

**Non-Consolidated Financial Results
for the Fiscal Year Ended April 30, 2018
[Japanese GAAP]**



June 11, 2018

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 Annual General Meeting of Shareholders: July 27, 2018
 Scheduled date of commencing dividend payments: July 30, 2018
 Scheduled date of filing annual securities report: July 30, 2018
 Availability of supplementary briefing material on annual financial results: Available
 Schedule of annual financial results briefing session: Scheduled (for institutional investors and analysts)

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

1. Non-Consolidated Financial Results for the Fiscal Year Ended April 30, 2018

(May 1, 2017 to April 30, 2018)

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

	Net sales		Operating income		Ordinary income		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
April 30, 2018	5,904	8.6	788	(1.5)	795	(1.1)	556	(2.7)
April 30, 2017	5,438	5.1	800	3.6	804	3.6	572	4.6

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary income to total assets	Operating income to net sales
Fiscal year ended	Yen	Yen	%	%	%
April 30, 2018	33.20	33.08	11.6	14.4	13.4
April 30, 2017	34.19	34.01	13.0	15.9	14.7

(Reference) Equity in earnings of affiliated companies: Fiscal year ended April 30, 2018: ¥- million
 Fiscal year ended April 30, 2017: ¥- million

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of April 30, 2018	5,715	5,000	87.4	297.45
As of April 30, 2017	5,325	4,603	86.3	274.56

(Reference) Equity: As of April 30, 2018: ¥4,997 million
 As of April 30, 2017: ¥4,597 million

(3) Non-Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
April 30, 2018	788	(596)	(157)	1,706
April 30, 2017	818	(293)	(164)	1,673

2. Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended April 30, 2017	-	0.00	-	10.00	10.00	167	29.3	3.8
Fiscal year ended April 30, 2018	-	0.00	-	10.00	10.00	168	30.1	3.5
Fiscal year ending April 30, 2019 (Forecast)	-	0.00	-	10.00	10.00		29.7	

3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2019 (May 1, 2018 to April 30, 2019)

(% 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	6,111	3.5	806	2.2	811	1.9	567	1.8	33.74

As the Company manages its financial results at an annual base, the financial results forecast for the first half is not disclosed.

* Notes:

(1) 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

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

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

- April 30, 2018: 17,464,000 shares
- April 30, 2017: 17,464,000 shares

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

- April 30, 2018: 662,541 shares
- April 30, 2017: 717,741 shares

3) Average number of shares during the period:

- Fiscal year ended April 30, 2018: 16,773,986 shares
- Fiscal year ended April 30, 2017: 16,739,285 shares

* These financial results are outside the scope of audit by a certified public accountant or an audit corporation.

* 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.

• Contents of Attached Materials

1. Overview of Business Results

(1) Overview of Business Results for this Fiscal Year

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 a funeral business that is largely unaffected by economic trends, (2) the personal publishing service 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.

In March 2018, we launched a business partnership with VRC Co., Ltd., a venture company that develops, manufacturers, and sells full-body 3D scanners and 3D data processing systems based on core technologies for super high-speed 3D data processing.

Following is an overview of the business results for each segment. The results figures for each segment include internal inter-segment sales.

(1) Memorial design service business

In this business, revenue was somewhat below expectations in our primary business areas – processing of photos of the deceased, and video and other funeral production services – however equipment sales were strong and the “Asuka Altar” collaboration product with the aerial imaging business also contributed to sales. In addition, we are utilizing our extensive customer base in the funerals market, and have added a condolence message function to our “tsunagoo” service that connects funeral companies, the bereaved, and mourners, and have been promoting it to funeral companies.

In terms of income, in addition to an increase in personnel costs for image processing operators, shipping expenses were also higher than expected beginning from the 3rd quarter due to price hikes, and segment income fell below expectations.

As a result, sales were 2,524,634 thousand yen (104.0% compared to the previous year) and segment income was 750,399 thousand yen (94.2% compared to the previous year).

(2) Personal publishing service business

This business operates *AsukaBook* for the professional photography market in Japan, and *MyBook* for the general Japanese consumer market. 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 Japan, in addition to acquiring new customers through our own marketing activities, exhibiting at exhibitions, and holding digital photo seminars and workshops across Japan, we also introduced new products and worked to further increase our market penetration. As a result, we achieved strong sales to professional photographers. We also opened a website for our highly popular “Life-Size Baby Photos” service, and worked to expand sales and market presence.

For the general consumer market in Japan, in addition to conducting efficient internet advertising and a variety of campaigns, we also worked to expand the presence of our services by utilizing SNS, exhibiting at the CP+ exhibition, and introducing new products. However we struggled to acquire new customers, 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. As a result, we invested in additional printing equipment and bookbinding equipment in the OEM Division as planned.

In terms of income, despite price hikes that resulted in higher than expected shipping expenses starting from the 3rd quarter, the improved operating rate due in particular to growing OEM sales contributed to the

results, and segment income grew by more than expected.

As a result, sales were 3,271,521 thousand yen (110.8% compared to the previous year) and segment income was 778,088 thousand yen (118.3% compared to the previous year).

(3) 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 the ASKA3D plates which are capable of 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.

Working for completion of the resin ASKA3D plates where we are aiming for high productivity and low cost, we have produced production dies and reviewed the manufacturing process multiple times, and have conducted repeated prototype improvements and other trial-and-error. At last the samples have been completed, and we will be able to start supplying them from June 2018. We will work for the rapid establishment of a mass production system and for further quality improvements.

In terms of marketing, we conducted sales activities by our own marketing staff both in Japan and overseas, and also exhibited at CEATAC and one other exhibition in Japan, and at 3 overseas exhibitions including in the United States and Dubai. In addition, we jointly developed an ATM that uses our ASKA3D plates, and have exhibited it as a potential application at exhibitions in Japan and overseas. There are growing numbers of cases when buyers of ASKA3D plates exhibit their own products and other applications which use the plates. In June of this year, we are planning to participate in an exhibition in Germany.

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 118,204 thousand yen (195.3% compared to the previous year) and segment loss was 250,467 thousand yen (compared to a loss of 183,742 thousand yen in the previous year).

As a result of the above, sales were 5,904,010 thousand yen (108.6% compared to the previous year). For income, despite steady growth in income in the personal publishing business, as a result of a larger loss due to payment of advance expenses in the aerial imaging business, ordinary income was 795,949 thousand yen (98.9% compared to the previous year) and net income was 556,890 thousand yen (97.3% compared to the previous year).

(2) Overview of the Financial Status during this Fiscal Year

(Assets)

Current assets during this fiscal year increased by 99,103 thousand yen from the end of the previous fiscal year to reach 3,408,490 thousand yen. The primary reasons for the increase were an increase in cash and savings of 33,529 thousand yen as a result of strong income results, and an increase in accounts receivable

of 40,740 thousand yen as a result of strong sales.

Fixed assets at the end of this fiscal year increased by 291,547 thousand yen from the end of the previous year to reach 2,307,407 thousand yen. The primary reasons for the increase were an increase in land of 178,805 thousand yen, and an increase in investment securities of 93,500 thousand yen.

(Liabilities)

Current liabilities at the end of this fiscal year decreased by 4,021 thousand yen from the end of the previous fiscal year to reach 704,183 thousand yen. Fixed liabilities at the end of this fiscal year decreased by 1,897 thousand yen from the end of the previous fiscal year to reach 11,700 thousand yen.

(Net assets)

Net assets at the end of this fiscal year increased by 396,569 thousand yen to reach 5,000,014 thousand yen. The primary reason for the increase was an increase in retained earnings of 380,482 thousand yen.

(3) Overview of Cash Flows during this Fiscal Year

The balance of cash and cash equivalents (hereafter referred to as “Funds”) at the end of this fiscal year increased by 33,529 thousand yen from the end of the previous fiscal year to reach 1,706,781 thousand yen. Despite capital investment, software investment, and acquisition of investment securities, this increase was the result of steady acquisition of funds from operating activities due to the strong income results.

(Cash flow from operating activities)

Net funds acquired through operating activities during this fiscal year were 788,191 thousand yen (compared to 818,011 thousand yen in the previous fiscal year). Despite recording payment of 236,814 thousand yen in income taxes, this was the result primarily of net income before taxes of 774,383 thousand yen and depreciation of 309,094 thousand yen.

(Cash flow from investment activities)

Net funds expended through investment activities during this fiscal year were 596,942 million yen (compared to 293,619 million yen during the previous fiscal year. The primary reasons were acquisition of 433,241 thousand yen in tangible fixed assets, acquisition of 58,482 thousand yen in intangible fixed assets, and acquisition of 99,900 thousand yen of investment securities.

(Cash flow from financing activities)

Net funds expended through financing activities during this fiscal year were 157,530 thousand yen (compared to 164,281 thousand yen in the previous fiscal year). The primary reason was the paying of 167,225 thousand yen in dividends.

(4) Future Outlook

Despite signs of recovery including a recovery in corporate earnings and improvement in the employment environment, the outlook for the economy during the coming fiscal year is expected to remain highly unpredictable as a result of unstable overseas economic conditions, primarily in emerging nations.

Under these conditions, our company is operating a business that is consistent with the current times in which services are customized from minimum lot sizes to meet individual needs, and aims to capture stable demand. Both the memorial design service business and personal publishing business have established a solid business foundation and achieved stable income, however we recognize that there are issues from the perspective of further growth and will carry out measures aimed at expanding these business areas. In the aerial imaging business that we are conducting as a new business area, more time has been required than was initially expected. However we expect to make great leaps forward now that we have begun the supply of resin ASKA3D plate samples. We will also continue to challenge ourselves in the development of new business and services.

In the memorial design service business, we will make use of our strengths in image processing

technologies, in-house support systems, and a diverse range of funeral presentation tools to develop new customers and increase the unit price for existing customers. We will be launching a variety of new services under the label of “So-Tech” – IT services for the funeral market.

In the personal publishing business, we will add new product items and improve our photo collection ordering software, and will also hold various seminars and participate in exhibitions, conduct events, and take other steps to capture customers. There has also been strong growth in sales from OEM supply to smartphone users, and we are increasing our production capacity and aiming for further expansion.

In the aerial imaging business, we will address the establishment of a mass production system capable of producing AI plates for aerial imaging at suitable prices. In addition to expanding sales of glass plates primarily for signage applications, we will carry out sample sales of resin plates that we expect to be combined with sensors and incorporated in products. We will actively exhibit at exhibitions in Japan and overseas, and will continue with development investments for further quality improvements aimed at mass production. Based on the above, in the forecast for the fiscal year ending April 30, 2019, we will continue advance investment in areas such as advertising and R&D expenses in the aerial imaging business, and expect to see an overall increase in shipping and other expenses. In terms of sales, we expect strong growth in each business, and will focus our sales efforts primarily on the resin plates in the aerial imaging business. We are forecasting sales of 6,111 million yen (103.5% compared to the current year), operating income of 806 million yen (102.2%), ordinary income of 811 million yen (101.9%), and net income of 567 million yen (101.8%).

In addition, various matters in the personal publishing business, such as overseas markets and general consumer markets, contain elements of uncertainty. Because sales in overseas markets are conducted in the local currencies, they are susceptible to the effects of changing exchange rates. The aerial imaging business and other new business areas also involve technological research and marketing that we have not engaged in before, and many uncertain elements are involved in its commercialization.

Note: The above forecast was created based on information available at the time this material was released, and actual results may differ from the forecast values due to a variety of factors.

2. Financial Statements for the fiscal year ended April 30, 2018

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2017)	Current fiscal year (ended April 30, 2018)
Assets		
Current assets		
Cash and deposits	2,278,251	2,311,781
Notes receivable-trade	1,320	594
Accounts receivable-trade	685,197	725,937
Merchandise and products	166,123	191,123
Work in progress	12,038	14,325
Raw materials and supplies	56,972	62,206
Prepaid expenses	46,499	31,289
Deferred tax assets	62,466	71,581
Others	3,682	2,269
Allowance for doubtful accounts	(3,163)	(2,617)
Total current assets	3,309,387	3,408,490
Fixed assets		
Tangible fixed assets		
Buildings	851,713	895,176
Total depreciation	(351,963)	(382,618)
Buildings, net	499,750	512,558
Constructs	17,643	17,643
Total depreciation	(10,766)	(11,485)
Constructs, net	6,877	6,157
Machinery and equipment	1,359,354	1,407,637
Total depreciation	(936,738)	(1,011,099)
Machinery and equipment, net	422,616	396,538
Vehicles	9,661	9,661
Total depreciation	(957)	(2,786)
Vehicles, net	8,704	6,875
Tools, furniture and fixtures	330,564	352,591
Total depreciation	(195,653)	(217,329)
Tools, furniture and fixtures, net	134,911	135,261
Land	432,702	611,507
Construction materials in progress	—	24,407
Total tangible fixed assets	1,505,562	1,693,306
Intangible fixed assets		
Patent application	24,082	20,603
Software	186,476	180,165
Others	1,314	6,082
Total intangible fixed assets	211,874	206,851

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2017)	Current fiscal year (ended April 30, 2018)
Investments and other assets		
Investment securities	147,100	240,600
Paid capital	10	10
Long term loan to employees	400	—
Long term pre-paid expenses	5,620	3,390
Deferred tax assets	10,503	22,499
Others	134,790	140,748
Allowance for doubtful accounts	(1)	—
Total investments and other assets	298,423	407,248
Total fixed assets	2,015,859	2,307,407
Total assets	5,325,247	5,715,897
Liabilities		
Current liabilities		
Accounts payable-trade	118,905	126,270
Accounts payable	143,049	162,361
Accrued expenses	67,998	72,320
Income taxes payable	143,270	137,900
Advances received	26,171	16,526
Deposits received	11,759	11,991
Provision for bonuses	129,000	136,500
Others	68,050	40,313
Total current liabilities	708,204	704,183
Fixed liabilities		
Provision for retirement benefits	6,482	6,482
Others	7,115	5,217
Total fixed liabilities	13,597	11,700
Total liabilities	721,802	715,883
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus		
Capital reserves	606,585	606,585
Total capital surplus	606,585	606,585
Retained earnings		
Retained reserves	1,693	1,693
Other Retained earnings		
Deferred retained earnings	3,801,408	4,181,890
Total Retained earnings	3,803,101	4,183,583
Treasury stock	(309,764)	(285,940)
Total shareholders' equity	4,590,222	4,994,527
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,579	3,129
Total valuation and translation adjustments	7,579	3,129
Subscription rights to shares	5,642	2,356
Total net assets	4,603,444	5,000,014
Total liabilities and net assets	5,325,247	5,715,897

(2) Profit and loss statement

(unit:1000s yen)

	22nd fiscal year (May 1, 2016-April 30, 2017)	23rd fiscal year (May 1, 2017-April 30, 2018)
Net Sales		
Sales from service	1,643,427	1,674,315
Sales of products	3,032,106	3,420,030
Sales of goods	762,665	809,664
Total sales	5,438,199	5,904,010
Cost of sales		
Cost of service	712,517	773,678
Cost of products sales		
Stock of products at beginning of the year	52,341	107,183
Cost of products sales during year	1,501,278	1,591,772
Total	1,553,620	1,698,955
Transfer to other accounts	35,885	20,995
Stock of products at year end	107,183	129,141
Cost of products sales	1,410,551	1,548,818
Cost of goods sales		
Stock of goods at beginning of the year	71,594	58,940
Cost of goods sales during year	505,929	562,819
Total	577,524	621,759
Transfer to other accounts	15,730	18,976
Stock of goods at year end	58,940	61,981
Cost of goods sales	502,853	540,800
Total cost of sales	2,625,921	2,863,298
Gross profit	2,812,277	3,040,712
Selling, general, and administrative expenses	2,011,472	2,252,012
Operating income	800,804	788,700
Non-operating income		
Interest received	1,060	520
Dividends received	1,161	1,060
Commissions received	545	412
Revenue from insurance	—	3,999
Foreign exchange gains	—	14
Gain on forfeiture of unclaimed dividends	354	825
Others	869	415
Total non-operating income	3,990	7,249
Non-operating expenses		
Foreign exchange losses	178	—
Total non-operating expenses	178	—
Ordinary income	804,617	795,949
Extraordinary losses		
Loss on retirement of fixed assets	2,904	21,566
Total extraordinary losses	2,904	21,566
Net income before taxes	801,712	774,383
Current income taxes etc.	227,786	236,653
Income tax adjustment	1,613	(19,161)
Income taxes	229,399	217,492
Net income	572,312	556,890

(3) Statement of cash flows

(unit:1000s yen)

	22nd fiscal year (May 1, 2016-April 30, 2017)	23rd fiscal year (May 1, 2017-April 30, 2018)
Cash flows from operating activities		
Net income before taxes	801,712	774,383
Depreciation expenses	309,336	309,094
Increase (decrease) in allowance for doubtful accounts	567	489
Increase (decrease) in provision for bonuses	(700)	7,500
Increase (decrease) in provision for retirement benefits	(151)	—
Interest and dividends received	(2,221)	(1,581)
Foreign exchange losses (gains)	2	189
Loss on retirement of fixed assets	2,904	21,566
Decrease (increase) in notes and accounts receivable-trade	(77,187)	(41,133)
Decrease (increase) in inventory assets	(47,054)	(32,520)
Increase (decrease) in accounts payable-trade	(4,808)	7,365
Increase (decrease) in accrued consumption taxes	18,769	(27,773)
Others	32,198	6,065
Subtotal	1,033,368	1,023,643
Interest and dividends received	2,231	1,362
Income taxes paid	(217,589)	(236,814)
Cash flows due to operating activities	818,011	788,191
Cash flows from investing activities		
Purchase of tangible fixed assets	(102,685)	(433,241)
Purchase of intangible fixed assets	(88,988)	(58,482)
Purchase of investment securities	(99,000)	(99,900)
Collection of loans receivable	1,440	1,440
Payments into time deposits	(605,000)	(605,000)
Proceeds from withdrawal of time deposits	605,000	605,000
Others	(4,386)	(6,758)
Cash flows from investing activities	(293,619)	(596,942)
Cash flows from financing activities		
Cash dividends paid	(166,410)	(167,225)
Purchase of treasury stock	2,604	11,592
Others	(474)	(1,897)
Cash flows from financing activities	(164,281)	(157,530)
Effect of exchange rate on cash and cash equivalents	(2)	(189)
Net increase (decrease) in cash and cash equivalents	360,107	33,529
Balance of cash and cash equivalents at beginning of year	1,313,143	1,673,251
Balance of cash and cash equivalents at end of year	1,673,251	1,706,781

(4) Notes Regarding the Financial Statements

(Segment information etc.)

Information related to the amounts of sales, income or loss, assets, liabilities, and other items for each reporting segment.

Year 22 (May 1, 2016 – April 30, 2017)

Units: Thousands yen

	Reporting segment				Adjustment	Amount recorded in financial statements
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	2,427,256	2,951,308	59,634	5,438,199	—	5,438,199
Inter-segment internal sales and transfers	—	—	900	900	(900)	—
Total	2,427,256	2,951,308	60,534	5,439,099	(900)	5,438,199
Segment income (loss)	796,315	657,557	(183,742)	1,270,130	(469,325)	800,804
Other items						
Depreciation expenses	21,057	251,170	11,610	283,838	25,498	309,336

Year 23 (May 1, 2017 – April 30, 2018)

Units: Thousands yen

	Reporting segment				Adjustment	Amount recorded in financial statements
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	2,524,634	3,271,521	107,854	5,904,010	—	5,904,010
Inter-segment internal sales and transfers	—	—	10,350	10,350	(10,350)	—
Total	2,524,634	3,271,521	118,204	5,914,360	(10,350)	5,904,010
Segment income (loss)	750,399	778,088	(250,467)	1,278,019	(489,318)	788,700
Other items						
Depreciation expenses	25,940	234,820	17,701	278,463	30,630	309,094

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