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May 10, 2022

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Under Japanese GAAP)

Company name: Japan Communications Inc.
 Listing: Tokyo Stock Exchange: Prime Market
 Securities code: 9424
 URL: URL <http://www.j-com.co.jp/>
 Representative: Naohisa Fukuda, Representative Director-President
 Inquiries: Mitsuru Kodaira, Executive Officer and CFO
 Telephone: +81-3-5776-1700
 Scheduled date of ordinary general meeting of shareholders: June 28, 2022
 Scheduled date to commence dividend payments: –
 Scheduled date to file annual securities report: June 29, 2022
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors, analysts and the press)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
March 31, 2022	4,634	32.5	279	–	298	–	294	–
March 31, 2021	3,497	(0.4)	(248)	–	(242)	–	(273)	–

Note: Comprehensive income For the fiscal year ended March 31, 2022: ¥254 million [–%]
 For the fiscal year ended March 31, 2021: ¥(270) million [–%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2022	1.79	1.77	64.2	15.7	6.0
March 31, 2021	(1.66)	–	(68.7)	(14.5)	(7.1)

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended March 31, 2022: ¥5 million
 For the fiscal year ended March 31, 2021: ¥10 million

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2022	1,944	785	33.6	3.97
March 31, 2021	1,857	341	14.2	1.60

Reference: Equity
 As of March 31, 2022: ¥652 million
 As of March 31, 2021: ¥263 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 period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2022	21	(271)	150	928
March 31, 2021	419	(53)	6	1,025

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Fiscal year ended March 31, 2021	Yen –	Yen 0.00	Yen –	Yen 0.00	Yen 0.00	Millions of yen –	% –	% –
Fiscal year ended March 31, 2022	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending March 31, 2023 (Forecast)	–	0.00	–	0.00	0.00		–	

3. Overview and management policy for the fiscal year ending March 31, 2023

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications business through local mobile networks (local 4G/5G), as well as digital ID (FPoS : Fintech Platform over SIM) business for use on smartphones.

The Company plans to build a stable revenue stream by continuing the evolution of the SIM business, as well as to develop the local 4G/5G business and FPoS business to become the pillar of future earnings by investing in the two businesses.

In the local 4G/5G business, the Company aims to build advanced showcases in the U.S. and leverage the experience to expand in Japan.

In the FPoS business, the Company has acquired certification under the Digital Signature Act for “my Digital Certificate” (the issuing entity is my FinTech Inc., a subsidiary of the Company.) based on its patented FPoS technology, and are working on its actual use as a digital ID that can be used safely, securely, and conveniently on smartphones.

With the surrounding situation above described, the management of the Company perceives a market capitalization of 500 billion yen as the growth business scale in three to five years from the launch of commercial service of FPoS(expected within this fiscal year).

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2022	164,258,239 shares
As of March 31, 2021	164,258,239 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2022	15,004 shares
As of March 31, 2021	15,004 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2022	164,243,235 shares
Fiscal year ended March 31, 2021	164,243,235 shares

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	4,510	33.8	352	—	345	—	316	—
March 31, 2021	3,371	1.7	(329)	—	(201)	—	(205)	—

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
March 31, 2022	1.92	1.90
March 31, 2021	(1.25)	—

(2) Non-consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2022	2,118	645	27.3	3.51
March 31, 2021	2,088	299	12.5	1.58

Reference: Equity

As of March 31, 2022: ¥577 million

As of March 31, 2021: ¥261 million

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

A financial results meeting will be held on Wednesday, May 11, 2022 for institutional investors, analysts and the press. The Company plans to post a video of this financial results meeting on its website promptly after the meeting is held.

1. Operating results and financial position

(1) Operating results of the year ended March 31, 2022

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications through local mobile networks business (local 4G/5G), as well as digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones.

The Company plans to build a stable revenue stream by continuing the evolution of the SIM business, as well as to develop the local 4G/5G business and FPoS business to become the pillar of future earnings by investing in the two businesses.

(i) Mobile Communications Business (SIM business)

In the MVNO business model that the Company has created, the Company has continued its efforts to ensure a fair competitive environment and has evolved them through repeated deregulation. In particular, the June 2020 ruling by the Minister for Internal Affairs and Communications that allows the Company to procure voice communications services from NTT DOCOMO, INC. on a cost basis has contributed significantly to its earnings. In the SIM business, the Company has been able to offer competitive tariff plans, such as flat-rate tariff for voice communications services and lower basic monthly fees, and since July 2020, for seven consecutive quarters leading up to the end of the current fiscal year, both the number of its line subscriptions and quarterly sales revenue have continued to grow, resulting in a profit for the first time in seven years in the current fiscal year.

(ii) Local 4G/5G Business through Local Mobile Networks

In the local 4G/5G business, the Company aims to build advanced showcases in the U.S. and leverage the experience to expand in Japan. In the U.S., the Company has for a long period of time offered businesses that provide secure communications for financial transactions, such as mobile leased line services for ATMs, and in parallel, has begun offering SIMs for the Citizens Broadband Radio Service (CBRS), the local mobile network system in the U.S. CBRS is a unique network that is built and operated in a specific environment, including universities or offices, and is positioned as an alternative to WiFi, but unlike WiFi, it requires authentication by a SIM. The expansion of CBRS has also created demand, and the Company's U.S. subsidiary has joined forces with its key partners to expand its business.

(iii) Digital ID (FPoS) Business for Use on Smartphones

In the FPoS business, the Company has acquired certification under the Digital Signature Act for "my Digital Certificate" (the issuing entity is my FinTech Inc., a subsidiary of the Company.) based on its patented FPoS technology on November 10, 2021, and the business has received a lot of interest from banks and other financial institutions, as well as local governments.

This is attributed to the fact that the Ministry of Internal Affairs and Communications Ordinance was amended on September 29, 2021, limiting the method of electronic application for residence certificates, etc. to the method of identification by the applicant's digital signature and digital certificate (a digital certificate for the My Number Card or a digital certificate certified under the Digital Signature Act). Such a move brought the situation to the attention of all those concerned, as the so-called "smartphone ID" method of application, which had hitherto been used by some local governments, was no longer allowed, and the acceptance of applications thereof was suspended. Although some have argued that this revised Ordinance of the Ministry of Internal Affairs and Communications runs counter to the trend towards digitization, it has provided an opportunity to reaffirm the broad recognition of online means of identification.

As a result of the above, the Group's consolidated net sales for the current fiscal year were 4,634 million yen, an increase of 1,136 million yen (up 32.5%) compared to the previous fiscal year (hereinafter referred to as the "previous year"). This was mainly due to growth in the MVNO business resulting from increased sales of

voice and data communications services centered on “Nihon Tsushin SIM,” as well as growth in the Enabler business, which includes voice and data communications services provided under partner brands.

Cost of sales was 2,782 million yen, an increase of 559 million yen (up 25.2%) compared to the previous year. This is because, while there was an increase in costs due to bandwidth acceleration measures with NTT DOCOMO, INC., along with an increase in users, mainly “Nihon Tsushin SIM” users, 1) inter-connection fees per unit with carriers for data communication services dropped and 2) the cost ratio improved owing to the Minister of Internal Affairs and Communications ruling that voice communications services from NTT DOCOMO, INC., can now be procured on a cost basis.

As a result, gross profit amounted to 1,852 million yen, an increase of 577 million yen (up 45.3%) compared to the previous year. Operating profit was 279 million yen (248 million yen loss in the previous year), and profit attributable to owners of the parent was 294 million yen (273 million yen loss in the previous year), resulting in a full-year profit for the first time in seven years.

Financial results by business are as follows

(Millions of yen)				
Net sales	For the year ended March 31, 2021	For the year ended March 31, 2022	Year-on-year changes	Year-on-year changes (%)
MVNO Business	1,874	2,488	613	32.7
Enabler Business	1,623	2,146	522	32.2
Total	3,497	4,634	1,136	32.5

Sales of 123 million yen (126 million yen in the previous year) from overseas operations in the segment information are included in the Enabler Business.

(2) Financial position of the year ended March 31, 2022

Assets

Current assets at the end of the current fiscal year were 1,410 million yen, a decrease of 111 million yen compared to the end of the previous year. This was mainly due to a decrease of 96 million yen in cash and deposits. Non-current assets were 531 million yen, an increase of 201 million yen compared to the end of the previous year. This was mainly due to increases of 37 million yen in property, plant and equipment and 156 million yen in intangible assets.

As a result, total assets amounted to 1,944 million yen, an increase of 86 million yen compared to the end of the previous year.

Liabilities

Current liabilities at the end of the current fiscal year were 1,106 million yen, a decrease of 386 million yen compared to the end of the previous year. This was due in large part to decreases of 353 million yen in accounts payable-trade, 60 million yen in accounts payable-other, and 36 million yen in unearned revenue. Non-current liabilities were 53 million yen, an increase of 29 million yen compared to the end of the previous year. This was mainly due to an increase of 26 million yen in long-term unearned revenue.

As a result, liabilities amounted to 1,159 million yen, a decrease of 356 million yen compared to the end of the previous year.

Net assets

Net assets at the end of the current fiscal year were 785 million yen, an increase of 443 million yen compared to the end of the previous year.

As a result, the equity ratio was 33.6% (14.2% at the end of the previous year).

(3) Status of cash flows for the year ended March 31, 2022

Cash and cash equivalents at the end of the current fiscal year were 928 million yen, a decrease of 96 million yen compared to the end of the previous year.

The status of cash flows and their factors during the current fiscal year are as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled 21 million yen (an inflow of 419 million yen in the previous year). This was due primarily to a 355 million yen in decrease in notes and accounts payable-trade, while recording profit before income taxes of 299 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 271 million yen (an outflow of 53 million yen in the previous year). This was due primarily to payments for purchase of property, plant and equipment of 97 million yen and purchase of intangible assets of 171 million yen.

Cash flows from financing activities

Net cash provided by financing activities totaled 150 million yen (an inflow of 6 million yen in the previous year). This was due primarily to 160 million yen of proceeds from share issuance to non-controlling shareholders.

(4) Outlook for the fiscal year ending March 31, 2023 and beyond

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications business through local mobile networks (local 4G/5G), as well as digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones.

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With the surrounding situation above described, the management of the Company perceives a market capitalization of 500 billion yen as the growth business scale in three to five years from the launch of commercial service of FPoS(expected within this fiscal year).

2. Basic concept regarding the selection of accounting standards

The Group prepares its consolidated financial statements in accordance with Japanese GAAP, in light of the comparability of periods of consolidated financial statements and between companies, as well as the burden of preparing consolidated financial statements under International Financial Reporting Standards (IFRS). The Company’s policy is to take an appropriate response with respect to the timing of the adoption of IFRS, taking into consideration various conditions in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	1,025,466	928,688
Accounts receivable - trade	338,688	378,641
Merchandise	74,997	47,552
Supplies	51	71
Accounts receivable - other	42	576
Other	86,139	57,440
Allowance for doubtful accounts	△3,717	△2,692
Total current assets	1,521,668	1,410,277
Non-current assets		
Property, plant and equipment		
Buildings	82,357	84,111
Accumulated depreciation	△82,357	△83,292
Buildings, net	—	818
Vehicles	9,794	7,027
Accumulated depreciation	△9,794	△4,881
Vehicles, net	—	2,145
Tools, furniture and fixtures	749,510	795,689
Accumulated depreciation	△730,277	△766,969
Tools, furniture and fixtures, net	19,232	28,719
Leased assets	263,727	263,727
Accumulated depreciation	△263,727	△263,727
Leased assets, net	—	—
Construction in progress	65,477	90,093
Total property, plant and equipment	84,710	121,777
Intangible assets		
Patent right	2,573	3,834
Trademark right	947	2,097
Software	26,175	73,999
Software in progress	20,184	125,984
Total intangible assets	49,880	205,916
Investments and other assets		
Investment securities	56,990	63,281
Leasehold and guarantee deposits	138,642	140,335
Other	120	456
Total investments and other assets	195,753	204,073
Total non-current assets	330,344	531,767
Deferred assets		
Share issuance costs	1,432	376
Bond issuance costs	4,051	1,937
Total deferred assets	5,483	2,313
Total assets	1,857,497	1,944,359

(Thousands of yen)

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	775,032	421,105
Current portion of long-term borrowings	9,600	—
Accounts payable - other	145,500	85,270
Income taxes payable	51,846	62,055
Unearned revenue	154,770	117,785
Deposits received	26,942	27,918
Valuation Reserve For Inventory Purchase		
Commitments	218,829	263,951
Other	109,656	127,992
Total current liabilities	1,492,178	1,106,078
Non-current liabilities		
Long-term accounts payable - other	—	2,149
Long-term unearned revenue	23,969	50,920
Total non-current liabilities	23,969	53,070
Total liabilities	1,516,147	1,159,149
Net assets		
Shareholders' equity		
Share capital	4,528,440	4,528,440
Capital surplus	2,868,630	2,977,376
Retained earnings	△7,272,002	△6,977,888
Treasury shares	△2,192	△2,192
Total shareholders' equity	122,876	525,737
Accumulated other comprehensive income		
Foreign currency translation adjustment	140,788	126,815
Total accumulated other comprehensive income	140,788	126,815
Share acquisition rights	38,690	67,864
Non-controlling interests	38,994	64,792
Total net assets	341,349	785,210
Total liabilities and net assets	1,857,497	1,944,359

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net sales	3,497,933	4,634,379
Cost of sales	2,223,005	2,782,108
Gross profit	1,274,928	1,852,270
Selling, general and administrative expenses	1,523,909	1,572,745
Operating profit (loss)	△248,980	279,525
Non-operating income		
Interest income	29	215
Share of profit of entities accounted for using equity method	10,271	5,834
Foreign exchange gains	—	17,263
Miscellaneous income	4,564	5,728
Total non-operating income	14,864	29,043
Non-operating expenses		
Interest expenses	245	52
Amortization of share issuance costs	1,869	1,055
Amortization of bond issuance costs	2,238	2,114
Foreign exchange losses	2,825	—
Share acquisition rights issuance costs	649	—
Miscellaneous losses	283	6,407
Total non-operating expenses	8,111	9,630
Ordinary profit (loss)	△242,227	298,938
Extraordinary income		
Gain on sale of non-current assets	—	100
Total extraordinary income	—	100
Extraordinary losses		
Settlement payments	28,122	—
Total extraordinary losses	28,122	—
Profit (loss) before income taxes	△270,349	299,038
Income taxes - current	4,630	30,429
Total income taxes	4,630	30,429
Profit (loss)	△274,980	268,608
Loss attributable to non-controlling interests	△1,390	△25,505
Profit (loss) attributable to owners of parent	△273,590	294,114

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Profit (loss)	△274,980	268,608
Other comprehensive income		
Foreign currency translation adjustment	4,278	△13,972
Total other comprehensive income	4,278	△13,972
Comprehensive income	△270,702	254,636
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	△269,311	280,142
Comprehensive income attributable to non- controlling interests	△1,390	△25,505

(3) Consolidated Statement of Changes in Equity

Previous fiscal year (From April 1, 2020 to March 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,528,440	2,868,630	△6,998,412	△2,192	396,466
Changes during period					
Profit (loss) attributable to owners of parent			△273,590		△273,590
Net changes in items other than shareholders' equity					
Total changes during period	—	—	△273,590	—	△273,590
Balance at end of period	4,528,440	2,868,630	△7,272,002	△2,192	122,876

	Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	136,509	136,509	—	15,885	548,861
Changes during period					
Profit (loss) attributable to owners of parent					△273,590
Net changes in items other than shareholders' equity	4,278	4,278	38,690	23,109	66,078
Total changes during period	4,278	4,278	38,690	23,109	△207,511
Balance at end of period	140,788	140,788	38,690	38,994	341,349

Current fiscal year (From April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,528,440	2,868,630	△7,272,002	△2,192	122,876
Changes during period					
Profit (loss) attributable to owners of parent			294,114		294,114
Change in ownership interest of parent due to transactions with non-controlling interests		108,746			108,746
Net changes in items other than shareholders' equity					
Total changes during period	—	108,746	294,114	—	402,860
Balance at end of period	4,528,440	2,977,376	△6,977,888	△2,192	525,737

	Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	140,788	140,788	38,690	38,994	341,349
Changes during period					
Profit (loss) attributable to owners of parent					294,114
Change in ownership interest of parent due to transactions with non-controlling interests					108,746
Net changes in items other than shareholders' equity	△13,972	△13,972	29,174	25,798	40,999
Total changes during period	△13,972	△13,972	29,174	25,798	443,860
Balance at end of period	126,815	126,815	67,864	64,792	785,210

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	△270,349	299,038
Depreciation	8,311	22,562
Interest and dividend income	△29	△215
Interest expenses	245	52
Share of loss (profit) of entities accounted for using equity method	△10,271	△5,834
Foreign exchange losses (gains)	2,794	△16,733
Decrease (increase) in trade receivables	△32,030	△36,426
Decrease (increase) in inventories	28,959	25,527
Increase (decrease) in trade payables	456,637	△355,377
Decrease (increase) in accounts receivable - other	128,706	△524
Increase (decrease) in unearned revenue	△10,204	△39,243
Increase (decrease) in Long-term unearned revenue	2,310	22,815
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	73,072	2,366
Other, net	74,283	108,433
Subtotal	452,436	26,441
Interest and dividends received	29	215
Interest paid	△245	△52
Income taxes refund (paid)	△4,480	△4,631
Settlement paid	△28,122	-
Net cash provided by (used in) operating activities	419,617	21,973
Cash flows from investing activities		
Purchase of property, plant and equipment	△19,132	△97,421
Purchase of intangible assets	△36,506	△171,698
Payments of leasehold and guarantee deposits	△22	△2,303
Proceeds from refund of leasehold and guarantee deposits	1,765	-
Other, net	△10	△336
Net cash provided by (used in) investing activities	△53,906	△271,759
Cash flows from financing activities		
Repayments of long-term borrowings	△21,600	△9,600
Proceeds from issuance of share acquisition rights	4,047	-
Repayments of lease liabilities	△525	-
Proceeds from share issuance to non-controlling shareholders	24,500	160,050
Net cash provided by (used in) financing activities	6,422	150,450
Effect of exchange rate change on cash and cash equivalents	1,913	2,557
Net increase (decrease) in cash and cash equivalents	374,047	△96,778
Cash and cash equivalents at beginning of period	651,419	1,025,466
Cash and cash equivalents at end of period	1,025,466	928,688