

## Consolidated Financial Results for the Fiscal Year Ended May 2019 (Japanese Accounting Standards)

July 11, 2019

Company Name: Nihon Enterprise Co., Ltd. Stock Listing: Tokyo Stock Exchange  
 Stock Code: 4829 URL: <http://www.nihon-e.co.jp/en/>  
 President and Representative Director: Katsunori Ueda  
 Inquiries: Masaru Tanaka, Executive Managing Director Telephone: +81-3-5774-5730  
 Date of Regular Ordinary Meeting of Shareholders (Planned): August 23, 2019  
 Date of Dividend Payment (Planned): August 26, 2019  
 Date of Financial Statement Filing (Planned): August 23, 2019  
 Availability of Presentation Materials Supplementary to Financial Results: Yes  
 Financial Results Presentation Meeting: Yes (For institutional investors and analysts)

(Figures of less than one million yen are rounded down to the nearest decimal.)

### 1. Consolidated Financial Results for the Fiscal Year Ended May 2019 (June 1, 2018–May 31, 2019)

#### (1) Consolidated Operating Results

(% figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY May 2019	3,413	(12.3)	242	38.5	292	13.7	97	(41.1)
FY May 2018	3,892	(19.5)	174	(8.9)	257	11.9	166	66.9

(Note) Comprehensive Income: ¥83 million in FY May 2019 (down 58.1%) ¥199 million in FY May 2018 (up 130.9%)

	Net Income per Share	Net Income per Share (Diluted)	Return on Equity	Ratio of Ordinary Income to Total Assets	Ratio of Operating Income to Net Sales
	Yen	Yen	%	%	%
FY May 2019	2.44	—	2.0	4.9	7.1
FY May 2018	4.11	4.11	3.4	4.2	4.5

(Reference) Gain (loss) from investments in subsidiaries and affiliates accounted for by the equity method:

FY May 2019: ¥ --- million FY May 2018: ¥ --- million

#### (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
FY May 2019	6,035	5,213	81.4	122.48
FY May 2018	6,004	5,213	82.1	122.89

(Reference) Equity: FY May 2019: ¥4,915 million FY May 2018: ¥4,931 million

#### (3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Fiscal Year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY May 2019	289	(46)	(119)	4,255
FY May 2018	314	626	(215)	4,115

### 2. Dividends

	Annual Dividend					Total Dividends from Surplus (Annual)	Payout Ratio (Consolidated)	Dividends to Net Assets Ratio (Consolidated)
	1Q	2Q	3Q	4Q	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY May 2018	—	0.00	—	2.00	2.00	80	48.7	1.6
FY May 2019	—	0.00	—	2.00	2.00	80	82.0	1.6
FY May 2020 (Planned)	—	0.00	—	2.00	2.00		50.2	

### 3. Consolidated Financial Forecasts for the Fiscal Year Ending May 2020 (June 1, 2019–May 31, 2020)

(% figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First Half	-	-	-	-	-	-	-	-	-
Full Year	3,850	12.8	275	13.5	300	2.5	160	63.6	3.99

(Note) As the Company manages its operations on an annual basis, no consolidated financial forecasts are provided for the first half of the fiscal year.

## Notes

(1) Changes in significant subsidiaries (Changes in subsidiaries affecting the scope of consolidation): None

Newly consolidated: None

Removed from consolidation: None

(2) Changes in accounting methods, procedures and estimates concerning the preparation of financial statements

1) Changes accompanying revisions in accounting standards: None

2) Changes other than 1) above: None

3) Changes in accounting estimates: None

4) Restatement of revisions: None

(3) Number of shares outstanding (Common stock)

1) Shares issued as of end of term (including treasury stock)

2) Treasury stock as of end of term

3) Average during the term

FY May 2019	40,613,000 shares	FY May 2018	40,612,400 shares
FY May 2019	480,000 shares	FY May 2018	480,000 shares
FY May 2019	40,132,922 shares	FY May 2018	40,427,472 shares

(Reference) Nonconsolidated Financial Results

Nonconsolidated Financial Results for the Fiscal Year Ended May 2019 (June 1, 2018–May 31, 2019)

(1) Nonconsolidated Operating Results

(% figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY May 2019	1,255	(22.5)	17	24.2	150	23.6	13	7.1
FY May 2018	1,619	(26.9)	14	(21.1)	122	(14.2)	12	(5.2)

	Net Income per Share		Net Income per Share (Diluted)	
	Yen	Yen	Yen	Yen
FY May 2019	0.34	—	—	—
FY May 2018	0.32	0.32	0.32	0.32

(2) Nonconsolidated Financial Position

	Total Assets		Net Assets		Equity Ratio		Net Assets per Share	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	%	%	Yen	
FY May 2019	4,437	4,208	4,208	4,317	94.7	96.2	104.75	
FY May 2018	4,483	4,317	4,317	4,317	96.2	96.2	107.49	

(Reference) Equity: FY May 2019: ¥4,204 million FY May 2018: ¥4,313 million

Note: This financial report is unaudited by certified public accountants or accounting auditors.

\* Explanation regarding the appropriate use of forecasts of business results and other information

### 1. Forecasts of business results

The forecasts and future projections contained herein have been prepared on the basis of rational decisions given the information available as of the date of announcement of this document. Actual performance may differ from forecasts for a variety of reasons. Please refer to the "Overview of Operating Performance" beginning on page 2 of the attachment to this document for cautionary statements concerning the conditions and performance forecasts that serve as the basis for these forecasts.

### 2. Financial results presentation meeting

A financial results presentation meeting (for institutional investors and analysts) is scheduled for July 16, 2019. The presentation materials to be used at that meeting are scheduled to be posted on the Company's website on that day.

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## 1. Overview of Operating Performance and Financial Condition

### (1) Overview of Operating Performance

During the current consolidated fiscal year, the Japanese economy was rebounding gradually thanks to the boosted corporate earnings, the improved employment, income environments although the future continued to be unforeseeable due to economic uncertainties overseas and the scheduled consumption tax hike.

Under these economic conditions, the environment in the IT services sector, to which the Group belongs, is projected to remain favorable, thanks to multifarious approaches, including the further spread of cloud services with such electronic devices as smartphones and tablets, the expanded application of IoT<sup>(Note 1)</sup> and AI<sup>(Note 2)</sup> to business, and efforts at RPA<sup>(Note 3)</sup> aimed at higher business efficiency.

Under these conditions, the Nihon Enterprise Group has worked to expand its scale of business and expand earnings by promoting smartphone apps for consumers, system development, debugging, the cloud, business efficiency apps, mobile kitting, voice solutions, e-commerce and other services.

As a result, during the year under review, net sales came to ¥3,413 million, down 12.3% from the preceding fiscal year. Operating income increased 38.5%, to ¥242 million; ordinary income increased 13.7%, to ¥292 million; and net income attributable to owners of the parent decreased 41.1%, to ¥97 million.

(Note 1) Internet of Things (IoT): A framework for controlling and recognizing physical items connected via the Internet

(Note 2) Artificial intelligence (AI): Technology for relegating human intellectual activity to computers

(Note 3) Robotic Process Automation: Efforts to streamline and automate operations using the cognitive technology

### Creation Segment

In this segment in which our company provides services that we have developed by ourselves, regarding the “content service,” we strived to ensure profitability through efficient service operations, promote users to make use of our content on platforms run by companies other than communication carriers, such as App Store and GooglePlay, and develop new content while the market of platforms operated by communication carriers was declining. Furthermore, we released an e-commerce website for selling fresh marine products to general consumers, “Inaseri Market,” in November 2018 and began face-to-face sale of fresh seafood for general consumers at “Toyosu Market Oishii Marche” in January 2019.

In business support services, as companies worked to augment operating efficiencies and take advantage of the cloud, we experienced robust demand for the consigned in-house development of services, including enterprise smartphones apps; various types of cloud services involving traffic information, education, tourism and procurement; and voice solutions. In the kitting service, we expanded sales of a support tool, “Certino,” and developed and released “Kitting-One,” a kitting RPA tool that links all necessary support tools according to the needs of each customer. In addition, as for a fresh seafood e-commerce tool for restaurant operators, “Inaseri,” we cooperated with Tokyo Metropolitan Central Wholesale Fish Market Cooperative in an effort to increase the number of items sold and cultivation for restaurant operators.

We also continued with verification testing new services making use of blockchains<sup>(Note 4)</sup>, such as electricity transactions and autonomous cars such as autonomous cruising on public roads.

As a result of these efforts, sales in the Creation Segment totaled ¥1,855 million, and segment income amounted to ¥549 million.

(Note 4) Databases managed as chains of linked blocks of data that are extremely difficult to falsify

### Solution Segment

This segment primarily handles the consigned development and operation of systems, as well as advertising agency services. We benefited from market expansion stemming from robust IT investment. We continued to enjoy strong demand for commissioned development that leverages the expertise cultivated in the Creation Segment in areas such as app development, Web configuration, server design, system operation and monitoring, debugging and user support. These activities, which center on from-scratch development<sup>(Note 5)</sup>, attest to our extensive expertise and track record in smartphones apps and server design.

Furthermore, our company strived for creating a terminal peripherals business, which is expected to thrive in the future, as a new service in place of the “advertising agency service” that we transferred in February 2018, and we also made efforts to expand the service of buying out used terminals (such as smartphones) with a focus on the kitting service to which our company has attached weight in the Creation Segment.

Owing to these efforts, the Solution Segment generated sales of ¥1,558 million, and segment income was ¥198 million.

(Note 5) This type of system development involves development of all initial elements from the ground up, rather than customizing and adding functionality to specific package products.

**(2) Overview of Financial Condition**

As of May 31, 2019, total assets stood at ¥6,035 million, up ¥30 million from May 31, 2018. Current assets amounted to ¥5,154 million, up ¥327 million from a year earlier, affected primarily by a ¥140 million increase in cash and deposits and a ¥132 million increase in notes and accounts receivable. Fixed assets amounted to ¥881 million at fiscal year-end, down ¥296 million. Principal factors included a ¥111 million decrease in investments in securities, a ¥96 million decrease in software, a ¥22 million decrease in machinery and equipment, and ¥32 million decrease in deferred tax assets.

Total liabilities amounted to ¥822 million, up ¥31 million compared with May 31, 2018. Primary reasons were a ¥36 million increase in trade accounts payable and ¥23 million drop in long-term debt. Net assets decreased ¥0 million, to ¥5,213 million as of fiscal year-end, due to ¥43 million decrease in net unrealized gains on other securities, and dividends from surplus despite the posting of net income attributable to owners of the parent.

As measures pointing to the Company's stability, the equity ratio was 81.4%, the current ratio 1,045.7% and the fixed ratio 17.9%—indicating that Nihon Enterprise maintained its level of soundness.

**(3) Cash Flows**

## 1) Overview

The status of individual cash flow categories and the primary reasons for their changes are described below.

## (Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥289 million. Primary sources of cash included income before income taxes and minority interests of ¥269 million (down 20.7% year on year), depreciation of ¥193 million (down 13.8%), impairment losses of ¥45 million (down 41.7%), an increase in notes and accounts payable—trade of ¥35 million (in the previous fiscal year, a decrease of ¥88 million). The main uses of cash were gains on sales of investments in securities of ¥40 million, an increase in notes and accounts receivable—trade of ¥89 million (in the previous fiscal year, a decrease of ¥128 million), and income taxes paid of ¥108 million (down 20.4%).

## (Cash flows from investing activities)

Net cash used by investing activities was ¥46 million. Among the major sources of cash were ¥64 million in proceeds from sales of investments in securities, ¥9 million (up 100.8%) in proceeds from collection of guarantee deposits, and ¥8 million in proceeds from cancellation of insurance funds. The primary uses of cash were ¥128 million (down 11.5%) in payments for purchase of intangible assets, centering on software development related to the Creation Segment.

## (Cash flows from financing activities)

Net cash used in financing activities came to ¥119 million. The primary uses of cash were ¥80 million (down 1.2%) in cash dividends paid and ¥23 million (up 6.2%) in repayment of long-term debt.

For the reasons outlined above, cash and cash equivalents at the end of the fiscal year amounted to ¥4,255 million, up ¥140 million from the end of the preceding fiscal year, as we used the cash provided by operating activities efficiently for capital expenditures and profit return to shareholders through dividends.

## 2) Cash flow indicators

	FY May 2015	FY May 2016	FY May 2017	FY May 2018	FY May 2019
Equity ratio (%)	81.6	83.5	80.2	82.1	81.4
Equity ratio based on market value (%)	219.7	172.6	170.1	144.4	105.7
Interest-bearing liabilities/cash flow ratio (years)	-	-	0.7	1.0	1.0
Interest coverage ratio (times)	-	986.0	122.0	94.6	90.5

(Notes) Equity ratio: Equity divided by total assets

Equity ratio based on market value: Market capitalization divided by total assets

Interest-bearing liabilities/cash flow ratio: Interest-bearing liabilities divided by cash flows

Interest coverage ratio: Cash flows divided by interest expenses

1. Market capitalization is calculated as the closing price of shares at fiscal year-end times total shares issued as of fiscal year-end.
2. Cash flows indicate cash flows from operations, as stated in the consolidated statements of cash flows. Interest-bearing liabilities indicate those liabilities stated in the consolidated balance sheets on which interest is paid. Figures used for interest expenses are interest payment amounts stated in the consolidated statements of cash flows.
3. The interest-bearing liabilities/cash flow ratio and the interest coverage ratio are not provided for the fiscal year ended May 31, 2015, because operating cash flow was negative.
4. The interest-bearing liabilities/cash flow ratio is not provided for the fiscal year ended May 31, 2016, because interest-bearing liabilities had no year-end balance.

#### **(4) Forecast for the Next Fiscal Year**

In the business environment where expectations are growing for further spread of smartphones, evolution of services provided after the advent of the era of the 5th-generation mobile communication system (5G), and market expansion, our corporate group will proactively conduct the following businesses.

##### **Creation Segment**

This segment creates new lifestyles and new styles of business by providing services that leverage our own intellectual property. In content services centered on smartphone apps, the market for platform services operated by communication carriers is shrinking, so we will ensure earnings through operational efficiency. At the same time, we will work to expand mainstay apps that do not rely on platforms of communication carriers, strengthen alliances with other companies, develop and provide new content, and roll out services onto new platforms.

In addition, we will create new lifestyles and new styles of business by providing services that utilize our own rights and assets. These services include package services to support corporate operations, mobile kitting services, traffic information licensing services, voice technology services, and escrow services <sup>(Note 6)</sup> such as “Inaseri,” and other business support services.

##### **Solution Segment**

As a segment that proposes new value for client businesses through the development of IT solutions, in system development and managed services, against a backdrop of work style reforms and the upcoming Tokyo Olympic Games, we will respond to an environment in which corporate investment in IT such as AI, IoT and security-related systems continues to rise by leveraging the expertise cultivated in the Creation Segment and providing IT solutions centering on consigned businesses.

At the same time, as we work to create our next pillar of business, we will expand device-related services by leveraging the various expertise and assets we have cultivated through “in-store affiliate” advertising services and mobile kitting services.

Through these initiatives, in the fiscal year ending May 31, 2020, we expect to deliver net sales of ¥3,850 million, up 12.8% year on year. We anticipate operating income of ¥275 million, up 13.5%; ordinary income of ¥300 million, up 2.5%; and net income attributable to owners of the parent of ¥160 million, up 63.6%.

(Note 6) Escrow refers to an intermediary service that guarantees secure transactions when a product is bought or sold. It is a system in which a third party (escrow agent) other than the buyer or the seller settles the payment as an intermediary and temporarily holds on to the payment.

#### **(5) Fundamental Policy for Profit Distributions and Dividends in Current and Next Fiscal Years**

Nihon Enterprise places a high management priority on returning profits to shareholders. Our shareholder return policy also takes into consideration operating performance trends, cash flow, the return on equity and equity ratios, and future capital investment plans.

When allocating profits, we follow a dividend policy of providing stable returns in line with operating performance, while retaining sufficient funds to engage proactively in future business development and prepare for changes in the operating environment.

In accordance with this policy, for the year under review, management expects to award a dividend of ¥2.00 per share. For the upcoming fiscal year, we plan to award a dividend of ¥2.00 per share.

## **2. Basic Perspective on Selection of Accounting Standards**

The Nihon Enterprise Group employs Japanese accounting standards to facilitate the comparison of its consolidated financial statements between business periods and companies, and we plan to continue applying these standards for the foreseeable future.

However, the Group intends to consider the adoption of International Financial Reporting Standards (IFRS), taking into account trends in percentage share ownership by foreign investors, and the adoption of these standards by other domestic companies in the industry.

**3. Consolidated Financial Statements****(1) Consolidated Balance Sheets**

(Thousands of yen)

	End of FY May 2018 (May 31, 2018)	End of FY May 2019 (May 31, 2019)
<b>Assets</b>		
Current assets		
Cash and deposits	4,205,000	4,345,449
Notes and accounts receivable	*2 434,101	*2 567,088
Merchandise	1,076	4,679
Work in process	61,299	69,515
Supplies	446	241
Accrued revenue	70,474	67,827
Other	89,617	133,421
Less: Allowance for doubtful accounts	-34,708	-33,696
Total current assets	4,827,308	5,154,527
Fixed assets		
Property, plant and equipment		
Buildings	76,977	77,011
Less: Accumulated depreciation	-54,707	-56,985
Buildings, net	22,269	20,025
Machinery and equipment	389,629	389,629
Less: Accumulated depreciation	-45,905	-68,893
Machinery and equipment, net	343,724	320,736
Land	12,400	12,400
Other	99,654	97,923
Less: Accumulated depreciation	-72,462	-78,888
Other, net	27,191	19,035
Total property, plant and equipment	405,585	372,197
Intangible assets		
Goodwill	293	41
Software	422,538	325,829
Other	9,244	8,826
Total intangible assets	432,076	334,697
Investments and other assets		
Investment securities	*1 170,023	*1 58,340
Guarantee deposits	83,932	72,842
Deferred tax assets	71,690	39,248
Other	14,084	3,682
Total investments and other assets	339,730	174,114
Total fixed assets	1,177,392	881,008
<b>Total assets</b>	<b>6,004,700</b>	<b>6,035,536</b>

## Nihon Enterprise Co., Ltd. (4829) Financial Results for the Fiscal Year Ended May 2019

(Thousands of yen)

	End of FY May 2018 (May 31, 2018)	End of FY May 2019 (May 31, 2019)
<b>Liabilities</b>		
Current liabilities		
Accounts payable–trade	94,588	130,849
Current portion of long-term debt	*2 23,496	*2 23,496
Income taxes payable	61,470	52,628
Consumption taxes payable	35,150	26,983
Other	222,128	258,976
Total current liabilities	436,834	492,933
Long-term liabilities		
Long-term debt	*2 277,387	*2 253,891
Retirement benefit liabilities	51,970	55,284
Other	24,592	20,035
Total long-term liabilities	353,950	329,210
Total liabilities	790,784	822,144
<b>Net assets</b>		
Shareholders' equity		
Common stock	1,107,915	1,108,017
Capital surplus	984,096	984,701
Retained earnings	2,912,185	2,938,832
Treasury stock	-117,120	-117,120
Total shareholders' equity	4,887,077	4,914,430
Accumulated other comprehensive income		
Net unrealized gains on other securities	44,672	1,199
Total accumulated other comprehensive income	44,672	1,199
Stock acquisition rights	3,827	4,378
Minority interests	278,339	293,383
Total net assets	5,213,916	5,213,391
Total liabilities and net assets	6,004,700	6,035,536

## (2) Consolidated Statements of Income and Comprehensive Income

## Consolidated Statements of Income

(Thousands of yen)

	FY May 2018 (June 1, 2017 to May 31, 2018)	FY May 2019 (June 1, 2018 to May 31, 2019)
Net sales	3,892,954	3,413,752
Cost of sales	2,258,474	1,856,651
Gross profit	1,634,480	1,557,100
Selling, general and administrative expenses	*1,*2 1,459,518	*1,*2 1,314,818
Operating income	174,961	242,282
Non-operating income		
Interest income	205	169
Dividend income	586	690
Rental income	1,332	1,332
Business consignment commissions	900	600
Subsidy income	82,735	42,700
Other	2,211	8,860
Total non-operating income	87,971	54,353
Non-operating expenses		
Interest expenses	3,347	3,197
Commission fees	353	353
Foreign exchange losses	409	83
Commission for purchase of treasury stock	585	-
Others	840	272
Total non-operating expenses	5,536	3,906
Ordinary income	257,397	292,728
Extraordinary income		
Gains on sales of investments in securities	-	40,010
Gains on sales of property, plant and equipment	*3 492	*3 31
Gain on sales of investment in capital of subsidiaries and associates	21,448	-
Gain on transfer of business	143,000	-
Total extraordinary income	164,941	40,042
Extraordinary losses		
Losses on disposal of property, plant and equipment	*4 4,600	*4 9,773
Impairment losses	*5 77,280	*5 45,016
Cancellation penalty	-	*6 8,000
Total extraordinary losses	81,881	62,789
Income before income taxes and minority interests	340,457	269,980
Income, residential and enterprise taxes	110,732	91,301
Income tax adjustment	33,099	51,628
Total income taxes	143,831	142,929
Net income	196,625	127,051
Net income attributable to non-controlling interests	30,506	29,224
Net income attributable to owners of the parent	166,118	97,827

## Consolidated Statements of Comprehensive Income

	(Thousands of yen)	
	FY May 2018 (June 1, 2017 to May 31, 2018)	FY May 2019 (June 1, 2018 to May 31, 2019)
Net income	196,625	127,051
Other comprehensive income		
Net unrealized gains on other securities	31,632	-43,472
Foreign currency translation adjustment	-28,758	-
Total other comprehensive income	2,873	-43,472
Comprehensive income	199,499	83,578
(Breakdown)		
Comprehensive income attributable to owners of the parent	168,992	54,354
Comprehensive income attributable to non-controlling interests	30,506	29,224

**(3) Consolidated Statements of Changes in Shareholders' Equity**

Previous fiscal year (June 1, 2017 to May 31, 2018)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of the fiscal year	1,104,977	981,084	2,827,200	-	4,913,262
Adjustments during the fiscal year					
Dividends from surplus			-81,134		-81,134
Acquisition of treasury stock				-117,120	-117,120
Issuance of new shares - exercise of subscription rights to shares	2,938	2,938			5,876
Change in treasury shares of parent arising from transactions with non-controlling shareholders		74			74
Net income attributable to owners of the parent			166,118		166,118
Net changes during the year to items other than shareholders' equity					
Total adjustments during the fiscal year	2,938	3,012	84,984	-117,120	-26,185
Balance at the end of the fiscal year	1,107,915	984,096	2,912,185	-117,120	4,887,077

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at the start of the fiscal year	13,039	28,758	41,798	3,479	262,578	5,221,119
Adjustments during the fiscal year						
Dividends from surplus						-81,134
Acquisition of treasury stock						-117,120
Issuance of new shares - exercise of subscription rights to shares						5,876
Change in treasury shares of parent arising from transactions with non-controlling shareholders						74
Net income attributable to owners of the parent						166,118
Net changes during the year to items other than shareholders' equity	31,632	-28,758	2,873	347	15,761	18,982
Total adjustments during the fiscal year	31,632	-28,758	2,873	347	15,761	-7,202
Balance at the end of the fiscal year	44,672	-	44,672	3,827	278,339	5,213,916

Nihon Enterprise Co., Ltd. (4829) Financial Results for the Fiscal Year Ended May 2019

Current fiscal year (June 1, 2018 to May 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of the fiscal year	1,107,915	984,096	2,912,185	-117,120	4,887,077
Adjustments during the fiscal year					
Dividends from surplus			-80,264		-80,264
Issuance of new shares - exercise of subscription rights to shares	101	101			202
Change in treasury shares of parent arising from transactions with non-controlling shareholders		503			503
Increase following business integration			9,084		9,084
Net income attributable to owners of the parent			97,827		97,827
Net changes during the year to items other than shareholders' equity					
Total adjustments during the fiscal year	101	604	26,647	-	27,353
Balance at the end of the fiscal year	1,108,017	984,701	2,938,832	-117,120	4,914,430

	Accumulated other comprehensive income		Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Total accumulated other comprehensive income			
Balance at the start of the fiscal year	44,672	44,672	3,827	278,339	5,213,916
Adjustments during the fiscal year					
Dividends from surplus					-80,264
Issuance of new shares - exercise of subscription rights to shares					202
Change in treasury shares of parent arising from transactions with non-controlling shareholders					503
Increase following business integration					9,084
Net income attributable to owners of the parent					97,827
Net changes during the year to items other than shareholders' equity	-43,472	-43,472	550	15,043	-27,878
Total adjustments during the fiscal year	-43,472	-43,472	550	15,043	-524
Balance at the end of the fiscal year	1,199	1,199	4,378	293,383	5,213,391

## (4) Consolidated Statements of Cash Flows

(Thousands of yen)

	FY May 2018 (June 1, 2017 to May 31, 2018)	FY May 2019 (June 1, 2018 to May 31, 2019)
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interests	340,457	269,980
Depreciation	224,987	193,982
Amortization of goodwill	251	251
Impairment losses	77,280	45,016
Cancellation penalty	-	8,000
Loss (gain) on transfer of business	-143,000	-
Increase (decrease) in provision for allowance for doubtful accounts	-6,015	-1,011
Increase (decrease) in retirement benefit liabilities	7,550	3,314
Interest income and dividend income	-792	-859
Interest expenses	3,347	3,197
Foreign exchange (gains) losses	-31	83
Cash surrender value of insurance	-	-4,975
Loss (gain) on sales of investments in securities	-	-40,010
Loss (gain) on sales of investments in capital of subsidiaries and associates	-21,448	-
Loss (gain) on sales of property, plant and equipment	-492	-31
Losses on disposal of property, plant and equipment	4,600	9,773
Decrease (increase) in notes and accounts receivable—trade	128,480	-89,317
Decrease (increase) in inventories	-4,324	-11,613
Increase (decrease) in notes and accounts payable—trade	-88,872	35,289
Increase (decrease) in consumption taxes payable	-25,950	-10,058
(Increase) decrease in other current assets	5,813	-33,445
Increase (decrease) in other current liabilities	-49,067	30,210
Other	-378	24
<b>Subtotal</b>	<b>452,394</b>	<b>407,800</b>
Interest and dividend income received	823	859
Interest expenses paid	-3,319	-3,197
Cancellation penalty paid	-	-8,000
Income taxes paid	-135,768	-108,125
<b>Net cash provided by operating activities</b>	<b>314,130</b>	<b>289,337</b>

	FY May 2018 (June 1, 2017 to May 31, 2018)	FY May 2019 (June 1, 2018 to May 31, 2019)
<b>Cash flows from investing activities</b>		
Payments into time deposits	-519,180	-119,380
Proceeds from withdrawal of time deposits	909,080	119,280
Proceeds from withdrawal from long-term deposits	300,000	-
Payments for purchase of property, plant and equipment	-33,799	-5,332
Proceeds from sales of property, plant and equipment	492	34
Payments for purchase of intangible assets	-144,774	-128,132
Payments for purchase of investments in securities	-884	-
Proceeds from sales of investments in securities	-	64,001
Proceeds from sales of membership	-	5,700
Purchase of investments in subsidiaries	-1,000	-
Purchase of stocks of subsidiaries and affiliates	-26,280	-
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	*2 -2,591	-
Proceeds from transfer of business	143,000	-
Payments for loans receivable	-	-790
Collection of loans receivable	1,477	278
Payments of guarantee deposits	-4,078	-713
Proceeds from collection of guarantee deposits	4,703	9,445
Proceeds from cancellation of insurance funds	-	8,683
Net cash provided by investing activities	626,165	-46,925
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	100,000	180,000
Repayment of short-term borrowings	-100,000	-180,000
Proceeds from long-term debt	15,000	-
Repayment of long-term debt	-22,121	-23,496
Repayment of lease obligations	-1,010	-1,248
Proceeds from issuance of common shares	4,881	136
Payment for acquisition of treasury stock	-117,120	-
Cash dividends paid	-80,962	-80,004
Cash dividends paid to non-controlling interests	-15,901	-16,705
Other	2,230	1,801
Net cash used in financing activities	-215,003	-119,515
Effect of exchange rate changes on cash and cash equivalents	631	-83
Net increase (decrease) in cash and cash equivalents	725,924	122,812
Cash and cash equivalents at the beginning of the year	3,389,485	4,115,410
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	17,536
Cash and cash equivalents at the end of the year	*1 4,115,410	*1 4,255,759

**(5) Notes to Consolidated Financial Statements  
(Notes regarding Going Concern Assumptions)**

Nothing to report.

**(Segment Information, etc.)****Segment Information****1. Summary of reportable segments**

Reportable segments for Nihon Enterprise are the constituent business units for which separate financial data is available and that are examined on a regular basis for the purpose of enabling the Company's management to allocate resources and evaluate results of operations.

The Company formulates comprehensive strategies for the services the Nihon Enterprise Group handles and conducts. Consequently, the Company has consolidated the services handled by Group companies into two reportable segments, the Creation Segment and the Solution Segment.

An overview of the reportable segments is as follows.

**Creation Segment**

The Creation Segment is a business in which we create new life and business styles by providing our own services that utilize the rights and assets that our company possesses, such as content services centering on app services for smartphones, apps for business use, cloud services, including traffic information, education, tourism, and procurement, mobile kitting, voice solutions, and solar power generation.

**Solution Segment**

The Solution Segment is a business through which our company proposes new values to customers through IT solutions, such as development on consignment using the know-how that we have cultivated in the Creation Segment, including app development, website development, server development, system operation and monitoring, debugging, and user support.

**2. Methods used for calculating sales, income or losses, and other items for each reportable segment**

The methods employed in the accounting treatment of reportable business segments are the same as those indicated in "Important items that form the basis for preparation of consolidated financial statements." Earnings for reportable segments are based on operating income. Intersegment sales and transfers are based on market prices.

**3. Information on sales, income or losses, and other items for each reportable segment****Previous fiscal year (June 1, 2017 to May 31, 2018)**

(Thousands of yen)

	Reportable Segments			Adjustments (Note)	Total (Note)
	Creation Segment	Solution Segment	Subtotal		
Net sales					
Sales—External Customers	2,007,346	1,885,608	3,892,954	-	3,892,954
Sales and transfer— intersegment	26,625	96,442	123,068	-123,068	-
Total	2,033,971	1,982,051	4,016,023	-123,068	3,892,954
Segment income	513,267	155,387	668,654	-493,692	174,961
Other items					
Depreciation	197,439	19,180	216,620	8,366	224,987

(Note) The primary adjustments to segment income are for corporate expenses that do not belong to individual business segments, including general administrative expenses of ¥493,441 thousand and amortization of goodwill of ¥251 thousand.

Segment income is adjusted to operating income in the consolidated statements of income.

Segment assets are not listed, as assets cannot be allocated to business segments. However, rational allocation standards are used to allocate depreciation and amortization expenses on depreciable assets that are not themselves allocated to individual business segments.

## Current fiscal year (June 1, 2018 to May 31, 2019)

(Thousands of yen)

	Reportable Segments			Adjustments (Note)	Total (Note)
	Creation Segment	Solution Segment	Subtotal		
Net sales					
Sales—External Customers	1,855,028	1,558,723	3,413,752	-	3,413,752
Sales and transfer—intersegment	40,018	56,209	96,227	-96,227	-
Total	1,895,046	1,614,933	3,509,979	-96,227	3,413,752
Segment income	549,254	198,734	747,989	-505,707	242,282
Other items					
Depreciation	174,178	10,893	185,071	6,380	191,451

(Note) The primary adjustments to segment income are for corporate expenses that do not belong to individual business segments, including general administrative expenses of ¥505,455 thousand and amortization of goodwill of ¥251 thousand.

Segment income is adjusted to operating income in the consolidated statements of income.

Segment assets are not listed, as assets cannot be allocated to business segments. However, rational allocation standards are used to allocate depreciation and amortization expenses on depreciable assets that are not themselves allocated to individual businesses segments.

**(Material Subsequent Events)**

Nothing to report.