



Financial Results

for the nine months ended on December 31, 2017

February 14, 2018

Consolidated Results

(Billions JPY)

| | FY2016 | FY2017 | FY2018 | YoY | | Notes |
|--|--------|--------|--------|-----------|----------|--|
| | Q1-3 | Q1-3 | Q1-3 | Increment | % Change | |
| Net Sales | 328.7 | 313.7 | 311.1 | (2.5) | +0% | - |
| Operating Profit | 26.5 | 29.2 | 36.2 | +6.9 | +23% | Increase in recurring profit, improvement in productivity, disposal of in-house real estate, etc. |
| Net Income Attributable to Shareholders | 20.9 | 31.8 | 27.3 | (4.4) | (14%) | Decrease in financial revenue and Changes in the affiliate companies accounted for by the equity method led to decrease in investment returns. |

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Net Sales and Operating Profit

(Billions JPY)

Net Sales

| | FY2016 | FY2017 | FY2018 | % Change |
|---|--------|--------|--------|----------|
| | Q1-3 | Q1-3 | Q1-3 | |
| Corporate | 192.0 | 196.3 | 224.1 | +14% |
| Shop | 116.2 | 97.1 | 67.9 | (29%) |
| Insurance | 22.4 | 21.7 | 20.3 | (6%) |
| Total (Including company wide expenses) | 328.7 | 313.7 | 311.1 | +0% |

Operating Profit

| | FY2016 | FY2017 | FY2018 | % Change |
|---|--------|--------|--------|----------|
| | Q1-3 | Q1-3 | Q1-3 | |
| Corporate | 18.7 | 20.7 | 25.1 | +20% |
| Shop | 8.0 | 9.2 | 8.4 | (7%) |
| Insurance | 3.6 | 2.8 | 3.3 | +18% |
| Total (Including company wide expenses) | 26.5 | 29.2 | 36.2 | +23% |

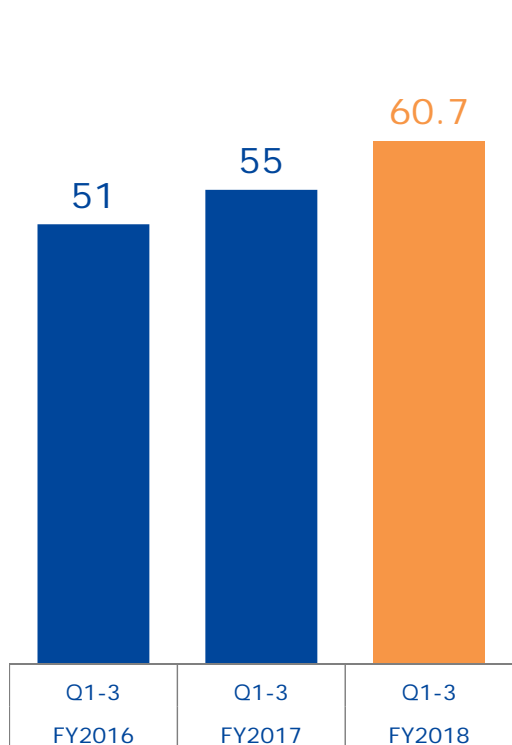
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Recurring Profit

Steady Increase in Corporate Segment

(Billions JPY)



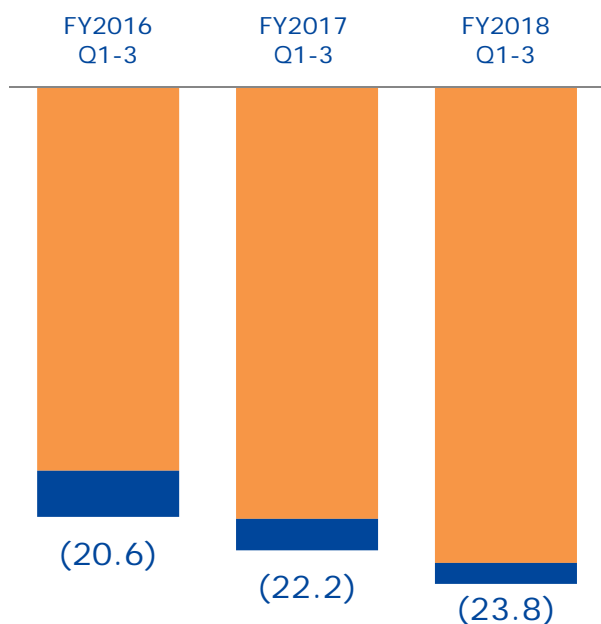
| | FY2016 | FY2017 | FY2018 | % Change |
|--|-------------|-------------|-------------|-------------|
| | 1H | 1H | 1H | |
| Corporate | 32.6 | 36.7 | 44.7 | +21% |
| SHOP | 14.8 | 14.2 | 11.5 | (18%) |
| Insurance | 3.4 | 4.0 | 4.4 | +10% |
| Total <small>(Including company wide expenses)</small> | 51.0 | 55.0 | 60.7 | +10% |

Acquisition Cost

(Increase in acquisition of In-House Products)

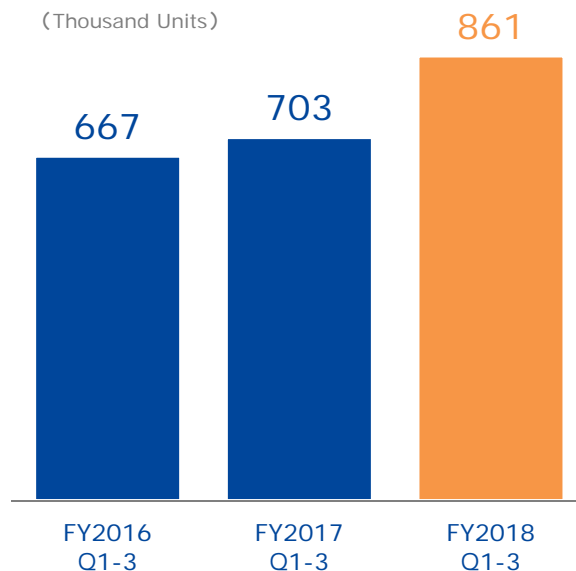
(Billions JPY)

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



Sales Units of In-House Products

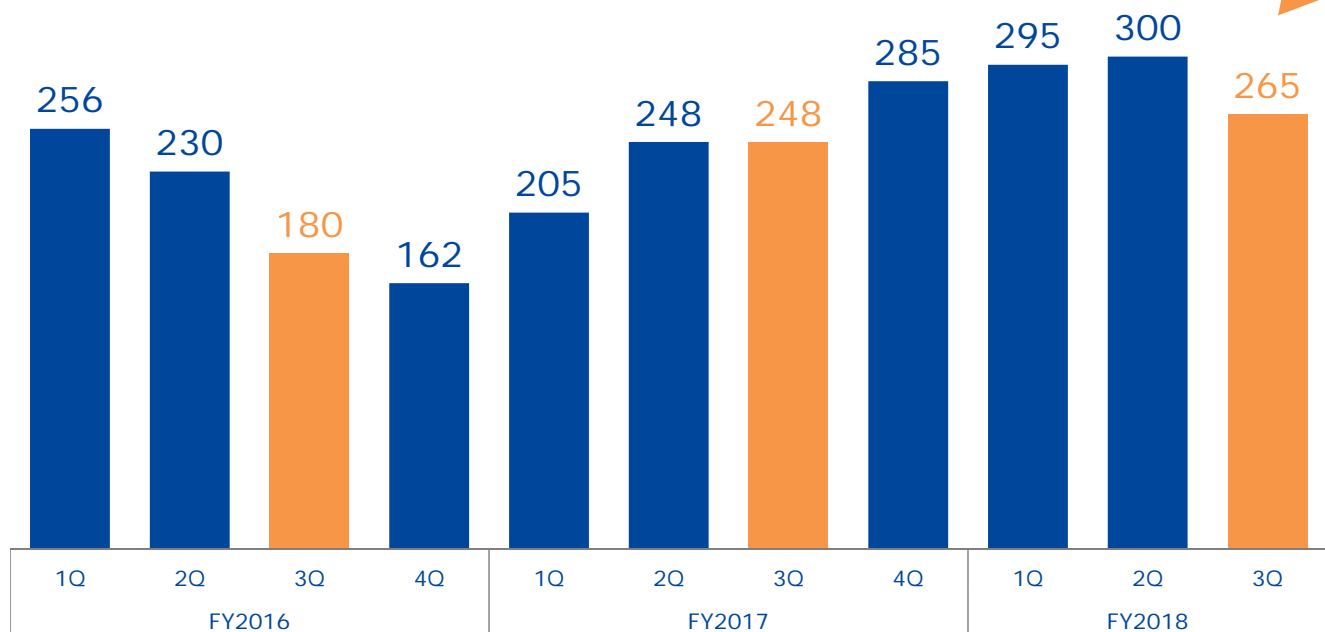
(Thousand Units)



Number of Units Acquired In-house Products

(Thousand Units)

2Q → 3Q
Decrease in Water Sever
(Seasonal factor) and
SIM Card



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

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Non-Operating Profit

(Billions JPY)

| | FY2017 Q1-3 | FY2018 Q1-3 | Increment | Notes |
|--|----------------|----------------|-----------|--|
| Operating Profit | 29.2 | 36.2 | +6.9 | - |
| Financial Income and Financial Expense | 8.8 | 1.2 | (7.6) | Decrease in gains on sale of investment securities |
| Share of profit of Investments accounted for using the equity method | 4.0 | (0.1) | (4.2) | Change in the affiliate companies accounted for by the equity method |
| Others | 0.7 | 5.8 | (1.8) | Decrease in profit due to the re-measurement made for the application of the equity method |
| Net Income Pre-tax | 49.8 | 43.1 | (6.7) | - |
| Corporate income tax expenses | (16.5) | (13.9) | +2.5 | - |
| Non-controlling interests | (1.4) | (1.8) | (0.3) | - |
| Net Income | 31.8 | 27.3 | (4.4) | - |

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Progress with respect to FY2018 Forecast

(Billions JPY)

| | FY2018 Q1-3 | FY2018 | |
|--|-------------|------------------------------------|----------------------------------|
| | Result | Forecast | Progress Rate |
| Net Sales | 311.1 | 400.0 | 77% |
| Operating Profit | 36.2 | 46.5 | 78% |
| Net Profit Attributable to Shareholders | 27.3 | 32.0 (Before correction : 30.0) | 85% (Before correction : 91%) |

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Consolidated Cash Flow

(Billions JPY)

| | FY2016 | FY2017 | FY2018 | Notes |
|-------------------------------------|--------|--------|--------|---|
| | Q1-3 | Q1-3 | Q1-3 | |
| Cash Flow from Operating Activities | +1.6 | +9.1 | +16.5 | Decrease in Corporate Tax Payment. |
| Cash Flow from Investing Activities | +10.8 | (2.2) | (28.0) | Acquisition of Investment Securities. |
| Free Cash Flow | +12.4 | +6.9 | (11.4) | - |
| Cash Flow from Financial Activities | (5.6) | +26.5 | +40.7 | Increase in Borrowings and Issuance of Corporate Bonds. |

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Net Cash Assets

(Cash + Listed Securities) – Interest Bearing Liabilities

(Billions JPY)

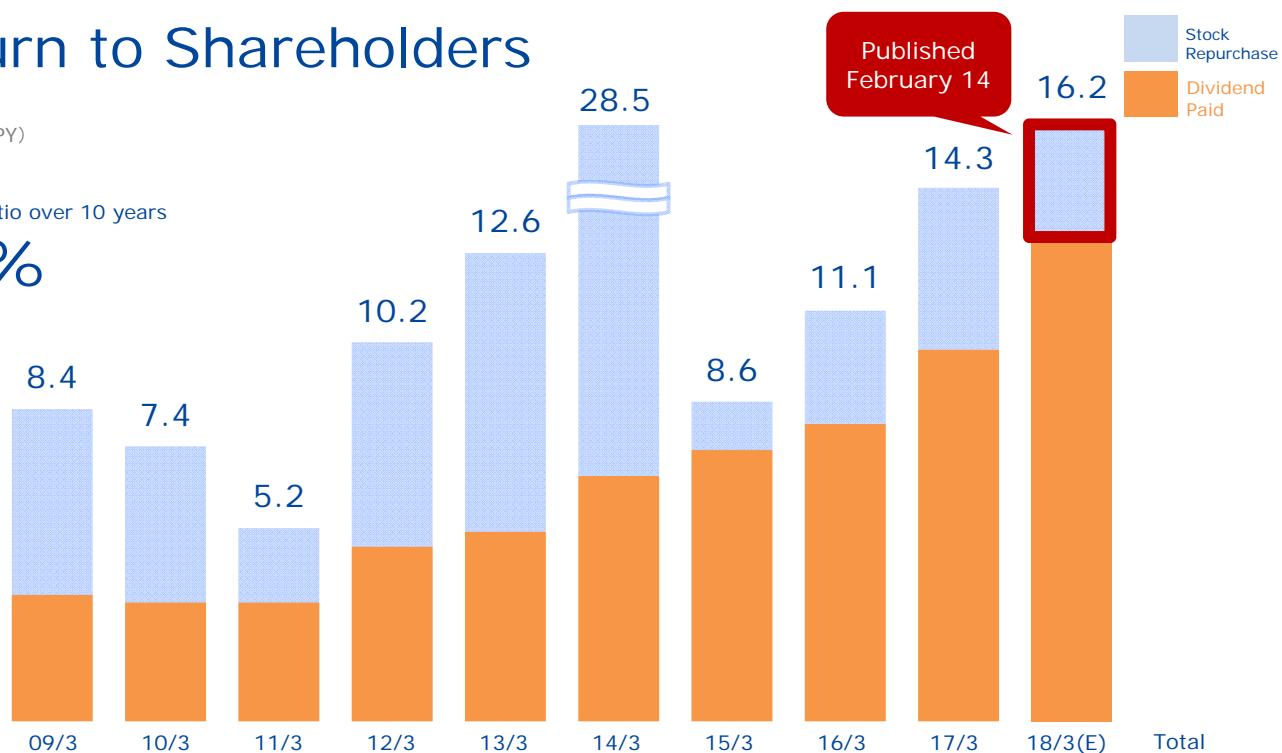


Return to Shareholders

(Billions JPY)

Return Ratio over 10 years

72%



| | 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 | 13.2 | 65.3 |
| Stock Repurchase | 5.0 | 4.2 | 2.0 | 5.6 | 7.6 | 22.0 | 1.3 | 3.0 | 4.3 | 3.0 | 57.8 |
| Return Ratio | - | 1057% | - | 132% | 75% | 98% | 42% | 44% | 36% | 50% | 72% |

Business Divisions

Business Divisions

Inner Ring: Segments
Outer Ring: Business Divisions



Communication Business

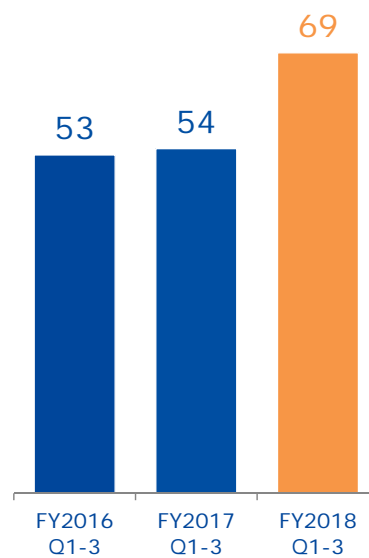
(MVNO, In-House Internet Service etc.)

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

1) Figure

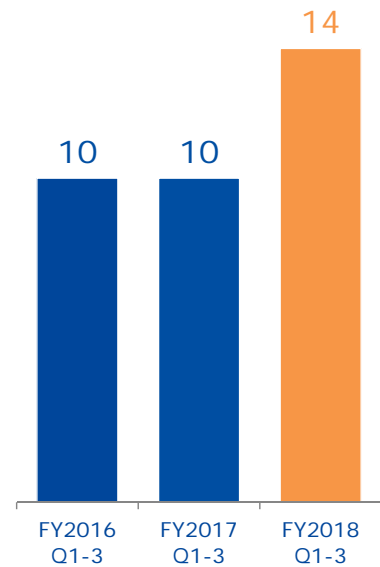


2) Net Sales (Billions JPY)



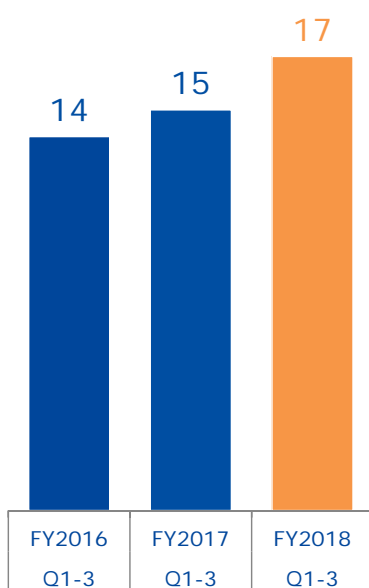
3) Operating Profit

(Billions JPY)



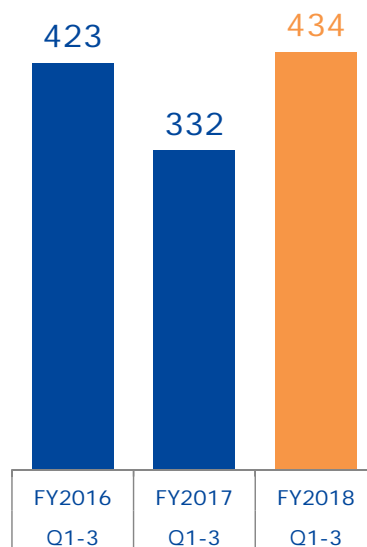
4) Recurring Profit

(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

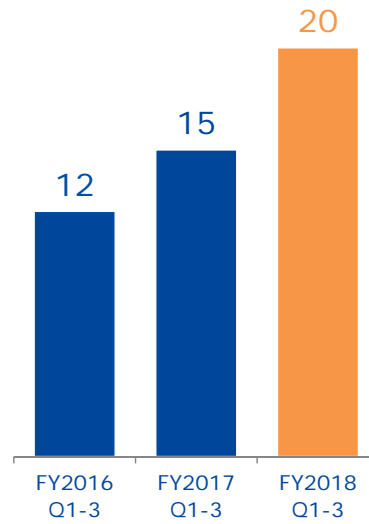
Description: From product development to Sales of Water Coolers etc.
 Main Products: Water Cooler
 Classification: In-House Products

1) Figure

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

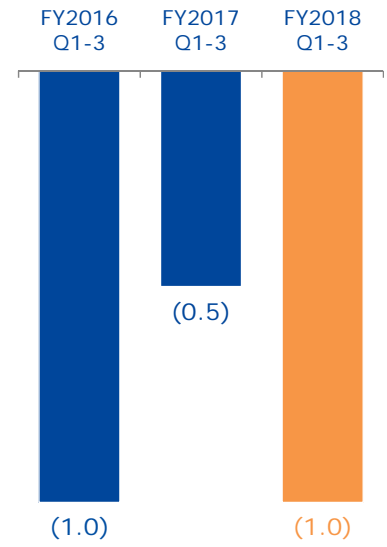


2) Net Sales (Billions JPY)



3) Operating Profit

(Billions JPY)

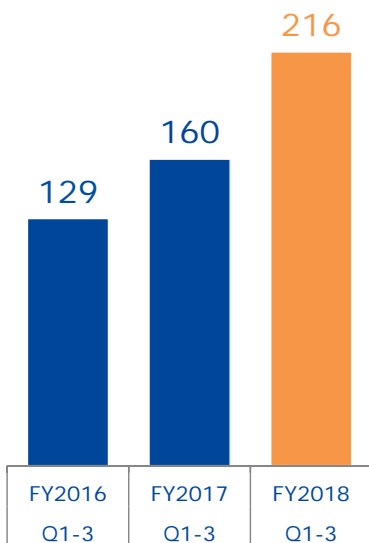


4) Sales Units

(Thousand Units)

※Water Coolers

1st in Market

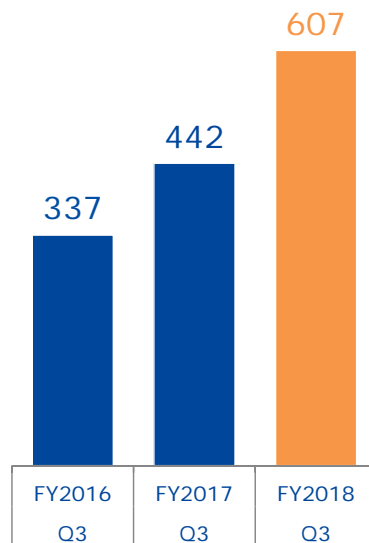


5) Cumulative Subscribers

(Thousand Units)

※Water Coolers

3rd in Market



The increase in sales means increased customer 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

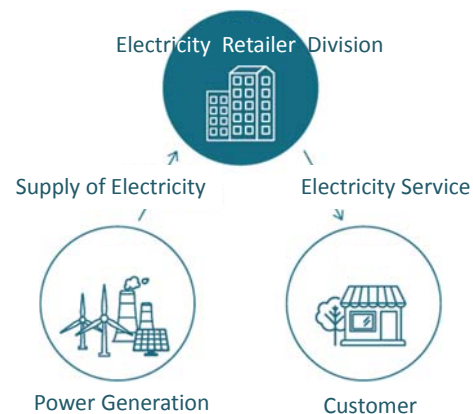
Contents



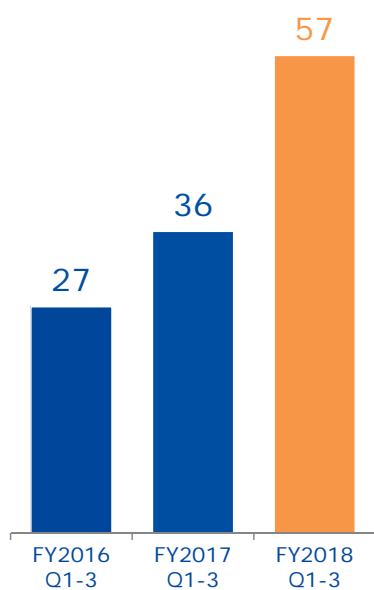
Industry-Specific IT Solutions



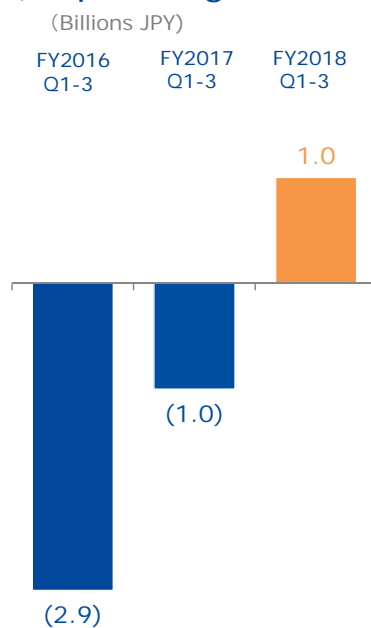
Electricity



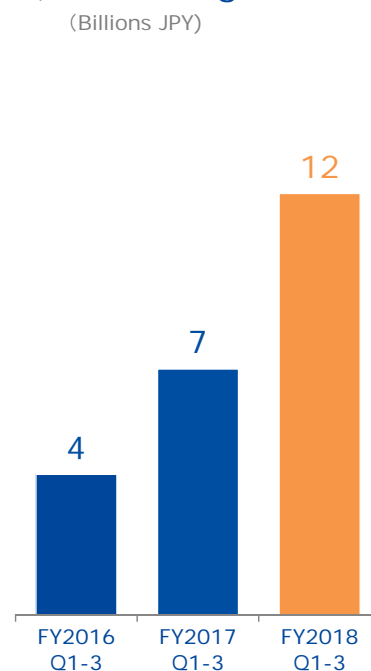
2) Net Sales (Billions JPY)



3) Operating Profit (Billions JPY)



4) Recurring Profit (Billions JPY)



Substantial increase in sales and profits.

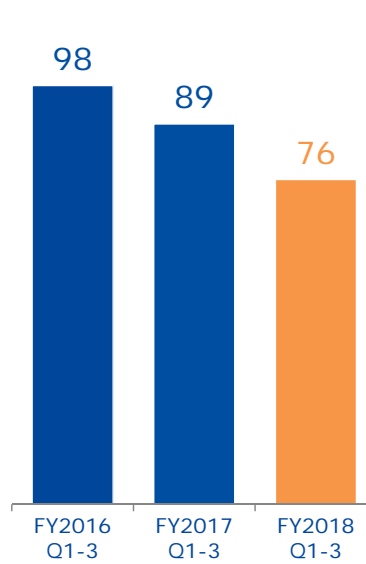
Office Equipment Business

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

1) Figure

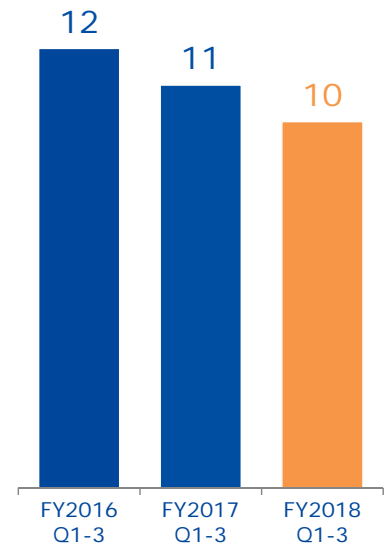


2) Net Sales (Billions JPY)



3) Operating Profit

(Billions JPY)



4) Recurring Profit

(Billions JPY)



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

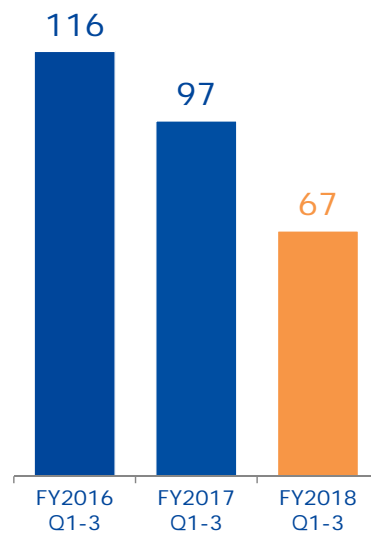
SHOP Business

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

1) Figure



2) Net Sales (Billions JPY)



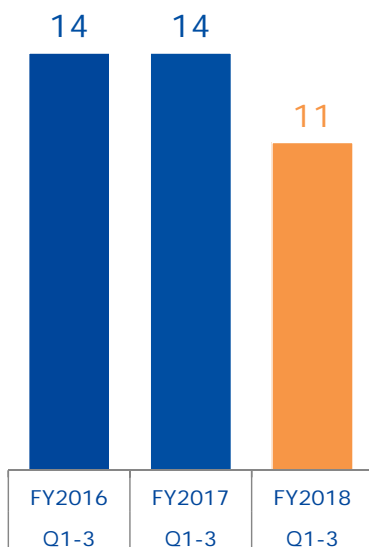
3) Operating Profit

(Billions JPY)



4) Recurring Profit

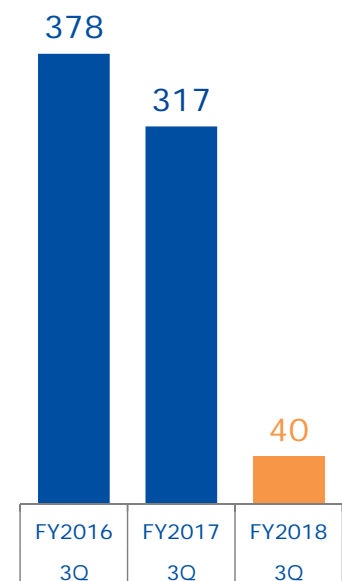
(Billions JPY)



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

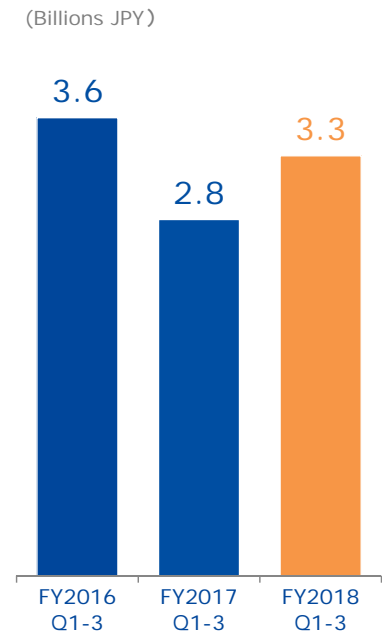
1) Figure



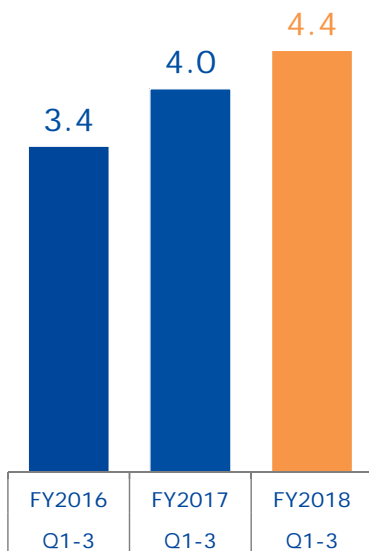
2) Net Sales (Billions JPY)



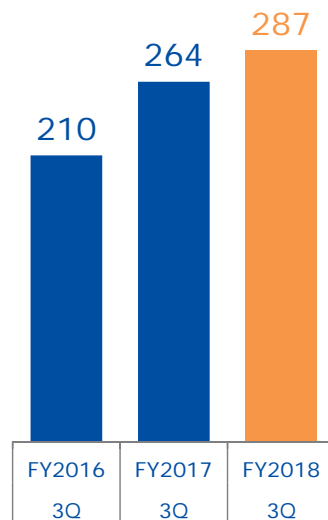
3) Operating Profit (Billions JPY)



4) Recurring Profit (Billions JPY)



5) Directly Managed Stores



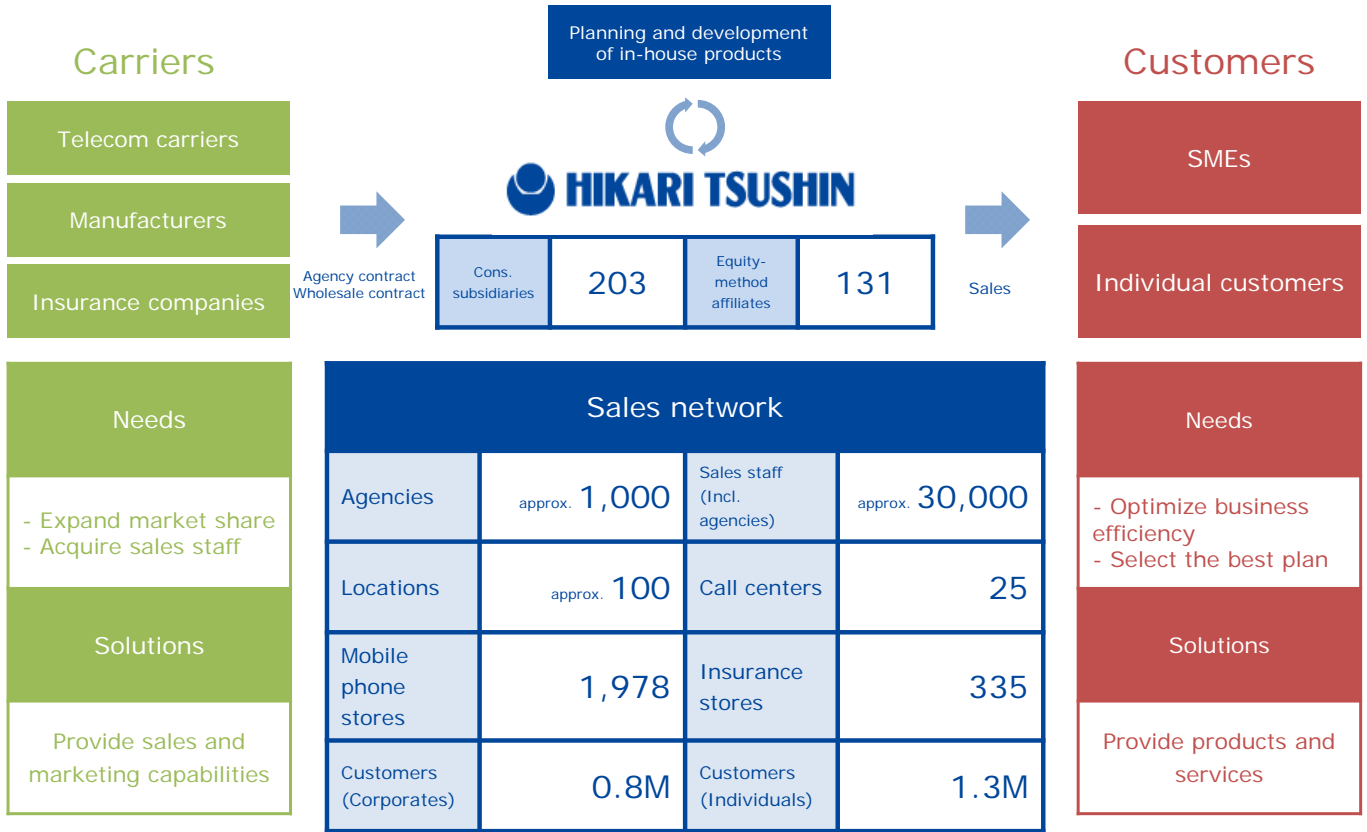
Increase in revenue due to expansion of call centers and strengthened collaboration among different sales networks, which consist of shops, online, and door-to-door.

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 | |

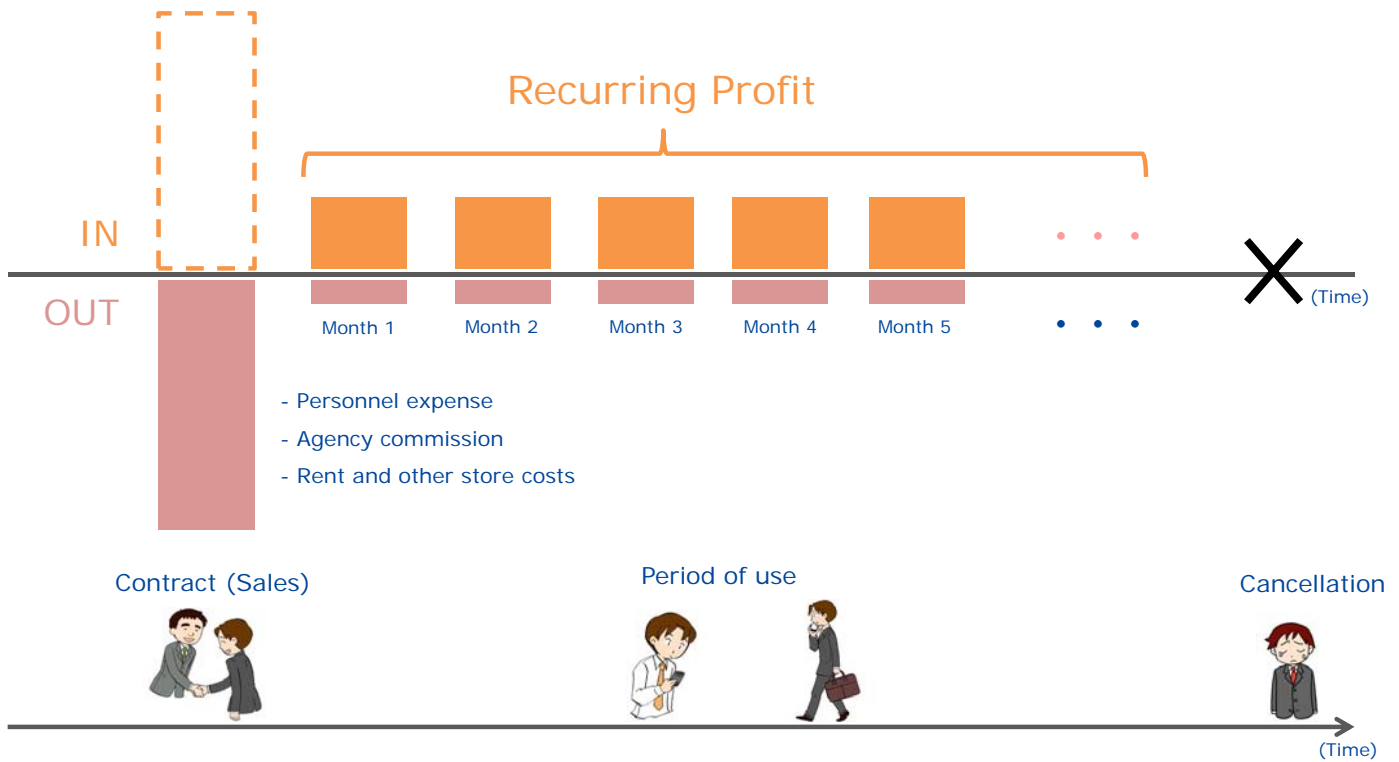
Overview of company business



Main Products

| | | | In-House Products |
|---|---|---|---|
| 1) Water Cooler | 2) Mobile Wi-Fi Routers | 3) Internet Service | 4) Industry Specific IT Solutions |
| No.1 in Industry (units sold per month) | No.1 in Industry (units sold per month) | No.1 amongst independent companies | Over 19 million registered members |
| 5) MVNO | 6) Contents | 7) Electricity | 7) LED Light for Corporate clients |
| Rapid increase in units sold | Selling well | Selling well | No.1 in Industry (units sold per month) |
| 8) Photocopy Machine | 9) Mobile Phone | 10) Insurance | 11) Fixed-line Internet |
| No.2 amongst independent companies | No.4 in Industry (units sold per month) | No.1 amongst independent companies | No.1 in Industry (units sold per month) |

Conceptual diagram of our typical recurring income earnings model



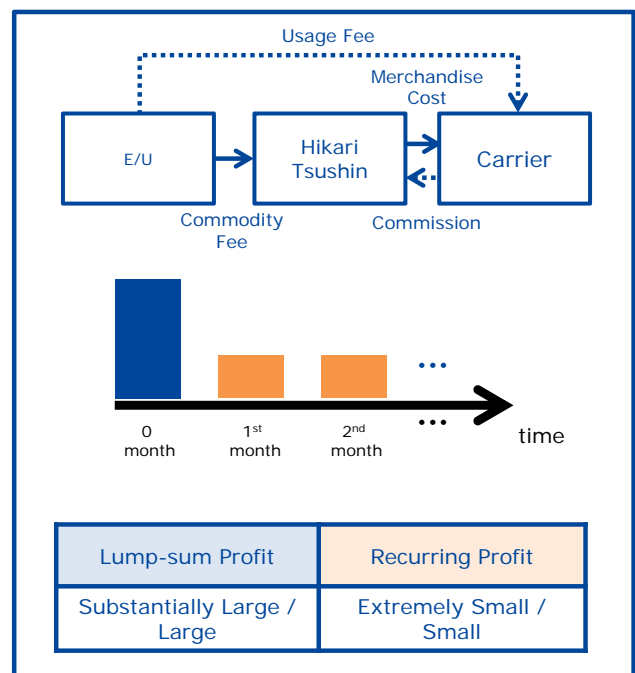
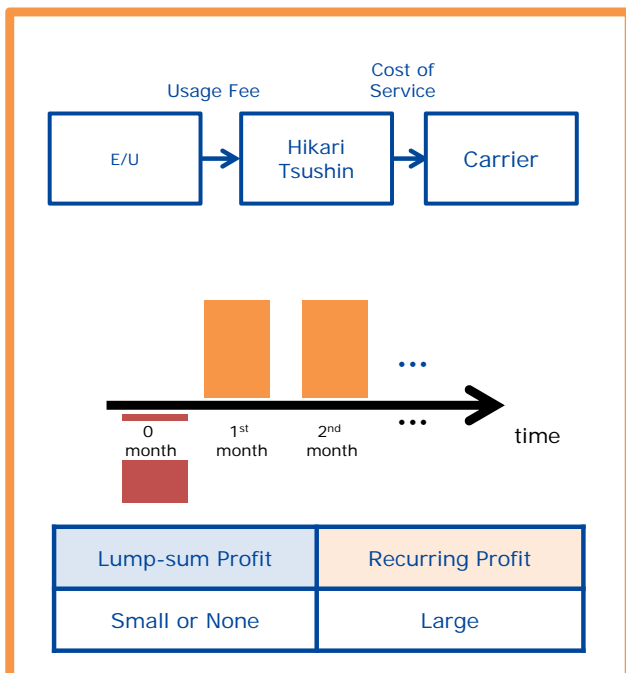
Business Models

① In-house Products

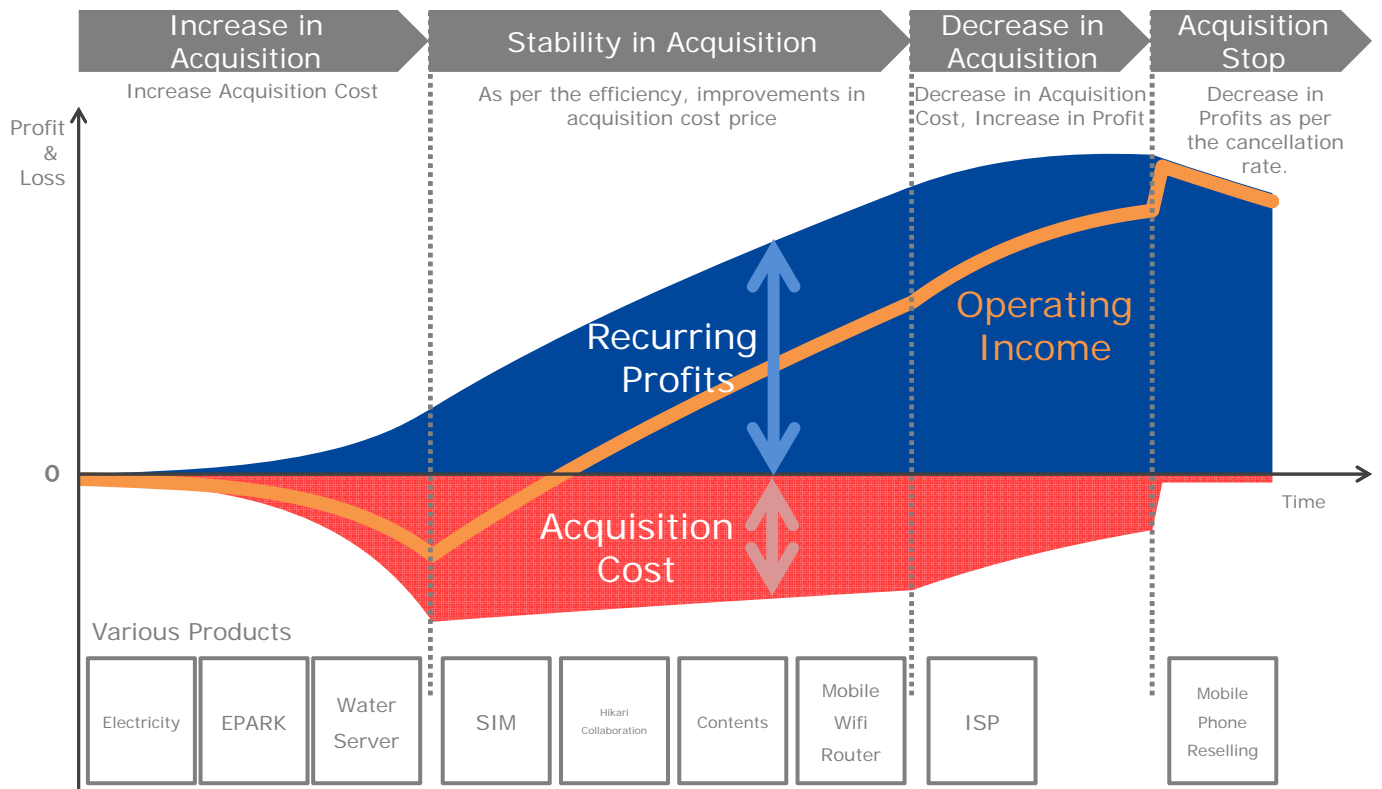
Mobile Wi-Fi router, Water Cooler, Electricity...

② Third-party products

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



Operating Profit Model for In-House Products



References

[Reference] 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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[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)

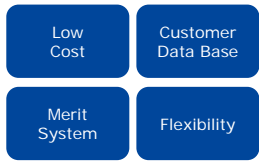
| | FY2016 | FY2017 | | FY2016 | FY2017 |
|---|--------|--------|---|--------|--------|
| Cash and Cash Equivalents | 52.9 | 119.3 | Accounts Payables and Other Payables | 98.8 | 107.4 |
| Accounts Receivables and Other Receivables | 136.8 | 150.6 | Short-term Interest-bearing Debt | 58.3 | 40.7 |
| Total Current Assets | 213.5 | 312.2 | Total Current Liabilities | 176.2 | 162.5 |
| Investments Accounted for using Equity Method | 11.7 | 34.5 | Long-term Interest-bearing Debt | 41.2 | 132.4 |
| Other Financial Assets | 130.8 | 108.1 | Total Non-Current Liabilities | 58.9 | 155.2 |
| Total Non-Current Assets | 194.4 | 199.2 | Total Liabilities | 235.2 | 317.8 |
| Total Assets | 408.0 | 511.4 | Total Hikari Tsushin's Shareholder's Equity | 125.2 | 150.0 |
| | FY2016 | FY2017 | Accumulated other comprehensive income | 33.3 | 30.4 |
| Own Capital | 158.6 | 180.4 | Total Equity | 172.7 | 193.6 |
| Capital Adequacy Ratio | 38.9% | 35.3% | Total Liabilities and Equity | 408.0 | 511.4 |

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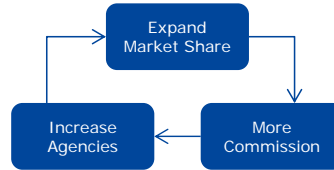
Strengths

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.

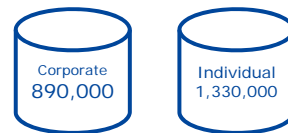
3) Recurring Profit Business Model

(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.



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.



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.



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.



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.



6) Toshima ward Cleaning Drive

We have declared the 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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