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October 25, 2018

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

[Japanese GAAP]

Company name: SoftBank Technology Corp. (Tokyo Stock Exchange/Code No. 4726)

(URL <http://www.softbanktech.co.jp/>)

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Scheduled date of filing of Quarterly Report: November 13, 2018

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2018 (April 1, 2018 – September 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	%
Six Months ended Sep. 30, 2018	24,561	1.5	1,014	40.8	778	12.4	487	18.2
Six Months ended Sep. 30, 2017	24,203	5.9	720	5.3	693	0.6	412	0.3

Note: Comprehensive income (million yen) Six Months ended Sep. 30, 2018: 490 (up 12.2%)

Six Months ended Sep. 30, 2017: 437 (up 6.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six Months ended Sep. 30, 2018	24.71	24.25
Six Months ended Sep. 30, 2017	20.94	20.32

Note: The Company conducted the 2-for-1 share split of the Company's common stock on June 1, 2017. Per share data for the FY2017 were calculated supposing the share split as conducted at the beginning of the fiscal year

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2018	25,540	14,758	54.0	700.58
As of Mar. 31, 2018	26,153	14,532	52.5	693.64

Reference: Shareholders' equity (million yen) As of Sep. 30, 2018: 13,800 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	-	0.00	-	-	-
Fiscal year ending Mar. 31, 2019 (forecast)	-	-	-	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	81.12

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 Sep. 30, 2018:	22,200,400 shares	As of Mar. 31, 2018:	22,085,600 shares
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- ii. Number of treasury shares at the end of the period

As of Sep. 30, 2018:	2,501,279shares	As of Mar. 31, 2018:	2,301,242shares
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- iii. Average number of shares outstanding during the period

Six Months ended Sep. 30, 2018:	19,724,788 shares	Six Months ended Sep. 30, 2017:	19,687,484 shares
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Note: The Company conducted the 2-for-1 share split of the Company's common stock on June 1, 2017. Per share data for the FY2017 were calculated supposing the share split as conducted at the beginning of the fiscal year

* 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 (October 25, 2018), using the Timely Disclosure network (TDnet), and will be available on the Company's website (<http://www.softbanktech.co.jp/corp/ir/>).

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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. The Company has set “total net sales of the three focus businesses” and “operating income and the operating income margin” as the most important management indicators to monitor progress in its basic strategies and to improve the profitability of core businesses as the Company shifts to a service business, respectively.

Topics in the six-month period under review

- Steady performance of the three focus businesses (cloud, security and big data)

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) in which 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. In the six-month period under review, total net sales of the three focus businesses increased, reflecting rising demand in the area of enterprise mobility (Note), in addition to strong sales of the Company’s own services in the security solutions business and continued demand for a shift to cloud services of communication platforms (emails, etc.) in the cloud solutions business.

(Note) Enterprise mobility: Concept of providing organizations and employees with mobility by realizing the improved productivity of business and stronger security.

- Progress in a shift to service business

Operating income increased thanks to stronger sales of the Company’s own high-margin services, a rise in the weighting of net sales of the three focus businesses and an improvement in the profit margin due to the termination of sale of low profitable equipment in the IT infrastructure solutions business. The operating income margin also rose 1.1 percentage point.

As a result of the above, the financial results for the six-month period under review saw net sales and income increase.

	(Millions of yen)				(Yen)
	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
Six months ended September 30, 2018	24,561	1,014	778	487	24.71
Six months ended September 30, 2017	24,203	720	693	412	20.94
Change (Ratio)	1.5%	40.8%	12.4%	18.2%	18.0%
(Reference) Fiscal year ended March 31, 2018	49,140	2,176	2,399	1,556	79.09

(a) Net sales

Net sales stood at 24,561 million yen, an increase of 358 million yen (1.5%) from the same period of the previous year.

Net sales increased as a result of the firm performance of the E-commerce services business in addition to the steady progress of the security solutions business and the cloud solutions business, while sales declined in the IT infrastructure solutions business due to the termination of sales of certain hardware equipment.

(b) Marginal profit (Note)

Marginal profit was 7,013 million yen, an increase of 533 million yen (8.2%) year on year. This was chiefly due to an increase in sales in the security solutions business and the E-commerce services business. The marginal profit ratio was 28.6%, a rise of 1.8 percentage point from the same period of the previous year.

(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 5,999 million yen, up 239 million yen (4.2%) year on year. This was mainly due to an increase in expenses associated with the merger and relocation of subsidiaries.

(d) Operating income

As a result of the above, operating income rose to 1,014 million yen, up 293 million yen (40.8%) year on year. The operating income margin was 4.1%, rising 1.1 percentage point from the same period of the previous year.

(e) Non-operating income and expenses

Net non-operating expenses were 235 million yen, an increase of 207 million yen (759.2%) 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 778 million yen, an increase of 85 million yen (12.4%) year on year.

(g) Extraordinary income and losses

Net extraordinary income was 23 million yen, an increase of 10 million yen (82.6%) year on year. This was mainly due to a gain on sales of investment securities.

(h) Profit before income taxes

As a result of items (f) to (g), profit before income taxes rose to 802 million yen, up 96 million yen (13.6%) year on year.

(i) Total income taxes

Total income taxes increased 42 million yen (16.1%) year on year, to 308 million yen.

(j) Profit attributable to owners of parent

As a result of items (h) to (i), profit attributable to owners of parent increased 75 million yen (18.2%) year on year, to 487 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.

Segment		Service category	Main services	Core companies
Reportable segment	ICT Services	Digital marketing	E-commerce services	- SoftBank Technology Corp. - Fontworks Inc. - Kan Corporation
			Data analytics	
		Platform solutions	IT infrastructure solutions	- SoftBank Technology Corp. - Cybertrust Japan Co., Ltd.
			Security solutions	
		Cloud systems	System integration	- SoftBank Technology Corp. - M-SOLUTIONS, Inc. - ASORA Tech Corp. - REDEN Corp
			Cloud solutions	

a. Digital marketing

(Millions of yen)

		Six-month period ended September 30, 2017	Six-month period ended September 30, 2018	Change (Amount)	Change (Ratio)	
Digital marketing	Net sales	10,620	11,103	482	4.5%	
	Marginal profit	1,548	1,719	170	11.0%	
	Profit margins	14.6%	15.5%	0.9pt.	—	
	E-commerce services	Net sales	9,604	10,237	633	6.6%
		Marginal profit	1,164	1,420	255	21.9%
		Profit margins	12.1%	13.9%	1.8pt.	—
	Data analytics	Net sales	1,015	865	△150	△14.8%
		Marginal profit	383	299	△84	△22.1%
		Profit margins	37.8%	34.6%	△3.2pt.	—

<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.

E-commerce services remained firm because the number of users of font services increased, in addition to progress in the switching to high-performance products in the Symantec business. In addition, the font business changed its disproportionate weight on the fourth quarter to a weight on the first quarter following a change in its business model.

Data analytics remained weak because of declines in the development projects of platforms to manage digital content and orders for access analysis tools. We changed strategies for this business in the second quarter of 2016 and have since been making a shift from the provision and development projects of access analysis tools used for marketing purposes to the use of internal data on the cloud and the provision of data analysis in the area of IoT.

b. Platform solutions

(Millions of yen)

		Six-month period ended September 30, 2017	Six-month period ended September 30, 2018	Change (Amount)	Change (Ratio)	
Platform solutions	Net sales	6,138	5,573	△564	△9.2%	
	Marginal profit	2,288	2,520	232	10.2%	
	Profit margins	37.3%	45.2%	7.9pt.	—	
	IT infrastructure solutions	Net sales	4,041	3,032	△1,008	△25.0%
		Marginal profit	1,244	1,188	△56	△4.5%
		Profit margins	30.8%	39.2%	8.4 pt.	—
	Security solutions	Net sales	2,096	2,540	443	21.2%
		Marginal profit	1,043	1,332	288	27.6%
		Profit margins	49.8%	52.4%	2.6 pt.	—

<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 as a result of terminating the sale of certain hardware equipment that had difficulty creating and maintaining added value since the second quarter of the previous year, but marginal profit improved significantly.

Security solutions remained strong following an improvement in the efficiency of security operation services, including security cloud for local governments through the use of AI, in addition to an increase in orders for highly profitable electronic authentication services and security operation services. Demand for web security measures against cyberattacks, the incidence of which is expected to increase ahead of the Tokyo 2020 Olympic and Paralympic Games, was also rising, as was demand for security operation services to deal with a shortage of human resources for security and quickly respond to and recover from attacks and hacking attempts.

c. Cloud systems

		(Millions of yen)			
		Six-month period ended September 30, 2017	Six-month period ended September 30, 2018	Change (Amount)	Change (Ratio)
Cloud systems	Net sales	7,444	7,885	440	5.9%
	Marginal profit	2,643	2,774	130	4.9%
	Profit margins	35.5%	35.2%	Δ0.3pt.	—
System integration	Net sales	3,901	3,868	Δ33	Δ0.9%
	Marginal profit	1,449	1,508	58	4.1%
	Profit margins	37.1%	39.0%	1.9pt.	—
Cloud solutions	Net sales	3,543	4,016	473	13.4%
	Marginal profit	1,194	1,265	71	6.0%
	Profit margins	33.7%	31.5%	Δ2.2pt.	—

<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, both net sales and marginal profit increased year on year.

System integration remained firm because operation service projects increased while spot development projects for SoftBank Group companies declined.

Cloud solutions remained solid thanks to increasing demand for solutions that would manage communication tools and devices and protect data on the cloud in an integrated manner, although there were some unprofitable projects in business IT that promoted a shift to cloud services in business divisions, which is a challenging task.

(2) Explanation of Financial Position

i. Assets, Liabilities, and Net Assets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018	(Reference) As of September 30, 2017
Total assets	26,153	25,540	23,973
Net assets	14,532	14,758	12,879
Shareholders' equity ratio	52.5%	54.0%	51.7%

The Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 on February 16, 2018)" at the beginning of the first quarter of the current fiscal year and compared financial positions using figures at the end of the previous fiscal year after processing them retroactively.

(Assets)

Total assets decreased 612 million yen from the end of the previous fiscal year, to 25,540 million yen at the end of the six-month period under review.

Current assets decreased 631 million yen from the end of the previous fiscal year, mainly because of a decrease in notes and accounts receivable-trade.

Non-current assets increased 19 million yen from the end of the previous fiscal year mainly due to an increase in software in progress.

(Liabilities)

Total liabilities decreased 838 million yen from the end of the previous fiscal year, to 10,782 million yen at the end of the six-month period under review.

Current liabilities decreased 976 million yen from the end of the previous fiscal year mainly due to a decline in accounts payable - trade.

Non-current liabilities increased 138 million yen from the end of the previous fiscal year mainly attributable to an increase in lease obligations.

(Net assets)

Net assets increased 225 million yen from the end of the previous fiscal year, to 14,758 million yen, mainly thanks to a rise in retained earnings.

ii. Cash Flows

(Millions of yen)

	As of September 30, 2017	As of September 30, 2018	(Reference) As of March 31, 2017
Cash flows from operating activities	2,031	1,456	3,077
Cash flows from investing activities	△605	△681	△997
Cash flows from financing activities	△865	△482	△548
Net increase (decrease) in cash and cash equivalents	560	292	1,530
Cash and cash equivalents at end of period	6,636	7,899	7,606

Cash and cash equivalents (“cash”) at the end of the first half of the current fiscal year increased 292 million yen from the previous fiscal year-end to 7,899 million yen.

The details of cash flows from each activity and the major components of changes are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities totaled 1,456 million yen. This was mainly due to an increase in cash by profit before income taxes of 802 million yen, depreciation of 522 million yen and a decrease in notes and accounts receivable – trade of 1,396 million yen, despite a decrease in cash by a decline in notes and accounts payable – trade of 866 million yen and income taxes paid of 489 million yen.

In a year-on-year comparison, cash provided declined 574 million yen mainly due to a 2,368 million yen decrease in cash collected as a result of decrease (increase) in note and accounts receivable – trade, while cash used declined 1,395 million yen due to increase (decrease) in note and accounts payable – trade.

(Cash flows from investing activities)

Net cash used in investing activities totaled 681 million yen. The major factor for this was cash used of 477 million yen for the purchase of intangible assets and 173 million yen for payments for guarantee deposits.

In a year-on-year comparison, cash used increased 76 million yen mainly due to a 135 million yen increase in payments for guarantee deposits, despite a 120 million yen increase in proceeds from sales of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities totaled 482 million yen. This was primarily attributable to cash used for the purchase of treasury shares of 337 million yen and cash dividends paid of 297 million yen, although cash increased 350 million yen due to proceeds from the issuing of common shares.

In a year-on-year comparison, cash used decreased 382 million yen mainly due to a 292 million yen increase in proceeds from the issuing of common shares and a 100 million yen decrease in redemption of bonds.

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

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.

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	7,606,554	7,899,058
Notes and accounts receivable - trade	9,503,786	8,106,994
Merchandise	38,019	112,899
Work in process	245,521	359,833
Other	1,062,356	1,345,119
Allowance for doubtful accounts	Δ2,145	Δ1,581
Total current assets	18,454,091	17,822,323
Non-current assets		
Property, plant and equipment		
Buildings, net	495,018	615,924
Tools, furniture and fixtures, net	693,379	689,524
Construction in progress	-	41,180
Total property, plant and equipment	1,188,397	1,346,629
Intangible assets		
Goodwill	865,965	788,149
Software	1,192,113	1,252,808
Software in progress	328,771	494,836
Customer Relationships	463,017	431,084
Other	228,350	214,416
Total intangible assets	3,078,219	3,181,295
Investments and other assets		
Investment securities	1,091,045	756,502
Deferred tax assets	689,178	763,008
Other	1,652,429	1,670,878
Total investments and other assets	3,432,654	3,190,389
Total non-current assets	7,699,271	7,718,315
Total assets	26,153,362	25,540,639

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	5,510,396	4,644,091
Current portion of long-term loans payable	320,400	184,900
Lease obligations	362,068	357,805
Accounts payable - other	788,572	810,420
Income taxes payable	602,871	477,700
Advances received	1,546,919	1,666,008
Provision for bonuses	797,140	873,754
Provision for directors' bonuses	-	41,500
Provision for loss on order received	24,923	22,275
Provision for defect repair	7,899	9,032
Asset retirement obligations	28,968	14,074
Other	439,183	350,832
Total current liabilities	10,429,343	9,452,395
Non-current liabilities		
Long-term loans payable	24,700	-
Lease obligations	8,417	124,622
Deferred tax liabilities	123,524	109,665
Long-term advances received	699,588	655,150
Net defined benefit liability	42,609	39,981
Asset retirement obligations	278,835	291,588
Other	13,622	108,910
Total non-current liabilities	1,191,296	1,329,918
Total liabilities	11,620,640	10,782,313
Net assets		
Shareholders' equity		
Capital stock	885,364	927,253
Capital surplus	859,538	1,044,744
Retained earnings	13,200,330	13,390,945
Treasury shares	Δ1,230,979	Δ1,568,392
Total shareholders' equity	13,714,253	13,794,551
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,865	2,061
Foreign currency translation adjustment	4,161	4,104
Total accumulated other comprehensive income	9,026	6,165
Share acquisition rights	123,149	128,493
Non-controlling interests	686,292	829,114
Total net assets	14,532,722	14,758,325
Total liabilities and net assets	26,153,362	25,540,639

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	24,203,743	24,561,827
Cost of sales	20,514,152	20,545,871
Gross profit	3,689,590	4,015,956
Selling, general and administrative expenses	2,969,019	3,001,729
Operating profit	720,571	1,014,226
Non-operating income		
Interest income	346	160
Dividend income	450	-
Subsidy income	12,629	12,370
Miscellaneous income	3,383	3,515
Total non-operating income	16,809	16,046
Non-operating expenses		
Interest expenses	7,325	4,756
Share of loss of entities accounted for using equity method	17,297	238,090
Foreign exchange losses	13,966	4,324
Miscellaneous loss	5,600	4,126
Total non-operating expenses	44,189	251,298
Ordinary profit	693,191	778,975
Extraordinary income		
Gain on sales of investment securities	12,705	86,204
Total extraordinary income	12,705	86,204
Extraordinary losses		
Business office transfer expenses	-	63,007
Total extraordinary losses	-	63,007
Profit before income taxes	705,897	802,172
Income taxes - current	272,905	395,082
Income taxes - deferred	△7,016	△86,371
Total income taxes	265,888	308,710
Profit	440,008	493,461
Profit attributable to		
Profit attributable to owners of parent	412,299	487,380
Profit attributable to non-controlling interests	27,709	6,081
Other comprehensive income		
Valuation difference on available-for-sale securities	△2,759	△2,984
Foreign currency translation adjustment	△170	△138
Total other comprehensive income	△2,930	△3,122
Comprehensive income	437,078	490,338
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	409,369	484,641
Comprehensive income attributable to non-controlling interests	27,709	5,696

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	705,897	802,172
Depreciation	473,845	522,514
Amortization of goodwill	77,816	77,816
Share-based compensation expenses	21,443	18,483
Increase (decrease) in allowance for doubtful accounts	Δ49,686	Δ562
Increase (decrease) in provision for bonuses	58,468	76,614
Increase (decrease) in provision for directors' bonuses	31,700	41,500
Increase (decrease) in net defined benefit liability	2,283	Δ2,627
Increase (decrease) in provision for loss on order received	Δ386	Δ2,647
Increase (decrease) in provision for defect repair	3,599	1,133
Interest and dividend income	Δ796	Δ160
Interest expenses	7,325	4,756
Share of loss (profit) of entities accounted for using equity method	17,297	238,090
Loss (gain) on investments in partnership	1,966	2,530
Loss (gain) on sales of investment securities	Δ12,705	Δ86,204
Decrease (increase) in notes and accounts receivable - trade	3,765,375	1,396,791
Decrease (increase) in inventories	Δ123,664	Δ186,605
Decrease (increase) in operating receivables	Δ210,050	Δ103,255
Increase (decrease) in notes and accounts payable - trade	Δ2,261,769	Δ866,305
Increase (decrease) in accrued consumption taxes	Δ37,181	Δ30,394
Increase (decrease) in operating debt	Δ51,079	45,570
Other, net	4,339	1,026
Subtotal	2,424,036	1,950,235
Interest and dividend income received	796	176
Interest expenses paid	Δ6,876	Δ4,911
Income taxes paid	Δ386,859	Δ489,326
Net cash provided by (used in) operating activities	2,031,097	1,456,173
Cash flows from investing activities		
Purchase of property, plant and equipment	Δ159,591	Δ127,986
Purchase of intangible assets	Δ415,465	Δ477,298
Purchase of investment securities	-	Δ9,997
Proceeds from sales of investment securities	12,708	133,582
Collection of loans receivable	900	3,410
Payments for guarantee deposits	Δ37,752	Δ173,424
Proceeds from collection of guarantee deposits	150	406
Other, net	Δ6,000	Δ29,759
Net cash provided by (used in) investing activities	Δ605,050	Δ681,067

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from financing activities		
Repayments of long-term loans payable	Δ133,500	Δ160,200
Redemption of bonds	Δ100,000	-
Proceeds from issuance of common shares	58,380	350,968
Purchase of treasury shares	Δ358,643	Δ337,412
Cash dividends paid	Δ294,269	Δ297,244
Repayments of lease obligations	Δ37,460	Δ39,089
Net cash provided by (used in) financing activities	Δ865,493	Δ482,977
Effect of exchange rate change on cash and cash equivalents	Δ132	376
Net increase (decrease) in cash and cash equivalents	560,421	292,504
Cash and cash equivalents at beginning of period	6,075,890	7,606,554
Cash and cash equivalents at end of period	6,636,311	7,899,058

(4) 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 first quarter of the current fiscal year.

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

As a result, gross profit has increased 13 million yen and operating income, ordinary income and profit before income taxes have risen 30 million yen, respectively, in the six-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.

(Significant subsequent events)

(Grant of stock acquisition rights (tax-qualified stock option))

On October 11, 2018, the Company granted the directors and employees of the Company and its subsidiaries stock acquisition rights (tax-qualified stock option) to be issued to them as described below based on a resolution at the meeting of the Board of Directors held on September 26, 2018.

1. Persons who will receive the allotment of stock acquisition rights and the number of stock acquisition rights to be allotted

Eligible persons	Number of persons	Number of stock acquisition rights
Directors of the Company	5	360
Employees of the Company	78	1,720
Directors of the Company's subsidiaries	3	120
Employees of the Company's subsidiaries	2	40
Total	88	2,240

2. Class and the number of shares subject to stock acquisition rights

Common stock of the Company 100 shares (total number of shares subject to each stock acquisition right is 224,000.)

3. Total number of stock acquisition rights to be issued

2,240

4. Value of properties to be contributed upon the exercise of stock acquisition rights

293,200 yen per stock acquisition right (2,932 yen per share)

Disclaimer:

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.