is conducted by the Internal Audit Office, which consists of one Head and one member, in accordance with the internal audit plan approved by the President and CEO. The audit examines whether the Company's departments perform their operations in compliance with laws and regulations and other rules. It also reviews the consistency of these operations with the management policy, along with the validity of operational efficiency. Then the audit team gives advice necessary for the departments to improve their operations and the efficiency thereof, and reports the audit results to the President and CEO.

Directors who are members of the Audit and Supervisory Committee attend board meetings and other important meetings to offer their opinions as necessary.

They also regularly meet with the President and CEO as a means to audit the legitimacy and validity of execution of duties by directors (excluding directors who are members of the Audit and Supervisory Committee). Outside Director MITANI Takaaki has years of experience in accounting in the accounting department. His knowledge of finance and accounting is enormous. Outside Director KANAI Hiroki is a certified public tax accountant. His knowledge of finance and accounting is enormous. Outside Director FUKUMURO Kozaburo has served as a representative director on the management team of another company. His knowledge of finance and accounting is enormous.

(ii) Accounting Audits

a. Accounting firm name

KPMG AZSA LLC

b. Certified public accountants who performed the service

KITAYAMA Hisae (Designated Limited Liability and Engagement Partner)
YONO Kenji (Designated Limited Liability and Engagement Partner)

c. Assistants in the audit service

Eleven certified public accountants and six others serve as assistants in Artner's accounting audit service. The number of years of continuous audit is omitted since it is seven or less.

d. Policy and reason for selection of the audit firm

The Audit and Supervisory Committee consults the Practical Guidelines for Auditors regarding Accounting Auditor Evaluation and Selection Criteria published by the Japan Audit & Supervisory Board Members Association, and conducts a comprehensive review to select an Accounting Auditor. In this process, the committee ensures that the accounting firm has independence as an Accounting Auditor and a proper quality management framework, which covers misconduct risk; that the firm has in place an audit framework designed for the size and business of Artner; and that the audit plan and cost are practical and fair. We have selected KPMG AZSA LLC as our Accounting Auditor because we decided that the firm has all these elements to conduct proper accounting audits of Artner. The Audit and Supervisory Committee will also dismiss the Accounting Auditor based on the consent of all Audit and Supervisory Committee members if any of the items of Article 340, paragraph (1) of the Companies Act applies to the Accounting Auditor.

e. Evaluation of the Accounting Auditor by Audit and Supervisory Committee members and the Audit and Supervisory Committee

The Audit and Supervisory Committee consults the Practical Guidelines for Auditors regarding Accounting Auditor Evaluation and Selection Criteria published by the Japan Audit & Supervisory Board Members Association, and evaluates the Accounting Auditor from all angles, such as the quality management framework the Auditor has developed and how it operates, of the independence and expertise the Auditor has, among others, to determine that the Auditor is qualified.

(iii) Details of audit fees

a. Audit fees for certified public accountants

Fiscal year ended January 31, 2019		Fiscal year ended January 31, 2020	
Fees for audit services (thousands of yen)	Fees for non-audit service (thousands of yen)	Fees for audit services (thousands of yen)	Fees for non-audit service (thousands of yen)
20,000	－	20,000	－

The non-audit service at Artner is preparation of comfort letters related to prospectuses for stock offerings.

b. Fees for an organization in the same network to which the certified public accountants belong

Not applicable.

c. Details of other fees based on important audit services

Not applicable.

d. Policy for determining audit fees

Artner's policy for determining fees for an audit by certified public accountants is that the Company reviews the audit plan, details of the audit, and the audit schedule, among others, presented by the Accounting Auditor and receives approval from the Audit and Supervisory Committee to decide on proper fees.

e. Reason for the approval of the Audit and Supervisory Committee given to fees for the Accounting Auditor and other relevant fees

The Audit and Supervisory Committee reviewed the policy, contents, and the basis for calculation of estimates shown in the audit plan, which would constitute grounds for fees paid to the Accounting Auditor. Then the committee received and examined required reports about the contents submitted by relevant internal departments, and determined that the policy, contents, and the basis were all fair for an accounting audit of Artner. Hence, the committee approved the fees for the Accounting Auditor.

(4) Remuneration for directors

(i) Policies for determining remuneration for directors and calculation methods

The remuneration of directors consists of a basic remuneration and a performance-linked bonus. The upper limits of the remuneration established by resolution at the ordinary general meeting of shareholders held on April 27, 2017, are ¥200 million per year for five directors who are not members of the Audit and Supervisory Committee and ¥30 million per year for three directors who are members of the Committee. We have not established an advisory board that includes outside directors to examine remuneration of directors. However, we ensure objectivity and transparency by obtaining appropriate involvement of and advice from independent outside directors.

The Board of Directors and the Audit and Supervisory Committee are responsible for deliberating and determining the remuneration of the Executive Team, which is composed of a fixed remuneration and performance-linked remuneration. The remuneration of directors who are not members of the Audit and Supervisory Committee is determined solely by the Board of Directors, whereas the remuneration of the Audit and Supervisory Committee members is determined by deliberation among the members of the Committee.

How to determine the policy for determining the remuneration for each individual is set forth in the rules concerning the remuneration of directors, resolved by the Board of Directors.

The Board of Directors receives reports that are deliberated by the Nomination and Remuneration Committee based on the policy for determining the remuneration and within the range of the total amount resolved by the General Meeting of Shareholders, so the Board of Directors deems that the content of the report is in line with the said policy.

The policy for determining the percentage of the amount of remuneration for each individual shall be decided based on the reports that are deliberated by the Nomination and Remuneration Committee, comprehensively taking into account the role and contribution status of each director as well as business performance.

The basic remuneration is determined based on the amount established for each director position, with the Company's business performance, relative weight against employee salaries, and remuneration levels at other companies taken into consideration. However, if it is not appropriate to pay a remuneration calculated in such a manner due to a significant decline in the Company's business performance or other factors, the Company reserves the right to reduce the amount of basic remuneration.

The metrics for performance-linked bonuses is calculated using a formula based on the Company's annual profit, as this is judged to be the most reasonable way to measure the performance of directors. For the fiscal year ended January 31, 2020, the target metrics for performance-linked bonuses had been set at ¥604 million, and the result was ¥626 million.

The processes that the Board of Directors and the Audit and Supervisory Committee went through to determine the remuneration of directors for the fiscal year ended January 31, 2020, are summarized as follows:

With regard to the remuneration for directors who are not members of the Audit and Supervisory Committee, the amount of basic remuneration was determined by resolution of the Board of Directors on April 26, 2018, and has since remained unchanged. The amount of a performance-linked bonus for each director was determined by resolution of the Board of Directors on February 28, 2020.

With regard to the remuneration for directors who are members of the Audit and Supervisory Committee, the amount of basic remuneration was determined by deliberation among the members of the Committee on April 26, 2018, and has since remained unchanged. The amount of a performance-linked bonus for each director was determined by deliberation among the members of the Committee on February 27, 2020.

(ii) Total amount of remuneration by type of director, amount by type of remuneration, and the number of corresponding directors

Type of director	Total amount of remuneration (thousands of yen)	Amount by type of remuneration (thousands of yen)		Number of corresponding directors
		Basic remuneration	Performance-linked bonus	
Directors who are not members of the Audit and Supervisory Committee or outside directors	106,954	95,447	11,507	5
Director and member of the Audit and Supervisory Committee but are not outside directors	—	—	—	—
Outside directors	24,422	23,400	1,022	3

(iii) Total amount of remuneration for each director

We have omitted providing information here as no directors were paid remuneration of ¥100 million or more.

(5) Shares held

(i) Criteria for and definitions of the classifications of shares for investment

Artner defines shares held to gain profits from fluctuations in the value of the stocks or by receiving dividends as shares solely for investment purposes, and any other shares held as shares for non-investment purposes, and classifies the shares it holds accordingly.

(ii) Shares held for non-investment purposes

a. Policy on holding shares for non-investment purposes; approach for examining the rationality of holding those shares; details of the board review concerning the advisability of holding each of the stocks

Artner has the policy that it holds shares in enterprises after considering from all angles whether the shareholding will help the Company continue to grow and raise its medium- to long-term enterprise value. We review these enterprises' future outlook and stock prices, and discuss the validity of the shareholding at board meetings. We also reduce the number of shares that no longer serve the purpose of holding them.

b. Number of stocks and amount recorded on the balance sheet

	Number of stocks (stocks)	Total amount recorded on the balance sheet (thousands of yen)
Unlisted shares	—	—
Shares other than unlisted shares	13	7,133

(Stocks that increased in the number of shares during the fiscal year under review)

	Number of stocks (stocks)	Total acquisition value associated with increase in number of shares (thousands of yen)	Reason for increase in number
Unlisted shares	—	—	—
Shares other than unlisted shares	1	208	New acquisition to collect information about industry trends and other relevant matters

(Stocks that decreased in the number of shares during the fiscal year under review)

	Number of stocks (stocks)	Total sale value associated with decrease in number of shares (thousands of yen)
Unlisted shares	—	—
Shares other than unlisted shares	—	—

c. Information regarding the numbers of specific shares for investment and of deemed shares held sorted by stock, and the amounts recorded on the balance sheet

Specific shares for investment

Stock	Fiscal year ended January 31, 2020	Fiscal year ended January 31, 2019	Purpose of shareholding, quantitative effect of shareholding, and reason for increase in number of shares	Artner's shares held
	Number of shares (shares)	Number of shares (shares)		
	Amount recorded on balance sheet (thousands of yen)	Amount recorded on balance sheet (thousands of yen)		
BeNext Group Co.	2,000	1,000	To collect information about industry trends and other relevant matters Note 2	No
	2,272	3,240		
Persol Holdings Co., Ltd.	438	438	To collect information about industry trends and other relevant matters	No
	869	846		
TechnoPro Holdings, Inc.	100	100	To collect information about industry trends and other relevant matters	No
	738	570		
Meitec Corporation	100	100	To collect information about industry trends and other relevant matters	No
	630	474		
Abist Co., Ltd.	200	200	To collect information about industry trends and other relevant matters	No
	513	641		
Yumeshin Holdings Co. Ltd.	600	600	To collect information about industry trends and other relevant matters	No
	509	490		
Altech Corporation	220	200	To collect information about industry trends and other relevant matters Note 2	No
	399	349		
Copro-Holdings. Co., Ltd.	100	—	To collect information about industry trends and other relevant matters (Reason for the increase) New acquisition for the purpose stated above	No
	280	—		
Sobal Corporation	200	200	To collect information about industry trends and other relevant matters	No
	245	185		
Hip Corporation	300	300	To collect information about industry trends and other relevant matters	No
	240	234		
SUS Co., Ltd.	400	400	To collect information about industry trends and other relevant matters	No
	221	290		
Human Holdings Co., Ltd.	100	100	To collect information about industry trends and other relevant matters	No
	127	169		
JTEC Corporation	400	400	To collect information about industry trends and other relevant matters	Yes
	85	123		

Notes: 1. Although it is a challenge to describe a quantitative effect of a shareholding, we have examined economic rationality and validity of holding the shares to ensure that we hold these shares for the purposes that are in line with our policy on shareholdings.
2. BeNEXT Group Inc. (formerly Trust Tech Inc.) carried out a 2-for-1 stock split (common shares), and Altech Corporation a 1.1-for-1 stock split (common shares)..

Deemed shares held

Not applicable.

(iii) Shares held solely for investment purposes

Not applicable

V. Financial Information

1. Approach for Preparing Financial Statements

Artner prepares its financial statements in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963).

2. Audit Certification

Artner had its financial statements for the fiscal year (from February 1, 2019 to January 31, 2020) audited by KPMG AZSA LLC in accordance with Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3. Consolidated Financial Statements

Since it has no subsidiary, Artner does not prepare consolidated financial statements.

4. Special Efforts to Ensure the Appropriateness of Financial Statements

Artner makes special efforts to ensure the appropriateness of its financial statements. More specifically, we have joined the Financial Accounting Standards Foundation to keep ourselves updated in order to maintain a correct understanding of accounting standards and other rules, thereby preparing to take the right actions when any changes are made to these standards and rules.

1【Non-consolidated Financial Statements, etc. 】

(1)【Non-consolidated financial statements】

(i)【Non-consolidated balance sheets】

(Thousands of yen)

	As of January 31, 2019	As of January 31, 2020
Assets		
Current assets		
Cash and deposits	2,050,932	2,383,441
Accounts receivable - trade	764,636	932,112
Work in process	1,786	2,370
Raw materials and supplies	3,036	2,374
Prepaid expenses	23,043	24,010
Accounts receivable - other	562	989
Other	18,026	17,237
Allowance for doubtful accounts	(4,500)	(5,500)
Total current assets	2,857,524	3,357,036
Non-current assets		
Property, plant and equipment		
Buildings	86,466	90,606
Accumulated depreciation	(65,993)	(68,467)
Buildings, net	20,472	22,139
Structures	1,677	1,677
Accumulated depreciation	(1,669)	(1,672)
Structures, net	7	5
Tools, furniture and fixtures	37,187	41,255
Accumulated depreciation	(22,101)	(26,627)
Tools, furniture and fixtures, net	15,085	14,628
Land	59,159	59,159
Total property, plant and equipment	94,726	95,932
Intangible assets		
Software	63,448	57,487
Telephone subscription right	1,654	1,654
Total intangible assets	65,102	59,141
Investments and other assets		
Investment securities	7,615	7,133
Investments in capital	1,250	1,250
Long-term prepaid expenses	418	1,256
Deferred tax assets	166,573	195,361
Leasehold and guarantee deposits	69,897	82,920
Other	1,080	1,106
Total investments and other assets	246,835	289,028
Total non-current assets	406,664	444,102
Total assets	3,264,188	3,801,139

(Thousands of yen)

	As of January 31, 2019	As of January 31, 2020
Liabilities		
Current liabilities		
Accounts payable - other	131,285	91,785
Accrued expenses	60,561	66,539
Income taxes payable	174,875	180,764
Accrued consumption taxes	104,909	171,819
Deposits received	12,744	13,950
Unearned revenue	96	84
Provision for bonuses	112,921	132,420
Other	2,862	4,179
Total current liabilities	600,255	661,544
Non-current liabilities		
Provision for retirement benefits	330,626	411,214
Total non-current liabilities	330,626	411,214
Total liabilities	930,881	1,072,759
Net assets		
Shareholders' equity		
Share capital	238,284	238,284
Capital surplus		
Legal capital surplus	168,323	168,323
Total capital surplus	168,323	168,323
Retained earnings		
Legal retained earnings	10,460	10,460
Other retained earnings	40,000	40,000
General reserve		
Retained earnings brought forward	1,872,798	2,268,351
Total retained earnings	1,923,258	2,318,811
Treasury shares	(698)	(698)
Total shareholders' equity	2,329,167	2,724,720
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,139	3,659
Total valuation and translation adjustments	4,139	3,659
Total net assets	2,333,306	2,728,380
Total liabilities and net assets	3,264,188	3,801,139

(ii)【Non-consolidated statements of income】

(Thousands of yen)

	Fiscal year ended January 31, 2019	Fiscal year ended January 31, 2020
Net sales	6,331,692	7,002,175
Cost of sales	4,033,065	4,461,849
Gross profit	2,298,627	2,540,326
Selling, general and administrative expenses	1,513,026	1,654,318
Operating profit	785,600	886,007
Non-operating income		
Interest income	6	6
Dividend income	206	230
Commission income	505	556
Sales income of training materials	851	857
Rental income from land and buildings	1,069	949
Dividend income of insurance	4,573	4,445
Subsidy income	891	1,762
Other	589	602
Total non-operating income	8,693	9,410
Non-operating expenses		
Interest expenses	36	－
Cancellation penalty	58	1,761
Other	100	0
Total non-operating expenses	194	1,761
Ordinary profit	794,098	893,656
Extraordinary losses		
Loss on retirement of non-current assets	1,742	－
Total extraordinary losses	1,742	－
Profit before income taxes	792,356	893,656
Income taxes - current	284,098	308,856
Income taxes - deferred	△32,716	△28,576
Total income taxes	251,382	280,279
Profit	540,973	613,377

[Cost of Sales Statement]

Classification	Note number	FY20191 (Fiscal year ended January 31, 2019) Amount (thousands of yen)	Ratio (%)	FY2020 (Fiscal year ended January 31, 2020) Amount (thousands of yen)	Ratio (%)
I. Labor cost		3,940,756	97.7	4,350,367	97.5
II. Expenses	*2	93,620	2.3	112,065	2.5
Total manufacturing cost for the period		4,034,377	100.0	4,462,433	100.0
Beginning inventory of work in process		474		1,786	
Total		4,034,851		4,464,220	
Ending inventory of work in process		1,786		2,370	
Cost of sales for the period		4,033,065		4,461,849	

FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
1. Cost accounting method Job costing based on actual costs *2 Details are as shown below: Travel and transportation JPY 56,830 thousand Rent JPY 10,869 thousand	1. Cost accounting method Job costing based on actual costs *2 Details are as shown below: Travel and transportation JPY 69,218 thousand Rent JPY 11,649 thousand

(iii)【Non-consolidated statements of changes in equity】

Fiscal year ended January 31, 2019

(Thousands of yen)

	Shareholders' equity						
		Capital surplus		Retained earnings			
					Other retained earnings		
	Share capital	Legal capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	238,284	168,323	168,323	10,460	40,000	1,501,835	1,552,295
Changes during period							
Dividends of surplus						(170,010)	(170,010)
Profit						540,973	540,973
Acquisition of treasury shares							
Net changes in items other than shareholders' equity							
Total changes during period	—	—	—	—	—	370,962	370,962
Balance at end of period	238,284	168,323	168,323	10,460	40,000	1,872,798	1,923,258

	Shareholders' equity		Valuation and translation adjustments		
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Total net assets
Balance at beginning of period	(503)	1,958,400	5,326	5,326	1,963,726
Changes during period					
Dividends of surplus		(170,010)			(170,010)
Profit		540,973			540,973
Acquisition of treasury shares	(195)	(195)			(195)
Net changes in items other than shareholders' equity			(1,187)	(1,187)	(1,187)
Total changes during period	(195)	370,767	(1,187)	(1,187)	369,580
Balance at end of period	(698)	2,329,167	4,139	4,139	2,333,306

Fiscal year ended January 31, 2020

(Thousands of yen)

	Shareholders' equity						
	Share capital	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at beginning of period	238,284	168,323	168,323	10,460	40,000	1,872,798	1,923,258
Changes during period							
Dividends of surplus						(217,824)	(217,824)
Profit						613,377	613,377
Net changes in items other than shareholders' equity							
Total changes during period	—	—	—	—	—	395,552	395,552
Balance at end of period	238,284	168,323	168,323	10,460	40,000	2,268,351	2,318,811

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(698)	2,329,167	4,139	4,139	2,333,306
Changes during period					
Dividends of surplus		(217,824)			(217,824)
Profit		613,377			613,377
Net changes in items other than shareholders' equity			(479)	(479)	(479)
Total changes during period	—	395,552	(479)	(479)	395,073
Balance at end of period	(698)	2,724,720	3,659	3,659	2,728,380

(iv) 【**Non-consolidated statements of cash flows**】

(Thousands of yen)

	Fiscal year ended January 31, 2019	Fiscal year ended January 31, 2020
Cash flows from operating activities		
Profit before income taxes	792,356	893,656
Depreciation	16,971	26,923
Increase (decrease) in allowance for doubtful accounts	300	1,000
Increase (decrease) in provision for bonuses	10,792	19,499
Increase (decrease) in provision for retirement benefits	77,364	80,588
Interest and dividend income	(212)	(236)
Interest expenses	36	―
Decrease (increase) in accounts receivable – other	6,321	(427)
Decrease (increase) in trade receivables	(64,084)	(167,476)
Decrease (increase) in inventories	(3,226)	77
Increase (decrease) in accrued consumption taxes	119	66,910
Increase (decrease) in accounts payable – other	29,352	(32,201)
Other, net	3,889	6,959
Subtotal	869,980	895,272
Interest and dividends received	212	236
Interest paid	(36)	―
Income taxes paid	(257,618)	(304,355)
Net cash provided by (used in) operating activities	612,537	591,153
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,397)	(15,507)
Purchase of intangible assets	(43,297)	(13,958)
Payments of leasehold and guarantee deposits	(20,321)	(13,401)
Proceeds from refund of leasehold and guarantee deposits	500	379
Payments for the acquisition of investment securities	―	(208)
Other, net	(26)	(26)
Net cash provided by (used in) investing activities	(75,542)	(42,723)
Cash flows from financing activities		
Payments for the acquisition of treasury shares	(195)	―
Dividends paid	(169,242)	(215,920)
Net cash provided by (used in) financing activities	(169,438)	(215,920)
Net increase (decrease) in cash and cash equivalents	367,557	332,508
Cash and cash equivalents at beginning of period	1,683,375	2,050,932
Cash and cash equivalents at end of period	2,050,932	2,383,441

[Notes]

(Significant Accounting Policies)

1. Basis and method for valuation of securities

Available-for-sale securities

Securities with fair value

Fair value method based on the market value etc. on the closing date (with the entire amount of valuation differences inserted directly into net assets, and the cost of sales calculated using the moving average method)

2. Basis and method for valuation of inventories

(1) Work in process

Job costing method (with the amount shown on balance sheet written down as profitability declines)

(2) Supplies

Job costing method (with the amount shown on balance sheet written down as profitability declines)

3. Depreciation method for non-current assets

(1) Property, plant and equipment

Declining balance method (note: straight-line method for buildings (excluding facilities attached to the buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and for structures acquired on or after April 1, 2016)

Service life of the assets is mostly as shown below:

Buildings:	8 - 26 years
Tools, furniture and fixtures:	4 - 10 years

(2) Intangible assets

Straight-line method is applied to software for internal use. The calculation is based on usable life within the Company (5 years).

4. Recognition criteria for provisions

(1) Allowance for doubtful accounts

To make allowances for the non-payment of receivables, the historical default rate is used for general receivables; and receivables designated as potentially irrecoverable is determined by reviewing actual collectability on an individual claim basis to record the estimated amount that is deemed irrecoverable.

(2) Provision for bonuses

To make allowances for the payment of bonuses to employees, the amount that should be paid in the fiscal year under review is recorded, out of the estimated payment in the following fiscal year.

(3) Provision for retirement benefits

To make allowances for the payment of retirement benefits to employees, this is recorded based on the estimate for retirement benefit liabilities as of the end of the fiscal year under review.

(i) Method for attributing estimated retirement benefit payments to the period

When calculating retirement benefit liabilities, the method for attributing estimated benefit payments to the period that lasts until the end of the fiscal year under review is as per the benefit formula basis.

(ii) Method for processing actuarial gains and losses as expenses

Actuarial gains and losses are treated as expenses in the fiscal year following the fiscal year in which they arise. The amount is proportionally divided using the straight-line method over a certain number of years (five years) that is within the average number of employees' remaining service years at the time the differences emerge each fiscal year.

5. Cash included in the statement of cash flows

The cash included in the statement of cash flows consists of cash on hand, savings available for withdrawal at any time, and short-term investments that can easily be converted into cash, have only a limited risk of price fluctuations, and are redeemed within three months from the date of acquisition.

6. Other matters that form the basis of preparing financial statements

Accounting treatment of consumption tax

Tax is not included.

(Changes in Presentation Methods)

(Changes due to the application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) have been applied since the beginning of this fiscal year under review, and thus deferred tax assets are presented under the category of investments and other assets.

As a result, in the balance sheet for the previous fiscal year, deferred tax assets of JPY 57,964 thousand, which were presented under current assets, have been included in deferred tax assets of JPY 166,573 thousand under investments and other assets.

(Regarding Non-consolidated Balance Sheet)

1 Artner has entered into overdraft agreements with its six banks in order to ensure efficient financing for working capital. The table below shows the balances of borrowings available for withdrawal according to the agreements.

	FY2019 (As of January 31, 2019)	FY2020 (As of January 31, 2020)
Overdraft limit	JPY 1,450,000 thousand	JPY 1,450,000 thousand
Outstanding borrowing	—	—
Balance	1,450,000	1,450,000

(Regarding Non-consolidated Statement of Income)

*1 Selling expenses accounted for approximately 7% in FY2019, and 7% in FY2020, and general and administrative expenses 93% in FY2019, and 93% in FY2020.

The table below shows the main item of selling, general and administrative expenses, and the amounts thereof.

	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Salaries and allowances	JPY 517,117 thousand	JPY 589,113 thousand
Travel and transportation	140,992	150,655
Rent	120,217	141,286
Provision for bonuses	19,500	22,707
Retirement benefit expenses	27,514	28,499
Depreciation	16,952	26,803
Provision of allowance for doubtful accounts	300	1,000

(Regarding Non-consolidated Statement of Changes in Equity)

FY2019 (Fiscal year ended January 31, 2019)

1. Matters concerning the type and total number of shares issued, and the type and total number of treasury shares

	Number of shares at beginning of FY2019 (shares)	Increase in shares during FY2019 (shares)	Decrease in shares during FY2020 (shares)	Number of shares at end of FY2020(shares)
Shares issued				
Common shares Note 1,2	5,313,960	5,313,960	—	10,627,920
Total	5,313,960	5,313,960	—	10,627,920
Treasury shares				
Common shares Note 1,3	1,078	1,251	—	2,329
Total	1,078	1,251	—	2,329

Notes: 1. On April 1, 2018, we carried out a 2-for-1 stock split (common shares).
2. The increase of 5,313,960 shares issued (common shares) came from the stock split.
3. The increase of 1,251 treasury shares (common shares) came from an increase of 1,078 shares due to the stock split and an increase of 173 shares due to the purchase of shares less than one share unit..

2. Matters concerning dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (thousands of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on April 26, 2018	Common shares	90,318	17.00	January 31, 2018	April 27, 2018
Board of Directors Meeting on September 7, 2018	Common shares	79,691	7.50	July 31, 2018	October 5, 2018

(2) Dividends with a record date in the fiscal year under review and an effective date in the following fiscal year

Resolution	Type of shares	Total amount of dividends (thousands of yen)	Source of funds for dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on April 25, 2019	Common shares	111,568	Retained earnings	10.50	January 31, 2019	April 26, 2019

FY2020 (February 1, 2019 to January 31, 2020)

1. Matters concerning the type and total number of shares issued, and the type and total number of treasury shares

	Number of shares at beginning of FY2020 (shares)	Increase in shares during FY2020 (shares)	Decrease in shares during FY2020 (shares)	Number of shares at end of FY2020 (shares)
Shares issued				
Common shares	10,627,920	—	—	10,627,920
Total	10,627,920	—	—	10,627,920
Treasury shares				
Common shares	2,329	—	—	2,329
Total	2,329	—	—	2,329

2. Matters concerning dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (thousands of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on April 25, 2019	Common shares	111,568	10.50	January 31, 2019	April 26, 2019
Board of Directors Meeting on September 9, 2019	Common shares	106,255	10.00	July 31, 2019	October 4, 2019

(2) Dividends with a record date in the fiscal year under review and an effective date in the following fiscal year

Resolution	Type of shares	Total amount of dividends (thousands of yen)	Source of funds for dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on April 23, 2020	Common shares	111,568	Retained earnings	10.50	January 31, 2020	April 24, 2020

(Regarding Non-consolidated Statement of Cash Flows)

*1 Relationship between cash and cash equivalents at the end of the period and the amount for the account title shown in the balance sheet

	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Cash and deposit account	JPY 2,050,932 thousand	JPY 2,383,441 thousand
Cash and cash equivalents	2,050,932	2,383,441

(Regarding Lease Transactions)

Notes on this matter have been omitted because they are of little importance.

(Regarding Financial Instruments)

1. Matters concerning financial instruments

(1) Policy on financial instruments

Artner limits its fund management to short-term deposits or any equivalents, and it has the policy that it raises funds mostly by borrowing from banks.

(2) Description of financial instruments, risks involved therein, and risk management framework

Accounts receivable are exposed to clients' credit risk. We mitigate this risk in line with our credit management policy.

(3) Supplementary explanations about matters concerning the fair values of financial instruments

The fair value of financial instruments has no market value, and thus it depends on the rationally calculated value. Variable factors are taken into account when the fair value is calculated. Hence, the value may fluctuate when different prerequisites are used.

2. Matters concerning the fair values of financial instruments

The amounts calculated for the balance sheet and fair value, along with differences between them, are as shown in the table below. Note that the instruments for which fair value can hardly be identified are not included (refer to Note 2).

FY2019 (As of January 31, 2019)

	Amount recorded on balance sheet (thousands of yen)	fair value (thousands of yen)	Difference (thousands of yen)
(1) Cash and deposits	2,050,932	2,050,932	—
(2) Accounts receivable - trade	764,636	764,636	—
Total assets	2,815,568	2,815,568	—
(1) Accounts payable - other	131,285	131,285	—
Total liabilities	131,285	131,285	—

FY2020 (As of January 31, 2020)

	Amount recorded on balance sheet (thousands of yen)	fair value (thousands of yen)	Difference (thousands of yen)
(1) Cash and deposits	2,383,441	2,383,441	—
(2) Accounts receivable - trade	932,112	932,112	—
Total assets	3,315,554	3,315,554	—
(1) Accounts payable - other	91,785	91,785	—
Total liabilities	91,785	91,785	—

Notes: 1. How to calculate the fair value of a financial instrument

Assets

(1) Cash and deposits, (2) Accounts receivable - trade

Since these are settled in a short term, their fair value approximates carrying amounts. Hence, the fair value depends on the carrying amounts.

Liabilities

(1) Accounts payable - other

Since these are settled in a short term, their fair value approximates carrying amounts. Hence, the fair value depends on the carrying amounts.

2. Financial instruments for which fair value can hardly be identified

(Unit: thousands of yen)

Classification	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Leasehold and guarantee deposits	69,897	82,920

Leasehold and guarantee deposits have no market value, which means their fair value can hardly be identified. Hence, their fair value is not disclosed.

3. Planned redemption amounts after the closing date for monetary claims

FY2019 (As of January 31, 2019)

	Within 1 year (thousands of yen)	More than 1 year, within 5 years (thousands of yen)	More than 5 years, within 10 years (thousands of yen)	More than 10 years (thousands of yen)
Cash and deposits	2,050,638	—	—	—
Accounts receivable - trade	764,636	—	—	—
Total	2,815,274	—	—	—

FY2020 (As of January 31, 2020)

	Within 1 year (thousands of yen)	More than 1 year, within 5 years (thousands of yen)	More than 5 years, within 10 years (thousands of yen)	More than 10 years (thousands of yen)
Cash and deposits	2,383,147	—	—	—
Accounts receivable - trade	932,112	—	—	—
Total	3,315,260	—	—	—

(Regarding Investment Securities)

1. Available-for-sale securities

FY2019 (As of January 31, 2019)

	Type	Amount recorded on balance sheet (thousands of yen)	Acquisition cost (thousands of yen)	Difference (thousands of yen)
Securities recorded on balance sheet at amount that exceeds acquisition cost	Stock	7,325	1,278	6,046
	Subtotal	7,325	1,278	6,046
Securities recorded on balance sheet at amount that does not exceed acquisition cost	Stock	290	374	(83)
	Subtotal	290	374	(83)
Total		7,615	1,653	5,962

FY2020 (As of January 31, 2020)

	Type	Amount recorded on balance sheet (thousands of yen)	Acquisition cost (thousands of yen)	Difference (thousands of yen)
Securities recorded on balance sheet at amount that exceeds acquisition cost	Stock	6,911	1,487	5,424
	Subtotal	6,911	1,487	5,424
Securities recorded on balance sheet at amount that does not exceed acquisition cost	Stock	221	374	(152)
	Subtotal	221	374	(152)
Total		7,133	1,861	5,271

2. Available-for-sale securities sold

Not applicable.

(Regarding Derivatives)

Not applicable, as Artner does not trade derivatives.

(Regarding Retirement Benefits)

1. Summary of the retirement benefit plan used

Artner uses the defined benefit retirement lump sum payment plan and the define contribution pension plan to pay retirement benefits to its employees.

2. Defined benefit plan

(1) Reconciliation of the beginning and ending balances of retirement benefit liabilities

	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Balance of retirement benefit liabilities at beginning of period	JPY 386,305 thousand	JPY 428,626 thousand
Service expenses	37,920	41,890
Interest expenses	3,233	3,587
Actuarial gains and losses incurred	12,940	72,076
Retirement benefit payments	(11,773)	(11,810)
Balance of retirement benefit liabilities at end of period	428,626	534,370

(2) Reconciliation of the ending balance of retirement benefit liabilities and the provision for retirement benefits recorded on the balance sheet

	FY2019 (As of January 31, 2019)	FY2020 (As of January 31, 2020)
Retirement benefit liabilities in non-savings-type plan	JPY 428,626 thousand	JPY 534,370 thousand
Retirement benefit liabilities unfunded	428,626	534,370
Unrecognized actuarial gains and losses	(98,000)	(123,155)
Net liabilities and assets recorded on balance sheet	330,626	411,214
Provision for retirement benefits	330,626	411,214
Net liabilities and assets recorded on balance sheet	330,626	411,214

(3) Itemized retirement benefit expenses

	FY2019 (February 1, 2018 to January 31, 2019)	FY2020 (February 1, 2019 to January 31, 2020)
Service expenses	JPY 37,920 thousand	JPY 41,890 thousand
Interest expenses	3,233	3,587
Actuarial gains and losses processed as expenses	47,984	46,920
Retirement benefit expenses for defined benefit plan	89,138	92,398

(4) Matters concerning the basis for actuarial calculations

Basis for key actuarial calculations

	FY2019 (As of January 31, 2019)	FY2020 (As of January 31, 2020)
Discount rate	0.8%	0.8%

To project the rates of increase in salary, we use pay raise indexes by age calculated with September 1 of the fiscal year being the base date.

3. Defined contribution plan

Artner's required contributions to the defined contribution plan were JPY 43,406 thousand for the previous fiscal year and JPY 48,505 thousand for the fiscal year under review.

(Regarding Stock Options)

Not applicable.

(Regarding Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by main cause

	FY2019 (As of January 31, 2019)	FY2020 (As of January 31, 2020)
Deferred tax assets		
Enterprise tax payable	JPY 9,558 thousand	JPY 10,200 thousand
Accrued expenses	8,323	9,204
Provision for bonuses	34,531	40,494
Provision for retirement benefits	101,105	125,749
Allowance for doubtful accounts	1,376	1,681
Impairment loss	8,617	8,617
Other	4,885	1,025
Total deferred tax assets	168,397	196,973
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,823)	(1,612)
Total deferred tax liabilities	(1,823)	(1,612)
Net deferred tax assets	166,573	195,361

2. Statutory effective tax rate and main causes of the difference from the income tax burden rate after the application of tax effect accounting

Notes have been omitted because, for FY2019 and FY2020, the difference between the statutory effective tax rate and the income tax burden rate after the application of tax effect accounting is five-hundredths or less of the statutory effective tax rate.

(Equity in Earnings)

Not applicable.

(Regarding Business Combination)

Not applicable.

(Regarding Asset Retirement Obligations)

Notes on this matter have been omitted because they are of little importance.

(Regarding Investment and Rental Property)

Notes on this matter have been omitted because the total amount of investment and rental property is of little importance.

(Segment Data)

[Segment data]

Since we have only one reportable segment, notes on this matter have been omitted.

[Related information]

FY2019 (Fiscal year ended January 31, 2019)

1. Information by product and service

Since our business is in a single segment, notes on this matter have been omitted.

2. Information by region

(1) Net sales

Not applicable because we have no sales to external clients outside Japan.

(2) Property, plant and equipment

Not applicable because none of our property, plant and equipment are located outside Japan.

3. Information by major customer

(Unit: thousands of yen)

Client name / Company name	Net sales
Honda R&D Co., Ltd.	1,094,249

Note: Since our business is in a single segment, names of related segments have been omitted.

FY2020 (February 1, 2019 to January 31, 2020)

1. Information by product and service

Since our business is in a single segment, notes on this matter have been omitted.

2. Information by region

(1) Net sales

Not applicable because we have no sales to external clients outside Japan.

(2) Property, plant and equipment

Not applicable because none of our property, plant and equipment are located outside Japan.

3. Information by major customer

(Unit: thousands of yen)

Client name / Company name	Net sales
Honda R&D Co., Ltd.	1,340,047

Note: Since our business is in a single segment, names of related segments have been omitted.

[Information about impairment loss on non-current assets in each reportable segment]

Not applicable.

[Information about amortization and unamortized balance of goodwill in each reportable segment]

Not applicable.

[Information about gain on bargain purchase in each reportable segment]

Not applicable.

[Information about related parties]

Not applicable.

(Per Share Information)

	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Net assets per share	JPY 219.59	JPY 256.77
Earnings per share	JPY 50.91	JPY 57.73

Notes: 1. On April 1, 2018, we carried out a 2-for-1 stock split (common shares). The net assets per share and the earnings per share have been calculated on the assumption that this stock split was carried out at the beginning of the previous fiscal year.

2.Diluted earnings per share are not shown because we have no dilutive shares.

3. The table below shows the bases for calculations of earnings per share.

	FY2019 (Fiscal year ended January 31, 2019)	FY2020 (Fiscal year ended January 31, 2020)
Profit (thousands of yen)	540,973	613,377
Amounts not attributable to common shareholders (thousands of yen)	—	—
Profit pertaining to common shares (thousands of yen)	540,973	613,377
Average number of common shares outstanding during the period	10,625,615	10,625,591

(Material Post-Balance Sheet Events)

Not applicable.

(v) Supplementary schedule

[Statement of property, plant and equipment]

Asset Type	Balance at beginning of period (thousands of yen)	Increase during period (thousands of yen)	Decrease during period (thousands of yen)	Balance at end of period (thousands of yen)	Accumulated depreciation/ amortization at end of period (thousands of yen)	Amortization in period (thousands of yen)	Balance at end of period (thousands of yen)
Property, plant and equipment							
Buildings	86,466	4,140	–	90,606	68,467	2,474	22,139
Structures	1,677	–	–	1,677	1,672	2	5
Tools, furniture and fixtures	37,187	4,068	–	41,255	26,627	4,526	14,628
Land	59,159	–	–	59,159	–	–	59,159
Total property, plant and equipment	184,490	8,209	–	192,699	96,767	7,003	95,932
Intangible assets							
Software	94,409	13,958	–	108,368	50,880	19,920	57,487
Telephone subscription right	1,654	–	–	1,654	–	–	1,654
Total intangible assets	96,063	13,958	–	110,022	50,880	19,920	59,141

[Statement of bonds]

Not applicable.

[Statement of borrowings]

Not applicable.

[Statement of provisions]

Classification	Balance at beginning of period (thousands of yen)	Increase during period (thousands of yen)	Decrease during period (spending for purpose) (thousands of yen)	Decrease during period (other) (thousands of yen)	Balance at end of period (thousands of yen)
Allowance for doubtful accounts	4,500	5,500	–	4,500	5,500
Provision for bonuses	112,921	132,420	112,921	–	132,420

Note: "Decrease during period (other)" under allowance for doubtful accounts is the amount updated using the loan loss ratio for general receivables.

[Statement of asset retirement obligations]

Not applicable.

(2) Details of Main Assets and Liabilities

(i) Assets

(a) Cash and deposits

Classification	Amount (thousands of yen)
Cash	293
Deposits	
Current deposits	2,300,503
Ordinary deposits	21,338
Special deposits	1,305
Time deposits	60,000
Subtotal	2,383,147
Total	2,383,441

(b) Accounts receivable

Breakdown by client

Client	Amount (thousands of yen)
Honda Motor Co., Ltd.	260,875
Nikon Corporation	74,859
Tokyo Electron Technology Solutions Ltd.	29,256
Sumitomo Electric Industries, Ltd.	26,301
Terumo Corporation	24,677
Other	516,141
Total	932,112

Accounts receivable accrued, collected, or outstanding

Balance at beginning of period (thousands of yen) (A)	Accrued during period (thousands of yen) (B)	Collected during period (thousands of yen) (C)	Balance at end of period (thousands of yen) (D)	Collection rate (%) $\frac{(C)}{(A)+(B)} \times 100$	Overdue (days) $\frac{\frac{(A)+(D)}{2}}{\frac{(B)}{365}}$
764,636	7,611,393	7,443,916	932,112	88.9	40.7

Note: The accrued amount includes consumption tax.

(c) Work in process

Item	Amount (thousands of yen)
Contracting business	2,370
Total	2,370

(d) Raw materials and supplies

Item	Amount (thousands of yen)
Printed matter	2,325
Quo cards	46
Revenue stamps	3
Total	2,374

(e) Deferred tax assets

Deferred tax assets totaled JPY 195,361 thousand. Details thereof are stated in "1. Financial Statements and Other Documents (1) Financial Statements Notes (Regarding Tax Effect Accounting)."

(ii) Liabilities

(a) Provision for retirement benefits

Classification	Amount (thousands of yen)
Retirement benefit liabilities	534,370
Unrecognized actuarial gains and losses	(123,155)
Total	411,214

(3) Other

Quarterly financial information for the fiscal year under review

(Cumulative)	Q1	Q2	Q3	Full year
Net sales (thousands of yen)	1,618,454	3,382,490	5,173,183	7,002,175
Profit before income taxes (thousands of yen)	180,481	432,405	705,978	893,656
Profit (thousands of yen)	124,596	298,473	487,901	613,377
Earnings per share (yen)	11.73	28.09	45.92	57.73

(Accounting period)	Q1	Q2	Q3	Q4
Earnings per share (yen)	11.73	16.36	17.83	11.81

VI. Overview of Shareholder Services at the Reporting Company

Fiscal year	February 1 to January 31
Ordinary General Meeting of Shareholders	In April
Record date	January 31
Record dates for dividends of surplus	January 31 and July 31
Number of shares per share unit	100 shares
Purchase and sale of shares less than one share unit Place of trade Shareholder registry administrator Agency office Trading fee	 6-3, Fushimi-machi 3-Chome, Chuo-ku, Osaka, Japan Osaka Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation - None
How public notice is issued	Artner issues an electronic public notice. However, if an accident or any other unavoidable reason prohibits the Company from issuing an electronic public notice, such a notice will be posted in the Nikkei (the Nihon Keizai Shimbun) newspaper. Public notices are posted on the Company's website as shown below: https://www.artner.co.jp
Benefits for shareholders	Not applicable.

Notes: 1. Pursuant to provisions in Artner's Articles of Incorporation, shareholders of shares less than one share unit do not hold any rights other than the rights listed in the items of paragraph (2) of Article 189 of the Companies Act, the right to demand according to Article 166, paragraph (1) of the Companies Act, the entitlement to the allotment of the shares for subscription and to the allotment of the share options for subscription in accordance with the number of shares they hold, and the right to demand for cash-out of shares less than one share unit.

2. Shares less than one share unit recorded in special accounts are purchased and sold at branches of Mizuho Trust & Banking across Japan.

VII. Reference Information about the Reporting Company

1 Information about the Parent Company, etc. of the Reporting Company

Artner does not have a parent company, etc. as specified in Article 24-7, paragraph (1) of the Financial Instruments and Exchange Act.

2 Other Reference Information

Artner submitted the following documents during the period from the start date of the fiscal year under review to the date of submission of the Annual Securities Report.

(1) Annual Securities Report, documents attached thereto, and confirmation letter

Fiscal year (FY2019) (from February 1, 2018 to January 31, 2019): Submitted to Director General of the Kinki Local Finance Bureau on April 25, 2019

(2) Internal control report and documents attached thereto

Submitted to Director General of the Kinki Local Finance Bureau on April 25, 2019

(3) Quarterly reports and confirmation letter

(FY2020, Q1) (from February 1, 2019 to April 30, 2019): Submitted to Director General of the Kinki Local Finance Bureau on June 11, 2019

(FY2020, Q2) (from May 1, 2019 to July 31, 2019): Submitted to Director General of the Kinki Local Finance Bureau on September 11, 2019

(FY2020, Q3) (from August 1, 2019 to October 31, 2019): Submitted to Director General of the Kinki Local Finance Bureau on December 11, 2019

(4) Extraordinary report

Submitted to Director General of the Kinki Local Finance Bureau on April 26, 2019
This extraordinary report is based on Article 19, paragraph (2), item (ix)-2 (result of exercising voting rights at a General Meeting of Shareholders) of the Cabinet Office Order on Disclosure of Corporate Affairs.

Part II Information about the Reporting Company's Guarantor, etc.

Not applicable.

Independent Auditor’s Report and Internal Control Audit Report

April 23, 2020

To the Board of Directors of Artner Co., Ltd.

KPMG AZSA LLC

Osaka Office

KITAYAMA Hisae, Designated Limited Liability and Engagement Partner, Certified Public Accountant

YONO Kenji, Designated Limited Liability and Engagement Partner, Certified Public Accountant

Financial Statement Audit

To execute audit certification pursuant to Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, we audited Artner Co., Ltd.’s financial statements for FY2020 (reporting period 58; from February 1, 2019 to January 31, 2020) shown in “Financial Information,” namely the balance sheet, statement of income, statement of changes in equity, statement of cash flows, significant accounting policies, other notes, and supplementary schedule.

Responsibilities of Management for Financial Statements

Management is responsible for preparing and correctly presenting financial statements in accordance with business accounting standards that are generally accepted as fair and appropriate in Japan. This includes designing and implementing internal control that management has decided is essential to prepare and correctly present financial statements that contain no material misrepresentations due to a wrongful act or errors.

Responsibilities of the Auditor

The auditor is, based on the audit it has conducted, responsible for expressing its opinions on the financial statements from an independent viewpoint. We conducted the audit in accordance with auditing standards that are generally accepted as fair and appropriate in Japan. Those standards require that we formulate an audit plan and perform the audit according to the plan to obtain a rational guarantee as to whether the Company’s financial statements contain any material misrepresentations.

In an audit, procedures are followed to obtain audit evidence about the amounts and other information disclosed in the financial statements. The procedures for the audit are selected and applied at the auditor’s discretion based on the assessment of the risk of material misrepresentations in the financial statements due to a wrongful act or errors. Although expressing an opinion about the effectiveness of internal control is not the objective of a financial statement audit, the auditor reviews internal control associated with the preparation and correct presentation of financial statements in order to plan appropriate audit procedures that are suitable for the situation when it conducts risk assessment. In addition, an audit includes the evaluation of the overall presentation of the financial statements, which involves the assessment of the accounting policies adopted by the Company’s management and how the policies are applied, along with the estimates made by the management.

We are certain that we have obtained sufficient and appropriate evidence that serves as the basis for our opinions.

Opinions

We acknowledge that the above financial statements comply with the business accounting standards that are generally accepted as fair and appropriate in Japan to correctly present, in all material respects, Artner’s financial status as of January 31, 2020 as well as its business performance and cash flows for the fiscal year that ended on the same date.

Audit of Internal Control

To execute audit certification pursuant to Article 193-2, paragraph (2) of the Financial Instruments and Exchange Act, we audited Artner Co., Ltd.’s internal control report that was current as of January 31, 2020.

Responsibilities of Management for an Internal Control Report

Management is responsible for designing and implementing internal controls over financial reports in order to prepare and correctly present the Company’s internal control report in accordance with standards that are generally accepted as fair and appropriate in Japan for evaluation of internal controls over financial reports.

There is a possibility that internal controls over financial reports may not completely prevent or detect all misrepresentations in financial reporting.

Responsibilities of the Auditor
The auditor is, based on the internal control audit it has conducted, responsible for expressing its opinions on the internal control report from an independent viewpoint. We audited Artner's internal control in accordance with standards that are generally accepted as fair and appropriate in Japan for an audit of internal controls over financial reports. The standards for an audit of internal controls over financial reports require that we formulate an audit plan and perform the internal control audit according to the plan to obtain a rational guarantee as to whether the Company's internal control report contains any material misrepresentations.
In an audit of internal control, procedures are followed to obtain audit evidence for the results of the evaluation of the Company's internal controls over financial reports in the internal control report. The procedures for the audit of internal control are selected and applied at the auditor's discretion based on the materiality of the impact on the reliability of the Company's financial reporting. In addition, an audit of internal control includes the examination of the overall presentation of the Company's internal control report, including statements made by management about the scope of the evaluation of internal controls over financial reports, assessment procedures, and assessment results.
We are certain that we have obtained sufficient and appropriate evidence that serves as the basis for our opinions.

Opinions
We acknowledge that the above internal control report, in which Artner presents the validity of its internal controls over the financial reports as of January 31, 2020, complies with the standards for the evaluation of internal controls over financial reporting that are generally accepted as fair and appropriate in Japan to adequately present, in all material respects, the results of the evaluation of internal controls over financial reports.

Interest That Must Be Indicated According to the Certified Public Accountants Act of Japan
We do not have any interest in the Company that should be indicated herein according to the Certified Public Accountants Act of Japan.

END

Notes: 1. The above is a digitized version of the matters stated in the original auditor's report, and the Company retains the original.
2. XBRL data are outside the audit scope.

[Cover]

[Reported Document]	Internal Control Report
[Clause Serving as Basis]	Article 24-4-4, paragraph (1) of the Financial Instruments and Exchange Act
[Recipient]	Director General of the Kinki Local Finance Bureau
[Submission Date]	April 23, 2020
[Company Name]	Artner Co., Ltd.
[Name and Title of Representative]	SEKIGUCHI Sozo, President and CEO
[Name and Title of Chief Financial Officer]	Not applicable.
[Address of Head Office]	5-2, Nishidaimotsucho, Amagasaki, Hyogo
	(This address is the location of the registered head office. The company’s business is conducted in the location shown below.)
[Location for Public Inspection]	Sumitomo Nakanoshima Building 2F, Nakanoshima 3-2-18, Kita-ku, Osaka City
	Tokyo Stock Exchange, Inc.
	(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo

1. Particulars concerning the Fundamental Framework for the Internal Controls over Financial Reports

President and CEO SEKIGUCHI Sozo is responsible for designing and implementing internal controls over Artner's financial reports. He designs and implements internal controls over financial reports according to the fundamental framework for the internal controls over financial reports indicated in "Revisions to the Standards for the Evaluation and Audit of Internal Controls over Financial Reports and to the Implementation Standards for the Evaluation and Audit of Internal Controls over Financial Reports (Written Opinions)" published by the Business Accounting Council.

Internal control is designed in such a way that its basic elements are organically linked to work as one with the aim of achieving objectives within a logical scope. Hence, there is a possibility that internal controls over financial reports may not completely prevent or detect all misrepresentations in financial reporting.

2. Particulars concerning the Scope of Evaluation, the Reference Date, and the Procedures for Evaluation

The evaluation of internal controls over financial reports was conducted with January 31, 2020, (the last day of the fiscal year under review) being the reference date. It complies with standards that are generally accepted as fair and appropriate for evaluation of internal controls over financial reports.

In this evaluation, we assessed the internal controls that have a material effect on overall financial reporting (i.e., company-wide internal controls) and, based on the assessment results, we selected the business processes to evaluate. In the evaluation of the business processes, we analyzed these selected processes, identified the main points in terms of control that have a material effect on the reliability of the Company's financial reports, and evaluated how these main points are designed and implemented for control, thereby evaluating the validity of the internal controls.

In regard to the scope of the evaluation of internal controls over financial reports, we determined the essential scope in light of the materiality of the impact on the reliability of Artner's financial reports. We consider the materiality of a monetary and qualitative impact to determine the materiality of the impact on the reliability of our financial reports. Based on the results of the evaluation of company-wide internal control we had conducted, we logically determined the scope of the evaluation of internal controls over business processes.

In regard to the scope of the evaluation of internal controls over business processes, the evaluation covers all our business bases. The evaluation covered the business processes that were gone through to record net sales, accounts receivable, and cost of sales (personnel costs), which are the account titles closely connected to the objectives of our business, at those business bases. We also added business processes connected to significant account titles where material misrepresentations can occur with high possibility, and that involve estimates and projections, to the list of material business processes for evaluation, taking into account the impact on our financial reports.

3. Particulars concerning Evaluation Results

After the above evaluations, we decided that our internal controls over financial reports are valid as of the last day of the fiscal year under review.

4. Supplementary Particulars

There are no particulars that should be noted.

5. Special particulars

There are no special particulars that should be noted.