

**Non-Consolidated Financial Results
for the Nine Months Ended January 31, 2017
[Japanese GAAP]**



March 8, 2017

Company name: **Asukanet Co., Ltd.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 2438

URL: <https://www.asukanet.co.jp>

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Scheduled date of filing quarterly securities report: March 14, 2017

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, 2017

(May 1, 2016 to January 31, 2017)

(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, 2017	4,029	4.6	649	7.9	652	7.9	444	11.7
January 31, 2016	3,851	2.9	602	11.2	605	10.8	397	0.4

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
January 31, 2017	26.54	26.41
January 31, 2016	23.74	23.54

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of January 31, 2017	5,008	4,478	89.3
As of April 30, 2016	4,820	4,190	86.8

(Reference) Equity: As of January 31, 2017: ¥4,472 million

As of April 30, 2016: ¥4,183 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, 2016	-	0.00	-	10.00	10.00
Fiscal year ending April 30, 2017	-	0.00	-		
Fiscal year ending April 30, 2017 (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, 2017
(May 1, 2016 to April 30, 2017)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	5,461	5.6	800	3.5	805	3.7	551	0.7	32.93

(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, 2017: 17,464,000 shares

April 30, 2016: 17,464,000 shares

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

January 31, 2017: 719,741 shares

April 30, 2016: 730,141 shares

3) Average number of shares during the period:

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

Nine months ended January 31, 2016: 16,752,184 shares

* Presentation regarding the implementation status of the quarterly review procedures

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, quarterly review procedures for the quarterly financial statements have not been completed.

* 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 continued on a gradual trend towards recovery as a result of continuing economic stimulus by the government and financial measures by the Bank of Japan. However the future of the global economy is uncertain as a result of factors including the effects slowdowns in the economies China and of emerging nations, the effects of Brexit, and the transition to a new administration in the United States.

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.

Under these conditions, Asukanet is carrying out its business with attention on maintaining a balance between steady growth in existing business and advance investment in new business.

The results for each business segment are as follows.

(Memorial design service business)

In this business, although there was a difficult struggle for income during the first quarter in our primary business – processing of photos of the deceased, there was a recovery beginning from the second quarter. In addition to strong sales related to videos and other funeral presentations, there was also steady growth in sales of equipment and frames.

In terms of profits, although there were increases in PR expenses and hiring-related expenses, we also recorded strong segment income due to steady income from processing of photos of the deceased – a business with a relatively high profit margin.

As a result, sales were 1,793,240 thousand yen (104.0% year-on-year) and segment income was 584,951 thousand yen (105.0% year-on-year).

(Personal publishing service business)

In this business, we worked to acquire new customers and propose new products to existing customers through our own marketing operations in the professional photography market. At the same time, we also engaged in holding workshops, releasing a photo selection app, and other activities. As a result, sales to the professional photography market grew steadily.

In the ordinary consumer market, we conducted efficient Internet advertising, as well as a variety of campaigns, exhibits at events, and other promotions. However in the current harsh competitive environment, acquiring new customers is difficult, and sales to ordinary consumers were below expectations. On the other hand, there was steady growth in sales related to OEM supply as a result of the strong presence of our services in the market.

In terms of profits, the higher operating rate resulted in a higher gross profit margin and we were able to

suitably control sales expenses. Consequently there was steady growth in segment income.

As a result of the above, sales were 2,191,910 thousand yen (105.1% year-on-year) and segment income was 494,151 thousand yen (113.0% year-on-year).

(Aerial imaging business)

This business was launched in March 2011, aiming to create a market through new photo and video expressions utilizing aerial imaging technologies.

In this business, we are placing top priority on the AI plate which is capable of projecting images in mid-air. With glass plates, there has been stable improvement in image quality and production of large-size plates is possible, however there has not yet been sufficient reduction in cost.

For resin plates, we are carrying out trials both using new production methods and using the same method as for glass plate production. The resin plates which are produced using the same method as for glass plates are smaller in size and provide image quality that is inferior to glass plates, however prototype products are being sold. With the new production methods, we are continuing with trials involving multiple methods as we aim to resolve technological issues. Our plan is to decide on either a new production method or the glass plate production method at the latest by the end of this fiscal year.

In the area of marketing, in addition to conducting follow-up after exhibiting at Tokyo Design Week in October 2016, we also completely changed the exhibit contents at our Tokyo Branch showroom, expanded our marketing staff, and actively conducted demonstrations. As before, there is insufficient matching in the price area and sales have been restricted to limited applications and small lot sales. However, we have constructed a sales system for sales of AI plates, as well as sales of package products that include the case, sensors, and content. We also prepared for exhibiting at overseas exhibitions.

Expenses grew as we focused on production of cases and content for overseas exhibitions, conducted R&D aimed at future mass production, and actively filed patent applications.

As a result, sales were 43,960 thousand yen (109.3% year-on-year), and segment loss was 91,774 thousand yen (compared to a loss of 64,457 thousand yen year-on-year).

As a result of the above, sales in the first 3 quarters of this fiscal year were 4,029,111 thousand yen (104.6% year-on-year). In terms of profit, primarily due to strong OEM supply growth in the personal publishing business, ordinary income was 652,619 thousand yen (107.9% year-on-year), and net income was 444,256 thousand yen (111.7% year-on-year).

(2) Explanation concerning financial status

Assets at the end of the first 3 quarters of this fiscal year increased by 188,237 thousand yen from the end of the previous fiscal year to reach 5,008,654 thousand yen. This was primarily due to an increase in cash and deposits of 89,250 thousand yen, and an increase in notes and accounts receivable of 96,613 thousand yen.

Liabilities at the end of the first 3 quarters of this fiscal year decreased by 99,696 thousand yen from the end of the previous fiscal year to reach 530,348 thousand yen. This was primarily due to decreases of 29,888 thousand yen in accounts payable, and 66,000 thousand yen in provision for bonuses.

Net assets at the end of the first 3 quarters of this fiscal year increased by 287,933 thousand yen from the end of the previous fiscal year to reach 4,478,306 thousand yen. Despite recording a net profit of 444,256 thousand yen, this result was primarily due to a decrease of 167,338 thousand yen in dividends from surplus.

(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, 2017 that were announced on June 10, 2016.

5. Summary Information (Notes)

(1) Adoption of special accounting methods for preparation of quarterly financial statements

(Calculation of tax expenses)

We adopted a calculation method which multiplies net income before taxes by an effective tax rate that was reasonably estimated by applying tax effect accounting to net income before taxes for the fiscal year which includes these first 3 quarters.

(2) Changes in accounting policy, changes or restatement of accounting estimates

None

(3) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Beginning from the first quarter accounting period, we have applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Corporate Accounting Standard Application Guideline No. 26, March 28, 2016).

6. Financial Statements for the First 3 Quarters

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2016)	First 3 quarters of the current fiscal year (ended January 31, 2017)
Assets		
Current assets		
Cash and deposits	1,918,143	2,007,393
Notes and accounts receivable-trade	610,639	707,253
Merchandise and products	123,936	172,891
Work in progress	13,423	15,736
Raw materials and supplies	50,720	57,633
Others	90,046	103,018
Allowance for doubtful accounts	(3,803)	(5,179)
Total current assets	2,803,106	3,058,746
Fixed assets		
Tangible fixed assets		
Buildings, net	514,797	505,644
Machinery and equipment, net	552,201	450,853
Land	432,702	432,702
Others, net	126,957	137,741
Total tangible fixed assets	1,626,659	1,526,942
Intangible fixed assets	196,351	220,232
Investments and other assets	194,300	202,733
Total fixed assets	2,017,310	1,949,907
Total assets	4,820,417	5,008,654
Liabilities		
Current liabilities		
Accounts payable-trade	123,714	93,825
Income taxes payable	120,200	109,800
Provision for bonuses	129,700	63,700
Others	249,796	256,540
Total current liabilities	623,410	523,865
Fixed liabilities		
Provision for retirement benefits	6,634	6,482
Total fixed liabilities	6,634	6,482
Total liabilities	630,045	530,348
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	3,400,136	3,675,369
Treasury stock	(315,115)	(310,627)
Total shareholders' equity	4,181,905	4,461,626
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,086	10,917
Total valuation and translation adjustments	2,086	10,917
Subscription rights to shares	6,380	5,761
Total net assets	4,190,372	4,478,306
Total liabilities and net assets	4,820,417	5,008,654

(2) Profit and loss statement

First 3 quarters of the fiscal year

(Units: 1,000s yen)

	First 3 quarters of the previous fiscal year (May 1, 2015 – Jan. 31, 2016)	First 3 quarters of the current fiscal year (May 1, 2016 – Jan. 31, 2017)
Net Sales	3,851,521	4,029,111
Cost of sales	1,881,927	1,951,139
Gross profit	1,969,593	2,077,972
Selling, general, and administrative expenses	1,367,535	1,428,573
Operating income	602,058	649,399
Non-operating income		
Interest received	1,438	807
Dividends received	1,095	1,161
Commissions received	516	418
Foreign exchange gains	—	51
Others	624	781
Total non-operating income	3,674	3,219
Non-operating expenses		
Foreign exchange losses	635	—
Total non-operating expenses	635	—
Ordinary income	605,096	652,619
Extraordinary losses		
Loss on retirement of fixed assets	1,323	103
Total extraordinary losses	1,323	103
Net income before taxes	603,772	652,515
Income taxes	206,086	208,258
Net income	397,686	444,256

(3) Notes regarding the financial statements

[Segment information]

Cumulative first 3 quarters of the previous fiscal year (May 1, 2015 – January 31, 2016)

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

(Units: 1,000s yen)

	Reporting segment				Other *1	Adjustments *2	Amount recorded in profit and loss statement *3
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total			
Sales							
Sales to outside customers	1,723,869	2,085,818	40,225	3,849,913	1,607	—	3,851,521
Inter-segment internal sales and transfers	—	132	—	132	—	(132)	—
Total	1,723,869	2,085,950	40,225	3,850,046	1,607	(132)	3,851,521
Segment income (loss)	557,054	437,119	(64,457)	929,716	(16,176)	(311,481)	602,058

Notes: 1: The "Other" category is the business segment not included in the reporting segments, and consists of the "giftnet.com" service.

2: The segment income adjustment figure of (311,481) thousand yen is a corporate expense that is not allocated to the reporting segments (a selling, general, and administrative expense that does not belong to the reporting segments).

3: Segment income matches the operating income figure in the profit and loss statement for the first 3 quarters.

Cumulative first 3 quarters of the current 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 *1	Amount recorded in profit and loss statement *2
	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

Notes: 1: The segment income adjustment figure of (337,928) thousand yen is a corporate expense that is not allocated to the reporting segments (a selling, general, and administrative expense that does not belong to the reporting segments).

2: Segment income matches the operating income figure in the profit and loss statement for the first 3 quarters.

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