# FISCO REPORT 2016


FISCO Ltd.

## Corporate Philosophy

- Strive to be a leading company in the financial services sector
- Commit to a position of fairness and impartial thinking
- Respect the value of individuals and emphasize the spirit of harmony

## Vision

Become Japan's largest platform creator in providing financial information services

### About Our Logo

**F**inancial **I**ntelligence **S**upport **CO**mpany

Our logo features a combination of three sharp-edged triangles, representing our basic philosophy of becoming a cutting-edge company that retains competitive advantages, while constantly seeking out new opportunities. The three triangles symbolize society, the financial markets, and investors. FISCO's central position among these elements embodies our commitment to always maintain an impartial position in society, as set forth in our principle of conduct. The triangles also symbolize our Corporate Philosophy. Under this philosophy, all manner of information first converges on the Internet (▶) and is then dispersed far and wide (◀). FISCO's role is to select financial information from this data, give it meaning and thereby satisfy society's need for investment information (▶).

# Issuing Our Integrated Report

The FISCO Group has begun issuing an integrated report to systematically convey information about various activities undertaken by the Group by further enhancing non-financial information and integrating it into this report. The purpose of our integrated reports is to ensure that all stakeholders have a correct understanding of the Group's Corporate Philosophy, Vision and status of progress on the Medium-Term Management Plan.

The FISCO Group is currently generating high profitability by coordinating the unique business models of the Group's operating companies in a sophisticated manner around the financial information distribution business, which has been guided by the principles of fairness and impartiality since the Group's founding. Concurrently, while helping to revitalize society through our corporate support services, we seek to drive the overall growth of the Group and increase its corporate value. Looking ahead, we will continue working to create value by capturing synergies between Group companies in tandem with contributing to the formation of an efficient financial system and capital markets in Japan.

Hiroyuki Matsuzaki
Strategy Planning and Administrative Division

# Consolidated Financial Highlights

(¥ million)

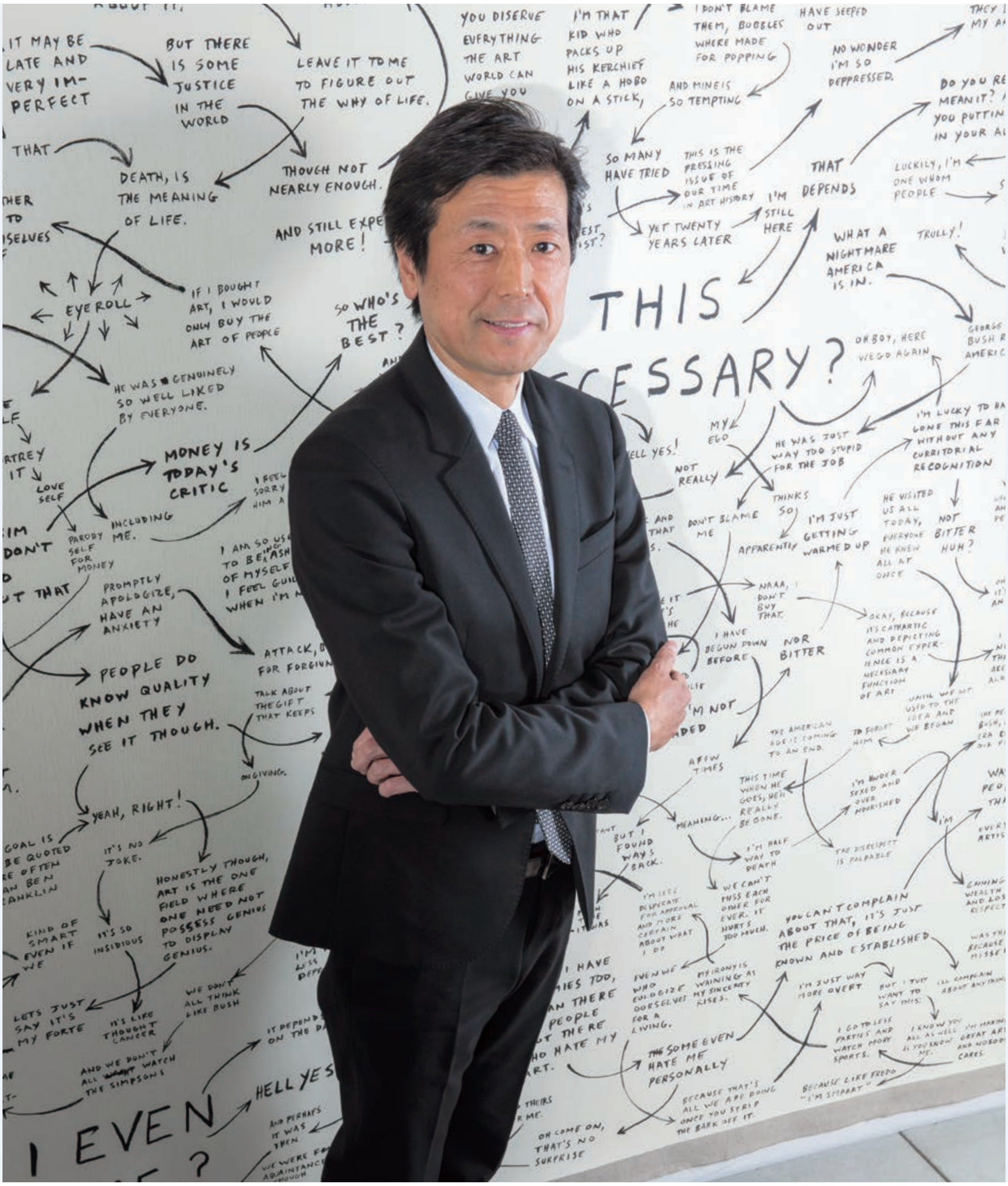
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Net sales | ¥1,125 | ¥4,041 | ¥6,681 | ¥ 8,430 | ¥10,206 | ¥14,004 |
| Operating income (loss) | 5 | 178 | 354 | 323 | (554) | (778) |
| Operating margin (%) | 0.5 | 4.4 | 5.3 | 3.8 | (5.4) | (5.6) |
| Ordinary income (loss) | 10 | 213 | 580 | 903 | (952) | (1,003) |
| Profit (loss) attributable to owners of parent | 139 | 425 | 558 | 730 | (143) | (1,193) |
| Total assets | 1,879 | 4,255 | 6,124 | 10,615 | 16,910 | 15,444 |
| Net assets | 1,491 | 2,510 | 3,741 | 4,890 | 5,670 | 4,434 |
| Return on equity (%) | 10.1 | 26.2 | 26.0 | 25.8 | (4.6) | (47.6) |
| Ordinary income (loss)/Total assets (%) | 0.6 | 7.0 | 11.2 | 10.8 | (6.9) | (6.2) |
| Equity ratio (%) | 74.8 | 43.2 | 40.2 | 30.0 | 18.0 | 12.7 |
| Net cash provided by (used in) operating activities | 7 | 787 | (447) | 1,852 | (1,107) | (9) |
| Net cash provided by (used in) investing activities | 5 | (947) | 772 | (1,013) | (709) | 665 |
| Net cash provided by (used in) financing activities | (130) | 63 | 1,106 | 1,590 | 482 | (1,898) |
| Cash and cash equivalents at end of the fiscal year | 926 | 845 | 2,283 | 4,717 | 3,486 | 2,256 |
| Cash dividends per share (yen) | — | — | 17.0 | 3.0 | 3.0 | 3.0 |

# Contents



Note on Forward-Looking Statements

This report contains information that includes forward-looking statements. These statements are prepared based on information available to management as of the preparation date of the report. Accordingly, actual conditions may differ significantly from such statements or details implied therefrom based on risks and uncertainties associated with changes in economic conditions and markets and other factors.


BUT THERE IS SOME JUSTICE IN THE WORLD
LEAVE IT TO ME TO FIGURE OUT THE WHY OF LIFE.
DEATH, IS THE MEANING OF LIFE.
THOUGH NOT NEARLY ENOUGH.
EYE ROLL
IF I BOUGHT ART, I WOULD ONLY BUY THE ART OF PEOPLE
SO WHO'S THE BEST?
HE WAS GENUINELY SO WELL LIKED BY EVERYONE.
MONEY IS TODAY'S CRITIC
PROMPTLY APOLOGIZE, HAVE AN ANXIETY
PEOPLE DO KNOW QUALITY WHEN THEY SEE IT THOUGH.
YEAH, RIGHT!
HONESTLY THOUGH, ART IS THE ONE FIELD WHERE ONE NEED NOT POSSESS GENIUS TO DISPLAY GENIUS.
THIS
SO MANY HAVE TRIED
THAT DEPENDS
WHAT A NIGHTMARE AMERICA IS IN.
YOU CAN'T COMPLAIN ABOUT THAT, IT'S JUST THE PRICE OF BEING KNOWN AND ESTABLISHED
SOME EVEN HATE ME PERSONALLY
HELL YES
I EVEN

# FinTech: a Strategic Focus for the FISCO Group's Next Stage of Growth

**Initiatives Leveraging FISCO's Unique Strengths**

Currently, FISCO is intensively allocating resources to cryptocurrency-related businesses. In late November 2017, the price of bitcoin broke through the ¥1 million mark and went on to reach the ¥2 million level in just the following two weeks or so. In conjunction with this surge in the bitcoin price, the number of people opening accounts at Fisco Cryptocurrency Exchange per day has increased to two to three times the levels seen before. FISCO is intensively allocating resources to cryptocurrency-related businesses not only to stay on top of this increase in the number of people opening accounts at Fisco Cryptocurrency Exchange, but also because we believe that cryptocurrency, which was created only recently in 2009, offers extremely strong prospects for growth in related business fields and that there is significant potential to identify and capitalize on various business opportunities going forward. In the near future, FISCO plans to upgrade and expand the delivery of cryptocurrency-related news stories by taking full advantage of its financial information distribution capabilities, one of its long-standing core competencies. We aim to deliver around 10 times more cryptocurrency-related information than the amount we provide at present, which is around 30 news stories per day.

FISCO established Fisco Cryptocurrency Exchange in April 2016. This exchange seeks to become a cryptocurrency hub providing all manner of services related to cryptocurrency, including the development and management of derivative instruments using cryptocurrencies, B2B services such as the issuance of corporate bonds using cryptocurrencies, and B2C services such as crowdfunding. Looking at specific initiatives, in June 2016, FISCO distributed Fisco coin tokens to all shareholders who opted to receive them. In September 2016, TITICACA, Co. Ltd., a subsidiary of FISCO, added e-commerce payment services via bitcoin to the TITICACA Online Shop in cooperation with Fisco Cryptocurrency Exchange. In October 2016, CAICA Inc., a subsidiary of FISCO, distributed CAICA coin tokens to its shareholders. In November 2016, NCXX Group Inc. distributed NCXX coin tokens to its shareholders. These coin token issuances were planned with the aim of providing shareholders with the experience of acquiring cryptocurrency for themselves through the distribution of proprietary tokens issued by each company. Trading of the FISCO Group's three corporate tokens has begun on the cryptocurrency exchange Zaif and the Fisco Cryptocurrency Exchange. Additionally, in August 2017, Fisco Cryptocurrency Exchange Inc. developed the First Series of Unsecured Bitcoin-Denominated Bonds, as Japan's first bitcoin-denominated bonds and issued the bitcoin bonds on a trial basis. Going forward, FISCO plans to consider expanding the same fundraising scheme to business enterprises outside the Group. In September 2017, FISCO was registered as a licensed cryptocurrency exchange operator by the Financial Services Agency.

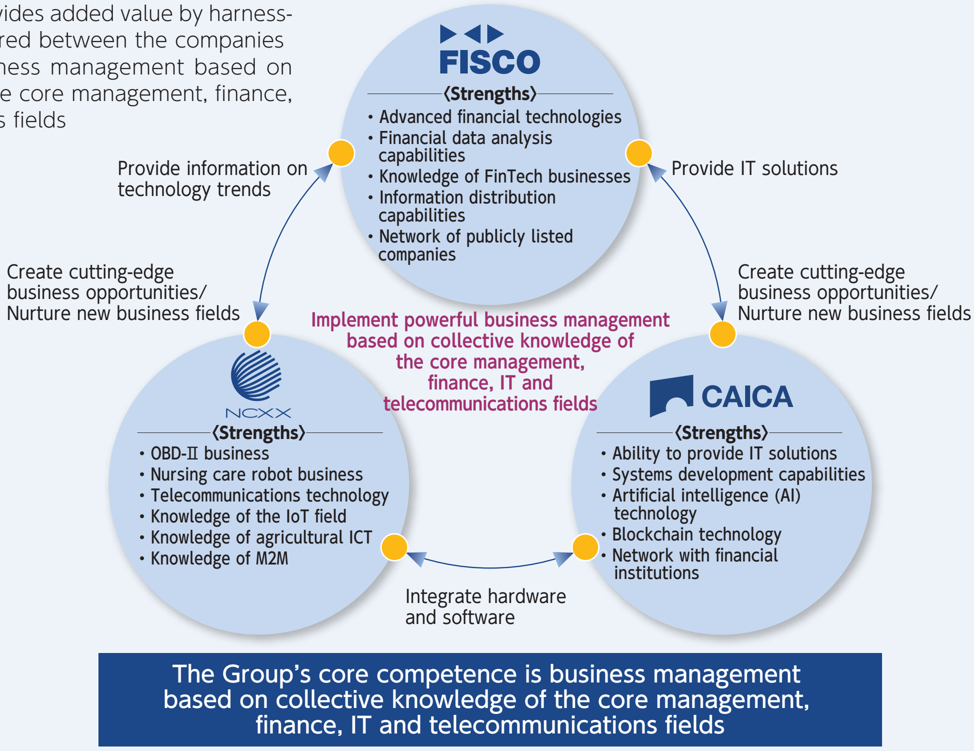
Moreover, CAICA is participating in systems development of COMSA, an ICO solution of Tech Bureau, Corp., and FISCO has started distributing ICO-related information as a COMSA partner. Developed by Tech Bureau, COMSA is Japan's first fundraising and ICO solution using cryptocurrency. Through an investment fund, FISCO has also begun direct investment in cryptocurrencies and ICO tokens, a first for a Japanese investment fund. The fund will target investment not only in bitcoin, but also in XEM and other emerging cryptocurrencies showing rapid growth, as well as corporate tokens issued by COMSA.

CAICA is undertaking the systems development of TITICACA's payment system. Other activities include the development of a payment system supporting bitcoin and other cryptocurrencies for restaurants operated by KICHIRI & Co., Ltd. CAICA's system development capabilities will continue to play a crucial part in executing the cryptocurrency business going forward. Following a recent divestment of shares by FISCO, CAICA was excluded from FISCO's scope of consolidation. However, FISCO and CAICA have already established a solid cooperative relationship. In fact, the FISCO Group represents a majority of CAICA's directors. For this reason, FISCO has high hopes that CAICA will continue to fulfill its significant responsibilities as a group of professional engineers specializing in the FinTech field within the FISCO Group.

Although we had initially provided a derivative trading system for bitcoin to corporate customers, we currently do not offer this system to external customers. Instead, we have been conducting a series of test operations internally. We believe that our current track record will prove highly beneficial when we decide to offer this system to external customers in the near future.

**Integrated Business Model of Three Publicly Listed Companies (FISCO, NCXX Group, CAICA)**

- Leveraging the respective strengths of the three companies, the FISCO Group provides added value by harnessing Group synergies captured between the companies
- Implement powerful business management based on collective knowledge of the core management, finance, IT and telecommunications fields



In December 2017, bitcoin futures opened for trading. We believe that this new bitcoin futures market will drive further expansion in arbitrage opportunities for cryptocurrencies. In the near future, there will be expansive opportunities to capture trading gains. Looking at the future prospects for the cryptocurrency business, it may be necessary to consider the possible acquisition of a financial institution, such as a securities firm. After engaging in the B2B sector, the FISCO Group seeks to expand business to the B2C sector in the future.

In the nine months ended September 30, 2017, FISCO recorded gains on sales of investment securities of ¥2,870 million mainly in connection with the sale of CAICA shares by NCXX Group. FISCO made CAICA a subsidiary in June 2015, so we exited the investment in two years. Still, CAICA was a resounding success as an investment project. The proceeds from the sale of CAICA will be available to fund our next M&A deal. Several feasible acquisition candidates have already emerged. The FISCO Group believes that more time will be needed before the cryptocurrency business can begin to contribute to earnings in earnest. Therefore, in the near future, the FISCO Group will strive to drive growth in its business performance through M&A activity.

Under our basic M&A strategy, our acquisition targets will be low PBR and high cash flow companies that will capture synergies primarily with our existing businesses, with the aim of dramatically increasing corporate value. In conjunction with verifying the improvement in management of the Group's portfolio companies, the FISCO Group as a whole seeks to benefit from the positive impact of growth in consolidated profit and asset values. In M&As, with a dedicated in-house team, FISCO is developing acquisition schemes to maximize risk return, along with designing plans for all aspects of post-investment business integration and operations, and executing those plans.

### ▶Existing Businesses

In existing businesses, particularly the information services business, FISCO believes that its corporate IR support services continue to offer significant growth potential. FISCO has long possessed a financial information distribution network spanning dedicated financial information terminals, portal sites, and other channels. FISCO's ability to supply information using this content distribution network has differentiated it from other companies offering corporate report services. Currently, FISCO IR has around 400 corporate customers. In the future, we believe that FISCO IR has the potential to increase this number to around 1,000 companies. The positive impact of this expansion in FISCO IR's customer base could ripple out to other business fields, thereby benefiting the entire FISCO Group. In the future, we may need to expand our support services fields. Possible candidates for this expansion may include business in cryptocurrency fields and investment consulting.

FISCO offers the FISCO Stock and Company Guide as a smartphone app as well as an online version to provide investor information on all publicly listed companies in Japan free of charge. The app provides a one-stop source of information that enables users to easily gather and view corporate data spread out widely over the Internet. For this reason, the app drastically reduces the time and effort needed to gather corporate analysis information. Looking ahead, FISCO plans to successively expand the information and functions available through the app, and to support multiple languages, such as English, as well. At present, the app has surpassed 200,000 downloads on a cumulative basis and it can be expected to generate advertising revenues and so forth in the near future. FISCO is also working to expand this service into fields related to job hunting. The strategy is to provide corporate analysis reports as a job hunting information service. This will expand the scope of our research reports to 10,000 unlisted companies, in addition to publicly listed companies. In September 2017, FISCO released the

FISCO Job Hunting and Company Report 2019, allowing readers to check out information on all 3,600 or so publicly listed companies in Japan and on unlisted companies (30 companies initially). The report covers corporate profiles (including commentaries written by analysts) as well as business performance data and investor relations (IR) information that cannot be easily found using other job-hunting apps.

FISCO is also actively pushing ahead with AI initiatives. In addition to a collaboration with Tecnos Japan Incorporated, FISCO has entered into a capital alliance with Sockets Inc., which holds one of Japan's largest entertainment databases. By amassing AI technologies, we aim to develop an AI Automated Stock Price Prediction System as a business that will lay the groundwork for the next phase of our growth. Moreover, we believe that the development of this system will play a particularly pivotal role in our FinTech strategy, which is a strategic area of focus. Although we have not yet developed an AI-based product, we are making steady progress on embedding AI into our value chain within the Company.

As the Internet of Things (IoT) era approaches, NCXX, which is involved in the device business, will only continue to increase in importance. Notably, in anticipation of the proliferation of self-driving automobiles, NCXX's expansion into the automotive telematics field and related areas will be watched closely with growing interest. The company will fulfill entirely new needs in the

**Collaboration with Sockets Inc.**

Along with entering into a business alliance with Sockets Inc., acquired 4.9% of the shares of the company

| Sockets (MSDB*) | FISCO |
|---|---|
| Database construction capabilities and analysis capabilities such as natural language analysis, machine learning, and deep learning | Technologies and expertise developed by serving a diverse customer base (financial institutions, institutional investors, and individual investors) |

**Distribute new types of stock investment information**

Develop indicators for companies according to more subjective keywords than before, such as "sensible" and "innovative," reflecting a comprehensive analysis spanning corporate information such as business leaders and products, official information such as annual reports, impartial third-party information such as analyst reports by securities firms and FISCO's corporate analysis reports, external information such as stock information websites and company evaluation websites, and social media such as Twitter

* MSDB (Media Service Database) refers to an entertainment database pertaining to music, videos and books. For example, in the case of music, the database elements include basic information, including the artist, name of work, and year of release; peripheral information, which covers information about the attributes of the work of music such as melody and musical styles; and emotional information such as the impact made by the lyrics. Sockets builds an original database that classifies and organizes these elements as metadata.

automotive telematics field by integrating NCXX's communication modules and technologies with NCXX Solutions' application development capabilities using data and other resources. In the process, NCXX aims to provide unprecedented new services. New business initiatives will also be undertaken by integrating different business sectors and communication devices. We have already started to see solid accomplishments on this front in areas such as the agricultural ICT business.

In the FinTech field, CAICA will remain a member of the FISCO Group, although it has been converted from a consolidated subsidiary into an equity-method affiliate. In the era of the Fourth Industrial Revolution, FISCO will undertake new service initiatives together with CAICA—services that take full advantage of its blockchain and AI technologies. To date, FISCO and CAICA have built up an extensive track record together, including the introduction of a bitcoin payment system for the TITICACA Online Shop and the development of an attendance management system using blockchain technology. Aiming to become a top player in blockchain technology, CAICA is expected to continue highlighting and promoting the unrivalled added value it can deliver to customers and expanding business as a core partner. CAICA will expand its current development and support business to operations and maintenance services. CAICA thereby aims to shift to a recurring-revenue business model in the future, eyeing the sale of software package products developed in-house.

The FISCO Group is also working closely with Vstone Co., Ltd., a manufacturer of robotics products, to develop nursing care robots. We believe that it will be possible to develop high-value-added nursing care robots that will be able to provide services such as monitoring the condition of the elderly in nursing care facilities. The robots will be controlled remotely and will provide situational monitoring using NCXX's M2M technology. NCXX Solutions will be able to develop servers that will accumulate the data collected from the robots and the applications needed to make use of the data. If we apply these technologies, we believe that we can develop robots that have various possibilities and scalability options that are not feasible with conventional standalone robots that have only independently operated functions. Our subsidiary Care Dynamics Limited has a customer base of more than 400 nursing care facilities throughout Japan, ensuring a suitable number of customers who could potentially purchase nursing care robots in the future.

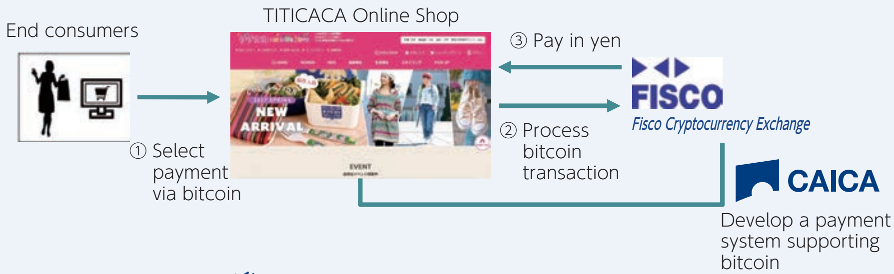
e-tabinet.com is engaged in the Internet travel business. The company has drawn up plans to expand its business portfolio by serving as a comprehensive crowdsourcing platform provider. Through the management of customized travel itineraries, e-tabinet.com has already established a crowdsourcing platform that links customers with "travel concierges" (travel consultants). Looking ahead, the company believes that it can apply and expand this platform to fields other than travel services. At present, e-tabinet.com is stepping up efforts to propose travel plans that address the travel needs of inbound foreign tourists visiting Japan. The company has been implementing initiatives such as launching a dedicated website for inbound foreign tourists, forming an alliance with a Chinese travel company, providing a domestic airline ticket comparison website, and exploring business alliances targeting the use of "minpaku" private lodging services based on an awareness of the market for inbound foreign tourists.

In August 2016, FISCO converted TITICACA, Co. Ltd., which imports and sells ethnic apparel and general merchandise, into a subsidiary, thereby entering the brand retail business. At this juncture, businesses have started taking steps to reshape the fashion industry through digitalization. Various initiatives are under way, such as managing store inventories using digital devices, offering fitting services using augmented reality, and recommending items according to customer preferences by converting sales data into big data and integrating it with AI. Also, wearable devices could be operated and biometric data could be transmitted using highly conductive fabrics and sensors embedded directly in apparel. Going forward, the Group plans to conduct measures to develop and popularize IoT-related services for the fashion industry. In addition, TITICACA has expertise in the retail business as a B2C enterprise. NCXX Group plans to shift from its current mainstay B2B business to the development and sales of consumer products, including device products and applications. We expect TITICACA's expertise and nationwide network of brick-and-mortar stores to serve as a major driving force behind the FISCO Group's future business expansion.

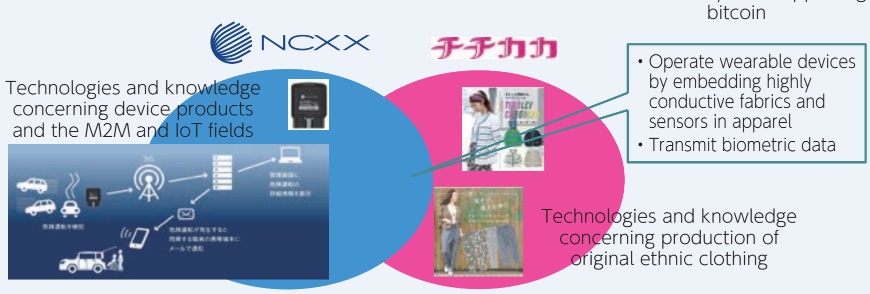
The Fourth Industrial Revolution is set to transform society in the near future. In this new era, physical things of all kinds, including automobiles and home electric appliances, will be connected to the Internet, making it possible to perform sophisticated analysis of the big data that will be generated. Moreover, as a result of the development of AI and blockchain technologies, a society that is far more efficient and less labor intensive than what we have today is predicted to take shape in the future. Experts believe that the physical part of society will be managed largely on an automated basis. This means that Cyber-Physical Systems will become a reality. A Cyber-Physical System is a system that quantifies various states of the Physical Part of the real world that are subject to control, and quantitatively analyzes this data in the Cyber Part in order to derive new insights and knowledge, which are then fed back and used to control the Physical Part. In such a world, the ability to collect and retain big data from the Physical Part of the real world through IoT technology, and the ability to manage and analyze this data through AI and blockchain technologies in the Cyber Part, will become increasingly crucial. In the Cyber-Physical System to be achieved by the FISCO Group, NCXX Group will provide integrated blockchain devices that will connect to all manner of things, CAICA will apply AI and blockchain technologies to integration services, and FISCO and Fisco Cryptocurrency Exchange will fulfill the roles of interfaces.

■ Collaboration with TITICACA

1. Added payment services supporting bitcoin to the TITICACA Online Shop, an apparel e-commerce site operated by TITICACA




2. Develop wearable devices



### ▶CSR and ESG

FISCO and NCXX Group participated as volunteers in a tandem motorcycle riding event at the Suzuka Circuit for people with disabilities, held by the volunteer organization Kazenokai. The volunteer duties involved providing support for riders and other forms of assistance. The activity takes place on the day before the finals of the Suzuka 8 Hours Endurance Road Race, in which NCXX Group participates. Current and former professional motorcycle riders give tandem rides around the Suzuka Circuit carrying people with disabilities as their passengers. In other areas, profits generated from business investments are returned to society through the Arts Investment Business, the Arts Promotion Business and other initiatives. The FISCO Group conducts development and support activities with a focus on artists with a strong affinity with the Group's corporate culture and philosophy. The Group also provides arts training to employees and holds exhibitions and other events for community residents. Through these and other activities, the FISCO Group plans to foster a greater understanding of the significance and value of CSR and ESG activities in conjunction with enhancing the quality of FISCO's support services for the CSR and ESG activities of publicly listed companies. By doing so, the FISCO Group seeks to contribute to the formation of efficient capital markets.

### ▶Shareholder Returns

Looking at its principles on shareholder returns, FISCO's basic policy is to return profits to shareholders by taking into consideration the totality of share buybacks and annual dividends, while giving the highest priority to increasing the value of its shares, in tandem with striving to maintain stable dividends. In addition, as part of shareholder returns, FISCO has introduced a shareholders benefit program since the first half of the fiscal year ended December 31, 2013. Under this program, FISCO provides shareholders with a unique benefit: coupons allowing the use of the FISCO IPO Navi investment information service free of charge for a limited period.

### ▶To Our Shareholders and Other Investors

Finally, I'd like to offer a closing message to our shareholders and other investors. Conditions surrounding the cryptocurrency business remain in a state of dramatic flux on a daily basis. To address this tumultuous business environment, we must now diversify the risks we face in each relevant cryptocurrency business, such as the cryptocurrency exchange business and cryptocurrency investment business, in conjunction with speeding up decision-making in each business. The FISCO Group believes that shifting to a holding company structure is an effective way of getting this done. Based on this belief, we have established the FISCO Digital Asset Group (FDAG). In the future, leveraging the Group's high degree of specialization in the financial market, FDAG will promote unique cryptocurrency strategies through its subsidiaries, thereby accelerating the development and expansion of various products and services related to cryptocurrency. Meanwhile, the Group will address the potential conflicts of interest that could arise between FDAG and its subsidiaries. To this end, the Group plans to prevent any unfair trading practices by establishing appropriate firewalls between the companies and by developing a management framework that blocks any interactions between personnel engaged in investment operations. The FISCO Group is determined to contribute to the sound development of the industry as a pioneer in the cryptocurrency business. We hope that you will share in our excitement for FDAG's initiatives in the cryptocurrency business going forward.

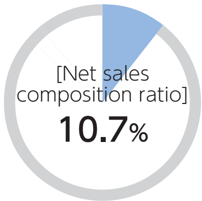
December 2017

**Hitoshi Kano**
President and CEO

# Review of Operations

## Information Services Business

[Net sales]
**¥1,499 million**




Main Group Companies

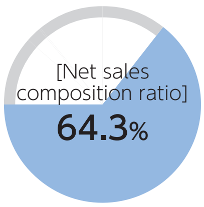
- FISCO Ltd.
- FISCO IR Ltd.
- Fisco Cryptocurrency Exchange Inc.

In the corporate analysis report service, which was transferred to FISCO IR Ltd., the Group will continue seeking to increase the number of customers receiving this service among publicly listed companies by developing new products, nurturing human resources and strengthening recruitment. In integrated report and annual report services, the Group will strive to strengthen human resources involved in frontline operations and enhance organizational capabilities, along with building an even stronger brand. Through these efforts, the Group will endeavor to capture an even greater share of the market for integrated reports and annual reports, while retaining existing customers.

The FISCO smartphone app and the online version of the *FISCO Stock and Company Guide*, which were developed as part of efforts to diversify the Group's platform strategy, have been enjoying growing market recognition. As a result, the Group is now able to carry advertisements on these platforms, laying the groundwork for the Group to promote further diversification of its revenue streams. Moreover, the Group has been producing content for the *FISCO Stock and Company Guide* (a magazine on business trends and stock investing) in collaboration with Jitsugyo no Nihon Sha, Ltd. This has enabled the Group to publish FISCO's content via printed media and to provide content distribution services that link magazines with digital apps and the Internet. Furthermore, the Group is pushing ahead with upgrading the FISCO AI engine together with Group companies CAICA Inc. and Fisco Cryptocurrency Exchange Inc., as well as partner AI companies.

## Device Business

[Net sales]
**¥8,994 million**




Main Group Companies

- NCXX Group Inc.
- NCXX Inc.
- NCXX Solutions Inc.
- Care Dynamics Limited
- CAICA Inc.

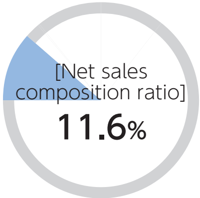
In the device business, the FISCO Group will continue to proactively enter growing fields that are attracting strong interest. For example, the Group will take steps to enhance IoT-related services beginning with automotive telematics; apply FinTech, particularly blockchain technology; advance services that use AI, such as the FISCO AI Automated Stock Price Prediction System; develop nursing care robots that are easier to use at nursing care sites; and establish efficient agri-businesses by introducing ICT.

Turning to robot development, with a wide range of communication robots now available on the market, the Group is focused on supplying robots that are truly useful to nursing care sites, and ensuring that the price range is practical for nursing care facilities. The Group will continue to place prototype nursing care robots in facilities and is undertaking repeated trials and testing regarding their communication with elderly people. The Group aims to produce robots that are easy to use on the front lines and that have a suitable cost structure, and is proceeding with development towards early commercialization.

In the agriculture business, the FISCO Group increased the size of its farming area to a total area of 5,421 m$^2$ (1,640 tsubo) in the fiscal year ended December 31, 2016, in tandem with driving growth in the "sixth-order industrialization business" for the production, processing and sale of agricultural produce. After harvesting was completed for the first farming season after the expansion of the farming area, the Group is currently conducting permanent planting work in preparation for the fiscal year ending December 31, 2017. The Group plans to resume shipments of various types of cherry tomatoes. Going forward, the Group will continue to focus on strengthening the development and sales of processed products made of tomatoes, along with considering further expansion in the farming area.

## Internet Travel Business

[Net sales]
**¥1,623 million**



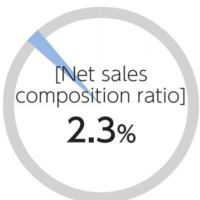

Main Group Companies

- e-tabinet.com
- Web travel Co., Ltd.
- Gloria Tours Inc.

The FISCO Group will work to upgrade and expand services by recruiting new travel concierges and enhancing their skills through training courses. In addition, the Group will strive to provide high-quality, customized travel services replete with the spirit of hospitality by recommending Kodawari No Tabi travel packages. Moreover, the Group will proactively form collaborations with leading partners to provide inbound travel services targeting overseas visitors to Japan, whose numbers are increasing against the backdrop of the yen's depreciation, with a view to proactively capturing earnings opportunities. Additionally, the FISCO Group will focus on the market for para-sports ahead of the 2020 Tokyo Olympic and Paralympic Games. In October 2016, it acquired the shares of Gloria Tours Inc., a company specializing in sending Paralympic athletes to various events and organizing numerous international para-sports tournaments. Along with the travel concierge business of Web travel Co., Ltd., the FISCO Group seeks to build a niche operating base that most general travel agencies would find difficult to serve.

## Advertising Agency Business

[Net sales]
**¥319 million**



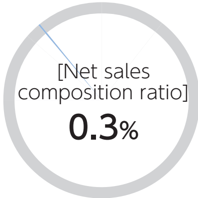

Main Group Companies

- FISCO DIAMOND AGENCY, Inc.
- Chanty Co., Ltd.

FISCO DIAMOND AGENCY, Inc. and Chanty Co., Ltd., which produces sales promotion merchandise and novelty items, will work together to proactively cultivate new client companies by comprehensively leveraging the Group's existing customer base and content distribution media, centered on the Internet.

## Consulting Business

[Net sales]
**¥35 million**



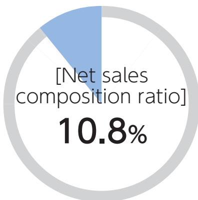

Main Group Companies

- FISCO Ltd.
- FISCO Capital Ltd.
- Versatile Inc.

The Group will continue to promote efforts led by Versatile Inc. to develop new financial solutions and fund-related businesses worldwide and to cultivate the recruitment field by making use of corporate analysis reports in the job hunting activities of university students. We will also work to stabilize earnings through imported wine sales and restaurant operations, which commenced in the fiscal year ended December 31, 2016.

## Brand Retail Platform Business

[Net sales]
**¥1,516 million**




Main Group Companies

- TITICACA, Co. Ltd.
- Versatile Inc.

The Group aims to grow and stabilize this segment so that it becomes a new earnings pillar. To that end, the Group will take steps led by TITICACA, Co. Ltd. and Versatile Inc. to develop and popularize IoT-related services for the fashion industry as well as engage in licensing of the trademark for CoSTUME NATIONAL, an apparel and accessory importer, retailer and distributor. Furthermore, we will look to develop not just apparel and accessory but wine and other retailing operations as a foothold for developing business in Asia.

# The FISCO Group's Virtual Currency Business

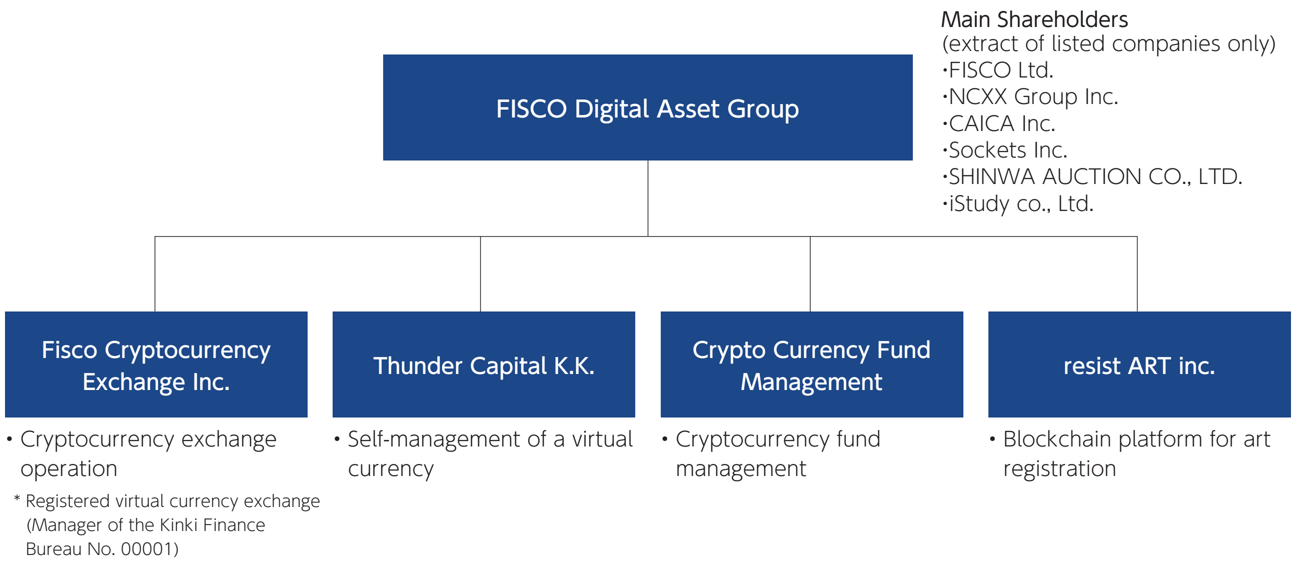
We will introduce the Fisco Cryptocurrency Exchange, indispensable for the FISCO Group's growth strategies going forward, and the FISCO Digital Asset Group, which carries out the planning and management of virtual currency-related business.

## Aiming to become a comprehensive virtual currency platformer providing all manner of services related to virtual currency.

The principal business of the FISCO Digital Asset Group is drafting group strategy and management of operating companies under the virtual currency business umbrella. Separately operating companies by each type of virtual currency business forms a firewall and ensures mobility across the Group, with Fisco Cryptocurrency Exchange Inc. playing the role of an exchange, Thunder Capital K.K. managing treasury shares, Crypto Currency Fund Management operating as a fund, and regist ART inc. using blockchain technology to register works of art.

Our vision involves three steps going forward. Fisco Cryptocurrency Exchange will provide a place to match individual buyers and sellers. There are corporate customers, but most are individuals. Phase I in the move to profitability is expanding the B2C and B2B businesses. Phase II is virtual currency payments. There is still a long way to go for virtual currency payments when it comes to its share of the entire payment method market, which includes methods like bank transfers, and it will require some time before it expands. Revisions to the Payment Services Act in April 2017 made virtual currencies legal tender, and even though bitcoin is currently subject to fluctuations and the shades of speculation are dark, we believe the general trend is largely toward payment through virtual currency. Phase III will be the production of many financial products using virtual currencies. If the Financial Services Agency (FSA) gives its permission, a currently constituted fund plans to launch Japan's first virtual currency fund. In August 2017, it launched a bitcoin-based corporate bond,

■ Positioning of the FISCO Digital Asset Group



FISCO Digital Asset Group
President & CEO

**Masayuki Tashiro**

Joined FISCO following stints at Shinko Securities Co., Ltd. (now Mizuho Securities Co., Ltd.) and Citibank Japan Limited. Appointed Fisco Cryptocurrency Exchange Inc. director in March 2017. President & CEO of FISCO Digital Asset Group since October 2017.

giving it a second Japan-first crown in the virtual currency market. Corporate bonds that are private placement and bitcoin based are unbound by any law and need only a single piece of paper, which compares favorably with procedures for regular bonds, where preparation of detailed documentation, confirmation with attorneys and proactive communications with the FSA is required. I take pride in our involvement in the cutting edge of virtual currency financial products. Looking ahead, we also plan to take part in unique efforts such as virtual currency financial products as a form of financing and as tokens for crowdfunding. There is also interest in our products overseas and we are involved in numerous discussions.

In December 2017, a bitcoin futures market started in the United States and Japan will probably get with the flow, too. We think virtual currencies will grow exponentially.

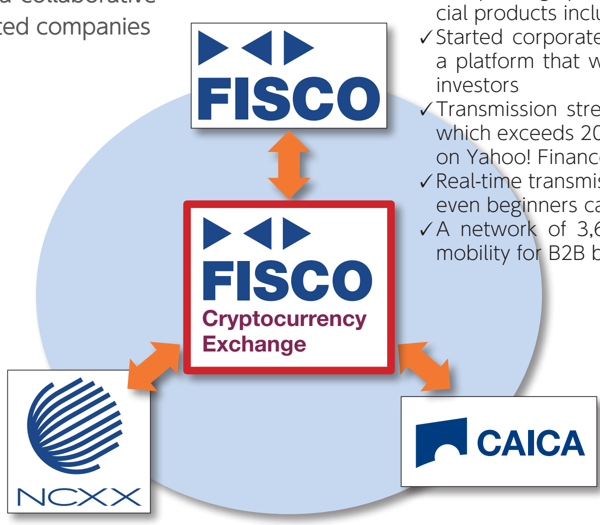
We are fortunate to have the advantage of three publicly listed companies combining their expertise in such ways as the capability to build an IoT payment platform by leveraging the capital strength and information distribution network of parent company FISCO Ltd., the IoT communications technology of Group company NCXX Group Inc. and software development technologies of CAICA Inc. However, we cannot rely solely on the Group and must look for companies to invest in our Company. There are methods such as holding an initial coin offering (ICO), but ultimately we want to list on the Tokyo Stock Exchange. We must become a venture at the leading edge of the virtual currency flow.

(as of November 29, 2017)

**■ Strengths of the FISCO Digital Asset Group**

Displays creative capabilities like no other virtual currency business due to a collaborative framework of three publicly listed companies

✓Strong recognition and branding as a leading financial information provider
✓Analysts highly knowledgeable of all types of financial products including stocks, forex and derivatives
✓Started corporate credit risk ratings and rolling out a platform that will become a one-stop channel for investors
✓Transmission strength derived from the FISCO app, which exceeds 200,000 views per day, and exposure on Yahoo! Finance
✓Real-time transmission of virtual currency information even beginners can understand via the FISCO app
✓A network of 3,600 publicly listed companies and mobility for B2B business




✓Capable of presenting blockchain fusion products such as smart contracts due to many years of development testing of communications modules and devices
✓Possesses rich experience in business with the automotive industry as well as a network, including OBD-II
✓In-depth knowledge of hardware such as smart locks

✓Advanced technological capabilities regarding blockchains and AI
✓Mobile response to new products and services through a development framework and 500 system engineers
✓Capable of building comprehensive financial service platforms through experience with system development for many financial institutions

## Creating new markets with its competitiveness to lead the world in virtual currency business

In recent years, cryptocurrency exchanges have become places to exchange the noticeable virtual currencies (also referred to as cryptocurrencies, these terms apply to electronic currencies that are entirely managed over the Internet). Fisco Cryptocurrency Exchange Inc. was founded in April 2016 and began trading in August of the same year. The 2014 Mt. Gox Incident gave virtual currencies a negative image, but new laws for the virtual currency exchange industry were enacted in April 2017. The media covered this trend extensively and recognition among general investors increased, which further sparked interest and now it is gathering speed at an extraordinary rate. As of December 1, 2017, the FSA had registered 15 virtual currency exchange businesses, including Fisco Cryptocurrency Exchange. Startups, finance figures and major corporations are taking part and we think competition will intensify going forward. 2017 was a year with plenty of virtual currency news as bitcoin underwent a hard fork (a division of blockchains and incompatibility update) in August and bitcoin cash was created. From 2018 onward as well, issues such as payment processing speed and processing capacity are likely to move toward improvement. I think virtual currencies with characteristics making them the second or third monacoin will continue to appear.

Over this past year, the FSA started accepting applications and industry organizations became more active movers. Currently, we belong to an organization called the Japan Cryptocurrency Business Association and are independently producing regulations. I think this is a very rewarding job to be making our own new market, thinking not only for us but the industry as a whole.

### Fisco Cryptocurrency Exchange Growth Strategies

**Fisco Cryptocurrency Exchange's policy**

- We, as a virtual currency platformer, want to contribute to expanding the market by comprehensively providing information on the virtual currency market including bitcoin, the exchange and financial mediation functions
  ➡ Mainly, we will focus on corporate services for the B2B market
- Our policy is to design and provide comprehensive services through virtual currency to realize a fusion between the IoT and industrial sectors, including the future spread of the virtual currency market

**Three Growth Steps**

*Main business domains*

**1 Operation of a virtual currency exchange**

- Started operation in August 2016 of a virtual currency exchange that mediates transactions buying and selling bitcoin (registration completed in September 2017)
- Expanded market reach to include B2B and B2C

**2 Provided virtual currency payment functions at real and e-commerce stores**

- Provided business operators with bitcoin payment system
- Dealing with the Fisco Cryptocurrency Exchange and retail business operators enables customers to pay in bitcoin for online shopping and more

**3 Enhance virtual currency services for B2B**

- Provide various types of financial services using virtual currencies in the B2B market
- Provide derivative product development
- Administrative operations for securitization using tokens
- Administrative operations for next-generation trust bank models
- IoT payment platform
- Notarization platform
- Virtual currency ETF and derivative product tokens

Fisco Cryptocurrency Exchange Inc.
President & CEO

## Naoki Ochi

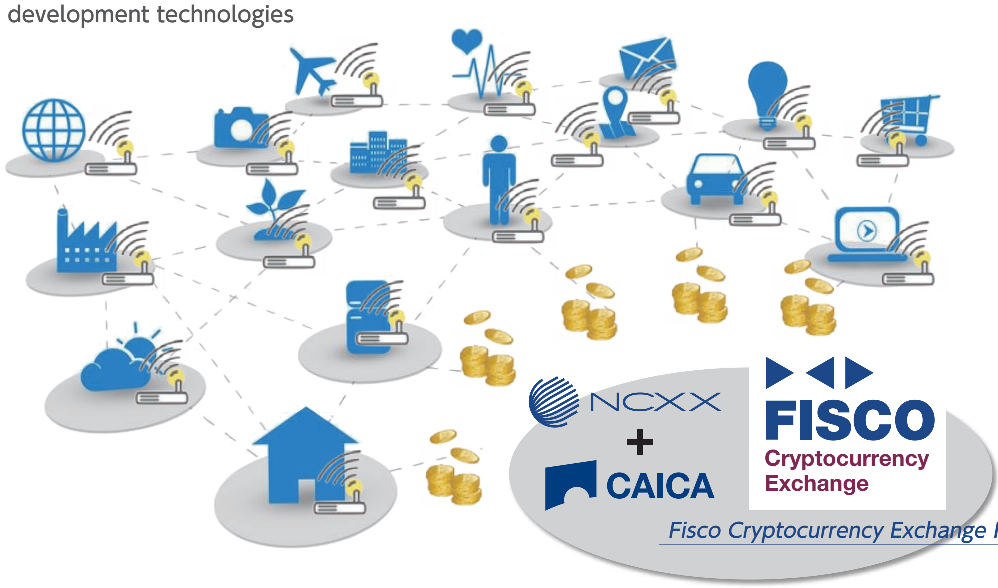
Joined FISCO Ltd. following experience including as an IT consultant and M&A analyst. Appointed President & CEO of Fisco Cryptocurrency Exchange Inc. in April 2017.

Under these circumstances, I get the impression that Fisco Cryptocurrency Exchange has worked feverishly to respond to numerous users' needs. Currently, we do not take an exchange handling fee for bitcoin and regard the fiscal year ending December 31, 2017 as a preparatory phase for customer acquisition. Firstly, we are focusing on increasing the number of transactions and building up the organization to spread the reach of the business. We aim to make the business profitable in the fiscal year ending December 31, 2018, and raise the rate of our contribution on the earnings side in the fiscal year ending December 31, 2019. FISCO Ltd., our parent company, adds the trust instilled from being a publicly listed company to occupying a reasonable position in the world of financial information transmission. Our company, meanwhile, is rolling out the virtual currency business through possession of all sorts of financial information and content, which is a feature and source of expectations. For the FISCO Group, having a cryptocurrency exchange provides great value when engaged in the virtual currency business. Perhaps above all this is FISCO Ltd.'s customer assets, which are mainly individual investors as well as institutional investors and publicly listed companies. Looking at the virtual currency exchange of the future involves not only individuals, but I would also like to focus on the corporate sector. If 2017 can be regarded as a year of rapid growth for bitcoin, it's almost certain that 2018 will see this expand to investors, which means that it is extremely important to create a system now that is capable of dealing with that. We will continue to display the Group's capabilities and grow as an industry leader.

(as of December 7, 2017)

**B2B Virtual Currency Service—IoT Payment Platform**

Build a platform that enables payment by token connecting organically with various tokens that companies issue Aim for market development by leveraging NCXX's IoT communications technologies and CAICA's software development technologies



# Corporate Governance

### Basic Views on Corporate Governance

The FISCO Group has embraced a Corporate Philosophy of committing to a position of fairness and impartial thinking and respecting the value of individuals and emphasizing the spirit of harmony, with the aim of becoming a leading company in the financial services sector. The Group recognizes the importance of earning trust in its relationships with shareholders, customers, financial market participants and all other stakeholders. With this in mind, the Group always seeks to be an enterprise that gives back to society. To this end, the Group will maintain highly transparent management as its core principle of corporate governance.

### Outline of the Corporate Governance System

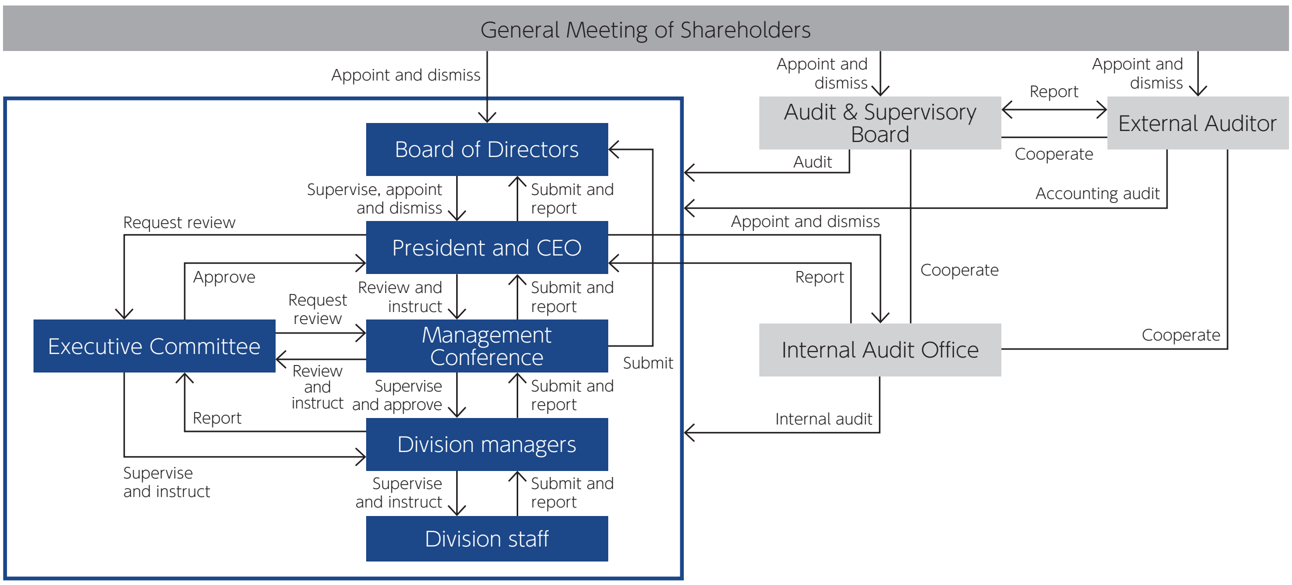
FISCO has a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor. The Board of Directors has six directors, one of whom is an outside director. The Board of Directors meets every month in accordance with the Board of Directors Regulations. At meetings, the Board of Directors first examines proposals pursuant to laws and regulations and the Articles of Incorporation. The board then verifies the achievement of budgets on a consolidated basis and at the Company, and compares the Group's operating results and financial position with the previous month and the corresponding month of the previous year. The board also actively discusses the substance of contracts concluded by the Company, along with new business and development projects. The board invites outside directors to participate in board meetings in order to obtain the outside directors' views on management from an objective perspective based on their extensive experience.

The Audit & Supervisory Board has three members, comprising one full-time Audit & Supervisory Board member and two part-time Audit & Supervisory Board members (outside Audit & Supervisory Board members). The Audit & Supervisory Board meets every month, in principle, as a means of sharing information between the Audit & Supervisory Board members and conducting efficient audits. The Articles of Incorporation stipulate that the Company shall have no more than eight directors and no more than five Audit & Supervisory Board members.

The Management Conference meets every week to resolve matters that do not need to be put forward to the Board of Directors. It comprises directors (excluding outside directors and part-time directors), executive officers, division managers, Audit & Supervisory Board members and internal auditors belonging to the Internal Audit Office. The Management Conference discusses urgent matters in each division in a timely manner. Moreover, matters that require approval, if under a certain monetary threshold, are approved by circular authorization under the Circular Authorization Regulations.

The main intent and policies of the President and CEO are communicated in the Management Conference to ensure that the President and CEO does not retain sole discretion over the execution of his daily duties. However, when the duties of the President and CEO involve significant materiality, they are examined in advance by the Executive Committee, which is made up of all directors other than outside directors and part-time directors.

### Corporate Governance System Diagram



### Establishment of an Internal Control System

In accordance with the Basic Policy on Establishing an Internal Control System, the Company has worked to establish and operate an appropriate internal control system in line with actual conditions by preparing flow charts, system descriptions, and risk control matrixes. Furthermore, the Company will continuously strive to make improvements to build an even more efficient system going forward.

### Status of Internal Audits and Audits by Audit & Supervisory Board Members

Internal audits are conducted by one member of the Internal Audit Office. Under the Basic Policy on Internal Audits, the internal auditor verifies whether or not each division is managed appropriately in accordance with relevant laws such as the Financial Instruments and Exchange Act, the Articles of Incorporation and internal regulations and other rules. The internal auditor reports the findings to the President and CEO, and provides guidance if measures such as improvements are needed. By providing additional feedback to the President and CEO on the status of improvements, the internal auditor takes steps to help preserve the Company's assets and ensure sound corporate management.

Internal audits are undertaken in accordance with audit plans formulated in consideration of the scope of the audit and audited items. When formulating those audit plans, the audits are structured to enable integral internal audits to be undertaken, taking into account the timing, auditing methods and other aspects of various other audits performed by the Audit & Supervisory Board members and the external auditor.

Audits by the Audit & Supervisory Board members are performed based on discussions by the Audit & Supervisory Board on periodic procedures pursuant to audit plans and regular procedures in daily operations. The Audit & Supervisory Board members attend weekly Management Conference meetings and thereby obtain information on daily operations overseen by the President and CEO. Accordingly, the Audit & Supervisory Board members regularly verify journals, contracts and other documentation, as necessary, outside of the scope of audit plans. In this manner, audits by Audit & Supervisory Board members involve operational audits as well as accounting audits. When the Audit & Supervisory Board formulates audit plans, the audits are structured to enable integral internal audits to be undertaken, taking into account the timing, auditing methods and other aspects of various other audits performed by the internal auditor and the external auditor.

The Internal Audit Office provides opportunities for exchanging opinions and information by holding regular audit meetings with the Audit & Supervisory Board members. Information is exchanged with the external auditor when accounting audits and internal control audits are performed.

### Outside Directors and Outside Audit & Supervisory Board Members

The Company has one outside director. There are three outside Audit & Supervisory Board members.

The personnel, capital and business relationships, as well as any other interests and relationships, between the Company's outside director and the Company are as follows.

The Company does not have standards or policies on independence for appointing outside directors and outside Audit & Supervisory Board members. However, when making such appointments, the Company decides whether adequate independence can be ensured on an individual basis when the candidate performs his or her duties as an outside corporate officer from a standpoint independent of management.

Opportunities are provided for outside directors and outside Audit & Supervisory Board members to regularly exchange opinions and information with the Audit & Supervisory Board and the Internal Audit Office, via meetings exchange opinions with the Board of Directors and corporate officers. The outside directors and outside Audit & Supervisory Board members provide supervision and audits through such means as reports on accounting audits and internal control audits. In addition, the outside directors and outside Audit & Supervisory Board members provide advice to the Internal Audit Office, as necessary, primarily by making recommendations.

#### Outside Director

| | |
|---|---|
| Katsuhiko Goto | Based on his management experience at Nikkei Research Inc., Mr. Goto possesses abundant experience and a high degree of specialization in the information services sector, and has been appointed as an independent corporate officer with no risk of any conflict of interest with ordinary shareholders.<br>Mr. Goto does not have any personnel, capital or business relationships, nor any other interests or relationships, with FISCO Ltd. |

#### Outside Audit & Supervisory Board Members

| | |
|---|---|
| Maiko Yoshimoto | Ms. Yoshimoto, a director at SEQUEDGE INVESTMENT INTERNATIONAL LIMITED, possesses a wide range of advanced knowledge and abundant experience as a corporate manager.<br>Ms. Yoshimoto does not have any personnel, capital, or business relationships, nor any other interests or relationships, with FISCO Ltd. |
| Nobutoshi Kajisa | Mr. Kajisa is president of the Kajisa Accounting Office. As a certified tax accountant, he possesses specialized knowledge as well as abundant experience in corporate accounting and tax affairs.<br>Mr. Kajisa does not have any personnel, capital or business relationships, nor any other interests or relationships, with FISCO Ltd. |
| Tatsuo Morihana | Mr. Morihana is president of the Tatsuo Morihana Certified Tax Accountant Office. He possesses specialized knowledge as a certified tax accountant as well as abundant experience in corporate accounting and tax affairs.<br>Mr. Morihana does not have any personnel, capital or business relationships, nor any other interests or relationships, with FISCO Ltd. |

#### Remuneration for Corporate Officers

| Position | Total remuneration for corporate officers (¥ thousand) | Total amount by type of remuneration (¥ thousand) | | | | Number of eligible corporate officers |
|---|---|---|---|---|---|---|
| | | Basic remuneration | Stock options | Bonuses | Retirement bonuses | |
| Directors (excluding outside directors) | 34,725 | 34,725 | 1,215 | — | — | 5 |
| Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members) | — | — | — | — | — | — |
| Outside corporate officers | 6,125 | 6,125 | — | — | — | 4 |

## Business Risks

In the course of conducting business, the FISCO Group makes business decisions in various situations based on careful and timely discussions that consider multiple viewpoints centered on the risks outlined below. However, those discussions cannot cover all of the risks that could possibly affect business operations. Moreover, the predicted risks will not materialize uniformly in terms of their profile, extent and other aspects. Accordingly, the Group cannot rule out the possibility that those risks may impact its future operating results.

The risks that could have a material impact on investor judgement are outlined below.

### (1) Changes in the Business Environment

Looking at the environment surrounding the FISCO Group, changes in economic conditions in Japan and overseas could have a material impact on the Group's operating results and financial condition. Notably, in the information services business, the Group's operating results and financial condition could be materially affected by the following scenarios: (1) reorganization in the financial services sector, which is the Group's key client base; (2) significant volatility in the financial instruments market, including stocks and foreign currency, and (3) a mismatch between the services provided by the Group and client needs if the Group is unable to stay on top of increasingly sophisticated analysis techniques and diversifying service delivery methods in the financial instruments market. In addition, the telecommunications sector (mobile devices), to which the Group's device business belongs, is characterized by short product lifecycles. If the Group's products become obsolete or if the Group is unable to promptly address new technologies and other innovations, this could have a material impact on the Group's operating results and financial condition.

### (2) Risks Associated with Business Expansion in Asia

The FISCO Group is pushing ahead with business expansion in overseas markets such as China, Hong Kong and Taiwan. In conjunction with this expansion, the Group anticipates further increases in foreign currency denominated transactions with manufacturing contractors, overseas subsidiaries and other entities. The Group strives to mitigate the risk of foreign exchange fluctuations using derivative transactions (foreign exchange margin trading), foreign exchange forward contracts and other arrangements. However, sharp foreign exchange movements beyond the scope of projections could have a material impact on the Group's operating results and financial condition. Moreover, those countries and regions could experience political instability or social unrest, and institute changes in laws, regulations and public policies that affect local business development including foreign exchange rates, trading, employment and other conditions. The business environment in those countries and regions could also be reshaped by deterioration in economic conditions and other factors. These cases could materially affect the Group's operating results and financial condition.

### (3) Changes in Laws

In the course of executing business, the FISCO Group is subject to legal controls stipulated primarily by the Financial Instruments and Exchange Act, Radio Act, Travel Agency Act, Product Liability Act, Act on the Protection of Personal Information, Act against Unjustifiable Premiums and Misleading Representations, and Act on Specified Commercial Transactions, as well as by intellectual property laws. Amendments and other changes to laws could have a material impact on the Group's operating results and financial condition.

### (4) Compliance Breaches, Information Leaks and Other Such Incidents

In the information services business and other businesses, the FISCO Group may handle information (including personal information) involving the privacy and trust of customers and others, and may receive such information from third-party companies and other entities. This information could leak outside the Group by mistake or misconduct. In such an event, the Group's brand value may be impaired considering that one of its most important management policies is to ensure impartiality and fairness. This could have an impact on public trust in the Group. Moreover, in the course of expanding business in Japan and overseas, the Group must comply with the laws, regulations and controls of each country and region, and it strives to increase its awareness of the need for compliance in this respect. However, it is difficult to completely avoid compliance risk. In the event the Group is unable to fulfill its obligations under relevant laws, regulations and controls or if corporate officers and employees engage in misconduct or other compliance breaches, this could have a material impact on the Group's operating results and financial condition.

### (5) Impact of Natural Disasters

The FISCO Group is subject to the influence of a wide range of external factors in Japan and overseas, including natural disasters such as earthquakes, typhoons, flooding, and tsunami, as well as other contingencies such as wars, terrorist attacks, and epidemics of infectious disease. These factors could have an impact on the Group's operating results and financial condition. Notably, the Internet travel business could see a sharp decline in travel to regions where these sorts of disasters and other contingencies have occurred. Furthermore, these external factors could also stop the functions of the information services business, device business and other operations.

### (6) Investment in Group Companies

In promoting Group-wide business expansion, the FISCO Group undertakes new businesses via separate companies, taking into account the degree of specialization, the international profile, and the efficiency of those operations as well as the need to avoid conflicts of interest and other considerations. These investments in Group companies may not generate profits as expected, depending on the business performance of the company in question. This could have a material impact on the Group's operating results and financial condition.

### (7) Risks Associated with Entering New Businesses

The FISCO Group is expanding into new business domains with the aim of putting Group management on a more stable footing. It also expects to undertake corporate acquisitions, overseas business expansion initiatives and other measures to enter new businesses. To achieve those objectives, the Group may require unexpected funding for business investments, corporate acquisitions and other such initiatives. Such an event could have a material impact on the Group's operating results and financial condition.

### (8) Dependence on Human Resources within the Group

The FISCO Group believes that human resources have an extremely important part to play in generating earnings in its businesses. Therefore, if the resignation of talented personnel and other factors lead to an outflow of the Group's expertise and skills, or if the Group is unable to continuously recruit or nurture talented personnel, this could have an impact on the Group's operating results. Moreover, the Group's businesses are highly dependent on human resources. For this reason, human error could cause information errors, data distribution mistakes and other contingencies. If those human errors cause inappropriate data to be included in the information supplied by the Group, or cause third-party rights to be violated, the Group's brand value could be impaired, and this could have an impact on public trust in the Group.

### (9) Impact of Systems Disruptions within the Group

The FISCO Group takes steps to ensure the security and maintenance of its systems, including strengthening the server room monitoring system through the permanent installation of remotely operated cameras and sensors, securing redundancy of power supplies as well as devices and programs, installing and conducting third-party surveillance of firewalls, enforcing compliance with internal rules and limiting personnel authorized to enter server rooms. However, the core systems vital to the Group's business operations, such as database management and operation systems, content distribution systems, and the CLUB FISCO operation and management system could be disrupted by natural disasters, fire and other incidents, and intrusion into servers from outside the Group via unauthorized means. These systems disruptions could have an impact on the Group's businesses. In addition, if the distribution of information is disrupted by unforeseen problems with systems, such a disruption could change how clients and other customers evaluate the Group's information distribution systems and other capabilities. This could have an impact on the Group's subsequent business strategy.

### (10) Risks Related to Material Lawsuits and Other Legal Proceedings

The FISCO Group is expanding its operations in the information services business, the consulting business, including fund arrangement and management services, the Internet travel business, the advertising agency business and other fields. In connection with these businesses, legal proceedings could be brought against the Group either directly or indirectly by content subscribers, investees and investors, manufacturers, sellers and purchasers of products, patent holders, service users and others. It is difficult to predict the occurrence or outcome of lawsuits and other legal proceedings that the Group may become a party to in the future. However, in the event of an unfavorable outcome for the Group, this could have an impact on the Group's business results and financial condition as well as on business expansion.

### (11) Dependence on Specific Customers

Among the FISCO Group's businesses, sales to specific customers represent a large percentage of net sales of the information services business, the device business, and the advertising agency business. The Group is working to cultivate clients other than those specific customers, and is taking steps to reduce its dependence on them. However, these efforts may not necessarily succeed. Moreover, any disruption in transactions with those specific customers could have an impact on the Group's operating results.

### (12) Concentration of Earnings Structure on the Second Half of the Fiscal Year

Among the FISCO Group's businesses, the information services business, the consulting business, and the advertising agency business have many major customers that are domestic financial institutions and operating companies whose fiscal years close at the end of March. For this reason, in the first half of the Company's fiscal year, which spans the ending and the beginning of the fiscal years of those corporate customers, contract cancellations can occur. Meanwhile, in the second half of the Company's fiscal year, there is a tendency for the Company to obtain additional contracts and new contracts. In addition, in the Internet travel business, demand for overseas travel for the summer holidays and honeymoons increases in August and September, which falls in the second half of the Company's fiscal year. Therefore, the Group's net sales and earnings tend to be concentrated in the second half of the fiscal year.

### (13) Product Supply

Among the FISCO Group's businesses, many of the products sold by the brand retail platform business are imported from overseas. For this reason, unexpected changes in laws or regulations, political instability, large-scale natural disasters, social unrest and significant fluctuations in currency exchange rates can have an impact on the Company's product supply system, and such an event could have a material impact on the Group's operating results and financial condition.

### (14) Impairment of Property, Plant and Equipment

The Group company TITICACA, Co. Ltd. recognizes impairment losses on the portion of the assets of stores that are persistently unprofitable or that it has decided to relocate or close for which the book value of property, plant and equipment is determined to be unrecoverable. In the event of an increase in such unprofitable stores going forward, the posting of significant impairment losses would be expected, which could affect the Group's business performance and financial position.

### (15) Losses from Store Relocations and Closings

The Group company TITICACA may relocate or close stores due to tenancy agreements expiring. In that event, costs will arise for the removal of property, plant and equipment to restore the leased space to its original condition, new investments in relocation sites, and so forth. If store relocations and closings increase in the future, the posting of a large amount of losses associated with the removal of property, plant and equipment, as well as selling, general and administrative expenses would be expected, which could affect the Group's business performance and financial position.

### (16) Dilution Due to Dilutive Shares

The FISCO Group grants subscription rights to shares (stock options) for further enhancing the motivation of corporate officers and employees and securing talented personnel. The total number of dilutive shares underlying subscription rights to shares was 1,233,500 shares (3,267 rights) as of December 31, 2016. Those dilutive shares represent approximately 3.3% of the total number of issued shares. Those dilutive shares could dilute the Company's shares and serve as a factor that increases the supply of its shares in the future. Consequently, those shares could have an impact on the formation of the Company's stock price.

**Corporate Officers** (as of December 31, 2016)

| | |
|---|---|
| President and CEO | Hitoshi Kano |
| Directors | Takaya Nakamura<br>Hiroyuki Matsuzaki<br>Osamu Fukami<br>Motoki Sato<br>Katsuhiko Goto (outside) |
| Full-time Audit & Supervisory Board member | Maiko Yoshimoto (outside) |
| Audit & Supervisory Board members | Nobutoshi Kajisa (outside)<br>Tatsuo Morihana (outside) |

## CSR Activity Policy

# Revitalize Society Through Corporate Support Services

- Serve as an intermediary between companies (managers) and investors to promote the formation of an efficient financial system and capital markets
- Support the growth of companies and industries as a whole by facilitating ideal corporate reporting that is cognizant of stakeholders in close cooperation with companies (managers), based on constant anticipation of the future of the Japanese economy
- Return profits generated through business investment to society

## Examples of CSR Activities

**Participation in the UN Global Compact**

In November 2016, FISCO Ltd. and FISCO IR Ltd. became signatories to the UN Global Compact as a set of global initiatives for companies to achieve sustainable growth within international society. The UN Global Compact comprises 10 principles covering areas including human rights, labor, the environment and anti-corruption. These principles form the cornerstone of the corporate activities that are conducted under our Corporate Philosophy. We also strive to spread disclosure of Environmental, Social and Governance (ESG) information related to business supporting investor relations and aim to become a platformer to provide financial information services.

**Participation as Volunteers in a Motorcycle Riding Event for People with Disabilities at the Suzuka Circuit**

FISCO, NCXX Group and CAICA (formally SJI Inc.) participated as volunteers in a tandem motorcycle riding event for people with disabilities at the Suzuka Circuit, hosted by the volunteer group Kazenokai. This activity is held on the day before the final of the Suzuka 8hours Endurance Road Race. Current and retired professional motorcycle riders put people with disabilities into the tandem passenger seat of a motorcycle and give them motorcycle rides around the main course of the Suzuka Circuit. Through this activity, FISCO is increasing its understanding of the significance and value of CSR and ESG activities, and enhancing the quality of its support services for the CSR and ESG activities of publicly listed companies, thereby contributing to the formation of efficient capital markets.

**CSR through the Information Distribution Business**

In Japan, publicly listed companies are seeking to ensure compliance with the Corporate Governance Code that entered into force in June 2015. To this end, companies have been rapidly stepping up the disclosure of CSR and ESG information. In September 2015, FISCO and FISCO IR started issuing short comments on CSR and ESG activities, as part of efforts to strengthen the distribution of the CSR and ESG information of publicly listed companies.

Moreover, in February 2016, the two companies started issuing short comments based on integrated reporting, which provides a means for publicly listed companies to constructively engage in a dialogue with shareholders and other investors. FISCO and FISCO IR will expand the distribution of investment information to various portal sites worldwide, with a view to delivering information to a wide range of users centered on institutional and retail investors in Japan and abroad.

It is also generally believed that there is a growing need for companies to embrace diversity with respect to differences in work styles and personal attributes. Doing so is crucial to enhancing the medium- and long-term competitiveness of companies in a fast-changing environment driven by the march of globalization. Although diversity can be approached from many different perspectives, FISCO has focused on the theme of LGBT (sexual minorities), which has arguably been attracting the greatest interest from society, serving as a theme of diversity that will aid investors in selecting companies to invest in. In March 2016, FISCO started writing and distributing comments related to LGBT.

### Creation of the Institutional Investor & Analyst Corporate Analysis Report Awards

In June 2016, FISCO created the Institutional Investor & Analyst Corporate Analysis Report Awards, an awards program for companies based on FISCO corporate analysis reports.

The evaluation criteria have been narrowed down to five themes, specifically ESG, CSR, business model, growth potential, and employee satisfaction. These themes were strongly sought by the award program's group of 20 judges, who were carefully vetted by FISCO from among institutional investors and analysts. The judges selected the top five companies for each evaluation criterion from among the companies covered by FISCO corporate analysis reports issued during 2015.

Recently, there has been heightened interest in corporate investor relations (IR) in Japan against the backdrop of lively discussions on corporate governance and the Stewardship Code. The awards program is designed to facilitate the creation of an environment conducive to medium- and long-term investing, rather than short-term investing, and to increase the number of investors and business leaders who understand this objective.

The FISCO Group currently produces FISCO corporate analysis reports for around 270 companies, with plans to increase the number of reports further. Through the creation of the Institutional Investor & Analyst Corporate Analysis Report Awards, the FISCO Group seeks to positively influence how companies approach disclosure and to have this influence reflected in FISCO corporate analysis reports. Going forward, FISCO will continue to implement this awards program once a year.

April 2016

### Collaborative Project Between FISCO and Jitsugyo no Nihon Sha, Ltd.
### Launch of a Magazine on Theme Stocks Developed with the Full Cooperation of FISCO

In April 2016, FISCO launched sales of a magazine on theme stocks. The magazine was co-authored with Jitsugyo no Nihon Sha, Ltd., a business alliance partner, and was developed with the full cooperation of FISCO. Thereafter, FISCO issued a steady succession of specialized magazines with innovative formats, including *FISCO Stock and Company Guide* and *FISCO FINANCIAL REVIEW*, a financial and business magazine for IR professionals compiled by FISCO IR.

August 2016

### Fisco Cryptocurrency Exchange Commences Operation of a Bitcoin Exchange Site

Fisco Cryptocurrency Exchange has commenced operation of a bitcoin exchange site (http://fcce.jp/).

It takes as little as five minutes from registration to begin making deposits and withdrawals. Moreover, users can currently conduct bitcoin and monacoin transactions for a ¥0 transaction fee.

The transaction system is in-licensed from Tech Bureau, Corp., which operates the bitcoin and monacoin exchange Zaif and has developed strengths in operation and security expertise. It should also be noted that transaction cooperation with Zaif also ensures initial liquidity for starting operations at the exchange.

December 2016

### FISCO Starts Providing Stock Selection Reports Based on Scorobo@ for Fintech (AI)

FISCO has entered into a business alliance with Technos Data Science Engineering on research and development activities in cloud-based AI financial market services in the FinTech field, which is anticipated to gather momentum going forward. Under this business alliance, FISCO has been making steady strides on research and development activities. In December 2016, FISCO completed the AI engine Scorobo@ for Fintech β version. Powered by this AI engine, FISCO AI has entered service with capabilities including stock selections and stock market forecasts. The new AI engine has dramatically reduced the time required to select stocks by 30–50%, leading to stable performance. The stocks picked by AI are combined with the knowledge and insights of human analysts, enabling FISCO to identify and select the most desirable stocks.

# Participation in the UN Global Compact

## Top Statement

The FISCO Group has been a participating signatory since October 2016 to the UN Global Compact related to universal principles regarding human rights, labor, the environment and anti-corruption.

The past year's activities have included taking part in the global compact and disseminating its details within the Company. There is still considerable examination and discussion within our business about the challenges that should be resolved and how we should go about realizing and establishing the Ten Principles. Entering the second year as a participant, we will provide each and every employee with opportunities to deepen their understanding and strive to practice the principles in daily operations.

## The Ten Principles of the UN Global Compact

UN GLOBAL COMPACT
Network Japan
WE SUPPORT

**Human Rights**

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

**Labor**

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

**Environment**

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

**Anti-Corruption**

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

## Activity Goal and Details

| Human Rights | | | |
|---|---|---|---|
| Workplace | Human rights consideration | ▪ Provide safe and secure labor conditions | ○ |
| | | ▪ Rigorously ban discriminatory personnel practices | ○ |
| Community | Create valuable new markets for the socially vulnerable | ▪ Launch LGBT travel website (Web travel Co., Ltd.)<br>▪ Issue a para-sports magazine (Jitsugyo no Nihon Sha, Ltd.)<br>▪ Develop a nursing care robot (Care Dynamics Limited)<br>▪ Provide solutions to nursing care business operators (Care Dynamics Limited) | ○ |
| | Promote protection of regional communities' economic lifestyles | ▪ Perform volunteer work for the elderly in depopulated villages (volunteers from the Group) | ○ |
| | | ➡Plan to continue each policy from next fiscal year onward | |

| Labor | | | |
|---|---|---|---|
| Workplace | Promote work-life management<br>Promote an active role for women<br>Promote employment of people with disabilities | ▪ Standards and education system created for managers and administrative employees<br>• Review of work details accompanying organizational review (in progress) | × |
| | | ▪ Respect employee diversity (33 people incl. part-time)<br>• Employed people with disabilities (0 people)<br>• Employed foreign workers (3 people)<br>• Actively employed women (11 people)<br>• Continued to employ people aged 60 and over (1 person) | ○ |
| | | ▪ Established environments easy to work in<br>• People working from home (8 people) | △ |
| | | ➡Plan to continue each policy from next fiscal year onward | |

| Environment | | | |
|---|---|---|---|
| Workplace | Reduction of energy use in offices | ▪ Decreased use of paper<br>• Gone paperless to the extent capable depending on work details<br>• Prevented wasteful output of paper from photocopiers | △ |
| | | ▪ Purchase of eco-friendly products | △ |
| | | ▪ Energy-saving through Cool Biz/Warm Biz | △ |
| | | ▪ Participation in the Ministry of the Environment's Environmental Reporting Platform Development Pilot Project (FISCO IR Ltd.) | ○ |
| | | ➡Plan to continue each policy from next fiscal year onward | |

| Anti-Corruption | | | |
|---|---|---|---|
| Workplace | Appropriate relationships with business partners and suppliers | ▪ Provided information to suppliers and established opportunities for discussions | ○ |
| | | ▪ Conducted customer questionnaires | △ (irregular) |
| | | ▪ Conducted compliance briefings | ○ |
| | | ➡Plan to continue each policy from next fiscal year onward | |

# FISCO Group Companies (As of December 31, 2016)

## FISCO Ltd.

FISCO Ltd. is a professional body that provides optimal financial investment support services. FISCO offers financial services useful for managing and creating our customers' assets, based on an in-depth understanding of and insight into investments and markets.

## FISCO IR Ltd.

FISCO IR Ltd. supports IR activities that contribute to increasing corporate value. To this end, FISCO IR Ltd. uses swift, accurate corporate analysis and information distribution capabilities cultivated in the FISCO Group's financial information distribution operations as well as editing capabilities based on an understanding of investor psychology.

## Fisco Cryptocurrency Exchange Inc.

Fisco Cryptocurrency Exchange Inc. operates a virtual currency exchange where users can exchange virtual currencies such as bitcoin and monacoin.

## NCXX Group Inc.

NCXX Group Inc. formulates group corporate management strategies and conducts business management. It is also engaged in the planning, development and sale of nursing care and rehabilitation robots, as well as agricultural ICT.

## NCXX Inc.

NCXX Inc. conducts the development and sale of communication devices using various wireless communication methods, along with providing ancillary services such as system solutions and maintenance.

## NCXX Solutions Inc.

With bases in Japan's Kanto, Chubu, Kansai and Kyushu regions, NCXX Solutions Inc. has an extensive track record in systems development spanning more than 40 years, in fields such as manufacturing, finance, insurance, distribution, and the public sector. NCXX Solutions Inc. has also launched an ASP service business.

## CAICA Inc.

CAICA Inc.'s core business consists of information services, revolving primarily around systems development.

## Care Dynamics Limited

Care Dynamics Limited is a comprehensive nursing care business support services company that provides the highest quality services and total solutions, ranging from Care Online, an ASP service for nursing care businesses, to the development of nursing care robots.

## e-tabinet.com

e-tabinet.com provides the Laku Laku Travel Estimate Service, which enables customers to request travel estimates online from travel agencies throughout Japan.

## Web travel Co., Ltd.

Web travel Co., Ltd. provides the Travel Concierge Service, which enables customers to request estimates for customized travel itineraries over the Internet.

## Gloria Tours Inc.

Gloria Tours Inc. specializes in the travel business, with a particular focus on the planning and arrangement of tours for para-sports tournaments, as well as the consulting and arrangement of French language training tours and study in France programs for individuals.

## FISCO DIAMOND AGENCY, Inc.

FISCO DIAMOND AGENCY, Inc. is an integrated advertisement agency that plans and puts in practice world-class corporate communication strategies through the creation of branding and communication ideas.

## Chanty Co., Ltd.

Chanty Co., Ltd. contributes to increased sales for companies through planning and production of novelty items.

## Versatile Inc.

Versatile Inc. responds to all varieties of customer requirements, centering on consulting services, and provides not only standalone services but also optimal combinations of staff placement, recruitment and various other services.

## TITICACA, Co. Ltd.

TITICACA, Co. Ltd. plans, manufactures, and sells original apparel and accessories with a focus on colorful products with Central and South American motifs to communicate traditional cultures from around the world to customers.

## FISCO International Limited

## FISCO Fujian Ltd.

## FISCO Capital Ltd.

# Management's Discussion and Analysis of Operating Results and Financial Condition

## Business Performance

Net sales for fiscal 2016 (the fiscal year ended December 31, 2016) in the information services business were generally in line with the Company's plan.

In the device business, net sales sharply increased as a result of incorporating the business results of CAICA. However, the impact of the continued designation of "securities on alert" of the shares of CAICA on April 28, 2016 resulted in the lower-than-expected acquisition of orders for new projects, which fell short of the plan. In addition, for NCXX Inc. ("NCXX"), orders for some products fell short of the plan, and as a result, net sales were lower than the initial plan.

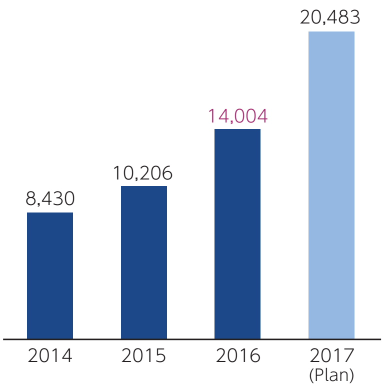
The Company incurred an operating loss. One of the factors was that at NCXX, manufacturing costs increased by ¥329 million due to a reduction in inventories following a conservative revision of the work in process in contracted development projects for certain clients that were extended from the previous fiscal year. Another factor was that at CAICA, there was an inability to achieve the expected profit due to a decrease in sales.

In addition, CAICA transferred shares of a subsidiary and recorded ¥182 million of a gain on sales of shares of subsidiaries and associates as extraordinary gains. Meanwhile, after joining the Group, TITICACA, Co. Ltd. evaluated its forecast for sales of products in the fall and winter of 2016-2017 and strictly re-evaluated the profitability of each store. It identified a further 18 stores that were judged highly likely to become unprofitable, and recorded a total impairment loss of ¥320 million, including on stores that it had decided to close during the fiscal year.

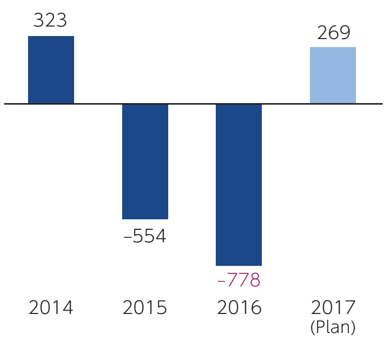
As a result, consolidated net sales for fiscal 2016 were ¥14,004 million, up 37.2% year on year. Cost of sales was ¥10,776 million, up 29.8% year on year, and selling, general and administrative expenses were ¥4,006 million, up 62.7% year on year. Selling, general and administrative expenses increased by ¥1,544 million year on year, including ¥696 million in amortization of goodwill. Operating loss was ¥778 million compared to operating loss of ¥554 million in the previous fiscal year and ordinary loss was ¥1,003 million, compared to ordinary loss of ¥952 million in the previous fiscal year.

The Company recorded a loss attributable to owners of parent of ¥1,193 million, (compared to a loss attributable to owners of parent of ¥143 million in the previous fiscal year), a significant increase in loss from the previous fiscal year. Although the Company recorded extraordinary gains of ¥340 million, including ¥182 million as a gain on sales of shares of subsidiaries and associates due to the transfer of shares of CAICA's subsidiary, the Company also recorded extraordinary losses of ¥859 million, including ¥764 million as an impairment losses for goodwill and unprofitable stores of TITICACA.

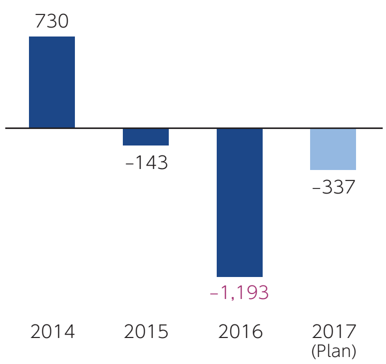
Net Sales (¥ million)




Operating Income (Loss) (¥ million)




Profit (Loss) Attributable to Owners of Parent (¥ million)



## Assets, Liabilities and Net Assets

Total assets were ¥15,444 million as of December 31, 2016, a decrease of ¥1,465 million from the previous fiscal year-end.

Total current assets declined ¥2,137 million from a year ago. This was due to a decrease of ¥1,249 million in cash and deposits and a decrease of ¥2,714 million in allowance for doubtful accounts, somewhat offset by a decrease of ¥1,194 million in short-term loans receivable and a decrease of ¥1,651 million in accounts receivable—other.

Noncurrent assets increased by ¥671 million from the end of the previous fiscal year. The main contributing factors were decreases of ¥1,139 million in goodwill, ¥1,061 million in long-term loans receivable, and ¥1,095 million in long-term accounts receivable—other, which were outweighed by increases of ¥340 million in total property, plant and equipment, ¥788 million in trademark right, and ¥547 million in guarantee deposits, along with a decrease of ¥1,990 million in allowance for doubtful accounts. These results were mainly due to the inclusion of TITICACA, Co. Ltd. in the scope of consolidation.

Total liabilities were ¥11,010 million, a decrease of ¥230 million from ¥11,240 million a year earlier.

The main contributing factors were an increase of ¥670 million in deferred tax liabilities and decreases of ¥786 million in long-term loans payable and ¥364 million in current portion of long-term loans payable.

Total net assets were ¥4,434 million, a decrease of ¥1,235 million from a year earlier. The main contributing factor was a decrease of ¥1,193 million in retained earnings.

## Cash Flows

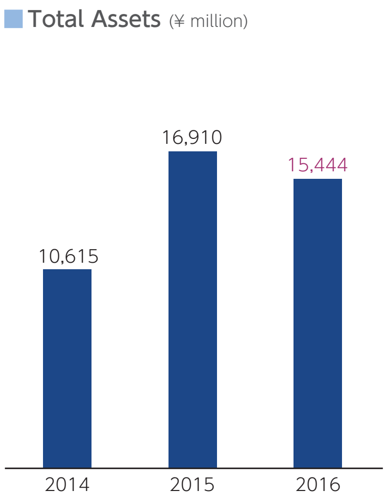
Cash and cash equivalents ("cash") at December 31, 2016 were ¥2,256 million, a decrease of ¥1,229 million from the previous fiscal year-end.

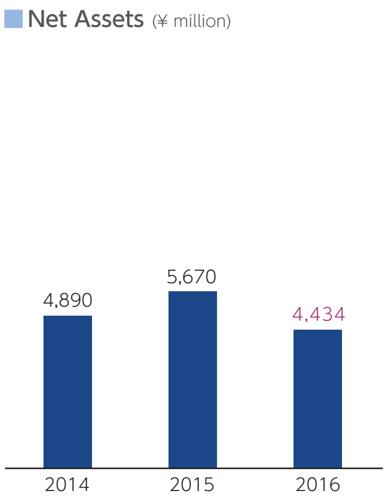
### Cash Flows from Operating Activities

Net cash used in operating activities was ¥9 million, compared with net cash used in operating activities of ¥1,107 million in the previous fiscal year. The main contributing factors were decreases of ¥1,541 million in notes and accounts receivable—trade and ¥396 million in inventories, somewhat offset by decreases of ¥567 million in notes and accounts payable—trade and ¥634 million in accounts payable—other.

### Cash Flows from Investing Activities

Net cash provided by investing activities was ¥665 million, compared with net cash used in investing activities of ¥709 million in the previous fiscal year. The main contributing factors were ¥554 million in proceeds from sale of stocks of subsidiaries and affiliates, and ¥512 million in proceeds from changes in ownership interests in subsidiaries resulting in change



in scope of consolidation, somewhat offset by expenditure of ¥209 million for purchase of investment securities and expenditure of ¥379 million for purchase of intangible assets.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥1,898 million, compared with net cash provided by financing activities of ¥482 million in the previous fiscal year. The main contributing factors were expenditure of ¥845 million on decrease in short-term loans payable and expenditure of ¥3,044 million on repayments of long-term loans payable, somewhat offset by ¥879 million of proceeds from long-term loans payable and proceeds of ¥350 million from increase in short-term loans payable.

## Segment Information

### Information Services Business

In the information services business, net sales were ¥1,499 million, up 12.2% year on year, and segment income was ¥361 million, up 9.7% year on year.

### Device Business

In the device business, net sales were ¥8,994 million, up 58.7% year on year, but segment loss was ¥661 million, compared to a segment loss of ¥430 million in the previous fiscal year. At NCXX, manufacturing costs increased by ¥329 million due to a reduction in inventories following a conservative revision of the work in process in contracted development projects for certain clients that were extended from the previous fiscal year. Another factor was the lower-than-expected profit at CAICA due to a decrease in sales.

### Internet Travel Business

Net sales in the Internet travel business were ¥1,623 million, down 3.1% year on year. Segment income was ¥3 million, down 56.1% year on year, due to an increase in selling, general and administrative expenses because of Gloria Tours Inc. becoming a subsidiary.

### Advertising Agency Business

In the advertising agency business, net sales were ¥319 million, down 78.4% year on year, and segment loss was ¥50 million, a significant deterioration from segment income of ¥70 million in the previous fiscal year. This is due to an adverse impact at FISCO DIAMOND AGENCY, Inc. due to a customer's major revision of their advertising plan, resulting in the suspension of regular advertising in magazines and large-scale projects centered on the paper media and tools. A further factor was the absence of large-scale spot projects recorded in the previous fiscal year by Chanty Co., Ltd.

### Consulting Business

In the consulting business, net sales were ¥35 million, down 24.1% year on year. Although this result was better than anticipated, selling and general administrative expenses increased more than expected due to the amortization of trademark right, resulting in a segment loss of ¥50 million, compared to a segment loss of ¥53 million in the previous fiscal year.

# Consolidated Balance Sheets

(As of December 31, 2015 and 2016)

| | | (¥ thousand) |
|---|---|---|
| | 2015 | 2016 |
| Assets | | |
| Current assets | | |
| Cash and deposits | ¥ 3,542,864 | ¥ 2,292,997 |
| Notes and accounts receivable—trade | 2,617,566 | 1,932,241 |
| Merchandise and finished goods | 39,304 | 907,837 |
| Work in process | 680,647 | 233,536 |
| Raw materials | 10,763 | 7,746 |
| Short-term loans receivable | 1,250,314 | 55,760 |
| Accounts receivable—other | 1,744,191 | 93,128 |
| Advance payments—trade | 1,052,393 | 500,455 |
| Prepaid expenses | 94,028 | 151,455 |
| Deferred tax assets | 75,244 | 73,777 |
| Other | 105,850 | 112,308 |
| Allowance for doubtful accounts | (2,920,246) | (206,153) |
| **Total current assets** | 8,292,922 | 6,155,091 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 675,447 | 1,485,722 |
| Accumulated depreciation | (331,278) | (806,593) |
| Buildings and structures, net | 344,169 | 679,128 |
| Tools, furniture and fixtures | 603,168 | 1,195,724 |
| Accumulated depreciation | (418,834) | (979,220) |
| Accumulated impairment loss | (1,140) | (1,140) |
| Tools, furniture and fixtures, net | 183,193 | 215,362 |
| Land | 677,707 | 666,061 |
| Lease assets | 37,286 | 29,544 |
| Accumulated depreciation | (17,942) | (16,271) |
| Lease assets, net | 19,343 | 13,273 |
| Construction in progress | — | 135 |
| Other | 89,921 | 103,035 |
| Accumulated depreciation | (50,377) | (72,128) |
| Other, net | 39,543 | 30,907 |
| **Total property, plant and equipment** | 1,263,957 | 1,604,868 |
| Intangible assets | | |
| Trademark right | 512 | 788,782 |
| Software | 98,177 | 147,431 |
| Goodwill | 6,607,782 | 5,468,286 |
| Other | 20,350 | 66,287 |
| **Total intangible assets** | 6,726,823 | 6,470,788 |
| Investments and other assets | | |
| Investment securities | 105,566 | 315,524 |
| Guarantee deposits | 319,383 | 866,448 |
| Long-term loans receivable | 1,311,663 | 250,524 |
| Long-term accounts receivable—other | 2,655,596 | 1,560,433 |
| Deferred tax assets | 135 | 107 |
| Other | 33,386 | 29,622 |
| Allowance for doubtful accounts | (3,798,611) | (1,808,557) |
| **Total investments and other assets** | 627,120 | 1,214,104 |
| **Total noncurrent assets** | 8,617,900 | 9,289,762 |
| **Total assets** | ¥16,910,823 | ¥15,444,853 |

| | 2015 | 2016 |
|---|---|---|
| | | (¥ thousand) |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable—trade | ¥ 697,530 | ¥ 629,844 |
| Current portion of bonds | — | 300,000 |
| Short-term loans payable | 703,104 | 407,334 |
| Current portion of long-term loans payable | 2,547,607 | 2,183,214 |
| Advances received | 223,145 | 313,212 |
| Income taxes payable | 58,589 | 61,108 |
| Accounts payable—other | 629,338 | 381,204 |
| Asset retirement obligations | — | 63,815 |
| Accrued expenses | 283,317 | 290,673 |
| Provision for product warranties | 93,000 | 92,000 |
| Provision for bonuses | 153,253 | 186,659 |
| Provision for loss on store closing | — | 64,284 |
| Provision for loss on litigation | 50,000 | — |
| Other | 368,943 | 250,995 |
| Total current liabilities | 5,807,829 | 5,224,347 |
| Noncurrent liabilities | | |
| Long-term loans payable | 4,064,733 | 3,277,735 |
| Convertible bonds with subscription rights to shares | 1,165,000 | 1,165,000 |
| Net defined benefit liability | 23,036 | 49,295 |
| Asset retirement obligations | — | 335,224 |
| Long-term accounts payable—other | 79,686 | 179,141 |
| Deferred tax liabilities | 57,575 | 728,142 |
| Other | 42,460 | 51,198 |
| Total noncurrent liabilities | 5,432,492 | 5,785,737 |
| Total liabilities | 11,240,321 | 11,010,085 |

| | | |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,210,579 | 1,242,022 |
| Capital surplus | 636,276 | 685,355 |
| Retained earnings | 1,081,038 | (112,445) |
| Treasury stock | (54,151) | (10,351) |
| Total shareholders' equity | 2,873,742 | 1,804,580 |
| Accumulated other comprehensive income | | |
| Valuation difference on other available-for-sale securities | 3,235 | 19,020 |
| Deferred gains on hedges | 14 | 1,131 |
| Foreign currency translation adjustments | 171,828 | 141,526 |
| Total accumulated other comprehensive income | 175,078 | 161,677 |
| Subscription rights to shares | 78,589 | 60,700 |
| Non-controlling interests | 2,543,092 | 2,407,809 |
| Total net assets | 5,670,501 | 4,434,768 |
| Total liabilities and net assets | ¥16,910,823 | ¥15,444,853 |

# Consolidated Statements of Income

(Years ended December 31, 2015 and 2016)

(¥ thousand)

| | 2015 | 2016 |
|---|---|---|
| Net sales | ¥10,206,903 | ¥14,004,597 |
| Cost of sales | 8,299,520 | 10,776,246 |
| **Gross profit** | 1,907,383 | 3,228,351 |
| Selling, general and administrative expenses | 2,461,999 | 4,006,817 |
| **Operating loss** | (554,616) | (778,466) |
| **Non-operating income** | | |
| Interest income | 27,407 | 7,049 |
| House rent income | 15,031 | 19,946 |
| Fiduciary obligation fee | 29,154 | — |
| Other | 34,433 | 18,818 |
| **Total non-operating income** | 106,026 | 45,813 |
| **Non-operating expenses** | | |
| Interest expenses | 154,811 | 169,805 |
| Foreign exchange losses | 295,175 | 57,749 |
| Other | 53,585 | 43,467 |
| **Total non-operating expenses** | 503,572 | 271,021 |
| **Ordinary loss** | (952,162) | (1,003,674) |
| **Extraordinary income** | | |
| Gain on sales of noncurrent assets | 69,082 | — |
| Gain on bargain purchase | 26,179 | 36,745 |
| Gain on shares of subsidiaries and associates | 432,106 | 182,271 |
| Reversal of allowance for doubtful accounts | 35,991 | 28,665 |
| Gain on reversal of estimated damages on delays | — | 58,586 |
| Settlement received | 271,745 | — |
| Gain on forgiveness of debts | 137,743 | — |
| Other | 33,057 | 34,209 |
| **Total extraordinary income** | 1,005,906 | 340,478 |
| **Extraordinary losses** | | |
| Loss on sales of noncurrent assets | — | 4,152 |
| Loss on retirement of property, plant and equipment | 7,056 | 7,531 |
| Impairment loss | 2,117 | 764,356 |
| Loss on valuation of investment securities | 986 | 867 |
| Loss on shares of subsidiaries and associates | 14,938 | — |
| Provision for loss on store closing | — | 12,850 |
| Provision for allowance for doubtful accounts | 31,746 | 66,070 |
| Settlement package | 25,000 | — |
| Office transfer expenses | 18,826 | — |
| Provision for litigation costs | 50,000 | — |
| Other | 9,628 | 3,554 |
| **Total extraordinary losses** | 160,299 | 859,383 |
| **Loss before income taxes** | (106,554) | (1,522,579) |
| Income taxes | 66,506 | 40,277 |
| Income taxes—deferred | 6,879 | (7) |
| **Total income taxes** | 73,385 | 40,269 |
| **Loss** | (179,940) | (1,562,848) |
| **Loss attributable to non-controlling interest** | (36,880) | (369,365) |
| **Loss attributable to owners of parent** | ¥ (143,059) | ¥ (1,193,483) |

# Consolidated Statements of Comprehensive Income

(Years ended December 31, 2015 and 2016)

| | | (¥ thousand) |
|---|---|---|
| | 2015 | 2016 |
| **Loss** | ¥(179,940) | ¥(1,562,848) |
| | | |
| **Other comprehensive income (loss)** | | |
| Valuation difference on other available-for-sale securities | (9,902) | (1,855) |
| Deferred gains on hedges | 14 | 1,116 |
| Foreign currency translation adjustments | 121,570 | (72,904) |
| **Total other comprehensive income (loss)** | 111,682 | (73,642) |
| **Total comprehensive loss** | ¥ (68,257) | ¥(1,636,491) |
| | | |
| Comprehensive loss attributable to: | | |
| Owners of the parent | ¥ (12,249) | ¥(1,206,883) |
| Non controlling interests | (56,008) | (429,607) |

# Consolidated Statements of Changes in Net Assets

(Years ended December 31, 2015 and 2016)

(¥ thousand)

| Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| **Balance at the beginning of the fiscal year** | ¥1,210,579 | ¥ 746,821 | ¥1,224,097 | ¥(36,675) | ¥3,144,823 |
| **Changes during the fiscal year** | | | | | |
| Dividends from surplus—other capital surplus | | (108,946) | | | (108,946) |
| Loss attributable to owners of parent | | | (143,059) | | (143,059) |
| Transfer of loss on disposal of treasury stock | | (1,598) | | | (1,598) |
| Purchase of treasury stock | | | | (34,976) | (34,976) |
| Disposal of treasury stock | | | | 17,499 | 17,499 |
| Net changes of items other than shareholders' equity | | | | | |
| **Total changes during the fiscal year** | — | (110,544) | (143,059) | (17,476) | (271,081) |
| **Balance at the end of the fiscal year** | ¥1,210,579 | ¥ 636,276 | ¥1,081,038 | ¥(54,151) | ¥2,873,742 |

(¥ thousand)

| Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Accumulated other comprehensive income | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation difference on other available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests | Total net assets |
| **Balance at the beginning of the fiscal year** | ¥12,287 | ¥ — | ¥ 31,980 | ¥ 44,267 | ¥53,170 | ¥1,647,772 | ¥4,890,033 |
| **Changes during the fiscal year** | | | | | | | |
| Dividends from surplus—other capital surplus | | | | | | | (108,946) |
| Loss attributable to owners of parent | | | | | | | (143,059) |
| Transfer of loss on disposal of treasury stock | | | | | | | (1,598) |
| Purchase of treasury stock | | | | | | | (34,976) |
| Disposal of treasury stock | | | | | | | 17,499 |
| Net changes of items other than shareholders' equity | (9,051) | 14 | 139,848 | 130,810 | 25,418 | 895,320 | 1,051,549 |
| **Total changes during the fiscal year** | (9,051) | 14 | 139,848 | 130,810 | 25,418 | 895,320 | 780,468 |
| **Balance at the end of the fiscal year** | ¥ 3,235 | ¥14 | ¥171,828 | ¥175,078 | ¥78,589 | ¥2,543,092 | ¥5,670,501 |

(¥ thousand)

| Fiscal 2016 (From January 1, 2016 to December 31, 2016) | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| **Balance at the beginning of the fiscal year** | ¥1,210,579 | ¥636,276 | ¥ 1,081,038 | ¥(54,151) | ¥ 2,873,742 |
| **Changes during the fiscal year** | | | | | |
| Issuance of new shares (execution of subscription rights to shares) | 31,443 | 31,443 | | | 62,886 |
| Dividends from surplus—other capital surplus | | (109,103) | | | (109,103) |
| Loss attributable to owners of parent | | | (1,193,483) | | (1,193,483) |
| Disposal of treasury stock | | (9,332) | | 43,800 | 34,467 |
| Change in equity due to transaction with non-controlling interests | | 136,071 | | | 136,071 |
| Net changes of items other than shareholders' equity | | | | | |
| **Total changes during the fiscal year** | 31,443 | 49,078 | (1,193,483) | 43,800 | (1,069,161) |
| **Balance at the end of the fiscal year** | ¥1,242,022 | ¥685,355 | ¥ (112,445) | ¥(10,351) | ¥ 1,804,580 |

(¥ thousand)

| Fiscal 2016 (From January 1, 2016 to December 31, 2016) | Accumulated other comprehensive income | | | | | | |
|---|---|---|---|---|---|---|---|
| | Valuation difference on other available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustments | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests | Total net assets |
| **Balance at the beginning of the fiscal year** | ¥ 3,235 | ¥ 14 | ¥171,828 | ¥175,078 | ¥ 78,589 | ¥2,543,092 | ¥ 5,670,501 |
| **Changes during the fiscal year** | | | | | | | |
| Issuance of new shares (execution of subscription rights to shares) | | | | | | | 62,886 |
| Dividends from surplus—other capital surplus | | | | | | | (109,103) |
| Loss attributable to owners of parent | | | | | | | (1,193,483) |
| Disposal of treasury stock | | | | | | | 34,467 |
| Change in equity due to transaction with non-controlling interests | | | | | | | 136,071 |
| Net changes of items other than shareholders' equity | 15,785 | 1,116 | (30,302) | (13,400) | (17,889) | (135,282) | (166,572) |
| **Total changes during the fiscal year** | 15,785 | 1,116 | (30,302) | (13,400) | (17,889) | (135,282) | (1,235,733) |
| **Balance at the end of the fiscal year** | ¥19,020 | ¥1,131 | ¥141,526 | ¥161,677 | ¥ 60,700 | ¥ (135,282) | ¥ 4,434,768 |

# Consolidated Statements of Cash Flows

(Years ended December 31, 2015 and 2016)

(¥ thousand)

| | 2015 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before income taxes | ¥ (106,554) | ¥(1,522,579) |
| Depreciation and amortization | 85,339 | 151,010 |
| Amortization of goodwill | 357,106 | 696,846 |
| Interest and dividend income | (27,690) | (7,378) |
| Interest expenses | 154,811 | 169,805 |
| Loss on valuation of investment securities | 986 | 867 |
| Loss on sales of investment securities | 605 | — |
| Gain on change in equity | (69,082) | — |
| Share of loss of entities accounted for using equity method | 6,615 | — |
| Loss on step acquisitions | 2,616 | — |
| Gain on sales of shares of subsidiaries and associates | (417,167) | (182,271) |
| (Increase) decrease in notes and accounts receivable—trade | (183,835) | 1,541,406 |
| (Increase) decrease in inventories | (112,758) | 396,081 |
| Decrease in notes and accounts payable—trade | (362,648) | (567,837) |
| Settlement package | 25,000 | — |
| Gain on forgiveness of debts | (137,743) | — |
| Gain on reversal of estimated damages on delays | — | (58,586) |
| Foreign exchange losses | 93,842 | 29,416 |
| Decrease in advance payments | 516,420 | 48,079 |
| (Decrease) increase in advances received | (607,417) | 79,249 |
| (Decrease) increase in allowance for doubtful accounts | 153,047 | (139,676) |
| Decrease in provision | (201,407) | (236,582) |
| Decrease in net defined benefit liability | (34,035) | (5,217) |
| (Decrease) increase in deposits received | (25,392) | 4,610 |
| Share-based compensation expenses | 9,536 | 10,191 |
| Bond issuance cost | 7,518 | — |
| Decrease (increase) in operating accounts receivable | 1,265,043 | (254,573) |
| Loss on sales of property, plant and equipment | — | 3,219 |
| Loss on retirement of property, plant and equipment | 7,056 | 7,531 |
| Impairment loss | 2,117 | 764,356 |
| (Increase) decrease in other current assets | (38,286) | 3,786 |
| (Decrease) increase in other current liabilities | (15,817) | 24,227 |
| Decrease in accrued consumption taxes | (104,453) | (95,439) |
| Decrease in accounts payable | (507,424) | (634,620) |
| Decrease in accrued expenses | (544,540) | (42,927) |
| Gain on bargain purchase | (26,179) | (36,745) |
| Other, net | (113,635) | (4,380) |
| **Subtotal** | (948,410) | 141,869 |
| Interest and dividend income received | 27,699 | 54,599 |
| Settlement package | (25,000) | — |
| Interest paid | (148,481) | (132,539) |
| Income taxes refund | 59,038 | 11,447 |
| Income taxes paid | (72,780) | (84,948) |
| **Net cash used in operating activities** | (1,107,934) | (9,570) |
| **Cash flows from investing activities** | | |
| Payments into time deposits | — | (5) |
| Proceeds from withdrawal of time deposits | 400,000 | 20,000 |
| Purchase of investment securities | (616) | (209,800) |
| Proceeds from sales of investment securities | 23 | — |
| Proceeds from sales of stocks of subsidiaries and affiliates | 1,224,722 | 554,359 |
| Purchase of stocks of subsidiaries and affiliates | (259,332) | — |
| Purchase of property, plant and equipment | (425,715) | (113,128) |
| Proceeds from sales of property, plant and equipment | — | 34,608 |
| Purchase of intangible assets | (942,445) | (379,947) |
| Proceeds from sales of intangible assets | — | 2 |
| Payments for guarantee deposits | (88,269) | (10,068) |
| Proceeds from collection of guarantee deposits | 43,524 | 186,606 |
| Increase in short-term loans receivable | — | (20,000) |
| Collection of short-term loans receivable | 64,024 | 47,929 |
| Collection of loans receivable from employees | 3,440 | 14,960 |
| Payments of long-term loans receivable | (4,433) | — |
| Collection of long-term loans receivable | 3,033 | — |
| Payments from changes in ownership interests in subsidiaries resulting in change in scope of consolidation | (750,649) | (5,748) |
| Proceeds from changes in ownership interests in subsidiaries resulting in change in scope of consolidation | — | 512,670 |
| Payments for transfer of business resulting in change in scope of consolidation | — | (4,518) |
| Purchase of insurance funds | (962) | (727) |
| Proceeds from cancellation of insurance funds | 4,979 | — |
| Other, net | 19,029 | 38,308 |
| **Net cash (used in) provided by in investing activities** | (709,648) | 665,501 |
| **Cash flows from financing activities** | | |
| Decrease in deposits paid | 1,045,000 | — |
| Increase in short-term loans payable | 205,371 | 350,000 |
| Decrease in short-term loans payable | (2,067,398) | (845,085) |
| Proceeds from long-term loans payable | 2,833,000 | 879,000 |
| Repayments of long-term loans payable | (2,266,292) | (3,044,564) |
| Redemption of bonds | (536,000) | — |
| Proceeds from issuance of bonds with subscription rights to shares | 1,157,481 | 300,000 |
| Repayments of lease obligations | (5,855) | (7,084) |
| Payments for installment payable—property and equipment | (10,008) | (7,266) |
| Proceeds from disposal of treasury stock | 11,993 | — |
| Purchase of treasury stock | (78,152) | (10,284) |
| Proceeds from issuance of common stock | — | 156,810 |
| Proceeds from stock issuance to non-controlling shareholders | 299,635 | 150,120 |
| Cash dividends paid | (106,536) | (107,650) |
| Dividends paid to non-controlling interests | — | (1,554) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | (65,917) |
| Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | 358,981 |
| Other, net | — | (3,641) |
| **Net cash provided by (used in) financing activities** | 482,237 | (1,898,138) |
| **Effect of exchange rate change on cash and cash equivalents** | 90,869 | 12,335 |
| **Net decrease in cash and cash equivalents** | (1,244,475) | (1,229,872) |
| **Increase in cash and cash equivalents from newly consolidated subsidiary** | 13,878 | — |
| **Cash and cash equivalents at beginning of the fiscal year** | 4,717,276 | 3,486,679 |
| **Cash and cash equivalents at end of the fiscal year** | ¥ 3,486,679 | ¥ 2,256,806 |

# Notes to the Consolidated Financial Statements

## (Basis of Presenting Consolidated Financial Statements)

### 1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 25

Names of consolidated subsidiaries

NCXX Group Inc.
NCXX Inc.
NCXX Solutions Inc.
Care Dynamics Limited
e-tabinet.com
Web travel Co., Ltd.
FISCO Capital Ltd.
FISCO DIAMOND AGENCY, Inc.
Chanty Co., Ltd.
Versatile Inc.
FISCO IR Ltd.
Fisco Cryptocurrency Exchange Inc. (Note 1)
TITICACA, Co. Ltd. (Note 2)
Gloria Tours Inc. (Note 3)
FISCO International Limited
FISCO International (Cayman) Limited
FISCO International (Cayman) L.P.
Versatile Milano S.R.L.
MEC SRL SOCIETA' AGRICOLA
星際富溢(福建)網 絡科技有限公司
星際富通(福建)網 絡科技有限公司
CAICA Inc. (Note 4)
SJ Asia Pacific Limited
Rapid Capital Holdings Limited
Hua Shen Trading (International) Limited

Notes:
1. The Company has newly established Fisco Cryptocurrency Exchange Inc., which has been included in the scope of consolidation.
2. TITICACA, Co. Ltd. was included in the scope of consolidation from fiscal 2016 following the conversion of the company into a subsidiary through new share acquisitions by the Company's consolidated subsidiary, NCXX Group Inc.
3. Gloria Tours Inc. was included in the scope of consolidation from fiscal 2016 following the conversion of the company into a subsidiary through new share acquisitions by the Company's consolidated subsidiary, e-tabinet.com.
4. Effective from February 1, 2017, SJI Inc. changed its name to CAICA Inc.
5. SJI (Hong Kong) Limited ("SJI-HK") and one of its consolidated subsidiaries were removed from the scope of consolidation from fiscal 2016, subsequent to SJI Inc. selling all of its shares in SJI-HK.

(2) Number of non-consolidated subsidiaries: 3

Names of non-consolidated subsidiaries

Webtravel Asia & Pacific Pty Limited
Thunder Capital K.K.
IOTA Inc.

Non-consolidated subsidiaries are excluded from the scope of consolidation because these companies have only a negligible impact on the consolidated financial statements due to the small amounts of their respective total assets, net sales, profit (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics.

## 2. Application of the Equity Method

### (1) Non-consolidated subsidiaries that are not accounted for by the equity method are as follows:

Webtravel Asia & Pacific Pty Limited
Thunder Capital K.K.
IOTA Inc.

These non-consolidated subsidiaries are not accounted for by the equity method because these companies have only a negligible impact on the consolidated financial statements due to the small amounts of their respective total assets, net sales, profit (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics.

### (2) Affiliates that are not accounted for by the equity method: 1

ENPIX Corporation

ENPIX Corporation is not included in the scope of equity method application due to the small amounts of its total assets, net sales, profit (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics.

## 3. Fiscal Years of Consolidated Subsidiaries

Twelve of the consolidated subsidiaries have different fiscal year-ends than December 31, the Company's fiscal year-end. However, the fiscal year-ends of nine of these consolidated subsidiaries differ from December 31 by no more than three months. Therefore, the financial statements of those subsidiaries as of their fiscal year-ends have been used to prepare the consolidated financial statements. Meanwhile, the financial statements of the remaining three consolidated subsidiaries are based on provisional financial results since their fiscal year-ends are all on March 31.

## 4. Accounting Policies

### (1) Valuation standards and accounting treatment for important assets

1) Investment securities

Stocks of affiliates

Stated at cost determined by the moving average method.

Available-for-sale securities

*With market quotations*

Stated at fair value based primarily on market prices as of the fiscal year-end (with all valuation differences, net of taxes, reported in a separate component of net assets, the cost of securities sold calculated by the moving average method).

*Without market quotations*

Stated at cost determined by the moving average method.

2) Derivatives

Market value method

3) Inventories

Valued at cost determined by the moving average method (the carrying amount is determined by the method of writing down the book value when profitability declines).

(i) Products

Principally determined by the first-in first-out method

(ii) Work in process

Specific identification method

(iii) Raw materials

Principally determined by the moving average method

## (2) Method for depreciating and amortizing important depreciable assets

1) Property, plant and equipment (excluding leased assets)

Property, plant and equipment (excluding leased assets) was mainly depreciated using the declining-balance method at both the Company and its domestic consolidated subsidiaries. However, the straight-line method of depreciation was used for buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The main estimated useful lives are as follows:

| | |
|---|---|
| Buildings and structures | 3 to 39 years |
| Machinery, equipment and vehicles | 2 to 10 years |
| Furniture and fixtures | 2 to 15 years |

2) Intangible assets (excluding leased assets)

Amortized by the straight-line method at both the Company and its consolidated subsidiaries.

(i) In-house software

In-house software is amortized by the straight-line method based on the estimated in-house useful life of 3 or 5 years.

(ii) Software intended for commercial sale

Software intended for commercial sale has been amortized by the straight-line method based on the remaining estimated effective sales period of 3 years.

3) Leased assets (leased assets related to finance lease transactions that do not transfer ownership to lessees)

Depreciated by the straight-line method, over the lease term, assuming the residual value to be zero.

Finance lease transactions other than those that transfer ownership to lessees commencing on or before December 31, 2008 are accounted for based on methods applicable to ordinary rental transactions.

## (3) Accounting for significant allowances

1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover losses from default of accounts receivable and other receivables. The allowance for ordinary receivables is determined based on the historical default ratio, while the allowance for specific receivables, such as receivables at risk of default, is determined based on the estimated uncollectible amount reflecting an individual assessment of recoverability.

2) Provision for product warranties

A provision for product warranties is provided to cover product warranty costs that may be incurred after products are sold.

3) Provision for bonuses

A provision for bonuses is provided to cover the costs of bonuses paid to employees.

4) Provision for loss on store closing

Domestic consolidated subsidiaries have recorded the estimated penalties for breach of contract as a provision for loss on store closing to prepare for the cost of cancelling contracts for stores scheduled to close in the next fiscal year.

## (4) Accounting method for net defined benefit liability

The Company's consolidated subsidiaries have adopted various retirement benefit plans.

The Company records a net defined benefit liability to cover the costs of the retirement benefits at certain consolidated subsidiaries of the Company, based on the projected retirement benefit obligations in the fiscal year under review. Retirement benefit obligations are calculated using the simplified method.

Some of the Company's consolidated subsidiaries participate in a multi-employer employee pension fund plan. Since it is not possible to rationally calculate the amount of pension assets corresponding to the Company's contribution, these are accounted for in the same way as defined contribution plans.

The simplified method is applied to calculate the liability and expenses on the lump-sum retirement benefit plans of certain consolidated subsidiaries.

### (5) Standards for translating important foreign currency denominated assets and liabilities into Japanese yen

Foreign currency denominated receivables and obligations are translated into Japanese yen using the spot exchange rate at the fiscal year-end, and translation gains and losses are charged to income. The assets and liabilities, as well as the revenues and expenses, of foreign subsidiaries and other such entities have been translated into Japanese yen using the spot exchange rate at the fiscal year-end, and translation gains and losses have been recorded as foreign currency translation adjustments and non-controlling interests under net assets.

### (6) Accounting methods for significant hedging

1) Hedge accounting method

The Company has primarily adopted the deferred hedge accounting method. The allocation method has been applied to foreign currency forward contracts that meet the requirements for allocation. Special treatment has been applied to interest rate swaps that meet the requirements for special treatment.

2) Hedge instruments and hedge targets

Hedge instruments: Interest rate swaps, foreign exchange forward contracts

Hedge targets: Borrowings, planned foreign currency denominated transactions

3) Hedging policy

The Company executes hedges within the scope of target obligations to mitigate interest rate fluctuation risk.

4) Method of evaluating hedging effectiveness

The Company compares cumulative market fluctuations in the hedge target and the hedge instrument over the period from the start of hedging to the hedging effectiveness evaluation date, and arrives at an evaluation based on the amount of changes and other factors with respect to both the hedge target and hedge instrument. The evaluation of hedging effectiveness is omitted for interest rate swaps and other instruments that qualify for special treatment.

### (7) Method of calculating important revenues and expenses

Basis for calculating sales and cost of sales on contracted development

Basis for portions of contracts completed up to the end of the accounting period with recognized results

Percentage-of-completion (estimate of contract completion percentage is calculated by the cost-to-cost method)

Other contracts

Completed contract basis

### (8) Method and period of amortization of goodwill

The Company has reasonably estimated the period over which investment benefits will materialize, and amortized goodwill over this period applying the straight-line method.

### (9) Scope of cash and cash equivalents in the consolidated statements of cash flows

The scope of cash and cash equivalents in the consolidated statements of cash flows consists of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

### (10) Other notes to the consolidated financial statements

1) Accounting method for consumption taxes

Consumption taxes are accounted for using the tax-excluded method.

2) Consolidated taxation

Consolidation taxation applies at the Company and certain subsidiaries.

## (Changes in accounting policies)

### Adoption of accounting standards for business combinations

Effective from fiscal 2016, the Company has adopted the Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013; hereinafter, the "Business Combinations Standard"), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013; hereinafter, the "Consolidated Financial Statements Standard") and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013; hereinafter, the "Business Divestitures Standard") and related standards. Accordingly, the Company has adopted the method of recording the difference arising from a change in the Company's shareholding in a subsidiary when additional shares of the subsidiary are acquired while retaining control as capital surplus, and expensing the acquisition-related costs in the fiscal year when the costs are incurred. In addition, the accounting for business combinations to be performed at or after the beginning of fiscal 2016 was changed to a method of recognizing an adjustment to the provisional amount arising from the finalization of the tentative accounting treatment for the allocated acquisition cost in the consolidated financial statements for the fiscal year in which the date of the business combination falls. Moreover, the Company has changed the presentation of profit and related items, and the presentation of minority interests to non-controlling interests. The consolidated financial statements for fiscal 2015 have been reclassified to reflect this change in presentation.

The Company has adopted the Business Combinations Standard and other standards in accordance with the transitional treatment stipulated in Paragraph 58-2 (4) of the Business Combination Standards, Paragraph 44-5 (4) of the Consolidated Financial Statements Standard and Paragraph 57-4 (4) of the Business Divestitures Standard. The Company has adopted these standards prospectively from the beginning of fiscal 2016.

As a result, in fiscal 2016, loss before income taxes and minority interests increased by ¥154,010 thousand. In addition, capital surplus had increased by ¥136,334 thousand as of the fiscal year-end.

In the consolidated statements of cash flows for fiscal 2016, cash flows related to payments and proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are presented under cash flows from financing activities. Cash flows related to expenses arising from purchase of shares of subsidiaries resulting in change in scope of consolidation and payments and proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are presented under cash flows from operating activities.

In fiscal 2016, net assets per share decreased by ¥0.47 while loss per share increased by ¥4.13.

### Adoption of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Effective from fiscal 2016, the Company has adopted the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) in accordance with the revision of the Corporation Tax Act of Japan. Accordingly, the Company has changed the depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

This change had a negligible impact on profit and loss.

## (Accounting standards not yet adopted)

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Summary

The accounting treatments for recoverability of deferred assets fundamentally adhere to the framework of the Auditing Guidance No. 66, Auditing Treatment for Judgment of Recoverability of Deferred Assets, issued by the Japanese Institute of Certified Public Accountants (JICPA). The framework classifies entities into five categories and assesses deferred tax assets based on their respective categories. However, the following necessary revisions were made to accounting treatments.

- (i) Accounting treatments of entities not satisfying any of the category criteria from (Category 1) to (Category 5)
- (ii) Category criteria of (Category 2) and (Category 3)
- (iii) Accounting treatments of unscheduled deductible temporary differences for entities in (Category 2)
- (iv) Accounting treatments for reasonably estimated periods for taxable income before temporary differences for entities in (Category 3)
- (v) Accounting treatments for entities satisfying the category criteria of (Category 4) and also falling in (Category 2) or (Category 3)

(2) Scheduled date of adoption

The standards are to be adopted from the start of the fiscal year ending December 31, 2017.

(3) Impact of adopting the accounting standards

The amount of the impact of the adoption of the "Implementation Guidance on Recoverability of Deferred Tax Assets" on the consolidated financial statements is currently being evaluated.

### (Change in presentation)

(Consolidated balance sheets)

Prepaid expenses, which had been presented under other in current assets up until fiscal 2015, has been presented as a separate item for fiscal 2016 because its monetary importance has increased. The amount of prepaid expenses in fiscal 2015 was ¥94,028 thousand.

Trademark right, which had been presented under other intangible assets up until fiscal 2015, has been presented as a separate item for fiscal 2016 because its monetary importance has increased. The amount of trademark right in fiscal 2015 was ¥512 thousand.

Insurance funds, which had been presented as a separate item under investments and other assets up until fiscal 2015, has been included in other under investments and other assets in fiscal 2016 because its monetary importance has decreased. The consolidated financial statements for the fiscal 2015 have been reclassified to reflect this change in presentation. As a result, the ¥3,071 thousand presented as insurance funds and ¥30,315 thousand presented as others, under investments and other assets on the consolidated balance sheet as of December 31, 2015 have been restated as other of ¥33,386 thousand under investments and other assets.

Deposits received, which had been presented as a separate item under current liabilities up until fiscal 2015, has been included in other under current liabilities in fiscal 2016 because its monetary importance has decreased. The consolidated financial statements for fiscal 2015 have been reclassified to reflect this change in presentation. As a result, the ¥70,806 thousand presented as deposits received and ¥298,137 thousand presented as others, under current liabilities on the consolidated balance sheet as of December 31, 2015 have been restated as other of ¥368,943 thousand under current liabilities.

Long-term accounts payable, which had been presented under other in noncurrent liabilities up until fiscal 2015, has been presented as a separate item for fiscal 2016 because its monetary importance has increased. Long-term guarantees deposited, which had been presented as a separate item up until fiscal 2015, has been included in other under noncurrent liabilities in fiscal 2016 because its monetary importance has decreased. The consolidated financial statements for fiscal 2015 have been reclassified to reflect this change in presentation. As a result, the ¥17,343 thousand presented as long-term guarantees deposited, and ¥104,803 thousand presented as others, under noncurrent liabilities on the consolidated balance sheet as of December 31, 2015 have been restated as long-term accounts payable—other of ¥79,686 thousand and other of ¥42,460 thousand under noncurrent liabilities.

(Consolidated statements of income)

Reversal of allowance for doubtful accounts which had been presented under other in extraordinary income up until fiscal 2015, has been presented as a separate item for fiscal 2016 because its monetary importance has increased.

The amount of reversal of allowance for doubtful accounts in fiscal 2015 was ¥35,991 thousand.

## (Consolidated Balance Sheets)

*1 Stakes in and exposures to affiliates are as follows.

(Thousands of yen)

| | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|---|
| Investment securities (stocks) | ¥15,739 | ¥15,739 |

*2 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

| | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|---|
| Time deposits | ¥ 36,188 | ¥ 36,191 |
| Buildings and structures | 217,393 | 168,446 |
| Land | 518,193 | 623,477 |
| Investment securities | 3,750 | 4,970 |
| Total | ¥775,525 | ¥833,085 |

Collateralized liabilities are as follows.

| | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Short-term loans payable | ¥ — | ¥ 50,000 |
| Current portion of long-term loans payable | 220,020 | 219,004 |
| Long-term loans payable | 1,409,340 | 1,141,352 |

*3 Certain consolidated subsidiaries have entered overdraft facility agreements with their transacting banks to enable efficient procurement of operating funds. The available undrawn balance at the end of fiscal 2016 based on these agreements was as follows.

| | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Total amount of overdraft facilities and credit line commitments | ¥520,523 | ¥300,000 |
| Balance outstanding | 238,674 | 140,000 |
| Difference | ¥281,848 | ¥160,000 |

## (Consolidated Statements of Income)

*1 Book value write down of inventory held for sale under normal conditions due to decline in profitability

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Cost of sales | ¥258,034 | ¥503,538 |

*2 Major breakdown and amount of selling, general and administrative expenses

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Director compensation | ¥169,062 | ¥221,772 |
| Salaries | 628,704 | 849,767 |
| Retirement benefit expenses | 6,880 | 11,382 |
| Rent | 151,729 | 300,447 |
| Business consignment expenses | 290,839 | 303,557 |
| Commission fee | 216,239 | 418,621 |
| Amortization of goodwill | 357,106 | 696,846 |

*3 Total research and development expenses included in selling, general and administrative expenses

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Research and development expenses | ¥17,413 | ¥25,587 |

*4 The components of loss on sales of property, plant and equipment are as follows.

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Memberships, etc. | ¥— | ¥4,152 |
| Total | ¥— | ¥4,152 |

*5 The components of loss on retirement of property, plant and equipment are as follows.

(Thousands of yen)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| Buildings and structures | ¥ 7 | ¥5,487 |
| Tools, furniture and fixtures | 1,504 | 2,000 |
| Software | 1,774 | — |
| Others | 3,769 | 43 |
| Total | ¥7,056 | ¥7,531 |

*6 Impairment loss

The Group recognized impairment losses on the following asset groups.

### *Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

| Usage | Type | Location | Impairment loss (Thousands of yen) |
|---|---|---|---|
| Business assets | Facilities attached to buildings | Fukuoka City, Fukuoka Prefecture | ¥2,096 |
| Business assets | Tools, furniture and fixtures | Fukuoka City, Fukuoka Prefecture | 21 |

(Background to recognition of impairment loss)

In regard to the above facilities attached to buildings, and tools, furniture and fixtures, the Company reduced the carrying amount of these assets, which are not expected to be used following a business office relocation, to the recoverable amounts, and recognized the amounts of the reductions as impairment losses in the fiscal year under review.

(Asset grouping)

The Group conducts asset grouping based on the minimum unit generating cash flows in a manner generally independent of the cash flows of other assets and asset groups.

(Calculation of recoverable amount)

For business assets, the usage value is used; however, since future cash flow is not expected from these assets, they are valued at zero.

### *Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

| Usage | Type | Location | Impairment loss (Thousands of yen) |
|---|---|---|---|
| Business assets | Telephone subscription right | Meguro-ku, Tokyo | ¥ 1,249 |
| Store equipment | Buildings and structures | Koshigaya City, Saitama Prefecture<br>Hamamatsu City, Shizuoka Prefecture<br>Kisarazu City, Chiba Prefecture and other locations | 251,478 |
| | Tools, furniture and fixtures | | 50,008 |
| | Software | | 634 |
| | Other | | 18,497 |
| Device business | Goodwill | NCXX Group Inc. | 442,653 |

(Background to recognition of impairment loss)

Regarding telephone subscription rights, the Company reduced the carrying amount to the recoverable amounts, and recognized the amounts of the reductions as impairment losses in fiscal 2016, as their market value has declined over a long period of time and is not expected to recover.

Regarding store equipment, the Group recognized as impairment losses under property, plant and equipment the portion of carrying value determined to be unrecoverable for stores that TITICACA has decided to close, or expects to continue to generate losses from operations, having revised its management policy in light of factors including impact from the external environment. This applies to 22 stores.

Regarding goodwill, the Group recognized an amount reflecting the uncertainty in profitability in connection with a change in business policy from contract-based development to advanced development at NCXX Inc., a core subsidiary of NCXX Group Inc.

(Asset grouping)

The Group conducts asset grouping based on the minimum unit generating cash flows, in a manner generally independent of the cash flows of other assets and asset groups.

(Calculation of recoverable amount)

In principle, the Company uses the value in use to calculate the recoverable amount of business assets. However, the Company uses the estimated value of disposal to calculate the recoverable amount of telephone subscription rights. In addition, the recoverable amount of the carrying value for store equipment has been reduced to zero because future cash flows are highly unlikely.

Regarding goodwill, the Company has recorded the entire amount of the unamortized balance of goodwill as an impairment loss, given that the funds needed to cover this balance are not recoverable based on the extremely low likelihood of generating future cash flows.

## (Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

(Thousands of yen)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| Valuation difference on other available-for-sale securities | | |
| Amount recognized during the fiscal year | ¥ (12,069) | ¥ (1,855) |
| Reclassification adjustments | — | — |
| Before tax effect adjustment | (12,069) | (1,855) |
| Tax effect | 2,167 | — |
| Valuation difference on other available-for-sale securities | (9,902) | (1,855) |
| Deferred gains (losses) on hedges | | |
| Amount recognized during the fiscal year | 14 | 1,116 |
| Reclassification adjustments | — | — |
| Deferred gains (losses) on hedges | 14 | 1,116 |
| Foreign currency translation adjustments | | |
| Amount recognized during the fiscal year | 121,570 | 189,807 |
| Reclassification adjustments | — | (262,712) |
| Before tax effect adjustment | 121,570 | (72,904) |
| Foreign currency translation adjustments | 121,570 | (72,904) |
| Total other comprehensive income | ¥111,682 | ¥ (73,642) |

## (Consolidated Statements of Changes in Net Assets)

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

### 1. Type and total number of issued shares and type and number of treasury stock

(Number of shares)

| | Balance at the beginning of the fiscal year | Increase during the fiscal year | Decrease during the fiscal year | Balance at the end of the fiscal year |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 36,847,500 | — | — | 36,847,500 |
| Total | 36,847,500 | — | — | 36,847,500 |
| Treasury stock | | | | |
| Common shares | 532,000 | 126,700 | 179,000 | 479,700 |
| Total (Note) | 532,000 | 126,700 | 179,000 | 479,700 |

Note:
The increase in the number of common shares of treasury stock was due to the acquisition of treasury stock, while the decrease in the number of common shares of treasury stock was due to the exercise of stock options.

## 2. Subscription rights to shares and treasury subscription rights to shares

(Number of shares underlying the subscription rights to shares)

| Category | Components of subscription rights to shares | Type of shares underlying the subscription rights to shares | Balance at the beginning of the fiscal year | Increase during the fiscal year | Decrease during the fiscal year | Balance at the end of the fiscal year | Balance at end of the fiscal year (Thousands of yen) |
|---|---|---|---|---|---|---|---|
| Filing company (Parent company) | 2011 1st Series of Subscription Rights to Shares (Note) | Common shares | 567,000 | — | 179,000 | 388,000 | ¥ 8,471 |
| | 2011 2nd Series of Subscription Rights to Shares | Common shares | 40,500 | — | — | 40,500 | 884 |
| | 2012 3rd Series of Subscription Rights to Shares | Common shares | 1,964,000 | — | — | 1,964,000 | 39,048 |
| Consolidated subsidiary | — | — | — | — | — | — | 30,185 |
| Total | | — | 2,571,500 | — | 179,000 | 2,392,500 | ¥78,589 |

Note:
The decreases in the subscription rights to shares during the fiscal year were due to the exercise of subscription rights.

## 3. Dividends

### (1) Dividends paid

| Resolution | Type of shares | Total dividends (Thousands of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| March 26, 2015 Annual General Meeting of Shareholders | Common shares | ¥108,946 | Capital surplus | ¥3 | December 31, 2014 | March 27, 2015 |

### (2) Dividends with a record date that belongs to the fiscal year under review, but an effective date that falls in the following fiscal year

| Resolution | Type of shares | Total dividends (Thousands of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| March 30, 2016 Annual General Meeting of Shareholders | Common shares | ¥109,103 | Capital surplus | ¥3 | December 31, 2015 | March 31, 2016 |

## *Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

## 1. Type and number of issued shares and type and number of treasury stock

(Number of shares)

| | Balance at the beginning of the fiscal year | Increase during the fiscal year | Decrease during the fiscal year | Balance at the end of the fiscal year |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares (Note) | 36,847,500 | 848,500 | — | 37,696,000 |
| Total | 36,847,500 | 848,500 | — | 37,696,000 |
| Treasury stock | | | | |
| Common shares (Note) | 479,700 | — | 388,000 | 91,700 |
| Total | 479,700 | — | 388,000 | 91,700 |

Note:
The increase in the number of issued shares of common stock and the decrease in the number of common shares of treasury stock was due to the exercise of stock options.

### 2. Subscription rights to shares and treasury subscription rights to shares

| Category | Components of subscription rights to shares | Type of shares underlying the subscription rights to shares | Number of shares underlying the subscription rights to shares: Balance at the beginning of the fiscal year | Increase during the fiscal year | Decrease during the fiscal year | Balance at the end of the fiscal year | Balance at the end of the fiscal year (Thousands of yen) |
|---|---|---|---|---|---|---|---|
| Filing company (Parent company) | 2011 1st Series of Subscription Rights to Shares (Note 1) | Common shares | 388,000 | — | 388,000 | — | ¥ — |
| | 2011 2nd Series of Subscription Rights to Shares (Note 1) | Common shares | 40,500 | — | 40,500 | — | — |
| | 2012 3rd Series of Subscription Rights to Shares (Note 1) | Common shares | 1,964,000 | — | 830,500 | 1,133,500 | 22,536 |
| | 2016 4th Series of Subscription Rights to Shares (Note 2) | Common shares | — | 100,000 | — | 100,000 | 625 |
| Consolidated subsidiary | — | — | — | — | — | — | 37,539 |
| Total | | — | 2,392,500 | 100,000 | 1,259,000 | 1,233,500 | ¥60,700 |

Notes:
1. The decrease in the subscription rights to shares during the fiscal year was due to the exercise of subscription rights and the expiration of the exercise period.
2. The first day of the exercise period has not yet arrived for the 2016 4th Series of Subscription Rights to Shares.

### 3. Dividends

#### (1) Dividends paid

| Resolution | Type of shares | Total dividends (Thousands of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| March 30, 2016 Annual General Meeting of Shareholders | Common shares | ¥109,103 | Capital surplus | ¥3 | December 31, 2015 | March 31, 2016 |

#### (2) Dividends with a record date that belongs to the fiscal year under review, but an effective date that falls in the following fiscal year

| Resolution | Type of shares | Total dividends (Thousands of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| March 29, 2017 Annual General Meeting of Shareholders | Common shares | ¥112,812 | Capital surplus | ¥3 | December 31, 2016 | March 30, 2017 |

## (Consolidated Statements of Cash Flows)

*1 Relationship between cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at the end of the fiscal year

(Thousands of yen)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| Cash and deposits | ¥3,542,864 | ¥2,292,997 |
| Time deposits with deposit terms of over 3 months | (56,185) | (36,191) |
| Cash and cash equivalents | ¥3,486,679 | ¥2,256,806 |

*2

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

(1) The breakdown of assets and liabilities of SJI Inc. at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of SJI Inc. shares and the net amount paid to acquire SJI Inc. are as follows.

| | (Thousands of yen) |
|---|---|
| Current assets | ¥ 7,540,936 |
| Noncurrent assets | 586,456 |
| Goodwill | 5,246,644 |
| Current liabilities | (8,388,703) |
| Noncurrent liabilities | (1,123,928) |
| Subscription rights to shares | (76,113) |
| Acquisition price of newly consolidated subsidiary | 3,785,293 |
| Cash and cash equivalents of newly consolidated subsidiary | (3,279,012) |
| Net amount paid to acquire newly consolidated subsidiary | ¥ 506,280 |

(2) The breakdown of assets and liabilities of MEC S.R.L. SOCIETA' AGRICOLA at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of MEC S.R.L. SOCIETA' AGRICOLA shares and the net amount paid to acquire MEC S.R.L. SOCIETA' AGRICOLA are as follows.

| | (Thousands of yen) |
|---|---|
| Current assets | ¥ 7,949 |
| Noncurrent assets | 114,892 |
| Goodwill | 504,671 |
| Current liabilities | (6,275) |
| Noncurrent liabilities | (32,506) |
| Non-controlling interests | (22,771) |
| Acquisition price of newly consolidated subsidiary | 565,959 |
| Acquisition price to acquire control | (329,503) |
| Equity in earnings of affiliates | 6,615 |
| Gain on step acquisition | 2,616 |
| Cash and cash equivalents of newly consolidated subsidiary | (1,318) |
| Net amount paid to acquire newly consolidated subsidiary | ¥ 244,369 |

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

(1) The breakdown of assets and liabilities of TITICACA, Co. Ltd. at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of TITICACA, Co. Ltd. shares and the net amount paid to acquire TITICACA, Co. Ltd. are as follows.

| | (Thousands of yen) |
|---|---|
| Current assets | ¥ 2,016,399 |
| Noncurrent assets | 1,485,343 |
| Current liabilities | (2,086,420) |
| Noncurrent liabilities | (1,490,458) |
| Non-controlling interests | (496) |
| Negative goodwill | (4,462) |
| Acquisition price of newly consolidated subsidiary | (80,094) |
| Cash and cash equivalents of newly consolidated subsidiary | (432,574) |
| Net amount received on acquisition of newly consolidated subsidiary | (512,670) |
| Net amount paid to acquire newly consolidated subsidiary | ¥ 1 |

(2) The breakdown of assets and liabilities of Gloria Tours Inc. at the point in time it was consolidated as a subsidiary through the acquisition of new shares, and the relationship between the acquisition price of Gloria Tours Inc. shares and the net amount paid to acquire Gloria Tours Inc. are as follows.

| | (Thousands of yen) |
|---|---|
| Current assets | ¥ 325,258 |
| Noncurrent assets | 27,521 |
| Current liabilities | (216,401) |
| Noncurrent liabilities | (50,095) |
| Negative goodwill | (32,282) |
| Acquisition price of newly consolidated subsidiary | 54,000 |
| Cash and cash equivalents of newly consolidated subsidiary | (48,252) |
| Net amount paid to acquire newly consolidated subsidiary | ¥ 5,747 |

*3 The main breakdown of assets and liabilities of companies that are no longer consolidated subsidiaries due to disinvestment in fiscal 2016

SJI (Hong Kong) Limited and its subsidiaries

| | (Thousands of yen) |
|---|---|
| Current assets | ¥ 453,150 |
| Noncurrent assets | 569,348 |
| Current liabilities | (1,329,360) |
| Noncurrent liabilities | — |
| Sale amount of equity stake | 0 |
| Cash and cash equivalents of SJI (Hong Kong) Limited and its subsidiaries | (4,518) |
| Net amount paid to disinvest in SJI (Hong Kong) Limited and its subsidiaries | ¥ (4,518) |

*4 Details of material non-financial transactions

***Fiscal 2015 (From January 1, 2015 to December 31, 2015)***

(1) In fiscal 2016, deposits at certain consolidated subsidiaries were allocated to original principal for repayment of short-term loans payable, reducing the amount of short-term loans payable by ¥400,000 thousand.

(2) Due to the exercise of subscription rights to shares attached to convertible bonds with subscription rights to shares issued by a consolidated subsidiary, the amount of convertible bonds with subscription rights to shares declined by ¥615,000 thousand, while minority interests increased by ¥635,633 thousand, goodwill by ¥87,355 thousand, and loss on change in equity by ¥67,495 thousand.

***Fiscal 2016 (From January 1, 2016 to December 31, 2016)***

(1) In fiscal 2016, the amounts of assets and liabilities related to installment purchase transactions at certain consolidated subsidiaries increased by ¥63,126 thousand.

## (Lease Transactions)

### (As a lessee)

Due to the diminished importance of fewer transactions, and the small amount per contract, lease transactions have been omitted pursuant to Article 15-3 of the Ordinance on Consolidated Financial Statements.

## (Financial Instruments)

### 1. Conditions of Financial Instruments

#### (1) Policy regarding financial instruments

The FISCO Group has embraced a policy of managing surplus funds in the form of deposits and other highly secure financial assets, and providing investment and loans to Group companies. This is done in conformity with the Group's financial policy of optimizing funding efficiency by adjusting the surplus and shortage of funds among Group companies. The Group has also adopted a policy of receiving loans from financial institutions primarily to procure operating funds.

Moreover, the Group's policy is to use derivative transactions to hedge the risk of interest rate fluctuations on borrowings and exchange rate fluctuations, and to not engage in speculative trading.

#### (2) Content, risk, and risk management of financial instruments

The Company's main financial assets are notes and accounts receivable—trade, investment securities, derivatives, guarantee deposits, and investment securities.

Notes and accounts receivable—trade are trade receivables, and are therefore exposed to the credit risk of customers (risk of default by customers or counterparties). In accordance with the Company's Receivables Management Rules, the Company keeps track of the due date and amount of notes and accounts receivable by customer or counterparty. The short-term loans the Group makes are for managing funds in conformity with the FISCO Group financial policy. Guarantee deposits are provided when leasing buildings and are therefore exposed to the credit risk of the deposit holders. However, the Company has a system in place to survey and monitor the credit condition of such counterparties when entering into leasing contracts with them. Investment securities are primarily unlisted stocks, and are therefore exposed to the risk of price fluctuations. To mitigate this risk, the Company periodically screens the assessed value of these financial instruments, along with the financial position and other attributes of their issuers.

The Company's management division keeps track of due dates and amounts of trade payables, namely accounts payable—trade and accounts payable, and loans payable, based on accounting rules, by preparing a monthly funding operation plan. Certain variable interest rate loans the Company has received are exposed to the risk of interest rates fluctuating. To mitigate this risk, the Company uses interest rate swaps to hedge against the risk of interest payable on these loans fluctuating. For information regarding hedge accounting methods, hedge instruments and hedge targets, hedging policy, and method of evaluating hedging effectiveness, please refer to the preceding Notes to the Consolidated Financial Statements, 4. Accounting Standards, (6) Accounting methods for significant hedging."

Derivative transactions are managed in accordance with each Group company's internal rules. Information on transaction balances, exchange rate movements, and gains or losses on derivative transactions are monitored on a monthly basis.

## 2. Fair Value of Financial Instruments

The carrying amounts in the consolidated balance sheets, fair values, and their differences as of December 31, 2015 and 2016 are as follows. In addition, financial instruments, whose fair values cannot be reliably determined, are not included. (Please see "Note 2. Carrying amount of financial instruments whose fair values cannot be reliably determined" on page 53.)

### *Fiscal 2015 (As of December 31, 2015)*

| | (Thousands of yen) | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| (1) Cash and deposits | ¥3,542,864 | ¥3,542,864 | ¥ — |
| (2) Notes and accounts receivable—trade | 2,617,566 | — | — |
| Allowance for doubtful accounts(*1) | 443,349 | — | — |
| | 2,174,216 | 2,174,216 | — |
| (3) Short-term loans receivable | 1,229,274 | — | — |
| Allowance for doubtful accounts(*2) | 1,201,863 | — | — |
| | 27,410 | 27,410 | — |
| (4) Accounts receivable | 1,744,191 | — | — |
| Allowance for doubtful accounts(*3) | 1,166,877 | — | — |
| | 577,314 | 577,314 | — |
| (5) Guarantee deposits | 319,383 | 319,383 | — |
| (6) Long-term loans receivable | 1,332,703 | — | — |
| Allowance for doubtful accounts(*4) | 1,326,503 | — | — |
| | 6,200 | 6,200 | — |
| (7) Long-term accounts receivable | 2,655,596 | — | — |
| Allowance for doubtful accounts(*5) | 2,492,001 | — | — |
| | 163,595 | 163,595 | — |
| Total | ¥6,810,985 | ¥6,810,985 | ¥ — |
| (8) Notes and accounts payable—trade | ¥ 697,530 | ¥ 697,530 | ¥ — |
| (9) Short-term loans payable | 703,104 | 703,104 | — |
| (10) Accounts payable | 629,338 | 629,338 | — |
| (11) Convertible bonds with subscription rights to shares | 1,165,000 | 1,138,966 | (26,034) |
| (12) Long-term loans payable (including current portion) | 6,612,341 | 6,706,785 | 94,443 |
| Total | ¥9,807,314 | ¥9,875,724 | ¥ 68,409 |
| Derivative transactions(*6) | ¥ (497) | ¥ (497) | ¥ — |

(*1) Allowance for doubtful accounts recorded for notes and accounts receivable—trade is deducted.
(*2) Allowance for doubtful accounts recorded for short-term loans receivable is deducted.
(*3) Allowance for doubtful accounts recorded for accounts receivable is deducted.
(*4) Allowance for doubtful accounts recorded for long-term loans receivable is deducted.
(*5) Allowance for doubtful accounts recorded for long-term accounts receivable is deducted.
(*6) Items that are net liabilities are presented in parentheses.

### Note:

### 1. Measurement of fair value of financial instruments, as well as investment securities and derivative transactions

Assets

(1) Cash and deposits and (2) Notes and accounts receivable—trade (3) Short-term loans receivable (4) Accounts receivable—other

Fair value is stated at carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(5) Guarantee deposits

Fair value is stated at carrying amount, based on the recognition that there is virtually no credit risk as contractual counterparties are principally funded by subsidiaries of listed companies.

(6) Long-term loans receivable

The fair value of long-term loans receivable is calculated by classifying them into set maturities and calculating the present value for each credit management risk classification by discounting the future cash flows using an interest rate comprising an appropriate index with an additional credit spread. Furthermore, short-term loans receivable recorded on the consolidated balance sheets include the current portion of long-term loans receivable.

(7) Long-term accounts receivable

The fair value is determined by the present value, calculated by classifying the accounts receivable into set maturities and calculating the present value for each account receivable using an interest rate adjusted for credit risk.

Liabilities

(8) Notes and accounts payable—trade, (9) Current portion of bonds, and (10) Accounts payable—other

Fair value is stated at carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(11) Convertible bonds with subscription rights to shares

Fair value is measured as the present value of the total amount of bond principal and interest, discounted using an interest rate adjusted for the remaining maturity and the credit risk of the bonds.

(12) Long-term loans payable (including current portion)

Fair value is measured as the present value of the total amount of loan principal and interest, discounted using an interest rate that would apply to a similar new loan. However, certain long-term loans payable with variable interest rates are subject to special treatment for interest rate swaps. (Please see "Derivative transactions" below.) The fair value of these loans is measured by discounting the total amount of the loan principal and interest, which are accounted for together with the respective interest rates, using a reasonably estimated interest rate that would apply to a similar new loan.

Derivative transactions

Interest rate swaps subject to special treatment are accounted for together with the long-term loans payable that are the hedge targets. Therefore, the fair value of the interest rate swaps is included in the fair value of the respective long-term loans payable.

### *Fiscal 2016 (As of December 31, 2016)*

| | (Thousands of yen) | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| (1) Cash and deposits | ¥2,292,997 | ¥2,292,997 | ¥ — |
| (2) Notes and accounts receivable—trade | 1,932,241 | — | — |
| Allowance for doubtful accounts(*1) | 112,807 | — | — |
| | 1,819,433 | 1,819,433 | — |
| (3) Short-term loans receivable | 15,000 | — | — |
| Allowance for doubtful accounts(*2) | 395 | — | — |
| | 14,604 | 14,604 | — |
| (4) Accounts receivable | 93,128 | — | — |
| Allowance for doubtful accounts(*3) | 53,230 | — | — |
| | 39,898 | 39,898 | — |
| (5) Guarantee deposits | 866,448 | 866,448 | — |
| (6) Long-term loans receivable | 291,284 | — | — |
| Allowance for doubtful accounts(*4) | 289,484 | — | — |
| | 1,800 | 1,800 | — |
| (7) Long-term accounts receivable | 1,560,433 | — | — |
| Allowance for doubtful accounts(*5) | 1,558,793 | — | — |
| | 1,640 | 1,640 | — |
| Total | ¥5,036,823 | ¥5,036,823 | ¥ — |
| (8) Notes and accounts payable—trade | ¥ 629,844 | ¥ 629,844 | ¥ — |
| (9) Short-term loans payable | 407,334 | 407,334 | — |
| (10) Accounts payable | 381,204 | 381,204 | — |
| (11) Convertible bonds with subscription rights to shares (including current portion) | 1,465,000 | 1,455,619 | (9,380) |
| (12) Long-term loans payable (including current portion) | 5,460,950 | 5,504,384 | 43,434 |
| Total | ¥8,344,333 | ¥8,378,388 | ¥ 34,054 |
| Derivative transactions | ¥ — | ¥ — | ¥ — |

(*1) Allowance for doubtful accounts recorded for notes and accounts receivable—trade is deducted.
(*2) Allowance for doubtful accounts recorded for short-term loans receivable is deducted.
(*3) Allowance for doubtful accounts recorded for accounts receivable is deducted.
(*4) Allowance for doubtful accounts recorded for long-term loans receivable is deducted.
(*5) Allowance for doubtful accounts recorded for long-term accounts receivable is deducted.

Notes

## 1. Measurement of fair value of financial instruments, as well as investment securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable—trade, (3) Short-term loans, and (4) Accounts receivable

Fair value is stated at carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(5) Guarantee deposits

Fair value is stated at carrying amount, based on the recognition that there is virtually no credit risk as contractual counterparties are principally funded by subsidiaries of listed companies.

(6) Long-term loans receivable

The fair value of long-term loans receivable is calculated by classifying them into set maturities and calculating the present value for each credit management risk classification by discounting the future cash flows using an interest rate comprising an appropriate index with an additional credit spread. Furthermore, short-term loans receivable recorded on the consolidated balance sheets include the current portion of long-term loans receivable.

(7) Long-term accounts receivable

The fair value is determined by the present value, calculated by classifying the accounts receivable into set maturities and calculating the present value for each account receivable using an interest rate adjusted for credit risk.

Liabilities

(8) Notes and accounts payable—trade, (9) Short-term loans payable, and (10) Accounts payable

Fair value is stated at carrying amount because the fair value approximates the carrying amount given the short settlement period of these instruments.

(11) Convertible bonds with subscription rights to shares

Fair value is measured as the present value of the total amount of bond principal and interest, discounted using an interest rate adjusted for the remaining maturity and the credit risk of the bonds.

(12) Long-term loans payable (including current portion)

Fair value is measured as the present value of the total amount of loan principal and interest, discounted using an interest rate that would apply to a similar new loan. However, certain long-term loans payable with variable interest rates are subject to special treatment for interest rate swaps. (Please see “Derivative transactions” below.) The fair value of these loans is measured by discounting the total amount of the loan principal and interest, which are accounted for together with the respective interest rates, using a reasonably estimated interest rate that would apply to a similar new loan.

Derivative transactions

Interest rate swaps subject to special treatment are accounted for together with the long-term loans payable that are the hedge targets. Therefore, the fair value of the interest rate swaps is included in the fair value of the respective long-term loans payable.

## 2. Carrying amount of financial instruments whose fair values cannot be reliably determined

(Thousands of yen)

| Category | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2015) |
|---|---|---|
| Unlisted stocks | ¥94,990 | ¥301,628 |

* These financial instruments are unlisted stocks included in investment securities. These unlisted stocks are not included because their fair value cannot be reliably determined given that they do not have market prices.

### 3. Maturity analysis for financial assets and investment securities with contractual maturities after the fiscal year-end

(Thousands of yen)

| | Fiscal 2015 (As of December 31, 2015) | | | |
|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and deposits | ¥3,542,864 | ¥ — | ¥ — | ¥— |
| Notes and accounts receivable—trade (Note) | 2,174,216 | — | — | — |
| Short-term loans receivable (Note) | 27,410 | — | — | — |
| Accounts receivable (Note) | 577,314 | — | — | — |
| Long-term loans receivable (Note) | — | 6,200 | — | — |
| Long-term accounts receivable (Note) | 161,847 | — | 1,748 | — |
| Total | ¥6,483,654 | ¥6,200 | ¥1,748 | ¥— |

Note:
The above table does not include the following items whose redemption dates are not confirmed: notes and accounts receivable—trade of ¥443,349 thousand (allowance for doubtful accounts ¥443,349 thousand), short-term loans receivable of ¥1,201,863 thousand (allowance for doubtful accounts ¥1,201,863 thousand), accounts receivable of ¥1,166,877 thousand (allowance for doubtful accounts ¥1,166,877 thousand), long-term loans receivable of ¥1,326,503 thousand (allowance for doubtful accounts ¥1,326,503 thousand), and long-term accounts receivable of ¥2,492,001 thousand (allowance for doubtful accounts ¥2,492,001 thousand).

(Thousands of yen)

| | Fiscal 2016 (As of December 31, 2016) | | | |
|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and deposits | ¥2,292,997 | ¥ — | ¥ — | ¥— |
| Notes and accounts receivable—trade (Note) | 1,819,433 | — | — | — |
| Short-term loans receivable (Note) | 14,604 | — | — | — |
| Accounts receivable (Note) | 39,898 | — | — | — |
| Guarantee deposit | 866,448 | — | — | — |
| Long-term loans receivable (Note) | — | 1,800 | — | — |
| Long-term accounts receivable (Note) | — | 1,640 | — | — |
| Total | ¥5,033,382 | ¥3,440 | ¥ — | ¥— |

Note:
The above table does not include the following items whose redemption dates are not confirmed: notes and accounts receivable—trade of ¥112,807 thousand (allowance for doubtful accounts ¥112,807 thousand), short-term loans receivable of ¥395 thousand (allowance for doubtful accounts ¥395 thousand), accounts receivable of ¥53,230 thousand (allowance for doubtful accounts ¥53,230 thousand), long-term loans receivable of ¥289,484 thousand (allowance for doubtful accounts ¥289,484 thousand), and long-term accounts receivable of ¥1,558,793 thousand (allowance for doubtful accounts ¥1,558,793 thousand).

### 4. Scheduled repayments of bonds, long-term loans payable, lease obligations and other interest-bearing debt after the fiscal year-end

(Thousands of yen)

| | Fiscal 2015 (As of December 31, 2015) | | | | | |
|---|---|---|---|---|---|---|
| | Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Short-term loans payable | ¥ 703,104 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Convertible bonds with subscription rights to shares | — | — | 1,165,000 | — | — | — |
| Long-term loans payable | 2,547,607 | 1,591,171 | 940,644 | 605,399 | 778,866 | 148,650 |
| Total | ¥3,250,711 | ¥1,591,171 | ¥2,105,644 | ¥605,399 | ¥778,866 | ¥148,650 |

(Thousands of yen)

| | Fiscal 2016 (As of December 31, 2016) | | | | | |
|---|---|---|---|---|---|---|
| | Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Short-term loans payable | ¥ 407,334 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Convertible bonds with subscription rights to shares | 300,000 | 1,165,000 | — | — | — | — |
| Long-term loans payable | 2,183,214 | 1,261,962 | 830,055 | 431,323 | 256,903 | 497,489 |
| Total | ¥2,890,549 | ¥2,426,962 | ¥830,055 | ¥431,323 | ¥256,903 | ¥497,489 |

## (Securities)

### 1. Available-for-sale Securities

*Fiscal 2015 (As of December 31, 2015)*

(Thousands of yen)

| | Type | Carrying amount | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities for which the carrying amount exceeds the acquisition cost | Stocks | ¥ 9,940 | ¥3,050 | ¥6,890 |
| | Subtotal | 9,940 | 3,050 | 6,890 |
| Securities for which the carrying amount does not exceed the acquisition cost | Stocks | 2,765 | 3,525 | (760) |
| | Subtotal | 2,765 | 3,525 | (760) |
| Total | | ¥12,705 | ¥6,575 | ¥6,129 |

Note:
Unlisted investment securities (carrying amount ¥92,661 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

*Fiscal 2016 (As of December 31, 2016)*

(Thousands of yen)

| | Type | Carrying amount | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities for which the carrying amount exceeds the acquisition cost | Stocks | ¥11,010 | ¥3,050 | ¥7,960 |
| | Subtotal | 11,010 | 3,050 | 7,960 |
| Securities for which the carrying amount does not exceed the acquisition cost | Stocks | 2,886 | 3,525 | (639) |
| | Subtotal | 2,886 | 3,525 | (639) |
| Total | | ¥13,896 | ¥6,757 | ¥7,321 |

Note:
Unlisted investment securities (carrying amount ¥301,628 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

### 2. Loss on Valuation of Investment Securities

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

FISCO recorded an ¥986 thousand loss on valuation of investment securities (stocks of ¥1,853 thousand classified as available-for-sale securities) in fiscal 2015.

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

FISCO recorded an ¥867 thousand loss on valuation of investment securities (stocks of ¥867 thousand classified as available-for-sale securities) in fiscal 2016.

Loss on valuation is recorded in full if the fair value at the fiscal year-end falls more than 50% in relation to the acquisition price of investment securities. If the fall in fair value is around 30 to 50%, a loss on valuation deemed appropriate is recorded in view of factors such as the likelihood of prices recovering.

## (Derivative Transactions)

### 1. Derivative transactions to which hedge accounting is not applied

Currency related

*Fiscal 2015 (As of December 31, 2015)*

N/A

*Fiscal 2016 (As of December 31, 2016)*

(Thousands of yen)

| Category | Type of transaction | Contract amount | Amount of contract exceeding one year | Fair value | Valuation gain or loss |
|---|---|---|---|---|---|
| Off-market transaction | Foreign currency forward contract | | | (Note) | (Note) |
| | Purchased US dollars | ¥300,604 | ¥— | ¥(29,424) | ¥(29,424) |

Note:
Calculation of fair value
Calculated based on quoted prices obtained from financial institution counterparties.

## 2. Derivative transactions to which hedge accounting is applied

### (1) Currency related

*Fiscal 2015 (As of December 31, 2015)*

N/A

*Fiscal 2016 (As of December 31, 2016)*

(Thousands of yen)

| Hedge accounting method | Type of transaction | Main hedge target | Contract amount | Amount of contract exceeding one year | Fair value |
|---|---|---|---|---|---|
| Allocation method (furiate shori) for foreign currency forward contracts, etc. | Foreign currency forward contract | Accounts payable—trade | ¥31,954 | ¥— | (Note) ¥ 143 |

Note:
Calculation of fair value
Calculated based on quoted prices obtained from financial institution counterparties.

### (2) Interest rate

*Fiscal 2015 (As of December 31, 2015)*

(Thousands of yen)

| Category | Type of transaction | Main hedge target | Contract amount | Amount of contract exceeding one year | Fair value |
|---|---|---|---|---|---|
| General treatment method | Interest rate swap transaction<br>Variable interest—received<br>Fixed interest—paid | Long-term loans payable | ¥ 100,000 | ¥ — | (Note 1) ¥ (497) |
| Special treatment of interest rate swaps | Interest rate swap transaction<br>Variable interest—received<br>Fixed interest—paid | Long-term loans payable | 2,478,000 | 1,775,574 | (Note 2) |
| Total | | | ¥2,578,000 | ¥1,775,574 | |

Notes:
1. Interest rate swaps to which the general treatment method is applied are accounted for based on the price indicated by the transacting financial institution.
2. Interest rate swaps to which the special treatment is applied are accounted for together with the long-term loans payable targeted for hedging. Therefore, their fair value is included in the fair value of long-term loans payable.

*Fiscal 2016 (As of December 31, 2016)*

(Thousands of yen)

| Category | Type of transaction | Main hedge target | Contract amount | Amount of contract exceeding one year | Fair value |
|---|---|---|---|---|---|
| General treatment method | Interest rate swap transaction<br>Variable interest—received<br>Fixed interest—paid | Long-term loans payable | ¥ 100,000 | ¥ — | (Note) ¥ (497) |
| Special treatment of interest rate swaps | Interest rate swap transaction<br>Variable interest—received<br>Fixed interest—paid | Long-term loans payable | 2,483,000 | 1,368,456 | (Note) |
| Total | | | ¥2,583,000 | ¥1,368,456 | |

Note:
Calculation of fair value
(1) Interest rate swaps to which the special treatment is applied are accounted for together with the long-term loans payable targeted for hedging. Therefore, their fair value is included in the fair value of long-term loans payable.
(2) The calculation of fair value is based on the forward exchange market.

## (Retirement Benefits)

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

### 1. Overview of retirement benefit plans

Certain consolidated subsidiaries of the Group have provided the choice of a defined contribution pension plan or an advanced funded retirement benefit plan as defined contribution plans. Moreover, certain consolidated subsidiaries have adopted lump-sum retirement benefit plans and employee pension fund plans as their defined benefit plans. In addition, certain consolidated subsidiaries participate in multi-employer employee pension fund plans, and since it is not possible to rationally calculate the pension assets corresponding to each company's own contributions, these are accounted for in the same way as defined contribution plans. Furthermore, some consolidated subsidiaries use the simplified method to calculate the liability and retirement benefit expenses on their lump-sum retirement benefit plans.

### 2. Simplified-method defined benefit plan

(1) Reconciliation of balance of simplified-method liability for retirement benefit as of January 1, 2015 and balance as of December 31, 2015

| | (Thousands of yen) |
|---|---|
| Balance of liability for retirement benefit as of January 1, 2015 | ¥ 57,071 |
| Retirement benefit expenses | 3,654 |
| Retirement benefits paid | (27,128) |
| Amounts transferred to other (Note) | (8,529) |
| Decrease due to plan revision | (2,032) |
| Balance of liability for retirement benefit as of December 31, 2015 | ¥ 23,036 |

Note:
Other represents the amount of retirement benefits scheduled to be paid, recorded as accrued expenses.

(2) Reconciliation of balance of retirement benefit obligations and liability for retirement benefit on the consolidated balance sheets as of December 31, 2015

| | (Thousands of yen) |
|---|---|
| Retirement benefit obligations for non-funded plans | ¥23,036 |
| Net liability on the consolidated balance sheets | ¥23,036 |

(3) Retirement benefit expenses

| | (Thousands of yen) |
|---|---|
| Retirement benefit expenses based on the simplified method | ¥3,654 |

### 3. Defined contribution pension plans

The required contributions to the defined contribution pension plans of consolidated subsidiaries were ¥44,595 thousand.

### 4. Advanced funded retirement benefit plans

The contributions to the advanced funded retirement benefit plans of consolidated subsidiaries were ¥21,249 thousand.

### 5. Multi-employer plans

Items related to multi-employer plans that account for required contributions as retirement benefit expenses are as follows.

(1) Recent funded status of multi-employer plans

| | (Thousands of yen) |
|---|---|
| Amount of pension assets | ¥744,963,870 |
| Total of actuarial liability and minimum actuarial reserve under pension financial accounting | 737,816,144 |
| Difference | ¥ 7,147,726 |

(2) Ratio of multi-employer plan contributions accounted for by the Group

0.54%

(3) Supplementary explanation

Certain consolidated subsidiaries that have a multi-employer plan were newly consolidated during fiscal 2015 and therefore have different fiscal year periods from the Company (January 1, 2015 to December 31, 2015).

Furthermore, certain consolidated subsidiaries participate in multi-employer employee pension fund plans under which it is not possible to rationally calculate the amount of pension assets corresponding to their contributions. For these cases, pension assets are accounted for in the same way as defined contribution plans.

***Fiscal 2016 (From January 1, 2016 to December 31, 2016)***

## 1. Overview of retirement benefit plans

Certain consolidated subsidiaries of the Group have provided the choice of a defined contribution pension plan or an advanced funded retirement benefit plan as defined contribution plans. Moreover, certain consolidated subsidiaries have adopted lump-sum retirement benefit plans and employee pension fund plans as their defined benefit plans. In addition, certain consolidated subsidiaries participate in multi-employer employee pension fund plans, and since it is not possible to rationally calculate the pension assets corresponding to each company's own contributions, these are accounted for in the same way as defined contribution plans. Furthermore, some consolidated subsidiaries use the simplified method to calculate the liability and retirement benefit expenses on their lump-sum retirement benefit plans.

## 2. Simplified-method defined benefit plan

(1) Reconciliation of balance of simplified-method liability for retirement benefit as of January 1, 2016 and balance as of December 31, 2016

| | (Thousands of yen) |
|---|---|
| Balance of liability for retirement benefit as of January 1, 2016 | ¥23,036 |
| Retirement benefit expenses | 5,113 |
| Retirement benefits paid | (1,273) |
| Amounts transferred to other (Note) | (678) |
| Increase due to new consolidations | 23,097 |
| Balance of liability for retirement benefit as of December 31, 2016 | ¥49,295 |

Note:
Other represents the amount of retirement benefits scheduled to be paid, recorded as accrued expenses.

(2) Reconciliation of balance of retirement benefit obligations and liability for retirement benefit on the consolidated balance sheets as of December 31, 2016

| | (Thousands of yen) |
|---|---|
| Retirement benefit obligations for non-funded plans | ¥49.295 |
| Net liability on the consolidated balance sheets | ¥49.295 |

(3) Retirement benefit expenses

| | (Thousands of yen) |
|---|---|
| Retirement benefit expenses based on the simplified method | ¥5,113 |

## 3. Defined contribution pension plans

The required contributions to the defined contribution pension plans of consolidated subsidiaries were ¥71,697 thousand.

## 4. Advanced funded retirement benefit plans

The contributions to the advanced funded retirement benefit plans of consolidated subsidiaries were ¥38,970 thousand.

## 5. Multi-employer plans

Items related to multi-employer plans that account for required contributions as retirement benefit expenses are as follows.

(1) Recent funded status of multi-employer plans

| | (Thousands of yen) |
|---|---|
| Amount of pension assets | ¥737,151,599 |
| Total of actuarial liability and minimum actuarial reserve under pension financial accounting | 715,710,918 |
| Difference | ¥ 21,440,681 |

(2) Ratio of multi-employer plan contributions accounted for by the Group
0.47%

(3) Supplementary explanation
Certain consolidated subsidiaries participate in multi-employer employee pension fund plans under which it is not possible to rationally calculate the amount of pension assets corresponding to their contributions. For these cases, pension assets are accounted for in the same way as defined contribution plans.

## (Stock Options)

### 1. Stock option expense and amount

(Thousands of yen)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| Stock compensation expense under selling, general and administrative expenses | ¥9,536 | ¥10,191 |

### 2. Stock option details, scale and change

(1) Stock option details

| Resolution date | February 14, 2011 Stock Options | April 14, 2011 Stock Options | August 6, 2012 Stock Options | September 29, 2016 Stock Options |
|---|---|---|---|---|
| Status and number of option holders | FISCO directors: 3<br>FISCO employees: 9 | FISCO employees: 3 | FISCO director: 1<br>FISCO employees: 2<br>Director of wholly owned subsidiary: 1<br>Director of consolidated subsidiary: 1 | FISCO director: 1<br>FISCO employees: 6<br>Directors of subsidiaries: 2<br>Employees of subsidiaries: 2 |
| Number of stock options | Common shares: 1,225,000 shares | Common shares: 54,000 shares | Common shares: 3,000,000 shares | Common shares: 100,000 shares |
| Grant date | February 15, 2011 | April 15, 2011 | August 7, 2012 | September 29, 2016 |
| Vesting conditions | Holders of the subscription rights to shares must remain in their position as a director or employee of FISCO and its related companies in order to exercise the rights. | Same as left | Same as left | Holders of the subscription rights to shares must remain in their position as a director or employee of FISCO and its subsidiaries in order to exercise the rights. |
| Eligible service period | From February 15, 2011 to February 14, 2013 | From April 15, 2011 to April 14, 2013 | From August 7, 2012 to August 6, 2014 | From September 29, 2016 to September 29, 2018 |
| Exercise period | February 15, 2013 to February 14, 2016 | April 15, 2013 to April 14, 2016 | August 7, 2014 to August 6, 2019 | September 30, 2018 to September 29, 2021 |

Note:
Recorded based on the number of eligible shares. The number of stock options has been recorded based on the number of eligible shares after a 5-for-1 stock split conducted on July 1, 2014.

(2) Stock option scale and change

Existing stock options as of fiscal 2016 are recorded herein on the basis of the number of eligible shares. The Company conducted a 5-for-1 stock split on July 1, 2014. Accordingly, the number of stock options and the unit price information have been recorded based on figures adjusted for this stock split.

*(1) Number of stock options*

(Shares)

| | February 14, 2011 Stock Options | April 14, 2011 Stock Options | August 6, 2012 Stock Options | September 29, 2016 Stock Options |
|---|---|---|---|---|
| Before vesting | | | | |
| As of December 31, 2015 | — | — | — | — |
| Granted | — | — | — | 100,000 |
| Forfeited | — | — | — | — |
| Vested | — | — | — | — |
| Outstanding | — | — | — | 100,000 |
| After vesting | | | | |
| As of December 31, 2015 | 388,000 | 40,500 | 1,964,000 | — |
| Vested | — | — | — | — |
| Exercised | 388,000 | 18,000 | 830,500 | — |
| Forfeited | — | 22,500 | — | — |
| Outstanding | — | — | 1,133,500 | — |

*(2) Unit price information*

(Yen)

| | February 14, 2011 Stock Options | April 14, 2011 Stock Options | August 6, 2012 Stock Options | September 29, 2016 Stock Options |
|---|---|---|---|---|
| Exercise price | ¥ 67 | ¥ 63 | ¥ 54 | ¥308 |
| Average stock price at exercise | 359 | 462 | 433 | — |
| Fair value on the grant date | 22 | 22 | 19 | 162 |

## 3. Method for estimating the fair value of stock options

The method for estimating the fair value of the stock options granted in fiscal 2016 was as follows.

(1) Valuation method used Monte Carlo Simulation

(2) Main assumptions and estimates

| | September 29, 2016 Stock Options |
|---|---|
| The closing price of the common shares of FISCO Ltd. on the Tokyo Stock Exchange JASDAQ Standard Market on September 29, 2016 | ¥293 |
| Exercise price | ¥308 |
| Volatility | 88.57% |
| Exercise period | September 30, 2018 to September 29, 2021 |
| Estimated period to expiry | 3.5 years |
| Risk-free rate | –0.274% |
| Dividend yield | 1.024% |

## 4. Method for estimating the number of vested stock options

A method reflecting the actual number of forfeited stock options was adopted due to the fundamental difficulty of reasonably estimating the actual number of stock options that will be forfeited in the future.

## (Tax-Effect Accounting)

### 1. Main factors giving rise to deferred tax assets and liabilities

(Thousands of yen)

| | Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|---|
| Deferred tax assets (current) | | |
| Carryforwards of unused tax losses | ¥ 151,844 | ¥ 76,442 |
| Accrued enterprise taxes | 5,227 | 5,224 |
| Allowance for doubtful accounts | 557,635 | 1,147,673 |
| Provision for bonuses | 61,380 | 70,992 |
| Provision for product warranties | 30,745 | 28,391 |
| Loss on valuation of loans receivable | — | 256,171 |
| Others | 40,294 | 43,339 |
| Subtotal | 847,127 | 1,628,212 |
| Valuation allowance | (767,073) | (1,549,705) |
| Total | 80,054 | 78,513 |
| Deferred tax liabilities (current) | | |
| Liability adjustment | (4,810) | (4,735) |
| Total | (4,810) | (4,735) |
| Net deferred tax assets | ¥ 75,244 | ¥ 73,777 |
| Deferred tax assets (noncurrent) | | |
| Carryforwards of unused tax losses | ¥ 1,381,181 | ¥ 1,876,312 |
| Excess depreciation of fixed assets | 6,076 | 6,812 |
| Impairment loss on fixed assets | 1,602 | 348,354 |
| Loss on valuation of investment securities | 13,712 | 13,589 |
| Allowance for doubtful accounts | 190,579 | — |
| Provision for litigation costs | 16,530 | — |
| Liability for retirement benefit | 13,545 | — |
| Stocks of affiliates recorded | 12,053 | 3,043,409 |
| Others | 50,190 | 926,745 |
| Subtotal | 1,685,470 | 6,215,221 |
| Valuation allowance | (1,685,470) | (6,215,121) |
| Total deferred tax assets (noncurrent) | ¥ — | ¥ 107 |
| Deferred tax liabilities (noncurrent) | | |
| Liability adjustment | ¥ (13,629) | ¥ (8,658) |
| Stocks of affiliates recorded | (14,281) | (13,331) |
| Goodwill | (26,139) | (29,649) |
| Fund balance difference | — | (673,914) |
| Others | (3,523) | (2,588) |
| Total deferred tax liabilities (noncurrent) | ¥ (57,575) | ¥ (728,142) |

### 2. Main items giving rise to material differences between the statutory income tax rate and effective income tax rate

| Fiscal 2015 (As of December 31, 2015) | Fiscal 2016 (As of December 31, 2016) |
|---|---|
| Explanation of the differences between the statutory income tax rate and effective income tax rate is omitted since the Company posted a loss before income taxes and minority interests. | Same as left |

**3. Restatement of deferred tax assets and deferred tax liabilities due to changes in the corporate income tax rate, etc.**

Following the establishment by the National Diet of the “Act for Partial Revision of the Income Tax Act” (Act No. 15, 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13, 2016) on March 29, 2016, the tax rate will be lowered from fiscal years beginning on or after April 1, 2016. In line with this change, the statutory income tax rate used to calculate deferred tax assets and deferred tax liabilities has been reduced from the previous 32.3% to 30.9% for temporary differences expected to reverse in the fiscal year beginning on January 1, 2017 and the fiscal year beginning on January 1, 2018, and from 32.3% to 30.6% for temporary differences expected to reverse in the fiscal year beginning on or after January 1, 2019.

The impact of these changes on the tax rate is negligible.

## (Business Combination)

### I. Business combination through acquisition (MEC S.R.L. SOCIETA’ AGRICOLA)

1. Description of revisions and amounts of any major revisions to the initially allocated amount of acquisition cost

On September 30, 2015, the Company executed a business combination through the acquisition of MEC S.R.L. SOCIETA’ AGRICOLA. In fiscal 2015, provisional accounting treatment was applied to the business combination. In fiscal 2016, the accounting treatment was finalized as follows:

| | |
|---|---|
| Goodwill (before revision) | ¥504,671 thousand |
| Land (revised amount) | ¥ 54,505 thousand |
| Goodwill (after revision) | ¥559,176 thousand |

As a result, the provisionally calculated amount of goodwill of ¥504,671 thousand increased by ¥54,505 thousand to ¥559,176 thousand, due to the finalization of the monetary amount. Moreover, land as of December 31, 2015 was reduced by ¥54,505 thousand.

In conjunction with these changes, the revisions were reflected in the initially allocated amount of the acquisition cost in the comparative information included in the consolidated balance sheet as of December 31, 2016.

2. Amortization method and amortization period

Goodwill is amortized over a period of 10 years applying the straight-line method.

### II. Business combination through acquisitions (TITICACA, Co. Ltd.)

1. Overview of business combination

(1) Name of acquiring companies and name and business of acquired company
Name of acquiring companies: NCXX Group Inc.
Name of the acquired company: TITICACA, Co. Ltd.
Business: Import and sales of ethnic fashion and other ethnic merchandise

(2) Main reason for the business combination
The business combination is intended to develop and popularize IoT services for the fashion industry, as part of efforts by NCXX Group Inc., a subsidiary of the Company, to introduce IoT to other industries.

(3) Business combination date
August 1, 2016

(4) Statutory basis of business combination
Share acquisition

(5) Name of company after business combination
No change

(6) Ratio of voting rights acquired
Voting rights owned before the business combination: —%
Voting rights acquired on the business combination date: 90.00%
Ratio of voting rights after share acquisition: 90.00%

(7) Rationale for deciding on the acquisition target
The business combination was an acquisition of shares for cash consideration by NCXX Group Inc., a subsidiary of the Company.

2. Period of business results of the acquired company included in the consolidated financial statements
August 1, 2016 to October 31, 2016

3. Acquisition cost of the acquired company and breakdown by consideration type

(Thousands of yen)

| | | |
|---|---|---|
| Consideration for the acquisition | Cash and other payments | ¥ 8,893 |
| | Proceeds from the transfer of receivables | (88,987) |
| Acquisition cost | | ¥(80,094) |

4. Main acquisition-related expenses and amounts
Advisory and other fees ¥6,728 thousand

5. Amount of gain on bargain purchase and reason for gain on bargain purchase
(1) Amount of gain on bargain purchase ¥4,462 thousand
Goodwill reflects the premium expected from business expansion in SJI Inc.'s device business.
(2) Reason for bargain purchase
The net amount of assets and liabilities transferred exceeded the acquisition cost of the acquired company.

6. Amount of assets and liabilities transferred on the business combination date and the main components

(Thousands of yen)

| | |
|---|---|
| Current assets | ¥2,016,399 |
| Noncurrent assets | 1,485,343 |
| Total assets | ¥3,501,743 |
| Current liabilities | ¥2,086,420 |
| Noncurrent liabilities | 1,490,458 |
| Total liabilities | ¥3,576,879 |

7. Estimated impact on FISCO's consolidated statements of income for fiscal 2016, and the estimation method, assuming the business combination was completed on January 1, 2016

(Thousands of yen)

| | |
|---|---|
| Net sales | ¥5,596,515 |
| Operating loss | 572,351 |
| Ordinary loss | 729,197 |
| Loss before income taxes and non-controlling interests | 3,586,523 |
| Loss attributable to owners of parent | 3,258,604 |

(Estimation method)
The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the acquired company from the information on sales and profits calculated on the assumption that the business combination was completed on January 1, 2016.

Notes on this business combination have not received accounting audit certification.

## III. Business combination through acquisitions (Gloria Tours Inc.)

1. Overview of business combination
(1) Name and business of acquired company
Name of acquiring company: e-tabinet.com
Name of the acquired company: Gloria Tours Inc.
Business: Travel business
(2) Main reason for the business combination
Integrating the expertise of Gloria Tours Inc. with that of e-tabinet.com, a subsidiary of the Company, enable the Group to develop a new customer base and supply an expansive range of travel products. For these and other reasons, the Company has determined that Gloria Tours Inc. can fully contribute to the growth of the e-tabinet.com group and to the enhancement of its business value.
(3) Business combination date
October 6, 2016

(4) Statutory basis of business combination
Share acquisition
(5) Name of company after business combination
No change
(6) Ratio of voting rights acquired

| | |
|---|---|
| Voting rights owned before the business combination | —% |
| Voting rights acquired on the business combination date | 77.71% |
| Ratio of voting rights after share acquisition | 77.71% |

(7) Rationale for deciding on the acquisition target
The business combination was an acquisition of shares for cash consideration by a consolidated subsidiary of the Company, to obtain 77.71% of the voting rights of Gloria Tours Inc.

2. Period of business results of the acquired company included in the consolidated financial statements
October 1, 2016 to November 31, 2016

3. Acquisition cost of the acquired company and breakdown by consideration type

(Thousands of yen)

| | | |
|---|---|---|
| Consideration for acquisition | Cash and other payments | ¥54,000 |
| Acquisition cost | | ¥54,000 |

4. Main acquisition-related expenses and amounts
Advisory and other fees ¥9,062 thousand

5. Amount of gain on bargain purchase and reason for gain on bargain purchase
(1) Amount of gain on bargain purchase ¥32,282 thousand
(2) Reason for bargain purchase
The net amount of assets and liabilities transferred exceeded the acquisition cost of the acquired company.

6. Amount of assets and liabilities transferred on the business combination date and the main components

(Thousands of yen)

| | |
|---|---|
| Current assets | ¥325,258 |
| Noncurrent assets | 27,521 |
| Total assets | ¥352,779 |
| Current liabilities | ¥216,401 |
| Noncurrent liabilities | 50,095 |
| Total liabilities | ¥266,496 |

7. Estimated impact on FISCO's consolidated statements of income for fiscal 2016, and the estimation method, assuming the business combination was completed on January 1, 2016

(Thousands of yen)

| | |
|---|---|
| Net sales | ¥659,257 |
| Operating income | 33,770 |
| Ordinary income | 33,882 |
| Profit before income taxes and non-controlling interests | 33,132 |
| Profit attributable to owners of parent | 11,709 |

(Estimation method)
The estimated impact is calculated by subtracting information on sales and profits in the consolidated statements of income of the acquired company from the information on sales and profits calculated on the assumption that the business combination was completed on January 1, 2016.

Notes on this business combination have not received accounting audit certification.

## (Asset Retirement Obligations)

### Asset retirement obligations recorded on the consolidated balance sheets

1. Overview of asset retirement obligations

   Asset retirement obligations consist of obligations to restore assets to their original condition under real estate lease contracts for stores and other facilities used for business purposes, as well as office buildings.

2. Calculation method for amount of asset retirement obligations recorded on the consolidated balance sheets

   The amount of asset retirement obligations is calculated based period of use estimated to be 18 years from the time of acquisition, and discount rates ranging from 1.0% to 1.9%.

3. Changes in the total amount of asset retirement obligations

(Thousands of yen)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| Balance at beginning of the fiscal year | ¥— | ¥ — |
| Increase due to acquisition of consolidated subsidiary | — | 455,237 |
| Adjustment due to the passage of time | — | 955 |
| Decrease due to fulfillment of asset retirement obligations | — | (57,152) |
| Balance at end of the fiscal year | ¥— | ¥399,040 |

4. Asset retirement obligations not recorded on the consolidated balance sheets

   Under real estate lease contracts, the Company and its consolidated subsidiaries have obligations to restore their Head Office to its original condition when vacating it. However, this asset retirement obligation cannot be estimated reasonably, given that the period of use of the relevant lease asset remains unclear, and the Group has no plan for relocating. Consequently, no such asset retirement obligation was recorded in this report.

## (Leased Real Estate)

Disclosure has been omitted as this information is immaterial.

## (Segment Information)

### [Segment information]

### 1. Outline of reportable segments

The reportable segments of the Company are the components of the Company for which separate financial information is available, and that are evaluated regularly by the Board of Directors for the purpose of deciding on resource allocations and assessing business performance.

The FISCO Group formulates comprehensive domestic and overseas strategies for its products and services at the FISCO Head Office. Guided by these strategies, the Group is expanding its business activities. The FISCO Group is made up of segments classified based on products and services. The Group has six reportable segments: the information services business, the consulting business, the Internet travel business, the device business, the advertising agency business, and the brand retail platform business.

The following is a description of the Group's reportable segments:

| | |
|---|---|
| Information services business | Provision of information to corporate and individual customers (vendors, CLUB FISCO, portal websites, FISCO AI, FISCO smartphone app, "FISCO Stock and Company Guide," outsourcing, corporate analysis reports, annual reports, etc.) |
| Consulting business | Consulting and fund-related businesses, etc. |
| Internet travel business | Operation of an e-marketplace for travel-related products, travel and travel agency services for corporate and individual customers (travel agency, travel estimate services, and travel concierge services), plan and arrange travel for para-sports tournaments |
| Device business | Development and sale of communication devices applying various wireless systems<br>Development and sale of PLC modems<br>Provision of systems solutions and maintenance services incidental to the above<br>Systems development, cloud services, and ASP services for nursing care centers |
| Advertising agency business | Advertising agency services, planning, editing, production and issue of advertising publications<br>Production and sale of sales promotion merchandise and novelty items |
| Brand retail platform business | Retailing of general merchandise, apparel and other items, licensing of brand trademarks |

### 2. Calculation method for amounts of net sales, profit and loss, assets and liabilities, and other items by reportable segment

The accounting policies and methods for reportable segments are the same as those shown in the notes to the consolidated financial statements.

Inventories are valued at amounts before any write-down of carrying amounts based on lower profitability.

Segment income for reportable segments is based on operating income (before amortization of goodwill).

The amounts of inter-segment sales and transfers are based on prevailing market prices.

### 3. Information on net sales, profit and loss, assets and liabilities, and other items by reportable segment

***Fiscal 2015 (From January 1, 2015 to December 31, 2015)***

(Thousands of yen)

| | Reportable segment | | | | | |
|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Total |
| Net sales | | | | | | |
| Sales to third parties | ¥1,335,936 | ¥ 46,870 | ¥1,675,702 | ¥ 5,666,291 | ¥1,481,241 | ¥10,206,042 |
| Inter-segment sales and transfers | 21,813 | 11,855 | 2,010 | 72,902 | 12,929 | 121,512 |
| Total | 1,357,750 | 58,725 | 1,677,713 | 5,739,194 | 1,494,170 | 10,327,554 |
| Segment profit (loss) | 329,524 | (53,737) | 7,467 | (430,616) | 70,219 | (77,142) |
| Segment assets | 1,105,143 | 512,606 | 680,453 | 13,643,254 | 896,800 | 16,838,257 |
| Other items | | | | | | |
| Depreciation and amortization | 17,608 | 9,816 | 378 | 35,728 | 3,783 | 67,315 |
| Amortization of goodwill | 17,721 | 10,271 | 32,298 | 256,958 | 25,876 | 343,126 |
| Increase in property, plant and equipment and intangible assets | 20,088 | 39,041 | — | 26,761 | — | 85,891 |

(Thousands of yen)

| | Other(Note 1) | Total | Adjustments(Note 2) | Consolidated |
|---|---|---|---|---|
| Net sales | | | | |
| Sales to third parties | ¥ 861 | ¥10,206,903 | ¥ — | ¥10,206,903 |
| Inter-segment sales and transfers | — | 121,512 | (121,512) | — |
| Total | 861 | 10,328,415 | (121,512) | 10,206,903 |
| Segment profit (loss) | (23,595) | (100,737) | (453,878) | (554,616) |
| Segment assets | 1,648,627 | 18,486,885 | (1,576,062) | 16,910,823 |
| Other items | | | | |
| Depreciation and amortization | — | 67,315 | 20,120 | 87,435 |
| Amortization of goodwill | 13,979 | 357,106 | — | 357,106 |
| Increase in property, plant and equipment and intangible assets | — | 85,891 | 367,076 | 452,967 |

Notes:
1. Other includes businesses (such as winemaking and education-related businesses) that are not included in the reportable segments.
2. The adjustment for segment profit of ¥(453,878) thousand comprises elimination of intersegment transactions of ¥(105,535) thousand and corporate expenses of ¥(348,343) thousand that are not allocated to any of the reportable segments. Corporate expenses are mainly general and administrative expenses that are not allocated to the reportable segments.
3. The adjustment for segment assets of ¥(1,576,062) thousand comprises corporate assets not allocated to the reportable segments and eliminations to offset claims and obligations of consolidated subsidiaries.
4. Segment profit (loss) is adjusted to operating loss in the consolidated statements of income.

### *Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

(Thousands of yen)

| | Reportable segment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Brand retail platform business | Total |
| Net sales | | | | | | | |
| Sales to third parties | ¥1,499,076 | ¥ 35,590 | ¥1,623,696 | ¥ 8,994,911 | ¥319,510 | ¥1,516,846 | ¥13,989,633 |
| Inter-segment sales and transfers | 18,084 | 18,696 | 158 | 116,629 | — | — | 153,568 |
| Total | 1,517,161 | 54,287 | 1,623,855 | 9,111,540 | 319,510 | 1,516,846 | 14,143,202 |
| Segment profit (loss) | 361,636 | (50,551) | 3,275 | (661,554) | (50,310) | (18,420) | (415,924) |
| Segment assets | 1,486,480 | 414,183 | 817,202 | 11,067,735 | 815,824 | 2,984,696 | 17,586,122 |
| Other items | | | | | | | |
| Depreciation and amortization | 15,750 | 9,409 | 539 | 51,217 | 2,388 | 22,337 | 101,643 |
| Amortization of goodwill | 17,721 | 10,271 | 38,467 | 548,591 | 25,876 | — | 640,928 |
| Increase in property, plant and equipment and intangible assets | 38,058 | 2,550 | 1,266 | 59,428 | 243 | 301,135 | 402,682 |

(Thousands of yen)

| | Other(Note 1) | Total | Adjustments(Note 2) | Consolidated |
|---|---|---|---|---|
| Net sales | | | | |
| Sales to third parties | ¥ 14,964 | ¥14,004,597 | ¥ — | ¥14,004,597 |
| Inter-segment sales and transfers | 3,947 | 157,516 | (157,516) | — |
| Total | 18,911 | 14,162,114 | (157,516) | 14,004,597 |
| Segment profit (loss) | (137,732) | (553,657) | (224,809) | (778,466) |
| Segment assets | 1,173,248 | 18,759,370 | (3,314,517) | 15,444,853 |
| Other items | | | | |
| Depreciation and amortization | 1,974 | 103,618 | 47,392 | 151,010 |
| Amortization of goodwill | 55,917 | 696,846 | — | 696,846 |
| Increase in property, plant and equipment and intangible assets | 5,689 | 408,372 | 153,074 | 561,447 |

Notes:
1. Other includes businesses (such as winemaking and education-related businesses) that are not included in the reportable segments.
2. The adjustment for segment profit (loss) of ¥(224,809) thousand comprises elimination of intersegment transactions of ¥(108,495) thousand and corporate expenses of ¥(116,313) thousand that are not allocated to any of the reportable segments. Corporate expenses are mainly general and administrative expenses that are not allocated to the reportable segments.
3. The adjustment for segment assets of ¥(3,314,517) thousand comprises corporate assets not allocated to the reportable segments and eliminations to offset claims and obligations of consolidated subsidiaries.
4. Segment profit (loss) is adjusted to operating loss in the consolidated statements of income.

**[Related information]**

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

1. Information by product and service

Disclosure is omitted as the same information is shown in segment information.

2. Information by region

(1) Net sales

Disclosure is omitted as sales to external customers in Japan accounts for over 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Disclosure is omitted as the amount of property, plant and equipment in Japan accounts for over 90% of property, plant and equipment in the consolidated balance sheets.

3. Information by major customer

Disclosure by main customer is omitted since the amount of sales to main customers accounts for less than 10% of consolidated net sales.

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

1. Information by product and service

Disclosure is omitted as the same information is shown in segment information.

2. Information by region

(1) Net sales

Disclosure is omitted as sales to external customers in Japan accounts for over 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Disclosure is omitted as the amount of property, plant and equipment in Japan accounts for over 90% of property, plant and equipment in the consolidated balance sheets.

3. Information by major customer

Disclosure by main customer is omitted since the amount of sales to main customers accounts for less than 10% of consolidated net sales.

**[Information on impairment loss on property, plant and equipment by reportable segment]**

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

(Thousands of yen)

| | Reportable segment | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Others | Corporate and elimination | Total |
| Impairment loss at end of year | ¥— | ¥— | ¥— | ¥2,117 | ¥— | ¥— | ¥— | ¥2,117 |

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

(Thousands of yen)

| | Reportable segment | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Brand retail platform business | Others | Corporate and elimination | Total |
| Impairment loss at end of year | ¥— | ¥— | ¥— | ¥443,903 | ¥— | ¥320,618 | ¥— | ¥(164) | ¥764,356 |

## [Information on amortized amount and unamortized balance of goodwill by reportable segment]

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

(Thousands of yen)

| | Reportable segment | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Others | Corporate and elimination | Total |
| Amortized amount during the year | ¥ 17,721 | ¥10,271 | ¥ 32,298 | ¥ 256,958 | ¥ 25,876 | ¥ 13,979 | ¥— | ¥ 357,106 |
| Unamortized balance at end of year | 150,633 | 75,320 | 215,589 | 5,421,579 | 199,461 | 545,197 | — | 6,607,782 |

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

(Thousands of yen)

| | Reportable segment | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Information services business | Consulting business | Internet travel business | Device business | Advertising agency business | Brand retail platform business | Others | Corporate and elimination | Total |
| Amortized amount during the year | ¥ 17,721 | ¥10,271 | ¥ 38,467 | ¥ 548,591 | ¥ 25,876 | ¥— | ¥ 55,917 | ¥— | ¥ 696,846 |
| Unamortized balance at end of year | 132,912 | 65,049 | 177,122 | 4,430,338 | 173,584 | — | 489,279 | — | 5,468,286 |

## [Information on gain on bargain purchase by reportable segment]

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

In conjunction with the acquisition of additional shares of a consolidated subsidiary, the Company recorded the following gains on bargain purchase under extraordinary income.

| | |
|---|---|
| Device business | ¥20,571 thousand |
| Information services business | ¥ 5,608 thousand |

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

In conjunction with the consolidation of TITICACA, Co. Ltd. and Gloria Tours Inc., the Company recorded the following gains on bargain purchase under extraordinary income.

| | |
|---|---|
| Device business | ¥ 4,462 thousand |
| Internet travel business | ¥32,282 thousand |

## [Information on related parties]

### 1. Transactions with related parties

(1) Transactions between the filing company and related parties

a. Parent company of the filing company and major shareholders (only companies and other such entities)
Not applicable

b. Transactions between the filing company and its non-consolidated subsidiaries and affiliates
Not applicable

c. Officers of filing company, major shareholders and other persons (Individuals only)

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

| Type | Name of company or other entity | Head office location | Paid-in capital or investment | Description of business or occupation | Percentage of voting rights held (%) |
|---|---|---|---|---|---|
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | SEQUEDGE INTERNATIONAL LIMITED | Wanchai, Hong Kong | HK $2,000 thousand | Retail business | — |
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | CN Japan Inc. | Minato-ku, Tokyo | ¥35,000 thousand | Retail business | — |
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | VANTAGE PARTNERS inc (Note 3) | Kishiwada City, Osaka Prefecture | ¥10,000 thousand | Real estate leasing business | — |
| Officer and his relatives | Hitoshi Kano | — | — | President and CEO of FISCO Ltd. | Direct ownership (1.3) |

| Type | Relationship with related party | Nature of transaction | Amount of transaction (Thousands of yen) | Item | Ending balance (Thousands of yen) |
|---|---|---|---|---|---|
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | Real estate leasing | Payment of rent (Note 2) | ¥25,337 | — | ¥ — |
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | Real estate leasing | Payment of rent (Note 2) | 41,433 | — | — |
| | | Deposit of guarantees (Note 2) | — | Guarantee deposit | 36,382 |
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | Purchase of equipment | Purchase of equipment (Note 2) | 34,846 | — | — |
| Officer and his relatives | Exercise of subscription rights to shares | Exercise of subscription rights to shares (Note 4) | 11,993 | — | — |

Notes:
1. Transaction amount and ending balance do not include consumption tax and other taxes.
2. The aforementioned transaction terms are determined in the same manner as ordinary transaction terms in consideration of market prices and other factors.
3. VANTAGE PARTNERS inc was adopted as the new name for Sequedge Partners Inc. in October 2015.
4. The exercise of subscription rights to shares represents the exercise of rights during fiscal 2015 with respect to stock options granted based on a resolution of the General Meeting of Shareholders of FISCO Ltd.

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

| Type | Name of company or other entity | Head office location | Paid-in capital or investment | Description of business or occupation | Percentage of voting rights held (%) |
|---|---|---|---|---|---|
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | CN Japan Inc. | Minato-ku, Tokyo | ¥35,000 thousand | Retail business | — |
| Officer and his relatives | Hitoshi Kano | — | — | President and CEO of FISCO Ltd. | Direct ownership (2.21) |
| Officer and his relatives | Osamu Fukami | — | — | Director of FISCO Ltd. | Direct ownership (0.59) |
| Officer of significant subsidiary and his relatives | Ryoji Yagi | — | — | Representative Director of a subsidiary | Direct ownership (0.59) |

| Type | Relationship with related party | Nature of transaction | Amount of transaction (Thousands of yen) | Item | Ending balance (Thousands of yen) |
|---|---|---|---|---|---|
| Companies and their subsidiaries with a majority of voting rights held, on their own accounts, by the parent company's officers and their relatives | Real estate leasing | Payment of rent (Notes 2, 4) | 10,084 | — | — |
| | | Deposit of guarantees (Notes 2, 4) | — | Guarantee deposit | 36,382 |
| Officer and his relatives | Exercise of subscription rights to shares | Exercise of subscription rights to shares (Note 3) | 24,321 | — | — |
| Officer and his relatives | Exercise of subscription rights to shares | Exercise of subscription rights to shares (Note 3) | 11,988 | — | — |
| Officer and his relatives | Exercise of subscription rights to shares | Exercise of subscription rights to shares (Note 3) | 11,988 | — | — |

Notes:
1. Transaction amount and ending balance do not include consumption tax and other taxes.
2. The aforementioned transaction terms are determined in the same manner as ordinary transaction terms in consideration of market prices and other factors.
3. The exercise of subscription rights to shares represents the exercise of rights during fiscal 2016 with respect to stock options granted based on a resolution of the General Meeting of Shareholders of FISCO Ltd.
4. Results are presented through March 2016, through which FISCO Ltd. had a parent company that was classified as a related party.

(2) Transactions between the filing company and its consolidated subsidiaries and related parties

*Fiscal 2015 (From January 1, 2015 to December 31, 2015)*

| Type | Name of company or other entity | Description of business or occupation | Percentage of voting rights held (%) | Relationship with related party |
|---|---|---|---|---|
| Officer of significant subsidiary and his relatives | Tsukasa Akiyama | Officer | — | Representative Director of a subsidiary |
| Officer of significant subsidiary and his relatives | Hiroshi Sasaki | Officer | — | Representative Director of a subsidiary |

| Type | Nature of transaction | Amount of transaction (Thousands of yen) | Item | Ending balance (Thousands of yen) |
|---|---|---|---|---|
| Officer of significant subsidiary and his relatives | Debt guarantee received (Note 2) | ¥45,316 | — | ¥— |
| Officer of significant subsidiary and his relatives | Debt guarantee received (Note 2) | 88,170 | — | — |

Notes:
1. Transaction amount and ending balance do not include consumption tax and other taxes.
2. Transaction terms and policy on deciding transaction terms and conditions
The subsidiary has received debt guarantees for loans from financial institutions. The subsidiary does not pay a fee for those debt guarantees.

*Fiscal 2016 (From January 1, 2016 to December 31, 2016)*

| Type | Name of company or other entity | Description of business or occupation | Percentage of voting rights held (%) | Relationship with related party |
|---|---|---|---|---|
| Officer of significant subsidiary and his relatives | Tsukasa Akiyama | Officer | — | Representative Director of a subsidiary |
| Officer of significant subsidiary and his relatives | Hiroshi Sasaki | Officer | — | Representative Director of a subsidiary |
| Officer of significant subsidiary and his relatives | Takao Hayashi | Officer | — | Representative Director of a subsidiary |

| Type | Nature of transaction | Amount of transaction (Thousands of yen) | Item | Ending balance (Thousands of yen) |
|---|---|---|---|---|
| Officer of significant subsidiary and his relatives | Debt guarantee received (Note 2) | ¥37,312 | — | ¥— |
| Officer of significant subsidiary and his relatives | Debt guarantee received (Note 2) | 75,762 | — | — |
| Officer of significant subsidiary and his relatives | Debt guarantee received (Note 2) | 76,320 | — | — |

Notes:
1. Transaction amount and ending balance do not include consumption tax and other taxes.
2. Transaction terms and policy on deciding transaction terms and conditions
The subsidiary has received debt guarantees for loans from financial institutions. The subsidiary does not pay a fee for those debt guarantees.

## 2. Notes on the parent company or significant related companies

(1) Parent company information

Not applicable

(2) Summary financial information on significant related companies

Not applicable

## (Per Share Information)

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Yen) | |
| Net assets per share | ¥83.83 | ¥52.29 |
| Loss per share | (3.94) | (31.98) |
| Diluted profit per share | — | — |

Notes:
1 Diluted profit per share is not recorded, despite the existence of dilutive shares, as the Company recorded a loss per share.
2. The basis for calculating the amounts for loss per share is as follows:

| | Fiscal 2015 (From January 1, 2015 to December 31, 2015) | Fiscal 2016 (From January 1, 2016 to December 31, 2016) |
|---|---|---|
| | (Thousands of yen) | |
| Amounts for loss per share | | |
| Loss attributable to owners of parent | ¥(143,059) | ¥(1,193,483) |
| Amounts not attributable to common shareholders | — | — |
| Loss attributable to owners of parent related to common shares | (143,059) | (1,193,483) |
| Average number of common shares during the period (Shares) | 36,322,416 | 37,322,375 |

## (Subsequent Events)

### I. Capital and Business Alliance with Terilogy Co., Ltd.

At a meeting of the Board of Directors held on January 17, 2017, NCXX Group Inc. (“NCXX Group”), a consolidated subsidiary of the Company, passed a resolution to enter into a capital and business alliance with Terilogy Co., Ltd. (Listing: Tokyo Stock Exchange, JASDAQ Standard; Securities Code: 3356; Head Office: Chiyoda-ku, Tokyo; President: Takao Tsubuki; “Terilogy”). SEQUEDGE INVESTMENT (”SEQUEDGE”) will also acquire a certain amount of shares of Terilogy. SEQUEDGE is a fellow subsidiary of SEQUEDGE INVESTMENT INTERNATIONAL LIMITED, which is classified as another affiliated company of the Company.

### 1. Reasons for the capital and business alliance

NCXX Group will undertake a wide range of activities, from supplying IoT-related device products and delivering related solutions to focusing on cutting-edge technologies such as blockchain technology. By doing so, the Company will provide various services by supplying solutions, beginning with communications services to various industry sectors.

Meanwhile, Terilogy provides cutting-edge solutions in the network security field to major corporations in Japan. Terilogy provides security management services encompassing all network stages ranging from network gateways to endpoints, including the development and supply of Momentum, a high-performance capturing software that enables high-speed packet capture and packet storage. Terilogy has also entered into a sales agent agreement with KELA Group of Israel to monitor information exchanged within the hacker community over the DarkNet*, thereby providing a consulting service in which Terilogy detects and collects information that could threaten companies and delivers an analysis of the results to corporate clients.

* The DarkNet refers to a parallel network set up to provide anonymity to users (anonymity does not exist on the open Web).

The information security market (applications and services) in Japan has continued to grow on the back of expanding demand for measures to address targeted cyberattacks. Furthermore, in the area of IoT and security, the number of things connected to the Internet (IoT devices) is expected to surpass 53.0 billion in 2020 (2015 White Paper Information and Communications in Japan, Ministry of Internal Affairs and Communications, Japan). The Ministry of Economy, Trade and Industry (METI) and the Ministry of Internal Affairs and Communications hosted the IoT Acceleration Consortium and formulated the IoT Security Guidelines in July 2016. These and other developments have made it an urgent priority for business enterprises to examine security measures in view of the widespread adoption of IoT systems and the unique characteristics of services using those systems.

In this environment, NCXX Group has decided to undertake the joint development of products that integrate the Group’s IoT device development technology and Terilogy’s security technologies. This is to realize a society where IoT devices can be used securely as a result of safeguarding devices, systems, and crucial information from various threats on a variety of networks.

Looking at other areas, connected cars are automobiles that can connect to the cloud and receive various information services. However, hackers could potentially gain access to and remotely control these vehicles and cause information leaks. To mitigate these threats, the NCXX Group seeks to develop onboard automotive devices based on NCXX Inc.'s ("NCXX") OBD-II automotive telematic data collecting unit GX4x0NC. NCXX Group will also seek to develop products that will ensure security for communications between IoT devices, and security for communications between IoT devices and the cloud, for various IoT devices including other surveillance cameras, and ATM and M2M communication gateways. In parallel, the NCXX Group will also undertake joint marketing of new products, with NCXX focusing on hardware and NCXX Solutions Inc. ("NCXX Solutions") focusing on software, and undertake collaboration on promoting sales, leveraging the sales platforms of NCXX Group and Terilogy.

NCXX Group and Terilogy have decided to enter into a business alliance because they believe these initiatives are aligned with the strategies pursued by both companies and will lead to an increase in corporate value. The two companies have also decided to enter into a capital alliance to closely and steadily advance the foregoing initiatives.

### 2. Details of the capital and business alliance

(1) Details of business alliance

a. Joint development of IoT products with NCXX

b. Collaboration on sales promotion leveraging the sales platforms of NCXX Group, NCXX, and NCXX Solutions and Terilogy

c. Joint marketing of new products between NCXX Group, NCXX, and NCXX Solutions and Terilogy

(2) Details of the capital alliance

a. NCXX Group purchased 2,291,700 shares (14.9% of voting rights) of the issued shares of Terilogy for ¥630,217,500, and SEQUEDGE INVESTMENT purchased 753,700 shares (4.9% of voting rights) of the issued shares of Terilogy for ¥207,267,500 from Representative Director Takao Tsubuki and Director Akihiko Abe.

b. NCXX Group will dispatch two directors to Terilogy, subject to the approval of the 28th Ordinary General Meeting of Shareholders of Terilogy.

### 3. Overview of the counterparty to the capital and business alliance

| | |
|---|---|
| (1) Name | Terilogy Co., Ltd. |
| (2) Location | 1-13-5 Kudan-kita, Chiyoda-ku, Tokyo 102-0073 Japan |
| (3) Name and title of representative | Takao Tsubuki, President |
| (4) Business | a. Import and sales of hardware and software products<br>b. Sales of networking products<br>c. System consulting, implementation and education for end users<br>d. Network implementation and deployment<br>e. Maintenance services for networking products<br>f. Customer application software development |
| (5) Capital stock | ¥1,182,604 thousand |
| (6) Establishment (founding) date | July 14, 1989 |

### 4. Schedule

| | |
|---|---|
| January 17, 2017 | Date of resolution by the respective boards of directors of NCXX Group, NCXX, NCXX Solutions, SEQUEDGE INVESTMENT |
| January 17, 2017 | Date of signing of the capital and business alliance agreement by NCXX Group<br>Date of signing of the capital and business alliance agreement by NCXX and NCXX Solutions |
| January 17, 2017 | Date of commencement of business alliance |

### II. Capital Increase through the Exercise of the 5th Series of Subscription Rights to Shares at CAICA Inc.

The 5th Series of Subscription Rights to Shares issued by CAICA Inc., a consolidated subsidiary of the Company, on June 30, 2015, were exercised from January 13, 2017 to March 13, 2017, as follows:

(1) Overview of the exercised subscription rights to shares

a. Name of subscription rights to shares

5th Series of Subscription Rights to Shares (third-party allotment)

b. Exercise price

¥35 per share

c. Number of exercised subscription rights to shares
11,865
d. Exercising party
SEQUEDGE INVESTMENT INTERNATIONAL LIMITED
e. Number of shares granted
11,865,000
f. Total exercise price
¥415,275,000

(2) Number of shares issued through the exercise of subscription rights to shares and capital
a. Increase in the number of issued shares
11,865,000 shares
b. Increase in the amount of capital
¥211,588,545

### III. Issuance of Stock Compensation-Type Stock Options (Subscription Rights to Shares)

On February 27, 2017, the Board of Directors decided to submit a proposal for approval by the 23rd Ordinary General Meeting of Shareholders to be held on March 29, 2017, delegating it the authority to decide the particulars for issuing and allotting subscription rights to shares, pursuant to the provisions of Article 236, Article 238 and Article 239 of the Companies Act. The Board of Directors plans to allot the subscription rights to shares to directors and employees of the Company and its subsidiaries as stock options granted at particularly advantageous terms. The goal will be to raise the motivation and morale of the directors and employees by providing them with an incentive to enhance the Group's earnings performance and corporate value. The submitted proposal was approved by special resolution at the 23rd Ordinary General Meeting of Shareholders.

This resolution will be effective for allotment dates falling within one year of March 29, 2017, pursuant to Article 239, Paragraph 3 of the Companies Act.

| | |
|---|---|
| Resolution date | March 29, 2017: Ordinary General Meeting of Shareholders |
| Status and number of option holders (Note) | To be determined |
| Type of shares underlying the subscription rights to shares | Common shares |
| Number of shares | Up to 100,000 shares |
| Payment upon exercise of subscription rights to shares (Yen) | To be determined |
| Exercise period of subscription rights | The starting date of the exercise period shall be two years from the day following the Board of Directors resolution date for deciding the issuance terms of subscription rights to shares, and the expiration date shall be five years from the day following this resolution date. |
| Conditions for exercising subscription rights to shares | To exercise the subscription rights to shares, individuals must hold a position as a director or employee of the Company or its subsidiaries at the time of exercising the subscription rights to shares, unless the Board of Directors makes a special exception. |
| Matters relating to the assignment of subscription rights to shares | Approval of the Company's Board of Directors shall be required for the assignment of subscription rights to shares. |
| Matters relating to substitute payment | — |
| Matters relating to the issue of subscription rights to shares in connection with reorganization measures | — |

Note:
In the event that a split or consolidation of the Company's common stock takes place after the allotment date, the exercise price shall be adjusted according to the following formula, with the fraction less than one (1) yen resulting from the adjustment rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Stock split or consolidation ratio}}$$

In addition to the foregoing, if the exercise price must be adjusted following the allotment date due to the Company conducting a merger with another company, a corporate split, or reduction in capital stock, or some accordingly unavoidable reason, the Company shall be able to adjust the exercise price within reasonable bounds as deemed necessary.

## IV. Conclusion of Memorandum of Understanding for a Business Alliance with Sockets Inc. and Acquisition of Shares

At a meeting of the Board of Directors held on March 7, 2017, the Company passed a resolution to enter into a Memorandum of Understanding with Sockets Inc. (Listing: Tokyo Stock Exchange, Mothers; Securities Code: 3634; Head Office: Shibuya-ku, Tokyo; President: Koji Urabe; "Sockets") and to acquire shares of Sockets. The Company acquired the shares of Sockets on March 8, 2017.

### 1. Background to business alliance and specific details

As a database service company, Sockets holds one of Japan's largest entertainment databases (MSDB*), including music, movies, books, people, facilities and general merchandise, and supplies analytic information to communications carriers, e-commerce enterprises and other entities that have customer bases. Specifically, Sockets provides a specialized search service, recommendation, personalization, machine learning and deep learning, and a profiling service analysis based on advanced analysis such as deep learning and emotional metadata.

* MSDB (Media Service Database) refers to an entertainment database pertaining to music, video and books. For example, in the case of music, the database elements include basic information, including the artist, name of work, and year of release; peripheral information, which covers information about the attributes of the work of music such as melody and musical styles; and emotional information such as the tone of lyrics. Sockets builds an original database that classifies and organizes these elements as metadata.

Turning to the FISCO Group, FISCO Ltd. possesses a network comprising individual investors through the FISCO website and app, as well as financial institutions and institutional investors. FISCO IR Ltd. (Head Office: Minato-ku, Tokyo, Japan; President and CEO: Motoki Sato; "FISCO IR") possesses a client network encompassing approximately 500 companies (over 14% of all publicly listed companies in Japan) through its investor relations (IR) support services.

Under this alliance, FISCO and Sockets will explore possibilities for building new business models in conjunction with applying FISCO's capabilities in the Fintech business field. These initiatives will be based on Sockets' database construction capabilities and analysis capabilities such as natural language analysis, machine learning, and deep learning, and FISCO's technologies and expertise developed through its customer bases. Specifically, FISCO plans to distribute new types of stock investment information by harnessing Socket's knowledge. This will be done by developing indicators for companies according to more subjective keywords than before, such as "sensible" and "innovative," reflecting a comprehensive analysis spanning corporate information, such as business leaders and products; official information such as annual reports; impartial third-party information such as analyst reports by securities firms and FISCO's corporate analysis reports; external information such as stock information websites and company evaluation websites, and social media such as Twitter. In addition, FISCO IR plans to accelerate consulting (marketing support for profiling services) for companies based on the analyzed results. In these and other ways, in the process of commercializing these services, the FISCO Group will fully leverage its networks comprising financial institutions, institutional investors, individual investors, and publicly listed companies.

### 2. Details of business alliance

Stock investment information, applications for the Fintech business, and marketing support for companies based on corporate analysis using emotional metadata

### 3. Details of the capital alliance

On March 8, 2017, the Company received the transfer of 95,000 shares of Sockets from MegaChips Corporation, 29,000 shares of Sockets from Mr. Koji Urabe (number of shares acquired: 124,000 shares; shareholding ratio: 5.04%). The Company transferred 3,000 of these shares to strategic investors (shareholding ratio after transfer: 4.92%).

### 4. Overview of the counterparty to the capital and business alliance

| | |
|---|---|
| (1) Name | Sockets Inc. |
| (2) Address | 3F JPR Sendagaya Bldg., 4-23-5 Sendagaya, Shibuya-ku, Tokyo 151-0051 Japan |
| (3) Name and title of representative | Koji Urabe, President |
| (4) Business | Developing and offering services, applications, and databases for Internet platforms |
| (5) Capital stock | ¥497,232 thousand (as of December 31, 2016) |
| (6) Establishment (founding) date | June 23, 2000 |

**5. Schedule**

| | |
|---|---|
| March 7, 2017 | Date of resolution by the Board of Directors |
| March 7, 2017 | Date of signing of the agreement |
| March 8, 2017 | Date of acquisition of shares |

## (Consolidated Supplementary Schedules)

### [Schedule of corporate bonds]

| Issuer | Series | Issuance date | Starting balance in fiscal 2016 (Thousands of yen) | Ending balance in fiscal 2016 (Thousands of yen) | Interest (%) | Collateral | Maturity date |
|---|---|---|---|---|---|---|---|
| NCXX Group Inc. | 5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares | March 30, 2015 | ¥1,165,000 (—) | ¥1,165,000 (—) | 0.50 | None | March 29, 2018 |
| NCXX Group Inc. | 6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares | June 13, 2016 | — (—) | 300,000 (300,000) | 0.70 | None | June 12, 2017 |
| Total | — | — | ¥1,165,000 (—) | ¥1.465,000 (300,000) | — | — | — |

Notes:
1. Amounts in parentheses are the current portion of bonds.
2. Details on bonds with subscription rights to shares are as follows.

| Series | 5th Series of Unsecured Convertible Bonds with Subscription Rights to Shares | 6th Series of Unsecured Convertible Bonds with Subscription Rights to Shares |
|---|---|---|
| Type of shares to be issued | Common shares | Common shares |
| Issue price of subscription rights (Yen) | Gratis | Gratis |
| Issue price of shares (Yen) | ¥ 1,089 | ¥ 643 |
| Total face amount (Thousands of yen) | 1,165,000 | 300,000 |
| Total amount of shares issued upon exercise of subscription rights to shares (Thousands of yen) | — | — |
| Percentage of shares granted per subscription right (%) | 100 | 100 |
| Exercise period of the subscription rights | From March 30, 2015 to March 29, 2018 | From June 13, 2016 to June 12, 2017 |

Note:
The information above assumes that the full payment due for exercising subscription rights to shares is paid in lieu of the full redemption of the convertible bonds associated with those rights when requested by rights holders seeking to exercise their subscription rights to shares. It is further assumed that such a request is made when the subscription rights to shares are exercised.

3. Scheduled redemptions due within five years subsequent to December 31, 2016 are as follows.

(Thousands of yen)

| Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years |
|---|---|---|---|---|
| ¥300,000 | ¥1,165,000 | ¥— | ¥— | ¥— |

## [Schedule of borrowings]

| Category | Starting balance in fiscal 2016 (Thousands of yen) | Ending balance in fiscal 2016 (Thousands of yen) | Average interest rate (%) | Repayment |
|---|---|---|---|---|
| Short-term loans payable | ¥ 703,104 | ¥ 407,334 | 1.45 | — |
| Current portion of long-term loans payable | 2,547,607 | 2,183,214 | 1.58 | — |
| Current portion of lease obligations | 7,084 | 7,060 | 2.88 | — |
| Long-term loans payable (excluding current portion) | 4,064,733 | 3,277,735 | 1.55 | 2018 to 2030 |
| Lease obligations (excluding current portion) | 15,354 | 8,294 | 1.71 | 2018 to 2020 |
| Other interest-bearing debt | | | | |
| Current portion of accounts payable—installment purchase | 6,182 | 14,802 | 2.25 | — |
| Long-term accounts payable—installment purchase | 7,371 | 49,331 | 2.44 | 2018 to 2023 |
| Total | ¥7,351,439 | ¥5,947,772 | — | — |

Notes:
1. Average interest rate represents the weighted average interest rate for the balance of debt at December 31, 2016.
2. Scheduled repayments of long-term loans payable, long-term accounts payable—installment purchase, and lease obligations (excluding current portion) due within five years subsequent to December 31, 2016 are as follows.

(Thousands of yen)

| | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years |
|---|---|---|---|---|
| Long-term loans payable | ¥1,261,962 | ¥830,055 | ¥431,323 | ¥256,903 |
| Long-term accounts payable—installment purchase | 9,773 | 8,931 | 9,158 | 9,391 |
| Lease obligations | 4,715 | 3,005 | 573 | — |

## [Schedule of asset retirement obligations]

Disclosure of the schedule of asset retirement obligations is omitted as this information is presented as a note included with this schedule in conformity with Article 15-23 of the Ordinance on Consolidated Financial Statements.

## (Other)

## Quarterly and Other Information for Fiscal 2016

(Thousands of yen)

| | Cumulative period | | | |
|---|---|---|---|---|
| | First quarter | Second quarter | Third quarter | Fiscal year |
| Net sales | ¥2,897,648 | ¥6,205,699 | ¥ 9,328,475 | ¥14,004,597 |
| Loss before income taxes and non-controlling interests | (204,240) | (967,018) | (1,216,100) | (1,522,579) |
| Loss attributable to owners of parent (Thousands of yen) | (162,016) | (859,464) | (1,033,101) | (1,193,483) |
| Loss per share (Yen) | (4.39) | (23.12) | (27.72) | (31.98) |

(Yen)

| | Quarterly period | | | |
|---|---|---|---|---|
| | First quarter | Second quarter | Third quarter | Fourth quarter |
| Quarterly loss per share | ¥(4.39) | ¥(18.63) | ¥(8.97) | ¥(2.44) |

# Investor Information

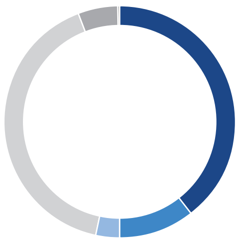
## Stock Information (As of December 31, 2016)

| | |
|---|---|
| Listed exchanges: | Tokyo Stock Exchange, JASDAQ |
| Securities code: | 3807 |
| Number of shares authorized: | 100,000,000 |
| Total number of shares issued: | 37,696,000 |
| Number of shares in one trading unit: | 100 |
| Number of shareholders: | 9,842 |
| Fiscal year-end: | December 31 |
| Annual General Meeting of Shareholders: | Within three months of the day after the last day of the fiscal year |
| Record dates for dividends from retained earnings: | December 31, June 30 (interim dividend) |
| Transfer agent and special account custodian: | Mitsubishi UFJ Trust and Banking Corporation, 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo |
| Handling office: | Mitsubishi UFJ Trust and Banking Corporation, Securities Agency Division, 4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo |

## Status of Major Shareholders

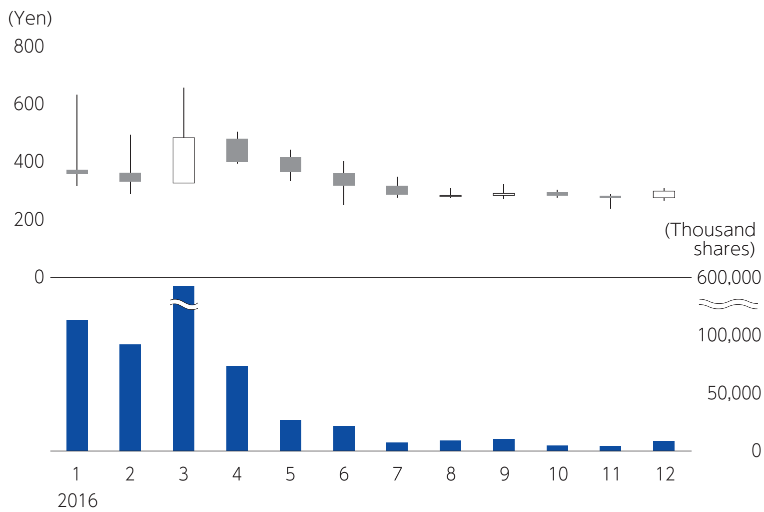
| Major shareholders | Number of shares held | Proportion of total shares issued (%) |
|---|---|---|
| SEQUEDGE INVESTMENT INTERNATIONAL LIMITED (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | 14,275,000 | 37.87 |
| Japan Trustee Services Bank, Ltd. (trust account) | 3,925,100 | 10.41 |
| Hitoshi Kano | 831,600 | 2.21 |
| Sanji International Co., Ltd. | 788,000 | 2.09 |
| Thomson Reuters (Markets) SA | 550,000 | 1.46 |
| Shinya Uchiki | 426,000 | 1.13 |
| Matsui Securities Co., Ltd. | 413,500 | 1.10 |
| Tadahide Arakawa | 318,000 | 0.84 |
| Kokusai Corporation | 271,000 | 0.72 |
| KSP HOLDINGS CORPORATION | 260,000 | 0.69 |

## Composition of Shareholders



| | |
|---|---|
| Individuals | 39.6% |
| Financial institutions | 10.5% |
| Financial instruments business operators | 3.5% |
| Foreign companies, etc. | 40.8% |
| Other companies | 5.4% |
| Treasury shares | 0.2% |

## Stock Price/Trading Volume



# Corporate Information

## Corporate Data (as of December 31, 2016)

| | |
|---|---|
| Name of corporation | FISCO Ltd. |
| Head Office | 2F CoSTUME NATIONAL Aoyama Complex<br>5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan<br>TEL: +81-3-5774-2440 |
| Foundation | May 15, 1995 |
| Capital | 1,242 million yen |
| President and CEO | Hitoshi Kano |
| Number of employees | 939 |

## Corporate Officers (as of December 31, 2016)

| | |
|---|---|
| President and CEO | Hitoshi Kano |
| Directors | Takaya Nakamura |
| | Hiroyuki Matsuzaki |
| | Osamu Fukami |
| | Motoki Sato |
| | Katsuhiko Goto (outside) |
| Full-time Audit & Supervisory Board member | Maiko Yoshimoto (outside) |
| Audit & Supervisory Board members | Nobutoshi Kajisa (outside)<br>Tatsuo Morihana (outside) |

## Organization