



Financial Results

for the six months ended September 30, 2018

November 13, 2018

Consolidated Results

Operating profits grew due to cost reduction, increased productivity

(Billions JPY)

	FY2017	FY2018	FY2019	YoY	
	H1	H1	H1	Increment	% Change
Net Sales	205.8	205.9	226.7	+20.8	+10%
Operating Profit	20.1	23.5	30.2	+6.7	+28%
Net Income Attributable to Shareholders	19.3	17.8	20.0	+2.2	+12%

※The results of FY2018 is after incorporating IFRS 15.

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Net Sales and Operating Profit

Increase in Sales and Profits in the Corporate Segment

(Billions JPY)

Net Sales

	FY2017	FY2018	FY2019	% Change
	H1	H1	H1	
Corporate	128.5	146.8	176.4	+20%
SHOP	63.2	46.5	37.1	(20%)
Insurance	15.1	13.5	14.1	+4%
Total (Including company wide expenses)	205.8	205.9	226.7	+10%

Operating Profit

	FY2017	FY2018	FY2019	% Change
	H1	H1	H1	
Corporate	13.8	15.3	23.3	+51%
SHOP	6.3	5.9	5.2	(11%)
Insurance	2.4	2.2	2.0	(8%)
Total (Including company wide expenses)	20.1	23.5	30.2	+28%

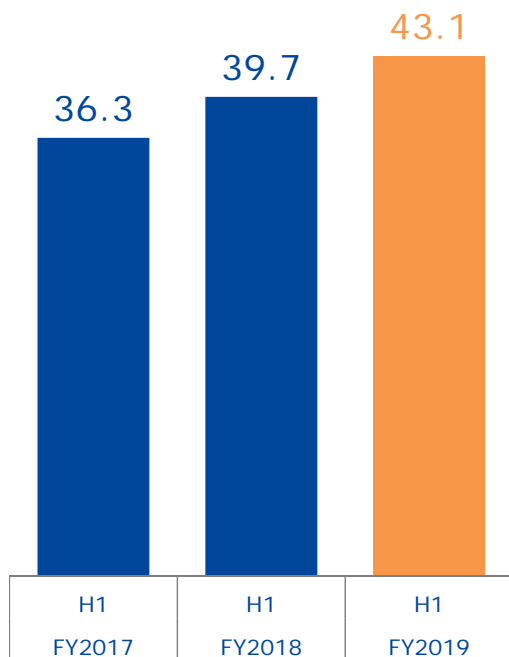
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Recurring Profit

Mainly due to the slowdown in the rate of growth of recurring profit in the 2nd Quarter, due to the increase in the unit price of electricity procurement. (Seasonal Factor)

(Billions JPY)



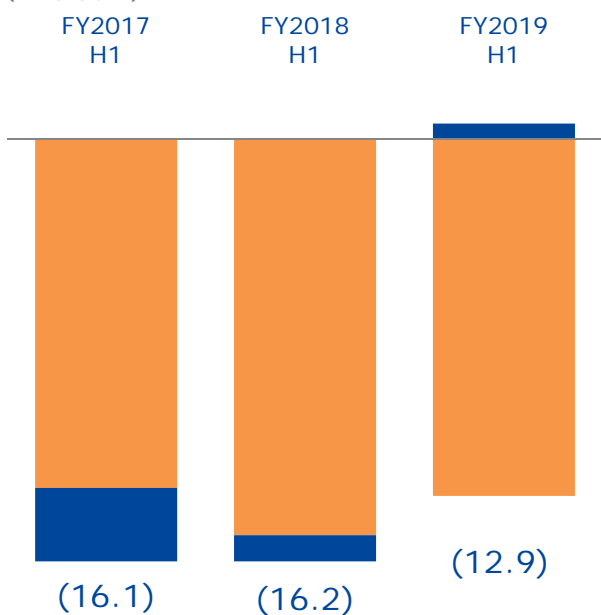
	FY2017	FY2018	FY2019	% Change
	H1	H1	H1	
Corporate	23.9	29.0	33.6	+15%
SHOP	9.7	7.8	6.4	(17%)
Insurance	2.6	2.9	3.0	+4%
Total (Including company wide expenses)	36.3	39.7	43.1	+8%

Acquisition Cost

Operating profits grew due to cost reduction, increased productivity etc.

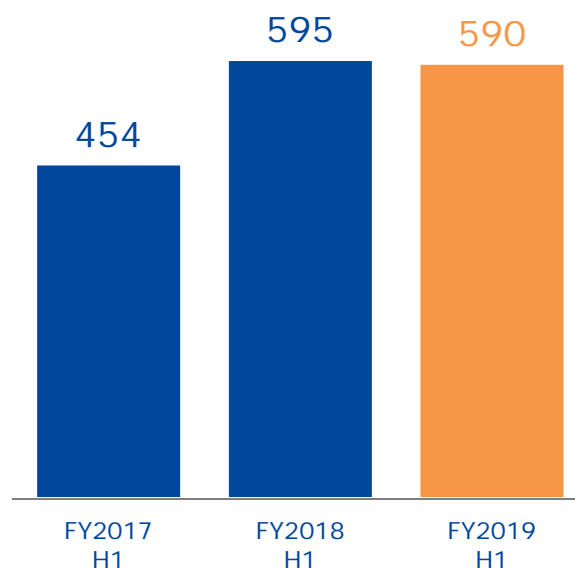
■ In-House Products ■ Other

(Billions JPY)



Sales Units of In-House Products

(Thousand Units)



Non-Operating Profit

(Billions JPY)

		FY2017	FY2018	FY2019	Notes
		H1	H1	H1	
Operating Profit		20.1	23.5	30.2	-
Financial Income and Financial Expense		1.3	0.9	2.2	Increase in dividend income
Share of profit of Investments accounted for using the equity method		1.9	(0.2)	(0.6)	-
Others		6.9	5.8	0.1	Decrease in profits from re-measurement of equity method application
Net Income Pre-tax		30.3	30.0	32.5	-
Corporate income tax expenses		(10.0)	(11.0)	(10.7)	-
Non-controlling interests		(0.9)	(1.1)	(1.7)	-
Net Income		19.3	17.8	20.0	-

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Progress with respect to FY2019 Forecast

(Billions JPY)

	FY2019 H1	FY2019(E)	
	Result	Forecast	Progress Rate
Net Sales	226.7	430.0	52%
Operating Profit	30.2	55.0	55%
Net Profit Attributable to Shareholders	20.0	35.0	57%

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Consolidated Cash Flow

(Billions JPY)

	FY2017	FY2018	FY2019	Notes
	H1	H1	H1	
Cash Flow from Operating Activities	+13.6	+9.5	+25.0	Increase in trade liability and other liabilities
Cash Flow from Investing Activities	(4.0)	(7.6)	(35.1)	Acquisition of Investment Securities Acquisition of Tangible and Non-Tangible Fixed Assets
Free Cash Flow	+9.5	+1.8	(10.1)	-
Cash Flow from Financial Activities	+22.7	+48.1	+20.5	Increase in Interest Bearing Debt

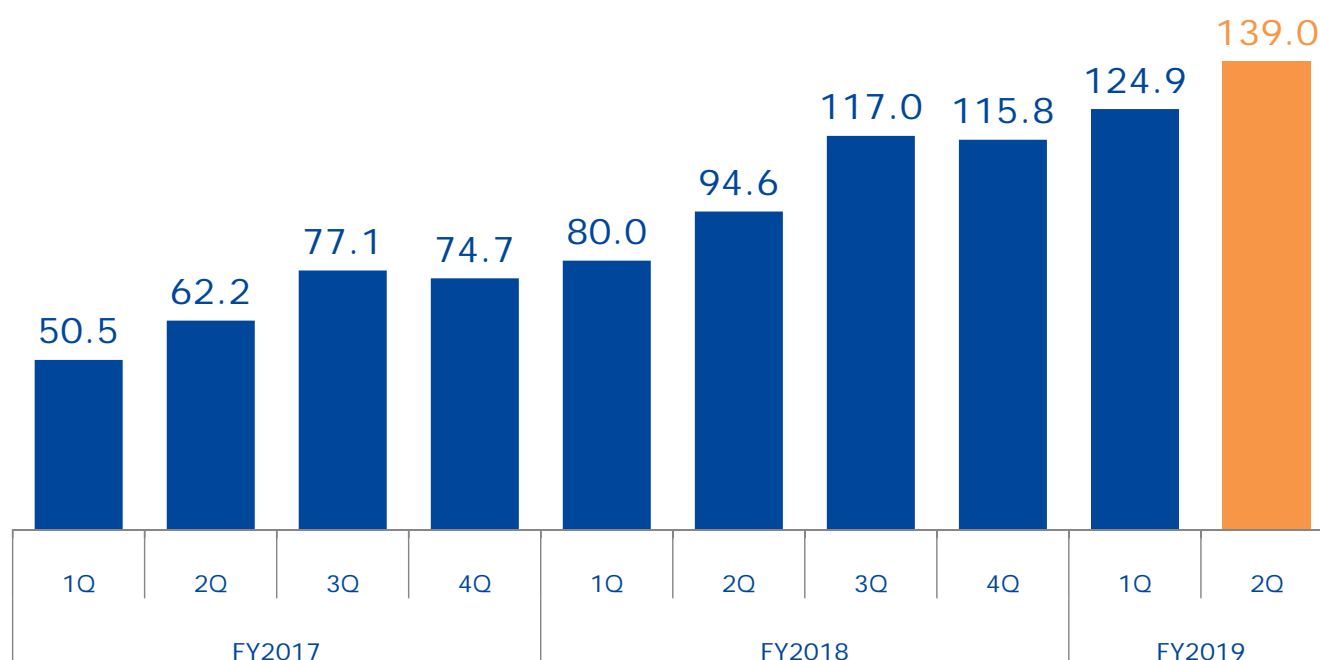
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Net Cash Assets

(Cash + Listed Securities) – Interest Bearing Liabilities

(Billions JPY) (Not including listed subsidiaries)

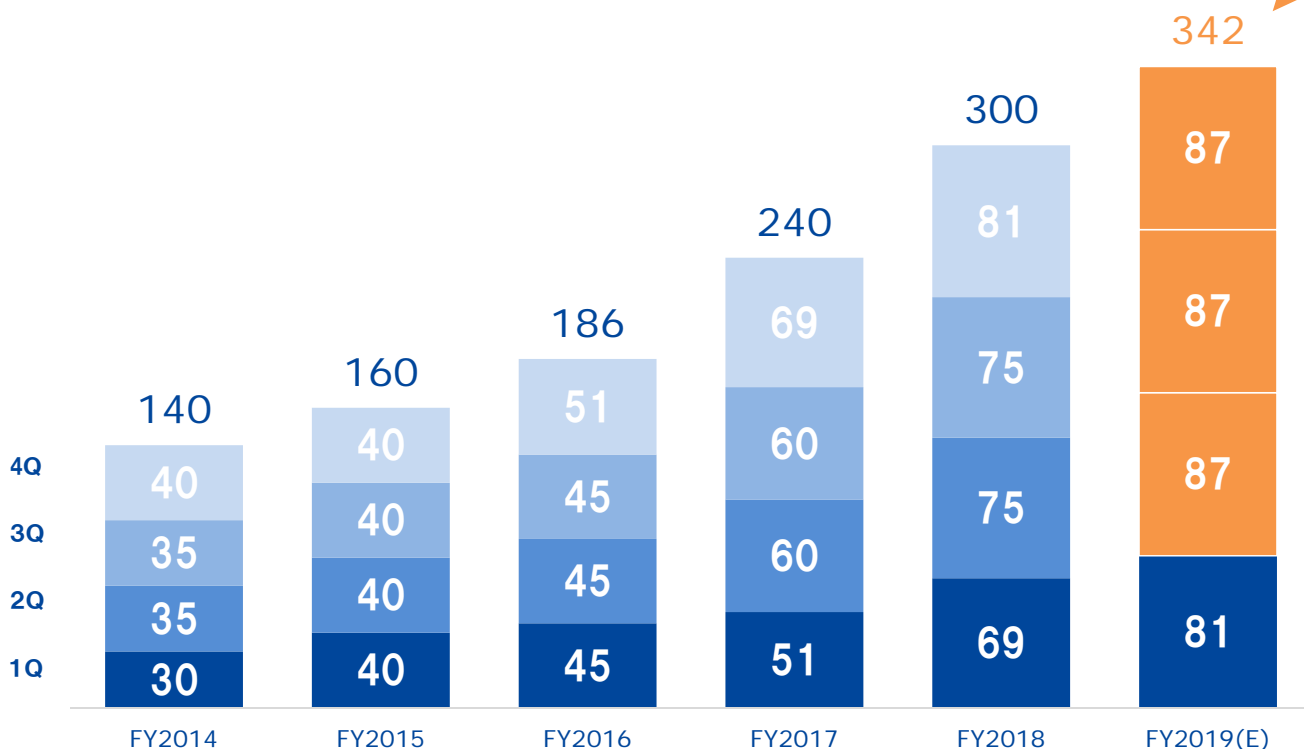


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Steady Increase in Dividends

(JPY)



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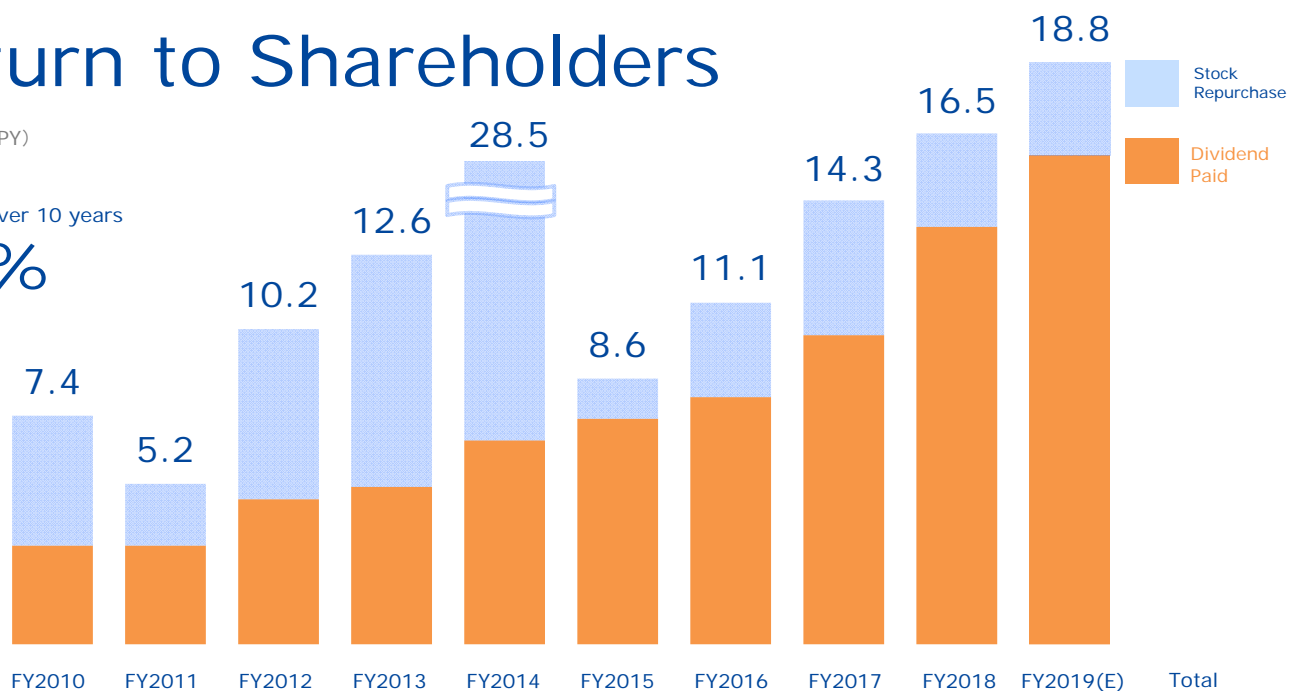
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Return to Shareholders

(Billions JPY)

Returns over 10 years

61%



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019(E)	Total
Dividend Paid	3.2	3.2	4.7	5.1	6.6	7.3	8.0	10.0	13.5	15.8	78.0
Stock Repurchase	4.2	2.0	5.6	7.6	22.0	1.3	3.0	4.3	3.0	3.0	55.8
Return Ratio	1,057%	-	132%	75%	98%	42%	44%	36%	39%	53%	61%

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Business Divisions

Business Divisions

Inner Ring: Segments
Outer Ring: Business Divisions



Communication Business

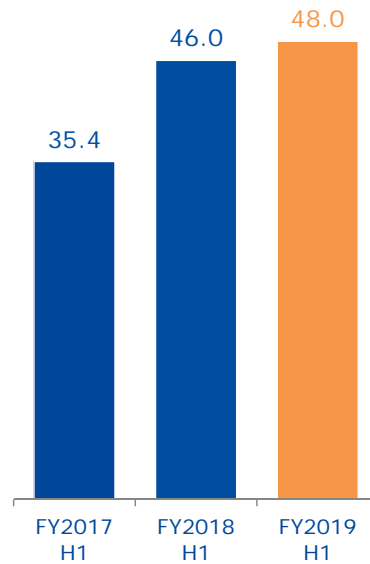
(MVNO, In-House Internet Service etc.)

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

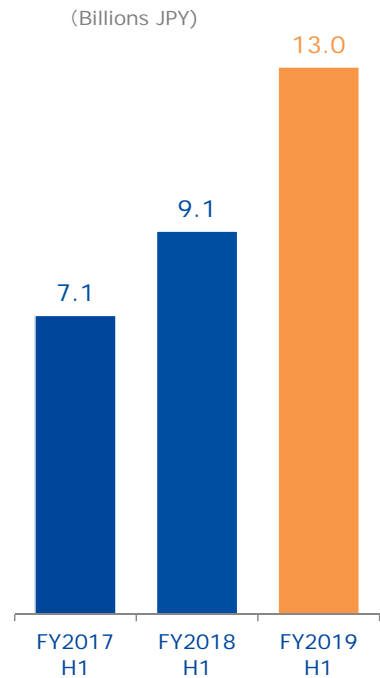
1) Figure



2) Net Sales (Billions JPY)

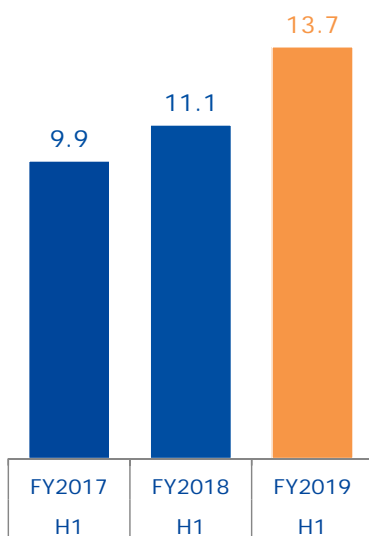


3) Operating Profit



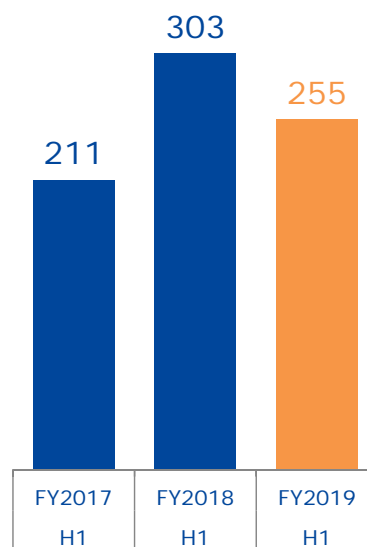
4) Recurring Profit

(Billions JPY)



5) Sales Units

※In-house Products (Thousand Units)



The numbers acquired of MVNO fell compared to the last fiscal year. However, due to the increase in the total number of users, which leads to stable long-term earnings, there was a increase in profits.

Water Business

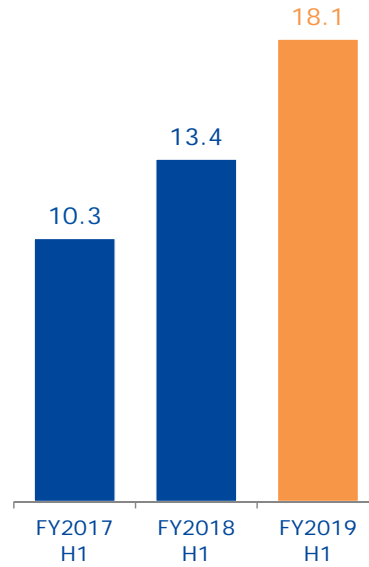
Description: From product development to Sales of Water Coolers etc.
 Main Products: Water Cooler
 Classification: In-House Products

1) Figure

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

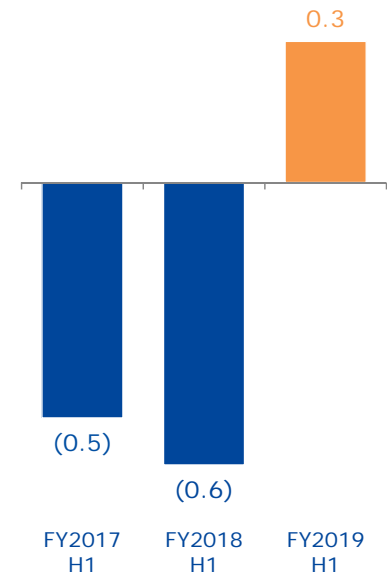


2) Net Sales (Billions JPY)



3) Operating Profit

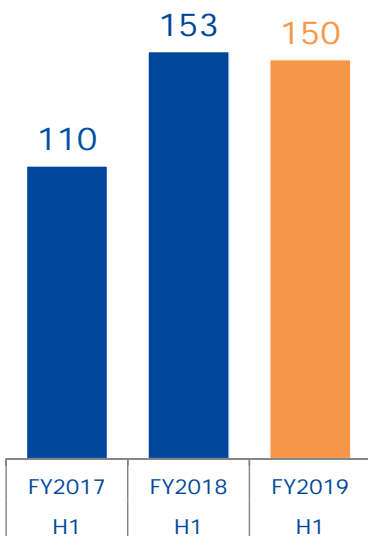
(Billions JPY)



4) Sales Units

(Thousand Units)
 ※Water Coolers

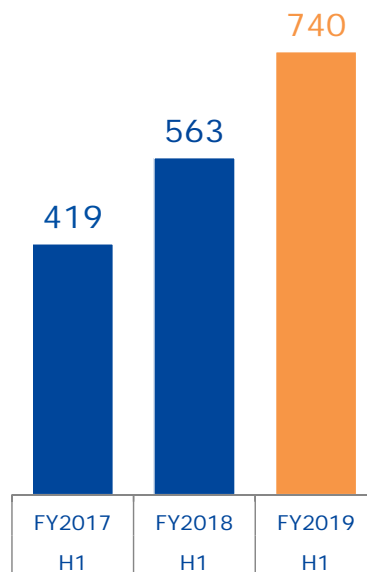
1st in Market



5) Cumulative Subscribers

(Thousand Units)
 ※Water Coolers

1st in Market



Increase in sales and profits as a result of a steady increase in both the number of subscribers and profits per contract.

New Business

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

1) Figure

Contents



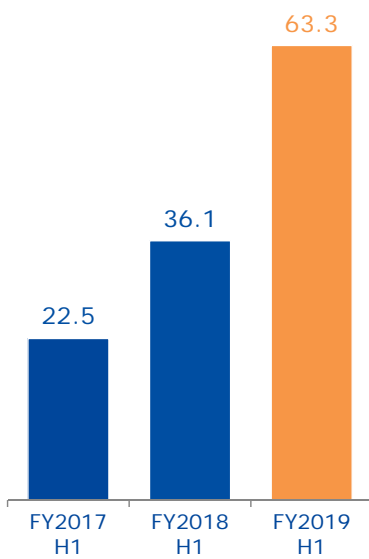
Industry-Specific IT Solutions



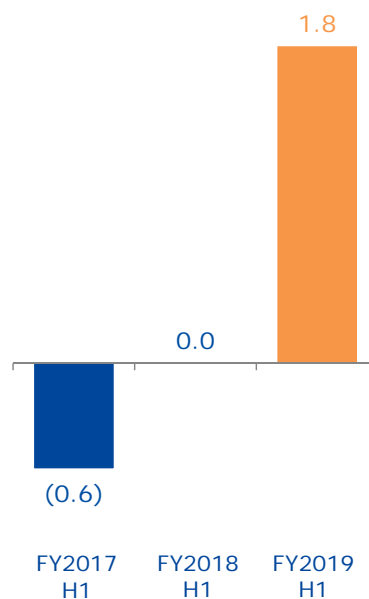
Electricity



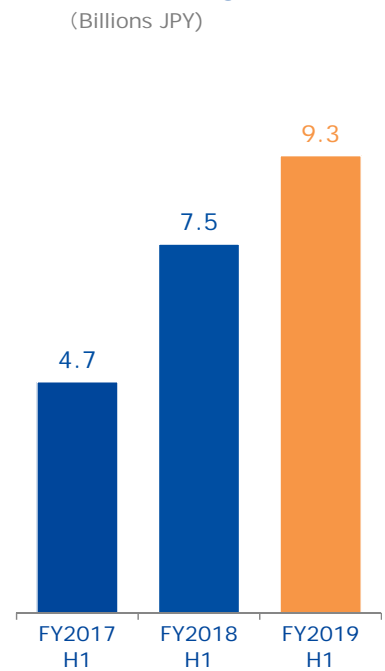
2) Net Sales (Billions JPY)



3) Operating Profit (Billions JPY)



4) Recurring Profit (Billions JPY)



Continue to maintain stable revenue and earnings

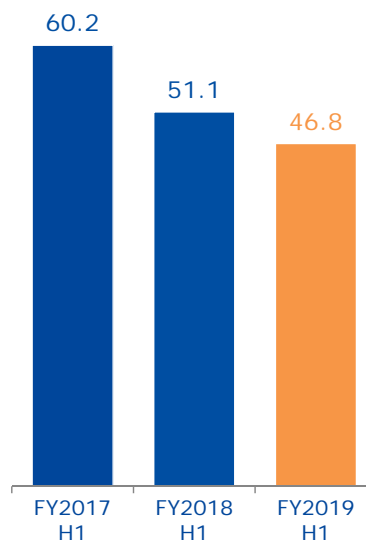
Office Equipment Business

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

1) Figure

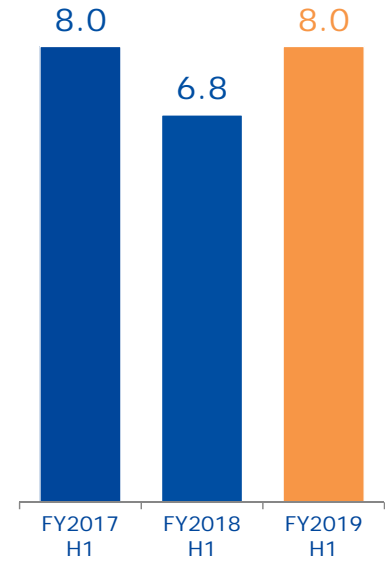


2) Net Sales (Billions JPY)



3) Operating Profit

(Billions JPY)



4) Recurring Profit

(Billions JPY)



Operating profits grew due to cost reduction and increased sales productivity.

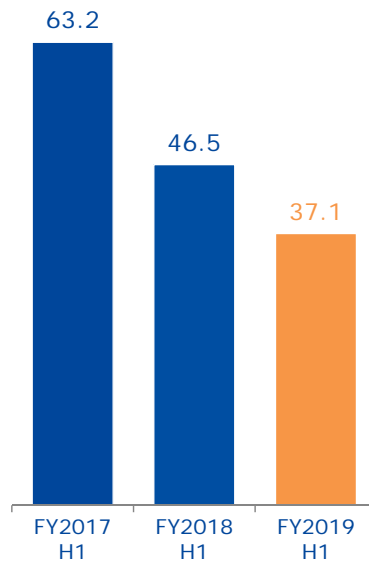
SHOP Business

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

1) Figure

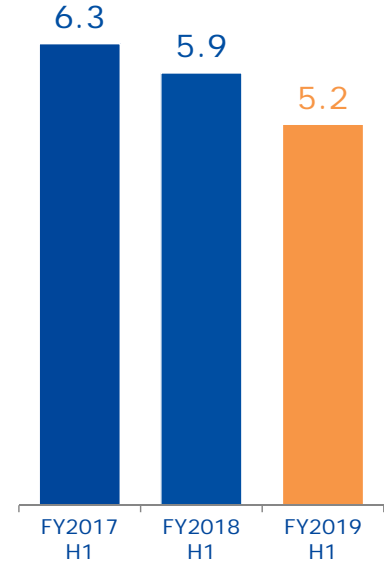


2) Net Sales (Billions JPY)



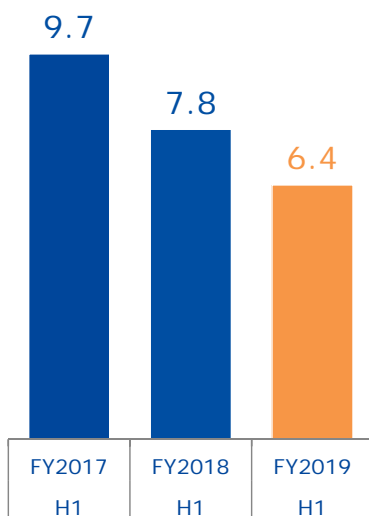
3) Operating Profit

(Billions JPY)



4) Recurring Profit

(Billions JPY)



5) Total Stores



Profits decreased as the mobile communication market has matured. We have been focusing on increasing productivity and improving customer service at the telecom shops.

Insurance Business

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

1) Figure

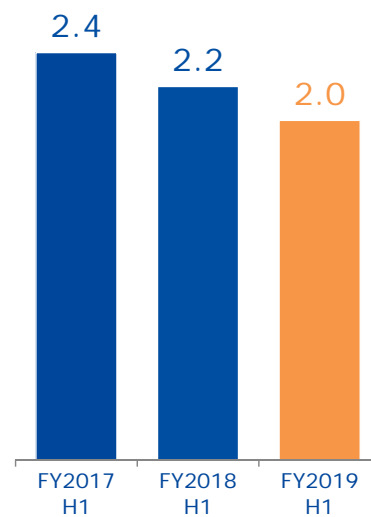


2) Net Sales (Billions JPY)



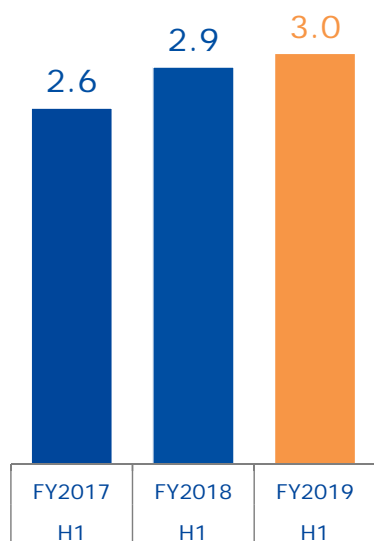
3) Operating Profit

(Billions JPY)



4) Recurring Profit

(Billions JPY)



5) Directly Managed Stores

(Number of Stores)



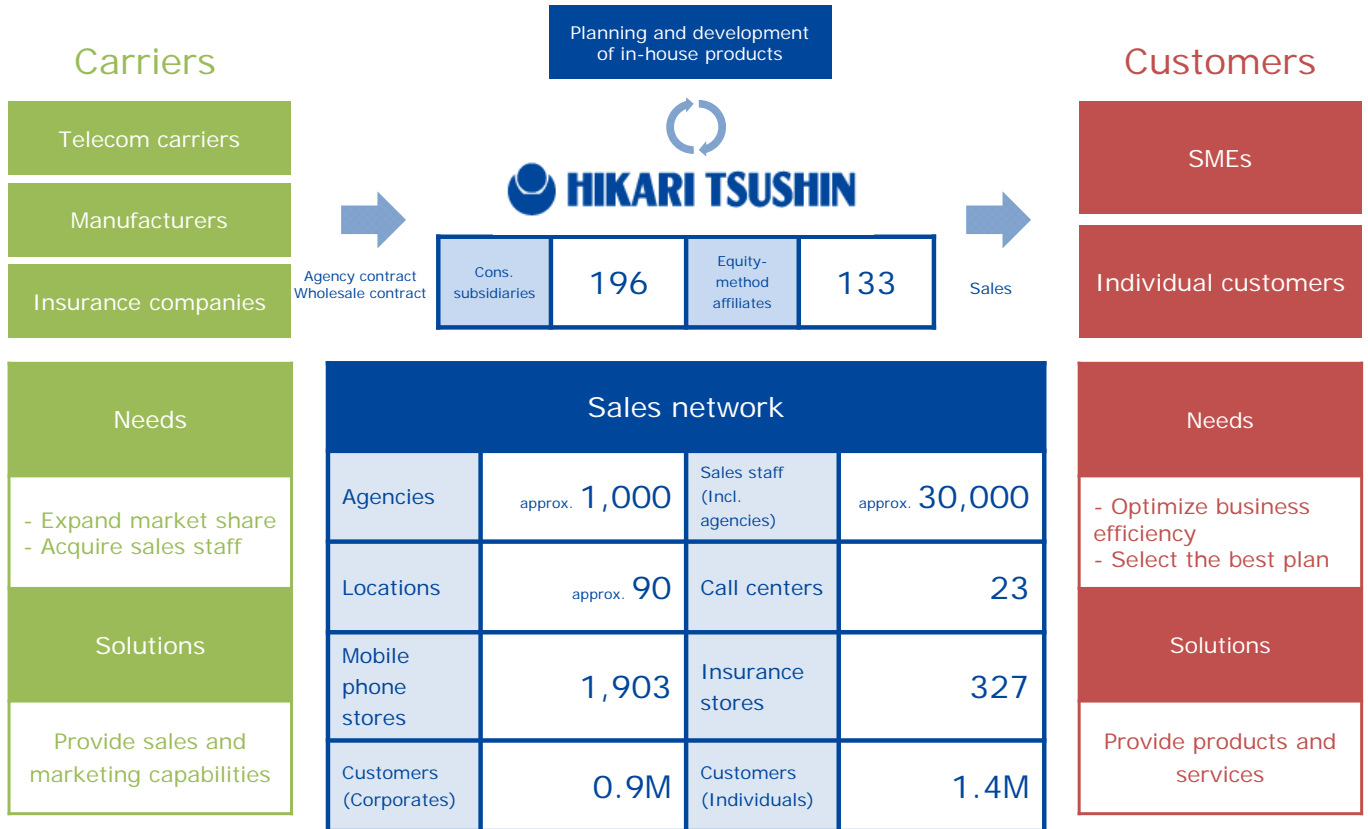
Increase in revenue due to expansion of call centers and strengthened collaboration among different sales networks, which consist of shops, online, and door-to-door.

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 the Business

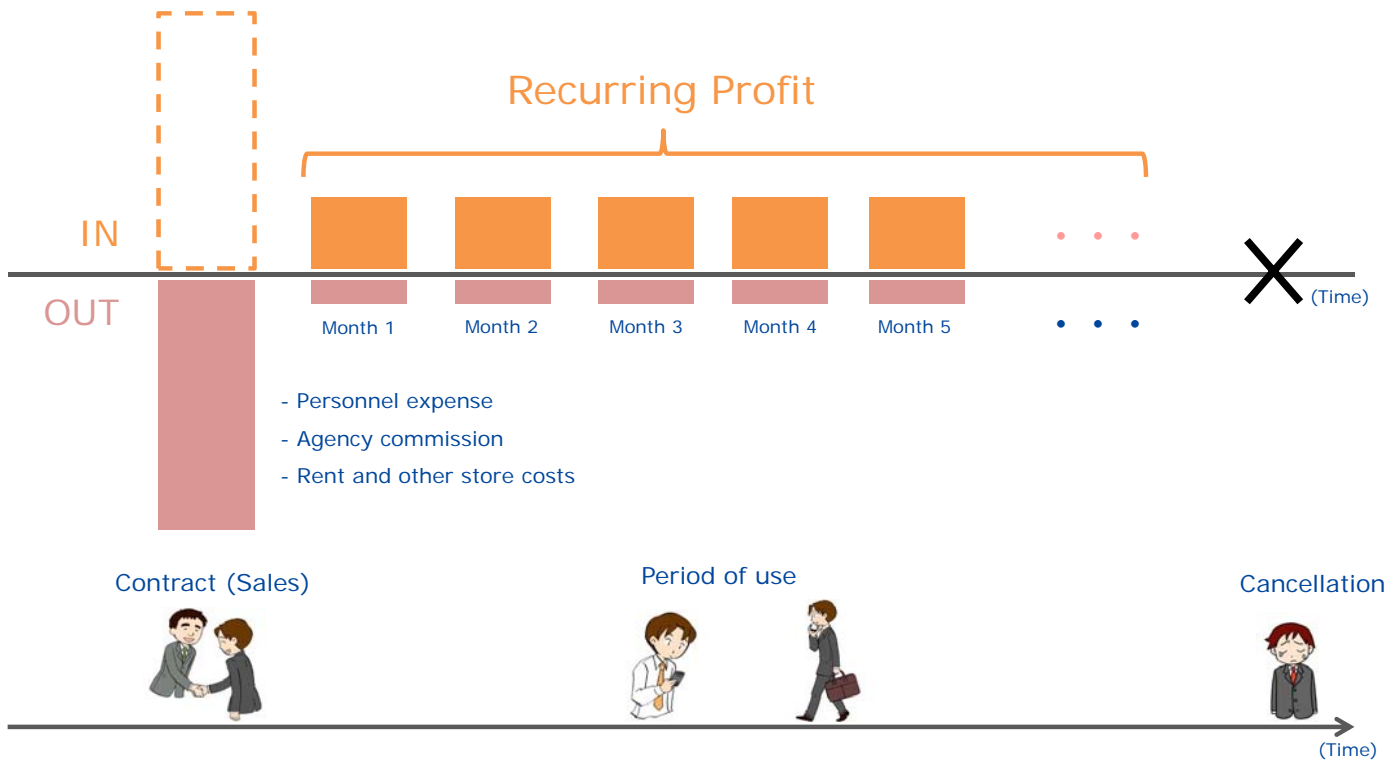


Main Products

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 23 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



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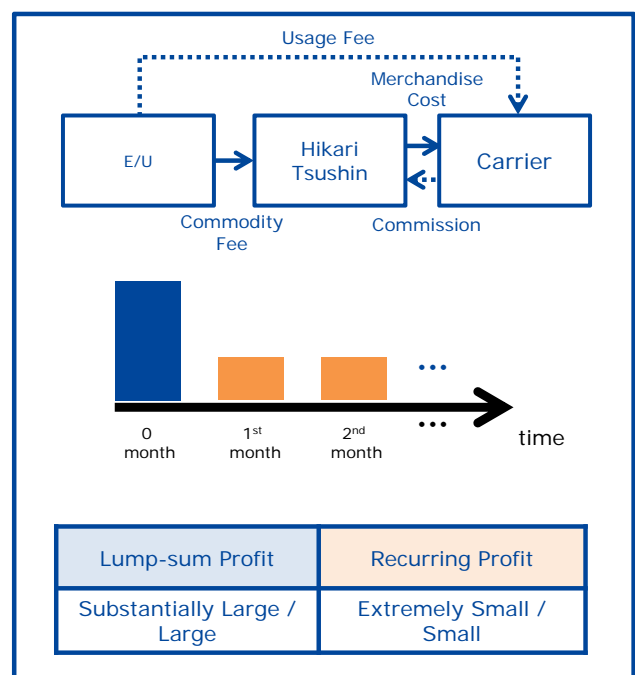
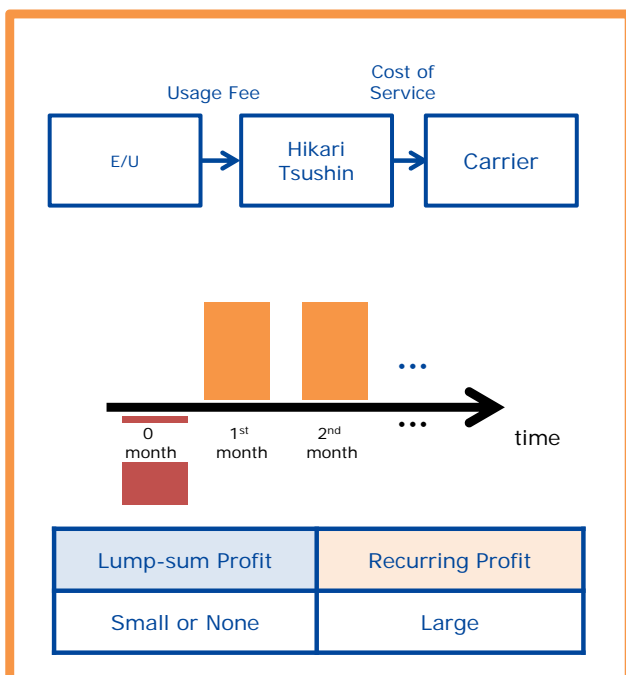
Business Models

① In-house Products

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

② Third-party products

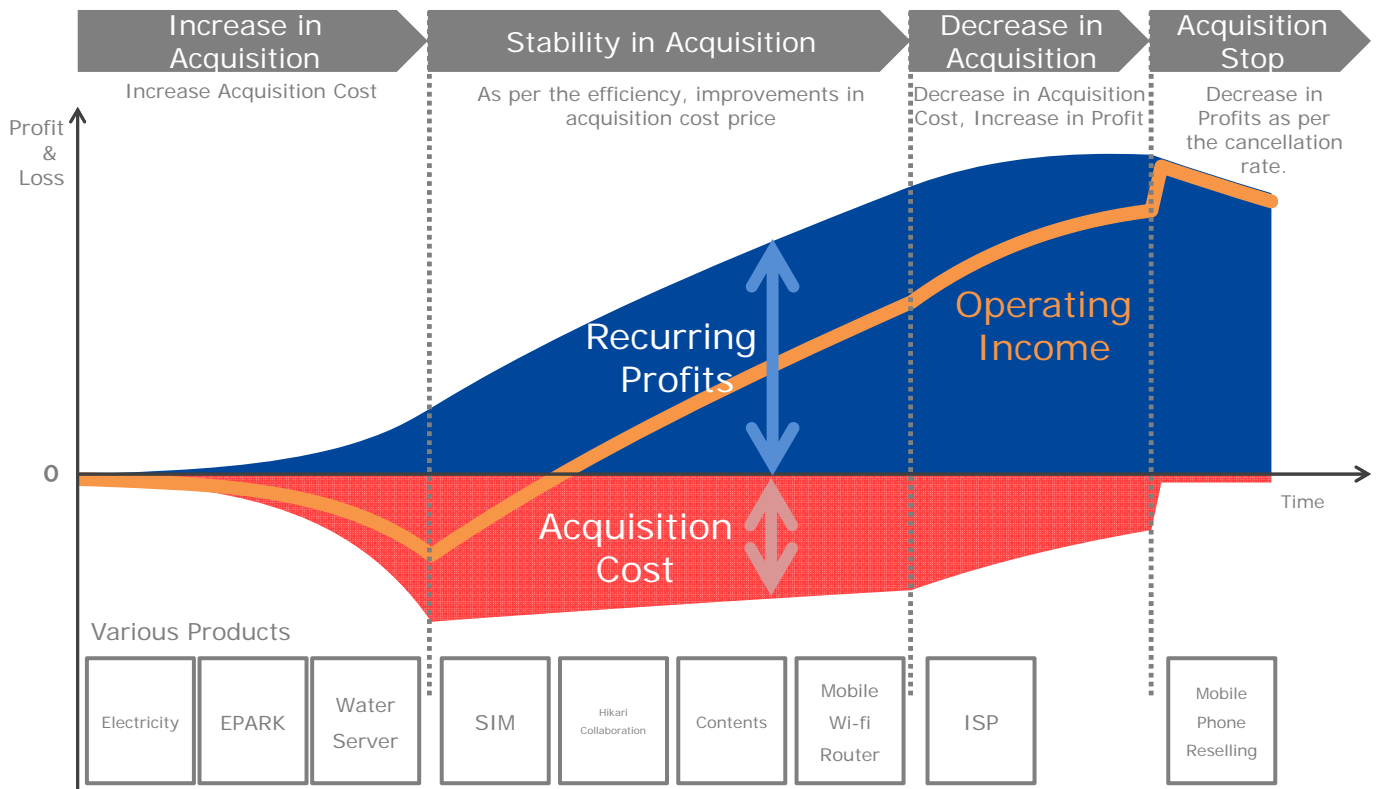
FTTH, Office equipment, LED lighting, Mobile phone, insurance...



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Operating Profit Model for In-House Products



References

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

(Billions JPY)

FY2018	Volume		Volume	Notes
Net Sales	427.5		Recurring	206.1 Data usage revenue from subscribers, commission from service providers, and insurance companies.
			Lump-sum	221.3 Upfront commission, Sales of hardware, etc.
Cost of Goods Sold & Selling, General and Administrative Expenses	(376.4)		Recurring	(124.9) Cost of the service provided, Cost of customer retention such as billing, etc.
			Lump-sum	(251.5) Lump sum cost, personnel expenses, sales commission for distributors, etc.
Operating Profit	51.0		Recurring	81.1 Recurring Profit
			Lump-sum	(30.1) 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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Major Changes in Profit Recognition under IFRS 9

Account Item		Line Items Impacted	
		Prior IFRS 9 (IAS 39)	Post IFRS 9
Profits or Losses from Sales of Shares	Divestiture of subsidiary	Operating Income	No Changes
	Divestiture of companies affiliated by equity method	Pre-tax Profits	No Changes
	Sales of Non-Consolidated Shares	Pre-tax Profits	Comprehensive Income
Profits or Losses from Step-by-Step Acquisition of Stocks		Pre-tax Profits	Comprehensive Income
Revaluation Gain at Exclusion of Stock	Divestiture of subsidiary	Pre-tax Profits	No Changes
	Divestiture of companies affiliated by equity method	Pre-tax Profits	No Changes
Impairment Loss	Equity Instruments	Pre-tax Profits	Comprehensive Income
	Debt Instruments (Preferred Stocks, etc)	Pre-tax Profits	No Changes
Unrealized Gains		Comprehensive Income	No Changes

Main Changes in Profit Recognition after IFRS 15

※This is particularly for when selling in-house products with contract acquisition cost (mainly commissions). We had previously recoded expenses in lump sum, but this will change depending on the contract lengths with the end users. There are no changes for non-consolidated results.

	Cost Recognition			Period
	Before	After		
Revenue Recognition is Divided (Mostly In-house Products)	Lump Sum	Divided ※Some Exceptions	Division of Costs	2~3 Years ※Depends on the contract type
	Divided			
Revenue Recognition is in Lump Sum (Mostly External Products)	Lump Sum (※)	Lump Sum	Average Usage Period (Expected Return)	5 Years~ Over 10 Years ※Depends on the item

(※) There are no transactions whereby revenue recognition is in lump sum and the cost recognition is divided.

Consolidated Statements of Profit or Loss

(Billions JPY)

	FY2015	FY2016		FY2017	FY2018
	J-GAAP	J-GAAP	IFRS	IFRS	IFRS
Net Sales	562.5	574.5	447.6	428.9	427.5
Operating Profit	32.0	37.4	37.6	41.5	51.0
Ordinary Income	36.5	38.3	-	-	-
Net Income Pre-tax	45.8	51.1	47.9	62.7	53.7
Net Income Attributable to Shareholders	20.7	25.0	22.5	39.0	42.9
Earnings Per Share (JPY)	45.0	53.8	48.5	84.0	92.7
Operating Profit Margin	5.7%	6.5%	8.4%	9.7%	11.9%

※The results of FY2018 is after incorporating IFRS 15.

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Consolidated Statement of Financial Position

(Billions JPY)

	FY2017	FY2018		FY2017	FY2018
Cash and Cash Equivalents	119.3	185.8	Accounts Payables and Other Payables	107.4	124.4
Accounts Receivables and Other Receivables	150.6	16.6	Short-term Interest-bearing Debt	40.7	36.7
Total Current Assets	312.2	374.5	Total Current Liabilities	162.5	175.9
Investments Accounted for using Equity Method	34.5	50.1	Long-term Interest-bearing Debt	132.4	233.2
Other Financial Assets	108.1	173.8	Total Non-Current Liabilities	155.2	268.1
Total Non-Current Assets	199.2	311.1	Total Liabilities	317.8	444.1
Total Assets	511.4	685.6	Total Hikari Tsushin's Shareholder's Equity	150.0	179.3
	FY2017	FY2018	Accumulated other comprehensive income	30.4	45.9
Own Capital	180.4	225.2	Total Equity	193.6	241.5
Capital Adequacy Ratio	35.3%	32.9%	Total Liabilities and Equity	511.4	685.6

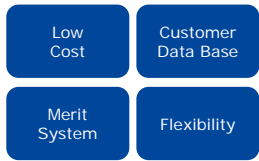
※The results of FY2018 is after incorporating IFRS 15.

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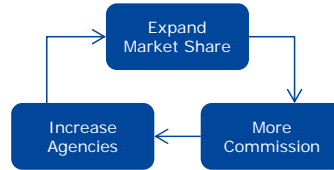
Strengths

1) Corporate Philosophy



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

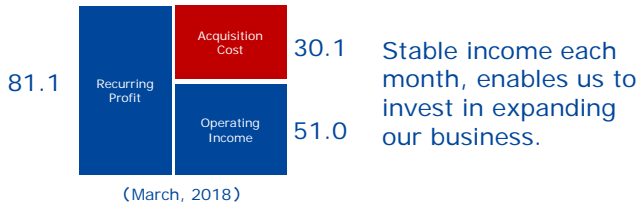
2) Sales Channels



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

3) Recurring Profit Business Model

(Billions JPY)

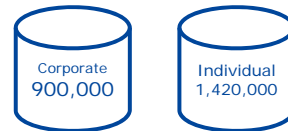


Stable income each month, enables us to invest in expanding our business.

※After incorporating IFRS 15

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4) Our Customers



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

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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.



2) 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.



3) 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

4) 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 3 million Bottle caps were donated by March 2018, resulting in provision of 4,049 vaccines.



5) Used Stamp Donation

We have been donating used stamps to Toshima Ward Residents Council of Social Welfare. Collected stamps are converted into cash for donation. 7,109 gram stamps were donated by March 2018.



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.



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