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

Financial Statements

For the 2nd fiscal year
From April 1, 2016 to March 31, 2017

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Independent Auditor's Report
(Translation)

May 26, 2017

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

BDO Toyo & Co.
Akihiro Tanaka
Designated Partner
Engagement Partner
Certified Public Accountant

Hiroaki Izawa
Designated Partner
Engagement Partner
Certified Public Accountant

We have audited the accompanying financial statements of Fund Corporation for the Overseas Development of Japan's ICT and Postal Services (the "Company") for the 2nd fiscal year from April 1, 2016 to March 31, 2017, which comprise the balance sheet, the statement of operations and changes in equity, the notes to financial statements and the supporting schedules, in accordance with item1, paragraph 2 of Article 436 of the Companies Act.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements and the related supporting schedules in accordance with accounting principles generally accepted in Japan. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements and the related supporting schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements and the related supporting schedules based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supporting schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supporting schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the related supporting schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the related supporting schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supporting schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion
In our opinion, the financial statements and the related supporting schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2017, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Conflict of Interest
Our firm or the engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Balance Sheet

(As of March 31, 2017)

（Thousands of yen）

Assets		Liabilities and net assets	
(Assets)		**(Liabilities)**	
Current assets:	**6,714,591**	**Current liabilities:**	**104,381**
Cash and deposits	5,399,116	Accounts payable-Other	60,046
Operational investment securities	1,200,000	Income taxes payable	24,499
Operating loans	100,000	Provision for bonuses	9,835
Other	15,474	Other	9,999
Non-current assets:	**70,887**	**Total liabilities**	**104,381**
Property and equipment:	**38,951**	**(Net assets)**	
Buildings	22,184	**Shareholders' equity:**	**6,681,097**
Tools, furniture and fixtures	33,806	**Capital stock**	**3,703,500**
Accumulated depreciation	△ 17,039	**Capital surplus:**	**3,703,500**
Intangible assets:	**6,795**	Legal capital surplus	3,703,500
Software	5,048	**Retained earnings:**	**△ 725,902**
Other	1,747	Other retained earnings:	△ 725,902
Investments and other assets:	**25,140**	Retained earnings brought forward	△ 725,902
Lease deposits	23,173		
Other	1,966	**Total net assets**	**6,681,097**
Total assets	**6,785,479**	**Total liabilities and net assets**	**6,785,479**

Amounts of less than 1 thousand yen are rounded off.

Statement of Operations

(From April 1, 2016 to March 31, 2017)

(Thousands of yen)

Net sales		**4**
Gross profit		**4**
Selling, general and administrative expenses		**492,618**
Operating loss		**492,613**
Non-operating income		
Interest income	367	367
Non-operating expenses		
Share issuance costs	13,464	
Foreign exchange losses	35,599	49,064
Ordinary loss		**541,311**
Extraordinary losses		
Loss on retirement of non-current assets	798	798
Loss before income taxes		**542,110**
Income taxes		1,210
Net loss		**543,320**

Amounts of less than 1 thousand yen are rounded off.

Statement of Changes in Equity

(From April 1, 2016 to March 31, 2017)

（Thousands of yen）

	Shareholders' equity				Total net assets
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity	
		Legal capital surplus	Other retained earnings		
			Retained earnings brought forward		
Balance at April 1, 2016	1,872,000	1,872,000	△ 182,581	3,561,418	3,561,418
Changes of items during period					
Issuance of new shares	1,831,500	1,831,500	-	3,663,000	3,663,000
Net loss	-	-	△ 543,320	△ 543,320	△ 543,320
Total changes of items during period	1,831,500	1,831,500	△ 543,320	3,119,679	3,119,679
Balance at March 31, 2017	3,703,500	3,703,500	△ 725,902	6,681,097	6,681,097

Amounts of less than 1 thousand yen are rounded off.

Notes to Financial Statements

Amounts of less than 1 thousand yen are rounded off.

1. Significant Accounting Policies

(1) Basis and method of valuation of securities

Available-for-sale securities (including operational investment securities)

Securities without market quotations:

Stated at cost determined by the moving-average method

(2) Depreciation method of non-current assets

① Property and equipment (excluding leased assets)

Depreciation is provided by the declining-balance method, except for the buildings, building facilities and structures acquired on or after April 1, 2016, which are depreciated using the straight-line method.

The useful lives adopted for major assets are as follows:

Buildings (Building facilities):	8-20 years
Tools, furniture and fixtures:	3-15 years

② Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

The useful lives adopted for major assets are as follows:

Trademark right:	10 years
Computer software for internal use:	5 years

(3) Amortization method of deferred assets

Share issuance costs are processed as expenses in full amount when incurred.

(4) Accounting for provisions

Provision for bonuses

For payment of employees' bonuses, provision is provided for the portion of the total anticipated bonuses that is attributable to the fiscal year.

(5) Other significant matters which constitute the basis for preparation of the financial statements

Accounting for consumption taxes

Consumption taxes are excluded in transaction amounts.

2. Changes in Accounting Policies

In association with the revision of the Corporation Tax Act, the Company has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (The Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32 dated June 17, 2016) from this fiscal year, and changed the depreciation method for building facilities and structures that were acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

This change had no effect on the financial statements for the financial year ended March 31, 2017.

Additional Information

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 dated March 28, 2016) from this fiscal year.

3. Notes to balance sheet

There are no items to be disclosed.

4. Notes to statement of operations

There are no items to be disclosed.

5. Notes to statement of changes in equity

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

Common stock	141,880 shares
Class A preferred stock	6,260 shares

6. Notes to taxes effect accounting

Main sources of deferred tax assets:

Deferred tax assets:		
Accrued enterprise taxes	7,187	thousand yen
Provision for bonuses	3,035	thousand yen
Lump-sum depreciable asset	928	thousand yen
Loss carryforwards	208,943	thousand yen
Other	1,149	thousand yen
Subtotal	221,243	thousand yen
Valuation Allowance	△ 221,243	thousand yen
Total	－	thousand yen

7. Notes to financial instruments

(1) States of financial instruments

① Management policy on financial instruments

The Company conducts investment activities based on the standards stipulated in the Act on Fund Corporation for the Overseas Development of Japan's ICT and Postal Services. To conduct investment activities, the Company raises the necessary funds by equity capital and issuance of Government-Guaranteed Bonds, etc.

Regarding fund management, the Company invests only in short-term deposits and investment securities (certificates of deposit) to secure liquidity and safety of funds.

② Features and risks of financial instruments

Operating loans are exposed to customer credit risk.

Operational investment securities are mainly unlisted stocks and are exposed to credit risk of the investees.

③ Risk management of financial instruments

ⅰ) Management of credit risk

With regard to operating loans, the Company timely and regularly monitors the business conditions of the investees and seeks to promptly identify and reduce concerns over the collection due to the deterioration in their financial positions, etc.

With regard to operational investments securities, the Company timely and regularly monitors the business conditions of the investees and makes efforts to promptly identify deterioration of their financial conditions and deviation from their business plan, etc.

ⅱ) Management of liquidity risk relating to financing

The Company controls liquidity risks by monitoring deposits and payments,and preparing the statement of cash positions regularly.

④ Supplementary explanation regarding the fair value of financial instruments

The fair value of financial instruments is based on market prices or reasonable calculations in the absence of market prices.

(2) Fair value of financial instruments

Book value, fair value and the difference between them as of March 31, 2017 are as follows. Financial instruments of which the fair value is extremely difficult to measure are not included below.

(Thousands of yen)

	Book value	Fair value	Difference
Cash and deposits	5,399,116	5,399,116	―
Operating loans	100,000	100,000	―

(Note 1)Fair value measurement of financial instruments

① Cash and deposits:

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

② Operating loans

The fair value of operating loans is calculated by discounting the sum of its principal and interest at an interest rate at which a similar new loan transaction is assumed to be made.

(Note 2)Financial instruments of which the fair value is extremely difficult to measure are as follows:

(Thousands of yen)

	Book value
Operational investment securities	1,200,000

(Note 3)Future redemption of financial assets with maturities are as follows:

(Thousands of yen)

	Within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	5,399,116	―	―	―
Operating loans	―	―	100,000	―

8. Notes to related party transactions

The Company directors and principal shareholders, etc.

(Thousands of yen)

Attribution	Name	Percentage of voting rights ,etc.	Relationship	Nature of transactions	Transaction amounts	Accounting classification	Year-end balance
Principal shareholder	Minister of Finance	Owned directly 67.80%	Investments in capital	Investments in capital (Note)	3,150,000	―	―

Business conditions and policy for determining the business conditions:

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

9. Notes to per share information

Net assets per share	¥44,883.68
Net loss per share	¥6,320.83

(Note 1)

Diluted net loss per share is not presented as net loss per share is recorded despite the existence of residual shares.

(Note 2)

The basis for calculation of net loss per share is as follows:

Net loss	543,320	thousand yen
Amount not attributable to ordinary shareholders	—	
Net loss relating to common stock	543,320	thousand yen
Average number of shares of common stock during the period	85,957	shares

10. Notes to significant subsequent events

Issuance of new shares through third-party allotments

The company decided to issue new shares through third-party allotments on 26 May, 2017 by a written resolution of the Board of Directors based on the provisions of Article 370 of the Companies Act.

(1) Type and number of new shares to be issued Company’s common stock 31,000 shares

(2) Issued price 50,000 yen per share

(3) Amount of procurement fund 1,550,000,000 yen

(4) Amount of capital stock and legal capital surplus to be increased

Amount of capital stock to be increased 775,000,000 yen

Amount of legal capital surplus to be increased 775,000,000 yen

(5) Payment period From June 19, 2017 to June 23, 2017

(6) Offering or allotment method Allotted by means of third-party allotment

To Minister of Finance 31,000 shares

(7) Allotment conditions Applications for underwriting from the above third-party

(8) Intended use of funds procured Fund to support target business