Broadmedia

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Press Release

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Impact on the Company's Consolidated Account Settlements Related to Damages from Fictitious Transactions Suffered by Consolidated Subsidiary

The Company has completed the investigation into the damages from fictitious transactions suffered by Fishing Vision Co., Ltd. (hereinafter referred to as "Fishing Vision"), a consolidated subsidiary of the Company, as reported in the press release dated May 23, 2018 titled "Notice of Receipt of Investigation Report from the Third-Party Committee and Date of Announcement of Financial Results for Fiscal Year Ended March 31, 2018."

Moreover, as reported in the press release dated June 12, 2018 titled "Notice of Audit of Revised Reports for Annual Securities Reports for Prior Years, etc.," the former audit corporation during prior years accepted the engagement of revised reports before the period ended March 31, 2015, and the audit corporation is now undertaking the audit procedures.

However, as reported in the press release dated June 28, 2018 titled "Broadmedia Corporation Announces Submission of Application for Approval of Postponement of Announcement of Financial Results for the Fiscal Year Ended March 31, 2018," the Company decided to file an application for postponement because the audit procedures will take time to complete, so the Company is not likely to be able to submit the annual securities reports by the deadline.

In the accounting method regarding the loss resulting from the fictitious transactions, an allowance for doubtful accounts was booked in the third quarter of the fiscal year ended March 31, 2018. The former audit corporation mentioned that the method should be changed, and the former audit corporation and the current audit corporation discussed the matter. As a result, the Company decided to change the accounting method to another accounting method in which an allowance for doubtful was recorded for accounts receivable - other at the end of each period of the prior years.

Consequently, as reported in the press release dated April 13, 2018 entitled "Notice of Status of Investigations into Damages from Fictitious Transactions Suffered by Consolidated Subsidiary," the impacts of the fictitious transactions on the prior year's consolidated account settlements of the Company will be changed retrospectively. In addition, the Company expects modifications to "Consolidated Financial Results for the First Three Quarters of the FY2017" announced on April 13, 2018 and "Consolidated Financial Results for the FY2017" announced on May 30, 2018.

The Company deeply regrets the situation and offers its sincere apologies to all stakeholders for the concern caused.

1. Impact of the previously released fictitious transactions on the financial statements

Journal entries relating to the amount of impact specified in “Notice of Status of Investigations into Damages from Fictitious Transactions Suffered by Consolidated Subsidiary” dated April 13, 2018 are as follows:

<Past income statements>

(1) Acknowledging that the transactions falling under fictitious transactions are not business transactions whose revenue and costs can be posted, the revenue and costs concerned have been canceled on the income statement.

⇒ As a result, the revenue, cost and operating income of each period decreased.

(2) As we acknowledged that all the transactions falling under fictitious transactions were subject to consumption tax, the difference between consumption tax income and consumption tax paid had been paid. We now recognize that this was an excessive payment.

⇒ We expensed the overpaid consumption tax as taxes and dues in each period, assuming that it would not be returned. As a result, selling, general and administrative expenses increased, reducing operating income and below.

(3) As for corporate income tax, no accounting revisions were made on the assumption that we would not qualify for revisions to tax charges retrospectively.

⇒ Profits reduced due to the abovementioned accounting treatments (1) and (2), but there was no change in corporate income taxes.

(4) As a result of the accounting treatment described in (1) and (2) above, the amount of the net assets of Fishing Vision decreased and the amount of goodwill in relation to the shares of Fishing Vision’s stock increased.

⇒ As a result, operating income decreased.

<Past balance sheets>

(1) Accounts receivable from clients on the balance sheet in relation to transactions that fall under fictitious transactions have been canceled at the end of each period. (As payments were made to the subcontractor on a monthly basis, there was no accounts payable at each period-end.)

(2) Instead, the difference between the amount including tax paid to the subcontractor by the specific point in time and the amount including tax received from clients (parties that can be recognized as clients) in relation to transactions that fall under fictitious transactions has been changed to accounts receivable-other from the subcontractor.

2. Accounting treatment to be changed this time and its impact

As a result of accounting treatment (2) of the above <Past balance sheets>, for the accounts receivable - other of 541 million yen recorded at the end of the first three quarters of the fiscal year ended March 31, 2018, an extraordinary loss was posted as provision of allowance for doubtful accounts in the third quarter of the fiscal year ended March 31, 2018 when the Company recognized the fictitious transactions.

However, as a result of discussions between the former audit corporation and the current audit corporation, it was decided that the provision of allowance for doubtful accounts should not be booked in the third quarter of the fiscal year ended March 31, 2018 at once, but every time an account receivable-other is posted, the provision of an allowance for doubtful accounts was decided to be provided for retrospectively. As a result, net income and net assets will decrease to record an extraordinary loss in prior years compared to the previous announcement. Moreover, as the net assets of Fishing Vision will decrease retrospectively, goodwill will increase and operating income in prior years will decrease somewhat as well compared to the previous announcement.

Meanwhile, as mentioned above, it was decided that the provision of allowance for doubtful accounts of 541 million yen recorded in the fiscal year ended March 31, 2018 would be recorded in prior years. Consequently, it is expected that there will be no extraordinary loss, and net income attributable to shareholders of the parent is expected to be booked.

The Company sold some of Fishing Vision's shares in the fiscal year ended March 2015. When the Company agreed on the transaction value with the purchaser, the calculation of the share value included revenue from the fictitious transactions. As a result, it is likely that the share value factoring in the impact of the fictitious transactions will be calculated again with the purchaser, and this will give rise to a possible decrease in the stock trading price after the event. Accordingly, profit on the sale of stocks posted as extraordinary income in the fiscal year ended March 31, 2015 will be revised downward.

At this point in time, the impacts on the major items on the Company's consolidated income statements in the prior years and up to the fiscal year ended March 31, 2018 are estimated as mentioned below.

Since the audit procedures of the financial statements during the periods concerned are incomplete, the estimation below may eventually change.

unit：million yen

Fiscal Year	Major Items	Before accounting revisions	After revisions this time	Difference before and after	Impact ratio
FY2008 Full-year	Revenue	11,714	11,686	(28)	(0.24)%
	Operating income	(393)	(394)	(1)	—
	Ordinary income	(1,067)	(1,068)	(1)	—
	Net income	(904)	(905)	(0)	—
	Net assets	5,270	5,256	(14)	(0.27)%
	Total assets	8,118	8,104	(14)	(0.17)%
FY2009 Full-year	Revenue	10,527	10,389	(138)	(1.31)%
	Operating income	558	551	(7)	(1.25)%
	Ordinary income	611	603	(7)	(1.15)%
	Net income	1,174	1,160	(13)	(1.11)%
	Net assets	6,728	6,691	(37)	(0.55)%
	Total assets	9,325	9,287	(37)	(0.40)%

unit：million yen

Fiscal Year	Major Items	Before accounting revisions	After revisions this time	Difference before and after	Impact ratio
FY2010 Full-year	Revenue	13,927	13,550	(377)	(2.71)%
	Operating income	860	837	(22)	(2.56)%
	Ordinary income	829	807	(22)	(2.65)%
	Net income	450	399	(51)	(11.33)%
	Net assets	6,771	6,656	(115)	(1.70)%
	Total assets	9,676	9,561	(115)	(1.19)%
FY2011 Full-year	Revenue	12,485	11,872	(612)	(4.90)%
	Operating income	803	771	(32)	(3.99)%
	Ordinary income	800	767	(32)	(4.00)%
	Net income	479	416	(62)	(12.94)%
	Net assets	7,469	7,256	(212)	(2.84)%
	Total assets	11,811	11,598	(212)	(1.79)%
FY2012 Full-year	Revenue	12,968	12,124	(844)	(6.51)%
	Operating income	166	121	(45)	(27.11)%
	Ordinary income	(215)	(260)	(45)	—
	Net income	(424)	(512)	(87)	—
	Net assets	6,930	6,581	(349)	(5.04)%
	Total assets	12,529	12,180	(349)	(2.79)%
FY2013 Full-year	Revenue	12,301	11,114	(1,187)	(9.65)%
	Operating income	(618)	(682)	(63)	—
	Ordinary income	(1,134)	(1,197)	(63)	—
	Net income	(777)	(866)	(88)	—
	Net assets	6,117	5,631	(486)	(7.95)%
	Total assets	11,099	10,612	(486)	(4.38)%
FY2014 Full-year	Revenue	11,918	10,272	(1,646)	(13.81)%
	Operating income	(1,147)	(1,236)	(89)	—
	Ordinary income	(2,358)	(2,448)	(89)	—
	Net income	(2,580)	(2,821)	(241)	—
	Net assets	4,444	3,556	(888)	(19.98)%
	Total assets	8,978	8,304	(674)	(7.51)%
FY2015 Full-year	Revenue	12,117	9,955	(2,162)	(17.84)%
	Operating income	71	(47)	(118)	—
	Ordinary income	(198)	(317)	(118)	—
	Net income attributable to owners of parent	(1,082)	(1,175)	(92)	—
	Net assets	3,509	2,441	(1,068)	(30.44)%
	Total assets	7,591	6,737	(854)	(11.25)%

unit：million yen

Fiscal Year	Major Items	Before accounting revisions	After revisions this time	Difference before and after	Impact ratio
FY2016 Full-year	Revenue	13,158	10,413	(2,744)	(20.85)%
	Operating income	187	37	(149)	(79.68)%
	Ordinary income	134	(15)	(149)	—
	Net income attributable to owners of parent	(350)	(457)	(106)	—
	Net assets	2,942	1,666	(1,276)	(43.37)%
	Total assets	7,800	6,737	(1,062)	(13.62)%
FY2017 Full-year	Revenue	10,800	10,800	0	0.00%
	Operating income	86	85	(1)	(1.16)%
	Ordinary income	79	78	(1)	(1.27)%
	Net income attributable to owners of parent	(232)	43	275	—
	Net assets	2,884	2,672	(211)	(7.32)%
	Total assets	6,540	6,542	2	0.03%

End

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