

**Non-Consolidated Financial Results
for the Nine Months Ended January 31, 2018
[Japanese GAAP]**



March 6, 2018

Company name: Asukanet Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2438
 URL: <https://www.asukanet.co.jp>
 Representative: Yukio Fukuda, Representative Director, President & CEO
 Contact: Kenya Kono, Managing Director & CFO
 Phone: +81-82-850-1200
 Scheduled date of filing quarterly securities report: March 14, 2018
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Non-Consolidated Financial Results for the Nine Months Ended January 31, 2018

(May 1, 2017 to January 31, 2018)

(1) Non-Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
January 31, 2018	4,429	9.9	604	(7.0)	611	(6.4)	413	(7.0)
January 31, 2017	4,029	4.6	649	7.9	652	7.9	444	11.7

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
January 31, 2018	24.64	24.55
January 31, 2017	26.54	26.41

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of January 31, 2018	5,372	4,855	90.3
As of April 30, 2017	5,325	4,603	86.3

(Reference) Equity: As of January 31, 2018: ¥4,851 million
 As of April 30, 2017: ¥4,597 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended April 30, 2017	-	0.00	-	10.00	10.00
Fiscal year ending April 30, 2018	-	0.00	-		
Fiscal year ending April 30, 2018 (Forecast)				10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

**3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2018
(May 1, 2017 to April 30, 2018)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	5,696	4.7	771	(3.7)	776	(3.6)	541	(5.5)	32.31

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(3) Total number of issued shares (common shares)

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

January 31, 2018: 17,464,000 shares

April 30, 2017: 17,464,000 shares

2) Total number of treasury shares at the end of the period:

January 31, 2018: 680,941 shares

April 30, 2017: 717,741 shares

3) Average number of shares during the period:

Nine months ended January 31, 2018: 16,768,281 shares

Nine months ended January 31, 2017: 16,737,298 shares

* These quarterly financial results are outside the scope of quarterly review procedures.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Qualitative Information Concerning the Business Results

(1) Explanation of business results

During the cumulative first 3 quarters of this fiscal year, the economy of Japan saw a continuing gradual recovery, with continued improvement in corporate profits and the employment environment, as a result of continuing economic stimulus by the government and financial measures by the Bank of Japan. However there are continuing concerns regarding the future of overseas economies, including policy trends in various countries and growing geopolitical risk in Asia.

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to the funeral business that is largely unaffected by economic trends, (2) the personal publishing business, a challenging business which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

The results for each business segment are as follows. Results figures for each segment include internal inter-segment sales.

(Memorial design service business)

In this business, although revenue was somewhat below expectations in our primary business area – processing of photos of the deceased, equipment sales were strong and the “Asuka Altar” collaboration product with the aerial imaging business also contributed to sales. In addition, we are utilizing the extensive customer base in the funerals market for development to upgrade our “tsunagoo” service that connects funeral companies, the bereaved, and mourners.

In terms of income, the gross profit margin was down due to an increase in personnel expenses in the Image Processing Division. Beginning from the 3rd quarter, shipping expenses were higher than expected due to price hikes, and there has also been an increase in personnel expenses and travel & transportation expenses resulting from our growing number of support sites.

As a result, sales were 1,865,125 thousand yen (104.0% year-on-year) and segment income was 545,087 thousand yen (93.2% year-on-year).

(Personal publishing service business)

This business operates *AsukaBook* for the professional photographer market in Japan, and the *MyBook* brand for general consumers. We are also engaged in OEM supply of photo albums and photo prints based on photos that were taken with smartphones.

For the professional photographer market, in addition to acquiring new customers through our own marketing activities, we also held seminars and workshops in 11 locations across Japan, working to capture customers and promote new products. As a result, there was steady sales growth in the professional photographer market. In the future, we will work to expand sales and market penetration of our highly popular “Life-Size Baby Photos” service.

For the general consumer market, in addition to efficient internet advertising, we also conducted a variety of campaigns, utilized SNS, and expanded our lineup of templates and illustrations. However we struggled to acquire new customers in this fiercely competitive environment, and sales in the general consumer market were below the result from the previous year. On the other hand, there was steady growth in sales related to OEM supply as a result of the growing presence of our services in the market. In preparation for future increases in production, the OEM Division carried out the planned investment in equipment and also prepared for exhibiting at the CP+ exhibition.

In terms of income, despite higher than expected shipping expenses due to price hikes, the improved operating rate resulted in a higher gross profit margin and there was steady growth in segment income.

As a result, sales were 2,477,095 thousand yen (113.0% year-on-year) and segment income was 602,935 thousand yen (122.0% year-on-year).

(Aerial imaging business)

This business was launched in March 2011, aiming to create a market through new image and video expressions utilizing aerial imaging technologies. Previously we referred to the plates that use original Asukanet technologies to project images in mid-air as “AI plates”. However for consistency with overseas brands, in January 2018 the service brand was changed to “ASKA3D” and the plate names to “ASKA3D plates”.

In this business, we are placing top priority on achieving mass production of the ASKA3D plates for projecting images in mid-air.

For glass ASKA3D plates, although sufficient cost reductions have not yet been achieved, we are providing large-size plates that are capable of high-quality aerial imaging. Although still in small lots, sales for signage and aerial system operations are increasing as a result of exhibitions in Japan and overseas. In addition, we are also supplying plates for the “Asuka Altar” service that is a collaboration project with the memorial design service business.

For the resin ASKA3D plates where we are working to achieve high productivity and low cost, we are in the process of establishing the specific manufacturing methods, but we have encountered new problems such as problems with the resin separation process, and at present the completion of samples is behind schedule. However we are confident that we can resolve these problems by means such as mold improvements and changes to the separation method, and we are aiming to produce new prototypes and provide samples to the market as quickly as possible as soon as the improvements are completed.

In terms of marketing, in addition to CEATEC and one other exhibition in Japan and 2 overseas exhibitions in the United States during the first 2 quarters, in the 3rd quarter we also exhibited in Dubai. We also jointly developed an ATM that utilizes ASKA3D plates and have exhibited it at exhibitions in Japan and overseas. These products have also been used at the reception desk of Henn na Hotel at the Huis Ten Bosch amusement park.

In terms of expenses, there was a large increase in advertising and publicity expenses as a result of active participation in exhibitions in Japan and overseas. In addition, there was an increase in R&D expenses as a result of intensive R&D aimed at achieving mass production of resin AI plates. There were also increases in personnel expenses due to the addition of personnel, as well as in overseas travel expenses and patent-related expenses.

As a result, sales were 97,394 thousand yen (221.6% year-on-year) and segment loss was 187,792 thousand yen (compared to a loss of 91,774 thousand yen during the same period of the previous year).

As a result of the above segment results, overall sales in all business areas during the cumulative first 3 quarters of this fiscal year were 4,429,265 thousand yen (109.9% year-on-year). In terms of income, despite steady growth in segment income in the personal publishing business, as a result of the company-wide increase in shipping expenses, and higher advertising/publicity and R&D expenses in the aerial imaging business, ordinary income was 611,086 thousand yen (93.6% year-on-year), and net income was 413,182 thousand yen (93.0% year-on-year).

(2) Overview of the Financial Status

Assets at the end of the third quarter increased by 47,549 thousand yen from the end of the previous fiscal year to reach 5,372,796 thousand yen. Although there was a decrease of 46,727 thousand yen in cash and savings, this result was primarily due to increases of 94,021 thousand yen in notes and accounts receivable (trade) and work in progress and 29,411 thousand yen in tangible fixed assets.

Liabilities at the end of the third quarter decreased by 204,160 thousand yen from the end of the previous fiscal year to reach 517,641 thousand yen. This was primarily due to decreases of 64,470 thousand yen in income taxes payable and 59,400 thousand yen in provisions for bonuses.

Net assets at the end of the third quarter increased by 251,709 thousand yen from the end of the previous fiscal year to reach 4,855,154 thousand yen. This was primarily due to net income of 413,182 thousand yen and a decrease of 167,462 thousand yen in dividend payments.

(3) Explanation of results forecasts and other future predictions

At the present time, there has been no change to the predicted results for the year ending April 30, 2018 that were announced on June 9, 2017.

5. Financial Statements for the First 3 Quarters

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2017)	First 3 quarters of the current fiscal year (ended January 31, 2018)
Assets		
Current assets		
Cash and deposits	2,278,251	2,231,523
Notes and accounts receivable-trade	686,517	780,539
Merchandise and products	166,123	179,448
Work in progress	12,038	14,387
Raw materials and supplies	56,972	56,209
Others	112,648	84,653
Allowance for doubtful accounts	(3,163)	(4,177)
Total current assets	3,309,387	3,342,584
Fixed assets		
Tangible fixed assets		
Buildings, net	499,750	505,865
Machinery and equipment, net	422,616	435,860
Land	432,702	432,702
Others, net	150,493	160,545
Total tangible fixed assets	1,505,562	1,534,974
Intangible fixed assets	211,874	198,534
Investments and other assets	298,423	296,702
Total fixed assets	2,015,859	2,030,211
Total assets	5,325,247	5,372,796
Liabilities		
Current liabilities		
Accounts payable-trade	118,905	109,208
Income taxes payable	143,270	78,800
Provision for bonuses	129,000	69,600
Others	317,028	247,858
Total current liabilities	708,204	505,467
Fixed liabilities		
Provision for retirement benefits	6,482	6,482
Others	7,115	5,692
Total fixed liabilities	13,597	12,174
Total liabilities	721,802	517,641
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	3,803,101	4,042,857
Treasury stock	(309,764)	(293,882)
Total shareholders' equity	4,590,222	4,845,860
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,579	5,841
Total valuation and translation adjustments	7,579	5,841
Subscription rights to shares	5,642	3,452
Total net assets	4,603,444	4,855,154
Total liabilities and net assets	5,325,247	5,372,796

(2) Profit and loss statement

First three quarters of the fiscal year

(Units: 1,000s yen)

	First three quarters of the previous fiscal year (May 1, 2016 – Jan. 31, 2017)	First three quarters of the current fiscal year (May 1, 2017 – Jan. 31, 2018)
Net Sales	4,029,111	4,429,265
Cost of sales	1,951,139	2,137,661
Gross profit	2,077,972	2,291,604
Selling, general, and administrative expenses	1,428,573	1,687,396
Operating income	649,399	604,207
Non-operating income		
Interest received	807	410
Dividends received	1,161	1,060
Commissions received	418	327
Foreign exchange income	51	141
Income from insurance	—	3,999
Others	781	938
Total non-operating income	3,219	6,878
Ordinary income	652,619	611,086
Extraordinary losses		
Loss on retirement of fixed assets	103	15,174
Total extraordinary losses	103	15,174
Net income before taxes	652,515	595,911
Income taxes	208,258	182,728
Net income	444,256	413,182

[Segment information]

Cumulative first 3 quarters of the previous fiscal year (May 1, 2016 – January 31, 2017)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,793,240	2,191,910	43,960	4,029,111	—	4,029,111
Inter-segment internal sales and transfers	—	—	—	—	—	—
Total	1,793,240	2,191,910	43,960	4,029,111	—	4,029,111
Segment income (loss)	584,951	494,151	(91,774)	987,328	(337,928)	649,399

Cumulative first 3 quarters of the current fiscal year (May 1, 2017 – January 31, 2018)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,865,125	2,477,095	87,044	4,429,265	—	4,429,265
Inter-segment internal sales and transfers	—	—	10,350	10,350	(10,350)	—
Total	1,865,125	2,477,095	97,394	4,439,615	(10,350)	4,429,265
Segment income (loss)	545,087	602,935	(187,792)	960,230	(356,022)	604,207

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.