



Financial Results

for the six months ended on September 30, 2017

November 14, 2017

Consolidated Results

(Billions JPY)

	FY2016	FY2017	FY2018	YoY		Notes
	1H	1H	1H	Increment	% Change	
Net Sales	215.1	205.8	205.9	+0.4	+0%	Increase in Corporate Business. Decrease in SHOP and Insurance Business.
Operating Profit	17.6	20.1	23.3	+3.2	+16%	Increase in recurring profit, improvement in productivity, disposal of in-house real estate, etc.
Net Income Attributable to Shareholders	17.0	19.3	17.7	(1.6)	(8%)	Changes in the affiliate companies accounted for by the equity method led to decrease in investment returns and non-operating profits.

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Net Sales and Operating Profit

(Billions JPY)

Net Sales

	FY2016	FY2017	FY2018	% Change
	1H	1H	1H	
Corporate	127.3	128.5	146.8	+14%
Shop	73.9	63.2	46.5	(26%)
Insurance	15.2	15.1	13.5	(10%)
Total (Including company wide expenses)	215.1	205.8	205.9	+0%

Operating Profit

	FY2016	FY2017	FY2018	% Change
	1H	1H	1H	
Corporate	13.4	13.8	15.1	+9%
Shop	4.7	6.3	5.9	(6%)
Insurance	2.1	2.4	2.2	(10%)
Total (Including company wide expenses)	17.6	20.1	23.3	+16%

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[Reference] Breakdown of Net Sales, Expenses and Operating Profit

(Billions JPY)

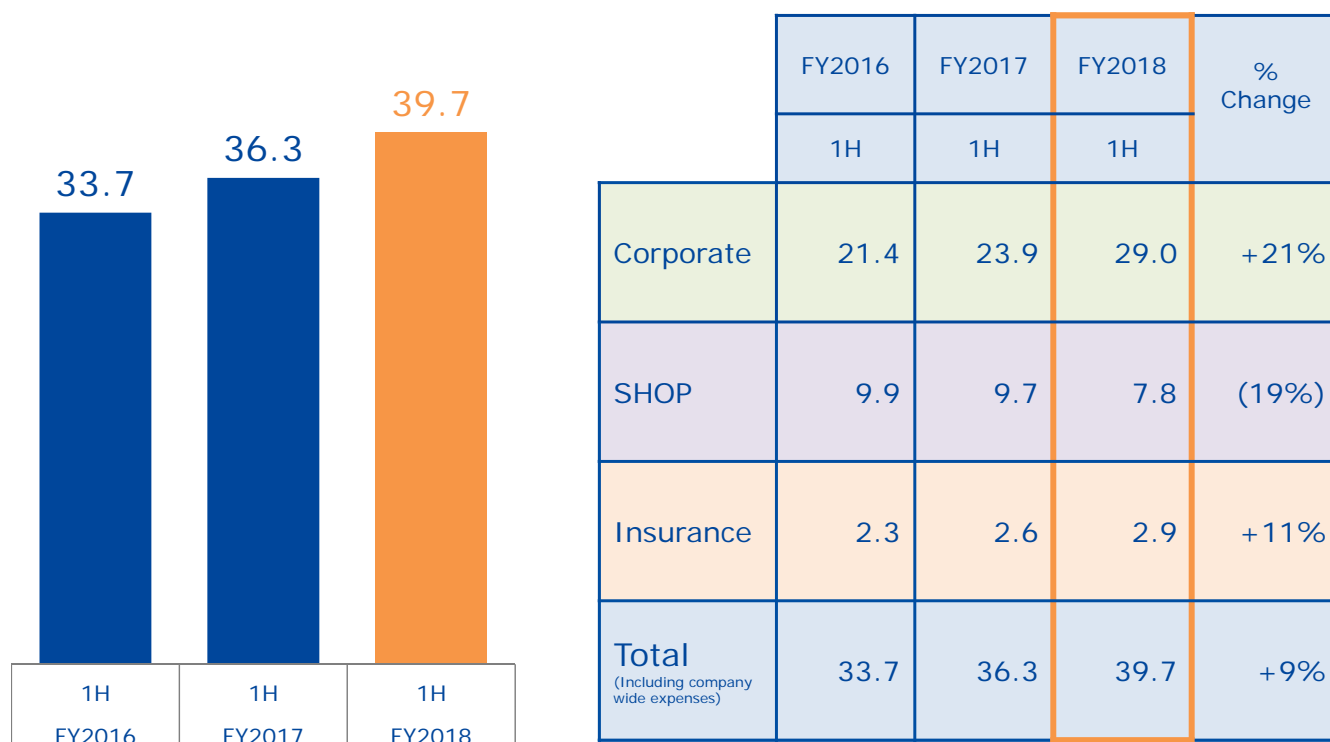
FY2017		Volume		Volume	Notes
Net Sales	428.9	↔	Recurring	170.5	Data usage revenue from subscribers, commission from service providers, and insurance company.
			Lump-sum	258.3	Upfront commission, Sales of hardware, etc.
Cost of Goods Sold & Selling, General and Administrative Expenses	▲387.3	↔	Recurring	▲96.3	Cost of the service provided, Cost of customer retention such as billing, etc.
			Lump-sum	▲290.9	Lump sum cost, personnel expenses, sales commission for distributors, etc.
Operating Profit	41.5	↔	Recurring	74.1	Recurring Profit
			Lump-sum	▲32.5	Acquisition Cost

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Recurring Profit Steady Increase in Corporate Segment

(Billions JPY)



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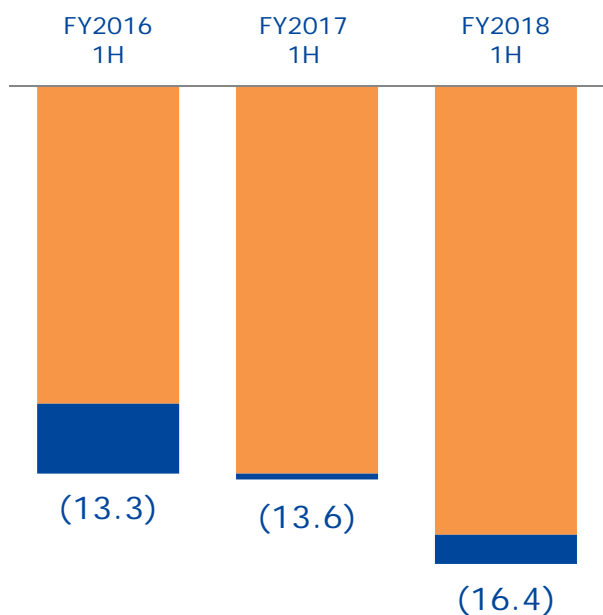
4

Acquisition Cost

(Increase in acquisition of In-House Products)

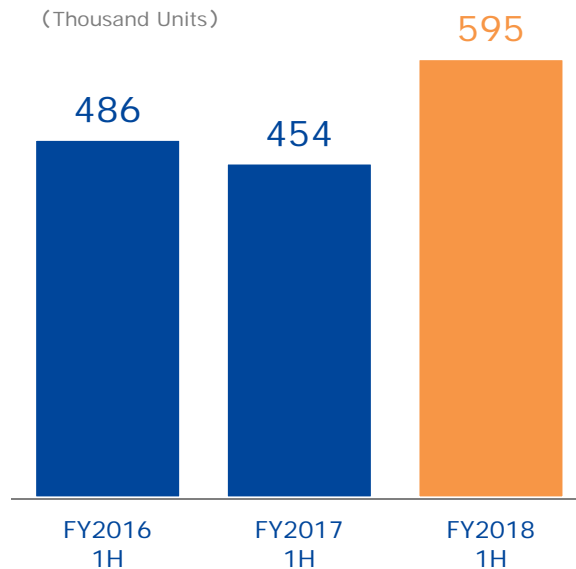
(Billions JPY)

■ In-House Products
 ■ Retail Products
 ※Exclude company wide expenses



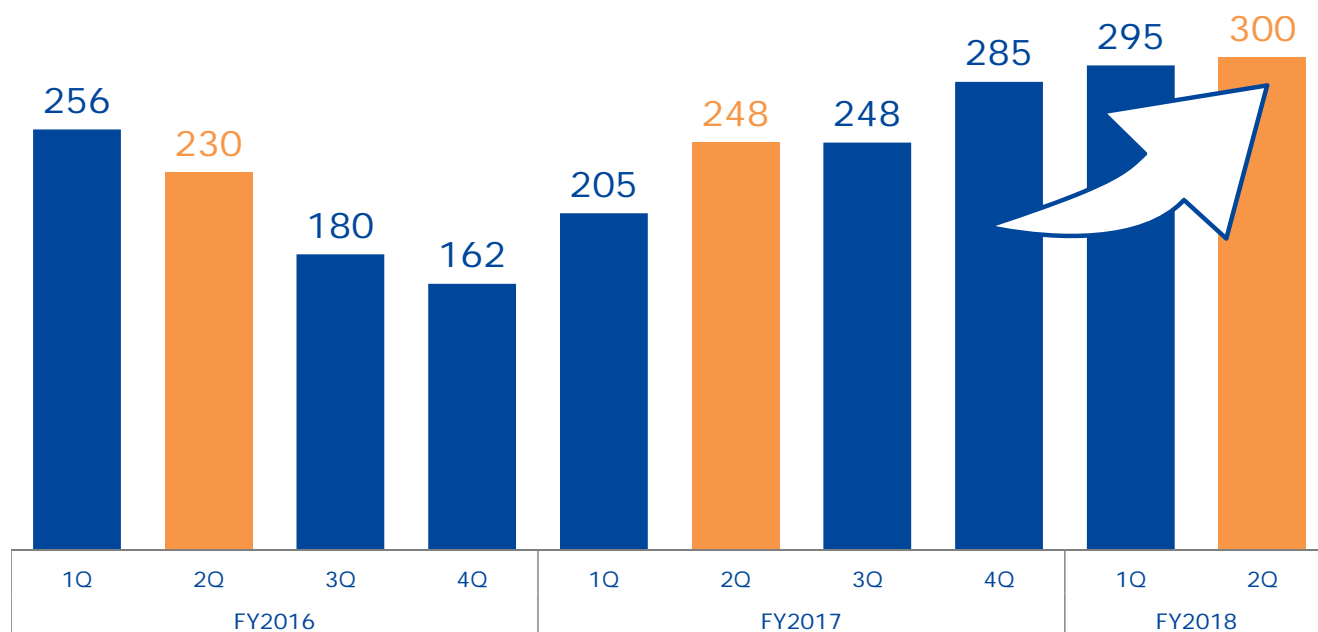
Sales Units of In-House Products

(Thousand Units)



Number of Units Acquired In-house Products

(Thousand Units)



In-house Products = Water Server, In-House Communication Service (Hikari Service, ISP, Mobile Wi-Fi Router, SIM card, Mobile Phone), Industry Specific IT Solutions, Electricity

Non-Operating Profit

(Billions JPY)

	FY2017 1H	FY2018 1H	Increment	Notes
Operating Profit	20.1	23.3	+3.2	-
Financial Income and Financial Expense	1.3	0.9	(0.3)	Decrease in gains on sale of investment securities, etc.
Share of profit of Investments accounted for using the equity method	1.9	(0.2)	(2.2)	Change in the affiliate companies accounted for by the equity method (USEN GROUP, etc.)
Others	6.9	5.8	(1.0)	Decrease in profit due to the re- measurement made for the application of the equity method, etc.
Net Income Pre-tax	30.3	29.8	(0.4)	-
Corporate income tax expenses	(10.0)	(11.0)	(1.0)	-
Non-controlling interests	(0.9)	(1.1)	(0.1)	-
Net Income	19.3	17.7	(1.6)	-

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Progress with respect to FY2018 Forecast

(Billions JPY)

	FY2018 1H	FY2018	
	Result	Forecast	Progress Rate
Net Sales	205.9	400.0	51%
Operating Profit	23.3	46.5	50%
Net Profit Attributable to Shareholders	17.7	30.0	59%

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Consolidated Cash Flow

(Billions JPY)

	FY2016	FY2017	FY2018	Notes
	1H	1H	1H	
Cash Flow from Operating Activities	+3.9	+13.6	+9.5	Decrease in Operating Liabilities and other Liabilities.
Cash Flow from Investing Activities	+13.9	(4.0)	(7.6)	Acquisition and Sale of Investment Securities.
Free Cash Flow	+17.9	+9.5	+1.8	-
Cash Flow from Financial Activities	(4.6)	+22.7	+4.8	The Issuance of Corporate Bonds, etc.

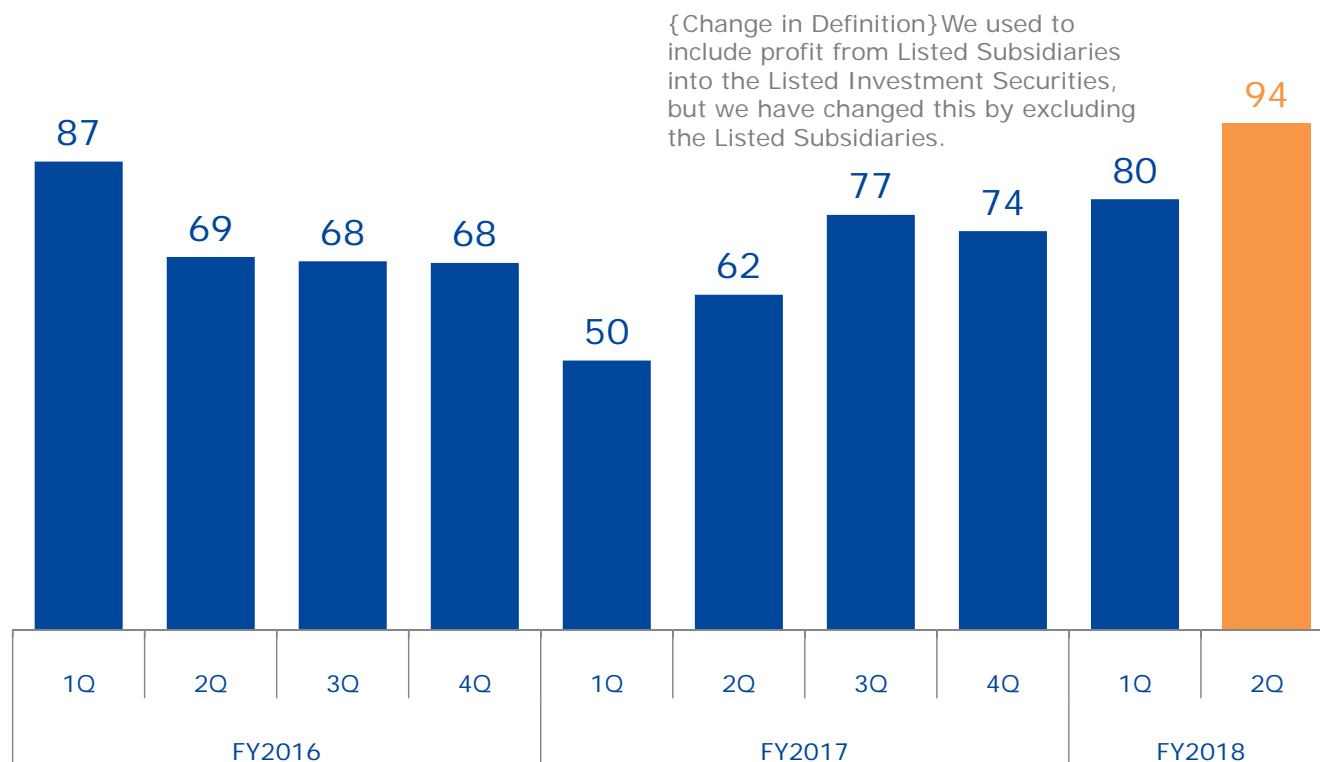
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Net Cash Assets

(Cash + Listed Securities) – Interest Bearing Liabilities

(Billions JPY)

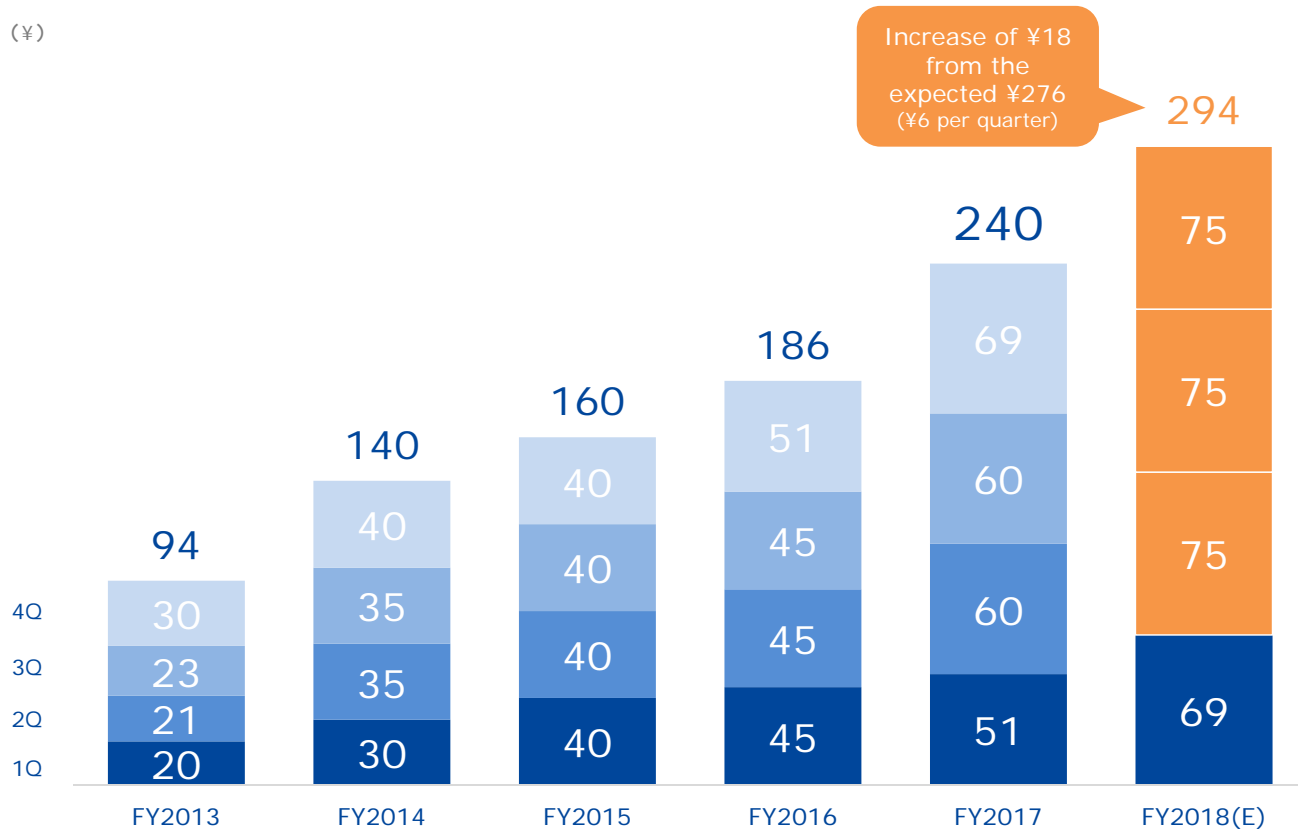


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Stable increase in dividends

(¥)



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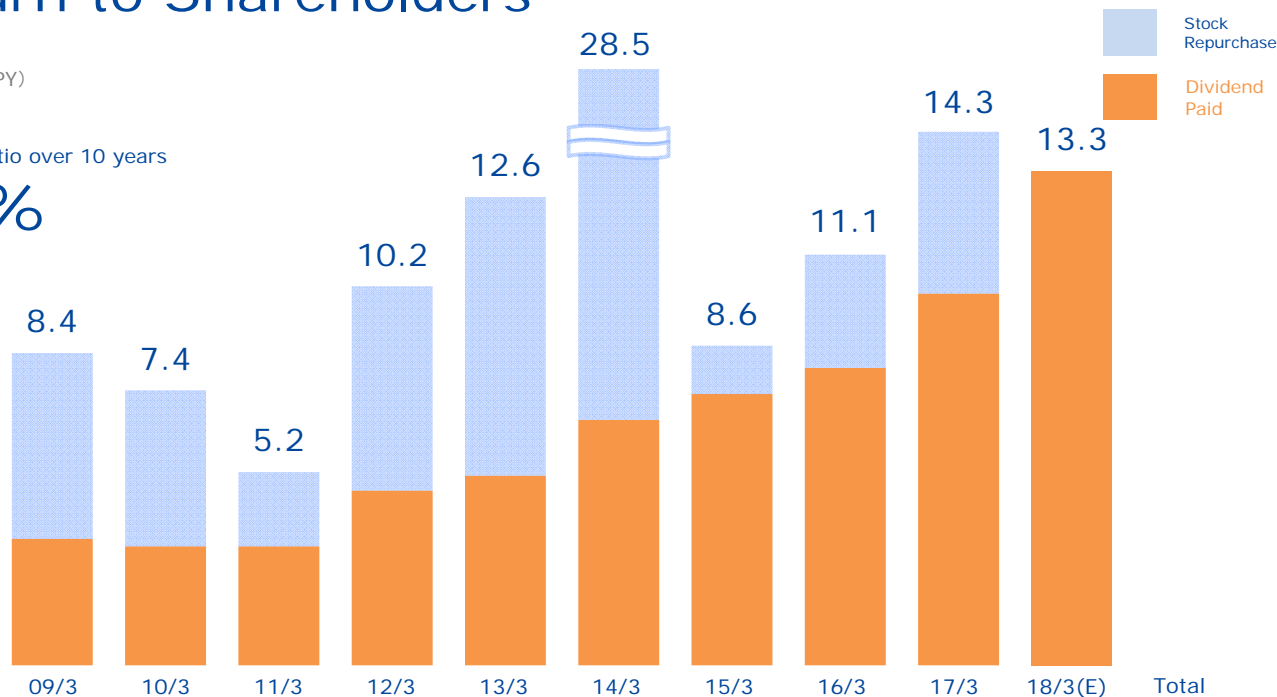
11

Return to Shareholders

(Billions JPY)

Return Ratio over 10 years

71%



	09/3	10/3	11/3	12/3	13/3	14/3	15/3	16/3	17/3	18/3(E)	Total
Dividend Paid	3.4	3.2	3.2	4.7	5.1	6.6	7.3	8.0	10.0	13.3	65.3
Stock Repurchase	5.0	4.2	2.0	5.6	7.6	22.0	1.3	3.0	4.3	-	54.8
Return Ratio	-	1057%	-	132%	75%	98%	42%	44%	36%	44%	71%

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Business Divisions

Business Divisions

Inner Ring: Segments
Outer Ring: Business Divisions



Communication Business

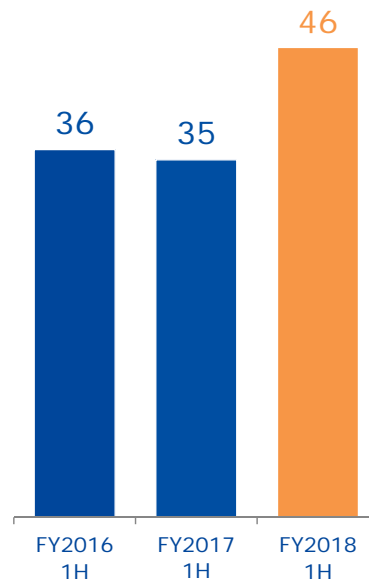
(MVNO, In-House Internet Service etc.)

Description: Sales of optical fiber line etc.
 Main Products: Mobile Wi-Fi Router, SIM card, etc.
 Classification: In-House Products, External Products

1) Figure

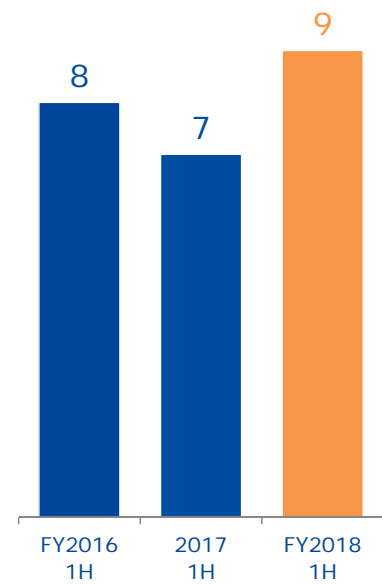


2) Net Sales (Billions JPY)



3) Operating Profit

(Billions JPY)



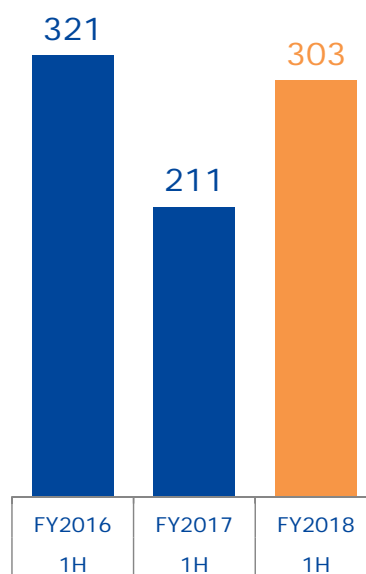
4) Recurring Profit

(Billions JPY)



5) Sales Units

※In-house Products (Thousand Units)



Expanding Sales of In-house products,
 increased revenue and profit resulted from improved productivity and increased stock profit.

Water Business

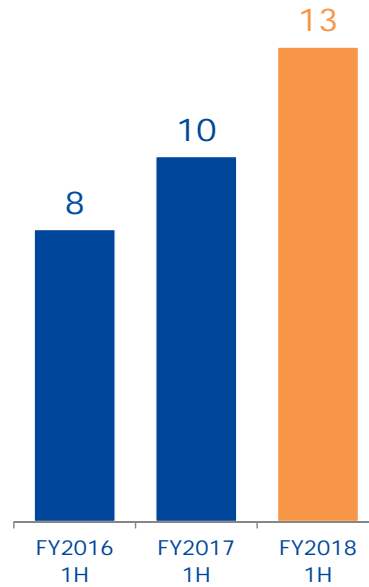
Description: From product development to Sales of Water Coolers etc.
 Main Products: Water Cooler
 Classification: In-House Products

1) Figure

Product development, manufacturing, quality control, sales, and after-sales services

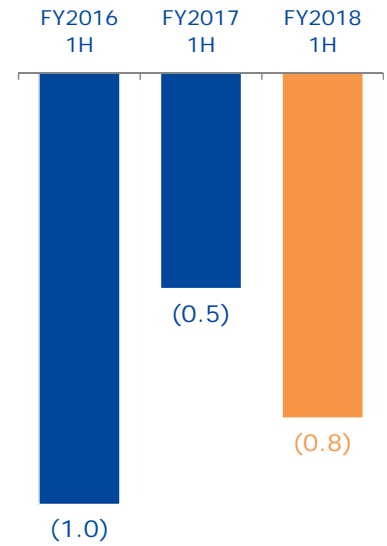


2) Net Sales (Billions JPY)



3) Operating Profit

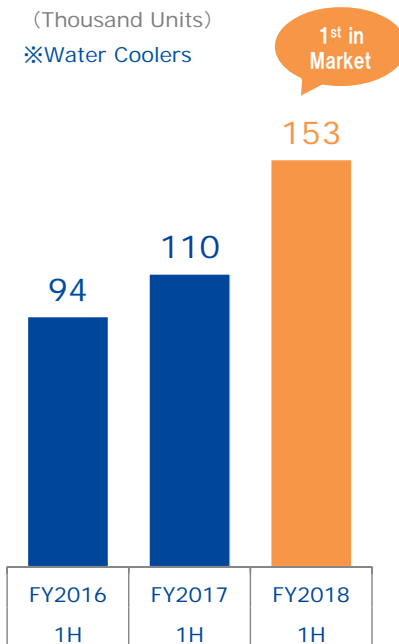
(Billions JPY)



4) Sales Units

(Thousand Units)

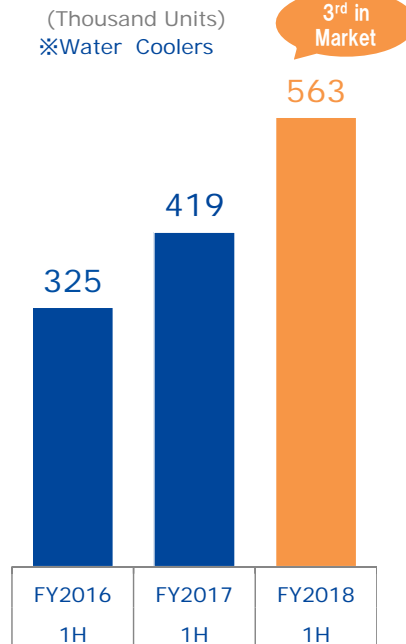
※Water Coolers



5) Cumulative Subscribers

(Thousand Units)

※Water Coolers



Increase in sales resulting in increased acquisition cost and decreased profits. But the number of cumulative subscribers is substantially increasing leading to increased recurring profits in future.

New Business

Description: IT Solutions, etc.
 Main Products: Contents, IT Solutions, Electricity, etc.
 Classification: In-House Products, Retail Products

1) Figure

Contents



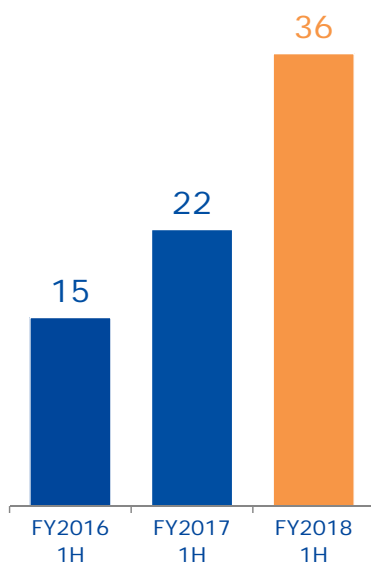
Industry-Specific IT Solutions



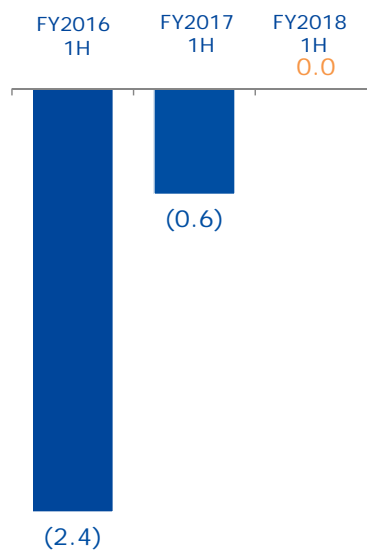
Electricity



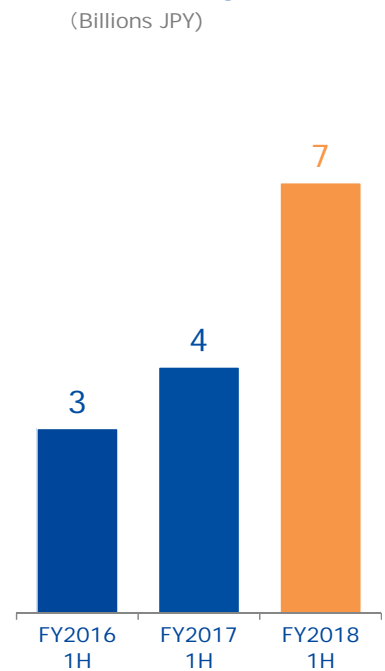
2) Net Sales (Billions JPY)



3) Operating Profit (Billions JPY)



4) Recurring Profit (Billions JPY)



Substantial increase in sales and profits.

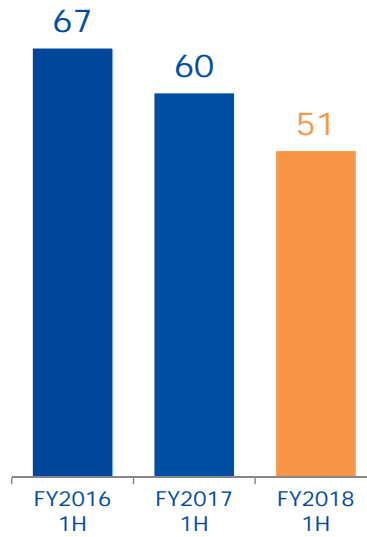
Office Equipment Business

Description: Sales of Office Automation Equipment
 Main Products: Photocopy Machine, Mobile Phone, LED Light etc.
 Classification: External Products

1) Figure

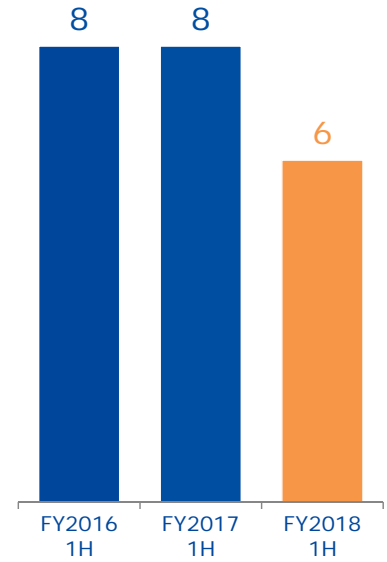


2) Net Sales (Billions JPY)



3) Operating Profit

(Billions JPY)



4) Recurring Profit

(Billions JPY)



Revenue declined due to a decline in sales of lump-sum profit-type products.

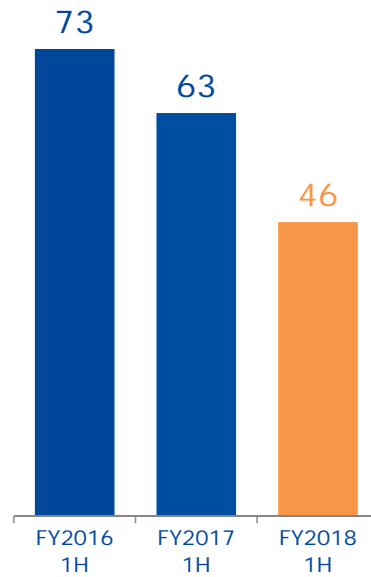
SHOP Business

Outline : Sales of Mobile Phones through telecom shops
 Products : Mobile Phone, MVNO etc.
 Model : External Products

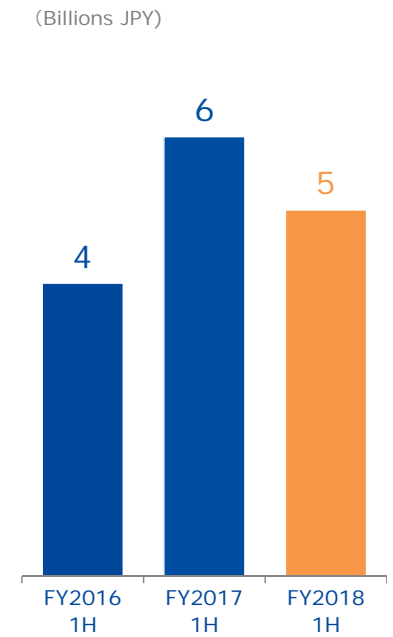
1) Figure



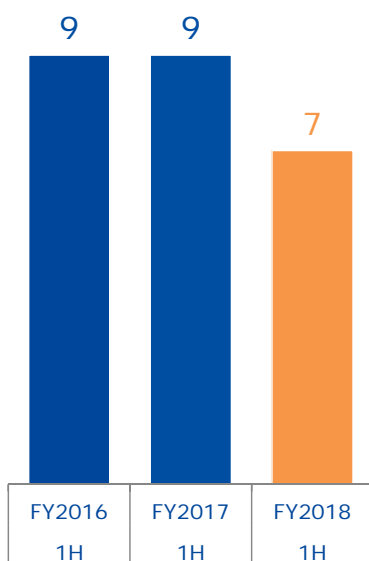
2) Net Sales (Billions JPY)



3) Operating Profit (Billions JPY)



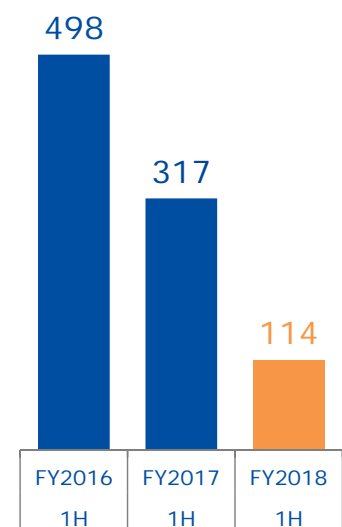
4) Recurring Profit (Billions JPY)



5) Total Stores



6) Directly Managed



In order to adapt to the changes in the market, we are changing our business management style to strengthen our operations.

Insurance Business

Description: Insurance products distribution through shops
 Main Products: Life, medical, property insurance, etc.
 Classification: Retail Products

1) Figure



2) Net Sales (Billions JPY)



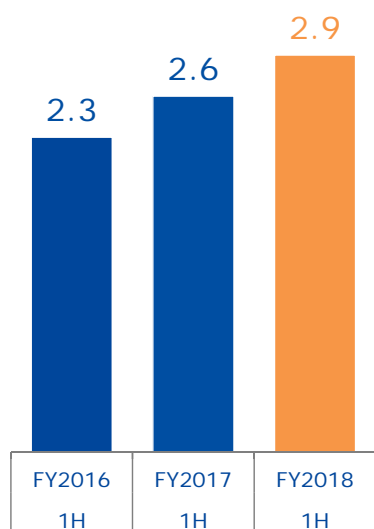
3) Operating Profit

(Billions JPY)

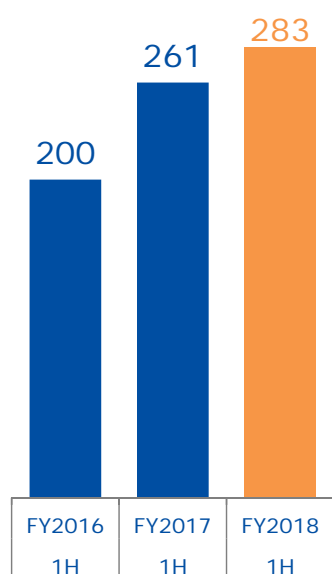


4) Recurring Profit

(Billions JPY)



5) Directly Managed Stores



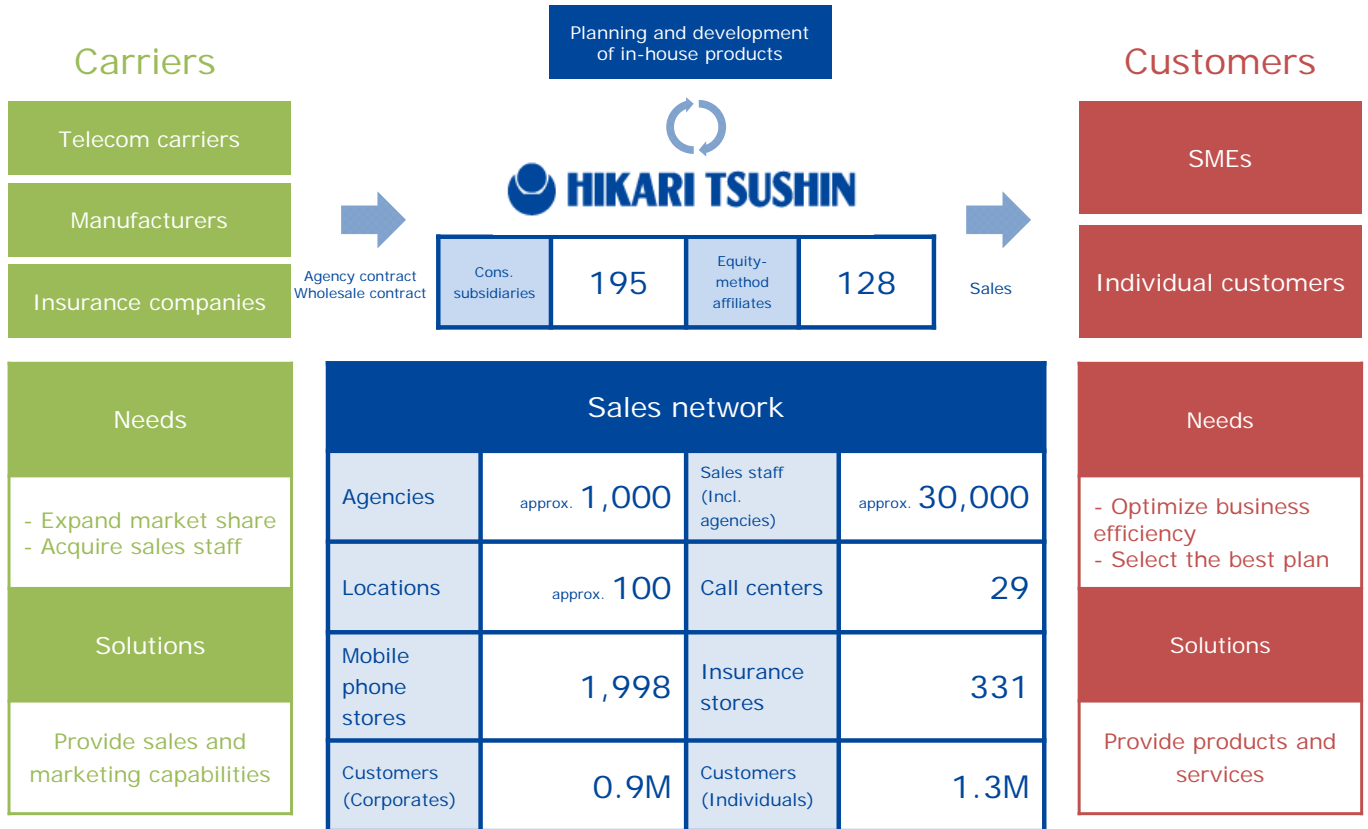
Increase in revenue due to expansion of call centers and strengthened collaboration between different sales networks, which consist of shops, online, and door-to-door.

Company Overview

Segments

	Business Division	Product/Service	Target		Sales network		
Corporate	Communication Line	Mobile Wi-Fi Router	SME	Individual	TMS	Web	
		SIM Card					
		FTTH, ISP					
	Water	Water Cooler	SME	Individual	TMS	Booth	
	New business	IT Solutions	SME			Door-to-door sales	
		Contents					
		Electricity				TMS	Door-to-door sales
	Office Equipment	Mobile Phone (Corporate)	SME	Individual	Door-to-door sales		
		OA Equipment	SME				
LED Lighting							
SHOP	SHOP	Mobile Phone (Shop)	Individual		Shop		
		Mobile Wi-Fi Router					
		SIM Card					
Insurance	Insurance	Insurance	Individual		TMS	Shop	

Overview of company business

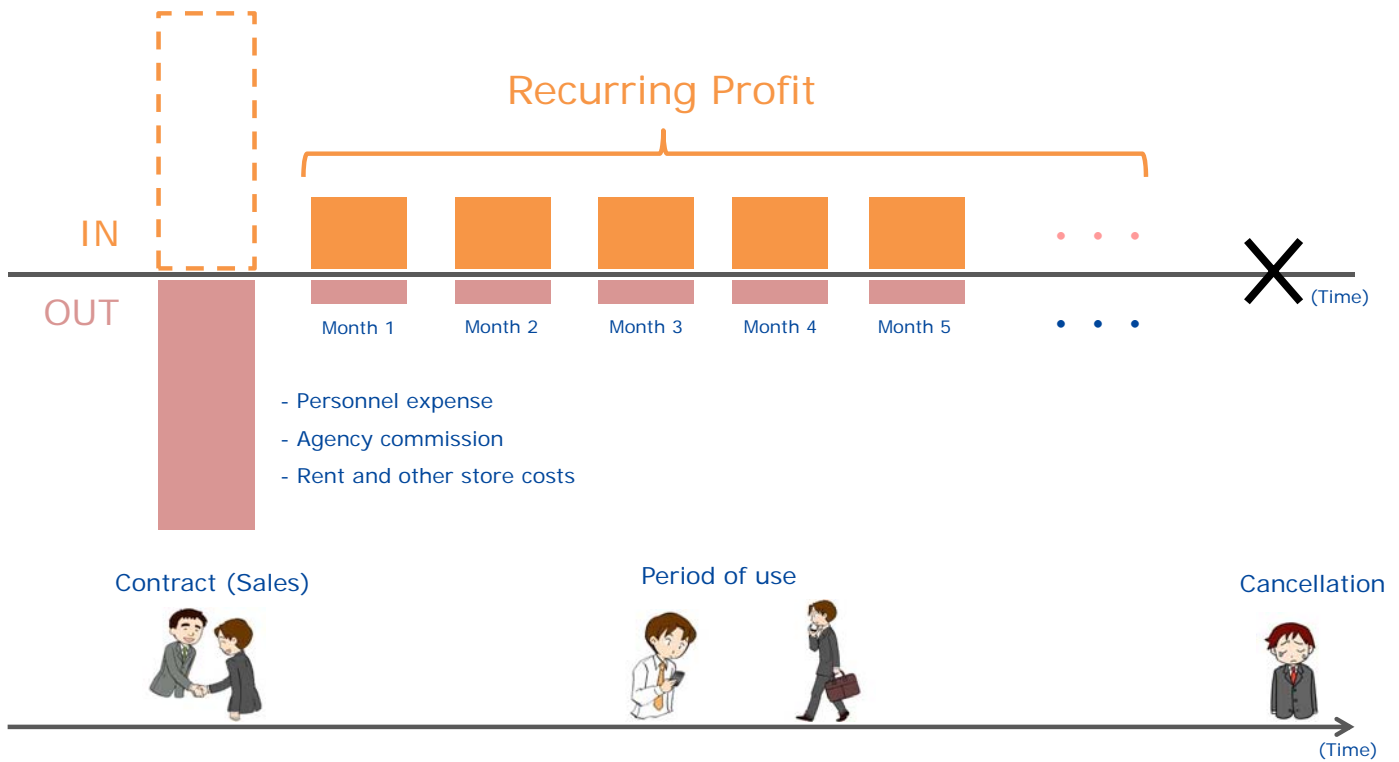


Main Products

In-House Products

1) Water Cooler No.1 in Industry (units sold per month)	2) Mobile Wi-Fi Routers No.1 in Industry (units sold per month)	3) Internet Service No.1 amongst independent companies	4) Industry Specific IT Solutions Over 18 million registered members
5) MVNO Rapid increase in units sold	6) Contents Selling well	7) Electricity Selling well	7) LED Light for Corporate clients No.1 in Industry (units sold per month)
8) Photocopy Machine No.2 amongst independent companies	9) Mobile Phone No.4 in Industry (units sold per month)	10) Insurance No.1 amongst independent companies	11) Fixed-line Internet No.1 in Industry (units sold per month)

Conceptual diagram of our typical recurring income earnings model



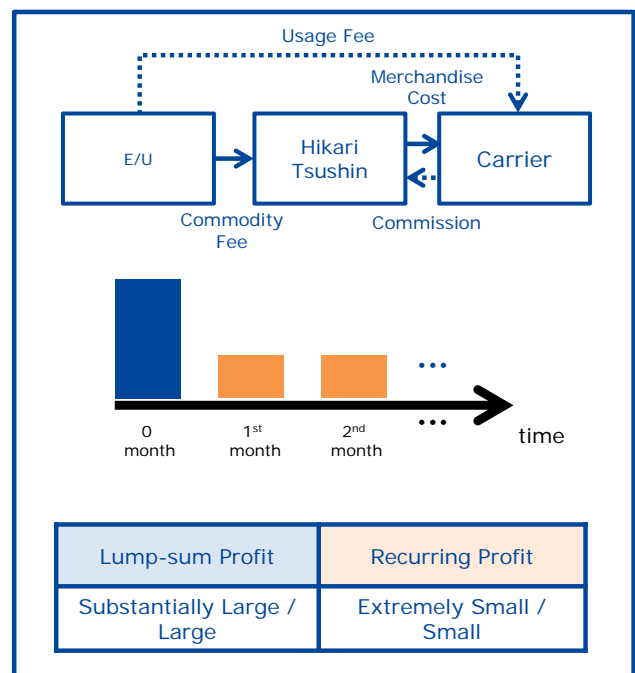
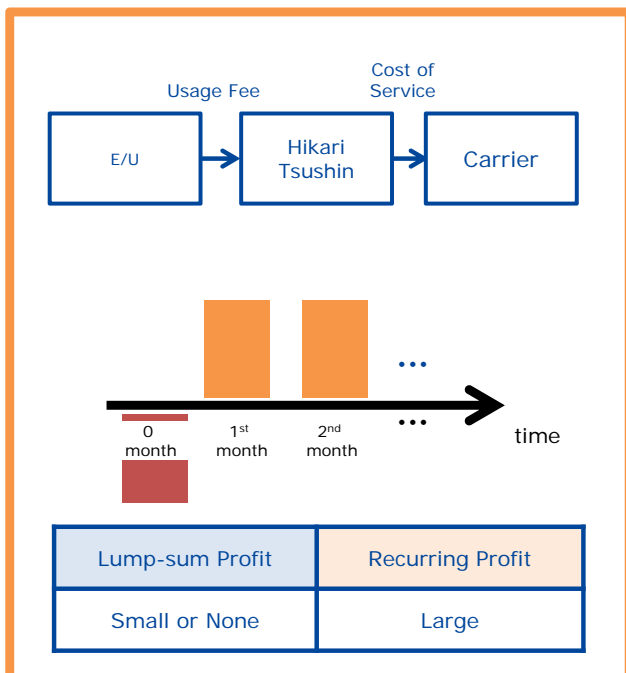
Business Models

① In-house Products

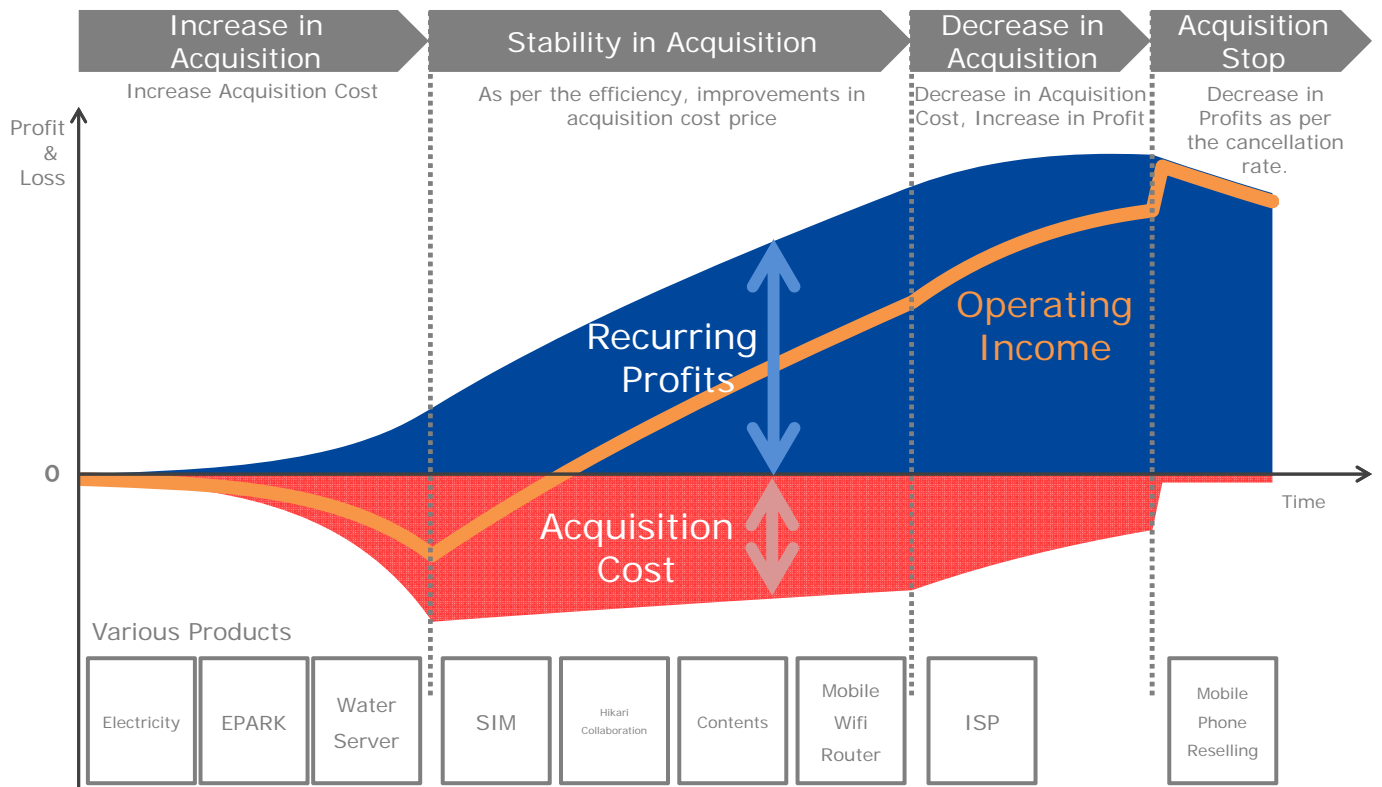
Mobile Wi-Fi router, Water Cooler, Electricity...

② Third-party products

FTTH, Office equipment, LED lighting, Mobile phone, insurance...



Operating Profit Model for In-House Products



References

[Reference] Implications of Franchising on Accounting

- ※ The amounts shown here are used purely as an example to illustrate the effects that accounting standards have on the representation of data.
- ※ The example below only considers the device price, as the sales charge is unaffected by changes in accounting standards.
- ※ The example below is based on IFRS accounting standards. By J-GAAP standards, the changes in sales channels does not affect the total price indicated.

	Direct-Sales (Gross amount)	Sales agency (Net amount)	
	Booked amount	Booked amount	Difference
Revenue	80,000 JPY	0 JPY	(80,000) JPY
Cost of Goods Sold	(80,000) JPY	0 JPY	+80,000 JPY
Gross Profit	0 JPY	0 JPY	0 JPY

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Consolidated Statements of Profit or Loss

(Billions JPY)

	14/3	15/3	16/3		17/3
	J-GAAP	J-GAAP	J-GAAP	IFRS	IFRS
Net Sales	565.1	562.5	574.5	447.6	428.9
Operating Profit	31.7	32.0	37.4	37.6	41.5
Ordinary Income	39.7	36.5	38.3	-	-
Net Income Pre-tax	49.6	45.8	51.1	47.9	62.7
Net Income Attributable to Shareholders	29.3	20.7	25.0	22.5	39.0
Earnings Per Share (JPY)	623	450	538	485	840
Operating Profit Margin	5.6%	5.7%	6.5%	8.4%	9.7%

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Consolidated Statement of Financial Position

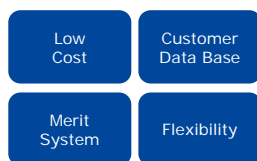
(Billions JPY)

	FY2016	FY2017
Cash and Cash Equivalents	52.9	119.3
Accounts Receivables and Other Receivables	136.8	150.6
Total Current Assets	213.5	312.2
Investments Accounted for using Equity Method	11.7	34.5
Other Financial Assets	130.8	108.1
Total Non-Current Assets	194.4	199.2
Total Assets	408.0	511.4
	FY2016	FY2017
Own Capital	158.6	180.4
Capital Adequacy Ratio	38.9%	35.3%

	FY2016	FY2017
Accounts Payables and Other Payables	98.8	107.4
Short-term Interest-bearing Debt	58.3	40.7
Total Current Liabilities	176.2	162.5
Long-term Interest-bearing Debt	41.2	132.4
Total Non-Current Liabilities	58.9	155.2
Total Liabilities	235.2	317.8
Total Hikari Tsushin's Shareholder's Equity	125.2	150.0
Accumulated other comprehensive income	33.3	30.4
Total Equity	172.7	193.6
Total Liabilities and Equity	408.0	511.4

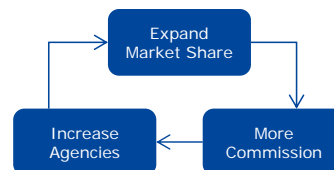
Strengths

1) Corporate Philosophy



Our unique corporate philosophy and work culture have enhanced our earnings since our establishment.

2) Sales Channels



We are rapidly expanding our market share by strengthening our network of sales agencies.

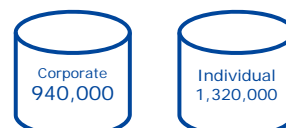
3) Recurring Profit Business Model

(Billions JPY)



Stable income each month enables us to invest in expanding our business.

4) Our Customers



Our diversified customer base allows us to increase our profits by virtue of extensive cross selling.

Corporate Social Responsibility

Improving our Work Environment

1) Promoting Diversity

In line with our rapidly diversifying business society, we are committed to promoting diversity within the Hikari Tsushin Group. We are also active in our support of childcare and reinstatement.



3) Compliance with the Toshima Ikuboss Declaration

The Ikuboss Declaration is intended to alter Japan's work culture to encourage and foster individual happiness along with work productivity. We are proud supporters of this movement.

※ The Toshima Ikuboss Declaration (commonly known as "The Ikuboss Declaration") was created in September, 2016 by a team of business leaders, politicians, and academics.



5) Acquisition of "Kurumin" Certificate

We were recently acknowledged by the Japanese Labor Bureau as a business focused on promoting the next generation of workers. We received the "Kurumin" certification mark, and we continue to work and take pride in our younger generation of employees.



Hikari Tsushin's CSR

2) Bottle Cap Collection for vaccine donations

We collect and donate plastic bottle caps to Japan Committee Vaccines (NPO), which provides vaccines for children around the world. More than 332 million caps were donated by March, 2017, resulting in provision of 3,761 vaccines.



4) Used Stamp Donation

We have been donating used stamps to Toshima Ward Residents Council of Social Welfare since March, 2013. Collected stamps are converted into cash for donation.



6) Toshima ward Cleaning Drive

We have declared 9th of every month as "Clean Day", when we conduct a cleaning drive around Ikebukuro Station. In FY 2016 we were awarded the "Letter of Appreciation" from the Toshima Ward Office, commending us as an organization that promotes Environmental Activities.



Disclaimer

This material contains "forward-looking" information, including the company's plans, strategies, forecasts, and beliefs. Hikari Tsushin cautions readers that said forward-looking statements are based on Hikari Tsushin's current expectations, which have been derived from information that is currently available and involve a number of risks and uncertainties. Actual results may differ significantly from the information shown here.

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