

# Consolidated Financial Results for the Fiscal Year Ended June 30, 2019

[Japanese GAAP]

August 14, 2019

Company name: Smartvalue Co., Ltd.

Listing: Tokyo Stock Exchange, First Section

Securities code: 9417

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Scheduled date of Annual General Meeting of Shareholders: September 26, 2019

Scheduled date of payment of dividend: September 27, 2019

Scheduled date of filing of Annual Securities Report: September 27, 2019

Preparation of supplementary materials for financial results: Yes

Holding of 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 Fiscal Year Ended June 30, 2019 (July 1, 2018 to June 30, 2019)

### (1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Jun. 30, 2019	7,743	-	320	-	344	-	193	-
Fiscal year ended Jun. 30, 2018	-	-	-	-	-	-	-	-

Note: Comprehensive income (millions of yen) Fiscal year ended Jun. 30, 2019: 193 (-%)  
Fiscal year ended Jun. 30, 2018: - (-%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Jun. 30, 2019	19.48	19.19	5.4	7.5	4.1
Fiscal year ended Jun. 30, 2018	-	-	-	-	-

Reference: Equity in earnings of affiliates (millions of yen) Fiscal year ended Jun. 30, 2019: - Fiscal year ended Jun. 30, 2018: -

Note: Figures for the fiscal year ended June 30, 2018 and year-on-year changes are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Jun. 30, 2019	4,487	3,613	80.5	364.74
As of Jun. 30, 2018	-	-	-	-

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2019: 3,612 As of Jun. 30, 2018: -

Note: Figures for the fiscal year ended June 30, 2018 are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

### (3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Jun. 30, 2019	174	(1,766)	(83)	705
Fiscal year ended Jun. 30, 2018	-	-	-	-

Note: Figures for the fiscal year ended June 30, 2018 are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

## 2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Jun. 30, 2018	-	0.00	-	10.00	10.00	49	-	-
Fiscal year ended Jun. 30, 2019	-	0.00	-	8.00	8.00	79	41.1	2.2
Fiscal year ending Jun. 30, 2020 (forecasts)	-	0.00	-	8.00	8.00		35.8	

Notes: 1. Breakdown of the year-end dividend for the fiscal year ended June 30, 2018:

Ordinary dividend of 6.25 yen, commemorative dividend of 3.75 yen

2. Dividend payout ratio (consolidated) and dividends on equity (consolidated) for the fiscal year ended June 30, 2018 are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

3. Smartvalue conducted a 2-for-1 common stock split on July 1, 2018. Dividends for the fiscal year ended June 30, 2018 are the actual amounts before the stock split. Please refer to "Explanation of appropriate use of earnings forecast, and other special items" for details.

### 3. Consolidated Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	3,648	-	(18)	-	(17)	-	(22)	-	(2.24)
Full year	8,204	6.0	356	11.3	361	4.8	222	14.9	22.37

Note: Year-on-year changes for the first half forecast are not presented because Smartvalue started preparing the quarterly consolidated financial statements from the third quarter of the fiscal year ended June 30, 2019.

#### \* Notes

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

Newly added: -

Excluded: -

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of shares outstanding (common shares)

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

As of Jun. 30, 2019: 10,264,800 shares As of Jun. 30, 2018: 10,264,800 shares

2) Number of treasury shares at the end of the period

As of Jun. 30, 2019: 359,690 shares As of Jun. 30, 2018: 336,890 shares

3) Average number of shares outstanding during the period

Fiscal year ended Jun. 30, 2019: 9,943,259 shares Fiscal year ended Jun. 30, 2018: 8,732,539 shares

Note: Smartvalue conducted a 2-for-1 common stock split on July 1, 2018. The number of shares outstanding at the end of the period, the number of treasury shares at the end of the period, and the average number of shares outstanding during the period were calculated as if this stock split had been taken place at the beginning of the fiscal year ended June 30, 2018.

#### Reference: Summary of Non-consolidated Financial Results

##### 1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2019 (July 1, 2018 to June 30, 2019)

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Jun. 30, 2019	7,608	4.1	352	(7.7)	379	1.0	233	(28.2)
Fiscal year ended Jun. 30, 2018	7,305	11.7	381	38.8	375	36.2	324	80.0

	Net income per share		Diluted net income per share	
	Yen		Yen	
Fiscal year ended Jun. 30, 2019	23.46		23.11	
Fiscal year ended Jun. 30, 2018	37.19		36.44	

(2) Non-consolidated financial condition

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Jun. 30, 2019	4,470	3,652	81.7	368.73
As of Jun. 30, 2018	4,729	3,506	74.1	353.08

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2019: 3,652 As of Jun. 30, 2018: 3,505

\* The current financial report is not subject to audit by certified public accountants or auditing firm.

\* Explanation of appropriate use of earnings forecast and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Smartvalue's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to the section "1. Overview of Results of Operations, (4) Outlook" on page 4 of the attachments regarding preconditions or other related matters for the forecasts.

Dividend forecast following the stock split

Smartvalue conducted a 2-for-1 common stock split on July 1, 2018. Year-end dividend per share for the fiscal year ended June 30, 2019 and year-end dividend forecast for the fiscal year ending June 30, 2020 prior to the stock split are as follows.

1. Dividend for the fiscal year ended June 30, 2019 Year-end dividend per share: 16.00 yen

2. Dividend forecast for the fiscal year ending June 30, 2020: Year-end dividend per share: 16.00 yen

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## 1. Overview of Results of Operations

### (1) Results of Operations

The overall Japanese economy recovered slowly during the fiscal year that ended in June 2019 backed by improving labor market and personal income. However, there are concerns about the impact on the global market of turmoil in financial markets and slowing U.S. and Chinese economies caused by U.S.-China trade friction and other events. As a result, the economic outlook is unclear.

In the fiscal year that ended in June 2019, the Smartvalue Group had consolidated sales of 7,743 million yen, operating profit of 320 million yen and ordinary profit of 344 million yen. There were extraordinary losses of 19 million yen for the impairment of non-current assets associated with the health care support business and 20 million yen for a loss of valuation of investment securities held in association with a business alliance. After these losses and other items, profit attributable to owners of parent was 193 million yen.

Results by business segment were as follows.

#### Cloud Solutions Business

The market for cloud services (see note 1) in Japan grew significantly in the fiscal year that ended in March 2019 with total revenue climbing 18.1% year on year to 1,942.2 billion yen. Revenue in this market is expected to increase to 4,475.4 billion yen in the fiscal year ending in March 2024, according to the June 2019 Japan Cloud Services Demand Survey by MM Research Institute, Ltd.

The Cloud Solutions Business consists of a number of business categories. The local information cloud business serves local governments and public-sector agencies that provide services using the SaaS format for specific businesses and tasks involving open government (see note 2). The mobility services (see note 3) business uses car solutions, which handles products for safe driving, as the base for collecting and using data specific to automotive products in order to provide services. The cloud platform (see note 4) business uses virtualization technology to provide support for cloud service platforms. The health care support business provides services to companies and local governments that help employees and community residents stay healthy and live longer in good health.

The local information cloud business performed well despite intense competition. The use of open government in Japan is increasing in order to utilize ICT to resolve a variety of local issues. As a result, sales totaled 894 million yen.

In the mobility services business, there are car solutions sales from the sale of navigation, driving recorders and other products for safe driving, sales from the provision of the “CiEMS (Car intelligent Energy Management System) 3G” mobility IoT (see note 5) service, including steady income from the growing volume of users of this service, and sales from providing outsourced development services utilizing our IoT technologies and platforms. All of these services performed well during the fiscal year, resulting in sales of 2,483 million yen.

In the cloud platform business, the data center facilities were sold in the fiscal year that ended in June 2018 because of a reexamination of the strategy for data center operations. Consequently, sales of this business consist of additional orders from current customers and steady income from the users of cloud platform services. Due to the suitable control of expenses and resources, this business performed as planned with sales of 210 million yen.

The health care support business started operations in January 2018 and we are continuing to take actions aimed at building a sound infrastructure for providing reliable services. Due in part to a decline in the profitability of this business, sales totaled 238 million yen.

North Detail Co., Ltd., which became a consolidated subsidiary on March 1, 2019, is included in this segment. Although this company had a slow start involving its initial business plan, there were substantial sales from outsourced development projects for current customers and sales totaled 134 million yen.

Total sales in this segment were firm as steady income from the user bases of all services continued to increase. The cost of sales increased along with sales growth, there were more personnel and other expenses to strengthen services, and goodwill amortization increased because of the establishment of a subsidiary. As a result, segment sales totaled 3,962 million yen and segment profit was 312 million yen.

## Mobile Business

Total shipments of mobile phones in Japan in the fiscal year that ended in March 2019 were 34 million units, down 7.7% from one year earlier according to overview of domestic mobile phone shipments for FY 2018 (May 2019) by MM Research Institute, Ltd. Smartphone shipments were down 6.0% to 30 million and feature phone shipments were down 19.1% to 3 million. Although Japan's mobile phone market is shrinking, this market is likely to regain its vitality somewhat as competition heats up following the launch of next-generation 5G services, which is planned for the spring of 2020.

The number of mobile phones sold in Japan is continuing to decrease as overall shipments decline and the phone replacement cycle becomes longer. Competition with the second brands of major communications carriers and with MVNO (see note 6) is becoming more heated. As people increasingly seek lower prices, we held smartphone classes and used other activities to improve customer satisfaction. These measures were aimed at generating earnings through the provision of "smart life" and other services.

Sales in this segment totaled 3,780 million yen and segment profit was 462 million yen.

Business segment sales were as follows:

Business segments and categories	(Thousands of yen, %)	
	FY6/19	
	Sales	Composition
Cloud Solutions Business		
Local Information Cloud	894,502	11.6
Mobility Services	2,483,567	32.1
Cloud Platform	210,732	2.7
Health Care Support	238,795	3.1
Other	134,645	1.7
Total	3,962,244	51.2
Mobile Business	3,780,812	48.8
Total	7,743,057	100.0

Note: Figures for the fiscal year ended June 30, 2018 and year-on-year changes are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

### Explanation of terms

#### Notes:

1. Cloud service: The provision of services via a network rather than placing data and software required for services in the computers of users
2. Open government: A concept for measures aimed at making national and local government activities more open that is based on three basic principles: (1) Transparency, (2) Participation of the public, and (3) Public/private-sector cooperation
3. Mobility service: Hardware and other solutions and information system services for automobiles, smartphones and other mobile applications
4. Cloud platform: Equipment normally located at internet data centers that is used to create an infrastructure for the provision of IaaS, PaaS, SaaS and other cloud services.
  - \*IaaS: Infrastructure as a Service, which is the use of the cloud to provide hardware, networks and other computing infrastructure components
  - \*PaaS: Platform as a Service, which is the use of the cloud to provide functions, middle ware and other items required for developing and operating software
  - \*SaaS: Software as a Service, which is the use of the cloud for the provision and utilization of software
5. IoT: The Internet of Things is the use of the internet to link objects of all kinds in order to achieve automatically the best possible control with no control or other intervention by people.
6. MVNO: A mobile virtual network operator is a company that borrows network capacity from a communications carrier to eliminate to have its own mobile communications network. These operators sell mobile communication services (MVNO services) using their own brands.

**(2) Financial Position**

## Assets

Total assets at the end of the current fiscal year were 4,487 million yen.

Current assets amounted to 2,081 million yen. Major items are notes and accounts receivable-trade of 782 million yen, cash and deposits of 705 million yen and merchandise of 441 million yen.

Non-current assets amounted to 2,405 million yen. Major items are goodwill of 817 million yen, deferred tax assets of 517 million yen, software of 245 million yen, buildings and structures of 215 million yen and investments securities of 129 million yen.

## Liabilities

Total liabilities were 874 million yen.

Current liabilities amounted to 781 million yen. Major items are accounts payable-trade of 401 million yen and accounts payable-other of 105 million yen.

Non-current liabilities amounted to 93 million yen. Major items are asset retirement obligations of 54 million yen and lease obligations of 38 million yen.

## Net assets

Net assets were 3,613 million yen. Major items include retained earnings of 1,904 million yen, capital stock of 959 million yen, capital surplus of 949 million yen and treasury shares of 200 million yen.

**(3) Cash Flows**

Cash and cash equivalents (hereinafter, “cash”) at the end of the current fiscal year were 705 million yen. The cash flow components during the current fiscal year and the main reasons for changes are as described below.

## Cash flows from operating activities

Net cash provided by operating activities was 174 million yen. Main factors include income taxes paid of 259 million yen, a 171 million yen increase in inventories and a 118 million yen decrease in notes and accounts payable-trade, while there were profit before income taxes of 303 million yen, depreciation of 232 million yen and a 146 million yen decrease in notes and accounts receivable-trade.

## Cash flows from investing activities

Net cash used in investing activities was 1,766 million yen. Main factors include purchase of shares of subsidiaries resulting in change in scope of consolidation of 1,300 million yen, purchase of intangible assets of 237 million yen, purchase of investment securities of 120 million yen and purchase of property, plant and equipment of 110 million yen.

## Cash flows from financing activities

Net cash used in financing activities was 83 million yen. Main factors include purchase of treasury shares of 61 million yen, cash dividends paid of 49 million yen, repayments of lease obligations of 26 million yen and proceeds from sale and leaseback transactions of 40 million yen.

**(4) Outlook**

The cloud market is expected to continue to grow. One reason is that the cloud has become a vital platform for the provision of IoT services. The “cloud first” (see note 1) trend and increasing use of open government are also expected to continue to make contribution to this growth. In Japan’s mobile phone market, significant changes are expected. Competition will probably intensify due to the start of operations at Japan’s fourth major mobile network operator. The launch of next-generation 5G services will also greatly alter the business climate for mobile phones.

In the Cloud Solutions Business segment, the four previous business categories (local information cloud, mobility services, cloud platform, health care support) have been reorganized to create two categories: digital government

and mobility services. The purpose is to communicate in a more suitable format its business activities and express the nature of business operations more clearly. There is no change in the reportable segments.

The digital government category of the Cloud Solutions Business provides cloud services that function as a social system for creating lines of communication between local governments and other public-sector entities and regional communities and the residents. Our plan is to enlarge these cloud services to encompass health care, sports, mobility, voting, applications and many other public-sector operations. The objective is the creation of new e-government services and a social system capable of establishing a profit model for public goods.

The mobility services category is looking ahead to the emerging next-generation “mobility society” that will include connected cars. One step was the development and launch of our own IoT service for motor vehicles. Next we plan to create innovative services that utilize data, such as non-life insurance, car sharing (see note 2) and C.A.S.E. (see note 3). Our goal is to be a source of added value in the mobility sector, such as by devising new types of social systems and services.

In the Mobile Business segment, Japan’s mobile communications market is on the verge of dramatic changes caused by the recent emergence of a fourth major mobile network operator and the upcoming launch of next-generation 5G services, which is expected to take place in 2020. We are responding by holding smartphone classes and using other activities to give customers a reason to keep coming back to our stores. We are also giving our people training in order to upgrade the quality of customer services and give customers the best possible ideas for meeting their requirements. We will use these measures to establish long-term relationships with customers.

We will train engineers and other people who are vital to our ability to grow, start using a core IT system for upgrading administrative capabilities and improving efficiency, and add functions while making improvements to existing ones. In addition, in order to build a framework for a larger workforce as we grow and improve workplace environment, we plan to offer creative office environment where they can produce innovative ideas that generate meaningful value. Our goal is to increase the productivity of our workforce while ensuring that they have the proper work-life balance.

Furthermore, we aim to expand the Group’s business results and improve earnings, strengthen the management base, and strive for further growth.

Based on this outlook, we forecast a 6.0% increase in net sales to 8,204 million yen, an 11.3% increase in operating profit to 356 million yen, a 4.8% increase in ordinary profit to 361 million yen, and a 14.9% increase in profit attributable to owners of parent to 222 million yen in the fiscal year ending on June 30, 2020.

#### Explanation of terms

##### Notes:

1. Cloud first: The tendency for companies and public-sector agencies to select the cloud first over other options when making IT investments.
2. Car sharing: The joint use of the same automobiles by the members of a particular organization. Car sharing started in Europe and the United States and car sharing operations have been in Japan since the 2000s.
3. C.A.S.E.: An abbreviation for four key words concerning technological and social changes involving automobiles: Connected, Autonomous, Shared and Electric

## **2. Basic Approach to the Selection of Accounting Standards**

The Smartvalue Group will continue to prepare consolidated financial statements using generally accepted accounting principles in Japan for the time being to permit comparisons with prior years and with the financial data of other companies. We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

**3. Consolidated Financial Statements and Notes****(1) Consolidated Balance Sheet**

	(Thousands of yen)
	FY6/19
	(As of Jun. 30, 2019)
Assets	
Current assets	
Cash and deposits	705,393
Electronically recorded monetary claims-operating	3,110
Notes and accounts receivable-trade	782,215
Merchandise	441,332
Work in process	49,044
Other	100,777
Total current assets	<u>2,081,872</u>
Non-current assets	
Property, plant and equipment	
Buildings and structures	215,909
Tools, furniture and fixtures	96,398
Leased assets	54,117
Construction in progress	7,107
Total property, plant and equipment	<u>373,532</u>
Intangible assets	
Goodwill	817,121
Software	245,613
Other	129,123
Total intangible assets	<u>1,191,858</u>
Investments and other assets	
Investment securities	129,009
Deferred tax assets	517,701
Other	193,821
Total investments and other assets	<u>840,531</u>
Total non-current assets	<u>2,405,922</u>
Total assets	<u>4,487,795</u>



	(Thousands of yen)
	FY6/19
	(As of Jun. 30, 2019)
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable-trade	401,518
Lease obligations	21,050
Income taxes payable	763
Provision for bonuses	42,189
Allowance for short-term cancellation loss	153
Other	315,388
Total current liabilities	<u>781,062</u>
<b>Non-current liabilities</b>	
Lease obligations	38,656
Asset retirement obligations	54,399
Other	347
Total non-current liabilities	<u>93,403</u>
<b>Total liabilities</b>	<u>874,466</u>
<b>Net assets</b>	
<b>Shareholders' equity</b>	
Capital stock	959,454
Capital surplus	949,720
Retained earnings	1,904,349
Treasury shares	(200,755)
Total shareholders' equity	<u>3,612,768</u>
Share acquisition rights	561
<b>Total net assets</b>	<u>3,613,329</u>
<b>Total liabilities and net assets</b>	<u>4,487,795</u>

**(2) Consolidated Statements of Income and Comprehensive Income****Consolidated Statement of Income**

	(Thousands of yen)
	FY6/19
	(Jul. 1, 2018 – Jun. 30, 2019)
Net sales	7,743,057
Cost of sales	5,540,287
Gross profit	2,202,769
Selling, general and administrative expenses	1,882,514
Operating profit	320,255
Non-operating income	
Interest income	239
Subsidy income	14,698
Insurance income	5,520
Other	4,418
Total non-operating income	24,876
Non-operating expenses	
Interest expenses	180
Commission for purchase of treasury shares	185
Other	0
Total non-operating expenses	365
Ordinary profit	344,766
Extraordinary income	
Gain on sales of non-current assets	1,741
Support income of shop	4,000
Reversal of allowance for restructuring charges	1,259
Other	42
Total extraordinary income	7,042
Extraordinary losses	
Loss on retirement of non-current assets	7,593
Impairment loss	19,643
Loss on valuation of investment securities	20,858
Other	350
Total extraordinary losses	48,445
Profit before income taxes	303,363
Income taxes-current	74,525
Income taxes-deferred	35,178
Total income taxes	109,703
Profit	193,660
Profit attributable to owners of parent	193,660

**Consolidated Statement of Comprehensive Income**

	(Thousands of yen)
	FY6/19
	(Jul. 1, 2018 – Jun. 30, 2019)
Profit	193,660
Comprehensive income	193,660
Comprehensive income attributable to:	
Comprehensive income attributable to owners of parent	193,660
Comprehensive income attributable to non-controlling interests	-

**(3) Consolidated Statement of Changes in Equity**

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Shareholders' equity					Share acquisition rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of current period	959,454	951,136	1,763,336	(168,571)	3,505,356	739	3,506,095
Changes of items during period							
Dividends of surplus			(49,639)		(49,639)		(49,639)
Profit attributable to owners of parent			193,660		193,660		193,660
Purchase of treasury shares				(61,680)	(61,680)		(61,680)
Disposal of treasury shares		(4,424)		29,495	25,071		25,071
Transfer of loss on disposal of treasury shares		3,008	(3,008)		-		-
Net changes of items other than shareholders' equity					-	(177)	(177)
Total changes of items during period	-	(1,416)	141,012	(32,184)	107,412	(177)	107,234
Balance at end of current period	959,454	949,720	1,904,349	(200,755)	3,612,768	561	3,613,329

**(4) Consolidated Statement of Cash Flows**

	(Thousands of yen)
	FY6/19
	(Jul. 1, 2018 – Jun. 30, 2019)
Cash flows from operating activities	
Profit before income taxes	303,363
Depreciation	232,583
Impairment loss	19,643
Amortization of goodwill	29,914
Increase (decrease) in provision for bonuses	(4,383)
Increase (decrease) in allowance for short-term cancellation loss	(331)
Increase (decrease) in provision for business restructuring	(63,664)
Interest and dividend income	(239)
Interest expenses	180
Loss (gain) on sales of non-current assets	(1,741)
Loss on retirement of non-current assets	5,979
Loss (gain) on valuation of investment securities	20,858
Decrease (increase) in notes and accounts receivable-trade	146,478
Decrease (increase) in inventories	(171,327)
Increase (decrease) in notes and accounts payable-trade	(118,871)
Increase (decrease) in accounts payable-other	(51,931)
Other, net	87,671
Subtotal	434,182
Interest and dividend income received	239
Interest expenses paid	(180)
Income taxes paid	(259,284)
Net cash provided by (used in) operating activities	174,956
Cash flows from investing activities	
Purchase of property, plant and equipment	(110,239)
Proceeds from sales of property, plant and equipment	1,741
Purchase of intangible assets	(237,828)
Purchase of investment securities	(120,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,300,000)
Payments for leasehold and guarantee deposits	(11,700)
Proceeds from collection of leasehold and guarantee deposits	9,660
Other, net	1,839
Net cash provided by (used in) investing activities	(1,766,527)
Cash flows from financing activities	
Increase in short-term loans payable	300,000
Decrease in short-term loans payable	(300,000)
Purchase of treasury shares	(61,680)
Proceeds from disposal of treasury shares	12,791
Repayments of lease obligations	(26,184)
Proceeds from sale and leaseback transactions	40,800
Cash dividends paid	(49,422)
Net cash provided by (used in) financing activities	(83,695)
Net increase (decrease) in cash and cash equivalents	(1,675,266)
Cash and cash equivalents at beginning of period	2,380,659
Cash and cash equivalents at end of period	705,393

## **(5) Notes to Consolidated Financial Statements**

### **Going Concern Assumption**

Not applicable.

### **Changes in Accounting Policies**

Not applicable.

### **Segment and Other Information**

#### Segment Information

##### 1. Overview of reportable segments

###### (1) Method of determining reportable segments

Segments used for financial reporting are the Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Smartvalue Group has business divisions based on the products and services. Each division determines comprehensive strategies and conducts business operations for its products and services.

Accordingly, the Smartvalue Group has two reportable segments that are classified by products or services and based on the business divisions: Cloud Solutions business and Mobile business.

###### (2) Products and services by each reportable segment

The Cloud Solutions Business mainly has four business categories: local information cloud, cloud platform, mobility services and health care support.

The local information cloud category provides cloud services to local governments and public-sector agencies. The cloud platform category provides a cloud platform service for urban data centers. These data centers are also the foundation for the entire Cloud Solutions Business. The mobility services category plans to become a source of mobility cloud solutions centered on sales of products for safe driving in the automotive products sector, which has been a part of business operations since Smartvalue's establishment. The health care support category performs administrative services for regular health check-ups, other medical examinations and stress check-ups that companies provide to their employees.

The Mobile Business sells the mobile communications products of NTT Docomo, Inc. and other products.

##### 2. Calculation method for net sales, profit or loss, assets and other items for each reportable segment

The accounting methods for reportable segments are the same as the methods used for preparing the consolidated financial statements.

## 3. Information related to net sales, profit or loss, assets and other items for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cloud Solutions	Mobile	Total		
Net sales					
External sales	3,962,244	3,780,812	7,743,057	-	7,743,057
Inter-segment sales and transfers	-	-	-	-	-
Total	3,962,244	3,780,812	7,743,057	-	7,743,057
Segment profit	312,380	462,405	774,785	(454,530)	320,255
Segment assets	2,978,848	648,571	3,627,419	860,376	4,487,795
Other items					
Depreciation	192,623	31,582	224,205	8,377	232,583
Amortization of goodwill	29,914	-	29,914	-	29,914
Impairment loss	19,643	-	19,643	-	19,643
Increase in property, plant and equipment and intangible assets	1,139,330	30,150	1,169,480	32,400	1,201,880

Notes: 1. Adjustments are as follows.

- (1) The negative adjustment of 454 million yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses that belong to the administrative division of Smartvalue.
- (2) The 860 million yen adjustment to segment assets includes corporate assets that are not allocated to any of the reportable segments and mainly include cash and deposits and assets related to the administrative division of Smartvalue.
- (3) The 8 million yen adjustment to depreciation includes depreciation of corporate assets that are not allocated to any of the reportable segments.
- (4) The 32 million yen adjustment to the increase in property, plant and equipment and intangible assets is the sum of corporate assets that are not allocated to any of reportable segments, including software that is used by Smartvalue's administration division.

2. Segment profit is adjusted to be consistent with operating profit in the consolidated financial statements.

## Information related to impairment loss of fixed assets for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

This information is omitted because the same information is presented in segment information.

## Information related to goodwill amortization and the unamortized balance for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Reportable segment			Adjustment	Amounts shown on consolidated financial statements
	Cloud Solutions	Mobile	Total		
Balance at end of period	817,121	-	817,121	-	817,121

Note: Goodwill amortization is omitted because the same information is presented in segment information.

## Information related to gain on bargain purchase for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

Not applicable.

**Per-share Information**

(Yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Net assets per share	364.74
Net income per share	19.48
Diluted net income per share	19.19

Note: The basis of calculating net income per share and diluted net income per share is as follows:

(Thousands of yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)
Net income per share	
Profit attributable to owners of parent	193,660
Amounts not attributable to common shareholders	-
Profit attributable to common shareholders of parent	193,660
Average number of common shares outstanding during the period (shares)	9,943,259
Diluted net income per share	
Adjustment to profit attributable to owners of parent	-
Increase in the number of common shares (shares)	149,678
[of which share acquisition rights (shares)]	[149,678]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	-

**Subsequent Events**

Not applicable.

*\* 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.*