

# Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending December 31, 2019 [Japanese GAAP]



May 14, 2019

Company name: **AUCNET INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3964

URL: <http://www.aucnet.co.jp/>

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Scheduled date of filing quarterly report: May 14, 2019

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

(Amounts of less than one million yen are rounded down.)

## 1. Consolidated Results for the First Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 - December 31, 2019)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2019	4,871	(6.4)	847	(24.8)	913	(20.6)	481	(20.4)
March 31, 2018	5,205	0.4	1,127	1.5	1,151	4.8	605	(1.5)

(Note) Comprehensive income: Three months ended March 31, 2019: ¥491 million [-12.8%]

Three months ended March 31, 2018: ¥563 million [-12.2%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2019	17.51	17.32
March 31, 2018	22.04	21.64

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2019	29,357	17,547	59.0
As of December 31, 2018	27,257	17,413	63.1

(Reference) Equity: As of March 31, 2019: ¥17,323 million

As of December 31, 2018: ¥17,205 million

## 2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	—	13.00	—	13.00	26.00
Year ending December 31, 2019	—				
Year ending December 31, 2019 (Forecast)		13.00	—	13.00	26.00

(Note) Revision to the forecast for dividends announced most recently: None

## 3. Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 - December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	20,624	5.8	3,512	9.1	3,679	11.2	2,157	26.3
								78.42

(Note) Revision to the forecast of consolidated results announced most recently: None

**\* Notes:**

- (1) Changes in significant subsidiaries during the period under review: None  
(Changes in specified subsidiaries resulting in changes in scope of consolidation)  
New: – Excluded: –
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement  
1) Changes in accounting policies due to the revision of accounting standards: None  
2) Changes in accounting policies other than 1) above: None  
3) Changes in accounting estimates: None  
4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)  
1) Total number of issued and outstanding shares at the end of the period (including treasury shares):  
March 31, 2019: 27,673,100 shares  
December 31, 2018: 27,667,500 shares  
2) Total number of treasury shares at the end of the period:  
March 31, 2019: 151,902 shares  
December 31, 2018: 151,902 shares  
3) Average number of shares during the period:  
Three months ended March 31, 2019: 27,515,866 shares  
Three months ended March 31, 2018: 27,464,013 shares  
\* The Company has introduced Board Benefit Trust (BBT). The Company's shares which the said BBT holds are included in the treasury shares to deduct in calculation of "Total number of treasury shares at the end of the period" and "Average number of shares during the period."

\* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

\* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and the Company does not guarantee their achievement. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information" on page 4 of the attachments.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of Operating Results

During the three months ended March 31, 2019, the Japanese economy continued to show modest recovery with continuing improvement in corporate earnings and in the employment and income picture, against a backdrop of the government's economic policies, despite weak export results due to the Chinese economic slowdown. The modest recovery is expected to continue as the government continues to implement various policies. However, economic trends remain unclear, and it is necessary to pay close attention to the implications of global trade conditions and uncertainties surrounding political policies.

In these circumstances, in line with our brand statement, "Shaping the Future of Commerce," the Company has worked to further improve its social and economic value, by providing competitive value-added products and services to promote information distribution in addition to its B2B information distribution intermediary businesses.

As a result, for the three months ended March 31, 2019, net sales were ¥4,871,374 thousand (down 6.4% from the same period of the previous fiscal year), operating income was ¥847,835 thousand (down 24.8% from the same period of the previous fiscal year), ordinary income was ¥913,525 thousand (down 20.6% from the same period of the previous fiscal year), and profit attributable to owners of parent was ¥481,882 thousand (down 20.4% from the same period of the previous fiscal year).

Performance results by business segment are as follows.

#### 1) Automobile Business

The Automobile Business comprises the Company's mainstay used vehicle auctions (\*1), shared inventory market (\*2), live linked auctions (\*3), the proxy bidding service (\*4), used vehicle inspection service (\*5), and other services.

In the Japanese automotive sector, which has close connections with our business, total new-vehicle registrations (\*6) declined 0.8% year-on-year to 1.52 million units in the three months ended March 31, 2019. The total number of used-vehicle registrations (\*7) increased 0.2% year-on-year to 1.96 million units, and the number of vehicles exhibited (\*8) at auctions around Japan increased 5.6% year-on-year to 2.00 million units. The total number of vehicles sold at auction (\*8) increased 2.2% year-on-year to 1.28 million units. Amid these market conditions, the number of vehicles inspected by our used vehicle inspection service rose from the same period of the previous fiscal year due to the favorable performance of vehicle inspections for consumers. Meanwhile, in our used vehicle auctions, the number of vehicles listed by import car dealer members, whose rate of sales is outstanding, decreased due to sluggish new vehicle sales and the total number of vehicles sold at auction and the rate of sales both decreased from the same period of the previous fiscal year. For our live linked auctions, the number of vehicles sold at auction dropped from the same period of the previous fiscal year, which was accompanied by a decrease in the use of "Omatome Service," a service that arranges land transportation for purchased vehicles and consolidates multiple payments for different physical used car auctions.

As a result, for the three months ended March 31, 2019, net sales (including inter-segment net sales) were ¥3,029,506 thousand (down 2.6% from the same period of the previous year), and operating income was ¥1,003,678 thousand (down 5.2% from the same period of the previous year).

(\*1) Used vehicle auctions are real-time, members-only online auctions run by the Company.

(\*2) The shared inventory market is a system that allows Aucnet Group member sellers to share inventory with other members online. The inventory remains at the seller's premises while other members access it via the online system.

(\*3) Live-linked auctions use an online live-link system that enables real-time remote access to participate at physical auction sites, through partnerships between AUCNET and the physical auction sites.

(\*4) The proxy bidding service is an agency service provided by i-Auc, Inc. to buy, sell, settle payment for

and transport used vehicles at auctions on behalf of its members.

(\*5) The used vehicle inspection service and related inspection skills training services are provided by AIS INC.

(\*6) Based on statistics compiled by Japan Automobile Dealers Association

(\*7) Based on statistics compiled by Japan Automobile Dealers Association and Japan Light Motor Vehicle and Motorcycle Association

(\*8) Based on U-Car Full Data Book and Export Quotation Book

## 2) Digital Product Business

The Digital Product Business comprises auctions for used digital equipment including used smartphones and used PCs, and services pertaining to distribution.

In addition to preparing to start operations at our facility established in the United States last year, we made efforts for distribution expansion in the future such as boosting the number of items handled. However, the distribution volume significantly dropped as new smartphones experienced slow sales and replacement demand fell from the same period of the previous fiscal year. Moreover, the preparation to start operations in the United States contributed to a cost increase from the same period of the previous fiscal year.

As a result, for the three months ended March 31, 2019, net sales were ¥866,172 thousand (down 26.5% from the same period of the previous year), and operating income was ¥323,584 thousand (down 54.3% from the same period of the previous year).

## 3) Other Information Distribution Business

The Other Information Distribution Business comprises auctions for pre-owned luxury brand items, used motorcycles, and flowers (cut and potted), and services pertaining to distribution.

For pre-owned luxury brand items, as a result of the success of various measures including the efforts to attract new domestic and overseas members and to enhance product-specific marketing, the number of listed items and transaction volume each increased significantly compared to the same period of the previous year. In used motorcycles, owing to successful attempts to enhance operations, which had been addressed since the previous fiscal year, the rate of sales exceeded the level of the same period of the previous fiscal year. For flowers (cut and potted), the transaction amount increased from the same period of the previous fiscal year as the “Otoriyose Torihiki” web purchase service for florists and the “Zoto no Madoguchi” service arranging flower gifts, both of which had begun in the previous year, were well received.

As a result, for the three months ended March 31, 2019, net sales were ¥701,503 thousand (up 4.9% from the same period of the previous year), and operating income was ¥178,834 thousand (up 6.5% from the same period of the previous year).

## 4) Other Business

Other Business comprises system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

For the three months ended March 31, 2019, net sales (including inter-segment net sales) were ¥469,070 thousand (up 5.1% from the same period of the previous year), and operating loss was ¥29,868 thousand (the operating loss for the same period of the previous year was ¥55,063 thousand).

## (2) Explanation of Financial Position

Total assets as of the end of the first quarter of the current fiscal year amounted to ¥29,357,130 thousand, an increase of ¥2,099,955 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥178,079 thousand increase in notes and accounts receivable - trade, a ¥2,042,249 thousand increase in due from auction members and a ¥16,527 thousand increase in investments and other assets, despite a ¥432,237 thousand decrease in cash and deposits, a ¥14,275 thousand decrease in property, plant and equipment and a ¥27,258 thousand decrease in intangible assets.

Total liabilities amounted to ¥11,809,519 thousand, an increase of ¥1,966,044 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥48,130 thousand increase in accounts payable - trade, ¥2,029,326 thousand increase in due to auction members, in ¥9,550 thousand increase in provision for stocks payment and a ¥3,722 thousand increase in net defined benefit liability, despite a ¥337,070 thousand decrease in income taxes payable.

Total net assets amounted to ¥17,547,610 thousand, an increase of ¥133,910 thousand from the end of the previous fiscal year. This is mainly attributable to a ¥963 thousand increase in capital stock, a ¥963 thousand increase in capital surplus, a ¥122,206 thousand increase in retained earnings, and an ¥15,916 thousand increase in non-controlling interests, despite a ¥8,539 thousand decrease in valuation difference on available-for-sale securities.

In addition, the Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Statement No. 28, February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review. With regard to the financial position, the figures after the retroactive application of the accounting standard, etc. were used for comparison and analysis with the previous fiscal year.

## (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

There are no changes to the performance forecast announced on February 14, 2019.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2018	As of March 31, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	16,489,700	16,057,462
Notes and accounts receivable - trade	861,503	1,039,582
Due from auction members	2,639,122	4,681,372
Other	1,400,004	1,719,341
Allowance for doubtful accounts	(68,094)	(50,561)
Total current assets	21,322,235	23,447,197
Non-current assets		
Property, plant and equipment	1,551,928	1,537,652
Intangible assets	1,393,462	1,366,204
Investments and other assets	2,989,547	3,006,075
Total non-current assets	5,934,939	5,909,932
Total assets	27,257,175	29,357,130
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	599,991	648,122
Due to auction members	4,692,847	6,722,174
Income taxes payable	673,211	336,140
Other provision	91,330	245,252
Other	1,262,182	1,264,070
Total current liabilities	7,319,563	9,215,761
Non-current liabilities		
Provision for stocks payment	40,139	49,690
Net defined benefit liability	1,705,599	1,709,322
Other provision	5,679	6,491
Other	772,491	828,253
Total non-current liabilities	2,523,911	2,593,758
Total liabilities	9,843,475	11,809,519
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,711,335	1,712,298
Capital surplus	6,801,669	6,802,632
Retained earnings	8,815,791	8,937,997
Treasury shares	(248,596)	(248,596)
Total shareholders' equity	17,080,200	17,204,332
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	161,323	152,784
Foreign currency translation adjustment	10,187	9,738
Remeasurements of defined benefit plans	(45,979)	(43,130)
Total accumulated other comprehensive income	125,531	119,392
Non-controlling interests	207,968	223,885
Total net assets	17,413,699	17,547,610
Total liabilities and net assets	27,257,175	29,357,130



(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended March 31, 2018 and 2019

(Thousand yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Net sales	5,205,009	4,871,374
Cost of sales	1,937,999	1,999,357
Gross profit	3,267,009	2,872,017
Selling, general and administrative expenses	2,139,691	2,024,182
Operating income	1,127,318	847,835
Non-operating income		
Interest income	1,896	1,416
Dividend income	4,573	4,616
Share of profit of entities accounted for using equity method	40,468	22,106
Reversal of allowance for doubtful accounts	—	20,129
Gain on forgiveness of debts	—	15,382
Other	8,092	4,842
Total non-operating income	55,031	68,494
Non-operating expenses		
Interest expenses	1,295	612
Foreign exchange losses	26,028	1,152
Other	3,955	1,039
Total non-operating expenses	31,279	2,803
Ordinary income	1,151,071	913,525
Extraordinary income		
Other	3,650	—
Total extraordinary income	3,650	—
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	5,545	69,341
Other	44,967	19,566
Total extraordinary losses	50,513	88,908
Profit before income taxes	1,104,208	824,617
Income taxes	489,395	326,818
Profit	614,813	497,799
Profit attributable to non-controlling interests	9,414	15,916
Profit attributable to owners of parent	605,399	481,882

Quarterly Consolidated Statements of Comprehensive Income  
Three Months Ended March 31, 2018 and 2019

(Thousand yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Profit	614,813	497,799
Other comprehensive income		
Valuation difference on available-for-sale securities	(41,190)	(8,539)
Foreign currency translation adjustment	(11,303)	(448)
Remeasurements of defined benefit plans, net of tax	1,213	2,848
Total other comprehensive income	(51,281)	(6,138)
Comprehensive income	563,531	491,660
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	554,117	475,743
Comprehensive income attributable to non-controlling interests	9,414	15,916

### (3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in amount of shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax-effect accounting to profit before income taxes for the fiscal year (consolidated) including the first quarter of the fiscal year under review, with quarterly profit before income taxes then multiplied by the estimated effective tax rate.

However, in the event that this tax expense calculation using estimated effective tax rate results in a significantly improbable figure, a method using the statutory effective tax rate may be adopted.

(Additional Information)

(Performance-Linked Stock Compensation Plan)

Based on the resolution by the 10th Annual General Shareholders Meeting held on March 28, 2018, the Company has introduced a performance-linked stock compensation plan in the form of a Board Benefit Trust (BBT) (the "Plan"), aiming to raise the motivation for contributing to improving performance and increasing corporate value over the medium- to long-term by further clarifying the link between the compensation of Directors and Executive Officers (the "Directors, etc.") and the performance and stock value of the Company.

The Company has conformed to the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force (PITF) No. 30 on March 26, 2015) with respect to the accounting methods of the aforementioned trust agreement.

#### (1) Outline of the Transaction

The Plan is a performance-linked stock compensation plan whereby shares in the Company are acquired through a trust using money contributed by the Company as funds (hereinafter, the trust established pursuant to the Plan is referred to as the "Trust"), and shares in the Company and cash equivalents of such shares at their market value (collectively, the "Company Shares, etc.") are delivered through the Trust to Directors, etc. pursuant to the Officer Stock Delivery Regulations established by the Company. The time for Directors, etc. to receive delivery of Company Shares, etc. shall in principle be the date on which the Directors, etc. retire.

#### (2) Shares of the Company Held by Trust

Shares of the Company held by Trust are recorded as treasury shares under the category of net assets at book value in the Trust (excluding accompanying expenses). Book value and the number of aforementioned treasury shares as of the end of the first quarter of the fiscal year under review were ¥248,430 thousand and 151,800 shares, respectively.

(Adoption of the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.")

In addition, the Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are now presented in the "investments and other assets" section.

(Segment information, etc.)

[Segment information]

For the three months ended March 31, 2018 (from January 1, 2018 to March 31, 2018)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	3,070,575	1,178,819	668,498	4,917,893	287,115	5,205,009	—	5,205,009
Inter-segment net sales or transfers	38,293	—	—	38,293	159,156	197,450	(197,450)	—
Total	3,108,869	1,178,819	668,498	4,956,186	446,272	5,402,459	(197,450)	5,205,009
Segment income (loss)	1,058,282	707,892	167,997	1,934,172	(55,063)	1,879,108	(751,790)	1,127,318

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥751,790 thousand includes goodwill amortization of negative ¥240,388 thousand, and corporate expenses of negative ¥511,401 thousand not allocated to specific reportable segments. Corporate expenses chiefly comprise general and administrative expenses not allocated to specific reportable segments.

3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

For the three months ended March 31, 2019 (from January 1, 2019 to March 31, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Automobile Business	Digital Product Business	Other Information Distribution Business	Total				
Net sales								
Net sales to outside customers	2,994,908	866,172	701,503	4,562,584	308,790	4,871,374	—	4,871,374
Inter-segment net sales or transfers	34,597	—	—	34,597	160,280	194,877	(194,877)	—
Total	3,029,506	866,172	701,503	4,597,181	469,070	5,066,252	(194,877)	4,871,374
Segment income (loss)	1,003,678	323,584	178,834	1,506,097	(29,868)	1,476,229	(628,394)	847,835

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as

system development and provision, communications and operations maintenance service provision, used medical equipment related businesses and overseas businesses.

2. Adjustment of segment income (loss) of negative ¥628,394 thousand is corporate expenses, which chiefly comprise general and administrative expenses not allocated to specific reportable segments.
3. Adjustments are made to reconcile segment income (loss) with operating income reported on the quarterly consolidated statements of income.

2. Reporting segment-specific information on impairment loss on non-current assets and details of goodwill, etc.

Not applicable.

(Significant subsequent events)

(Absorption-type Merger with Consolidated Subsidiary)

The Company resolved at the meeting of the Board of Directors held on February 21, 2019 that it would absorb and merge with its wholly owned subsidiary, Aucnet Digital Products Inc. The absorption-type merger was implemented on May 1, 2019.

1. Purpose of the Merger

Aucnet Digital Products Inc. provides auction services for secondary distribution of used smartphones and other used communication terminals within and outside Japan through auctions.

The Company judged that combining the acquired entity with our own Digital Product Business segment providing auctions of used digital devices including personal computers would help the Company consolidate management resources of the Digital Product Business, more smoothly enhance the competitiveness of the Digital Product Business within and outside Japan, reinforce the Group's financial ground and make its management more efficient.

2. Outline of the Transaction

- (1) Name and Business Description of the Combining Entities

Name of the Acquiring Entity: AUCNET INC.

Business Description: Automobile Business, Digital Product Business, Other Information Distribution Business and Other business

Name of the Acquired Entity: Aucnet Digital Products Inc.

Business Description: Global auction distribution, inspections and data erasure of smartphones and other digital devices, and provision of other related solutions.

- (2) Date of the Business Combination

May 1, 2019

- (3) Statutory Type of the Business Combination

Absorption-type merger where the Company is the surviving entity and Aucnet Digital Products Inc. is the absorbed entity.

- (4) Name of the Entity after the Business Combination

AUCNET INC.

- (5) Allotment upon the Merger

Since this is a merger with a wholly owned subsidiary of the Company, there is no payment of any consideration.

- (6) Outline of the Accounting Procedures Implemented

For accounting purposes, this merger was treated as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

(Merger between Consolidated Subsidiaries)

JBTV, Inc., a wholly owned subsidiary of the Company resolved at the General Shareholder Meeting held on March 20, 2019 that it would absorb and merge with Assist Inc., another wholly owned subsidiary of the Company. The absorption-type merger was implemented on May 1, 2019.

1. Purpose of the Merger

It is intended to shift the main business domain of JBTV, Inc. to BPO and other communication services for stable and sustainable growth.

2. Outline of the Transaction

(1) Name and Business Description of the Combining Entities

Name of the Acquiring Entity: JBTV, Inc.

Business Description: Provision of communication and operation and maintenance services.

Name of the Acquired Entity: Assist Inc.

Business Description: System design and creation, and provision of comprehensive BPO services.

(2) Date of the Business Combination

May 1, 2019

(3) Statutory Type of the Business Combination

Absorption-type merger where JBTV, Inc. is the surviving entity and Assist Inc. is the absorbed entity.

(4) Name of the Entity after the Business Combination

JBTV, Inc.

(5) Allotment upon the Merger

Since this is a merger between wholly owned subsidiaries of the Company, there is no payment of any consideration.

(6) Outline of the Accounting Procedures Implemented

For accounting purposes, this merger was treated as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).