



Broadmedia

Report on a series of materials announced today

Broadmedia Corporation

March 14, 2018

Notice of Current Status Related to Damages from Fictitious Transactions Suffered by a Consolidated Subsidiary

Notice of Revision to Financial Forecasts and Extraordinary Losses

Broadmedia Corporation Announces Submission of Application for Approval of Re-postponement of Announcement of Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2018

Broadmedia Corporation Announces Approval of Re-postponement of Announcement of Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2018

Revision to Financial Forecasts for FY2017

Damages from Fictitious Transactions Suffered by Fishing Vision



- We offer our sincerest apologies to our shareholders and customers and all stakeholders for the trouble and concern caused by the fictitious transaction damage discovered in January 2018 suffered by Fishing Vision, a consolidated subsidiary.

- Details are described in the disclosure material announced today.
- We acknowledge that the matter is a case of fraud committed by a company that Fishing Vision subcontracted video production work to.
- It occurred over ten years, however...
 - When the transactions first started, they were genuine transactions.
 - All documents necessary for the transactions were counterfeit as were the seals that were affixed to the documents.
 - Accounts receivable were paid in full by multiple clients under the clients' names with almost no delay.
 - Normally balance confirmation letters were sent directly from the accounting auditor to the individual clients, but the subcontractor obtained them from the client staff etc, and forged and returned them.

Because of above reasons, we did not realize that the transactions were fictitious.

- Investigation of this matter was initiated after receiving a report from a lawyer on behalf of the subcontractor to the effect that this is a fraud committed by them. At this point in the investigation no one within our Company Group has been implicated in the fictitious transactions.
- Since there are no other similarly structured transactions, we believe that there is no risk of the same kind of fictitious transactions.
- However, to be extra cautious, we are conducting additional investigations on involvement of insiders, and the presence or absence of similar transactions.
- About each internal control process, we are continuing to investigate the status of its maintenance and operation.

■ Audit status of Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2018

- Additional investigation mentioned above was necessary.
- It takes time to cooperate with the former audit corporation.

As a result, It takes longer than originally expected.

■ Because of above reasons, we decided to submit an application for approval of the additional postponement of the announcement of the financial results stated above with the Kanto Local Finance Bureau, and it was approved.

⇒ We will submit the third quarter report by the next deadline of April 13.

Financial Results and Quarterly Financial Results



- Amendment Reports concerning financial results and quarterly financial results for past fiscal years and periods up to the first two quarters of the ongoing fiscal year
 - ⇒ Currently undergoing auditing procedures. Reports will be promptly submitted as soon as they are ready.

- Annual securities report at the end of the fiscal year 2017
 - ⇒ Expected to be submitted by the deadline of June 30, 2018

■ Consumption Tax

⇒ For the part of the overpaid consumption tax that can be reimbursed, if it is recognized by the tax authorities, it is expected to be refunded.

■ Corporate Income Tax

⇒ Since the recognition of gross revenues was excessive, if the tax authorities allow tax deductions on future revenue following a correction procedure, the future tax burden is expected to decrease.

■ Recovery of damages

Damages incurred by our group...

- Appr. 500 million yen recorded as extraordinary loss for direct damages.
- Incidental expenses incurred for investigation and outside experts.

Regarding above, the Company will make efforts to obtain refunds, claim damages, etc.

■ Criminal Prosecution

As the Company recognizes this as a case of fraud, we plan to pursue criminal prosecution in the future.

■ Our response to this incident

As soon as the final investigation results are reported, we will confirm the cause of the incident, and make the following as necessary.

- Improvement of maintenance and operation related to internal control
- Measures to prevent crime in advance
- Strengthen group management structure

- The matter relates to damages suffered due to a sophisticated fraud, nonetheless, we believe that Fishing Vision has certain responsibilities for allowing the fictitious transactions to occur and for not being able to detect them at an early stage.
- The company has oversight responsibility for the insufficient management of its subsidiary.
- We acknowledge responsibility for the effects caused by this incident including:
 - the sharp decline in the earnings forecast for the current period
 - the significant delay in the submission of the quarterly financial report; and
 - the errors in the settlement of accounts in past years.
- We are considering undertaking punitive action with regard to those involved. The decision will be announced immediately after the investigation is completed.

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Revision to Financial Forecasts for FY2017

Revision to Financial Forecasts for FY2017



(Unit : Million yen)

Full year	Previously forecast	Revised forecast	Difference
	Announced on April 28, 2017	Announced on March 14, 2018	
Revenue	14,000	10,600	(3,400)
Operating income	250	50	(200)
Ordinary income	200	40	(160)
Net income	50	(260)	(310)

- For revenue and cost, deduction of impact amount on fictitious transaction damage incurred by Fishing Vision, a consolidated subsidiary.
- We plan to record approximately 500 million yen for provision of allowance for doubtful accounts as an extraordinary loss in connection with the damages caused by fictitious transactions.
- As a result, revenue, operating income and ordinary income are projected to be much lower than the previous forecast, and a net loss is expected to be posted.

The statements contained here indicate the Company's current plans, expectations, strategies, and beliefs. Any statements that are not historical facts are forward-looking statements regarding future business performance. This document contains forecasts determined by the Company's management based on information presently available. The Company asks that you do not rely completely on these forward-looking statements because actual business results may vary materially from these statements due to various risks and uncertain factors.

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