FISCO REPORT 2017

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

Financial **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)

	2012	2013	2014	2015	2016	2017
Net sales	¥4,041	¥6,681	¥ 8,430	¥10,206	¥14,004	¥14,620
Operating income (loss)	178	354	323	(554)	(778)	7
Operating margin (%)	4.4	5.3	3.8	(5.4)	(5.6)	0.0
Ordinary income (loss)	213	580	903	(952)	(1,003)	(59)
Net income (loss) attributable to owners of parent	425	558	730	(143)	(1,193)	636
Total assets	4,255	6,124	10,615	16,910	15,444	16,729
Net assets	2,510	3,741	4,890	5,670	4,434	6,246
Return on equity (%)	26.2	26.0	25.8	(4.6)	(47.6)	27.9
Ordinary income (loss)/Total assets (%)	7.0	11.2	10.8	(6.9)	(6.2)	(0.4)
Equity ratio (%)	43.2	40.2	30.0	18.0	12.7	15.5
Net cash provided by (used in) operating activities	787	(447)	1,852	(1,107)	(9)	(328)
Net cash provided by (used in) investing activities	(947)	772	(1,013)	(709)	665	3,915
Net cash provided by (used in) financing activities	63	1,106	1,590	482	(1,898)	(2,209)
Cash and cash equivalents at end of the fiscal year	845	2,283	4,717	3,486	2,256	3,596
Cash dividends per share (yen)	—	17.0	3.0	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.

Focusing on Cryptocurrency,
We Will Create New Growth Opportunities.

FISCO's Business Strategy

FISCO Ltd. is currently expanding further into the cryptocurrency-related businesses. We have heavily concentrated our management resources in this area and are really steering the Company towards a future in lucrative businesses. Although the market today is slumping due to a drop in confidence caused by a wave of illegal hacking incidents and a fall in the price of bitcoin as it undergoes a periodic correction, cryptocurrencies harbor enormous potential for expansion of business fields going forward since they were newly launched in 2009. Moreover, FISCO has identified a host of business opportunities and there appears to be ample space to implement them. As the current slump sorts out the real players from the dabblers, the surviving companies will be positioned to benefit hugely from the coming market expansion.

FISCO established Fisco Cryptocurrency Exchange Inc. in April 2016, and the company registered with the Financial Services Agency as a cryptocurrency exchange operator in September 2017. Initially, we introduced a trading system from Tech Bureau, Corp., our alliance partner in the cryptocurrency and blockchain business. However, in September 2018, we separated the system from an OEM system of the Zaif cryptocurrency exchange operated by Tech Bureau and made it independent, then started operations with a cryptocurrency exchange system provided by CAICA's wholly owned subsidiary, CCCT, Inc. This will enable Fisco Cryptocurrency Exchange greater management freedom and speed. In conjunction with this, where we had previously been able to collect trading commissions only for certain currency pairs, we will now receive commission revenues commensurate with trading prices across the board for all currency pairs. Our policy now is to expand our proprietary services and functions with an eye to increasing the number of users and transaction volumes.

After separating the trading system from Zaif and establishing it as an independent system, a hacking incident at Zaif caused an outflow of cryptocurrency leading to the loss of around ¥5 billion in cryptocurrency deposits. In the wake of this incident, Tech Bureau and FISCO Digital Asset Group Co., Ltd. (an equity-method affiliate of FISCO) concluded a basic agreement to consider ¥5 billion in financial support from the FISCO Group, a capital alliance involving the attainment of a majority of Tech Bureau's shares, and dispatch of more than half of FISCO Digital Asset Group's directors and one auditor to Tech Bureau. CAICA Inc. also concluded a basic agreement with Tech Bureau to provide technology to bolster security. The business transfer took effect in November 2018, and the FISCO Group is currently operating both Fisco Cryptocurrency Exchange and Zaif. The former focuses mainly on B2B services, and the acquisition of Zaif has rapidly expanded our B2C services.

FISCO's cryptocurrency business so far has been focused mainly on arbitrage and buy-and-hold operations using the trading system, aiming to profit from our own trading. However, now that the market is taking shape and the number of participants in brokerage trades is increasing, we find that the brokerage system requires improvement. With the current market slump, we are not actively trading on our own account. Our main source of revenue right now is trading commissions. Even when the new system that we have in development is completed, it seems likely that we will seek to expand the number of accounts and trading value by providing it to users.

Currently, the number of account applications is around 20,000 at Fisco Cryptocurrency Exchange and around 730,000 at Zaif. Assuming the introduction of bitcoin trading commissions at Zaif and the start of new account opening, with the current number of active accounts alone our annual commission revenues could reach an amount commensurate with the amount we have invested. In addition, we plan to take various measures to expand the number of individual participants. With the added impact of a recovery in market conditions, we believe the number of active accounts will increase. Currently trading volume in the Japanese cryptocurrency trading market is seen to be around ¥100 trillion, compared to a foreign exchange margin trading market of around ¥5,000 trillion. There are great expectations for plenty of potential for expansion from now on.

In the FISCO Group, the core of cryptocurrency business is formed by the equity-method affiliate and holding company FISCO Digital Asset Group and its subsidiary, Fisco Cryptocurrency Exchange. The cryptocurrency business environment continues to change rapidly day by day. Responding to this shifting business environment requires distribution of risks arising in the related businesses of cryptocurrency conversion and investment in cryptocurrencies, as well as faster decision-making in each business. We believe that transitioning to a holding company structure will enable us to effectively meet these requirements. Furthermore, we have stopped short of making FISCO Digital Asset Group a subsidiary,

FISCO Group Initiatives

We are aiming to create innovative business models through synergies with Group companies

- ✓ Promote original cryptocurrency strategies leveraging advanced expertise in financial markets
- ✓ Research and develop “token finance” financial services using cryptocurrencies
- ✓ Distribute information and provide investment opportunities to investors
- ✓ Form fair value for cryptocurrencies and tokens

- ✓ Develop blockchain fusion products such as smart contracts leveraging many years of development testing of communications modules and devices
- ✓ Customization capabilities and networks providing products for various industries such as the automotive industry
- ✓ Develop software linked with hardware

- ✓ Provide a range of solutions using blockchain technology, including smart contracts
- ✓ Integrate systems as a platformer
- ✓ New securitized products using digital tokens (system development and operation)

leaving it as an equity-method affiliate, partly to address the distribution of risk to FISCO, which is a listed company, and partly to smooth the way to external fund procurement or an alliance with an external company, which could become vital for expanding the cryptocurrency business going forward.

Recently, the media has reported that regulations are to be tightened regarding ICO fund procurement in which companies issue their own cryptocurrency tokens. The Financial Services Agency is preparing to submit a proposed revision to the related laws to the regular session of the Diet next year. Put another way, the agency is establishing an ICO market by creating rules, and this is likely to lead to market expansion in the future. FISCO also has an alliance relationship with Tech Bureau Holdings, Corp. regarding ICOs, and we believe that expansion of this market will bring significant business opportunities.

Our current focus in the cryptocurrency business is making Zaif profitable, but we are also exploring developments with an eye on the future. These include the provision of bitcoin derivative system trades to corporations, which I mentioned previously, as well as corporate bond issuances using cryptocurrency, crowdfunding, trading on our own account in cryptocurrencies and tokens, starting a cryptocurrency hedge fund to invest directly in tokens, spreading cryptocurrency settlement systems, external sales of cryptocurrency exchange systems with advanced security, and investor education services including basic investment methods. In November 2018, we also started providing the "FISCO app." In the short term, commission revenue will support our earnings going forward, but we also have high expectations for our long-term development.

The cryptocurrency exchange industry has seen a series of unauthorized cryptocurrency outflow incidents, and information security has become increasingly important. In January 2017, the FISCO Group concluded a business alliance with Terilogy Co., Ltd. in the exchange security field. Terilogy has knowledge of security systems using one-time passwords to prevent unauthorized and harmful transactions, such as unauthorized network access and targeted attacks. By promoting and strengthening these systems along with Fisco Cryptocurrency Exchange's security diagnostics, we aim to attain the highest level of security in our exchange operations.

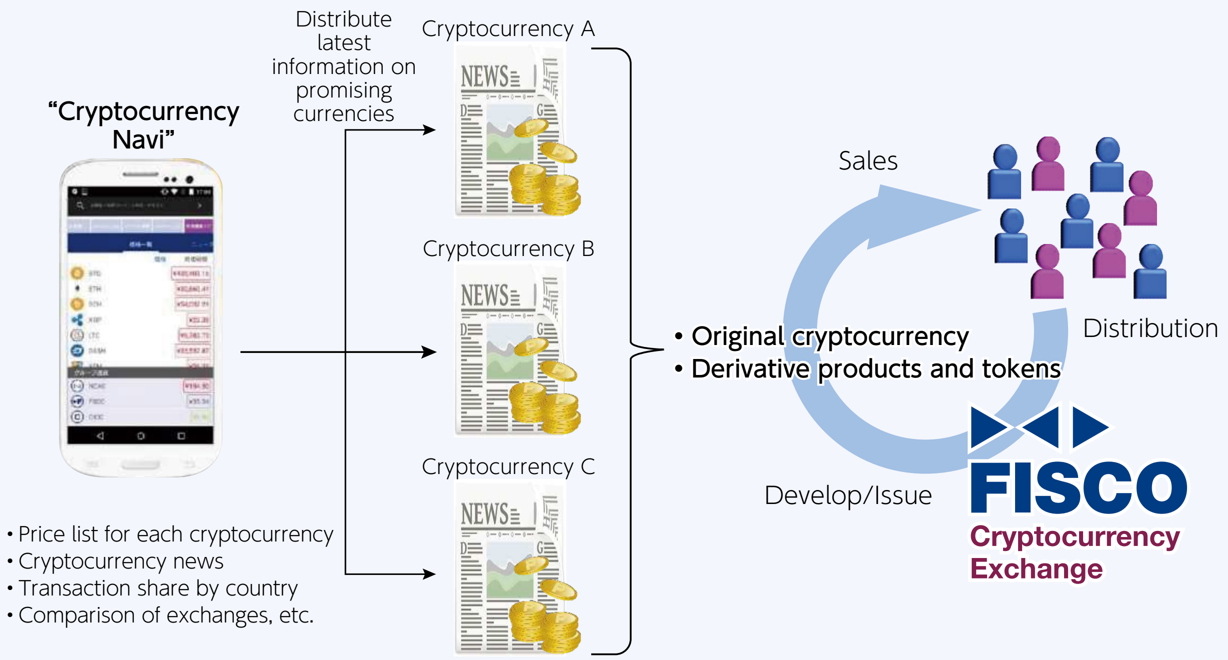
Looking at the main roles played by FISCO Group companies in the cryptocurrency field, NCXX leverages its many years communications module and device development testing experience to develop blockchain fusion products such as smart contracts, utilizes customization capabilities and networks to provide products for various industries such as the automotive industry, and develops software linked to hardware. CAICA and eWarrant Securities provide a range of solutions using blockchain technology, including smart contracts, integrate systems as a platformer, and develop new securitized products using digital tokens. FISCO and Fisco Cryptocurrency Exchange promote original cryptocurrency strategies using their advanced expertise in financial markets, conduct research and development on "token finance" financial services using cryptocurrencies, distribute financial information and provide investment opportunities to investors, and form fair value for cryptocurrencies and tokens.

In our financial results for the fiscal year ending December 31, 2018, we are expecting to report a loss in line with the downward revision of our earnings forecast on December 7. We are forecasting an operating loss of ¥494 million and an ordinary loss of ¥2,078 million. The reason for the downward revision of our earnings forecast is a downturn in net sales at FISCO, FISCO IR Ltd., and NCXX Group Inc., and a downturn in cryptocurrency investment income at Vulcan Crypto Currency Financial Products K.K. associated with a contraction in the amount under management for trading, arbitrage, and so forth. Furthermore, ordinary loss has increased due to the posting of share of loss of entities accounted for using equity method. Fisco Cryptocurrency Exchange prepared cryptocurrency reserves to cover hacking response expenses (compensation for users) upon acquisition of the Zaif business, and a realized loss was recorded for the difference between the acquisition price and the market price on the effective date of the business transfer.

However, we expect that earnings will bottom out in the fiscal year ending December 31, 2018 and recover in the fiscal year ending December 31, 2019, and we expect our cash flow to follow suit. In particular, we can expect to see a recovery in our IoT-related business. Having made some progress in writing down inventory assets and the like, the chance of further declines in sales is low. Moreover, we have already won a major project in devices for the retail industry, which we plan to record in the fiscal year ending December 31, 2019. Agricultural ICT was also affected by a decline in harvests due to inclement weather in 2018, which is expected to have run its course.

■Aim to Become a Leader in Distribution of Information Related to Cryptocurrencies

- Launch the "Cryptocurrency Navi" app and provide investment information in real time
- Continuously strengthen functions while increasing the number of cryptocurrencies, derivative products and tokens handled by Fisco Cryptocurrency Exchange and build an investment environment for them



Existing Businesses

In the information services business, we can expect to increase our sales by reviving the investment advice reports that we had temporarily halted. At FISCO IR, our annual report and integrated reports business declined in the fiscal year ended December 31, 2018, but we now expect this to bottom out. We can expect double-digit sales growth in the Internet travel business, just edging past the break-even point, to have a stronger impact on earnings. With regard to earnings, our policy is to widen our channels for acquiring customers, such as taking applications from Credit Saison, while reviewing our costs. With regard to inbound tourist demand, we will promote tie-ups such as various services with our alliance partner, CCC Group. In our brand retail platform business, we have made progress on adjusting our inventory assets, creating a structure that will deliver profits once sales increase. As inventory disposal losses and wine-related amortization run their course, we can expect to see earnings recover.

In the fiscal year ending December 31, 2019, we anticipate a return to operating profit. However, as I have noted, we expect the share of profit of entities accounted for using the equity method to expand as earnings expand at Fisco Cryptocurrency Exchange atop an increase in commission revenue in the cryptocurrency business. Loss on valuation of cryptocurrency and loss on sales of cryptocurrency recorded as non-operating transactions in the fiscal year ending December 31, 2018 will also run their course, and we expect to see a profit recorded at the ordinary profit level.

FISCO has conducted M&As of a number of companies since e-tabinet.com became the first in September 2011. I think it is fair to say that our results as an investment company have been steady overall. The invested funds have currently increased most at CAICA, where we have already recorded gains on sales of more than ¥3 billion. Moreover, even now that it is no longer an equity-method affiliate, we have continued our capital alliance relationship and it is a vital presence for the FISCO Group's core businesses in fields such as cryptocurrency, FinTech, and AI. CAICA now has the largest synergy with the Group.

We underwrote an initial private placement of shares to raise capital from NCXX Group Inc. and continued to underwrite several subsequent private placements. However, the price of the stock was low at the time of acquisition and our current equity significantly exceeds our total investment amount. For e-tabinet.com, FISCO DIAMOND AGENCY, Inc., Care Dynamics Limited, Chanty Co., Ltd. and others, we believe our profits for the period to date have repaid our investments. D & JOIN INC. and General Solutions, Inc. have directly helped to expand the business field of FISCO IR, while Gloria Tours Inc. has helped to expand that of e-tabinet.com.

In addition, we were able to acquire management rights to TITICACA, Co. Ltd. at the extremely low price of ¥1 per share. As part of the acquisition scheme, we acquired ¥2,003 million in loan claims against TITICACA for ¥8 million, significantly reducing TITICACA's interest-bearing debt by the same amount. Furthermore, on the positive side, consolidating TITICACA has lifted FISCO's top line and successfully launched our entry into the retail business.

Under FISCO's 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.

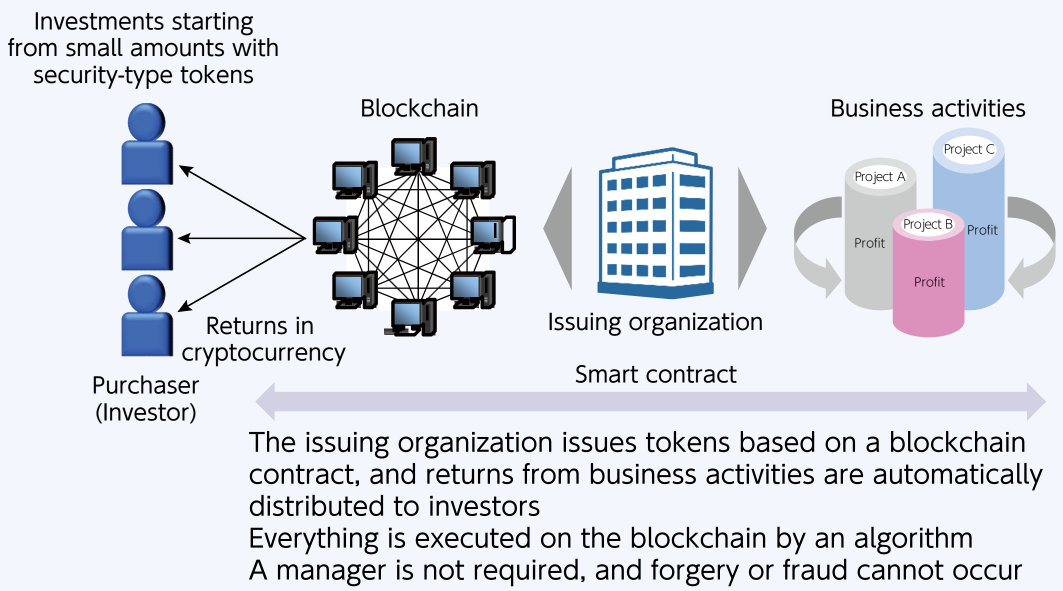
The acquisition of management rights to Zaif, which I mentioned previously, has reduced our cash position, so we have eased the pace of our M&A activity for the time being. However, if the cryptocurrency business finds its trajectory, our cash flow will improve, and we will once again conduct M&As if we find targets that align with our basic M&A strategy.

CSR/ESG

In our CSR activities, the FISCO Group supports the activities of Social Welfare Corporation Zenkoukai. Zenkoukai was established in December 2005 and opened Santa Fe Garden Hills, one of the largest multi-purpose welfare facilities in Japan. Each year, Zenkoukai holds the Santa Festa, a major summer festival, to make Zenkoukai's activities known and provide an opportunity for exchange between clients living in the facility and the local community. Employees from every facility and department in the FISCO Group are working together as a team to make the Santa Festa a success.

Security-Type Token Finance Concept

The issuing organization issues and sells tokens directly on a blockchain and distributes returns from business activities in cryptocurrency to investors. All transactions are completed online, eliminating brokers and associated costs.



* Current Japanese laws present numerous obstacles to realizing this kind of complete security-type token finance. These issues need to be addressed separately.

The FISCO Group also participates 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.

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 twice a year. In addition, we are also looking at distributing FISCO cryptocurrency tokens.

Since we expect the fiscal year ending December 31, 2018 to finish with a loss, regrettably we have decided not to pay a dividend. However, as we are still in the initial investment phase, if we succeed in becoming profitable in the fiscal year ending December 31, 2019, we will recommence dividends immediately.

To Our Shareholders and Investors

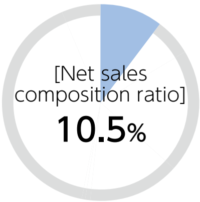
FISCO's growth strategy to date has focused on M&As and the resulting chemistry that forms between the companies. In this regard, the cryptocurrency business is one that FISCO has started from scratch. We invested in Zaif, and we will strive to make it profitable as soon as possible. It seems highly likely that we will enter the era of the "token economy," an economic zone enabled by technological innovation where digital currencies are used for settlement. We are committed to showing everyone the success of our cryptocurrency business when this era arrives.

December 2018

Hitoshi Kano
President and CEO

Information Services Business

[Net sales]
¥1,534 million



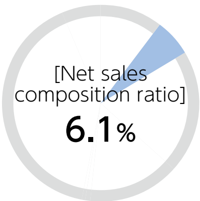
Main Group Companies

- FISCO Ltd.
- FISCO IR Ltd.

In the corporate analysis report service, which the FISCO Group has transferred to FISCO IR Ltd., the Group will develop new products and continue seeking to increase the number of listed company clients by nurturing human resources and strengthening recruitment. In integrated report and annual report services, the Group endeavors to expand shares while retaining existing clients by strengthening human resources involved in frontline operations and enhancing organizational capabilities, along with building an even stronger brand. In platform services, we will continue to enhance profits, implement diversification, and focus efforts on our free smartphone apps, "Cryptocurrency Navi" and "FISCO app," as well as the PC browser version, "FISCO Web."

ICT/IoT/Device Business

[Net sales]
¥893 million



Main Group Companies

- NCXX Group Inc.
- NCXX Inc.
- e frontier, Inc.

In the agricultural ICT business operated by the NCXX Group, the Company will mark its third settled planting since expanding its proprietary testing plot to a total area of 5,421 m^2 (1,640 tsubo) in the fiscal year ended December 31, 2016.

In our sixth-order industrialization initiatives, which involve the growing, processing and sale of agricultural products, the Company has commenced shipments to nationwide supermarket chains, in addition to conducting local farm-direct sales and sales at supermarkets in Iwate Prefecture, with the aim of further expanding sales channels.

In the franchise business, the Company has developed an additional recording and management app for farmers that enables them to monitor harvest and management statistics. It has also advanced development of an environmental management and prediction system that will conduct automated environmental management by comprehensively integrating factors essential to vegetable growth and health management. The Company will strive to ensure that these initiatives lead to increased sales.

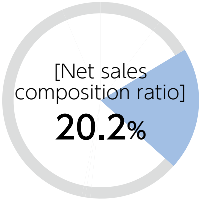
NCXX Inc. will proactively undertake software development using GX410NC, an automotive telematics product. In addition, rather than supplying terminals that only perform data telecommunications, NCXX will augment terminals with high-value-added functions such as AI and image analysis capabilities, in an effort to develop cutting-edge device products.

e frontier, Inc. has a track record in the development and sales of products such as AI Shogi, AI Go and AI Mahjong software programs featuring AI-driven thinking routines. e frontier will develop a cryptocurrency trading system using its AI technologies. In the future, it aims to sell licenses to general consumers and corporate customers who conduct cryptocurrency trading.

In systems development, e frontier will work closely with CAICA Inc., an integrator of all manner of systems development pertaining to cryptocurrency and a partner with whom e frontier has entered into a business alliance. CAICA has a track record of deploying a cryptocurrency derivative system and high-frequency trading system. In e frontier's development project, the company will conduct development by obtaining and analyzing CAICA's past trading information from cryptocurrency exchanges in Japan and abroad (i.e. obtain vast volumes of data including price, order book information and trading volume by price). Furthermore, e frontier will start a cryptocurrency investment management business in earnest based on the use of these systems.

FinTech Systems Development Business

[Net sales]
¥2,947 million



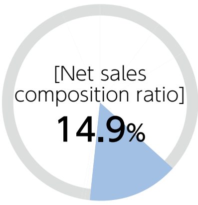
Main Group Companies

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

Care Dynamics Limited will continue to expand sales of its ASP system to nursing care providers. Leveraging its 400-strong network of service customers, Care Dynamics will meet the various needs of the elderly and nursing care facilities with a full range of services. These services include support for the introduction of nursing care robots, including the HAL® robot suit developed by CYBERDYNE Inc. and monitoring systems, as well as services to reduce air conditioning costs and backup power supply services using simple solar panels.

Internet Travel Business

[Net sales]
¥2,180 million



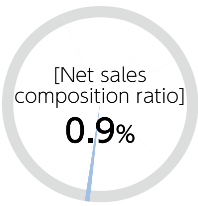
Main Group Companies

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

The e-tabinet.com Group will continue to deliver high-quality personalized travel services brimming with the spirit of hospitality by recommending Kodawari no Tabi ("Journeys for the Discerning Traveler") travel packages. Along with this, the group will focus on recruiting new travel concierges not only from among candidates in Japan, but also those living abroad as it works to upgrade and enhance training courses such as e-learning programs that travel concierges can attend from home. Moreover, the group will proactively form collaborations with leading partners to provide inbound travel services targeting overseas visitors to Japan, with a view to proactively capturing earnings opportunities. Notably, in the fiscal year ending November 30, 2018, the group will push ahead with market development initiatives targeting the European market as well as the Asian region. Meanwhile, in the previous year, the group acquired the shares of Gloria Tours Inc., a company specializing in sending Paralympic athletes to various events and organizing numerous international parasports tournaments. e-tabinet.com will focus on further developing the market for parasports ahead of the 2020 Tokyo Olympic and Paralympic Games. Along with the travel concierge business of Web travel Co., Ltd., e-tabinet.com seeks to build a niche market base that most general travel agencies would find difficult to serve.

Advertising Agency Business

[Net sales]
¥137 million



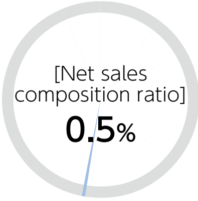
Main Group Companies

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

FISCO DIAMOND AGENCY, Inc. continues to operate at the center of the FISCO Group's advertising agency business, and we will actively seek breakthroughs in the cultivation of new client companies, utilizing the Group's resources to place emphasis on producing content such as videos for internet distribution and media for parasports in light of the upcoming Paralympic Games.

Consulting Business

[Net sales]
¥74 million



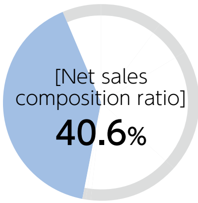
With Versatile Inc. serving as the core of the consulting business, the Group will strive to continue bringing in new customers and increasing orders from clients.

Main Group Companies

- FISCO Ltd.
- FISCO Capital Ltd.
- Versatile Inc.
- FISCO International Limited

Brand Retail Platform Business

[Net sales]
¥5,926 million



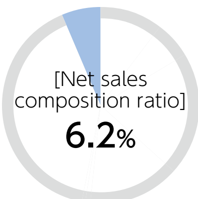
TITICACA, Co. Ltd. has been pushing ahead with the closure of unprofitable stores and revisions to its personnel system. As a result, it restored operating profitability on a full-year basis in October 2017. In addition, TITICACA will work to expand its customer base and put revenues and earnings on an even more stable footing. This will be done by providing services mindful of offering greater customer convenience, such as the release of an official smartphone app and the introduction of mobile payment services for Chinese tourists. Versatile Inc. will implement measures to develop and popularize IoT-related services for the fashion industry, such as clothing and shoes that use fabric with high conductivity and smartwear embedded with sensors, and work to expand the brand retail platform business on a stable footing so that it becomes a new earnings driver. In the process, Versatile will seek to expand the trademark licensing business of CoSTUME NATIONAL, which conducts the marketing, import and sale of fashion accessories, along with business expansion initiatives based on those businesses in Asia.

Main Group Companies

- TITICACA, Co. Ltd.
- Versatile Inc.
- FACETASM

Cryptocurrency and Blockchain Business

[Net sales]
¥900 million



Along with continuing to conduct cryptocurrency trading with its proprietary accounts, the FISCO Group plans to carry out arbitrage transactions for many different kinds of cryptocurrency. The Group will operate a cryptocurrency fund and offer a smartphone app service that registers and transfers ownership rights for artwork using blockchain technology, along with paid services for cryptocurrency trading systems. We will proceed with security and system enhancements for Fisco Cryptocurrency Exchange.

Main Group Companies

- FISCO Digital Asset Group Co., Ltd.
- Fisco Cryptocurrency Exchange Inc.
- Thunder Capital K.K.
- Vulcan Crypto Currency Financial Products K.K.
- e frontier, Inc.

Aiming to Build a Cryptocurrency Platform through the Pursuit of Group Synergies

The FISCO Group's growth strategy is to enable the provision of a complete range of cryptocurrency services centered on bitcoin, covering cryptocurrency information, exchanges, systems, and financial brokerage information, and including integration with IoT and industrial sectors.

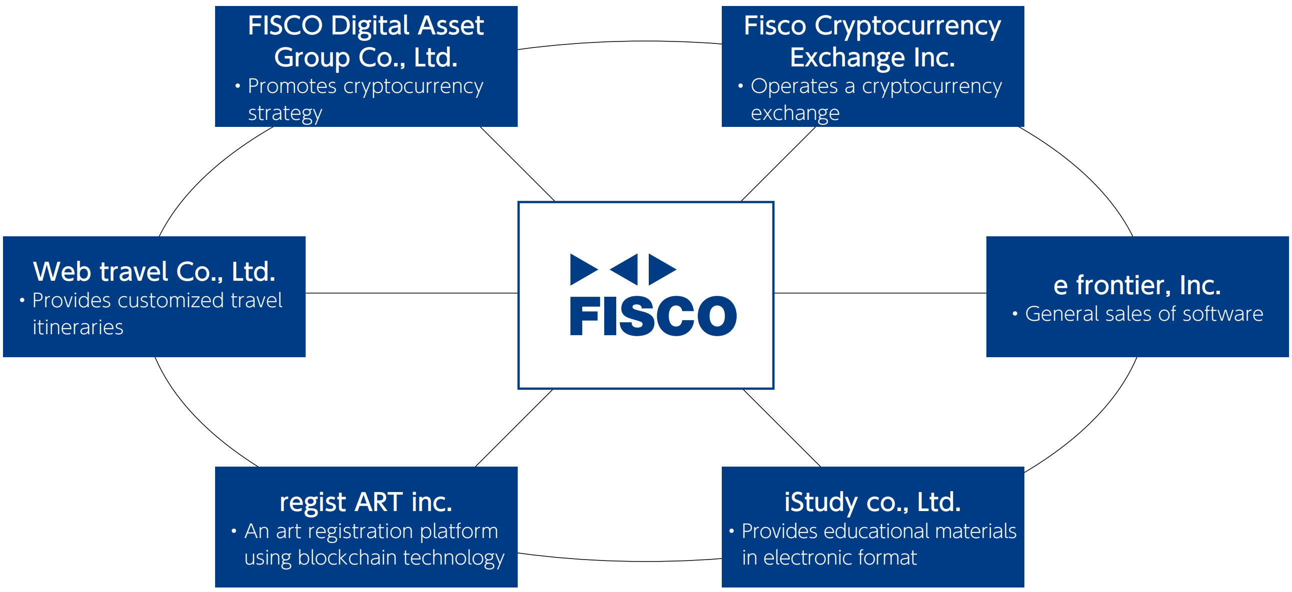
The Group has established FISCO Digital Asset Group to enable it to respond flexibly to the rapidly changing cryptocurrency business environment.

Each cryptocurrency business is operated by separate corporate entities, such as the cryptocurrency exchange operator Fisco Cryptocurrency Exchange and the blockchain technology-based art notary service regist ART. In the future, we plan to build a cryptocurrency platform using the relevant insight and knowledge acquired by pursuing synergies with each Group company.

FISCO has released an app, "Cryptocurrency Navi," which allows users to check information including prices and other news about bitcoin and many other cryptocurrencies (altcoins).

Web travel operates a crowdsourcing business specializing in travel to provide customized travel itineraries. The company has started a bitcoin payment service for its own travel business. The service covers all travel payments for high-value products handled by the company, which have an average price of round ¥600,000. It is operated via cryptocurrency exchange operator Fisco Cryptocurrency Exchange.

■ Sources of Group Synergy in the Cryptocurrency Business



As part of a collaboration with Fisco Cryptocurrency Exchange's capital and business alliance partner, iStudy, we are offering educational content about cryptocurrency investment.

iStudy provides human resource development solutions using training materials that incorporate information technology and e-learning systems. In a cryptocurrency investment e-learning video, FISCO Digital Asset Group Representative Director Masayuki Tashiro appeared as a lecturer. Cryptocurrency investment requires an understanding of technical aspects and risks, and there seems to be a growing social need for investment education services that include basic investment methods. This collaboration is intended to contribute to the sound development of cryptocurrency investment markets in Japan. Looking ahead, we plan to further enhance investment education on cryptocurrencies and develop a curriculum.

e frontier has started development of a cryptocurrency trading system that uses artificial intelligence (AI) technologies. Leveraging its experience in software development, e frontier is considering the development of investment decision-making functions using probabilistic decision-making

■ Corporate Tokens Handled by Fisco Cryptocurrency Exchange

processes based on accumulated data logs, as well as genetic algorithms and machine learning techniques. In the future, e frontier aims to sell licenses to general consumers and corporate customers who conduct cryptocurrency trading. e frontier will aim to use the system to support derivative trading in various tokens, such as FISCO Coin, NCXX Coin and CAICA Coin, in addition to cryptocurrencies such as bitcoin.

Fisco Cryptocurrency Exchange is involved in developing and managing cryptocurrency-denominated finance and other cryptocurrency-related products, and provides bitcoin derivative high-frequency trading (HFT) for corporations. The company is also registered as a virtual currency exchange service provider as provided in Article 2-8 of the Payment Services Act. Fisco Cryptocurrency Exchange has started a new system offering a higher degree of freedom with the goal of providing diverse services.

In light of the recent changes in the cryptocurrency business environment, the new system includes a mechanism for monitoring suspicious transactions as an anti-money laundering/combating the financing of terrorism (AML/CFT) measure. Fisco Cryptocurrency Exchange also conducted joint testing with an external testing provider as well as penetration testing by a company specializing in cybersecurity. The company plans to continue regular testing by specialist cybersecurity companies going forward. Other planned measures to expand the system include increasing the lineup of cryptocurrencies handled, providing a smartphone app (in consideration of phishing countermeasures), and adding an automatic trading system (an automatic trading tool that can buy and sell in accordance with preset conditions). By enhancing its proprietary services and functions, Fisco Cryptocurrency Exchange aims to grow the number of exchange users and trading volume going forward.

The FISCO Group will continue to develop and provide unique cryptocurrency services by making use of the experience and expertise it has cultivated in the financial markets as well as Group synergies. Please look forward to future developments in the FISCO Group's cryptocurrency business and the advance of its upcoming token economy.

State-of-the-Art Platform Service, regist ART, at regist ART Inc.

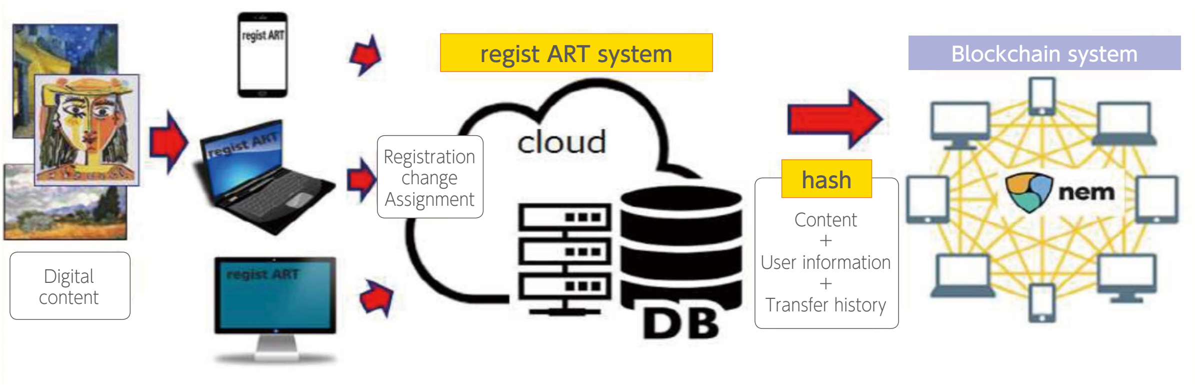
The Group has launched regist ART, the art world's first public notary platform service based on cryptocurrency and blockchain tokens. regist ART is the first application in the industry that transfers records of artists and their works digitally and uses a blockchain to enable tamperproof registration and transfer of rights.

In the art world, artists' works have traditionally been bought and sold between brokers, with ownership rights managed using analogue systems. For this reason, up until now there has been no practice of registering ownership rights for artworks in the course of the transactions, and authenticity information for the works has been somewhat opaque.

The information registered on regist ART is recorded on a public blockchain. Furthermore, the registration information is not an information asset of regist ART, but can be freely recorded and viewed by anyone. In addition, regist ART creates records of the registered artwork and its associated tamperproof digital certificate on a blockchain. Collectors and investors can buy and sell the certificates on the regist ART exchange (market). Regardless of who received transfer of the certificate and by what route, the record is recorded on the blockchain giving all regist ART users an electronic catalogue raisonné that enables highly reliable information and important artworks to be passed down to future generations.

regist ART Inc. has created an open and fair art marketplace based on this platform, thereby establishing a digital foundation that can be used by various artists around the world.

■ Features of regist ART



1 Data is stored in a blockchain

Original art images are stored on the regist ART server, then a hash value is generated together with a digital photograph that serves as documented evidence of the work and user information. This is stored permanently on a blockchain where it cannot be modified.

Main functions:
- View art registered on the system (can be used as a virtual gallery)
- Issues art certificate
- Art transfer (transfer records are stored in a blockchain and can be traced)

2 The blockchain uses NEM

- NEM offers world-leading safety and scalability, and is designed ultimately to become the world's most widely used smart contract platform.
- NEM security has unique features that are not used by other cryptocurrencies. It uses the EigenTrust++ algorithm for determining note importance, which greatly enhances network security.
- NEM supports multi-signing for multiple accounts on a blockchain system from the start of the process. It enables the safety of contracts for buying and selling or transferring rights to be assured. regist ART uses a multi-signing system for transfer of artworks as well.
- NEM has surpassed Ethereum since the release of Catapult, and has the potential to become the world's leading smart contract platform.

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 values 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

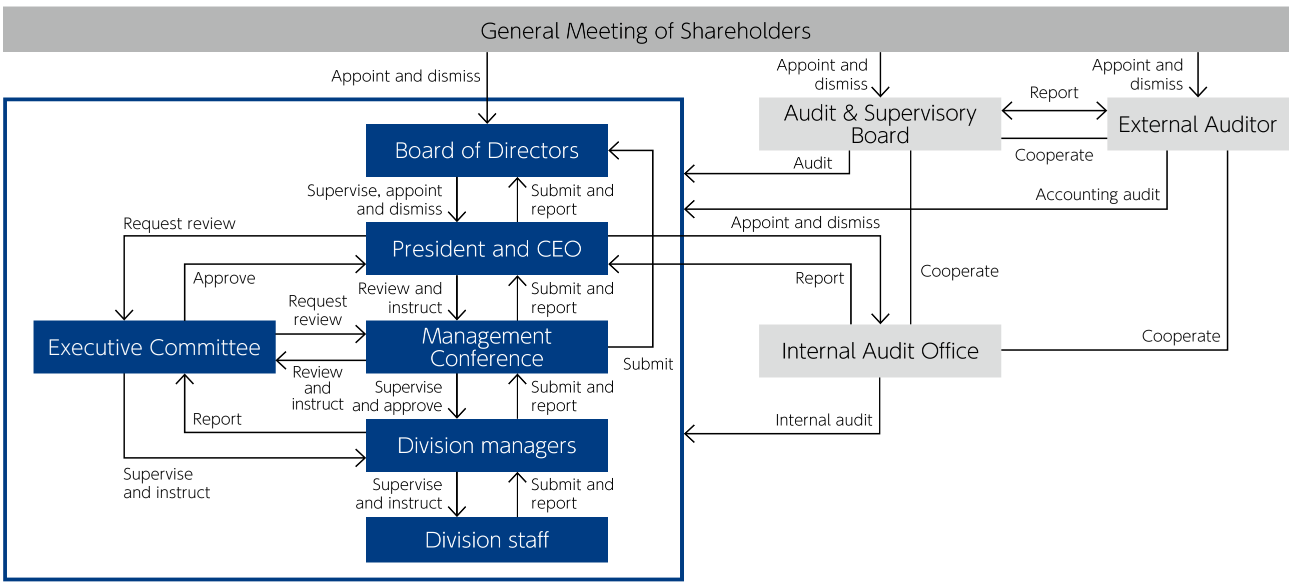
FISCO has a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor. The Board of Directors has six directors, one of whom is an outside director. The Board of Directors meets every month in accordance with the Board of Directors Regulations. At meetings, the Board of Directors first examines proposals pursuant to laws and regulations and the Articles of Incorporation. The board then verifies the achievement of targets 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 matrices. 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 to 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. 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. 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. 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. 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)	35,289	35,289	—	—	—	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	—	—	—	—	—	—
Outside corporate officers	6,200	6,200	—	—	—	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, to which the Group's ICT/IoT/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, Act on Specified Commercial Transactions, and intellectual property laws, as well as by the Payment Services Act. 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, the ICT/IoT/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, consulting business (including fund arrangement and management services), ICT/IoT/device business, Internet travel business, advertising agency business, FinTech systems development business, brand retail platform business, cryptocurrency and blockchain 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, ICT/IoT/device business, and 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, consulting business, and 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 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 567,500 shares (1,935 rights) as of December 31, 2017. Those dilutive shares represent approximately 1.5% 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.

(17) Cryptocurrency Exchange Business

The Group company Fisco Cryptocurrency Exchange has registered as a cryptocurrency exchange operator with Japan's Financial Services Agency and other local finance bureaus. The situation is currently fluid in regards to regulations and tax systems for parties concerned with cryptocurrency transactions. This means that in the future, there is the possibility that cryptocurrency transactions may be prohibited, regulated, or taxed due to policy changes, or limitations placed on cryptocurrency retention or transactions (hereafter "risks due to changes in regulation or taxation"). Furthermore, Fisco Cryptocurrency Exchange may be unable to continue business operations due to changes in the external environment, including risks due to changes in regulation or taxation, or other issues such as bankruptcy of subcontractors who provide services necessary to maintaining the company's system. Changes in business results for Fisco Cryptocurrency Exchange due to these risks could affect the Group's business performance and financial position.

(18) Loss of Cryptocurrency Due to Cyberattacks

At Fisco Cryptocurrency Exchange, customers deposit their held cryptocurrency into electronic wallets which are managed by the company. The Group also conducts cryptocurrency investments through processes that use intermediary electronic transactions systems between cryptocurrency exchanges within and outside Japan. There is the possibility that cryptocurrency retained in electronic wallets may be lost due to an unauthorized third party accessing the electronic wallets, and the Group may be unable to retrieve cryptocurrency lost in such an incident. This could lead to large reimbursement sums for customers due to either a loss of the Group-retained cryptocurrency or customer-retained cryptocurrency, while also affecting the Group's business performance, financial position, and business development going forward.

(19) Fluctuations in Cryptocurrency Prices

As the Group currently holds cryptocurrency and operates a cryptocurrency exchange, there is the possibility that fluctuations in cryptocurrency prices due to a variety of factors could affect the Group's business performance and financial position.

Corporate Officers (as of December 31, 2017)

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) 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

Second Sale of Charity T-Shirts Produced by TITICACA and Alice Hirose
—¥500 from each Double Smile T-shirt is donated to developing countries—

Japanese actress Alice Hirose visited the Philippines and India as a participant in the "I've Gotta Do Something! Project," a program that has an executive committee comprised of JICA, JANIC, UNDP and other organizations with the purpose of sharing social issues and support in developing countries with the public. Ms. Hirose was shocked when she encountered the harsh realities of women working at a garbage disposal site in the Payatas ward of Quezon City in the Philippines. At a facility receiving support from an aid organization to create embroidery trinkets, local residents told her, "We are able to receive income so it has become easier to live," and she then understood the importance of job creation in developing countries. Upon returning to Japan, Ms. Hirose decided she wanted to help and used her interest in the fashion world to collaborate and develop the "HAPPY TRADE COLLECTION" with TITICACA, creating original T-shirts in which a portion of the proceeds are returned to product manufacturers in developing countries. The collaboration reflected Ms. Hirose's desire for both those who made the T-shirts and those who bought them to be happy, with ¥500 donated to help people in the Philippines for each charity T-shirt sold.

Hosting Cryptocurrency Seminars for Beginners All Over Japan with 1,000 Participants in Total

There has been growing interest in recent years on new FinTech services that combine finance and information technology, with a particularly high focus on cryptocurrency such as bitcoin due to legal restrictions introduced in April; thus FISCO hosted seminars revolving around bitcoin, with explanations by FISCO analysts and reporters ranging from the fundamentals of bitcoin investment to investment law that were simple enough for novices to understand.

Cosponsorship of a Motorcycle Ride Event with Disabled Participants Hosted by Kazenokai

As part of its social contribution activities, the FISCO Group cosponsored an event in which the volunteer group Kazenokai gathered current and former riders who competed in the Suzuka 8 Hours Endurance Race on the day before the championship (July 29 in 2017), and arranged a tandem ride with disabled participants. The participants sat in the passenger's seat of the motorcycles as the riders made laps around the actual Suzuka Circuit course.

The impetus for establishing Kazenokai stems from an encounter by its representative Masaru Mizutani, a former racer. At a motorcycle-riding experience held on a test course, Mr. Mizutani approached a person in a wheelchair who came to watch the event. He had the person sit on the back of his motorcycle and took them for a tandem ride. When turning a corner, Mr. Mizutani felt the person exerting force to stay in the seat, even though their legs would not be expected to move. Mr. Mizutani thought this might contribute in part to rehabilitation efforts and began undertaking full-scale volunteer activities. Kazenokai helps fulfill disabled people's desire to ride motorcycles and directly feel the exhilaration of the wind (*kaze*) through tandem motorcycle rides.

Release of "FISCO Job Hunting and Company Report 2019" Smartphone App That Discloses Detailed Company Information Essential for Job-Hunting

The "FISCO Job Hunting and Company Report 2019" app allows users to check corporate profiles, including commentary written by analysts, for approximately 3,600 publicly listed companies in Japan as well as unlisted companies (initially 30 companies). Users can also view information on their smartphones for free that cannot be easily found using other job-hunting apps, such as business performance data and investor relations information, in addition to details such as number of employees, average employee age, average number of years that employees stay at a given company, and average yearly salary. The app is expected to allow users to perform more detailed and effective research on companies, an essential part of job-hunting. In addition, company search and screening functions have been enhanced and users can manage their options just by adding companies in which they have taken an interest to their "Favorites." The app also has a note-taking function that enables users to write and retain pertinent information during job hunting. Going forward, FISCO will reinforce and expand upon information for unlisted companies in addition to listed companies.

April 2017

Fisco Cryptocurrency Exchange's Capital and Business Partnership with SHINWA AUCTION Boosts Promotion of Cryptocurrency Payments and the Blockchain Business in the Art Industry

SHINWA AUCTION CO., LTD. is Japan's largest operating company for artwork auctions, primarily dealing in modern art as well as paintings from overseas, modern ceramics, and antiques. The company is taking the lead in managing cryptocurrency payments in the art industry, with initiatives such as the decision to introduce bitcoin as a payment method for its auctions. Going forward, SHINWA AUCTION is working alongside Fisco Cryptocurrency Exchange to conduct joint development in fields related to cryptocurrency and verification testing for blockchain technology.

April 2017

Second Series for the AI Engine "Scorobo® for Fintech" Debuted on TV TOKYO's MORNING SATELLITE NEWS Program as Part of TDSE and FISCO's FinTech Strategy

Continuing on from the first series of reporting services for individual investors that utilize TDSE's stock price forecast system "Scorobo® for Fintech" to predict upturns for stock issues specially chosen by AI, the second series uses AI that predicts economic indicators, and provides multiple economic indicator forecasts on the "Foreseeing AI" segment of TV TOKYO Corporation's MORNING SATELLITE NEWS program. The AI handles big data for items such as chief economic indicators in Japan, the US, and Europe (country GDP, market sentiment, commodity price, employment, trade balance, etc.), stock prices, and financial statements, while FISCO analysts and data scientists use their experience and knowledge to create future indicator predictions every Monday for dollar-to-yen exchange rates, 10-year bonds, and products such as NY crude oil.

October 2017

Fisco Cryptocurrency Exchange Holding Company FISCO Digital Asset Group Was Established to Accelerate Decision-Making in a Fluid Cryptocurrency Business Environment

The cryptocurrency business remains in a state of dramatic flux on a daily basis. To address this changing business environment, we must now diversify the risks we face in each relevant cryptocurrency businesses, such as the cryptocurrency exchange and investment businesses targeting cryptocurrency, in conjunction with speeding up decision-making in each business. To achieve this, the FISCO Group established FISCO Digital Asset Group. With the establishment of this company, the FISCO Group will promote strategies for its own cryptocurrency, which utilizes quality expertise in the financial markets it owns, and accelerate the development and expansion of various services and products related to cryptocurrency.

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

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.) ▪ Issue a parasports magazine (Jitsugyo no Nihon Sha, Ltd.) ▪ Develop a nursing care robot (Care Dynamics Limited) ▪ 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 Promote an active role for women Promote employment of people with disabilities	▪ Standards and education system created for managers and administrative employees • Review of work details accompanying organizational review (in progress)	×
		▪ Respect employee diversity (33 people incl. part-time) • Employed people with disabilities (0 people) • Employed foreign workers (3 people) • Actively employed women (11 people) • Continued to employ people aged 60 and over (1 person)	○
		▪ Established environments easy to work in • 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 • Gone paperless to the extent capable depending on work details • 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, 2017)

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.

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.

CAICA Inc.

The CAICA Group'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. proposes freely chosen travel in France that differs from package tours, provides support for studying abroad in France based on the company's roughly 40 years of experience and abundant information, and supports athletes and competition staff involved in international parasports tournaments through travel arrangements, competition management, and more.

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.

e frontier, Inc.

While e frontier, Inc. conducts general sales of software, the company particularly excels in the field of computer graphic production software. This software is supported by many creators and utilized on-site in applications such as layout, design, visual content, and game production.

FISCO International Limited

FISCO Capital Ltd.

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

Business Performance

In July 2017, the Company's consolidated subsidiary, Web travel Co., Ltd., began taking payments in bitcoin in the travel business. The bitcoin payments were conducted through a cryptocurrency exchange operated by the Company's consolidated subsidiary Fisco Cryptocurrency Exchange Inc. In August 2017, Fisco Cryptocurrency Exchange developed the "First Series of Unsecured Bitcoin-Denominated Bonds" (the "Bitcoin Bonds"), Japan's first bitcoin-denominated bonds, as a new form of fund procurement using cryptocurrency, and decided to issue the Bitcoin Bonds on a trial basis to its Group companies.

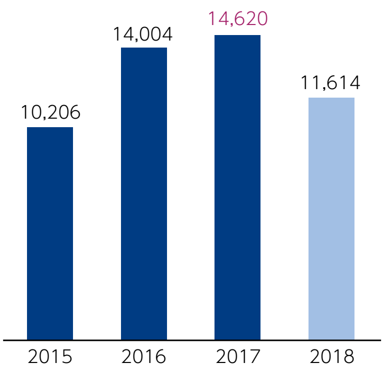
Furthermore, the Company's subsidiary, NCXX Group Inc., and iStudy co., Ltd. entered into a business alliance. In conjunction, the Company's subsidiary, e frontier, Inc., subscribed to a private placement of new shares conducted by iStudy to raise capital and entered a capital and business alliance that included Fisco Cryptocurrency Exchange. iStudy will engage in sales of e-learning through an e-commerce website operated by e frontier and has started providing investment education content in collaboration with Fisco Cryptocurrency Exchange.

In other initiatives, as the Group's equity stake in CAICA Inc. decreases, the Company has concluded a capital and business alliance agreement with CAICA to maintain strategic synergy that will enable provision of integrated one-stop currency services through cryptocurrency and blockchain technology. In September 2017, Fisco Cryptocurrency Exchange was registered as a virtual currency exchange service provider as provided in Article 2-8 of the Payment Services Act (Kinki Treasury Bureau No. 00001).

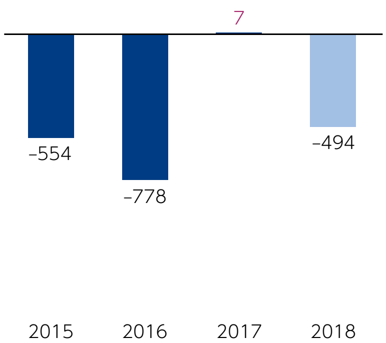
On October 4, 2017, the Company established the holding company FISCO Digital Asset Group Co., Ltd. in response to the rapidly changing environment of the cryptocurrency business. On December 29, 2017, Group companies engaged in operations involving investment in cryptocurrencies, such as the cryptocurrency exchange operator Fisco Cryptocurrency Exchange, were successfully transferred into a holding company structure as subsidiaries of FISCO Digital Asset Group.

As a result, consolidated net sales for fiscal 2017 were ¥14,620 million, up 4.4% year on year. The increase reflects the new consolidation of TITICACA, Co. Ltd., which is a retailer of general merchandise, apparel and other items, and Thunder Capital K.K., which operates an investment business related to cryptocurrencies, despite the deconsolidation of CAICA. Cost of sales was ¥8,334 million, down 22.7% year on year, mainly attributable to the deconsolidation of CAICA, whose cost of sales amount exceeded that of TITICACA. Selling, general and

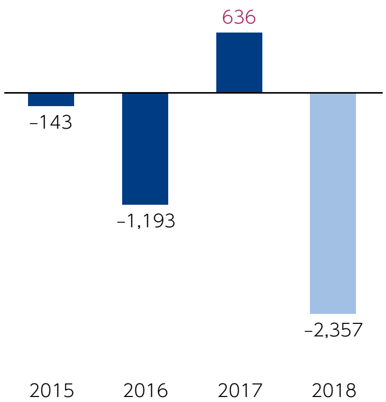
Net Sales (¥ million)



Operating Income (Loss) (¥ million)



Net Income (Loss) Attributable to Owners of Parent (¥ million)



administrative expenses were ¥6,278 million, up 56.7%, or ¥2,271 million, year on year. This mainly reflected the new consolidation of TITICACA and an increase in research and development expenses and advertising and promotion expenses in the agricultural ICT business. As a result, operating income was ¥7 million compared to operating loss of ¥778 million in the previous fiscal year and ordinary loss was ¥59 million, compared to ordinary loss of ¥1,003 million in the previous fiscal year.

The Company recorded net income attributable to owners of parent of ¥636 million (compared to a net loss attributable to owners of parent of ¥1,193 million in the previous fiscal year), a significant increase in earnings from the previous fiscal year. The result was mainly attributable to recording ¥3,733 million in extraordinary income, such as ¥817 million in gain on sales of shares of affiliates from the sale of CAICA shares by NCXX Group and ¥2,870 million in gain on sales of investment securities. The gains were partially offset by recording extraordinary losses of ¥1,876 million, mainly due to impairment of goodwill and trademark rights related to Versatile Inc.

Total current assets increased by ¥4,688 million from a year ago. This was mainly due to increases of ¥1,339 million in cash and deposits, ¥949 million in deposits paid, and ¥2,322 in cryptocurrency, which has been newly recognized. Noncurrent assets declined ¥3,403 million from the end of the previous fiscal year. This was due to decreases of ¥4,979 million in goodwill, ¥1,388 million in long-term accounts receivable—other, and ¥782 million in trademark rights. These were partly offset by an increase of ¥3,444 million in investment securities.

Total liabilities were ¥10,482 million, a decrease of ¥527 million from ¥11,010 million a year earlier. This was due to decreases of ¥1,258 million in long-term loans payable and ¥1,087 million in current portion of long-term loans payable, which were partly offset by an increase of ¥2,178 million in deposits received in the form of customer assets at Fisco Cryptocurrency Exchange.

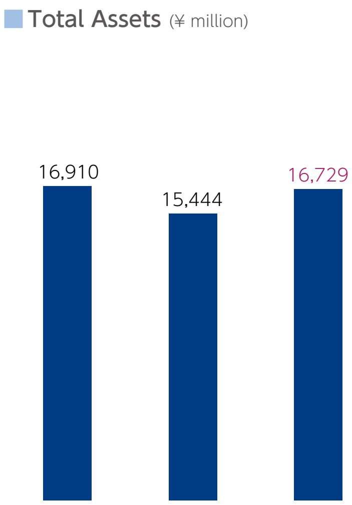
Total net assets were ¥6,246 million, an increase of ¥1,811 million from a year earlier. The main contributing factors were increases of ¥636 million in retained earnings and ¥1,196 million in non-controlling interests.

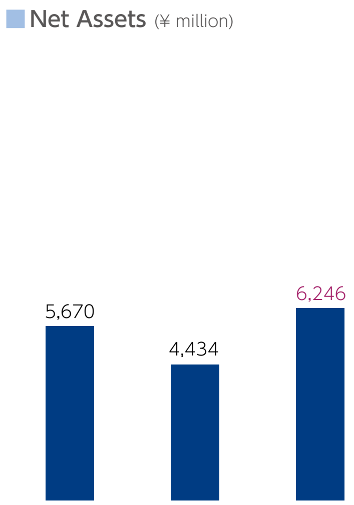
Assets, Liabilities and Net Assets

Total assets were ¥16,729 million as of December 31, 2017, an increase of ¥1,284 million from the previous fiscal year-end.

Cash Flows

Cash and cash equivalents at December 31, 2017 were ¥3,596 million, an increase of ¥1,339 million from the previous fiscal year-end.





Cash Flows from Operating Activities

Net cash used in operating activities was ¥328 million, compared with net cash used in operating activities of ¥9 million in the previous fiscal year. The main contributing factors were increases of ¥2,164 million in deposits received, ¥936 million in cryptocurrency, ¥479 million in advance payments, and ¥1,108 million in deposits paid.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥3,915 million, compared with net cash provided by investing activities of ¥665 million in the previous fiscal year. The main contributing factors were ¥6,637 million in proceeds from sales of investment securities, partly offset by ¥2,930 million in payments for purchase of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,209 million, compared with net cash used in financing activities of ¥1,898 million in the previous fiscal year. The main contributing factors were ¥549 million in proceeds from stock issuance to non-controlling shareholders (a private placement of shares to increase capital conducted by Fisco Cryptocurrency Exchange) and ¥583 million in proceeds from long-term loans payable, which were offset by ¥2,489 million in repayments of long-term loans payable.

Segment Information

Information Services Business

In the information services business, net sales were ¥1,534 million, up 2.4% year on year, and segment income was ¥450 million, up 24.7% year on year.

ICT/IoT/Device Business

In the ICT/IoT/device business, net sales were ¥893 million, down 29.9% year on year due to a decline in orders from a major customer at NCXX Inc. However, segment loss was ¥359 million compared to segment loss of ¥511 million in the previous fiscal year as a result of cost reductions.

FinTech Systems Development Business

In the FinTech systems development business, net sales were ¥2,947 million, down 61.8% year on year, mainly due to the conversion of NCXX Solutions Inc. and CAICA to equity-method affiliates. Segment loss was ¥7 million compared to segment loss of ¥147 million in the previous fiscal year due to a decrease in selling, general and administrative expenses.

Internet Travel Business

In the Internet travel business, net sales were ¥2,180 million, up 34.3% year on year, mainly reflecting the consolidation of Gloria Tours Inc. for the entire fiscal year, unlike the previous fiscal year when it was consolidated in October 2016. Segment income was ¥15 million, up 377.1% year on year.

Advertising Agency Business

In the advertising agency business, net sales were ¥137 million, down 57.1% year on year, and segment loss was ¥34 million compared to segment loss of ¥50 million in the previous fiscal year.

Consulting Business

In the consulting business, net sales were ¥74 million, up 108% year on year, and segment income was ¥29 million compared to segment loss of ¥50 million in the previous fiscal year.

Brand Retail Platform Business

In the brand retail platform business, net sales were ¥5,926 million, up 290.7% year on year, and segment loss was ¥14 million compared to segment loss of ¥18 million in the previous fiscal year.

Cryptocurrency and Blockchain Business

In the cryptocurrency and blockchain business, net sales were ¥900 million and segment income was ¥750 million.

Consolidated Balance Sheets

(As of December 31, 2016 and 2017)

(¥ thousand)

	2016	2017
Assets		
Current assets		
Cash and deposits	¥ 2,292,997	¥ 3,632,378
Notes and accounts receivable—trade	1,932,241	802,279
Cryptocurrency	—	2,322,145
Loaned cryptocurrency	—	305,575
Merchandise and finished goods	907,837	1,067,217
Work in process	233,536	298,963
Raw materials and supplies	7,746	3,632
Short-term loans receivable	55,760	15,000
Accounts receivable—other	93,128	116,425
Deposits paid	44,165	993,481
Advance payments—trade	500,455	970,582
Prepaid expenses	151,455	68,758
Deferred tax assets	73,777	27,489
Other	68,143	272,817
Allowance for doubtful accounts	(206,153)	(53,181)
Total current assets	6,155,091	10,843,566
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,485,722	1,527,521
Accumulated depreciation	(806,593)	(1,176,699)
Buildings and structures, net	679,128	350,821
Tools, furniture and fixtures	1,195,724	1,191,891
Accumulated depreciation	(979,220)	(979,270)
Accumulated impairment loss	(1,140)	(1,140)
Tools, furniture and fixtures, net	215,362	193,480
Land	666,061	192,132
Lease assets	29,544	18,154
Accumulated depreciation	(16,271)	(10,224)
Lease assets, net	13,273	7,930
Construction in progress	135	—
Other	103,035	89,553
Accumulated depreciation	(72,128)	(65,410)
Other, net	30,907	24,142
Total property, plant and equipment	1,604,868	768,507
Intangible assets		
Trademark rights	788,782	6,300
Software	147,431	140,838
Goodwill	5,468,286	489,224
Other	66,287	6,536
Total intangible assets	6,470,788	642,898
Investments and other assets		
Investment securities	315,524	3,759,970
Guarantee deposits	866,448	671,171
Long-term loans receivable	250,524	60,140
Long-term accounts receivable—other	1,560,433	171,871
Deferred tax assets	107	41
Other	29,622	38,799
Allowance for doubtful accounts	(1,808,557)	(227,582)
Total investments and other assets	1,214,104	4,474,412
Total noncurrent assets	9,289,762	5,885,818
Total assets	¥15,444,853	¥16,729,384

(¥ thousand)

	2016	2017
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 629,844	¥ 630,980
Current portion of convertible bonds with share acquisition rights	300,000	1,165,000
Short-term loans payable	407,334	357,960
Current portion of long-term loans payable	2,183,214	1,095,656
Advances received	313,212	317,953
Income taxes payable	61,108	72,114
Deposits received	79,616	2,258,500
Accounts payable—other	381,204	334,027
Asset retirement obligations	63,815	28,780
Accrued expenses	290,673	356,897
Deferred tax liabilities	—	121,479
Provision for product warranties	92,000	106,000
Provision for bonuses	186,659	67,796
Provision for loss on store closings	64,284	16,592
Provision for sales returns	—	13,376
Other	171,379	63,103
Total current liabilities	5,224,347	7,006,220
Noncurrent liabilities		
Long-term loans payable	3,277,735	2,019,242
Convertible bonds with subscription rights to shares	1,165,000	—
Net defined benefit liability	49,295	46,644
Asset retirement obligations	335,224	360,907
Long-term accounts payable—other	179,141	212,743
Deferred tax liabilities	728,142	799,119
Other	51,198	37,947
Total noncurrent liabilities	5,785,737	3,476,604
Total liabilities	11,010,085	10,482,825

Net assets		
Shareholders' equity		
Capital stock	1,242,022	1,266,625
Capital surplus	685,355	634,114
Retained earnings	(112,445)	523,737
Treasury stock	(10,351)	(10,351)
Total shareholders' equity	1,804,580	2,414,126
Accumulated other comprehensive income		
Valuation difference on other available-for-sale securities	19,020	87,131
Deferred gains (losses) on hedges	1,131	(57)
Foreign currency translation adjustments	141,526	99,681
Total accumulated other comprehensive income	161,677	186,755
Subscription rights to shares	60,700	41,631
Non-controlling interests	2,407,809	3,604,046
Total net assets	4,434,768	6,246,559
Total liabilities and net assets	¥15,444,853	¥16,729,384

Consolidated Statements of Income

(Years ended December 31, 2016 and 2017)

(¥ thousand)

	2016	2017
Net sales	¥14,004,597	¥14,620,682
Cost of sales	10,776,246	8,334,889
Gross profit	3,228,351	6,285,792
Selling, general and administrative expenses	4,006,817	6,278,748
Operating income (loss)	(778,466)	7,044
Non-operating income		
Interest income	7,049	6,332
Share of profit of entities accounted for using equity method	—	15,903
Foreign exchange gains	—	43,063
House rent income	19,946	14,466
Other	18,818	39,588
Total non-operating income	45,813	119,355
Non-operating expenses		
Interest expenses	169,805	86,759
Foreign exchange losses	57,749	—
Commission fees	10,526	53,889
Other	32,940	45,379
Total non-operating expenses	271,021	186,028
Ordinary loss	(1,003,674)	(59,628)
Extraordinary income		
Gain on change in equity	—	25,605
Gain on bargain purchase	36,745	—
Gain on sales of noncurrent assets	933	553
Gain on sales of investment securities	—	2,870,295
Gain on sales of shares of affiliates	182,271	817,624
Reversal of allowance for doubtful accounts	28,665	2,968
Gain on reversal of estimated damages on delays	58,586	—
Other	33,275	16,789
Total extraordinary income	340,478	3,733,837
Extraordinary losses		
Loss on sales of noncurrent assets	4,152	115,600
Loss on retirement of property, plant and equipment	7,531	6,912
Impairment loss	764,356	1,719,144
Loss on valuation of investment securities	867	—
Provision for loss on store closings	12,850	—
Provision for allowance for doubtful accounts	66,070	—
Other	3,554	34,809
Total extraordinary losses	859,383	1,876,466
Net income (loss) before income taxes	(1,522,579)	1,797,741
Income taxes	40,277	159,285
Income taxes—deferred	(7)	169,193
Total income taxes	40,269	328,478
Net income (loss)	(1,562,848)	1,469,263
Net income (loss) attributable to non-controlling interests	(369,365)	832,544
Net income (loss) attributable to owners of parent	¥ (1,193,483)	¥ 636,719

Consolidated Statements of Comprehensive Income

(Years ended December 31, 2016 and 2017)

		(¥ thousand)
	2016	2017
Net income (loss)	¥(1,562,848)	¥1,469,263
Other comprehensive income (loss)		
Valuation difference on other available-for-sale securities	(1,855)	67,899
Deferred (losses) gains on hedges	1,116	(1,188)
Foreign currency translation adjustments	(72,904)	(41,841)
Share of other comprehensive income of entities accounted for using equity method	—	208
Total other comprehensive income (loss)	(73,642)	25,077
Total comprehensive income (loss)	¥(1,636,491)	¥1,494,341
Comprehensive income (loss) attributable to:		
Owners of parent	¥(1,206,883)	¥ 578,101
Non-controlling interests	(429,607)	916,239

Consolidated Statements of Changes in Net Assets

(Years ended December 31, 2016 and 2017)

(¥ 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					
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation					—
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)
Net 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							
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation							—
Issuance of new shares (execution of subscription rights to shares)							62,886
Dividends from surplus—other capital surplus							(109,103)
Net 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	¥2,407,809	¥4,434,768

(¥ thousand)

Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the fiscal year	¥1,242,022	¥685,355	¥(112,445)	¥(10,351)	¥1,804,580
Changes during the fiscal year					
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation			(536)		(536)
Issuance of new shares (execution of subscription rights to shares)	24,602	24,602			49,205
Dividends from surplus—other capital surplus		(112,812)			(112,812)
Net income attributable to owners of parent			636,719		636,719
Disposal of treasury stock					—
Change in equity due to transaction with non-controlling interests		36,970			36,970
Net changes of items other than shareholders' equity					—
Total changes during the fiscal year	24,602	(51,240)	636,183	—	609,545
Balance at the end of the fiscal year	¥1,266,625	¥634,114	¥ 523,737	¥(10,351)	¥2,414,126

(¥ thousand)

Fiscal 2017 (From January 1, 2017 to December 31, 2017)	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	¥19,020	¥ 1,131	¥141,526	¥161,677	¥60,700	¥2,407,809	¥4,434,768
Changes during the fiscal year							
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation							(536)
Issuance of new shares (execution of subscription rights to shares)							49,205
Dividends from surplus—other capital surplus							(112,812)
Net income attributable to owners of parent							636,719
Disposal of treasury stock							—
Change in equity due to transaction with non-controlling interests							36,970
Net changes of items other than shareholders' equity	68,110	(1,188)	(41,844)	25,077	(19,068)	1,196,236	1,202,245
Total changes during the fiscal year	68,110	(1,188)	(41,844)	25,077	(19,068)	1,196,236	1,811,791
Balance at the end of the fiscal year	¥87,131	¥ (57)	¥ 99,681	¥186,755	¥41,631	¥3,604,046	¥6,246,559

Consolidated Statements of Cash Flows

(Years ended December 31, 2016 and 2017)

(¥ thousand)

	2016	2017
Cash flows from operating activities		
Income (loss) before income taxes	¥(1,522,579)	¥ 1,797,741
Depreciation and amortization	151,010	255,573
Amortization of goodwill	696,846	250,439
Interest and dividend income	(7,378)	(6,666)
Interest expenses	169,805	86,759
Loss on valuation of investment securities	867	—
Gain on sales of investment securities	—	(2,870,295)
Gain on change in equity	—	(25,605)
Share of gain on entities accounted for using equity method	—	(15,903)
Gain on sales of shares of affiliates	(182,271)	(817,624)
Decrease in notes and accounts receivable—trade	1,541,406	65,379
Decrease (increase) in inventories	396,081	(228,228)
Increase in cryptocurrency	—	(936,973)
Increase in loaned cryptocurrency	—	(265,891)
(Decrease) increase in notes and accounts payable—trade	(567,837)	144,593
Gain on reversal of estimated damages on delays	(58,586)	—
Foreign exchange losses (gains)	29,416	(2,970)
Decrease (increase) in advance payments	48,079	(479,663)
Increase in deposits paid	—	(1,108,930)
Increase in advances received	79,249	15,895
(Decrease) increase in allowance for doubtful accounts	(236,582)	133,677
Decrease in provision for bonuses	(47,504)	(56,052)
Decrease in other provision	(92,172)	(33,548)
Decrease in net defined benefit liability	(5,217)	(2,911)
Increase in deposits received	4,610	2,164,578
Share-based compensation expenses	10,191	11,588
Increase in operating accounts receivable	(254,573)	(215,400)
Loss on sales of property, plant and equipment	3,219	115,046
Loss on retirement of property, plant and equipment	7,531	6,912
Impairment loss	764,356	1,719,144
Decrease in other current assets	3,786	8,558
Increase (decrease) in other current liabilities	24,227	(157)
Decrease in accrued consumption taxes	(95,439)	(2,409)
Decrease in accounts payable	(634,620)	(80,754)
(Decrease) increase in accrued expenses	(42,927)	142,928
Gain on bargain purchase	(36,745)	—
Other, net	(4,380)	56,547
Subtotal	141,869	(174,624)
Interest and dividend income received	54,599	278
Interest paid	(132,539)	(95,223)
Income taxes refund	11,447	—
Income taxes paid	(84,948)	(59,184)
Net cash used in operating activities	(9,570)	(328,753)
Cash flows from investing activities		
Payments into time deposits	(5)	(1)
Proceeds from withdrawal of time deposits	20,000	—
Payments for purchase of investment securities	(209,800)	(2,930,202)
Proceeds from sales of investment securities	—	6,637,387
Payments for purchase of cryptocurrency	—	(173,760)
Proceeds from sales of cryptocurrency	—	122,407
Proceeds from sales of shares of affiliates	554,359	—
Payments for purchase of property, plant and equipment	(113,128)	(135,867)
Proceeds from sales of property, plant and equipment	34,608	359,446
Payments for purchase of intangible assets	(379,947)	(171,094)
Proceeds from sales of intangible assets	2	8,273
Payments for guarantee deposits	(10,068)	(136,080)
Proceeds from collection of guarantee deposits	186,606	260,893
Payments for asset retirement obligations	—	(27,228)
Payments of short-term loans receivable	(20,000)	—
Proceeds from collection of short-term loans receivable	47,929	—
Proceeds from collection of loans receivable from employees	14,960	—
Payments of long-term loans receivable	—	(10,888)
Proceeds from collection of long-term loans receivable	—	5,709
Payments for changes in ownership interests in subsidiaries resulting in change in scope of consolidation	(5,748)	(165,090)
Proceeds from changes in ownership interests in subsidiaries resulting in change in scope of consolidation	512,670	281,601
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(4,518)	(60,964)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	577,075
Payments for purchase of insurance funds	(727)	(803)
Dividends paid	—	(524,300)
Other, net	38,308	(563)
Net cash provided by investing activities	665,501	3,915,947
Cash flows from financing activities		
Proceeds from short-term loans payable	350,000	434,218
Repayments of short-term loans payable	(845,085)	(1,474,258)
Proceeds from long-term loans payable	879,000	583,968
Repayments of long-term loans payable	(3,044,564)	(2,489,430)
Proceeds from issuance of bonds with share acquisition rights	300,000	—
Redemption of bonds with share acquisition rights	—	(300,000)
Repayments of lease obligations	(7,084)	(5,253)
Payments for installment payable—property and equipment	(7,266)	—
Proceeds from issuance of shares resulting from exercise of share acquisition rights	156,810	280,963
Payments for purchase of treasury stock	(10,284)	(12,982)
Proceeds from stock issuance to non-controlling shareholders	150,120	549,000
Cash dividends paid	(107,650)	(112,389)
Payments for dividends to non-controlling interests	(1,554)	—
Payments for changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(65,917)	(7,150)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	358,981	343,608
Other, net	(3,641)	—
Net cash used in financing activities	(1,898,138)	(2,209,705)
Effect of exchange rate change on cash and cash equivalents	12,335	(38,143)
Net (decrease) increase in cash and cash equivalents	(1,229,872)	1,339,345
Cash and cash equivalents at beginning of the fiscal year	3,486,679	2,256,806
Increase in cash equivalents from newly consolidated subsidiary	—	33
Cash and cash equivalents at end of the fiscal year	¥ 2,256,806	¥ 3,596,185

Notes to the Consolidated Financial Statements

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 23

Names of consolidated subsidiaries

FISCO IR Ltd.
NCXX Group Inc.
NCXX Inc.
Care Dynamics Limited
e-tabinet.com
Web travel Co., Ltd.
Gloria Tours Inc.
FISCO DIAMOND AGENCY, Inc.
Chanty Co., Ltd.
FISCO Capital Ltd.
FISCO International Limited
FISCO International (Cayman) Limited
FISCO International (Cayman) L.P.
Versatile Milano S.R.L.
Versatile Inc.
TITICACA, Co. Ltd.
FACETASM
FISCO Digital Asset Group Co., Ltd.
Fisco Cryptocurrency Exchange Inc.
Thunder Capital K.K.
Vulcan Crypto Currency Financial Products K.K.
e frontier, Inc.
MEC SRL SOCIETA' AGRICOLA

Notes:

1. FACETASM was included in the scope of consolidation from fiscal 2017 following its conversion into a subsidiary through a new share acquisition by the Company's consolidated subsidiary, Versatile Inc.
2. e frontier, Inc. was included in the scope of consolidation from fiscal 2017 following its conversion into a subsidiary through a new share acquisition by the Company's consolidated subsidiary, NCXX Group Inc.
3. FISCO Digital Asset Group Co., Ltd. was established by Fisco Cryptocurrency Exchange Inc. as Fisco Cryptocurrency Exchange Inc.'s sole parent company through a single share transfer, and has been included in the scope of consolidation from fiscal 2017.
4. Thunder Capital K.K. was included in the scope of consolidation from fiscal 2017 as its importance has increased.
5. Vulcan Crypto Currency Financial Products K.K. was included in the scope of consolidation from fiscal 2017 following its conversion into a subsidiary through a new share acquisition in fiscal 2017.
6. Former consolidated subsidiaries 星際富溢(福建)信息諮詢有限公司 and 星際富通(福建)網絡科技有限公司 have been removed from the scope of consolidation from fiscal 2017 since they have been liquidated.
7. The classification of the former subsidiary CAICA Inc. changed from a consolidated subsidiary to an equity-method affiliate from fiscal 2017 following the sale of its shares by the Company's consolidated subsidiary NCXX Group Inc. In conjunction with this, CAICA Inc.'s subsidiaries have also been removed from the scope of consolidation from fiscal 2017.
8. The classification of the former subsidiary NCXX Solutions Inc. changed from a consolidated subsidiary to an equity-method affiliate from fiscal 2017 following the sale of its shares by the Company's consolidated subsidiary NCXX Group Inc.

(2) Number of non-consolidated subsidiaries: 5

Names of non-consolidated subsidiaries

Webtravel Asia & Pacific Pty Limited
IOTA Inc.
FISCO Research & Institute
regist ART inc.
Crypto Currency Fund Management K.K.

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, net income (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics.

2. Application of the Equity Method

(1) Non-consolidated subsidiaries and affiliates accounted for by the equity method:

1) Number of affiliates accounted for by the equity method: 2

2) Names of affiliates accounted for by the equity method: CAICA Inc., NCXX Solutions Inc.

Notes:
1. The classification of the former subsidiary CAICA Inc. changed from a consolidated subsidiary to an affiliate accounted for by the equity method from fiscal 2017 following the sale of its shares by the Company's consolidated subsidiary NCXX Group Inc.
2. The classification of the former subsidiary NCXX Solutions Inc. changed from a consolidated subsidiary to an affiliate accounted for by the equity method from fiscal 2017 following the sale of its shares by the Company's consolidated subsidiary NCXX Group Inc.

(2) Status of non-consolidated subsidiaries and affiliates not accounted for by the equity method:

1) Names of important companies, etc.: Webtravel Asia & Pacific Pty Limited, IOTA Inc., TICA HK Co., Limited

2) Reason for not accounting for by the equity method:

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

3. Fiscal Years of Consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

The 16 consolidated subsidiaries and 2 affiliates accounted for by the equity method have different fiscal year-ends than December 31, consolidated fiscal year-end. However, since the fiscal year-ends differ by no more than three months, the financial statements of the consolidated subsidiaries and affiliates accounted for by the equity method as of their fiscal year-end dates are used to prepare the consolidated financial statements. However, the consolidated financial statements are adjusted as necessary to reflect any material transactions that have occurred between December 31 and the fiscal year-ends.

4. Accounting Policies

(1) Valuation standards and accounting treatment for important assets

1) Investment securities

Shares 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 (the carrying amount is determined by the method of writing down the book value when profitability declines)

(i) Products

Retail method

(ii) Work in process

Specific identification method

(iii) Raw materials

Principally determined by the moving average method

4) Cryptocurrency held for trading purposes

(i) Items with active markets

Market value method

(ii) Items without active markets

Stated at cost 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

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

(i) In-house software (excluding leased assets)

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 is 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.

(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 closings

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

5) Provision for sales returns

Consolidated subsidiaries record estimated sales returns as a provision for sales returns in order to prepare for any returns of products after they are sold.

(4) Accounting method for retirement benefits

The Company records liabilities related to retirement benefits to cover the costs of the retirement benefits of employees, based on the projected retirement benefit obligations at the fiscal year-end. Retirement benefit obligations are calculated using the simplified method.

In addition, a new, elective defined contribution pension plan was introduced in November 2003. Employees who elected to join the new plan have been transferred out of the existing lump-sum retirement benefit payment plan into the defined contribution pension plan.

(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 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) Profit (loss) from transactions of cryptocurrency held for trading purposes

The net amount is presented under net sales.

2) Accounting method for consumption taxes

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

3) Consolidated taxation

Consolidated taxation applies to the Company and certain subsidiaries.

(Change in presentation)

(Consolidated balance sheets)

Deposits paid, which were previously included in other under current assets in fiscal 2016, have been presented separately from fiscal 2017 as the amount has exceeded 5% of total assets. The consolidated financial statements for fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥112,308 thousand presented as other under current assets on the consolidated balance sheets for fiscal 2016 has been restated as deposits paid of ¥44,165 thousand and other of ¥68,143 thousand.

Deposits received, which were previously included in other under current liabilities in fiscal 2016, have been presented separately from fiscal 2017 as the amount has exceeded 5% of the total amount of liabilities and net assets. The consolidated financial statements for fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥250,995 thousand presented as other under current liabilities on the consolidated balance sheets for fiscal 2016 has been restated as deposits received of ¥79,616 thousand and other of ¥171,379 thousand.

(Consolidated statements of income)

Commission fees, which were previously included in other under non-operating expenses in fiscal 2016, have been presented separately from fiscal 2017 as the amount has exceeded 10% of total non-operating expenses. The consolidated financial statements for fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥43,467 thousand presented as other under non-operating expenses on the consolidated statements of income for fiscal 2016 has been restated as commission fees of ¥10,526 thousand and other of ¥32,940 thousand.

Gain on sales of noncurrent assets, which was previously included in other under extraordinary income in fiscal 2016, has been presented separately from fiscal 2017 due to its increased importance. The consolidated financial statements for fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥34,209 thousand presented as other under extraordinary income on the consolidated statements of income for fiscal 2016 has been restated as gain on sales of noncurrent assets of ¥933 thousand and other of ¥33,275 thousand.

(Consolidated statements of cash flows)

Decrease in provision for bonuses, which was previously included in decrease in provision under cash flows from operating activities in fiscal 2016, has been presented separately from fiscal 2017 due to its increased importance. Cash flows from operating activities for fiscal 2016 have been restated to reflect this change in presentation method.

As a result, the ¥139,676 thousand presented as decrease in allowance for doubtful accounts on the consolidated statements of cash flows for fiscal 2016 has been restated as decrease in provision for bonuses of ¥47,504 thousand and decrease in other provision of ¥92,172 thousand.

(Additional information)

(1) Adoption of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from fiscal 2017, the Company has adopted the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

(2) Matters concerning the status of cryptocurrency

1) Policy regarding cryptocurrency

Giving first priority to preserving the safety of the investment amount, the Company invests in cryptocurrency, taking into consideration liquidity, profitability and risk diversification.

2) Content, risk, and risk management of cryptocurrency

Cryptocurrency is exposed to the risk of fluctuations in market prices; however, the Company strives to quickly ascertain and reduce risks by monitoring the balance and its market price in a timely manner.

Loaned cryptocurrency is exposed to the risk of fluctuations in market prices and borrowers' credit risk; however, the Company strives to quickly ascertain and reduce risks by monitoring borrowers' individual balances and their market prices in a timely manner.

(3) Matters concerning the fair value of cryptocurrency

The carrying amounts in the consolidated balance sheets, fair values and their differences as of December 31, 2017 are as follows. The table below does not include cryptocurrencies whose fair values cannot be reliably determined because they do not have active markets.

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cryptocurrency	¥2,314,228	¥2,411,844	¥ 97,615
(2) Loaned cryptocurrency	305,575	821,265	515,690
Total	¥2,619,803	¥3,233,110	¥ 613,306
(3) Long-term loans payable (cryptocurrency)	¥ 145,125	¥ 432,233	¥(287,107)
(4) Accrued expenses (cryptocurrency)	2,185	4,035	(1,850)
Total	¥ 147,311	¥ 436,269	¥(288,957)
Cryptocurrency (customer deposits received)	¥ —	¥2,542,263	¥ —

Note:
Measurement of fair value of cryptocurrency
Fair value is stated as the average of the closing prices on the settlement dates of multiple exchanges that the Company uses frequently.

(Consolidated Balance Sheets)

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

(Thousands of yen)

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Investment securities (stocks)	¥15,739	¥2,300,579

*2 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Time deposits	¥ 36,191	¥ 36,192
Buildings and structures	168,446	151,097
Land	623,477	12,926
Investment securities	4,970	506,781
Total	¥833,085	¥706,998

In addition to the above, assets pledged as collateral include shares of affiliates eliminated upon consolidation. Furthermore, the above time deposits are provided as collateral to secure operating transactions.

Collateralized liabilities are as follows.

(Thousands of yen)

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Short-term loans payable	¥ 50,000	¥ —
Current portion of long-term loans payable	219,004	148,012
Long-term loans payable	1,141,352	726,270

*3 The Company is providing debt guarantees for the affiliate below for financial institution loans.

(Thousands of yen)

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
NCXX Solutions Inc.	¥—	¥148,456

*4 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 2017 based on these agreements was as follows.

(Thousands of yen)

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Total amount of overdraft facilities and credit line commitments	¥300,000	¥200,000
Balance outstanding	140,000	180,750
Difference	¥160,000	¥ 19,249

(Consolidated Statements of Income)

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

(Thousands of yen)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Cost of sales	¥503,538	¥206,989

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

(Thousands of yen)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Director compensation	¥221,772	¥ 166,327
Salaries	849,767	1,126,331
Retirement benefit expenses	11,382	7,288
Rent	300,447	705,451
Business consignment expenses	303,557	398,240
Commission fees	418,621	795,443
Amortization of goodwill	696,846	250,439
Provision for bonuses	10,756	99,689
Provision of allowance for doubtful accounts	13,547	7,977

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

(Thousands of yen)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Research and development expenses	¥25,587	¥120,670

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

(Thousands of yen)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Memberships, etc.	¥4,152	¥ —
Buildings and structures, machinery and equipment	—	84,598
Land	—	31,001
Total	¥4,152	¥115,600

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

(Thousands of yen)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Buildings and structures	¥5,487	¥ —
Tools, furniture and fixtures	2,000	11
Software	—	6,901
Others	43	—
Total	¥7,531	¥6,912

*6 Impairment loss

The Group recognized impairment losses on the following asset groups.

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

Usage	Type	Location	Impairment loss (Thousands of yen)
Business assets	Telephone subscription rights	Meguro-ku, Tokyo	¥ 1,249
Store equipment	Buildings and structures	Koshigaya City, Saitama Prefecture Hamamatsu City, Shizuoka Prefecture 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 amounts 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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

Usage	Type	Location	Impairment loss (Thousands of yen)
Business assets	Tools, furniture and fixtures	Minato-ku, Tokyo and other locations	¥ 232
	Other (Machinery, equipment and vehicles)		7,008
	Trademark rights		734,899
	Software		1,834
	Telephone subscription rights		856
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other locations	24,698
—	Goodwill	Minato-ku, Tokyo	949,613

(Background to recognition of impairment loss)

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 it 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 21 stores.

Regarding goodwill, the Group has recorded the entire amount of the unamortized balance of goodwill as an impairment loss, as a premium can no longer be expected due to changes in the market environment.

(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 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Valuation difference on other available-for-sale securities		
Amount recognized during the fiscal year	¥ (1,855)	¥120,384
Reclassification adjustments	—	(14,695)
Before tax effect adjustment	(1,855)	105,689
Tax effect	—	(37,790)
Valuation difference on other available-for-sale securities	(1,855)	67,899
Deferred gains (losses) on hedges		
Amount recognized during the fiscal year	1,116	(1,188)
Reclassification adjustments	—	—
Before tax effect adjustment	1,116	(1,188)
Tax effect	—	—
Deferred gains (losses) on hedges	1,116	(1,188)
Foreign currency translation adjustments		
Amount recognized during the fiscal year	189,807	(19,018)
Reclassification adjustments	(262,712)	(22,822)
Before tax effect adjustment	(72,904)	(41,841)
Tax effect	—	—
Foreign currency translation adjustments	(72,904)	(41,841)
Share of other comprehensive income of entities accounted for using equity method		
Amount recognized during the fiscal year	—	208
Total other comprehensive income	¥ (73,642)	¥ 25,077

(Consolidated Statements of Changes in Net Assets)

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

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	848,500	—	37,696,000
Total	36,847,500	848,500	—	37,696,000
Treasury stock				
Common shares	479,700	—	388,000	91,700
Total (Note)	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 were 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

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

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)	37,696,000	666,000	—	38,362,000
Total	37,696,000	666,000	—	38,362,000
Treasury stock				
Common shares (Note)	91,700	—	—	91,700
Total	91,700	—	—	91,700

Note:
The increase in the number of issued shares of common 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)	2012 3rd Series of Subscription Rights to Shares (Note 1)	Common shares	1,133,500	—	666,000	467,500	¥13,344
	2016 4th Series of Subscription Rights to Shares (Note 2)	Common shares	100,000	—	—	100,000	6,075
Consolidated subsidiary	—	—	—	—	—	—	22,211
Total		—	1,233,500	—	666,000	567,500	¥41,631

Notes:
1. The decrease in the subscription rights to shares during the fiscal year was due to the exercise of subscription rights.
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 29, 2017 Annual General Meeting of Shareholders	Common shares	¥112,812	Capital surplus	¥3	December 31, 2016	March 30, 2017

(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, 2018 Annual General Meeting of Shareholders	Common shares	¥114,810	Capital surplus	¥3	December 31, 2017	March 30, 2018

(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 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Cash and deposits	¥2,292,997	¥3,632,378
Time deposits with deposit terms of over 3 months	(36,191)	(36,192)
Cash and cash equivalents	¥2,256,806	¥3,596,185

*2

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

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(1) The breakdown of assets and liabilities of FACETASM 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 FACETASM shares and the net amount paid to acquire FACETASM are as follows.

	(Thousands of yen)
Current assets	¥ 139,758
Noncurrent assets	52,229
Goodwill	214,616
Current liabilities	(206,076)
Noncurrent liabilities	(158,708)
Acquisition price of newly consolidated subsidiary	41,820
Cash and cash equivalents of newly consolidated subsidiary	(14,484)
Net amount paid to acquire newly consolidated subsidiary	¥ 27,335

(2) The breakdown of assets and liabilities of e frontier, 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 e frontier, Inc. shares and the net amount received on acquisition of e frontier, Inc. are as follows.

	(Thousands of yen)
Current assets	¥ 308,519
Noncurrent assets	334
Goodwill	204,866
Current liabilities	(14,486)
Noncurrent liabilities	(479,229)
Acquisition price of newly consolidated subsidiary	20,002
Cash and cash equivalents of newly consolidated subsidiary	(301,604)
Net amount received on acquisition of newly consolidated subsidiary	¥(281,601)

(3) The breakdown of assets and liabilities of Vulcan Crypto Currency Financial Products K.K. 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 Vulcan Crypto Currency Financial Products K.K. shares and the net amount paid to acquire Vulcan Crypto Currency Financial Products K.K. are as follows.

	(Thousands of yen)
Current assets	¥ 1,312,786
Current liabilities	(1,171,254)
Acquisition price of newly consolidated subsidiary	141,532
Cash and cash equivalents of newly consolidated subsidiary	(3,777)
Net amount paid to acquire newly consolidated subsidiary	¥ 137,754

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

Fiscal 2016 (From January 1, 2016 to December 31, 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)
Payments for sales of shares in SJI (Hong Kong) Limited and its subsidiaries	¥ (4,518)

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(1) CAICA Inc. and its subsidiaries

	(Thousands of yen)
Current assets	¥ 1,532,429
Noncurrent assets	4,049,988
Current liabilities	(1,245,918)
Noncurrent liabilities	(49,589)
Treasury stock	4,913
Subscription rights to shares	(47,004)
Foreign currency translation adjustments	64,693
Non-controlling interests	(225,778)
Investment account after sale of shares	(3,681,207)
Gain on sales of shares of affiliates	866,573
Price for sales of shares	1,269,099
Cash and cash equivalents of CAICA Inc. and its subsidiaries	(692,024)
Proceeds from sales of shares in CAICA Inc. and its subsidiaries	¥ 577,075

(2) NCXX Solutions Inc.

	(Thousands of yen)
Current assets	¥ 657,327
Noncurrent assets	590,539
Current liabilities	(248,101)
Noncurrent liabilities	(439,669)
Investment account after sale of shares	(274,390)
Price for sales of shares	285,704
Cash and cash equivalents of NCXX Solutions Inc.	(346,669)
Payments for sales of shares in NCXX Solutions Inc.	¥ (60,964)

*4 Details of material non-financial transactions

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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(1) In fiscal 2017, certain consolidated subsidiaries conducted cryptocurrency-denominated borrowings of ¥145,125 thousand, and cryptocurrency increased by the same amount.

(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, short-term loans receivable, accounts receivable—other, investment securities, guarantee deposits, and long-term loans receivable.

Notes and accounts receivable—trade and accounts receivable—other 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 Group's short- and long-term loans receivable are for managing funds in conformity with the FISCO Group financial policy. Investment securities are primarily shares of affiliates and business partners with operating relationships, 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. 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.

The Company's management division keeps track of due dates and amounts of trade payables, namely notes and accounts payable—trade, 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 Policies, (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, 2016 and 2017 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 55.)

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—other	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—other	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—other 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.

Note:

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 receivable, and (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) Short-term loans payable, 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 (including current portion)

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 2017 (As of December 31, 2017)

(Thousands of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥3,632,378	¥3,632,378	¥ —
(2) Notes and accounts receivable—trade	802,279	—	—
Allowance for doubtful accounts(*1)	(70)	—	—
	802,208	802,208	—
(3) Short-term loans receivable	15,000	15,000	—
(4) Accounts receivable—other	116,425	—	—
Allowance for doubtful accounts(*2)	(53,097)	—	—
	63,328	63,328	—
(5) Investment securities	3,324,429	3,388,316	63,886
(6) Guarantee deposits	671,171	671,171	—
(7) Long-term loans receivable	60,140	—	—
Allowance for doubtful accounts(*3)	(56,313)	—	—
	3,826	3,826	—
(8) Long-term accounts receivable	171,871	—	—
Allowance for doubtful accounts(*4)	(170,125)	—	—
	1,746	1,746	—
Total	¥8,514,090	¥8,577,976	¥63,886
(9) Notes and accounts payable—trade	¥ 630,980	¥ 630,980	¥ —
(10) Short-term loans payable	357,960	357,960	—
(11) Accounts payable—other	334,027	334,027	—
(12) Convertible bonds with subscription rights to shares (including current portion)	1,165,000	1,163,567	(1,432)
(13) Long-term loans payable (including current portion)	2,969,773	2,983,568	13,794
Total	¥5,457,742	¥5,470,104	¥12,362
Derivative transactions	¥ —	¥ —	¥ —

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

The fair value of investment securities is based on their price on securities exchanges.

(6) 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.

(7) 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.

(8) 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

(9) Notes and accounts payable—trade, (10) Short-term loans payable, and (11) 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.

(12) Convertible bonds with subscription rights to shares (including current portion)

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.

(13) 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 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Unlisted stocks	¥301,628	¥435,540

* 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 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 deposits	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).

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)			
	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	¥3,632,378	¥ —	¥—	¥—
Notes and accounts receivable—trade (Note)	802,208	—	—	—
Short-term loans receivable	15,000	—	—	—
Accounts receivable—other (Note)	63,328	—	—	—
Guarantee deposits (Note)	—	—	—	—
Long-term loans receivable (Note)	—	3,826	—	—
Long-term accounts receivable—other (Note)	—	1,746	—	—
Total	¥4,512,915	¥5,573	¥—	¥—

Note:
The above table does not include the following items whose redemption dates are not confirmed: notes and accounts receivable—trade of ¥70 thousand (allowance for doubtful accounts of ¥70 thousand), accounts receivable—other of ¥53,097 thousand (allowance for doubtful accounts of ¥53,097 thousand), long-term loans receivable of ¥56,313 thousand (allowance for doubtful accounts of ¥56,313 thousand) and long-term accounts receivable—other of ¥170,125 thousand (allowance for doubtful accounts of ¥170,125 thousand.)
The above table does not include guarantee deposits of ¥671,171 thousand whose redemption dates are not confirmed.

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 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

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)					
	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	¥ 357,960	¥ —	¥ —	¥ —	¥ —	¥ —
Convertible bonds with subscription rights to shares	1,165,000	—	—	—	—	—
Long-term loans payable	1,095,656	794,367	900,616	160,945	18,186	—
Total	¥2,618,617	¥ 794,367	¥900,616	¥160,945	¥ 18,186	¥ —

(Securities)

1. Available-for-Sale Securities

Fiscal 2016 (As of December 31, 2016)

	Type	Carrying amount	Acquisition cost	Difference
		(Thousands of yen)		
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.

Fiscal 2017 (As of December 31, 2017)

	Type	Carrying amount	Acquisition cost	Difference
		(Thousands of yen)		
Securities for which the carrying amount exceeds the acquisition cost	Stocks	¥1,295,063	¥1,062,543	¥232,520
	Subtotal	1,295,063	1,062,543	232,520
Securities for which the carrying amount does not exceed the acquisition cost	Stocks	3,373	3,525	(151)
	Subtotal	3,373	3,525	(151)
Total		¥1,298,436	¥1,066,068	¥232,368

Note:
Unlisted investment securities (carrying amount ¥160,954 thousand) are not disclosed because the fair value of these securities cannot be reliably determined given that they do not have market prices.

2. Sales of Available-for-Sale Securities

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

N/A

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

Type	Amount sold	Total realized gains	Total realized losses
	(Thousands of yen)		
Stocks	¥6,637,387	¥2,870,295	¥—

3. Loss on Valuation of Investment Securities

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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

No loss on valuation of investment securities was recorded in fiscal 2017.

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 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 Purchased US dollars	¥300,604	¥—	(Note) ¥(29,424)	(Note) ¥(29,424)

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

Fiscal 2017 (As of December 31, 2017)

N/A

2. Derivative Transactions to Which Hedge Accounting Is Applied

(1) Currency related

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) ¥31,811

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

Fiscal 2017 (As of December 31, 2017)

(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	¥3,808	¥—	(Note) ¥3,728

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

(2) Interest rate

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 Variable interest—received Fixed interest—paid	Long-term loans payable	¥ 100,000	¥ —	(Note) ¥(497)
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	2,483,000	1,368,456	(Note)
Total			¥2,583,000	¥1,368,456	

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 2017 (As of December 31, 2017)

Category	Type of transaction	Main hedge target	Contract amount (Thousands of yen)	Amount of contract exceeding one year (Thousands of yen)	Fair value (Thousands of yen)
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term loans payable	¥1,527,400	¥1,073,200	(Note)

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.

(Retirement Benefits)

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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

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. 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, 2017 and balance as of December 31, 2017

	(Thousands of yen)
Balance of liability for retirement benefit as of January 1, 2017	¥ 49,295
Retirement benefit expenses	8,613
Retirement benefits paid	(11,465)
Amounts transferred to other (Note)	(59)
Increase due to new consolidations	260
Balance of liability for retirement benefit as of December 31, 2017	¥ 46,644

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, 2017

	(Thousands of yen)
Retirement benefit obligations for non-funded plans	¥46,644
Net liability on the consolidated balance sheets	¥46,644

(3) Retirement benefit expenses

	(Thousands of yen)
Retirement benefit expenses based on the simplified method	¥8,613

3. Defined contribution pension plans

The required contributions to the defined contribution pension plans of consolidated subsidiaries were ¥4,260 thousand.

4. Advanced funded retirement benefit plans

The contributions to the advanced funded retirement benefit plans of consolidated subsidiaries were ¥499 thousand.

(Stock Options)

1. Stock option expense and amount

	(Thousands of yen)	
	Fiscal 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Stock option expense under selling, general and administrative expenses	¥10,191	¥11,588

2. Stock option details, scale and change

(1) Stock option details

Resolution date	August 6, 2012 Stock Options	September 29, 2016 Stock Options
Status and number of option holders	FISCO director: 1 FISCO employees: 2 Director of wholly owned subsidiary: 1 Director of consolidated subsidiary: 1	FISCO director: 1 FISCO employees: 6 Directors of subsidiaries: 2 Employees of subsidiaries: 2
Number of stock options	Common shares: 3,000,000 shares	Common shares: 100,000 shares
Grant date	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 affiliates in order to exercise the rights.	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 August 7, 2012 to August 6, 2014	From September 29, 2016 to September 29, 2018
Exercise period	August 7, 2014 to August 6, 2019	September 30, 2018 to September 29, 2021

Note:
Recorded based on the number of eligible shares.

(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)	
	August 6, 2012 Stock Options	September 29, 2016 Stock Options
Before vesting		
As of December 31, 2016	—	100,000
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding	—	100,000
After vesting		
As of December 31, 2016	1,133,500	—
Vested	—	—
Exercised	666,000	—
Forfeited	—	—
Outstanding	467,500	—

(2) Unit price information

	(Yen)	
	August 6, 2012 Stock Options	September 29, 2016 Stock Options
Exercise price	¥ 54	¥308
Average stock price at exercise	325	—
Fair value on the grant date	19	162

3. Method for estimating the fair value of stock options

There were no stock options granted in fiscal 2017.

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 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Deferred tax assets (current)		
Carryforwards of unused tax losses	¥ 76,442	¥ 26,196
Inventories	—	82,646
Allowance for doubtful accounts	1,147,673	10,526
Accrued enterprise taxes	5,224	9,411
Provision for bonuses	70,992	20,922
Provision for product warranties	28,391	32,711
Loss on valuation of loans receivable	256,171	—
Others	43,339	14,034
Subtotal	1,628,212	196,449
Valuation allowance	(1,549,705)	(168,960)
Total	78,513	27,489
Offset with deferred tax liabilities (current)	(4,735)	—
Net deferred tax assets (current)	¥ 73,777	¥ —
Deferred tax liabilities (current)		
Cryptocurrency	¥ —	¥ (119,402)
Asset retirement obligations	—	(2,076)
Liability adjustment	(4,735)	—
Total	(4,735)	(121,479)
Offset with net deferred tax assets (current)	4,735	—
Net deferred tax liabilities (current)	¥ —	¥ —
Deferred tax assets (noncurrent)		
Carryforwards of unused tax losses	¥ 1,876,312	¥ 2,284,218
Noncurrent assets	—	546,344
Excess depreciation of noncurrent assets	6,812	—
Impairment loss on noncurrent assets	348,354	—
Loss on valuation of investment securities	13,589	10,443
Shares of affiliates	3,043,409	498,563
Allowance for doubtful accounts	—	448,687
Liability for retirement benefit	—	18,795
Others	926,745	7,337
Subtotal	6,215,221	3,814,391
Valuation allowance	(6,215,121)	(3,814,349)
Total deferred tax assets (noncurrent)	¥ 107	¥ 41
Deferred tax liabilities (noncurrent)		
Liability adjustment	¥ (8,658)	¥ (8,658)
Asset retirement obligations	—	(9,619)
Shares of affiliates	(13,331)	(13,331)
Goodwill	(29,649)	—
Valuation difference on available-for-sale securities	—	(72,206)
Fund balance difference	(673,914)	(662,408)
Others	(2,588)	(32,896)
Total deferred tax liabilities (noncurrent)	¥ (728,142)	¥ (799,119)

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

	Fiscal 2016 (As of December 31, 2016)	Fiscal 2017 (As of December 31, 2017)
Statutory income tax rate	—	30.86 %
(Adjustment)		
Entertainment and other non-deductible expenses	—	0.24
Inhabitants taxes—per capita levy	—	1.00
Share of profit of entities accounted for using equity method	—	(0.27)
Amortization of goodwill	—	4.30
Goodwill impairment loss	—	16.30
Change in valuation allowance	—	2.10
Carry forwards of unused tax losses	—	(30.74)
Difference from change in equity interest	—	(5.16)
Other	—	(0.36)
Effective income tax rate	—	18.27 %

Note:
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 in fiscal 2016.

(Business Combinations)

I. Business combination through acquisition (FACETASM)

1. Overview of business combination

(1) Name and business of acquired company
Name of the acquired company: FACETASM
Business: Retail business primarily offering casual wear

(2) Main reason for the business combination
To develop the brand retail platform business, which is a focus for the Group going forward

(3) Business combination date
May 24, 2017

(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	51.0%
Ratio of voting rights after share acquisition	51.0%

(7) Rationale for deciding on the acquisition target
The Company acquired the shares for cash consideration.

2. Period of business results of the acquired company included in the consolidated financial statements

June 1, 2017 to October 31, 2017

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

(Thousands of yen)

Consideration for the acquisition	Cash and other payments	¥41,820
Acquisition cost		¥41,820

4. Main acquisition-related expenses and amounts

Advisory and other fees ¥9,062 thousand

5. Amount of goodwill, reason for goodwill, amortization method and amortization period
   (1) Amount of goodwill ¥214,616 thousand
   (2) Reason for goodwill
   Goodwill consists mainly of the premium expected from streamlining back-office operations in regions where NCXX Group Inc. conducts brand retail business.
   (3) Amortization method and amortization period Straight-line method over 10 years

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

(Thousands of yen)

Current assets	¥139,758
Noncurrent assets	266,846
Total assets	¥406,605
Current liabilities	¥206,076
Noncurrent liabilities	158,708
Total liabilities	¥364,785

7. Estimated impact on FISCO's consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on January 1, 2017

(Thousands of yen)

Net sales	¥ 310,092
Operating loss	(174,972)
Ordinary loss	(175,366)
Loss before income taxes and non-controlling interests	(53,310)
Loss attributable to owners of parent	(53,376)

(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, 2017.

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

II. Business combination through acquisition (e frontier, Inc.)

1. Overview of business combination
   (1) Name and business of acquired company
   Name of the acquired company: e frontier, Inc.
   Business: Development and sales of PC software and sales of 3D computer graphics software and provision of services
   (2) Main reason for the business combination
   The purpose of the business combination is to develop new services using the software development and sales capabilities of e frontier, Inc. and to utilize its customer network, thereby making a significant contribution to growth in the NCXX Group's customer network (particularly in the B2C sector) in its existing businesses. In addition, e frontier, Inc. expects to derive benefits such as the development of a new customer base, increased sales through new product development and cost cutting through the flexible use of human resources. Accordingly, the Group purchased the shares of e frontier, Inc. and turned it into a subsidiary.
   (3) Business combination date
   July 7, 2017
   (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	99.9%
Ratio of voting rights after share acquisition	99.9%

   (7) Rationale for deciding on the acquisition target
   The business combination was an acquisition of shares for cash consideration.

2. Period of business results of the acquired company included in the consolidated financial statements
September 1, 2017 to November 30, 2017

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

(Thousands of yen)

Consideration for acquisition	Cash and other payments	¥20,002
Acquisition cost		¥20,002

4. Amount of goodwill, reason for goodwill, amortization method and amortization period, as well as impairment loss
(1) Amount of goodwill ¥204,866 thousand
(2) Reason for goodwill
Goodwill consists mainly of the premium expected from future business expansion at e frontier, Inc. in the areas of development and sales of PC software and sales of 3D computer graphics software and provision of services.
(3) Amortization method and amortization period The full amount is recorded as an impairment loss.

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

(Thousands of yen)

Current assets	¥308,519
Noncurrent assets	205,200
Total assets	¥513,719
Current liabilities	¥ 14,486
Noncurrent liabilities	479,229
Total liabilities	¥493,716

6. Estimated impact on FISCO's consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on January 1, 2017

(Thousands of yen)

Net sales	¥ 69,639
Operating loss	(3,555)
Ordinary loss	(28,009)
Loss before income taxes and non-controlling interests	(43,969)
Loss attributable to owners of parent	(44,332)

(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, 2017.
Notes on this business combination have not received accounting audit certification.

III. Transaction with entity under common control (FISCO Digital Asset Group Co., Ltd.)

1. Nature of transaction
At a Board of Directors meeting (September 6, 2017) and an extraordinary general meeting of shareholders (September 22, 2017) of Fisco Cryptocurrency Exchange Inc., a consolidated subsidiary of the Company, resolutions were passed to incorporate FISCO Digital Asset Group Co., Ltd. as a holding company (wholly owning parent company) through a sole-share transfer. FISCO Digital Asset Group Co., Ltd. was incorporated on October 4, 2017.
(1) Name and business of company involved in business combination
Name: FISCO Digital Asset Group Co., Ltd.
Business: Business management, formulation of group strategy, and ancillary duties in connection with holding the shares or equity of companies running cryptocurrency-related businesses
(2) Business combination date
October 4, 2017
(3) Statutory basis of business combination
Incorporation of holding company through sole-share transfer
(4) Name of company after business combination
FISCO Digital Asset Group Co., Ltd.

(5) Purpose of business combination

The Group has adopted a growth strategy that seeks to enable the delivery of a full line of integrated services through cryptocurrency. The environment surrounding the cryptocurrency business is in a state of dramatic flux on a daily basis, driven by trends such as the introduction of a registration system for cryptocurrency exchange operators and hard forks in bitcoin.

To effectively address this tumultuous environment, the Group must diversify the risk associated with each business, such as the cryptocurrency exchange business and cryptocurrency investment business, and speed up decision-making in each business. The Group has decided that the most effective way to achieve these priorities is to transition to a holding company structure.

2. Overview of accounting treatment

The aforementioned transaction was treated as a transaction with entities under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

IV. Business combination through acquisition (Vulcan Crypto Currency Financial Products K.K.)

1. Overview of business combination

(1) Name and business of acquired company

Name of the acquired company: Vulcan Crypto Currency Financial Products K.K.

Business: Investment business

(2) Main reason for the business combination

The business combination was undertaken as a means of generating earnings across the Group by converting Vulcan Crypto Currency Financial Products K.K., which has an investment track record in cryptocurrency, into a subsidiary, and promoting the shared use of expertise and resources within the Group.

(3) Business combination date

December 14, 2017

(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	99.9%
Ratio of voting rights after share acquisition	99.9%

(7) Rationale for deciding on the acquisition target

The Company's consolidated subsidiary (voting rights of 99.9%) acquired the shares for cash consideration.

2. Period of business results of the acquired company included in the consolidated financial statements

September 1, 2017 to November 30, 2017

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

(Thousands of yen)

Consideration for acquisition	Cash and other payments	¥141,532
Acquisition cost		¥141,532

4. Main acquisition-related expenses and amounts

Advisory and other fees ¥432 thousand

5. Amount of goodwill, reason for goodwill, amortization method and amortization period

(1) Amount of goodwill ¥329,099 thousand

(2) Reason for goodwill

Given that the acquisition cost exceeded the net amount of the assets and liabilities transferred, the excess amount was recorded as goodwill.

(3) Amortization method and amortization period Goodwill was amortized in a lump sum.

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

	(Thousands of yen)
Current assets	¥1,312,786
Noncurrent assets	—
Total assets	¥1,312,786
Current liabilities	¥1,001,254
Noncurrent liabilities	170,000
Total liabilities	¥1,171,254

7. Estimated impact on FISCO's consolidated statements of income for fiscal 2017, and the estimation method, assuming the business combination was completed on January 1, 2017

	(Thousands of yen)
Net sales	¥ —
Operating income	—
Ordinary income	120,689
Profit before income taxes and non-controlling interests	123,758
Profit attributable to owners of parent	123,373

(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, 2017.

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

V. Business divestiture (CAICA Inc.)

On January 25, 2017, the Company transferred a portion of its shares in CAICA Inc. (13,000,000 shares) via the stock market, thereby reducing its voting rights in CAICA Inc. to below 50%. At a meeting of the Board of Directors held on April 14, 2017, the Company passed a resolution to reclassify CAICA Inc. from a consolidated subsidiary to an equity-method affiliate.

1. Overview of share transfer

(1) Name and business of transferred subsidiary

Name of the transferred subsidiary: CAICA Inc.

Business: Information services business

(2) Main reason for the share transfer

The Company decided to transfer a portion of its shares in CAICA Inc. to secure adequate working capital and cash in hand for the next several months, along with preparing for new business funding requirements and other priorities.

(3) Share transfer date

January 25, 2017

2. Overview of accounting treatment

(1) Amount of gain or loss on transfer

Gain on sales of shares of affiliates ¥866,573 thousand

(2) Appropriate carrying amounts of assets and liabilities related to the transferred business and the main components

	(Thousands of yen)
Current assets	¥15,532,429
Noncurrent assets	4,049,988
Total assets	¥ 5,582,417
Current liabilities	¥ 1,245,918
Noncurrent liabilities	49,589
Total liabilities	¥ 1,295,507

(3) Accounting treatment

The difference between the consolidated carrying amounts of CAICA Inc. and the sales amount was recorded as gain on sales of shares of affiliates under extraordinary gains.

3. Reportable segment to which the transferred subsidiary belonged

FinTech systems development business

4. Estimated amount of profit and loss related to the transferred business recorded on the consolidated statements of income for fiscal 2017

(Thousands of yen)

Net sales	¥1,174,094
Operating income	32,067

VI. Business divestiture (NCXX Solutions Inc.)

At a meeting of the Board of Directors held on August 10, 2017, the Company passed a resolution to transfer 51% of the shares outstanding in NCXX Solutions Inc., a consolidated subsidiary of the Company, to CAICA Inc. and reclassify NCXX Solutions Inc. from a consolidated subsidiary of the Company to an equity-method affiliate.

1. Overview of share transfer

(1) Name of company accepting the transfer

CAICA Inc.

(2) Name and business of transferred subsidiary

Name of the transferred subsidiary: NCXX Solutions Inc.

Business: Design, development, sale and maintenance of computer software and systems, as well as management and consulting services

(3) Main reason for the share transfer

When considering the future growth prospects of NCXX Solutions Inc., the Company believes that putting NCXX Solutions Inc. under the CAICA Group, which conducts software development like NCXX Solutions Inc., will be more advantageous than keeping it in the NCXX Group, which originated from a manufacturer of telecommunications device hardware. NCXX Solutions Inc. has a strong affinity with the CAICA Group in terms of underlying technologies and employed personnel, and the potential for gaining knowledge of new technologies and other benefits will lead to growth at NCXX Solutions Inc. and also to stronger collaboration on joint development with the NCXX Group. Moreover, even if NCXX Solutions Inc. becomes an equity-method affiliate, the Company believes that it could derive higher profits from NCXX Solutions Inc. than it does now based on the future growth that NCXX Solutions Inc. could achieve as a member of the CAICA Group.

(4) Share transfer date

August 10, 2017

2. Overview of accounting treatment

(1) Amount of gain or loss on transfer

Gain on sales of shares of affiliates ¥— thousand

(2) Appropriate carrying amounts of assets and liabilities related to the transferred business and the main components

(Thousands of yen)

Current assets	¥ 657,327
Noncurrent assets	590,539
Total assets	¥1,247,866
Current liabilities	¥ 248,101
Noncurrent liabilities	439,669
Total liabilities	¥ 687,770

(3) Accounting treatment

The shares were sold at the consolidated carrying amount of NCXX Solutions Inc.

3. Reportable segment to which the transferred subsidiary belonged

FinTech systems development business

4. Estimated amount of profit and loss related to the transferred business recorded on the consolidated statements of income for fiscal 2017

(Thousands of yen)

Net sales	¥1,807,987
Operating loss	(10,194)

(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 on a 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 2016 (From January 1, 2016 to December 31, 2016)	Fiscal 2017 (From January 1, 2017 to December 31, 2017)
Balance at beginning of the fiscal year	¥ —	¥399,040
Increase due to acquisition of consolidated subsidiaries	455,237	49,866
Adjustment due to the passage of time	955	4,349
Decrease due to fulfillment of asset retirement obligations	(57,152)	(63,567)
Balance at end of the fiscal year	¥399,040	¥389,687

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)

Fiscal 2016 (As of December 31, 2016)

Disclosure has been omitted as this information is immaterial.

Fiscal 2017 (As of December 31, 2017)

Not applicable

(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 that are classified based on products and services.

Effective from fiscal 2017, the number of reportable segments has been increased from six to eight segments due to an increase in the number of consolidated subsidiaries and the increased importance of the contribution of certain businesses to the Company's consolidated business results. The Company's eight new segments are the information services business, consulting business, Internet travel business, ICT/IoT/device business, FinTech systems development business, advertising agency business, brand retail platform business, and cryptocurrency and blockchain business. Previously, the Company had six segments: information services business, consulting business, Internet travel business, device business, advertising agency business, and brand retail platform business.

Segment information for fiscal 2016 has been prepared and disclosed based on the reportable segments adopted after the corporate reorganization.

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 parasports tournaments
ICT/IoT/ device business	Research and development (R&D) activities in the agricultural ICT business and robotics business Development and sale of communication devices applying various wireless systems Provision of systems solutions and maintenance services incidental to the above
FinTech systems development business	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 Production and sale of promotional merchandise and novelty items
Brand retail platform business	Retailing of general merchandise, apparel and other items, licensing of brand trademarks
Cryptocurrency and blockchain business	Cryptocurrency exchange business, cryptocurrency investment business, and blockchain business

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.

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

(Thousands of yen)

	Reportable segment								
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems development business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Total
Net sales									
Sales to third parties	¥1,499,076	¥ 35,590	¥1,623,696	¥1,274,595	¥7,720,316	¥319,510	¥1,516,846	¥ 11	¥13,989,633
Inter-segment sales and transfers	18,084	18,696	158	623	118,845	—	—	—	156,409
Total	1,517,161	54,287	1,623,855	1,275,218	7,839,162	319,510	1,516,846	11	14,146,053
Segment profit (loss)	361,636	(50,551)	3,275	(511,410)	(147,303)	(50,310)	(18,420)	(16,521)	(429,605)
Segment assets	1,486,480	414,183	618,324	982,318	5,912,576	815,824	2,984,696	194,988	13,409,393
Other items									
Depreciation and amortization	15,750	9,409	539	1,381	49,835	2,388	22,337	—	101,643
Amortization of goodwill	17,721	10,271	38,467	32,067	516,523	25,876	—	—	640,928
Increase in property, plant and equipment and intangible assets	38,058	2,550	1,266	1,763	57,665	243	301,135	—	402,682

(Thousands of yen)

	Other(Note 1)	Total	Adjustments(Note 2, 3)	Consolidated
Net sales				
Sales to third parties	¥ 14,953	¥14,004,597	¥ —	¥14,004,597
Inter-segment sales and transfers	3,947	160,356	(160,356)	—
Total	18,900	14,164,954	(160,356)	14,004,597
Segment profit (loss)	(121,210)	(550,816)	(227,649)	(778,466)
Segment assets	978,260	14,387,653	1,057,199	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 ¥(227,649) thousand comprises elimination of intersegment transactions of ¥(111,335) 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 ¥1,057,199 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 income (loss) in the consolidated statements of income.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(Thousands of yen)

	Reportable segment								
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems development business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Total
Net sales									
Sales to third parties	¥1,534,972	¥ 74,026	¥2,180,821	¥ 893,273	¥2,947,201	¥137,048	¥5,926,905	¥ 900,142	¥14,594,391
Inter-segment sales and transfers	59,231	6,071	9,826	43,028	122,810	16,505	54,805	—	312,279
Total	1,594,203	80,097	2,190,648	936,302	3,070,011	153,553	5,981,711	900,142	14,906,671
Segment profit (loss)	450,888	29,190	15,628	(359,546)	(7,011)	(34,802)	(14,801)	750,716	830,262
Segment assets	1,230,718	212,168	348,034	704,657	9,114	343,488	3,519,940	6,076,358	12,444,479
Other items									
Depreciation and amortization	28,657	8,246	539	20,761	44,227	1,494	130,927	1,025	235,879
Amortization of goodwill	17,721	7,703	32,066	—	139,537	18,657	8,942	1,247	225,875
Increase in property, plant and equipment and intangible assets	58,261	—	1,250	29,292	6,453	—	107,074	13,212	215,544

(Thousands of yen)

	Other(Note 1)	Total	Adjustments(Note 2, 3)	Consolidated
Net sales				
Sales to third parties	¥ 26,291	¥14,620,682	¥ —	¥14,620,682
Inter-segment sales and transfers	72	312,351	(312,351)	—
Total	26,363	14,933,034	(312,351)	14,620,682
Segment profit (loss)	(28,178)	802,083	(795,039)	7,044
Segment assets	46,113	12,490,593	4,238,790	16,729,384
Other items				
Depreciation and amortization	—	235,879	19,694	255,573
Amortization of goodwill	24,563	250,439	—	250,439
Increase in property, plant and equipment and intangible assets	—	215,544	87,293	302,838

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 ¥(795,039) thousand comprises elimination of intersegment transactions of ¥(192,865) thousand and corporate expenses of ¥(602,173) 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 ¥4,238,790 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 income (loss) in the consolidated statements of income.

[Related information]

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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

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

(Thousands of yen)

	Reportable segment										
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems develop-ment business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Others	Corporate and elimination	Total
Impairment loss at end of year	¥—	¥—	¥—	¥442,653	¥1,249	¥—	¥320,618	¥—	¥—	¥(164)	¥764,356

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(Thousands of yen)

	Reportable segment										
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems develop-ment business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Others	Corporate and elimination	Total
Impairment loss at end of year	¥—	¥59,896	¥—	¥204,866	¥107,773	¥158,314	¥759,597	¥—	¥431,709	¥(3,014)	¥1,719,144

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

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

(Thousands of yen)

	Reportable segment										
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems develop-ment business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Others	Corporate and elimination	Total
Amortized amount during the year	¥ 17,721	¥10,271	¥ 38,467	¥32,067	¥ 516,523	¥ 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

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

(Thousands of yen)

	Reportable segment										
	Information services business	Consulting business	Internet travel business	ICT/IoT/ device business	FinTech systems develop-ment business	Advertising agency business	Brand retail platform business	Crypto-currency and blockchain business	Others	Corporate and elimination	Total
Amortized amount during the year	¥ 17,721	¥7,703	¥ 32,066	¥—	¥139,537	¥18,657	¥ 8,942	¥1,247	¥24,563	¥—	¥205,439
Unamortized balance at end of year	115,190	—	145,055	—	23,303	—	205,674	—	—	—	489,224

[Information on gain on bargain purchase by reportable segment]

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

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

Not applicable

[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 2016 (From January 1, 2016 to December 31, 2016)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Thousands of yen)	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	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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

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 (%)
Officer of significant subsidiary and his relatives	Ryoji Yagi	—	—	Officer	Direct ownership (0.07)
Officer and his relatives	Osamu Fukami	—	—	Officer	—

Type	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer of significant subsidiary and his relatives	Exercise of subscription rights to shares	Exercise of subscription rights to shares (Note)	¥16,401	—	¥—
Officer and his relatives	Exercise of subscription rights to shares	Exercise of subscription rights to shares (Note)	16,401	—	—

Note:
The exercise of subscription rights to shares represents the exercise of rights during fiscal 2017 with respect to stock options granted based on a resolution of the General Meeting of Shareholders of FISCO Ltd.

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

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.

Fiscal 2017 (From January 1, 2017 to December 31, 2017)

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	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)	¥33,000	—	¥—

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

CAICA Inc. was a significant related company in fiscal 2017, and its condensed consolidated financial statements are as follows. As disclosed in "Notes to Consolidated Financial Statements, (Business Combinations), V. Business divestiture (CAICA Inc.)," CAICA Inc. has been reclassified from a consolidated subsidiary to an equity-method affiliate from fiscal 2017.

	(Thousands of yen)
Current assets	¥3,380,437
Noncurrent assets	2,056,389
Current liabilities	883,156
Noncurrent liabilities	340,591
Total net assets	4,213,079
Net sales	5,300,801
Profit before income taxes and non-controlling interests	695,352
Profit attributable to owners of parent	661,490

(Per Share Information)

	Fiscal 2016 (From January 1, 2016 to December 31, 2016) (Yen)	Fiscal 2017 (From January 1, 2017 to December 31, 2017) (Yen)
Net assets per share	¥52.29	¥67.96
Net income (loss) per share	(31.98)	16.73
Diluted net income per share	—	16.48

Notes:
1 Diluted net income per share is not recorded for fiscal 2016, despite the existence of dilutive shares, as the Company recorded a loss per share.
2. The basis for calculating the amounts for net income (loss) per share is as follows:

	Fiscal 2016 (From January 1, 2016 to December 31, 2016) (Thousands of yen)	Fiscal 2017 (From January 1, 2017 to December 31, 2017) (Thousands of yen)
Amounts for net income (loss) per share		
Net income (loss) attributable to owners of parent	¥ (1,193,483)	¥ 636,719
Amounts not attributable to common shareholders	—	—
Net income (loss) attributable to owners of parent related to common shares	(1,193,483)	636,719
Average number of common shares during the period (Shares)	37,322,375	38,050,733
Amounts of diluted net income per share		
Adjusted net income attributable to owners of parent	—	—
Increase in number of common shares (Shares)	—	582,931
Outline of dilutive shares excluded from the calculation of amount of diluted net income per share due to lack of dilutive effect	—	—

(Subsequent Events)

I. Signing of a Syndicated Loan Agreement by consolidated subsidiary

TITICACA, Co. Ltd., a consolidated subsidiary of the Company, has signed a syndicated loan agreement (hereinafter, the "Syndicated Loan Agreement") with The Bank of Yokohama, Ltd., the arranger, and executed the Syndicated Loan Agreement on December 15, 2017.

1. Purpose of signing the Syndicated Loan Agreement

The purpose of the Syndicated Loan Agreement is to ensure flexible and stable fund procurement by securing a commitment line through the syndication method, stabilize fundraising by refinancing existing long-term debt according to cash flows, and systematically reduce interest-bearing debt, in order to strengthen the financial position in addition to executing growth strategies.

2. Outline of the Syndicated Loan Agreement

(Millions of yen)

	Syndicated Loan Agreement	
Agreement format	Commitment line	Term loan
Agreement amount	¥250 million	¥300 million
Agreement date	December 13, 2017	
Execution date	December 15, 2017	
Agreement period	1 year	5 years
Use of funds	Working capital	Refinancing funds
Repayment method	Lump-sum repayment on maturity date	From the end of January 2018, repayment of 5.0% of the total amount every three months (a total of 14 payments), repayment of 30.0% of the total amount on the maturity date (a total of 1 payment)
Guarantor	NCXX Group Inc.	
Collateral	Unsecured	
Arranger and agent	The Bank of Yokohama, Ltd.	
Participating financial institutions	THE SHIGA BANK, LTD., THE HOKURIKU BANK, LTD.	

II. Other important investments

TITICACA also commenced investment in cryptocurrency on January 11, 2018, based on a resolution passed by the Board of Directors at a meeting held on January 10, 2018, as follows:

1. Purpose of investment

TITICACA is considering undertaking new cryptocurrency-related businesses. By harnessing experience and data obtained through this investment in cryptocurrency, TITICACA will work to generate new earnings streams through the integration of existing businesses and cryptocurrency-related businesses.

2. Description of cryptocurrency investment

(1) Name of main cryptocurrency: Bitcoin
(2) Amount of investment (acquisition cost): 600 BTC (approximately ¥1,000 million)

3. Significant impact on business activities

TITICACA has determined that this investment will help to improve business performance over the medium and long terms.

4. Fund procurement method

Financing from Group companies and internal funds

III. Transfer of equity-method affiliate

NCXX Solutions Inc., an equity-method affiliate of NCXX Group Inc., a consolidated subsidiary of the Company, has decided to conduct a share exchange with CAICA Inc. to convert NCXX Solutions into a wholly owned subsidiary of CAICA based on a resolution in writing by the Board of Directors on January 29, 2018. NCXX Solutions entered into a share exchange agreement with CAICA on the same day. In accordance with the share exchange agreement, the share exchange became effective on March 1, 2018.

1. Reason for the transfer

The share exchange will integrate CAICA's cutting-edge AI and blockchain technologies and NCXX Solutions' expertise in IoT-related services developed through device products. This integration is expected to drive further growth at both companies.

2. Overview of the equity-method affiliate to be transferred

(1) Name	NCXX Solutions Inc.
(2) Name and title of representative	Naoki Ishihara, Representative Director
(3) Address	5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan
(4) Establishment	September 16, 2010
(5) Main business	Design, development, sale and maintenance of computer software and systems, as well as management and consulting services
(6) Capital stock	¥300 million
(7) Major shareholders and shareholding ratio	CAICA Inc. 51.00% NCXX Group Inc. 49.00%

3. Overview of the counterparty

(1) Name	CAICA Inc.
(2) Name and title of representative	Shin Suzuki, COO, President and Representative Director
(3) Address	1-5-1 Ohashi, Meguro-ku, Tokyo, Japan
(4) Main business	Information services business centered on the systems development business

4. Number of shares held after the share exchange

(1) Number of shares before the transfer	5,889 shares (shareholding ratio: 49.00%, including indirect shareholding of 49.00%)
(2) Number of shares held after the transfer	0 shares (shareholding ratio: −%)

5. Conditions for the share exchange

(1) Share exchange ratio

CAICA Inc. will allocate and exchange 705.63 shares of common stock for every share of common stock of NCXX Solutions Inc.

(2) Number of shares to be allocated to NCXX Group Inc.

4,155,455 shares of CAICA Inc. common stock

6. Schedule

Effective date of the share exchange: March 1, 2018

IV. Issuance of stock options (subscription rights to shares)

On February 27, 2018, the Board of Directors decided to submit a proposal for approval by the 24th Ordinary General Meeting of Shareholders to be held on March 29, 2018, 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 24th Ordinary General Meeting of Shareholders.

This resolution will be effective for allotment dates falling within one year of March 29, 2018, pursuant to Article 239, Paragraph 3 of the Companies Act.

Resolution date	March 29, 2018; 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.

V. Significant changes in the scope of consolidation

At a Board of Directors meeting held on February 21, 2018, FISCO Digital Asset Group Co., Ltd., a consolidated subsidiary of the Company, passed a resolution to conduct a capital increase through a third-party allotment of shares. Payment for the capital increase was completed on March 2, 2018.

In accordance with this resolution, FISCO Digital Asset Group will be reclassified from a consolidated subsidiary of the Company to an equity-method affiliate.

1. Reason for the transfer

The Company's shareholding ratio in FISCO Digital Asset Group will be reduced as a result of the capital increase through a third-party allotment of shares undertaken by FISCO Digital Asset Group to enhance and stabilize its cryptocurrency-related businesses. Accordingly, FISCO Digital Asset Group and its subsidiaries are to be excluded from the scope of consolidation.

There has been no change in the FISCO Group's plans to focus on the cryptocurrency and blockchain business going forward. Therefore, this reclassification will have no impact on the Group's reportable segments.

2. Method of the transfer

FISCO Digital Asset Group will conduct a capital increase through a third-party allotment of shares. The shares will be transferred to Partnership YIH Trust No. 2, Partnership M 1H Trust No. 2, Partnership TH Trust No. 2, and Partnership F Coin Fund No. 2. FISCO Digital Asset Group will issue 396 new shares. Through these transfers, the FISCO Group's shareholding ratio will become 39.55%, and FISCO Digital Asset Group will be reclassified from a consolidated subsidiary of the Company to an equity-method affiliate.

3. Overview of the equity-method affiliate and its subsidiaries to be transferred

a. FISCO Digital Asset Group

(1) Name	FISCO Digital Asset Group Co., Ltd.
(2) Representative	Masayuki Tashiro, President & CEO
(3) Address	2-18-15 Araki-cho, Kishiwada, Osaka, Japan
(4) Establishment	October 4, 2017
(5) Main business	Business management, formulation of group strategy, and ancillary duties in connection with holding the shares or equity of companies running cryptocurrency-related business
(6) Capital stock	¥387 million (as of February 23, 2018)
(7) Major shareholders and shareholding ratio	FISCO Ltd. 36.16% Sequedge Japan Holdings Inc. 17.56% CAICA Inc. 8.08% Partnership NI Trust 5.34% (As of February 23, 2018)

b. Fisco Cryptocurrency Exchange Inc.

(1) Name	FISCO Cryptocurrency Exchange Inc.
(2) Representative	Naoki Ochi, President & CEO
(3) Address	2-18-15 Araki-cho, Kishiwada, Osaka, Japan
(4) Establishment	April 12, 2016
(5) Main business	Operation of cryptocurrency exchange, brokerage, finance, development of financial derivative products using cryptocurrencies, development and sales of cryptocurrency exchange-related systems and related consulting services, as well as other general services related to cryptocurrency exchanges
(6) Capital stock	¥387 million (as of August 23, 2018)
(7) Major shareholders and shareholding ratio	FISCO Digital Asset Group Co., Ltd. 100.00% (as of February 23, 2018)

c. Thunder Capital K.K.

(1) Name	Thunder Capital K.K.
(2) Representative	Hiroyuki Matsuzaki, President & CEO
(3) Address	5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan
(4) Establishment	September 1, 2014
(5) Main business	Cryptocurrency-related investment business
(6) Capital stock	¥500,000 (as of February 23, 2018)
(7) Major shareholders and shareholding ratio	FISCO Digital Asset Group Co., Ltd. 100.00% (as of February 23, 2018)

4. Overview of the capital increase through a third-party allotment of shares by a subsidiary

(1) Execution date	March 2, 2018
(2) Number of new shares issued	396
(3) Allottees	Partnership YIH Trust No. 2 109 shares Partnership M 1H Trust No. 2 109 shares Partnership TH Trust No. 2 106 shares Partnership F Coin Fund No. 2 72 shares

5. Number of shares held by the FISCO Group before and after the capital increase through a third-party allotment of shares by a subsidiary

(1) Number of shares held before the transfer	10,000 shares (including 1,000 indirectly held shares) (shareholding: 40.18% (including indirect shareholding of 4.02%))
(2) Number of shares held after the transfer	10,000 shares (including 1,000 indirectly held shares) (shareholding: 39.55% (including indirect shareholding of 3.95%))

6. Schedule

(1) Date of resolution by the Board of Directors of the subsidiary	February 21, 2018
(2) Date of resolution by the extraordinary general meeting of shareholders of the subsidiary	March 1, 2018
(3) Date of signing of the stock transfer agreement	March 1, 2018
(4) Execution date	March 2, 2018

(Consolidated Supplementary Schedules)

[Schedule of corporate bonds]

Issuer	Series	Issuance date	(Thousands of yen) Starting balance in fiscal 2017	Ending balance in fiscal 2017	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 (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	—	—	¥1,465,000 (300,000)	¥ 1,165,000 (1,165,000)	—	—	—

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
Type of shares to be issued	Common shares
Issue price of subscription rights (Yen)	Gratis
Issue price of shares (Yen)	¥ 1,089
Total face amount (Thousands of yen)	1,165,000
Total amount of shares issued upon exercise of subscription rights to shares (Thousands of yen)	—
Percentage of shares granted per subscription right (%)	100
Exercise period of subscription rights to shares	From March 30, 2015 to March 29, 2018

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, 2017 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
¥1,165,000	¥—	¥—	¥—	¥—

[Schedule of borrowings]

Category	Starting balance in fiscal 2017 (Thousands of yen)	Ending balance in fiscal 2017 (Thousands of yen)	Average interest rate (%)	Repayment
Short-term loans payable	¥ 407,334	¥ 357,960	1.17	—
Current portion of long-term loans payable	2,183,214	1,095,656	1.37	—
Long-term loans payable (excluding current portion)	3,277,735	2,019,242	1.28	2019 to 2022
Total	¥5,868,284	¥3,472,859	—	—

Notes:
1. Average interest rate represents the weighted average interest rate for the balance of debt at December 31, 2017.
2. Scheduled repayments of long-term loans payable (excluding current portion) due within five years subsequent to December 31, 2017 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 (excluding current portion)	¥794,367	¥1,045,742	¥160,945	¥18,186

[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 2017

	(Thousands of yen) Cumulative			
	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥4,340,224	¥7,177,649	¥10,866,522	¥14,620,682
Net income before income taxes and non-controlling interests	664,339	1,615,506	1,628,740	1,797,741
Net income attributable to owners of parent	197,642	647,345	645,497	636,719
Net income per share (Yen)	5.25	17.11	17.00	16.73

	(Yen) Quarterly			
	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share	¥5.25	¥11.84	¥(0.05)	¥(0.23)

Investor Information

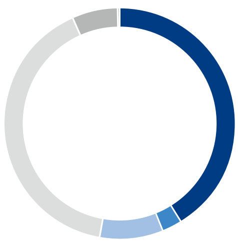
Stock Information (As of December 31, 2017)

Listed exchanges:	Tokyo Stock Exchange, JASDAQ
Securities code:	3807
Number of shares authorized:	100,000,000
Total number of shares issued:	38,362,000
Number of shares in one trading unit:	100
Number of shareholders:	11,957
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

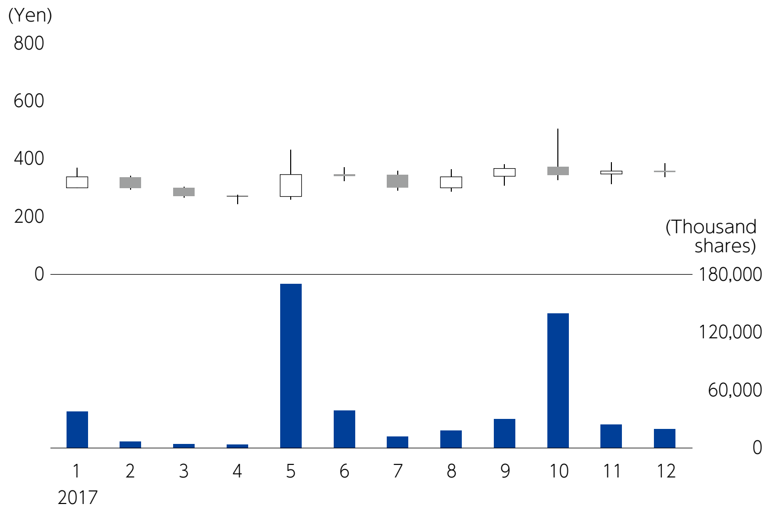
Major shareholders	Number of shares held	Proportion of total shares issued (%)
SEQUEDGE INVESTMENT INTERNATIONAL LIMITED (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	14,090,000	36.73
Japan Trustee Services Bank, Ltd. (trust account)	988,200	2.58
SBI SECURITIES Co., Ltd.	899,700	2.35
Sanji International Co., Ltd.	788,000	2.05
Hitoshi Kano	685,600	1.79
Matsui Securities Co., Ltd.	609,600	1.59
CAICA Inc.	575,000	1.50
Thomson Reuters (Markets) SA	550,000	1.43
Monex, Inc.	469,401	1.22
Shinya Uchiki	451,000	1.18

Composition of Shareholders



Individuals	41.3%
Financial institutions	2.8%
Financial instruments business operators	8.7%
Foreign companies, etc.	40.5%
Other companies	6.4%
Treasury shares	0.2%

Stock Price/Trading Volume



Corporate Information

Corporate Data (as of December 31, 2018)

Name of corporation	FISCO Ltd.
Head Office	2F CoSTUME NATIONAL Aoyama Complex 5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan TEL: +81-3-5774-2440
Foundation	May 15, 1995
Capital	1,266 million yen
President and CEO	Hitoshi Kano
Number of employees	352

Corporate Officers (as of December 31, 2018)

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) Tatsuo Morihana (outside)

Organization