

Fund Corporation for the Overseas Development
of Japan's ICT and Postal Services Inc.
(Japan ICT Fund)

Financial Statements

For the 3rd fiscal year
From April 1, 2017 to March 31, 2018

Independent Auditor's Report
(Translation)

May 28, 2018

To the Board of Directors of
Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.

BDO Toyo & Co.
Akihiro Tanaka
Designated Partner
Engagement Partner
Certified Public Accountant

Hiroaki Izawa
Designated Partner
Engagement Partner
Certified Public Accountant

We have audited the accompanying financial statements of Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc. (the "Company") for the 3rd fiscal year from April 1, 2017 to March 31, 2018, which comprise the balance sheet, the statement of operations and changes in equity, the notes to financial statements and the supporting schedules, in accordance with item 1, paragraph 2 of Article 436 of the Companies Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and the related supporting schedules in accordance with accounting principles generally accepted in Japan. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements and the related supporting schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the related supporting schedules based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supporting schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supporting schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supporting schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the related supporting schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supporting schedules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements and the related supporting schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Conflict of Interest

Our firm or the engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Balance Sheet

(As of March 31, 2018)

(Thousands of yen)

Assets		Liabilities and net assets	
(Assets)		(Liabilities)	
Current assets:	4,889,245	Current liabilities:	73,320
Cash and deposits	2,987,910	Accounts payable-Other	13,183
Operational investment securities	956,430	Income taxes payable	25,219
Operating loans	885,217	Provision for bonuses	21,362
Other	59,687	Other	13,555
Non-current assets:	1,584,031	Total liabilities	73,320
Property and equipment:	30,924	(Net assets)	
Buildings	22,184	Shareholders' equity:	6,422,546
Tools, furniture and fixtures	33,806	Capital stock	4,478,500
Accumulated depreciation	△ 25,066	Capital surplus:	4,478,500
Intangible assets:	5,292	Legal capital surplus	4,478,500
Software	3,726	Retained earnings:	△ 2,534,453
Other	1,565	Other retained earnings:	△ 2,534,453
Investments and other assets:	1,547,814	Retained earnings brought forward	△ 2,534,453
Investments in capital of subsidiaries and associates	1,520,699	Valuation and translation adjustments:	△ 22,590
Lease deposits	22,329	Valuation difference on available-for-sale securities	△ 22,590
Claims provable in bankruptcy, claims provable in rehabilitation and other	100,271		
Allowance for doubtful accounts	△ 97,253		
Other	1,768	Total net assets	6,399,956
Total assets	6,473,276	Total liabilities and net assets	6,473,276

Amounts of less than 1 thousand yen are rounded off.

Statement of Operations

(From April 1, 2017 to March 31, 2018)

(Thousands of yen)

Net sales		141,866
Cost of sales		1,297,253
Gross loss		1,155,386
Selling, general and administrative expenses		619,630
Operating loss		1,775,017
Non-operating income		
Interest income	2,015	
Miscellaneous income	15,725	17,740
Non-operating expenses		
Share issuance costs	5,529	
Foreign exchange losses	44,536	50,065
Ordinary loss		1,807,341
Loss before income taxes		1,807,341
Income taxes		1,210
Net loss		1,808,551

Amounts of less than 1 thousand yen are rounded off.

Statement of Changes in Equity

(From April 1, 2017 to March 31, 2018)

(Thousands of yen)

	Shareholders' equity				Valuation and translation adjustments	Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity	Valuation difference on available-for-sale securities	
		Legal capital surplus	Other retained earnings			
			Retained earnings brought forward			
Balance at April 1, 2017	3,703,500	3,703,500	Δ 725,902	6,681,097	-	6,681,097
Changes of items during period						
Issuance of common stock	775,000	775,000	-	1,550,000	-	1,550,000
Net loss	-	-	Δ 1,808,551	Δ 1,808,551	-	Δ 1,808,551
Net changes of items other than shareholders' equity	-	-	-	-	Δ 22,590	Δ 22,590
Total changes of items during period	775,000	775,000	Δ 1,808,551	Δ 258,551	Δ 22,590	Δ 281,141
Balance at March 31, 2018	4,478,500	4,478,500	Δ 2,534,453	6,422,546	Δ 22,590	6,399,956

Amounts of less than 1 thousand yen are rounded off.

Notes to Financial Statements

Amounts of less than 1 thousand yen are rounded off.

1. Significant Accounting Policies

(1) Basis and method of valuation of securities

- ① Available-for-sale securities (including operational investment securities)

Securities without market quotations:

Stated at cost determined by the moving-average method

- ② Investments in capital of subsidiaries and associates

Securities without market quotations:

Stated at cost determined by the moving-average method

(2) Depreciation method of non-current assets

- ① Property and equipment (excluding leased assets)

Depreciation is provided by the declining-balance method, except for the buildings, building facilities and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method.

The useful lives adopted for major assets are as follows:

Buildings (Building facilities):	8-20 years
Tools, furniture and fixtures:	3-15 years

- ② Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

The useful lives adopted for major assets are as follows:

Trademark right:	10 years
Computer software for internal use:	5 years

(3) Amortization method of deferred assets

Share issuance costs are processed as expenses in full amount when incurred.

(4) Accounting for provisions

- ① Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical bad debt experience for general accounts, and the amount deemed necessary to cover individual accounts estimated to be

uncollectible for specific accounts including claims provable in bankruptcy, claims provable in rehabilitation and other.

② Provision for bonuses

For payment of employees' bonuses, provision is provided for the portion of the total anticipated bonuses that is attributable to the fiscal year.

(5) Accounting for income and expenses

Net sales and cost of sales

Commission income and interest income, etc. are recorded in net sales.

Valuation loss and provision of allowance for doubtful accounts, etc. are recorded in cost of sales.

(6) Other significant matters which constitute the basis for preparation of the financial statements

Accounting for consumption taxes

Consumption taxes are excluded in transaction amounts.

2. Changes in Accounting Policies

There are no items to be disclosed.

3. Notes to balance sheet

There are no items to be disclosed.

4. Notes to statement of operations

There are no items to be disclosed.

5. Notes to statement of changes in equity

Class and number of shares at the end of the fiscal year:

Common stock	172,880 shares
Class A preferred stock	6,260 shares

6. Notes to taxes effect accounting

Main sources of deferred tax assets:

Deferred tax assets:

Operational investment securities	356,879 thousand yen
Operating loans	3,756 thousand yen
Accrued enterprise taxes	7,140 thousand yen
Allowance for doubtful accounts	28,923 thousand yen

Lump-sum depreciable asset	380 thousand yen
Provision for bonuses	6,353 thousand yen
Loss carryforwards	346,829 thousand yen
Other	<u>1,958 thousand yen</u>
Subtotal	752,218 thousand yen
Valuation Allowance	<u>△ 752,218 thousand yen</u>
Total	<u><u>— thousand yen</u></u>

7. Notes to financial instruments

(1) States of financial instruments

① Management policy on financial instruments

The Company conducts investment activities based on the standards stipulated in the Act on Fund Corporation for the Overseas Development of Japan's ICT and Postal Services. To conduct investment activities, the Company raises the necessary funds by equity capital and issuance of Government-Guaranteed Bonds, etc.

Regarding fund management, the Company invests only in short-term deposits and investment securities (certificates of deposit) to secure liquidity and safety of funds.

② Features and risks of financial instruments

Operating loans are exposed to customer credit risk.

Operational investment securities are mainly unlisted stocks and are exposed to credit risk of the investees.

③ Risk management of financial instruments

i) Management of credit risk

With regard to operating loans, the Company timely and regularly monitors the business conditions of the investees and seeks to promptly identify and reduce concerns over the collection due to the deterioration in their financial positions, etc.

With regard to operational investment securities, the Company timely and regularly monitors the business conditions of the investees and makes efforts to promptly identify deterioration of their financial conditions and deviation from their business plan, etc.

ii) Management of liquidity risk relating to financing

The Company controls liquidity risks by monitoring deposits and payments, and preparing the statement of cash positions regularly.

④ Supplementary explanation regarding the fair value of financial instruments

The fair value of financial instruments is based on market prices or reasonable calculations in the absence of market prices.

(2) Fair value of financial instruments

Book value, fair value and the difference between them as of March 31, 2018 are as follows. Financial instruments of which the fair value is extremely difficult to measure are not included below.

(Thousands of yen)

	Book value	Fair value	Difference
Cash and deposits	2,987,910	2,987,910	—
Operating loans	885,217	885,217	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	100,271	—	—
Allowance for doubtful accounts	△ 97,253	—	—
	3,017	3,017	—

(Note 1) Fair value measurement of financial instruments

① Cash and deposits:

The book value approximates fair value due to the short term settlements.

② Operating loans

The fair value of operating loans is calculated by discounting the sum of its principal and interest at an interest rate at which a similar new loan transaction is assumed to be made.

③ Claims provable in bankruptcy, claims provable in rehabilitation and other

The amounts for probable doubtful accounts are calculated based on the recoverable amount.

The balance sheet amounts at the closing date less the currently estimated amounts for probable doubtful accounts are approximate to their fair value, and thus stated as such.

(Note 2) Financial instruments of which the fair value is extremely difficult to measure are as follows:

(Thousands of yen)

	Book value
Operational investment securities	956,430
Investments in capital of subsidiaries and associates	1,520,699

In the fiscal year, impairment loss of 1,199,999 thousand yen was recorded for operational investment securities.

(Note 3) Future redemption of financial assets with maturities are as follows:

(Thousands of yen)

	Within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	2,987,910	—	—	—
Operating loans	—	—	885,217	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	3,017	—	—	—

8. Notes to related party transactions

(1) The Company directors and principal shareholders, etc.

(Thousands of yen)

Attribution	Name	Percentage of voting rights ,etc.	Relationship	Nature of transactions	Transaction amounts	Accounting classification	Year-end balance
Principal shareholder	Minister of Finance	Owned directly 73.37%	Investments in capital	Investments in capital (Note 1)	1,550,000	—	—

Business conditions and policy for determining the business conditions:

(Note 1) Minister of Finance acquired shares issued by the Company in the amount of ¥50 thousand per share.

(2) Subsidiaries and associates

(Thousands of yen)

Attribution	Name	Percentage of voting rights ,etc.	Relationship	Nature of transactions	Transaction amounts	Accounting classification	Year-end balance
Associate	Dream Vision Co., Ltd.,	Owned directly 47.11%	Investments in capital	Investments in capital (Note 2)	1,520,699	Investments in capital of subsidiaries and associates	1,520,699

(Note 2) The Company paid ¥7,126 thousand and US\$14,180 thousand as investment in capital of the associate.

9. Notes to per share information

Net assets per share ¥35,209.14

Net loss per share ¥10,905.99

(Note 1)

Diluted net loss per share is not presented as net loss per share is recorded despite the existence of residual shares.

(Note 2)

The basis for calculation of net loss per share is as follows:

Net loss	1,808,551	thousand yen
Amount not attributable to ordinary shareholders	—	
Net loss relating to common stock	1,808,551	thousand yen
Average number of shares of common stock during the period	165,831	shares

10. Notes to significant subsequent events

There are no items to be disclosed.