

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

Financial Statements

For the 4th fiscal year
From April 1, 2018 to March 31, 2019

Independent Auditors' Report
(Translation)

May 27, 2019

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

Crowe 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 4th fiscal year from April 1, 2018 to March 31, 2019, 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 item1, 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, 2019, 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, 2019)

(Thousands of yen)

Assets		Liabilities and net assets	
(Assets)		(Liabilities)	
Current assets:	25,176,388	Current liabilities:	13,841,903
Cash and deposits	2,088,705	Short-term borrowings	13,500,000
Operational investment securities	19,691,890	Accounts payable-Other	253,462
Operating loans	3,305,064	Income taxes payable	58,742
Other	90,728	Provision for bonuses	15,631
Non-current assets:	1,571,265	Other	14,068
Property and equipment:	24,357	Total liabilities	13,841,903
Buildings	22,184	(Net assets)	
Tools, furniture and fixtures	33,806	Shareholders' equity:	13,003,280
Accumulated depreciation	△ 31,633	Capital stock	8,078,500
Intangible assets:	3,788	Capital surplus:	8,078,500
Software	2,405	Legal capital surplus	8,078,500
Other	1,382	Retained earnings:	△ 3,153,719
Investments and other assets:	1,543,119	Other retained earnings:	△ 3,153,719
Investments in capital of subsidiaries and associates	1,520,699	Retained earnings brought forward	△ 3,153,719
Lease deposits	21,485	Valuation and translation adjustments:	△ 97,530
Other	935	Valuation difference on available-for-sale securities	△ 97,530
		Total net assets	12,905,750
Total assets	26,747,654	Total liabilities and net assets	26,747,654

Amounts of less than 1 thousand yen are rounded off.

Statement of Operations

(From April 1, 2018 to March 31, 2019)

(Thousands of yen)

Net sales		152,742
Cost of sales		0
Gross profit		152,742
Selling, general and administrative expenses		801,395
Operating loss		648,653
Non-operating income		
Interest income	209	
Foreign exchange gains	52,427	
Miscellaneous income	4,847	57,483
Non-operating expenses		
Interest expenses	1,686	
Share issuance costs	25,200	26,886
Ordinary loss		618,055
Loss before income taxes		618,055
Income taxes		1,210
Net loss		619,265

Amounts of less than 1 thousand yen are rounded off.

Statement of Changes in Equity

(From April 1, 2018 to March 31, 2019)

(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, 2018	4,478,500	4,478,500	△ 2,534,453	6,422,546	△ 22,590	6,399,956
Changes of items during period						
Issuance of common stock	3,600,000	3,600,000	-	7,200,000	-	7,200,000
Net loss	-	-	△ 619,265	△ 619,265	-	△ 619,265
Net changes of items other than shareholders' equity	-	-	-	-	△ 74,940	△ 74,940
Total changes of items during period	3,600,000	3,600,000	△ 619,265	6,580,734	△ 74,940	6,505,794
Balance at March 31, 2019	8,078,500	8,078,500	△ 3,153,719	13,003,280	△ 97,530	12,905,750

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 from transaction amounts.

2. Changes in Accounting Policies

There are no items to be disclosed.

3. Notes to change in presentation

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 dated February 16, 2018) and relevant Guidances effective from the beginning of the current fiscal year.

4. Notes to balance sheet

There are no items to be disclosed.

5. Notes to statement of operations

There are no items to be disclosed.

6. Notes to statement of changes in equity

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

Common stock	316,880 shares
Class A preferred stock	6,260 shares

7. Notes to taxes effect accounting

Main sources of deferred tax assets:

Deferred tax assets:

Accrued enterprise taxes	17,616 thousand yen
Provision for bonuses	4,786 thousand yen
Loss carryforwards	950,903 thousand yen
Other	<u>2,067 thousand yen</u>
Subtotal	975,372 thousand yen
Valuation allowance for net operating losses carryforward	△ 950,903 thousand yen
Valuation allowance for total deductible temporary difference, etc.	<u>△ 24,469 thousand yen</u>
Subtotal of valuation allowance	<u>△ 975,372 thousand yen</u>
Total	<u><u>— thousand yen</u></u>

8. 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.

Operating loans, operational investment securities and investment in capital of subsidiaries and associates which are denominated in foreign currencies are exposed to the risk of exchange fluctuations.

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.

iii) Management of exchange fluctuation risk to operating loans, operational investment securities and investment in capital of subsidiaries and associates which are denominated in foreign currencies.

The Company controls exchange fluctuation risks regarding operating loans, operational investment securities and investment in capital of subsidiaries and associates which are denominated in foreign currencies by continuously monitoring exchange rate fluctuations.

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, 2019 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	2,088,705	2,088,705	—
Operating loans	3,305,064	3,305,064	—
Short-term borrowings	13,500,000	13,500,000	—

(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 Short-term borrowings

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

(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	19,691,890
Investments in capital of subsidiaries and associates	1,520,699

(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	2,088,705	—	—	—
Operating loans	—	3,305,064	—	—

9. Notes to related party transactions

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 85.24%	Investments in capital	Investments in capital (Note)	7,200,000	—	—

Business conditions and policy for determining the business conditions:

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

10. Notes to per share information

Net assets per share ¥39,739.80

Net loss per share ¥3,286.62

(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	619,265	thousand yen
Amount not attributable to ordinary shareholders	—	
Net loss relating to common stock	619,265	thousand yen
Average number of shares of common stock during the period	188,420	shares

11. Notes to significant subsequent events

Third-party allotment

(1) At the Board of Directors meeting held on March 12, 2019, the Company resolved issuance of new shares by third-party allotment and the payment was completed on April 19, 2019, as below.

① Class and number of shares issued	Common stock	270,000 shares
② Amount to be paid in	¥50,000 per share	
③ Total amount to be paid in	¥13,500,000,000	
④ Total of increased capital stock and legal capital surplus	Total of increased capital stock	¥6,750,000,000
	Total of increased legal capital surplus	¥6,750,000,000
⑤ Payment period	From April 15, 2019 to April 19, 2019	
⑥ Method of offering	Assign to the following third-party by third-party allotment	
	Minister of Finance	270,000 shares
⑦ Condition of allotment	Conditions for applying for underwriting from the above third-party	
⑧ Reasons of offering	Funds for target project support	

(2) On April 26, 2019, in accordance with Article 370 of the Companies Act, the Company considered that the Board of Directors issued new shares through third-party allotment as follows and payment was completed on May 23, 2019.

As a result, the capital stock is 15,068,500,000 yen and the total number of issued shares is 602,740.

① Class and number of shares issued	Common stock	9,600 shares
② Amount to be paid in	¥50,000 per share	
③ Total amount to be paid in	¥480,000,000	
④ Total of increased capital stock and legal capital surplus	Total of increased capital stock	¥240,000,000
	Total of increased legal capital surplus	¥240,000,000
⑤ Payment period	From May 21, 2019 to May 23, 2019	

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|--------------------------|--|
| ⑥ Method of offering | Assign to the following third-party by third-party allotment
Minister of Finance 9,600 shares |
| ⑦ Condition of allotment | Conditions for applying for underwriting from the above third-party |
| ⑧ Reasons of offering | Funds for target project support |