

Summary of Consolidated Financial Results for the First Quarter of Fiscal Year ending December 31, 2017 (Japanese Accounting Standards)



May 11, 2017

Listed Company Name: FUJI SOFT INCORPORATED
 Securities Code: 9749
 Representative: Satoyasu Sakashita, President & Representative Director
 Contact: Tatsuya Naito, Operating Officer, General Manager of Corporate Planning Department
 Phone: +81-45-650-8811 (main)

Listing Exchanges: Tokyo Stock Exchange
 URL <http://www.fsi.co.jp/>

Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): May 12, 2017
 Scheduled date of dividend payment: –
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures less than one million yen are omitted)

1. Consolidated Business Results for the Three Months Ended March 31, 2017 (January 1, 2017 – March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended 3/17	44,829	8.6	2,276	0.7	2,318	4.0	1,501	27.3
Three months ended 3/16	41,261	5.4	2,261	6.7	2,228	-3.3	1,179	10.1

(Note) Comprehensive income (million yen) Three months ended 3/17: 989 (67.7%)
 Three months ended 3/16: 589 (-45.0%)

	Net income per share		Net income per share/diluted	
	Yen	Yen	Yen	Yen
Three months ended 3/17	48.04	48.03	48.03	48.03
Three months ended 3/16	37.82	37.80	37.80	37.80

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
Three months ended 3/17	165,411	109,819	109,819	109,001	58.7	59.0
Year ended 12/16	163,863	109,001	109,001	96,603	59.0	96.603

Reference: Shareholders' equity (million yen) Three months ended 3/17: 97,131 Year ended 12/16: 96,603

2. Dividends

	Dividend per share				
	End of first quarter	End of interim period	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended 12/16	–	14.00	–	15.00	29.00
Year ending 12/17	–	–	–	–	–
Year ending 12/17 (forecast)	–	15.00	–	15.00	30.00

(Note) Revisions to dividend forecasts published most recently: No

3. Forecast for Consolidated Business Results for the Fiscal Year Ending December 31, 2017

(Jan. 1, 2017 – Dec. 31, 2017)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
Second consolidated quarter (cumulative)	83,800	2.4	3,800	-6.1	3,900	-4.4	2,100	-0.3	67.22	67.22
Full year	168,000	2.3	9,000	2.3	9,300	1.5	5,100	1.1	163.25	163.25

(Note) Revisions to forecast for consolidated business results published most recently: No

* Notes

(1) Important changes in subsidiaries during this quarter (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable

(2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Yes
 (Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (3) Notes to consolidated financial statements” on page 9 of the accompanying materials.

(3) Changes in accounting principles and changes or restatement of accounting estimates
 (i) Changes in accounting principles due to amendment of accounting standards, etc.: Yes
 (ii) Changes in accounting principles other than (i): Not applicable
 (iii) Changes in accounting estimates: Not applicable
 (iv) Restatement: Not applicable
 (Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (3) Notes to consolidated financial statements” on page 9 of the accompanying materials.

(4) Number of outstanding shares (common shares)

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

3/17:	33,700,000 shares	Year ended 12/16:	33,700,000 shares
-------	-------------------	-------------------	-------------------

2) Number of treasury shares at the end of period

3/17:	2,427,854 shares	Year ended 12/16:	2,458,914 shares
-------	------------------	-------------------	------------------

3) Average number of shares during the period (quarterly consolidated cumulative period)

3/17:	31,255,100 shares	3/16:	31,177,228 shares
-------	-------------------	-------	-------------------

* This financial summary does not need to undergo a quarterly review.

* Cautionary statement with respect to forward-looking statements

The above forecast has been prepared based on data available on the announcement date. Since the data contains uncertainties, actual results may differ materially from the projections above due to changes in business performance and other factors.

For assumptions concerning financial forecasts, please refer to 1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2017, (3) Information on the future outlook, including forecast for consolidated business results on page 4 of the accompanying materials.

Accompanying Materials – Contents

1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2017.....	2
(1) Details of consolidated results.....	2
(2) Details of financial position.....	3
(3) Information on the future outlook, including forecast for consolidated business results.....	4
2. Consolidated Financial Statements and Key Notes.....	5
(1) Consolidated balance sheet.....	5
(2) Consolidated statements of income and consolidated statements of comprehensive income.....	7
Consolidated statements of income	
Consolidated first quarter results.....	7
Consolidated statements of comprehensive income	
Consolidated first quarter results.....	8
(3) Notes to consolidated financial statements.....	9
Note on going concern assumptions.....	9
Note when there is a considerable change in the amount of shareholders' equity.....	9
Important changes in subsidiaries during this quarter.....	9
Application of specific accounting treatment to the preparation of quarterly consolidated financial statements.....	9
Changes in accounting principles and changes or restatement of accounting estimates.....	9
Segment information.....	9

1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2017

(1) Details of consolidated results

During the consolidated first quarter under review (from January 1, 2017 to March 31, 2017), the Japanese economy remained on a modest recovery track with signs of improvement in employment and income conditions despite an uncertain outlook given concern over the impact on the global economy of the policies adopted by the new administration in the United States.

In the information services industry, the Japanese government's growth strategy, the Japan Revitalization Strategy 2016, sets high expectations for the realization of a super smart society using AI (artificial intelligence), the IoT, big data collection and analysis, and cloud computing technology to develop new markets such as automated driving and Fintech. Meanwhile, the importance of creating services to support corporate growth, including security services to counter increasingly sophisticated and complex cyberattacks, and the importance of hiring and training engineers to meet such demand increased further.

In this business environment, the FUJISOFT Group focused on hiring more human resources, training engineers in a short timeframe and developing systems including those for strengthening cooperation with its business partners. The Group worked to reduce overtime work by improving productivity under its basic corporate slogan "relaxed atmosphere and rewarding work", and aimed to achieve its medium-term goal of becoming an innovative corporate group that links ICT development to greater value for customers by taking on the challenge of the new technology AIS CRM (*1).

In System Construction, the Group expanded orders in auto-related and factory automation (tool machine) projects and other machine control systems against a backdrop of rising demand for the development of cutting-edge technologies. Particularly in the automotive sector, with demand for the development of in-vehicle embedded software growing against a backdrop of the rapid development of automated driving and electric operation, the Group expanded its business by enhancing and training engineers and expanding development bases. It also conducted aggressive marketing activities in connection with development related to infrastructure investment in the aerospace and defense fields. In operation system development, orders remained strong in the financial industry, reflecting improvements in operating efficiency and expansion of new policy channels on the back of the revision in the Insurance Business Act as well as demand in response to new technologies such as improvements in operating efficiency using financial technology. The Group also took steps to expand business by making proposals for services that enable working from home and other new work styles through the use of ICT, and for solutions to prevent information leaks and other security risks. It also leveraged its strength in infrastructure technology to support the utilization of secure and reliable systems, including providing cloud computing security references to government agencies.

In the Product and Service sector, sales remained strong in CAE solution services (*2) for the optical design field and the leading-edge cloud and software product businesses in collaboration with software vendors overseas. The Group took steps to strengthen existing products and, amid widespread needs in the mobile device market, started providing the cloud-based mobile device management service +F MDM (*3) in addition to the mobile router +F FS030W (*4). The Group supplied technology related to the humanoid communication robot PALRO to the ATOM Project (*5) launched by Kodansha Ltd. With its participation in this project, which allows purchasers to build "Japan's first real character-based communication robot" that can speak and move and will grow in the cloud, the Group expanded its business activities in this area. The Group also continued to introduce the smart document service for smart devices, moreNOTE and SYNCNEL (*6), which boasts the top share in the mobile content management market, in different fields.

In the area of corporate social responsibility (CSR) activities, the Group was included in the Top Hundred Telework Pioneers announced by the Ministry of Internal Affairs and Communications in recognition of its efforts to create diverse work styles using teleworking (*7) and its commitment to regional revitalization through the creation of local industry and the creation of local employment.

As a result of these initiatives, in the first quarter under review, net sales stood at 44,829 million yen, up 8.6% year on year. SG&A expenses came to 7,738 million yen, up 7.1% owing to upfront investment for aggressive marketing activities and higher taxes as a result of tax reforms. Operating income rose 0.7% from a year earlier, to 2,276 million yen. Ordinary income climbed 4.0%, to 2,318 million yen due to improvement of equity in earnings of the securities-oriented affiliate from a year earlier. Profit attributable to owners of parent was 1,501 million yen, up 27.3% year on year, mainly due to gain on sales of investment securities.

*1: AIS-CRM (A: AI; I: IoT; S: Security; C: Cloud; R: Robot; M: Mobile & AutoMotive)

New technology which the Group positions as a priority technology

*2: CAE (Computer Aided Engineering)

The technology for simulation and analysis of prototypes on computers in research and development processes in manufacturing, which replaces the conventional tests and experiments using actual prototypes.

*3: +F FS030W

A 3G/LTE data communication terminal for the consumer market and IoT/M2M market in the mobile communication market

*4: +F MDM

By utilizing the user console on web browser, the service that enables the suspension/resume of data communication, control of communication

speed/volume, the remote change/operation of device setting, monitoring active/inactive connection devices, and also provides security functions such as monitoring communication status and irregular use.

*5: ATOM Project

Japanese corporations Kodansha Ltd., Tezuka Productions Co., Ltd., NTT DOCOMO, Inc., VAIO Corporation, and Fuji Soft Inc. are all joining forces for the "Atom Project," that allows purchasers to build a robot based on the character *Astro Boy* (known as *Tetsuwan Atom* in Japan).

*6: moreNOTE, SYNCNEL

Services for sharing, viewing, and editing documents, videos and images easily using tablets, smartphones, and personal computers

*7: Teleworking

Term used to describe flexible work styles that enable employees to work anytime anyplace using ICT

Results by business segment were as follows:

(i) SI (system integration) business

In the SI business, sales of embedded/control software increased, reflecting brisk sales of machine control systems, including auto-related and factory automation projects and home appliances (AV equipment), as well as systems in the aerospace and defense industries. However, income declined, affected by upfront investment (hiring and training of human resources, and capital expenditures) and unprofitable projects in some areas. Sales of operation software rose, far exceeding the year-ago level, driven by sales to the distribution and services sectors. However, income fell due to upfront investment mainly to hire and train human resources. In Products and Services, both sales and income increased due to strong sales in the licensing business and the PALRO and robot development business. In the outsourcing business, both sales and income decreased due to decline in transactions with the distribution sector and data center renovation.

As a result, net sales stood at 41,302 million yen, up 7.8% year on year. Operating income amounted to 1,861 million yen, down 8.5%.

* The following table shows a breakdown of net sales and operating income in the SI business.

	(Million yen)			
	Net sales	YoY change (%)	Operating income	YoY change (%)
SI business total	41,302	107.8	1,861	91.5
System construction	24,950	110.8	1,249	86.6
Embedded/control software	12,667	109.3	639	74.9
Operation software	12,282	112.3	610	103.7
Products and services	16,352	103.7	612	103.4
Products and services	12,194	105.9	482	123.9
Outsourcing	4,158	97.7	129	63.9

(Note) Operating income includes the elimination of intersegment transactions of ¥410 thousand.

(ii) Facility business

Net sales stood at 679 million yen, down 3.2% year on year, reflecting rental income from office buildings owned by the Company and certain consolidated subsidiaries. Operating income grew 35.0% year on year, to 230 million yen, reflecting the impact of building repair work carried out the previous fiscal year.

(iii) Other businesses

Net sales from other businesses amounted to 2,847 million yen, up 26.1% year on year due to strong performances in the data entry business and the contact center business. Operating income grew 225.6%, to 184 million yen, reflecting a temporary increase in expenses associated with the listing of stock by a subsidiary last fiscal year.

(2) Details of financial position

(Total assets)

Total assets stood at 165,411 million yen at the end of the consolidated first quarter under review, up 1,547 million yen from the end of the preceding consolidated fiscal year. Current assets were 69,311 million yen (up 1,961 million yen from the end of the previous fiscal year), and non-current assets were 96,099 million yen (down 413 million yen).

Important factors in the change of current assets included an increase in notes and accounts receivable-trade by 1,129 million yen from the end of the previous fiscal year, to 37,857 million yen in association with the increase in net sales.

The main factors for the change in non-current assets included a decrease in investment securities by 793 million yen from the end of the previous fiscal year, to 16,455 million yen mainly due to changes in the market values of shares held.

(Liabilities)

At the end of the consolidated first quarter under review, total liabilities amounted to 55,591 million yen, up 729 million yen from the end of the previous fiscal year. Current liabilities were 39,198 million yen (rising 1,737 million yen from the end of the previous fiscal year), and non-current liabilities were 16,392 million yen (declining 1,007 million yen).

Primary factors in the change of current liabilities included an increase in notes and accounts payable-trade of 1,098 million yen from the end of the previous fiscal year, to 10,543 million yen, a rise in the current portion of long-term loans payable of 957 million yen from the end of the previous fiscal year, to 6,518 million yen, and a decrease in short-term loans payable of 191 million yen from the end of the previous fiscal year, to 3,658 million yen.

The main factor in the change in non-current liabilities included a 1,294 million yen decline in long-term loans payable, to 5,429 million yen.

(Net assets)

Net assets rose 817 million yen from the end of the preceding fiscal year, to 109,819 million yen at the end of the consolidated first quarter under review. As a result, the equity ratio fell to 58.7% from 59.0% at the end of the previous fiscal year.

(3) Information on the future outlook, including forecast for consolidated business results

The first-half and full-year results forecasts remain unchanged from those announced in the financial results for the fiscal year ended December 31, 2016 announced on February 14, 2017.

2. Consolidated Financial Statements

(1) Consolidated balance sheet

	(Thousand yen)	
	FY2016 (As of December 31, 2016)	Q1 FY2017 (As of March 31, 2017)
Assets		
Current assets		
Cash and deposits	19,134,369	20,238,312
Notes and accounts receivable - trade	36,727,703	37,857,317
Short-term investment securities	4,500,000	4,500,000
Merchandise	613,984	648,667
Work in process	1,932,495	1,184,628
Raw materials and supplies	30,717	28,883
Other	4,469,592	4,903,156
Allowance for doubtful accounts	-58,129	-49,167
Total current assets	67,350,733	69,311,798
Non-current assets		
Property, plant and equipment		
Buildings and structures	57,904,450	57,729,545
Accumulated depreciation	-25,768,766	-25,422,556
Buildings and structures, net	32,135,683	32,306,989
Land	30,415,744	30,523,027
Construction in progress	119,370	34,078
Other	15,303,788	15,203,513
Accumulated depreciation	-12,177,768	-12,056,288
Other, net	3,126,019	3,147,224
Total property, plant and equipment	65,796,819	66,011,321
Intangible assets		
Goodwill	2,150,891	2,003,931
Software	3,557,797	3,694,735
Other	241,191	237,113
Total intangible assets	5,949,880	5,935,780
Investments and other assets		
Investment securities	17,249,259	16,455,481
Net defined benefit asset	4,481,130	4,614,184
Other	3,060,881	3,115,699
Allowance for doubtful accounts	-24,818	-32,904
Total investments and other assets	24,766,451	24,152,461
Total non-current assets	96,513,152	96,099,562
Total assets	163,863,886	165,411,360

	(Thousand yen)	
	FY2016 (As of December 31, 2016)	Q1 FY2017 (As of March 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,444,963	10,543,881
Short-term loans payable	3,850,000	3,658,334
Current portion of long-term loans payable	5,560,360	6,518,200
Accrued expenses	3,731,997	3,313,832
Income taxes payable	2,153,573	1,482,303
Provision for bonuses	3,094,223	5,448,465
Provision for directors' bonuses	169,301	215,287
Provision for loss on construction contracts	267,915	104,233
Other	9,189,095	7,914,086
Total current liabilities	37,461,430	39,198,623
Non-current liabilities		
Long-term loans payable	6,723,996	5,429,857
Deferred tax liabilities	2,919,073	2,900,684
Provision for directors' retirement benefits	386,591	401,626
Net defined benefit liability	5,459,667	5,767,742
Other	1,911,185	1,892,939
Total non-current liabilities	17,400,514	16,392,849
Total liabilities	54,861,945	55,591,473
Net assets		
Shareholders' equity		
Capital stock	26,200,289	26,200,289
Capital surplus	28,876,632	28,893,747
Retained earnings	51,738,722	52,208,383
Treasury shares	-4,971,430	-4,908,807
Total shareholders' equity	101,844,214	102,393,613
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,022,748	3,562,015
Revaluation reserve for land	-8,797,660	-8,228,200
Foreign currency translation adjustment	87,276	73,582
Remeasurements of defined benefit plans	-553,440	-669,036
Total accumulated other comprehensive income	-5,241,076	-5,261,637
Subscription rights to shares	30,676	30,938
Non-controlling interests	12,368,126	12,656,973
Total net assets	109,001,940	109,819,887
Total liabilities and net assets	163,863,886	165,411,360

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

Consolidated statements of income

Consolidated first quarter results

(Thousand yen)

	Q1 FY2016 (From January 1, 2016 to March 31, 2016)	Q1 FY2017 (From January 1, 2017 to March 31, 2017)
Net sales	41,261,531	44,829,801
Cost of sales	31,775,998	34,814,540
Gross profit	9,485,532	10,015,261
Selling, general and administrative expenses	7,223,862	7,738,562
Operating income	2,261,669	2,276,698
Non-operating income		
Interest income	9,949	5,916
Dividends income	4,887	7,000
Share of profit of entities accounted for using equity method	17,015	81,582
Subsidy income	16,540	40,319
Other	21,612	29,689
Total non-operating income	70,005	164,507
Non-operating expenses		
Interest expenses	13,418	29,441
Foreign exchange losses	54,715	50,274
Loss on retirement of non-current assets	18,351	33,328
Other	16,956	10,018
Total non-operating expenses	103,441	123,061
Ordinary income	2,228,233	2,318,144
Extraordinary income		
Gain on sales of investment securities	–	296,008
Total extraordinary income	–	296,008
Extraordinary loss		
Impairment loss	48,454	11,419
Loss on sales of shares of subsidiaries and associates	60,463	–
Office transfer expenses	23,265	101,395
Total extraordinary loss	132,183	112,815
Income before income taxes	2,096,050	2,501,336
Income taxes-current	1,505,982	1,188,247
Income taxes-deferred	-707,868	-414,743
Total income taxes	798,114	773,503
Net income	1,297,936	1,727,832
Profit attributable to non-controlling interests	118,852	226,378
Profit attributable to owners of parent	1,179,083	1,501,454

Consolidated statements of comprehensive income
 Consolidated first quarter results

(Thousand yen)

	Q1 FY2016 (From January 1, 2016 to March 31, 2016)	Q1 FY2017 (From January 1, 2017 to March 31, 2017)
Net income	1,297,936	1,727,832
Other comprehensive income		
Valuation difference on available-for-sale securities	-533,495	-465,138
Deferred gains or losses on hedges	-56,971	—
Foreign currency translation adjustment	-83,901	-22,413
Remeasurements of defined benefit plans, net of tax	57,907	-294,664
Share of other comprehensive income of entities accounted for using equity method	-91,546	43,694
Total other comprehensive income	-708,007	-738,522
Comprehensive income	589,928	989,310
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	490,468	911,432
Comprehensive income attributable to minority interests	99,459	77,877

(3) Notes to consolidated financial statements

(Note on going concern assumptions)

Not applicable.

(Note when there is a considerable change in the amount of shareholders' equity)

Not applicable.

(Important changes in subsidiaries during this quarter)

Not applicable.

(Application of specific accounting treatment to the preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Certain consolidated subsidiaries make a reasonable estimate of the effective tax rate after the application of tax effect accounting to income before income taxes for the current fiscal year and multiply quarterly income before income taxes by the estimated effective tax rate.

(Changes in accounting principles and changes or restatement of accounting estimates)

(Changes in accounting principles)

Starting from the first quarter of the consolidated fiscal year under review, the Company is applying the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26; March 28, 2016; hereinafter Guidance on Recoverability of Deferred Tax Assets). Accordingly, certain accounting practices related to the recoverability of deferred tax assets have been revised.

With respect to the adoption of the Guidance on Recoverability of Deferred Tax Assets, the Company has applied a transitional treatment pursuant to Article 49 (4) of the guidance. As a result, the difference between the deferred tax assets and deferred tax liabilities that would have been recorded on April 1, 2017, if the provisions in items 1. and 3. under Article 49 (3) of the guidance were applied at that time and the amount of deferred tax assets and deferred tax liabilities recorded on March 31, 2017, was added to retained earnings and accumulated other comprehensive income on April 1, 2017.

The impact of this change on the quarterly financial statements as of April 1, 2017 is insignificant.

(Segment information)

[Segment information]

I. Q1 FY2016 (From January 1, 2016 to March 31, 2016)

1. Information on Sales and Profit and Loss by Reported Segment

(Thousand yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-quarter consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Sales to outside customers	38,301,014	702,545	39,003,560	2,257,971	41,261,531	–	41,261,531
Inter-segment sales or transfers	26,647	159,944	186,591	226,019	412,610	-412,610	–
Total	38,327,661	862,489	39,190,151	2,483,990	41,674,142	-412,610	41,261,531
Segment profit	2,033,254	170,648	2,203,903	56,783	2,260,686	983	2,261,669

Notes:

1. "Others" is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 983 thousand yen includes an elimination of inter-segment transactions of 983 thousand yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.

2. Information on Impairment Loss in Non-current Assets and Goodwill by Reported Segment

The presentation of information has been omitted due to its lack of material significance.

II. Q1 FY2017 (From January 1, 2017 to March 31, 2017)

1. Information on Sales and Profit and Loss by Reported Segment

(Thousand yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-quarter consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Sales to outside customers	41,302,505	679,741	41,982,246	2,847,554	44,829,801	–	44,829,801
Inter-segment sales or transfers	28,456	158,906	187,362	209,225	396,587	-396,587	–
Total	41,330,962	838,647	42,169,609	3,056,780	45,226,389	-396,587	44,829,801
Segment profit	1,861,057	230,359	2,091,416	184,870	2,276,287	410	2,276,698

Notes:

1. “Others” is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 410 thousand yen includes an elimination of inter-segment transactions of 410 thousand yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.

2. Information on Impairment Loss in Non-current Assets and Goodwill by Reported Segment

The presentation of information has been omitted due to its lack of material significance.