July 27, 2018

SoftBank Technology Corp.
Consolidated Financial Report for the First Quarter of Fiscal Year Ending March 31, 2019 (Three Months Ended June 30, 2018)

[Japanese GAAP]

Company name: SoftBank Technology Corp. (Tokyo Stock Exchange/Code No. 4726)
(URL http://www.softbanktech.co.jp/)
Representative: Shinichi Ata, President & CEO
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Scheduled date of filing of Quarterly Report: August 13, 2018
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2018 (April 1, 2018 – June 30, 2018)

(1) Consolidated Results of Operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2018	12,258	1.1	450	396.2	431	448.9	256	2,007.2
Three months ended Jun. 30, 2017	12,126	13.6	90	(62.0)	78	(66.4)	12	(90.9)

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2018: 257 (up 1,010.2%)
Three months ended Jun. 30, 2017: 23 (down 78.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2018	12.95	12.73
Three months ended Jun. 30, 2017	0.62	0.60

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2018	25,502	14,351	52.8	684.48
As of Mar. 31, 2018	26,153	14,532	52.5	693.64

Reference: Shareholders' equity (million yen) As of Jun. 30, 2018: 13,459 As of Mar. 31, 2018: 13,723

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	0.00	-	15.00	15.00
Fiscal year ending Mar. 31, 2019	-				
Fiscal year ending Mar. 31, 2019 (forecast)		0.00	-	15.00	15.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	52,000	5.8	2,500	14.9	2,500	4.2	1,600	2.8	80.91

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

i. Changes in accounting policies due to revisions in accounting standards, others: Yes

ii. Changes in accounting policies other than i. above: Yes

iii. Changes in accounting estimates: None

iv. Restatements: None

(4) Number of outstanding shares (common stock)

i. Number of shares outstanding at the end of the period (including treasury shares)

As of Jun. 30, 2018:	22,165,200 shares	As of Mar. 31, 2018:	22,085,600 shares

ii. Number of treasury shares at the end of the period

As of Jun. 30, 2018:	2,501,242shares	As of Mar. 31, 2018:	2,301,242shares

iii. Average number of shares outstanding during the period

Three months ended Jun. 30, 2018:	19,774,835 shares	Three months ended Jun. 30, 2017:	19,689,224shares

* This consolidated financial report is not subject to quarterly review procedures by a certified public accountant or audit company.

* Explanation for appropriate use of operating forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts regarding future performance in this report are based on assumptions based upon valid and other reasonable information available to the Company at the time this report was created. This report is not promises by the Company regarding future performance. The actual performance may differ significantly from these forecasts for a variety of reasons.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (July 27, 2018), using the Timely Disclosure network (TDnet), and will be available on the Company’s website (http://www.softbanktech.co.jp/corp/ir/).

○Appendix

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1. Qualitative Information on Financial Results of the Period Under Review

(1) Explanation of business results

In the second three-year plan (for the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019), the Company has set the basic strategies of "cloud integration," "IoT business development" and "build a solid profit structure" based on the slogan of becoming a "business partner of customers." The Company operates business while striving to achieve the key themes based on these strategies.

Topics in the three-month period under review

・Good beginning of the three businesses of focus (cloud, security and big data)

Currently, the Company has set total net sales of the three businesses of focus as an important management indicator. Designating the first fiscal year of the first three-year plan (for the fiscal year ended March 31, 2014 to the fiscal year ended March 31, 2016), when we set the areas of focus as a starting point, we aim to expand business at a compound average growth rate (CAGR) of 20% or more. The total net sales of the three businesses of focus in the three-month period under review grew 27.6% year on year as a result of the strong performance of cloud solutions and security solutions, and this also contributed to improvements in marginal profit and the marginal profit ratio of the SoftBank Technology Group ("the Group").

・Change of business model in the font business

The sales method of font licenses, which is the core service of Fontworks Inc., a subsidiary of the Company, has been changed. While in the past, data media on which the fonts were stored was shipped after an application for the font service was made, it has been changed to a method of downloading the data media from a website. With the past sales method, the timing of purchasing and renewing an annual license placed a disproportionate weight on the fourth quarter (January to March) immediately before the first month of the service, because customers used the effective fonts from April. However, as a result of changing it to the download method, purchase and renewal increased in the first quarter, when the service begins to be used.

・A decline in net sales and an improvement in the marginal profit ratio due to the termination of the sale of certain hardware

In the second quarter of the previous year, the Company terminated the sale of certain hardware that had difficulty creating and maintaining added value. As a result, net sales in IT infrastructure solutions declined year on year, but the marginal profit ratio improved significantly.

As a result of the above, the financial results for the three-month period under review saw net sales and income increase. In addition, the progress rate in the three-month period under review in comparison with the results forecast for the current fiscal year also improved.

(Millions of yen) (Yen)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
Three months ended June 30, 2018	12,258	450	431	256	12.95
Three months ended June 30, 2017	12,126	90	78	12	0.62
Change (Ratio)	1.1%	396.2%	448.9%	2,007.2%	1,998.1%
(Reference) Fiscal year ended March 31, 2018	49,140	2,176	2,399	1,556	79.09

(a) Net sales

Net sales stood at 12,258 million yen, an increase of 132 million yen (1.1%) from the same period of the previous year. While net sales declined in IT infrastructure solutions due to the termination of the sale of certain hardware, overall net sales increased due to steady growth in development in cloud solutions and operation/maintenance service projects.

(b) Marginal profit (Note)

Marginal profit was 3,406 million yen, an increase of 421 million yen (14.1%) year on year. Marginal profit increased due to the growth of cloud development and operation/maintenance service projects and the change of the business model at the subsidiary Fontworks Inc. The marginal profit ratio also improved due to the termination of the sale of certain hardware.

(Note) Marginal profit = Net sales – Variable costs (cost of merchandise, subcontractor costs, distribution expenses and other items that increase and decrease with sales)

(c) Fixed costs

Fixed costs increased to 2,955 million yen, up 62 million yen (2.2%) year on year. This was mainly due to an increase in personnel expenses caused by strengthened recruitment activities.

(d) Operating income

As a result of the above, operating income rose to 450 million yen, up 359 million yen (396.2%) year on year.

(e) Non-operating income and expenses

Net non-operating expenses were 18 million yen, an increase of 6 million yen (51.8%) in expenses year on year. This was mainly attributable to a rise in the share of the loss of entities accounted for using the equity method.

(f) Ordinary income

As a result of items (d) to (e), ordinary income came to 431 million yen, an increase of 353 million yen (448.9%) year on year.

(g) Extraordinary income and losses

Extraordinary income and losses were not posted (as in the same period of the previous year).

(h) Profit before income taxes

As a result of items (f) to (g), profit before income taxes rose to 431 million yen, up 353 million yen (448.9%) year on year.

(i) Total income taxes

Total income taxes increased 115 million yen (214.0%) year on year, to 170 million yen.

(j) Profit attributable to owners of parent

As a result of items (h) to (i), profit attributable to owners of parent increased 243 million yen (2,007.2%) year on year, to 256 million yen.

The Company has only a single business segment, which is the ICT services business. The following table shows the earnings from the primary components of this business segment. Note that some service categories have changed their names in the first quarter.

<table>
<tr><th colspan="2">Segment</th><th>Service category</th><th>Main services</th><th>Core companies</th></tr>
<tr><td rowspan="6">Reportable segment</td><td rowspan="6">ICT Services</td><td rowspan="2">Digital marketing</td><td>E-commerce services</td><td rowspan="2">- SoftBank Technology Corp.
- Fontworks Inc.
- Kan Corporation</td></tr>
<tr><td>Data analytics</td></tr>
<tr><td rowspan="2">Platform solutions</td><td>IT infrastructure solutions</td><td rowspan="2">- SoftBank Technology Corp.
- Cybertrust Japan Co., Ltd.</td></tr>
<tr><td>Security solutions</td></tr>
<tr><td rowspan="2">Cloud systems</td><td>System integration</td><td rowspan="2">- SoftBank Technology Corp.
- M-SOLUTIONS, Inc.
- ASORA Tech Corp.
- REDEN Corp</td></tr>
<tr><td>Cloud solutions</td></tr>
</table>

a. Digital marketing

(Millions of yen)

		Three-month period ended June 30, 2017	Three-month period ended June 30, 2018	Change (Amount)	Change (Ratio)
Digital marketing	Net sales	5,388	5,683	295	5.5%
	Marginal profit	753	923	169	22.6%
	Profit margins	14.0%	16.2%	2.2pt.	－
E-commerce services	Net sales	4,882	5,241	359	7.4%
	Marginal profit	569	776	206	36.3%
	Profit margins	11.7%	14.8%	3.1 pt.	－
Data analytics	Net sales	505	441	△64	△12.7%
	Marginal profit	183	146	△36	△20.1%
	Profit margins	36.3%	33.2%	△3.1 pt.	－

<Major services in the digital marketing business>

・E-commerce services

The operation of Symantec Stores as an agent, the development and sale of font sets, and the provision of web fonts and web font platform services.

・Data analytics

The construction of website content management systems and the provision of access log analysis, BI tools for collecting, processing and analyzing data, and associated consulting services.

<Results of operations of the digital marketing business>

In the digital marketing business, both net sales and marginal profit increased from the same period of the previous year.

In E-commerce services, the Symantec business remained firm. In addition, as a result of an initiative of the subsidiary Fontworks Inc. to change the sales method of font licenses to downloading, net sales increased in the subsidiary in the three-month period under review, which contributed to an improvement in the marginal profit of the Company.

In data analytics, sales of website access analysis tools declined.

b. Platform solutions

(Millions of yen)

		Three-month period ended June 30, 2017	Three-month period ended June 30, 2018	Change (Amount)	Change (Ratio)
Platform solutions	Net sales	3,446	2,669	△777	△22.6%
	Marginal profit	1,130	1,202	72	6.4%
	Profit margins	32.8%	45.1%	12.3pt.	－
IT infrastructure solutions	Net sales	2,463	1,448	△1,015	△41.2%
	Marginal profit	628	554	△73	△11.7%
	Profit margins	25.5%	38.3%	12.8pt.	－
Security solutions	Net sales	983	1,221	237	24.2%
	Marginal profit	501	647	145	29.1%
	Profit margins	51.0%	53.0%	2.0pt.	－

<Major services in the platform solutions business>

・IT infrastructure solutions

The sale of servers and network equipment, the construction of IT infrastructure, and the provision of operation and maintenance services, Linux OS and digital signage systems, integrated monitoring tools and support services.

・Security solutions

The provision of security operation services, the sale and introduction of vulnerability diagnostic tests and products to protect against targeted attacks, and the provision of encryption and authentication services using e-certification, and comprehensive solutions that combine other security products.

<Results of operations of the platform solutions business>

In the platform solutions business, net sales decreased, but marginal profit increased from the same period of the previous year.

In IT infrastructure solutions, net sales declined, but the marginal profit ratio improved significantly as a result of terminating the sale of certain hardware that had difficulty providing added value continuously in the second quarter of the previous year.

In security solutions, security operation monitoring services and the authentication security business of our subsidiary Cybertrust Japan Co., Ltd. remained strong. In addition, demand for web security measures against cyber attacks, which are expected to increase toward the Tokyo 2020 Olympic and Paralympic Games, and demand for security operation services to respond early to and recover from attacks and hacking by hackers and secure human resources for security were increasing. The provision of solutions and services to meet these demands remained solid.

c. Cloud systems

(Millions of yen)

			Three-month period ended June 30, 2017	Three-month period ended June 30, 2018	Change (Amount)	Change (Ratio)
Cloud systems		Net sales	3,290	3,906	615	18.7%
		Marginal profit	1,100	1,280	179	16.3%
		Profit margins	33.4%	32.8%	△0.6 pt.	－
	System integration	Net sales	1,828	1,800	△27	△1.5%
		Marginal profit	672	717	44	6.7%
		Profit margins	36.8%	39.8%	3.0 pt.	－
	Cloud solutions	Net sales	1,462	2,105	642	44.0%
		Marginal profit	428	562	134	31.4%
		Profit margins	29.3%	26.7%	△2.6 pt.	－

<Major services in the cloud systems business>

・System integration

The development of IT systems and the provision of associated operation and maintenance services. Also, the development and sale of applications for smartphones, tablets and robots and of development support tools.

・Cloud solutions

The provision of support for moving clients' information systems and business applications to the cloud and subsequent system operation and monitoring services, and self-developed cloud services.

<Results of operations of the cloud systems business>

In the cloud systems business, net sales and marginal profit increased year on year.

In system integration, while spot development projects for SoftBank Group companies declined by half, operation service projects increased.

In cloud solutions, the trend of transitioning from in-house operated email systems to cloud services continued, and solutions related to Office 365 remained steady. Needs for transition from Windows 7, for which support will end in January 2020, to Windows 10 and for the secure use of mobile terminals and personal terminals also increased. As a result, solutions for integrally managing measures for device management and data protection performed well.

(2) Overview of financial positions for the current period

(Millions of yen)

	As of March 31, 2018	As of June 30, 2018	(Reference) As of June 30, 2017
Total assets	26,153	25,502	24,539
Net assets	14,532	14,351	12,781
Shareholders' equity ratio	52.5%	52.8%	50.2%

(Assets)

Total assets decreased 650 million yen from the end of the previous fiscal year, to 25,502 million yen at the end of the three-month period under review.

Current assets decreased 606 million yen from the end of the previous fiscal year, mainly because of a decrease in notes and accounts receivable-trade.

Non-current assets decreased 43 million yen, mainly due to a decrease in deferred tax assets.

(Liabilities)

Total liabilities decreased 469 million yen from the end of the previous fiscal year, to 11,151 million yen at the end of the three-month period under review.

Current liabilities decreased 453 million yen, mainly due to a decrease in income taxes payable.

Non-current liabilities decreased 15 million yen, mainly attributable to a decrease in long-term advances received.

(Net assets)

Net assets decreased 181 million yen from the end of the previous fiscal year, to 14,351 million yen at the end of the three-month period under review, mainly due to an increase in treasury shares.

(3) Explanation on Consolidated Forecast and Other Forward-looking Statements

Only full-year consolidated forecast for the fiscal year ending March 31, 2019, is disclosed because the Company manages operations on an annual basis. Forecasts are based on information currently available to the Company. Actual performance may differ from these forecasts for a number of reasons.

The Company maintains its consolidated forecasts for the fiscal year ending March 31, 2019, which was announced on April 25, 2018.

２． Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	7,606,554	8,027,728
Notes and accounts receivable - trade	9,503,786	7,518,917
Merchandise	38,019	134,375
Work in process	245,521	575,695
Other	1,062,356	1,592,332
Allowance for doubtful accounts	△2,145	△1,718
Total current assets	18,454,091	17,847,330
Non-current assets		
Property, plant and equipment		
Buildings, net	495,018	474,339
Tools, furniture and fixtures, net	693,379	680,278
Total property, plant and equipment	1,188,397	1,154,618
Intangible assets		
Goodwill	865,965	827,057
Software	1,192,113	1,248,263
Software in progress	328,771	326,571
Customer Relationships	463,017	447,050
Other	228,350	221,623
Total intangible assets	3,078,219	3,070,567
Investments and other assets		
Investment securities	1,091,045	1,071,907
Deferred tax assets	689,178	606,858
Other	1,652,429	1,751,543
Total investments and other assets	3,432,654	3,430,308
Total non-current assets	7,699,271	7,655,494
Total assets	26,153,362	25,502,824

(Thousands of yen)

	As of March 31, 2018	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	5,510,396	5,295,631
Current portion of long-term loans payable	320,400	265,000
Lease obligations	362,068	343,738
Accounts payable - other	788,572	864,312
Income taxes payable	602,871	138,080
Advances received	1,546,919	1,832,441
Provision for bonuses	797,140	391,452
Provision for directors' bonuses	-	20,750
Provision for loss on order received	24,923	90,258
Provision for defect repair	7,899	7,547
Asset retirement obligations	28,968	28,968
Other	439,183	698,007
Total current liabilities	10,429,343	9,976,187
Non-current liabilities		
Long-term loans payable	24,700	-
Lease obligations	8,417	7,608
Deferred tax liabilities	123,524	114,000
Long-term advances received	699,588	671,566
Net defined benefit liability	42,609	44,424
Asset retirement obligations	278,835	279,618
Other	13,622	58,210
Total non-current liabilities	1,191,296	1,175,429
Total liabilities	11,620,640	11,151,616
Net assets		
Shareholders' equity		
Capital stock	885,364	910,151
Capital surplus	859,538	953,203
Retained earnings	13,200,330	13,159,676
Treasury shares	△1,230,979	△1,568,295
Total shareholders' equity	13,714,253	13,454,735
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,865	1,116
Foreign currency translation adjustment	4,161	3,730
Total accumulated other comprehensive income	9,026	4,847
Share acquisition rights	123,149	128,480
Non-controlling interests	686,292	763,144
Total net assets	14,532,722	14,351,207
Total liabilities and net assets	26,153,362	25,502,824

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(For the Three-month Period)

(Thousands of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	12,126,254	12,258,794
Cost of sales	10,524,540	10,323,071
Gross profit	1,601,714	1,935,723
Selling, general and administrative expenses	1,510,972	1,485,474
Operating profit	90,742	450,249
Non-operating income		
Interest income	162	67
Dividend income	450	-
Subsidy income	12,629	12,370
Miscellaneous income	1,814	997
Total non-operating income	15,055	13,435
Non-operating expenses		
Interest expenses	3,867	2,560
Share of loss of entities accounted for using equity method	13,751	23,472
Foreign exchange losses	9,271	4,130
Miscellaneous loss	209	1,549
Total non-operating expenses	27,099	31,712
Ordinary profit	78,698	431,971
Profit before income taxes	78,698	431,971
Income taxes - current	24,073	95,507
Income taxes - deferred	30,082	74,531
Total income taxes	54,155	170,038
Profit	24,542	261,932
Profit attributable to		
Profit attributable to owners of parent	12,154	256,111
Profit attributable to non-controlling interests	12,388	5,821
Other comprehensive income		
Valuation difference on available-for-sale securities	△1,019	△3,929
Foreign currency translation adjustment	△329	△501
Total other comprehensive income	△1,348	△4,430
Comprehensive income	23,194	257,502
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,805	251,935
Comprehensive income attributable to non-controlling interests	12,388	5,566

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)
Not applicable.

(Significant Changes in Shareholders' Equity)
Not applicable.

(Changes in accounting policies)

(Adoption of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions and others)

The Company has decided to adopt the "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 36 on January 12, 2018; hereinafter "ASBJ PITF No. 36") on and after April 1, 2018 and account for transactions granting its employees and others share acquisition rights, which involve considerations, with vesting conditions in compliance with the "Accounting Standard for Share-based Payment" (ASBJ Statement No. 8 on December 27, 2005).

However, the Company complies with the temporary arrangements stipulated in Paragraph 10 (3) of the ASBJ PITF No. 36 for the adoption of the ASBJ PITF No. 36 and continues the accounting adopted by the Company for transactions granting the employees and others share acquisition rights, which involve considerations, with vesting conditions prior to the date of the adoption of the ASBJ PITF No. 36.

(Changes in accounting policies that are difficult, differentiating from changes in accounting estimates)

(Changes in the depreciation method of property, plant and equipment)

While the Group adopted the declining-balance method for property, plant and equipment other than leased assets and facilities attached to buildings that were newly acquired on or after April 1, 2016 in the past, the Group has changed it to the straight-line method from the three-month period under review.

This change is based on our judgment as a result of reviewing the depreciation method of property, plant and equipment provided for various businesses with the publication of our policy of focusing on cloud projects and recurring projects in the future as a trigger that depreciation using the straight-line method is commensurate with the actual utilization status of facilities and more appropriate, given that the existing stock businesses such as the monitoring, operation and maintenance of customers' systems are expected to grow and gain in importance as the overall Group.

As a result, gross profit has increased 6 million yen and operating income, ordinary income and profit before income taxes have risen 13 million yen, respectively, in the three-month period under review in comparison with the past method.

(Additional information)

(Adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting)

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) was adopted from the beginning of the three-month period under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.