FISCO REPORT 2018

FISCO

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

FISCO

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)

	2013	2014	2015	2016	2017	2018
Net sales	¥6,681	¥ 8,430	¥10,206	¥14,004	¥14,620	¥11,455
Operating income (loss)	354	323	(554)	(778)	7	(788)
Operating margin (%)	5.3	3.8	(5.4)	(5.6)	0.0	(6.9)
Ordinary income (loss)	580	903	(952)	(1,003)	(59)	(2,476)
Net income (loss) attributable to owners of parent	558	730	(143)	(1,193)	636	(2,152)
Total assets	6,124	10,615	16,910	15,444	16,729	10,673
Net assets	3,741	4,890	5,670	4,434	6,246	2,983
Return on equity (%)	26.0	25.8	(4.6)	(47.6)	27.9	(153.7)
Ordinary income (loss)/Total assets (%)	11.2	10.8	(6.9)	(6.2)	(0.4)	(18.1)
Equity ratio (%)	40.2	30.0	18.0	12.7	15.5	1.9
Net cash provided by (used in) operating activities	(447)	1,852	(1,107)	(9)	(328)	(1,818)
Net cash provided by (used in) investing activities	772	(1,013)	(709)	665	3,915	(1,536)
Net cash provided by (used in) financing activities	1,106	1,590	482	(1,898)	(2,209)	(540)
Cash and cash equivalents at end of the fiscal year	2,283	4,717	3,486	2,256	3,596	1,134
Cash dividends per share (yen)	17.0	3.0	3.0	3.0	3.0	—

Contents

(Change in Accounting Policies)

Application of the Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act

The FISCO Group has applied the Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act (ASBJ PTIF No. 38, March 14, 2018) since the first quarter of the fiscal year ending December 31, 2019. For cryptocurrencies the Group held in volatile markets, the Group has recorded as net sales the difference between the amount recorded on the consolidated balance sheet, based on market value, and the carrying amount.

Cryptocurrencies in markets that are not volatile are recorded at their acquisition cost on the consolidated balance sheet. If the estimated value of disposal at the fiscal-year end is lower than the acquisition cost, the estimated value of disposal is recorded on the consolidated balance sheet and the difference between the acquisition cost and estimated value of disposal is booked as net sales.

Accordingly, for the first quarter of the fiscal year ending December 31, 2019, the change in accounting policy has been revised by retroactive application from the first quarter of the fiscal year ended December 31, 2018.

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.

“FISCO will take the opportunities provided by a major Group reorganization to explore new initiatives”

Embarking on a Major Group Reorganization

In the fiscal year ending December 31, 2019, FISCO Ltd. carried out a major group reorganization. Consolidated subsidiaries FISCO DIAMOND AGENCY, Inc. and FISCO IR Ltd. were absorbed and merged into FISCO Ltd. In addition, FISCO conducted a debt-equity swap covering the monetary liabilities of ¥1,400 million held by NCXX Group Inc. against the Company. Moreover, FISCO sold part of its shares of NCXX Group (realizing a gain of ¥397 million), thereby converting NCXX Group from a consolidated subsidiary into an equity-method affiliate.

The goal of this reorganization is to resume dividend payments as early as possible. To do so, we will restore a sound balance sheet by reducing liabilities and reinforcing equity, along with increasing short-term liquidity. Our financial health had deteriorated in the course of executing large investments. Through restructuring initiatives, we will restore our financial health, and as we earn back the trust of our shareholders, we will transition to a new growth track for the future.

The debt-equity swap and the sale of NCXX Group shares will reduce the size of FISCO's business in the near future. However, interest-bearing debt has been reduced from ¥3,821 million to ¥236 million, and the equity ratio has dramatically improved from around 2% to around 35%. Additionally, as a result of the absorption and merger of subsidiaries, savings in selling, general and administrative expenses have started to materialize through such means as streamlining expenses. With the deconsolidation of NCXX Group, the brand retail platform business, which has remained in the red, will no longer be reflected in FISCO's financial results. Consequently, this will have the effect of reducing FISCO's risks associated with business performance.

Incidentally, NCXX Group will become an equity-method affiliate. FISCO expects to continue its cordial relationship with NCXX Group, including collaborations, as before. Collaborations will be considered in fields such as cryptocurrency, which is an area of focus for FISCO, and 5th generation wireless communication systems (5G), which is a promising growth area for NCXX Group, as well as the mining business, which is an area of strong interest.

Business Forecasts for the Fiscal Year Ending December 31, 2020

The FISCO Group set net sales of ¥1,246 million and operating income of ¥156 million as numerical targets in its business plan for the fiscal year ending December 31, 2020. In the cryptocurrency and blockchain business, Vulcan Cryptocurrency Financial Products K.K., a subsidiary of the Company, conducts properietary investment in cryptocurrency, and records the net gains (losses) from these investment activities as net sales. That said, Vulcan Cryptocurrency Financial Products K.K. plans to conduct trading activities according to market conditions for cryptocurrency, and has not been included in the FISCO Group's business plan at this time. Its results will serve as an additive positive factor to the plan's numerical targets.

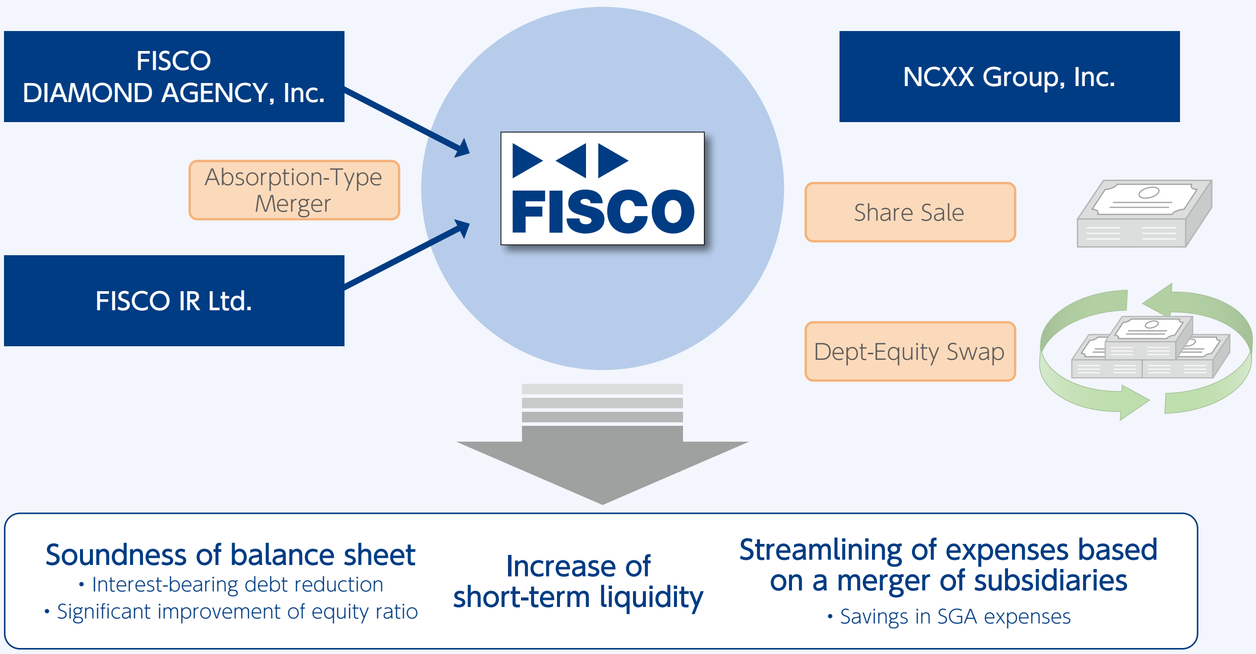
As measures to achieve these targets, the Group will resume services for individual investors, which have been revised, and strengthen financial content services. It will also expand services for institutional investors and step up sales of corporate analysis reports. The Group will also reduce shared costs of Headquarters divisions by merging them and further strengthen the management structure through such means as strengthening cross organizational systems.

Business Strategy

I'd now like to discuss our future strategies for each business. First, in the information distribution business, we will continue working to increase and diversify earnings from platform services, with the aim of generating steady earnings. We spent the whole past year fully revising the content of CLUB FISCO. We will strive to expand sales of content summarizing the investment methods of noted individual investors, including FISCO Social Reporters (individual investors certified by the Company). The Group has resumed services from the end of 2019, including investment education content and financial and economic content, as well as crypto asset (cryptocurrency) content. The Group will also study additional initiatives to increase sales, including the launch of new services such as the sale of content to institutional investors, in addition to individual investors.

In the corporate IR support services business, the FISCO Group aims to increase the number of customers to 1,000 companies by the end of December 2021 (the number of customers is currently around 500 companies). To achieve this goal, the Group will strengthen human resources and organizational capabilities, along with building an even stronger brand. Against the backdrop of Japan's Corporate Governance Code, a broader range of companies has adopted measures to strengthen the disclosure of information to investors. In this environment, the FISCO Group will offer corporate analysis reports, integrated reports, annual reports and other services. In addition, the Group will strive to expand its service options to feedback reports and English translation services for IR information. We will seek to capture a larger share by capturing demand for push-type IR support services for potential investors, including the supply of IR information to Yahoo! Japan Finance and Bloomberg. In new fields such as integrated reports and annual reports, we believe that the knowledge we have amassed will prove highly useful.

Moreover, capitalizing on the trend of corporate governance reforms, certain investors have acquired large amounts of shares in investee companies and then sought to increase their corporate value by proactively



making recommendations to the board members of those companies. These so-called "activist investors" have been gaining a stronger presence in the market. In this climate, we will consider providing systematic services to support shareholder relations (SR) activities, beginning with our customer base in growing corporate IR support services. We plan to offer consulting to help companies address activist investors. We also plan to carry out shareholder identification surveys, among other activities. In other areas, as part of customer services, we have recently provided services such as corporate analysis report preparation and video production services for earnings briefings. iStudy Co., Ltd., a Group company, has played a key role in video production.

In the advertising agency business, we have made progress on winning new advertising projects for the Group's parasports magazine and related businesses ahead of the Olympics year. Amid a current surge in demand for small-scale spot advertising, our priority is to maintain and win continuing projects. Accordingly, we will continue working to increase the order amount per project as we strive to raise the price per project and win larger projects through measures such as combining services.

Today, digital devices and the Internet have evolved and are widely used. Even so, we believe that people still need paper media, an analogue means of communication. Paper media are easy to scan at a glance, can easily reach management personnel, and can be delivered reliably in face-to-face meetings. High paper quality and feel can also impart a positive impression. In these and other ways, people realize that there is something special—information and more—that only paper media have the power to convey. We will continue to make progress on building up expertise on technical trends in online advertising and the characteristics of different media. At the same time, working closely with Jitsugyo no Nihon Sha, Ltd., a business alliance partner, we will seek to strengthen our ability to propose optimal combinations of digital and paper media and improve profitability through production process improvements.

▶Cryptocurrency Business (Crypto Assets)

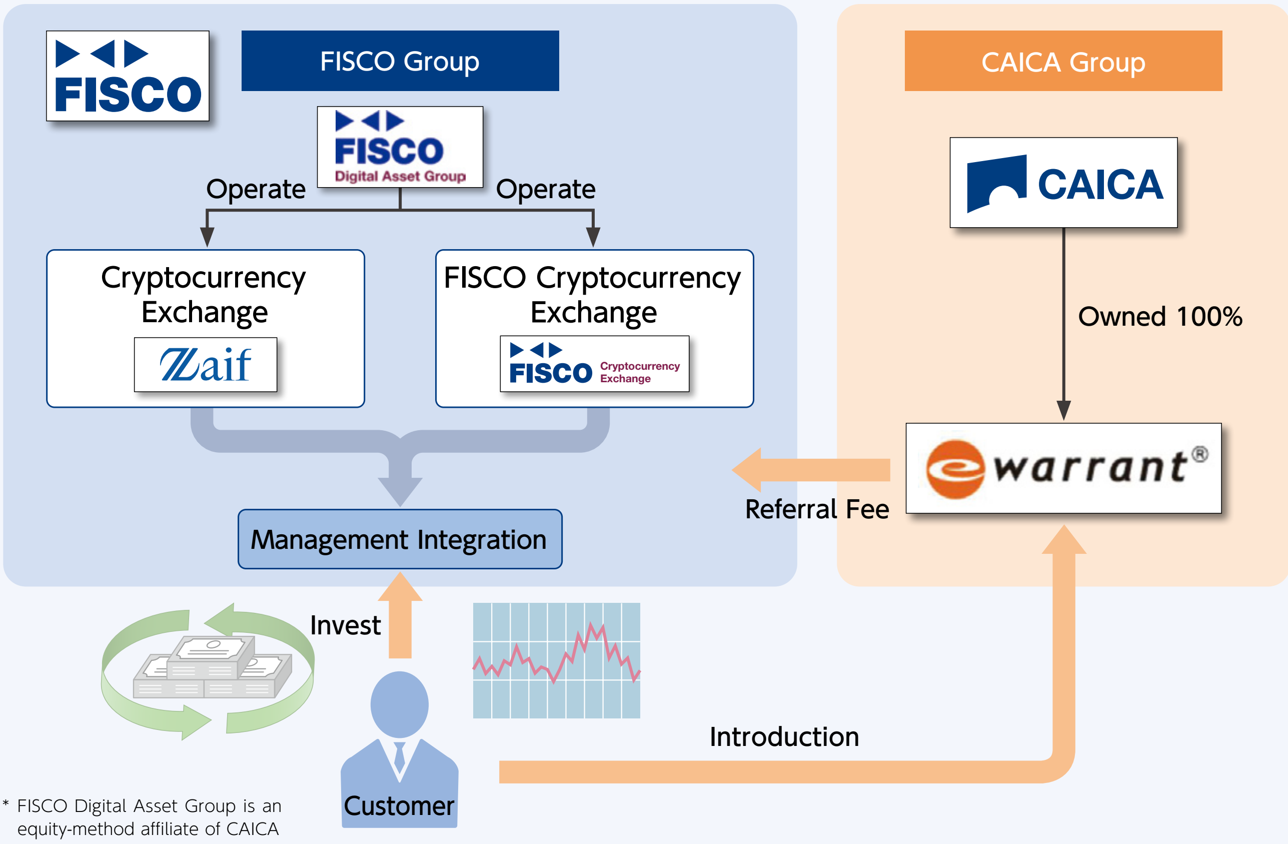
I'd also like to explain the cryptocurrency business (operated through an equity-method affiliate), which holds one of the keys to the FISCO Group's growth. FISCO established Fisco Cryptocurrency Exchange in April 2016, and registered as a licensed cryptocurrency exchange operator with the Financial Services Agency 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 CCCT, Inc., a wholly owned subsidiary of CAICA, Inc. (an equity-method affiliate at the time).

After separating the trading system from Zaif and establishing it as an independent system, a hacking incident at Zaif caused an outflow of cryptocurrency. In the wake of this incident, Tech Bureau and FISCO Digital Asset Group (FDAG: an equity-method affiliate of FISCO) concluded a basic agreement for 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. The business transfer took effect in November 2018. It was decided that the FISCO Group would operate Zaif, as well as the Fisco Cryptocurrency Exchange. The Group plans to complete the integration of the Fisco Cryptocurrency Exchange and Zaif in February 2020.

However, as you know, market conditions for cryptocurrency have been slumping recently. Since reaching a high of $14,000 in June 2019, the price of bitcoin has experienced a correction down to the current level of around $8,000. For this reason, we have had no choice but to refrain at this time from activities such as the development of mechanical trading systems for cryptocurrency trading and proprietary trading of cryptocurrency.

In this environment, the FISCO Group is exploring new initiatives. With Zaif, a crytocurrency exchange operated by the Group, Fisco Cryptocurrency Exchange Inc. will accept the transfer of Zaif's business. In the process, Fisco Cryptocurrency Exchange has obtained consent from customers, one by one. For this reason, there are basically no dormant accounts, and the accounts have a high activity ratio relative to customers as a whole. As a business development initiative leveraging these customers, we plan to guide these customers not only to investment in cryptocurrency itself, but also to other types of transactions. CAICA has eWarrant Japan Securities K.K., a securities firm, within its group. We are considering referring customers to eWarrant Securities and generating referral fees.

Cryptocurrencies were launched only recently in 2009. They harbor enormous potential for expansion of business fields going forward. Moreover, FISCO has identified a host of business opportunities and there appears to be ample space to implement them. With the market downturn shaking the weaker players out of the market, the surviving companies will be positioned



* FISCO Digital Asset Group is an equity-method affiliate of CAICA

to benefit hugely from the coming market expansion as pure players. Going forward, the FISCO Group will integrate Fisco Cryptocurrency Exchange and Zaif exchange and complete the improvements laid out in the business improvement plan (completion scheduled for June 2020). Following these and other developments, the FISCO Group will be ready to enter a phase of proactive business expansion, including resuming the acceptance of orders to open new accounts.

In terms of the near-term outlook for the cryptocurrency market, Bloomberg, a financial information distribution company, notes in the “Bloomberg Crypto Outlook—January 2020 Edition” report that bitcoin prices are highly likely to edge back toward the 2019 high of $14,000 as supply declines after the bitcoin halving in May (the timing for the amount of new bitcoins issued to decrease by half). The report also notes that demand for bitcoin will continue to be generated as bitcoin provides a means of storing value independently of other currencies such as legal tender. Another factor that will drive the increase in the bitcoin price is that the bitcoin supply will approach the limit of zero growth in 2020.

Next, I’d like to explain the reasons why we are developing the cryptocurrency business through equity-method affiliates. Currently, holding company FISCO Digital Asset Group (FDAG) and its subsidiaries Fisco Cryptocurrency Exchange and Zaif form the core of the cryptocurrency business. 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 developing the business under a holding company structure will enable us to effectively meet these requirements. It will also allow us to address the distribution of risk to FISCO, which is a listed company, and 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.

In the cryptocurrency business, we are also exploring a wide range of initiatives over the medium and long terms. One of these initiatives is the resumption of opening new accounts. Also, assuming a recovery in market conditions, commission revenue for cryptocurrency as a whole could increase all at once through the collection of bitcoin commissions. In addition to services that generate commission revenue, we envision providing a truly diverse spectrum of services. These include the provision of bitcoin derivative system trades, 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, deploying cryptocurrency settlement systems, external sales of cryptocurrency exchange systems with advanced security, creating a platform for services using digital tokens by eWarrant Japan Securities K.K., and investor education services including basic investment methods. We have also started providing the Fisco Cryptocurrency Exchange smartphone app, which currently has a track record of 25,000 downloads. We believe that our long-term prospects are very bright indeed.

▶Financial Results for the Fiscal Year Ending December 31, 2019

I’d like to briefly discuss the FISCO Group’s current business performance trends. For the fiscal year ending December 31, 2019, net sales are forecast at ¥5,789 million, a decrease of 48.2% year on year. We are forecasting an operating loss of ¥586 million, an improvement of ¥488 million, and an ordinary loss of ¥984 million, an improvement of ¥1,660 million. Net sales are projected to decrease substantially due to the reclassification of NCXX Group from a consolidated subsidiary to an equity-method affiliate. However, since the brand retail platform business was an unprofitable business, the decline in the gross profit margin will be limited, and selling, general and administrative expenses have been reduced due to revisions to commission fees and advertising expenses as well as cost-cutting measures. Accordingly, the FISCO Group's earnings performance is improving as a trend. Moreover, although we expect the share of loss of entities accounted for using the equity method to expand, non-operating profitability has improved as loss on sales of cryptocurrency and loss on valuation of cryptocurrency have run their course. In the mainstay information services business, net sales and operating income are both expected to bottom out in the first half of the fiscal year mainly based on the positive effect of revising content sales to individual investors and firm business growth in the IR consulting business.

FISCO has conducted M&As of a number of companies since e-tabinet.com became the first in September 2011. NCXX Group and CAICA have been excluded from the scope of consolidation and the scope of equity-method affiliates, respectively. However, we have continued our capital alliance relationships with both companies. Both NCXX Group and CAICA have become a vital part of the FISCO Group's core businesses in fields such as cryptocurrencies, FinTech, and AI, and have captured the largest synergies with the Group. 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. We believe that M&As will remain essential to driving corporate growth, so we will explore new initiatives after we complete our financial restructuring.

Shareholder Returns

Looking at its principles on shareholder returns, FISCO's basic policy is to strive to maintain stable dividends, while giving the highest priority to increasing the value of its shares. 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 the fiscal year ended December 31, 2018, we finished the year with a net loss, but by improving our short-term liquidity through a group reorganization we plan to resume dividends in the fiscal year ending December 31, 2019.

CSR and ESG

In our CSR and ESG activities, the FISCO Group supports the activities of Social Welfare Corporation Zenkoukai, which was established with a contribution from FISCO's parent company, SEQUEDGE INVESTMENT. Zenkoukai was established in December 2005 as an embodiment of the philosophy that "profits obtained through activities in society should be returned to society." Zenkoukai opened Santa Fe Garden Hills, one of the largest multipurpose 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.

In addition, Gloria Tours Inc., a subsidiary of NCXX Group, specializes in sending Paralympic athletes to various events and organizing numerous international parasports tournaments. Jitsugyo no Nihon Sha, Ltd., a fellow company of FISCO, is engaged in the production of a parasports magazine. FISCO DIAMOND AGENCY, Inc. has been continuously strengthening campaign development and sales on the communication front for the parasports market. The FISCO Group as a whole plays a crucial role in enhancing the daily lives of people with disabilities.

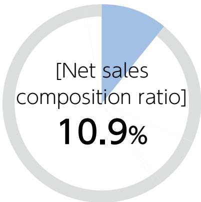
Through these activities, the FISCO Group plans to foster a greater understanding of the significance and value of CSR and ESG activities in conjunction with enhancing the quality of FISCO's support services for the CSR and ESG activities of publicly listed companies. By doing so, the FISCO Group seeks to contribute to the formation of efficient capital markets. Incidentally, once a year, FISCO selects and announces outstanding companies in the Institutional Investor & Analyst Corporate Analysis Report Awards, which also incorporates ESG, CSR and related factors as assessment criteria.

December 2019

Hitoshi Kano
President and CEO

Information Services Business

[Net sales]
¥1,245 million



Main Group Companies

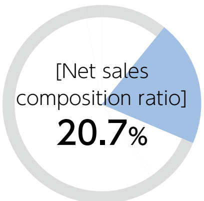
- FISCO Ltd.
- FISCO IR Ltd.

The FISCO Group will focus efforts on its free smartphone app "FISCO app" and the PC browser version "FISCO Web" by enhancing profits and implementing diversification in platform services. In investment education, at "CLUB FISCO," a website selling content for individual investors, the Group will strive to increase sales of content summarizing the investment techniques of noted individual investors, including FISCO Social Reporters, along with advancing its business alliance with C.A.MOBILE, LTD. Additionally, the Group will work to enhance profits with a focus on information distribution in the fields of cryptocurrency and General Data Protection Regulation (GDPR).

Moreover, the Group expects to continue to steadily expand its business based on projected demand for push-type IR support services for potential investors, such as the supply of IR information to Yahoo! Japan Finance and Bloomberg. These activities are centered on the corporate analysis report service. Furthermore, the Group aims to continue to expand its customer base of listed companies. To do so, the Group will develop new products through services that will provide companies with feedback on the voice of investors based on perception studies or offer consulting services based on this information. In integrated report and annual report services, the Group will strengthen human resources involved in frontline operations and enhance organizational capabilities, along with building an even stronger brand. In addition, as part of its measures for GDPR, the Company will strive to capture a larger market share by conducting advisory and other services focused on how corporate customers can ensure that their measures to address personal information lead to increased corporate value.

Internet Travel Business

[Net sales]
¥2,361 million



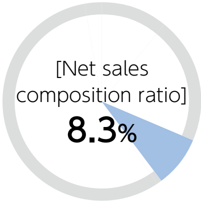
Main Group Companies

- 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 e-tabinet.com 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 e-tabinet.com Group will proactively form collaborations with leading partners to provide inbound travel services targeting overseas visitors to Japan, with a view to proactively capturing profit opportunities. Concurrently, the e-tabinet Group will push ahead with market development initiatives targeting the European market as well as the Asian region. Looking at notable trends, overseas travel sales rose 20% primarily for trips to Europe and Oceania. This trend was supported by a rebound from lower travel demand due to the impact of the current fiscal year's extremely hot summer and a sudden surge in demand in anticipation of next fiscal year's Golden Week holiday falling on a period with many consecutive days off. Meanwhile, Gloria Tours Inc. will focus on further developing the market for parasports ahead of the Tokyo 2020 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.

IoT Business

[Net sales]
¥949 million



Main Group Companies

- NCXX Group Inc.
- NCXX Inc.
- Care Dynamics Limited
- e frontier, Inc.

* LPWA (Low Power Wide Area): a wireless communication technology which is capable of interconnecting devices with low power consumption over long range of kilometers.

NCXX Inc., which carries IoT devices, will continue to proactively undertake software development using GX410NC, an automotive telematics product. Moreover, NCXX will work to develop cutting-edge device products. These products will be augmented with high-value-added functions such as mobile computing, including LPWA* and the 5G next-generation mobile communications standards, which are expected to be widely used. The products will also be fitted with high-value-added AI and image analysis capabilities. As a domestic manufacturer, NCXX will strive to further upgrade and expand product lineups that address market needs and can be used by customers with peace of mind. Looking at recent developments, in August 2018, the National Defense Authorization Act for Fiscal Year 2019 (NDAA 2019) entered force in the United States. NDAA 2019 significantly tightens enforcement actions against five Chinese companies, specifically, Huawei Technologies Co., Ltd. and ZTE Corporation, the major surveillance camera manufacturer Hangzhou Hikvision Digital Technology Co., Ltd. (HIKVISION), Zhejiang Dahua Technology Co., Ltd., and Hytera. Calls are being made to exclude these companies from doing business with U.S. government agencies.

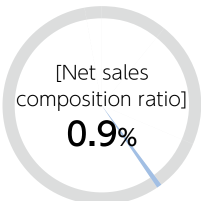
NCXX does not outsource any manufacturing to the abovementioned five Chinese companies affected by the recently enacted NDAA 2019 and does not use any components from the five companies for any of the products that it currently sells. Accordingly, NCXX has informed its customers that they may use all of its products with peace of mind. NCXX has seen an increase in business talks involving a switch in demand from products that use Huawei and ZTE products to those that do not use such products.

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 by upgrading and expanding a variety of service lineups that support nursing care providers. 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.

In the agricultural ICT business, the NCXX Group will mark its fourth settled planting since expanding its proprietary testing plot to a total area of 5,421 m^2 (1,640 tsubo) in 2016. The NCXX Group will conduct research into new agricultural ICT within the next 3 years through an industry-academia collaboration with a university in Iwate Prefecture. In sixth-order industrialization initiatives, which involve the growing, processing and sale of agricultural products, the NCXX Group 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 NCXX Group 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 NCXX Group will strive to ensure that these initiatives lead to increased sales.

Advertising Agency Business

[Net sales]
¥102 million



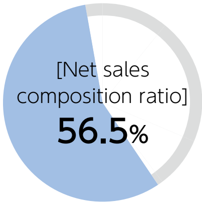
Main Group Companies

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

In the advertising agency business, the FISCO Group has put emphasis on content production projects in order to strengthen sought-after creative abilities, regardless of the type of media. As a result, the Group has received orders for new projects in areas such as website renewal and operation, banner advertising, and internet video production. However, amid a surge in demand for small-scale spot advertising, the Group's challenge going forward is to win continuing projects. Meanwhile, the Group has made progress on building up expertise on technical trends in online advertising and the characteristics of different media. The Group will ensure that this accumulated expertise leads to improved profitability by strengthening proposal-based sales capabilities and improving content production processes. In addition, the Group started initiatives to develop advertising demand for the Parasport information magazine last year. Through these initiatives, the Group has not only acquired editorial tie-ups and corporate and product advertisements, but it has also started marketing the development of methods such as the production of booklets for parasport information that can be distributed and used independently by advertisers, and parasport events, leveraging the information resources of the parasports magazine. These activities have attracted growing interest from advertisers. In response, the Group will continuously strengthen campaign development and sales on the communication front for the growing parasports market, whose expansion has been triggered by the Tokyo Paralympic Games.

Brand Retail Platform Business

[Net sales]
¥6,449 million



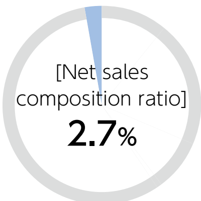
Main Group Companies

- TITICACA, Co. Ltd.
- Versatile Inc.
- NCXX Premium Group Inc.
- NCXX Farm Holdings Inc.
- FACETASM

TITICACA Co., Ltd. will continue to close unprofitable stores and revise its personnel system. In addition, TITICACA will continue to push ahead with efforts to expand customer interfaces through social media and a proprietary app, in order to expand its customer base. Moreover, it will work to put profits on a more stable footing by striving to upgrade and expand its manuals and training systems from an employee training perspective. In November 2018, NCXX Premium Group Inc. was established through a company split (incorporation-type company split) of Versatile Inc. NCXX Premium Group will implement measures to develop and popularize IoT-related services for the fashion industry and work to expand the brand retail platform business on a stable footing so that it becomes a new profit driver. In the process, NCXX Premium Group 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. Furthermore, as with NCXX Premium Group, NCXX Farm Holdings Inc. was established through the company split (incorporation-type company split) of Versatile. NCXX Farm Holdings will seek to start the operations of a wine retail business subsidiary in earnest and work to expand this business on a stable footing so that it becomes a new profit driver.

Cryptocurrency and Blockchain Business

[Net sales]
¥309 million



Main Group Companies

- Vulcan Crypto Currency Financial Products K.K.
- NCXX Group Inc.
- TITICACA, Co. Ltd.
- e frontier, Inc.
- FISCO Digital Asset Group Co., Ltd.

After taking over the “Zaif” business in November 2018, Fisco Cryptocurrency Exchange Inc., the Company’s equity method affiliate, found itself in the unique position of operating two exchanges with one registration as a cryptocurrency exchange operator. Fisco Cryptocurrency Exchange plans to integrate the two exchanges into one exchange in February 2020.

Moreover, in anticipation of the future token economy era, “Zaif” has carried crypto assets that other exchanges have not carried (such as Counterparty tokens, Zaif tokens, and COMSA) and provided unique services (such as AirFX, margin trading, and coin reserves). By doing so, “Zaif” has amassed one of the largest number of accounts of any Japanese exchange, and boasts a high ranking in terms of bitcoin trading volume.

Several “Zaif” services have been suspended in connection with events such as the issuance of business improvement orders to Tech Bureau, Corp., the former operator of the “Zaif” business. Going forward, the FISCO Group will strive to resume services that customers are currently unable to use. This will be done by focusing on improving operations through such means as strengthening customer support in order to rigorously enforce Know Your Customer (KYC) procedures when opening accounts, and reinforcing AML/CFT measures.

In other areas, the FISCO Group will continue seeking to build crypto asset (cryptocurrency) platforms, and upgrade and enhance the functions of crypto asset (cryptocurrency) exchange systems. Efforts will be focused on building a crypto asset (cryptocurrency) exchange system featuring advanced security functions developed by CAICA, Inc., a business outsourcing partner, and CAICA’s subsidiary.

With regard to investment in crypto assets (cryptocurrency), the FISCO Group will continue to raise the sophistication of its operations by developing a trading system that uses artificial intelligence (AI) technologies. Concurrently, the FISCO Group will use this system to execute investments with an emphasis on funding efficiency based on trends in the crypto asset (cryptocurrency) market.

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 an outside director to participate in board meetings in order to obtain the outside director's views on management from an objective perspective based on his or her extensive experience.

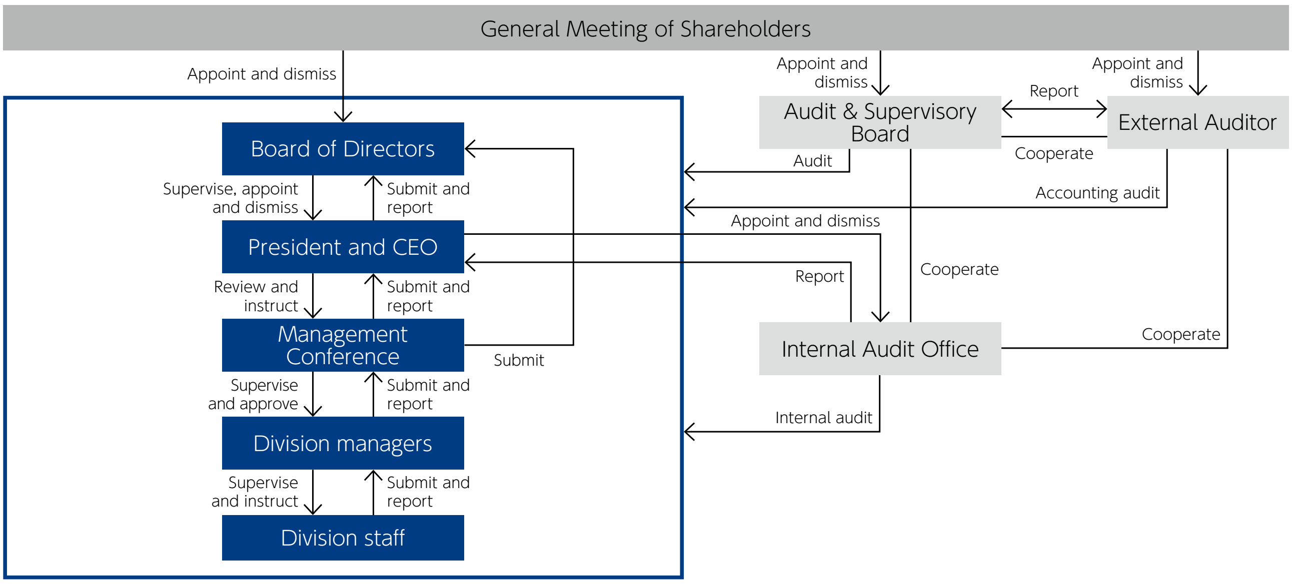
The Audit & Supervisory Board has three members, comprising one full-time Audit & Supervisory Board member and two part-time Audit & Supervisory Board members (all of whom are outside Audit & Supervisory Board members). The Audit & Supervisory Board meets every month, in principle, as a means of conducting efficient audits through sharing information between the Audit & Supervisory Board members. 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 the outside director 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 the outside director 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. The internal control system has been revised in accordance with the amended Companies Act and its amended Regulation for Enforcement, which entered force on May 1, 2015.

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

Internal audits are conducted by three members 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 procedures as occasion demands 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 internal audits and various audits performed by 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 Director 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 and its outside director are as follows.

The Company does not have standards or policies on independence for appointing the outside director 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 the outside director and outside Audit & Supervisory Board members to regularly exchange opinions and information with the Audit & Supervisory Board members and the Internal Audit Office, via meetings to exchange opinions with the Board of Directors and corporate officers. The outside director 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 director and outside Audit & Supervisory Board members provide advice to the Internal Audit Office, as necessary, primarily by making recommendations.

Outside Director

Yoshiyuki Kiroko (As of December 31, 2019)	Mr. Kiroko is qualified as a lawyer and possesses a wide range of knowledge based on his abundant experience in corporate legal affairs. Accordingly, the Company has judged that Mr. Kiroko will be able to fulfill his roles effectively in making decisions on important management matters of the Company and supervising the execution of its business operations, among other areas. The Company believes that Mr. Kiroko is well suited to strengthening internal control, compliance, and other priorities at the Company. Mr. Kiroko does not have any personnel, capital, or business relationships, nor any other interests or relationships, with FISCO Ltd.

Outside Audit & Supervisory Board Members

Masakatsu Mochizuki (As of December 31, 2019)	Mr. Mochizuki possesses abundant experience with a career spanning many years in the administration division of a social welfare corporation. Mr. Mochizuki 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 an outside director)	42,277	36,900	5,377	—	—	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	—	—	—	—	—	—
Outside corporate officers	6,290	6,290	—	—	—	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 IoT-related 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 following legislation: 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, intellectual property laws, and 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 IoT-related 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, IoT-related 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, IoT-related 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 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, Co., Ltd. recognizes impairment losses on the portion of the assets of stores that are persistently unprofitable or that it has decided to relocate or close for which the book value of property, plant and equipment is determined to be unrecoverable. In the event of an increase in such unprofitable stores going forward, the posting of significant impairment losses would be expected, which could affect the Group's business performance and financial position.

(15) Losses from Store Relocations and Closings

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

(16) Dilution Due to Dilutive Shares

The FISCO Group grants subscription rights to shares (stock options) for further enhancing the motivation of corporate officers and employees and securing talented personnel. The total number of dilutive shares underlying subscription rights to shares was 567,500 shares (1,935 rights) as of December 31, 2018. 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 Inc. 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, due to changes in regulations, tax systems or policies, there is the possibility that cryptocurrency transactions may be prohibited, or regulated or taxed more heavily. There is also the possibility that cryptocurrency ownership or transactions could be subject to limitations, or be treated less favorably than now (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 the bankruptcy of subcontractors that provide system and other essential services to the company. 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, 2018)

President and CEO	Hitoshi Kano
Directors	Takaya Nakamura Hiroyuki Matsuzaki Osamu Fukami Motoki Sato Yoshiyuki Kiroko (outside) (As of December 31, 2019)
Full-time Audit & Supervisory Board member	Masakatsu Mochizuki (outside) (As of December 31, 2019)
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

Institutional Investor & Analyst Corporate Analysis Report Awards

—Presenting awards for themes such as ESG and CSR activities—

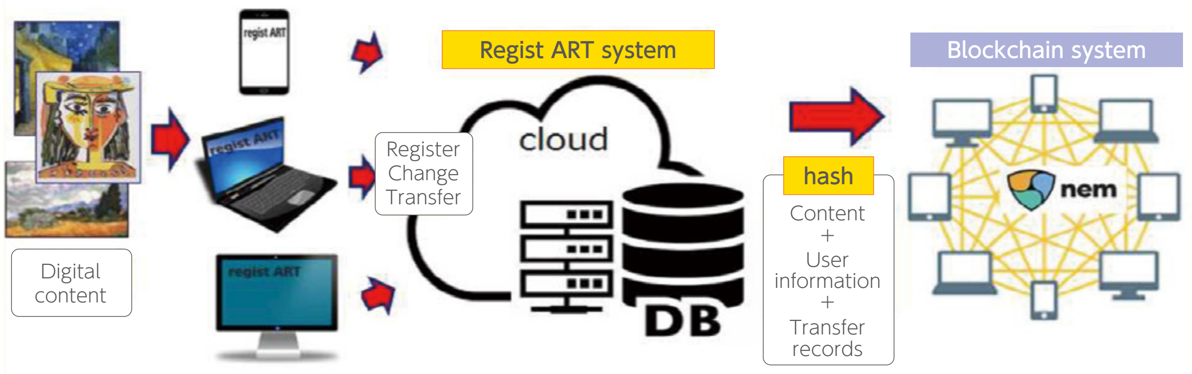
Recently, there has been a growing movement to assess corporate activities based on factors that do not appear directly on the financial statements, such as Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR) activities. According to the Global Sustainable Investment Alliance (GSIA), global ESG investment will reach approximately US$31 trillion in 2018, indicating strong worldwide interest in ESG and CSR. FISCO has evaluated companies with an emphasis on ESG and CSR themes through the Institutional Investor & Analyst Corporate Analysis Report Awards, an awards program for companies based on FISCO corporate analysis reports. In this awards program, the award winners are determined as follows. Ten institutional investors and analysts carefully vetted by FISCO select the top five companies for each of five evaluation criteria, specifically ESG, CSR, business model, growth potential and employee satisfaction, based on FISCO corporate analysis reports issued in the past year. Through these activities, FISCO seeks to increase public understanding of the significance and value of ESG and CSR activities, as well as contribute to the formation of efficient capital markets.

An Application Designed to Pass Down Important Art Works and Their Transaction Data to Future Generations

—State-of-the-art platform service, regist ART—

Until now, there has been no practice of registering ownership rights for artists' works. In the course of transactions, artworks have been bought and sold between brokers, with ownership rights managed using analogue systems. For this reason, the authenticity and owners of artwork have tended to become opaque,

■ Features of regist ART



causing numerous problems in the past. Also, regist ART, a public notary platform service provided by regist ART Inc. (Headquarters: Minato-ku, Tokyo; President: Hiroki Nakagawa), is the first application in the art industry that transfers records of artists and their works into digital form and facilitates the exchange of this data over a blockchain. This service not only prevents any tampering with the registration of rights, but it also enables the efficient and secure transfer of rights. The registered art information can be freely recorded and viewed by anyone. In addition, regist ART issues digital certificates for works of art registered on the blockchain. The digital certificates can be bought and sold on the regist ART market. Regardless of who received transfer of the certificate and by what route, the record is stored on the blockchain, giving all regist ART users an electronic catalogue raisonné. Furthermore, regist ART enables highly reliable information and important artworks to be passed down to future generations.

High Expectations for Efforts to Encourage Companies to Go Paperless

—FISCO concluded a domestic sales partnership agreement with paperlogic Co., Ltd.—

The importance of going paperless has been called upon prominently as a means of addressing priorities such as protecting forest resources. However, companies have not made very much progress on this front. The main reason has been cited as "a lack of experts who can cover all of the necessary areas, including the organization and definition of storage requirements for the digitalization of numerous business documents and the creation of ledgers and inventories of those documents, as well as the accompanying need to formulate and implement digitalization plans and submit various tax-related documents." The supplier of paperlogic® is paperlogic Co., Ltd. (Headquarters: Shinagawa-ku, Tokyo; Representative Director: Koichi Yokoyama), a cloud service for the digitalization of corporate documents. The paperlogic® system satisfies legal requirements. Besides helping companies to go paperless, the use of paperlogic® is expected to help them build a long-term ESG-related management platform in many different ways. It will, for example, promote the digitalization of corporate documents based on legal requirements; reduce environmental impact by not requiring the use of paper, ink, and printers; and boost business efficiency by improving document processing speed and promote workstyle reforms. In addition, paperlogic® will help to enhance governance including compliance and risk management. In December 2019, FISCO concluded a comprehensive sales partnership agreement with paperlogic Co., Ltd. based on its understanding and support for the latter company's aspirations to expand the use of the paperlogic® system in Japan.

July 2019

Absorption by Amalgamation of Two Subsidiaries

—Strive to strengthen, upgrade and expand communication tools and streamline management—

FISCO has absorbed by amalgamation two subsidiaries, Fisco Diamond Agency Inc. ("FDAC") and FISCO IR LTD. ("FIR").

Through this merger, FISCO expects to accelerate the provision of cryptocurrencies and other crypto assets across the whole Group, a key growth strategy. FDAC expects to concentrate marketing resources and to intensively utilize the customer networks of FISCO and FIR. In addition, FIR believes that the merger will enable it to utilize FISCO's investor network and financial information distribution network to strengthen, upgrade and expand its communication tools in the information services business.

In conjunction with this absorption by amalgamation, the Group will work to centralize ledgers, bank accounts, personnel systems, internal audit operations and other matters, with the goal of reducing expenses in management divisions. Therefore, the Group can also expect to streamline management.

FISCO will take the opportunity of this absorption by amalgamation to advance priorities such as maximizing its enterprise value and generating business, including the development of new businesses.

August 2019

Providing a New Stock Option Service

—FISCO concluded a comprehensive sales partnership agreement with SOICO INC.—

Conventional stock options can only be allocated to employees affiliated with a company at the time of issuance. For this reason, companies have faced problems with providing incentives to employees. SOICO INC.'s "time capsule stock options®" product seeks to solve these problems. This product first places stock options in a trust for a certain period, thereby keeping the terms of stock options, such as the exercise price, "frozen" like a time capsule. Employees are then granted points redeemable for future stock options based on their contribution to the company. Moreover, upon the expiration of trust periods for IPOs and other events, employees will have the right to redeem their accumulated points to receive an allocation of stock options. This is how the "time capsule stock options®" product works.

This product can be expected to solve problems related to providing incentives to employees. For example, a company using the product can grant stock options on favorable terms to employees who have joined the company later than others.

In order to expand sales of this product in Japan, FISCO has concluded a comprehensive sales partnership agreement with SOICO INC.

The FISCO Group's ESG Activity Goals and Details

Modern society is in a tumultuous period of transition. Companies will need to deal with seismic shifts, surmount difficulties, and drive sustained growth. To do so, it will be essential for them to skillfully foster mutual integration of outstanding individual talent and cooperation within the organization. In order to integrate individual talent and cooperation within the organization, FISCO Group has focused on the four broad themes of human rights, labor, the environment and anti-corruption. Efforts have been made to increase familiarity and awareness of those themes within the Group, and to continuously improve activities on each theme. We still have many issues to consider and solve internally, such as how to continuously improve activities on the four themes in our businesses. Going forward, we will continue striving to provide opportunities for every employee to increase their understanding of the four themes, and to implement them in day-to-day business operations.

We remain committed to these ESG activities because we believe that the FISCO Group will act as a good corporate citizen by demonstrating responsible and creative leadership on this front, and that these efforts will also help us to achieve sustainable growth.

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 (73 people incl. part-time) • Employed people with disabilities (0 people) • Employed foreign workers (6 people) • Actively employed women (24 people) • Continued to employ people aged 60 and over (5 people)	○
		▪ Established environments easy to work in • People working from home (13 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, 2018)

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.

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.

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.

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.

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 Cryptocurrency Exchange Inc.

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

NCXX Premium Group Inc.
NCXX Farm Holdings Inc.
FACETASM
NCXX International Limited
Versatile Milano S.R.L.
MEC S.R.L. SOCIETA' AGRICOLA
Vulcan Crypto Currency Financial Products K.K.
FISCO Capital Ltd.
FISCO Capital Investment Limited Partnership
FISCO Digital Asset Group Co., Ltd.
Thunder Capital K.K.
Sequedge Investment International Ltd.

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

Business Performance

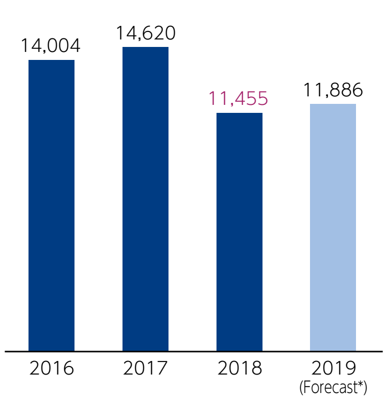
In January 2018, Fisco Cryptocurrency Exchange Inc. (hereinafter, "Fisco Cryptocurrency Exchange") concluded a business tie-up agreement with NCXX Group Inc. on the development of an AI trading system for crypto assets (cryptocurrency), which is currently being carried out by Fisco Cryptocurrency Exchange and e frontier, Inc. (hereinafter, "e frontier"), a consolidated subsidiary of FISCO Ltd. In addition, e frontier commenced investment in bitcoin in conjunction with demonstration trials of software under development, and delivered a measure of success. In July 2018, NCXX Group Inc., a consolidated subsidiary of FISCO Ltd., passed a resolution to launch a new crypto assets (cryptocurrency) mining business at the NCXX Group Inc. Head Office in Hanamaki City, Iwate Prefecture. Crypto asset (cryptocurrency) mining refers to the validation work needed to ensure the consistency of blocks of transaction data found on networks. Crypto assets (cryptocurrency) are paid out as a reward to miners who are the fastest to successfully validate transaction data.

In September 2018, Fisco Cryptocurrency Exchange reviewed the system of the crypto asset (cryptocurrency) exchange system it operates. As part of this review, Fisco Cryptocurrency Exchange separated and made its system independent from the former white label OEM system of "Zaif," a crypto asset (cryptocurrency) exchange and vendor operated by Tech Bureau, Corp. (hereinafter, "Tech Bureau"). Fisco Cryptocurrency Exchange then commenced operations with a crypto asset (cryptocurrency) exchange system provided by CCCT, Inc., a wholly owned subsidiary of CAICA, Inc.

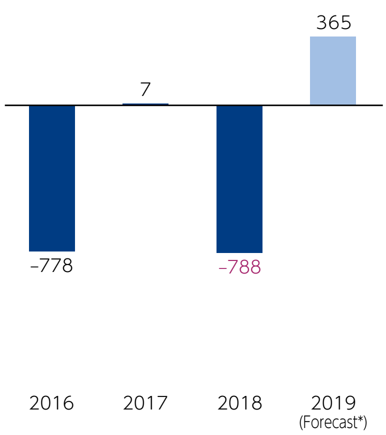
In October 2018, Fisco Cryptocurrency Exchange concluded a business transfer agreement with Tech Bureau regarding the transfer of the "Zaif" cryptocurrency exchange business to Fisco Cryptocurrency Exchange. On November 22, the transfer of business was carried out. The procedures for users to approve the business transfer (succession procedures) will continue to be implemented. As of December 26, the ratio of approval for the business transfer stood at approximately 98% based on the standard of outstanding balances.

As a result of the foregoing, consolidated net sales for fiscal 2018 were ¥11,455 million, down 21.7% year on year. The decrease in net sales mainly reflected the exclusion of NCXX Solutions Inc. (hereinafter, "NCXX Solutions") from the scope of consolidation. Cost of sales was ¥6,428 million, down 22.9% year on year, mainly due to the exclusion of NCXX Solutions from the scope of consolidation. Selling, general and administrative expenses decreased by ¥464 million, or 7.4%, year on year to ¥5,814 million due to cost reduction efforts. The Company recorded

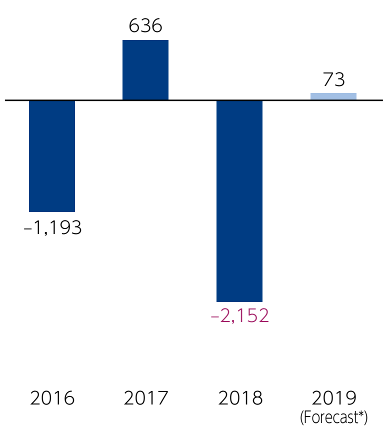
Net Sales (¥ million)



Operating Income (Loss) (¥ million)



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



* Revised on February 14, 2019

an operating loss of ¥788 million, compared to operating income of ¥7 million in the previous fiscal year, mainly due to the decrease in net sales.

The Company posted an ordinary loss of ¥2,476 million, compared to an ordinary loss of ¥59 million in the previous fiscal year. The ordinary loss was mainly due to the recording of ¥1,029 million in share of loss of entities accounted for using equity method, ¥201 million in loss on sales of cryptocurrency and ¥382 million in loss on valuation of cryptocurrency. The main reason for the recording of the share of loss of entities accounted for using equity method was as follows: Fisco Cryptocurrency Exchange had provided for and held crypto asset (cryptocurrency) reserves (specifically, 2,723.4 bitcoins and 40,360 bitcoin cash) to provide compensation to users, thereby covering expenses necessary to address the hacking incident upon taking over the "Zaif" business. The Company recorded a realized loss for the difference between the acquisition price and the market price of the cryptocurrency reserves on November 22, 2018, the effective date of the business transfer.

As a result of these factors, the Company recorded a net loss attributable to owners of parent of ¥2,152 million, compared to net income attributable to owners of parent of ¥636 million in the previous fiscal year.

Assets, Liabilities and Net Assets

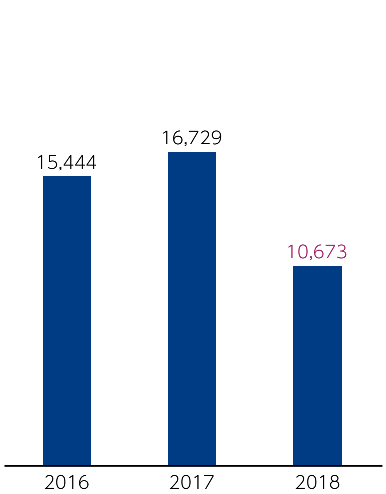
Total assets were ¥10,673 million as of December 31, 2018, a decrease of ¥6,055 million from the previous fiscal year-end.

Total current assets decreased by ¥6,686 million from a year ago. This was mainly due to decreases of ¥2,455 million in cash and deposits, ¥2,295 million in cryptocurrency, ¥966 million in deposits paid, ¥669 million in advance payments—trade, and ¥305 million in loaned cryptocurrency. Noncurrent assets increased ¥631 million from the end of the previous fiscal year. The main contributing factors were increases of ¥198 million in investment securities and ¥417 million in long-term loans receivable.

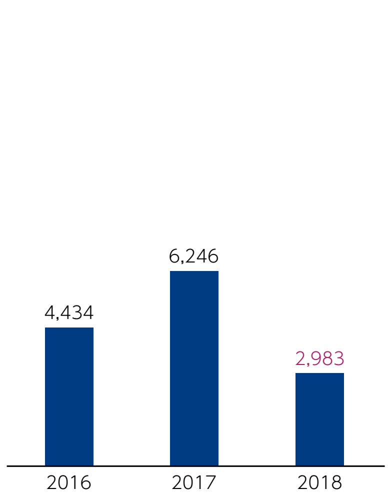
Total liabilities were ¥7,690 million as of December 31, 2018, a decrease of ¥2,792 million from ¥10,482 million a year earlier. The main contributing factors were decreases of ¥724 million in long-term loans payable and ¥2,225 million in deposits received owing to the exclusion of Fisco Cryptocurrency Exchange from the scope of consolidation.

Total net assets were ¥2,983 million, a decrease of ¥3,263 million from a year earlier. The main contributing factors were decreases of ¥2,201 million in retained earnings and ¥876 million in non-controlling interests.

Total Assets (¥ million)



Net Assets (¥ million)



Cash Flows

Cash and cash equivalents at December 31, 2018 were ¥1,134 million, a decrease of ¥2,461 million from the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥1,818 million, compared with net cash used in operating activities of ¥328 million in the previous fiscal year. The main contributing factor was a decrease in cryptocurrency of ¥1,885 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥1,536 million, compared with net cash provided by investing activities of ¥3,915 million in the previous fiscal year. The main contributing factors were ¥577 million in payments for purchase of investment securities and ¥3,112 million in payments for purchase of cryptocurrency, partly offset by ¥2,103 million in proceeds from sales of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥540 million, compared with net cash used in financing activities of ¥2,209 million in the previous fiscal year. The main contributing factors were expenditure of ¥686 million on a decrease in short-term loans payable and expenditure of ¥1,332 million on repayments of long-term loans payable, which were partly offset by ¥1,200 million in proceeds from issuance of bonds with share acquisition rights.

Segment Information

Information Services Business

In the information services business, net sales were ¥1,245 million, down 18.8% year on year, and segment loss was ¥173 million, compared to segment income of ¥450 million in the previous fiscal year.

Internet Travel Business

In the Internet travel business, net sales were ¥2,361 million, up 8.3% year on year. Segment income was ¥38 million, up 143.3% year on year.

IoT-related Business

In the IoT-related business, net sales were ¥949 million, down 75.3% year on year. Segment income amounted to ¥68 million, compared with a segment loss of ¥366 million in the previous fiscal year.

Advertising Agency Business

In the advertising agency business, net sales were ¥102 million, down 24.9% year on year, and segment loss was ¥3 million compared to segment loss of ¥34 million in the previous fiscal year.

Brand Retail Platform Business

In the brand retail platform business, net sales were ¥6,449 million, up 8.8% year on year, and segment loss was ¥455 million compared to segment loss of ¥14 million in the previous fiscal year.

Cryptocurrency and Blockchain Business

In the cryptocurrency and blockchain business, net sales were ¥309 million, down 65.7% year on year, and segment income was ¥294 million, down 64.9% year on year.

Consolidated Balance Sheet

(As of December 31, 2017 and 2018)

(Thousands of yen)

	2017	2018
Assets		
Current assets		
Cash and deposits	¥ 3,632,378	¥ 1,176,639
Notes and accounts receivable—trade	802,279	734,219
Merchandise and finished goods	1,067,217	1,146,284
Work in process	298,963	285,338
Raw materials and supplies	3,632	11,149
Cryptocurrency	2,322,145	26,578
Loaned cryptocurrency	305,575	—
Short-term loans receivable	15,000	165,000
Accounts receivable—other	116,425	55,912
Deposits paid	993,481	27,301
Advance payments—trade	970,582	300,864
Prepaid expenses	68,758	83,400
Deferred tax assets	27,489	2,030
Other	272,817	148,248
Allowance for doubtful accounts	(53,181)	(6,289)
Total current assets	10,843,566	4,156,680
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,527,521	1,616,460
Accumulated depreciation	(617,993)	(669,320)
Accumulated impairment loss	(588,707)	(629,066)
Buildings and structures, net	350,821	318,073
Tools, furniture and fixtures	1,191,891	1,244,690
Accumulated depreciation	(997,270)	(843,166)
Accumulated impairment loss	(1,140)	(178,371)
Tools, furniture and fixtures, net	193,480	223,152
Land	192,132	192,865
Leased assets	18,154	24,992
Accumulated depreciation	(10,224)	(16,048)
Leased assets, net	7,930	8,943
Construction in progress	—	16,872
Other	89,553	125,524
Accumulated depreciation	(65,410)	(102,626)
Accumulated impairment loss	—	(2,038)
Other, net	24,142	20,859
Total property, plant and equipment	768,507	780,766
Intangible assets		
Trademark rights	6,300	—
Software	140,838	41,831
Goodwill	489,224	229,931
Other	6,536	10,778
Total intangible assets	642,898	282,540
Investments and other assets		
Investment securities	3,759,970	3,958,131
Guarantee deposits	671,171	706,072
Long-term loans receivable	60,140	477,613
Long-term accounts receivable—other	171,871	115,543
Deferred tax assets	41	—
Other	38,799	375,084
Allowance for doubtful accounts	(227,582)	(178,904)
Total investments and other assets	4,474,412	5,453,540
Total noncurrent assets	5,885,818	6,516,846
Total assets	¥16,729,384	¥10,673,526

	2017	2018
		(Thousands of yen)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 630,980	¥ 602,327
Current portion of convertible bond-type bonds with share acquisition rights	1,165,000	—
Short-term borrowings	357,960	541,200
Current portion of long-term borrowings	1,095,656	785,015
Advances received	317,953	426,190
Income taxes payable	72,114	51,479
Deposits received	2,258,500	32,954
Accounts payable—other	334,027	237,838
Asset retirement obligations	28,780	—
Accrued expenses	356,897	137,247
Deferred tax liabilities	121,479	—
Provision for product warranties	106,000	66,000
Provision for bonuses	67,796	74,165
Provision for loss on store closings	16,592	—
Provision for sales returns	13,376	4,908
Provision for point card certificates	—	12,650
Other	63,103	55,854
Total current liabilities	7,006,220	3,027,832
Non-current liabilities		
Long-term borrowings	2,019,242	1,294,787
Convertible bond-type bonds with subscription rights to shares	—	1,200,000
Retirement benefit liability	46,644	47,700
Asset retirement obligations	360,907	377,087
Long-term accounts payable—other	212,743	134,671
Deferred tax liabilities	799,119	854,681
Liabilities from application of equity method	—	715,935
Other	37,947	37,577
Total non-current liabilities	3,476,604	4,662,441
Total liabilities	10,482,825	7,690,274

	2017	2018
Net assets		
Shareholders' equity		
Share capital	1,266,625	1,269,358
Capital surplus	634,114	520,485
Retained earnings	523,737	(1,677,567)
Treasury shares	(10,351)	(10,351)
Total shareholders' equity	2,414,126	101,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	87,131	31,129
Deferred losses on hedges	(57)	(68)
Foreign currency translation adjustment	99,681	67,901
Total accumulated other comprehensive income	186,755	98,963
Share acquisition rights	41,631	54,991
Non-controlling interests	3,604,046	2,727,372
Total net assets	6,246,559	2,983,252
Total liabilities and net assets	¥16,729,384	¥10,673,526

Consolidated Statement of Income

(Years ended December 31, 2017 and 2018)

(Thousands of yen)

	2017	2018
Net sales	¥14,620,682	¥11,455,244
Cost of sales	8,334,889	6,428,942
Gross profit	6,285,792	5,026,301
Selling, general and administrative expenses	6,278,748	5,814,459
Operating income (loss)	7,044	(788,158)
Non-operating income		
Interest income	6,332	4,129
Share of profit of entities accounted for using equity method	15,903	—
Foreign exchange gains	43,063	2,638
Reversal of provision for loss on store closings	—	14,602
Other	54,055	32,301
Total non-operating income	119,355	53,671
Non-operating expenses		
Interest expenses	86,759	50,965
Share of loss of entities accounted for using equity method	—	1,029,299
Commission expenses	53,889	16,281
Loss on sales of cryptocurrency	—	201,021
Loss on valuation of cryptocurrency	—	382,194
Other	45,379	62,238
Total non-operating expenses	186,028	1,741,999
Ordinary loss	(59,628)	(2,476,486)
Extraordinary income		
Gain on change in equity	25,605	474,838
Gain on sales of non-current assets	553	31
Gain on sales of investment securities	2,870,295	748,779
Gain on sales of shares of affiliates	817,624	—
Reversal of allowance for doubtful accounts	2,968	—
Other	16,789	—
Total extraordinary income	3,733,837	1,223,649
Extraordinary losses		
Loss on sales of non-current assets	115,600	—
Loss on retirement of non-current assets	6,912	10,457
Impairment loss	1,719,144	1,175,586
Loss on valuation of investment securities	—	160,216
Other	34,809	1,000
Total extraordinary losses	1,876,466	1,347,260
Profit (loss) before income taxes	1,797,741	(2,600,097)
Income taxes—current	159,285	117,393
Income taxes—deferred	169,193	1,112
Total income taxes	328,478	118,505
Profit (loss)	1,469,263	(2,718,603)
Profit (loss) attributable to non-controlling interests	832,544	(565,753)
Profit (loss) attributable to owners of parent	¥ 636,719	¥ (2,152,849)

Consolidated Statement of Comprehensive Income

(Years ended December 31, 2017 and 2018)

(Thousands of yen)

	2017	2018
Profit (loss)	¥1,469,263	¥(2,718,603)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	67,899	(95,916)
Deferred losses on hedges	(1,188)	(40)
Foreign currency translation adjustment	(41,841)	4,369
Share of other comprehensive income of entities accounted for using equity method	208	(2,373)
Total other comprehensive income (loss)	25,077	(93,962)
Comprehensive income (loss)	¥1,494,341	¥(2,812,565)
Comprehensive income (loss) attributable to:		
Owners of parent	¥ 578,101	¥(2,212,940)
Non-controlling interests	916,239	(599,624)

Consolidated Statement of Changes in Equity

(Years ended December 31, 2017 and 2018)

(Thousands of yen)

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

(Thousands of yen)

Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at beginning of period	¥19,020	¥ 1,131	¥141,526	¥161,677	¥ 60,700	¥2,407,809	¥4,434,768
Changes in items during period							
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation							(536)
Issuance of new shares (execution of share acquisition rights)							49,205
Dividends of surplus—other capital surplus							(112,812)
Profit attributable to owners of parent							636,719
Change in scope of equity method							—
Change in ownership interest of parent due to transactions 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 in items during period	68,110	(1,188)	(41,844)	25,077	(19,068)	1,196,236	1,811,791
Balance at end of period	¥87,131	¥ (57)	¥ 99,681	¥186,755	¥ 41,631	¥3,604,046	¥6,246,559

(Thousands of yen)

Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	¥1,266,625	¥ 634,114	¥ 523,737	¥(10,351)	¥ 2,414,126
Changes in items during period					
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation					—
Issuance of new shares (execution of share acquisition rights)	2,733	2,733			5,467
Dividends of surplus—other capital surplus		(114,810)			(114,810)
Loss attributable to owners of parent			(2,152,849)		(2,152,849)
Change in scope of equity method			(48,455)		(48,455)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,551)			(1,551)
Net changes of items other than shareholders' equity					—
Total changes in items during period	2,733	(113,629)	(2,201,304)	—	(2,312,200)
Balance at end of period	¥1,269,358	¥ 520,485	¥(1,677,567)	¥(10,351)	¥ 101,925

(Thousands of yen)

Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at beginning of period	¥ 87,131	¥(57)	¥ 99,681	¥186,755	¥ 41,631	¥3,604,046	¥ 6,246,559
Changes in items during period							
Decrease in retained earnings of subsidiaries resulting from change in scope of consolidation							—
Issuance of new shares (execution of share acquisition rights)							5,467
Dividends of surplus—other capital surplus							(114,810)
Loss attributable to owners of parent							(2,152,849)
Change in scope of equity method							(48,455)
Change in ownership interest of parent due to transactions with non-controlling interests							(1,551)
Net changes of items other than shareholders' equity	(56,002)	(10)	(31,780)	(87,792)	13,360	(876,673)	(951,106)
Total changes in items during period	(56,002)	(10)	(31,780)	(87,792)	13,360	(876,673)	(3,263,306)
Balance at end of period	¥ 31,129	¥(68)	¥ 67,901	¥ 98,963	¥ 54,991	¥2,727,372	¥ 2,983,252

Consolidated Statement of Cash Flows

(Years ended December 31, 2017 and 2018)

(Thousands of yen)

	2017	2018
Cash flows from operating activities		
Profit (loss) before income taxes	¥ 1,797,741	¥(2,600,097)
Depreciation	255,573	224,744
Amortization of goodwill	250,439	72,328
Interest and dividend income	(6,666)	(5,732)
Interest expenses	86,759	50,965
Loss on valuation of investment securities	—	160,216
Gain on sales of investment securities	(2,870,295)	(748,779)
Gain on change in equity	(25,605)	(474,838)
Share of (profit) loss of entities accounted for using equity method	(15,903)	1,029,299
Gain on sales of shares of affiliates	(817,624)	—
Decrease in trade receivables	65,379	68,039
Increase in inventories	(228,228)	(72,927)
(Increase) decrease in cryptocurrency	(936,973)	1,885,497
(Increase) decrease in loaned cryptocurrency	(265,891)	99,558
Loss on sales of cryptocurrency	—	201,021
Loss on valuation of cryptocurrency	—	54,136
Increase (decrease) in trade payables	144,593	(28,549)
Foreign exchange (gains) losses	(2,970)	163
(Increase) decrease in advance payments—trade	(479,663)	670,405
(Increase) decrease in deposits paid	(1,108,930)	445,626
Increase in advances received	15,895	108,237
Increase (decrease) in allowance for doubtful accounts	133,677	(95,569)
(Decrease) increase in provision for bonuses	(56,052)	6,369
Decrease in other provision	(33,548)	(52,409)
(Decrease) increase in retirement benefit liability	(2,911)	1,056
Increase (decrease) in deposits received	2,164,578	(27,809)
Share-based remuneration expenses	11,588	14,831
(Increase) decrease in accounts receivable—other	(215,400)	104,602
Loss (gain) on sales non-current assets	115,046	(31)
Loss on retirement of non-current assets	6,912	10,457
Impairment loss	1,719,144	1,175,586
Decrease (increase) in other current assets	8,558	(53,093)
Decrease in other current liabilities	(157)	(2,126)
Decrease in accrued consumption taxes	(2,409)	(1,395)
Decrease in accounts payable—other	(80,754)	(6,120)
Increase (decrease) in accrued expenses	142,928	(238,037)
Other, net	56,547	(19,232)
Subtotal	(174,624)	1,956,389
Interest and dividends received	278	5,404
Interest paid	(95,223)	(66,896)
Income taxes paid	(59,184)	(76,486)
Net cash (used in) provided by operating activities	(328,753)	1,818,411
Cash flows from investing activities		
Payments into time deposits	(1)	(6,000)
Purchase of investment securities	(2,930,202)	(577,563)
Proceeds from sales of investment securities	6,637,387	2,103,167
Purchase of cryptocurrency	(173,760)	(3,112,542)
Proceeds from sales of cryptocurrency	122,407	1,961,815
Purchase of property, plant and equipment	(135,867)	(278,724)
Proceeds from sales of property, plant and equipment	359,446	55
Purchase of intangible assets	(171,094)	(962,445)
Proceeds from sales of intangible assets	8,273	—
Payments of guarantee deposits	(136,080)	(88,981)
Proceeds from refund of guarantee deposits	260,893	32,977
Payments for asset retirement obligations	(27,228)	(33,677)
Short-term loans advances	—	(150,000)
Long-term loans advances	(10,888)	(410,000)
Collection of long-term loans receivable	5,709	32,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(165,090)	(50,000)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	281,601	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(60,964)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	577,075	—
Purchase of insurance funds	(803)	(2,654)
Dividends paid	(524,300)	—
Other, net	(563)	6,216
Net cash provided by (used in) investing activities	3,915,947	(1,536,358)
Cash flows from financing activities		
Proceeds from short-term borrowings	434,218	920,000
Repayments of short-term borrowings	(1,474,258)	(686,760)
Proceeds from long-term borrowings	583,968	442,800
Repayments of long-term borrowings	(2,489,430)	(1,332,265)
Redemption of bonds	—	(1,165,000)
Proceeds from issuance of bonds with share acquisition rights	—	1,200,000
Redemption of bonds with share acquisition rights	(300,000)	—
Repayments of lease obligations	(5,253)	(5,255)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	280,963	3,996
Purchase of treasury stock	(12,982)	—
Proceeds from share issuance to non-controlling shareholders	549,000	198,000
Dividends paid	(112,389)	(114,069)
Payments for changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(7,150)	(4,011)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	343,608	2,460
Net cash used in financing activities	(2,209,705)	(540,107)
Effect of exchange rate change on cash and cash equivalents	(38,143)	(1,793)
Net increase (decrease) in cash and cash equivalents	1,339,345	(259,847)
Cash and cash equivalents at beginning of period	2,256,806	3,596,185
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	33	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(2,201,892)
Cash and cash equivalents at end of period	¥ 3,596,185	¥ 1,134,446

Notes to the Consolidated Financial Statements

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 21

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.
NCXX International Limited (renamed from FISCO International Limited on April 12, 2018)
Versatile Milano S.R.L.
Versatile Inc.
TITICACA, Co. Ltd.
FACETASM
Vulcan Crypto Currency Financial Products K.K.
e frontier, Inc.
MEC SRL SOCIETA' AGRICOLA
FISCO Capital No. 1 Investment Limited Partnership
NCXX Premium Group KK
NCXX Farm Holdings KK

Notes:
1. FISCO Digital Asset Group Co., Ltd., a former consolidated subsidiary of FISCO Ltd., conducted a capital increase through a third-party allotment of shares, resulting in a change in its classification from a consolidated subsidiary to an equity-method affiliate from fiscal 2018. In conjunction with this change, FISCO Digital Asset Group Co., Ltd. and its consolidated subsidiaries Fisco Cryptocurrency Exchange Inc. and Thunder Capital K.K. were removed from the scope of consolidation.
2. The Company's consolidated subsidiaries FISCO International (Cayman) Limited and FISCO International (Cayman) L.P. were removed from the scope of consolidation following the completion of their liquidation.
3. FISCO Capital No. 1 Investment Limited Partnership was established by FISCO Capital Ltd., a consolidated subsidiary of the Company. Accordingly, FISCO Capital No. 1 Investment Limited Partnership was included in the scope of consolidation.
4. NCXX Premium Group KK and NCXX Farm Holdings KK were established through an incorporation-type company split, with Versatile Inc. as the splitting company. Accordingly, NCXX Premium Group KK and NCXX Farm Holdings KK were included in the scope of consolidation.

(2) Number of non-consolidated subsidiaries: 5

Names of non-consolidated subsidiaries

Webtravel Asia & Pacific Pty Limited
NCXX Racing Inc. (renamed from IOTA Inc. on July 5, 2018)
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, profit (loss) (proportional to equity interest), retained earnings (proportional to equity interest) and other metrics.

2. Application of the Equity Method

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

1) Number of affiliates accounted for by the equity method: 3

2) Names of affiliates accounted for by the equity method: FISCO Digital Asset Group Co., Ltd.
Fisco Cryptocurrency Exchange Inc.
Thunder Capital K.K.

Notes:
1. FISCO Digital Asset Group Co., Ltd., Fisco Cryptocurrency Exchange Inc. and Thunder Capital K.K. have been included in the scope of application of the equity method from fiscal 2018.
2. NCXX Solutions Inc., a former equity-method affiliate, was removed from the scope of application of the equity method due to a stock swap undertaken between the Company's consolidated subsidiary NCXX Group Inc. and its equity-method affiliate CAICA Inc.
3. CAICA Inc. was removed from the scope of application of the equity method following the sale of its shares by 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
NCXX Racing Inc. (renamed from IOTA Inc. on July 5, 2018)
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, profit (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 15 consolidated subsidiaries 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 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.

Thunder Capital K.K., an equity-method affiliate with a previous fiscal year-end of November 30, changed its fiscal year-end to December 31. In conjunction with this change in fiscal year-end, the Company has recorded the profit (loss) of Thunder Capital K.K. for the 13-month period from December 1, 2017 to December 31, 2018 as the share of profit (loss) of entities accounted for using the equity method for fiscal 2018. The impact of this change on fiscal 2018 was negligible.

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.

6) Provision for point card certificates

A provision for points is provided to cover the cost burden for the future use of points. The provision for points is determined by converting the unused portion of points granted into a monetary amount, and then recording the necessary amount based on an estimate of the amount expected to be used in the future.

(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

<u>Basis for calculating sales and cost of sales on contracted development</u>

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 statement of cash flows

The scope of cash and cash equivalents in the consolidated statement 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.

(Accounting Standards Not Yet Adopted)

1. Implementation Guidance on Tax Effect Accounting

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Implementation Guidance No. 28, revised February 16, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Implementation Guidance No. 26, final revision on February 16, 2018, Accounting Standards Board of Japan)

(1) Overview

The "Implementation Guidance on Tax Effect Accounting," etc. contains the following revisions that were deemed necessary upon transferring the Practical Guidelines on Accounting Standards for Tax Effect Accounting of the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan, while basically adhering to the original content.

(Main treatments subject to accounting treatment revisions)

- Accounting treatment of taxable temporary differences related to subsidiaries' shares, etc. in the non-consolidated financial statements
- Accounting treatment of recoverability of deferred tax assets in companies that fall under (Category 1)

(2) Planned date of application

The accounting standards, etc. will be applied from the beginning of the fiscal year ending December 31, 2019.

(3) Impact of application of the accounting standards, etc.

The amount of the impact of the adoption of the "Implementation Guidance on Tax Effect Accounting," etc. on the consolidated financial statements is currently being evaluated.

2. "Practical Solution on Accounting for Virtual Currencies under the Payment Services Act" (Practical Issues Task Force (PITF) No. 38, March 14, 2018, Accounting Standards Board of Japan)

(1) Overview

The "Practical Solution on Accounting for Virtual Currencies under the Payment Services Act" clarifies the accounting treatment of cryptocurrency held by cryptocurrency exchange operators or cryptocurrency users, and the cryptocurrency entrusted with cryptocurrency exchange operators from depositors, along with the treatment of disclosure.

(2) Planned date of application

The "Practical Solution on Accounting for Virtual Currencies under the Payment Services Act" will be applied from the beginning of the fiscal year ending December 31, 2019.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact of the adoption of the "Practical Solution on Accounting for Virtual Currencies under the Payment Services Act" on the consolidated financial statements is currently being evaluated.

3. Accounting Standard for Revenue Recognition, etc.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Implementation Guidance No. 30, March 30, 2018, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition. In May 2014, the IASB and FASB published "Revenue from Contracts with Customers" (IFRS 15 by the IASB and Topic 606 by the FASB). Considering that IFRS 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 will be applied from fiscal years starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and has published these standards together with implementation guidance.

The ASBJ has adopted the following basic policies for developing accounting standards for revenue recognition. First, it will set accounting standards from the starting point of incorporating the basic principles of IFRS 15, based on the perspective of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15. Second, it will add alternative accounting treatments without sacrificing comparability if there are matters that should be taken into account in regard to the practices and other procedures that have been carried out in Japan.

(2) Planned date of application

The "Accounting Standard for Revenue Recognition," etc. will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of the application of the accounting standards, etc.

The amount of the impact of the adoption of the "Accounting Standard for Revenue Recognition," etc. on the consolidated financial statements is currently being evaluated.

(Change in Presentation)

(Consolidated statement of income)

Rental income from buildings, which was previously presented separately under non-operating income in fiscal 2017, has been included in Other from fiscal 2018 because its monetary importance has decreased. The consolidated financial statement for fiscal 2017 have been restated to reflect this change in presentation method.

As a result, the ¥14,466 thousand presented as rental income from buildings under non-operating income on the consolidated statement of income for fiscal 2017 has been restated as Other.

(Consolidated Balance Sheet)

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

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Investment securities (shares)	¥2,300,579	¥1,649,729

*2 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Time deposits	¥ 36,192	¥ 36,192
Buildings and structures	12,926	10,907
Land	151,097	151,097
Investment securities	506,781	542,868
Total	¥706,998	¥741,067

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 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Current portion of long-term borrowings	¥148,012	¥137,303
Long-term borrowings	726,270	588,967

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

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
NCXX Solutions Inc.	¥148,456	¥136,264

*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 2018 based on these agreements was as follows.

(Thousands of yen)

	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Total amount of overdraft facilities and credit line commitments	¥200,000	¥250,000
Balance outstanding	180,750	250,000
Difference	¥ 19,249	¥ —

(Consolidated Statement of Income)

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Cost of sales	¥206,989	¥81,585

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Remuneration of director	¥ 166,327	¥ 122,169
Salaries	1,126,331	1,089,682
Retirement benefit expenses	7,288	11,621
Rent	705,451	710,337
Outsourcing expenses	398,240	414,314
Commission expenses	795,443	838,150
Amortization of goodwill	250,439	72,328
Provision for bonuses	99,689	94,770
Provision of allowance for doubtful accounts	7,977	(5,094)
Provision for point card certificates	—	12,650

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Research and development expenses	¥120,670	¥29,957

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Tools, furniture and fixtures	¥553	¥ —
Vehicles	—	31
Total	¥553	¥31

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Buildings and structures, machinery and equipment	¥ 84,598	¥—
Land	31,001	—
Total	¥115,600	¥—

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Buildings and structures	¥ —	¥10,411
Tools, furniture and fixtures	11	46
Software	6,901	—
Total	¥6,912	¥10,457

*7 Impairment loss

The Group recognized impairment losses on the following asset groups.

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 (Property, plant, equipment)		7,008
	Trademark rights		734,899
	Software		1,834
	Other (Intangible assets)		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 business assets, the Company reduced the carrying amounts to the recoverable amounts, due to a significant decline in profitability.

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.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

Usage	Type	Location	Impairment loss (Thousands of yen)
Business assets	Buildings and structures	Minato-ku, Tokyo and other locations	¥ 35,293
	Tools, furniture and fixtures		994
	Other (Property, plant, equipment)		2,038
	Trademark rights		892,818
	Software		63,641
	Other (Intangible assets)		5,020
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other locations	35,065
	Tools, furniture and fixtures		3,747
—	Goodwill	Minato-ku, Tokyo	136,965

(Background to recognition of impairment loss)

Regarding business assets, the Company reduced the carrying amounts to the recoverable amounts, due to a significant decline in profitability.

Regarding store equipment, the Group recognized as impairment losses under property, plant and equipment the portion of carrying value determined to be unrecoverable for TITICACA and FACETASM stores that are expected to continue to generate losses from operations, having revised the management policy in light of factors including the impact from the external environment. This applies to 19 stores.

Regarding goodwill, the Company has recorded an impairment loss, given that it no longer expects to generate earnings as initially anticipated.

(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 Statement of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

	(Thousands of yen)	
	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Valuation difference on available-for-sale securities		
Amount recognized during the fiscal year	¥120,384	¥ 478,675
Reclassification adjustments	(14,695)	(616,164)
Before tax effect adjustment	105,689	(137,488)
Tax effect	(37,790)	41,572
Valuation difference on available-for-sale securities	67,899	(95,916)
Deferred losses on hedges		
Amount recognized during the fiscal year	(1,188)	(40)
Reclassification adjustments	—	—
Before tax effect adjustment	(1,188)	(40)
Tax effect	—	—
Deferred losses on hedges	(1,188)	(40)
Foreign currency translation adjustments		
Amount recognized during the fiscal year	(19,018)	14,691
Reclassification adjustments	(22,822)	(10,322)
Before tax effect adjustment	(41,841)	4,369
Tax effect	—	—
Foreign currency translation adjustments	(41,841)	4,369
Share of other comprehensive income of entities accounted for using equity method		
Amount recognized during the fiscal year	208	14,487
Reclassification adjustments	—	(16,861)
Share of other comprehensive income of entities accounted for using equity method	208	(2,373)
Total other comprehensive income	¥ 25,077	¥ (93,962)

(Consolidated Statement of Changes in Net Assets)

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	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

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

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)	38,362,000	74,000	—	38,436,000
Total	38,362,000	74,000	—	38,436,000
Treasury stock				
Common shares	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	467,500	—	74,000	393,500	¥ 7,823
	2016 4th Series of Subscription Rights to Shares	Common shares	100,000	—	—	100,000	16,200
	2018 5th Series of Subscription Rights to Shares (Note 2)	Common shares	—	—	—	80,000	3,465
Consolidated subsidiary	—	—	—	—	—	—	27,502
Total		—	567,500	—	74,000	573,500	¥54,991

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 2018 5th 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, 2018 Annual General Meeting of Shareholders	Common shares	¥114,810	Capital surplus	¥3	December 31, 2017	March 30, 2018

(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
Not applicable

(Consolidated Statement of Cash Flows)

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

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Cash and deposits	¥3,632,378	¥1,176,639
Time deposits with deposit terms of over 3 months	(36,192)	(42,193)
Cash and cash equivalents	¥3,596,185	¥1,134,446

*2

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
Non-current assets	52,229
Goodwill	214,616
Current liabilities	(206,076)
Non-current 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
Non-current assets	334
Goodwill	204,866
Current liabilities	(14,486)
Non-current 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

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

(1) The breakdown of assets and liabilities at the time of consolidation of FISCO Capital No. 1 Investment Limited Partnership due to the acquisition of an equity investment in a limited investment partnership, and the relationship between the acquisition price of the equity investment in FISCO Capital No. 1 Investment Limited Partnership and the net amount paid to acquire FISCO Capital No. 1 Investment Limited Partnership are as follows.

	(Thousands of yen)
Current assets	¥ 350,000
Non-controlling interests	(300,000)
Net amount paid to acquire newly consolidated subsidiary	¥ 50,000

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

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

(1) CAICA Inc. and its subsidiaries

	(Thousands of yen)
Current assets	¥ 1,532,429
Non-current assets	4,049,988
Current liabilities	(1,245,918)
Non-current liabilities	(49,589)
Treasury shares	4,913
Shares acquisition rights	(47,004)
Foreign currency translation adjustment	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
Non-current assets	590,539
Current liabilities	(248,101)
Non-current 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)

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

Not applicable

*4

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

FISCO Digital Asset Group Co., Ltd., which was formerly a consolidated subsidiary of the Company, and its subsidiaries have been removed from the scope of consolidation from fiscal 2018 because the Company's shareholding ratio has been reduced as a result of a capital increase through a third-party allotment of shares. The amounts of assets and liabilities that have decreased due to the removal of these companies from the scope of consolidation are as follows.

(1) FISCO Digital Asset Group Co., Ltd.

	(Thousands of yen)
Current assets	¥201,037
Non-current assets	791,334
Current liabilities	1,912
Non-current liabilities	60,000
Cash and cash equivalents of FISCO Digital Asset Group Co., Ltd.	¥199,957

(2) Fisco Cryptocurrency Exchange Inc.

	(Thousands of yen)
Current assets	¥3,201,904
Non-current assets	710,270
Current liabilities	3,090,811
Non-current liabilities	15,015
Cash and cash equivalents of Fisco Cryptocurrency Exchange Inc.	¥1,916,842

(3) Thunder Capital K.K.

	(Thousands of yen)
Current assets	¥950,470
Non-current assets	—
Current liabilities	113,169
Non-current liabilities	742,467
Cash and cash equivalents of Thunder Capital K.K.	¥ 85,091

The amount of cash and cash equivalents that have decreased due to the removal of these companies from the scope of consolidation is recorded under decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation.

*5 Details of material non-financial transactions

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.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

(1) In fiscal 2018, certain consolidated subsidiaries conducted cryptocurrency-denominated borrowings of ¥76,263 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, loans payable, and convertible band-type bonds with share acquisition rights 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 sheet, fair values, and their differences as of December 31, 2017 and 2018 are as follows. In addition, financial instruments, whose fair values cannot be reliably determined, are not included. (Please see "Note 2. Carrying amount of financial instruments whose fair values cannot be reliably determined" on page 53.)

Fiscal 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 borrowings	357,960	357,960	—
(11) Accounts payable—other	334,027	334,027	—
(12) Convertible bond-type bonds with share acquisition rights (including current portion)	1,165,000	1,163,567	(1,432)
(13) Long-term borrowings (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 borrowings, 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 bond-type bonds with share acquisition rights (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 borrowings (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 borrowings 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 borrowings 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 borrowings.

Fiscal 2018 (As of December 31, 2018)

	(Thousands of yen)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥1,176,639	¥1,176,639	¥ —
(2) Notes and accounts receivable—trade	734,219	—	—
Allowance for doubtful accounts(*1)	(39)	—	—
	734,179	734,179	—
(3) Short-term loans receivable	165,000	165,000	—
(4) Accounts receivable—other	55,912	—	—
Allowance for doubtful accounts(*2)	(6,249)	—	—
	49,662	49,662	—
(5) Investment securities	2,308,201	2,308,201	—
(6) Guarantee deposits	706,072	706,072	—
(7) Long-term loans receivable	437,930	—	—
Allowance for doubtful accounts(*3)	(63,957)	—	—
	373,972	373,972	—
(8) Long-term accounts receivable	115,543	—	—
Allowance for doubtful accounts(*4)	(113,802)	—	—
	1,740	1,740	—
Total	¥5,515,469	¥5,515,469	¥ —
(9) Notes and accounts payable—trade	¥ 602,327	¥ 602,327	¥ —
(10) Short-term borrowings	541,200	541,200	—
(11) Accounts payable—other	237,838	237,838	—
(12) Convertible bond-type bonds with share acquisition rights	1,200,000	1,184,178	(15,821)
(13) Long-term borrowings (including current portion)	2,079,802	2,080,860	1,057
Total	¥4,661,167	¥4,646,404	¥(14,763)
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 borrowings, 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 bond-type bonds with share acquisition rights

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 borrowings 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 borrowings 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 borrowings.

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

	(Thousands of yen)	
Category	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Unlisted stocks	¥435,540	¥1,649,929

* 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 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: 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.

	(Thousands of yen)			
	Fiscal 2018 (As of December 31, 2018)			
	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	¥1,176,639	¥ —	¥—	¥—
Notes and accounts receivable—trade (Note)	734,179	—	—	—
Short-term loans receivable	165,000	—	—	—
Accounts receivable—other (Note)	49,662	—	—	—
Guarantee deposits (Note)	—	—	—	—
Long-term loans receivable (Note)	—	373,972	—	—
Long-term accounts receivable—other (Note)	—	1,740	—	—
Total	¥2,125,482	¥375,713	¥—	¥—

Note:
The above table does not include the following items whose redemption dates are not confirmed: accounts receivable—trade of ¥39 thousand (allowance for doubtful accounts of ¥39 thousand), accounts receivable—other of ¥6,249 thousand (allowance for doubtful accounts of ¥6,249 thousand), long-term loans receivable of ¥63,957 thousand (allowance for doubtful accounts of ¥63,957 thousand) and long-term accounts receivable—other of ¥113,802 thousand (allowance for doubtful accounts of ¥113,802 thousand.)

The above table does not include guarantee deposits of ¥706,072 thousand whose redemption dates are not confirmed.

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

	(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 borrowings	¥ 357,960	¥ —	¥ —	¥ —	¥ —	¥—
Convertible bond-type bonds with share acquisition rights	1,165,000	—	—	—	—	—
Long-term borrowings	1,095,656	794,367	900,616	160,945	18,186	—
Total	¥2,618,617	¥ 794,367	¥900,616	¥160,945	¥18,186	¥—

	(Thousands of yen)					
	Fiscal 2018 (As of December 31, 2018)					
	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 borrowings	¥ 541,200	¥ —	¥ —	¥ —	¥—	¥—
Convertible bond-type bonds with share acquisition rights	—	1,200,000	—	—	—	—
Long-term borrowings	785,015	1,002,313	216,543	75,931	—	—
Total	¥1,326,215	¥2,202,313	¥216,543	¥75,931	¥—	¥—

(Securities)

1. Available-for-Sale Securities

Fiscal 2017 (As of December 31, 2017)

		(Thousands of yen)		
	Type	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount exceeds the acquisition cost	Shares	¥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	Shares	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.

Fiscal 2018 (As of December 31, 2018)

	Type	Carrying amount (Thousands of yen)	Acquisition cost	Difference
Securities for which the carrying amount exceeds the acquisition cost	Shares	¥2,292,555	¥2,194,796	¥97,758
	Subtotal	2,292,555	2,194,796	97,758
Securities for which the carrying amount does not exceed the acquisition cost	Shares	15,646	18,525	(2,878)
	Subtotal	15,646	18,525	(2,878)
Total		¥2,308,201	¥2,213,321	¥94,880

Note:
Unlisted investment securities (carrying amount ¥200 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 2017 (From January 1, 2017 to December 31, 2017)

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

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

Type	Amount sold (Thousands of yen)	Total realized gains	Total realized losses
Shares	¥2,103,167	¥748,779	¥—

3. Loss on Valuation of Investment Securities

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.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

FISCO recorded an ¥160,216 thousand loss on valuation of investment securities (Shares of ¥160,216 thousand classified as available-for-sale securities) in fiscal 2018.

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 2017 (As of December 31, 2017)

N/A

Fiscal 2018 (As of December 31, 2018)

N/A

2. Derivative Transactions to Which Hedge Accounting Is Applied

(1) Currency related

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.

Fiscal 2018 (As of December 31, 2018)

(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	¥81,612	¥—	(Note) ¥81,491

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

(2) Interest rate

Fiscal 2017 (As of December 31, 2017)

(Thousands of yen)

Category	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term borrowings	¥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 borrowings targeted for hedging. Therefore, their fair value is included in the fair value of long-term borrowings.

Fiscal 2018 (As of December 31, 2018)

(Thousands of yen)

Category	Type of transaction	Main hedge target	Contract amount	Amount of contract exceeding one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term borrowings	¥965,000	¥705,000	(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 borrowings targeted for hedging. Therefore, their fair value is included in the fair value of long-term borrowings.

(Retirement Benefits)

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.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

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, 2018 and balance as of December 31, 2018

	(Thousands of yen)
Balance of liability for retirement benefit as of January 1, 2018	¥ 46,644
Retirement benefit expenses	10,701
Retirement benefits paid	(9,645)
Balance of liability for retirement benefit as of December 31, 2018	¥ 47,700

(2) Reconciliation of balance of retirement benefit obligations and liability for retirement benefit on the consolidated balance sheets as of December 31, 2018

(Thousands of yen)

Retirement benefit obligations for non-funded plans	¥47,700
Net liability on the consolidated balance sheets	¥47,700

(3) Retirement benefit expenses

(Thousands of yen)

Retirement benefit expenses based on the simplified method	¥10,701

3. Defined contribution pension plans

The required contributions to the defined contribution pension plans of consolidated subsidiaries were ¥3,969 thousand.

4. Advanced funded retirement benefit plans

The contributions to the advanced funded retirement benefit plans of consolidated subsidiaries were ¥1,679 thousand.

(Stock Options)

1. Stock option expense and amount

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Stock option expense under selling, general and administrative expenses	¥11,588	¥14,831

2. Stock option details, scale and change

(1) Stock option details

Resolution date	August 6, 2012 Stock Options	September 29, 2016 Stock Options	January 15, 2018 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	FISCO director: 4 FISCO employees: 4 Directors of subsidiaries: 5 Employee of subsidiaries: 1
Number of stock options	Common shares: 3,000,000 shares	Common shares: 100,000 shares	Common shares: 80,000 shares
Grant date	August 7, 2012	September 29, 2016	January 15, 2018
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.	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	From January 15, 2018 to January 15, 2020
Exercise period	August 7, 2014 to August 6, 2019	September 30, 2018 to September 29, 2021	From January 16, 2020 to January 15, 2023

Note:
Recorded based on the number of eligible shares.

(2) Stock option scale and change

Existing stock options as of fiscal 2018 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	January 15, 2018 Stock Options
Before vesting			
As of December 31, 2017	—	100,000	—
Granted	—	—	80,000
Forfeited	—	—	—
Vested	—	100,000	—
Outstanding	—	—	80,000
After vesting			
As of December 31, 2017	467,500	—	—
Vested	—	100,000	—
Exercised	74,000	—	—
Forfeited	—	—	—
Outstanding	393,500	100,000	—

(2) Unit price information

		(Yen)	
	August 6, 2012 Stock Options	September 29, 2016 Stock Options	January 15, 2018 Stock Options
Exercise price	¥ 54	¥308	¥405
Average stock price at exercise	403	—	—
Fair value on the grant date	19	162	86

3. Method for estimating the fair value of stock options

The method for estimating the fair value of the stock options granted in fiscal 2018 was as follows.

(1) Valuation method used

Monte Carlo Simulation

(2) Main assumptions and estimates

	January 15, 2018 Stock Options
The closing price of the common shares of FISCO Ltd. on the Tokyo Stock Exchange JASDAQ Standard Market on January 12, 2018	¥385
Exercise price	¥405
Volatility	78.82%
Exercise period	From January 16, 2020 to January 15, 2023
Estimated period to expiry	3.5 years
Risk-free rate	(0.085)%
Dividend yield	0%

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 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
Deferred tax assets (current)		
Carryforwards of unused tax losses	¥ 26,196	¥ —
Inventories	82,646	74,984
Allowance for doubtful accounts	10,526	—
Accrued enterprise taxes	9,411	4,608
Provision for bonuses	20,922	26,749
Provision for product warranties	32,711	22,756
Others	14,034	18,507
Subtotal	196,449	147,607
Valuation allowance	(168,960)	(145,576)
Total	27,489	2,030
Deferred tax liabilities (current)		
Cryptocurrency	(119,402)	—
Asset retirement obligations	(2,076)	—
Total	(121,479)	—
Deferred tax assets (non-current)		
Carryforwards of unused tax losses	2,284,218	3,958,278
Non-current assets	484,630	316,157
Investment securities	10,443	56,542
Shares of affiliates	498,563	14,678
Allowance for doubtful accounts	448,687	60,408
Retirement benefit liability	18,795	18,599
Asset retirement obligations	61,715	130,019
Others	7,337	1,167
Subtotal	3,814,391	4,555,853
Valuation allowance	(3,814,349)	(4,553,726)
Total deferred tax assets (non-current)	41	2.127
Setoff with deferred tax liabilities (non-current)	—	(2,127)
Net deferred tax assets	¥ —	¥ —
Deferred tax liabilities (non-current)		
Shares of affiliates	¥ (13,331)	¥ (13,227)
Liability adjustment	(8,658)	(3,808)
Valuation difference on available-for-sale securities	(72,206)	(30,634)
Fund balance difference	(662,408)	(757,050)
Reserve for special depreciation	—	8,671
Others	(42,515)	(43,417)
Total deferred tax liabilities (non-current)	(799,119)	(856,808)
Setoff with deferred tax assets (non-current)	—	2,127
Net deferred tax liabilities (non-current)	¥ —	¥ (854,681)

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

	Fiscal 2017 (As of December 31, 2017)	Fiscal 2018 (As of December 31, 2018)
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 in fiscal 2018.

(Business Combinations)

I. Business divestiture (FISCO Digital Asset Group Co., Ltd.)

1. Overview of business divestiture
   (1) Names of successor enterprises
   Partnership YIH Trust No. 2
   Partnership MIH Trust No. 2
   Partnership TH Trust No. 2
   Partnership F Coin Fund No. 2
   (2) Description of divested business
   Business management, formulation of Group strategy, and ancillary duties in connection with holding the shares or equity of companies running cryptocurrency-related businesses
   (3) Main reason for the business divestiture
   Procurement of working capital for business
   (4) Date of business divestiture
   March 2, 2018
   (5) Nature of transaction, including statutory basis
   A decrease in equity interest in connection with a subsidiary's capital increase through a third-party allotment of shares

2. Overview of accounting treatment
   FISCO Digital Asset Group has been removed from the scope of consolidation because the Company's equity interest in FISCO Digital Asset Group decreased as a result of the issuance of new shares upon a capital increase through third-party allotment of shares. For this reason, a gain in change on equity of ¥68,315 thousand was recorded under extraordinary income.

3. Name of the reportable segment that included the divested business in the disclosure of segment information
   Cryptocurrency and blockchain business

4. Estimated amount of profit and loss related to the divested business recorded on the consolidated statement of income for fiscal 2018
   Net sales ¥3,000 thousand
   Operating loss ¥3,402 thousand

II. Business divestiture (Fisco Cryptocurrency Exchange Inc.)

1. Overview of business divestiture
   (1) Names of successor enterprise
   FISCO Digital Asset Group Co., Ltd.
   (2) Description of divested 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
   (3) Main reason for business divestiture
   Procurement of working capital for business at parent company
   (4) Date of business divestiture
   March 2, 2018
   (5) Nature of transaction, including statutory basis
   A decrease in equity in connection with the parent company becoming an equity-method affiliate

2. Name of the reportable segment that included the divested business in the disclosure of segment information
   Cryptocurrency and blockchain business

3. Estimated amount of profit and loss related to the divested business recorded on the consolidated statement of income for fiscal 2018

Net sales	¥11,890 thousand
Operating income	¥ 1,222 thousand

III. Business divestiture (Thunder Capital K.K.)

1. Overview of business divestiture
   (1) Names of successor enterprise
   FISCO Digital Asset Group Co., Ltd.
   (2) Description of divested business
   Cryptocurrency-related investment business
   (3) Main reason for business divestiture
   Procurement of working capital for business at parent company
   (4) Date of business divestiture
   March 2, 2018
   (5) Nature of transaction, including statutory basis
   A decrease in equity in connection with the parent company becoming an equity-method affiliate

2. Name of the reportable segment that included the divested business in the disclosure of segment information
   Cryptocurrency and blockchain business

3. Estimated amount of profit and loss related to the divested business recorded on the consolidated statement of income for fiscal 2018

Net sales	¥317,509 thousand
Operating income	¥311,029 thousand

IV. Transaction with entity under common control

1. Nature of transaction
   (1) Name and business of company involved in business combination
   Combiner
   Name: Versatile Inc.
   Business: Apparel, consulting and wine-related businesses
   Combinees
   Name: NCXX Premium Group KK
   Business: Apparel and consulting businesses
   Name: NCXX Farm Holdings KK
   Business: Wine-related business
   (2) Business combination date
   November 12, 2018
   (3) Statutory basis of business combination
   An incorporation-type company split with Versatile Inc. as the splitting company, and NCXX Premium Group KK and NCXX Farm Holdings KK as the newly incorporated companies
   (4) Name of company after business combination
   NCXX Premium Group KK
   NCXX Farm Holdings KK
   (5) Purpose of business combination
   The Group will concentrate its apparel and consulting businesses in NCXX Premium Group KK and the wine-related business in NCXX Farm Holdings KK. By doing so, the Group will work to enhance the quality of these businesses and streamline back-office operations, with the aim of enhancing profitability.

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."

(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 0.01% to 0.48%.

3. Changes in the total amount of asset retirement obligations

(Thousands of yen)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Balance at beginning of period	¥399,040	¥389,687
Increase due to acquisition of consolidated subsidiaries	49,866	—
Increase due to acquisition of property, plant and equipment	—	13,909
Adjustment due to the passage of time	4,349	181
Decrease due to fulfillment of asset retirement obligations	(63,567)	(26,690)
Balance at end of period	¥389,687	¥377,087

4. Asset retirement obligations not recorded on the consolidated balance sheet
   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 2017 (As of December 31, 2017)

Not applicable

Fiscal 2018 (As of December 31, 2018)

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 2018, the number of reportable segments has been reduced from nine to seven segments. The Company's seven new segments are the information services business, Internet travel business, IoT-related business, advertising agency business, brand retail platform business, cryptocurrency and blockchain business, and other. Previously, the Company had nine segments: the information services business, consulting business, Internet travel business, ICT/IoT/device business, FinTech systems development business, advertising agency business, brand retail platform business, cryptocurrency and blockchain business and others. The reasons for this change in the number of reportable segments are as follows.

The FinTech systems development business, which was previously disclosed as a reportable segment, was integrated with the ICT/IoT/device business, which was also disclosed as a reportable segment, given that decisions on business resource allocation and assessment of business performance were undertaken in similar and closely related ways. This measure was undertaken in connection with revisions to the business management framework. The name of the combined segment was changed to the IoT-related business.

Additionally, in fiscal 2017, the wine business, which was included in Other, was integrated into the brand retail platform business, given that decisions on business resource allocation and assessment of business performance were undertaken in similar and closely related ways.

Moreover, the consulting business was previously disclosed as a reportable segment. However, the consulting business was excluded from the reportable segments and shown as Other because its quantitative importance has decreased due to business downsizing and other factors.

Segment information for fiscal 2017 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 corporate, financial and cryptocurrency information to corporate and individual customers
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
IoT-related business	Development and sale of communication devices applying various wireless systems Provision of systems solutions and maintenance services incidental to the above Research and development (R&D) activities in the agricultural ICT business, robotics business 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 Restaurant business, grape cultivation, wine brewing and sales
Cryptocurrency and blockchain business	Cryptocurrency exchange business, cryptocurrency investment business, and blockchain business
Other	Various consulting services in areas such as IR support, capital policy, financial strategy, business strategy and recruitment support services, and fund formation and management services

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, 2017 to December 31, 2017)

(Thousands of yen)

	Reportable segment						
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Total
Net sales							
Sales to third parties	¥1,534,972	¥2,180,821	¥3,840,474	¥137,048	¥5,926,905	¥ 900,142	¥14,520,365
Inter-segment sales and transfers	59,231	9,826	165,838	16,505	54,805	87,319	393,527
Total	1,594,203	2,190,648	4,006,313	153,553	5,981,711	987,462	14,913,893
Segment profit (loss)	450,888	15,628	(366,558)	(34,802)	(14,801)	838,035	888,390
Segment assets	1,230,718	348,034	713,772	343,488	3,519,940	6,076,358	12,232,311
Other items							
Depreciation and amortization	28,657	539	64,988	1,494	130,927	1,025	227,632
Amortization of goodwill	17,721	32,066	139,537	18,657	16,645	1,247	225,875
Increase in property, plant and equipment and intangible assets	58,261	1,250	35,746	—	107,074	13,212	215,544

(Thousands of yen)

	Other(Note 1)	Total	Adjustments(Note 2, 3)	Consolidated
Net sales				
Sales to third parties	¥100,317	¥14,620,682	¥ —	¥14,620,682
Inter-segment sales and transfers	6,143	399,671	(399,671)	—
Total	106,460	15,020,353	(399,671)	14,620,682
Segment profit (loss)	1,012	889,402	(882,358)	7,044
Segment assets	258,282	12,490,593	4,238,790	16,729,384
Other items				
Depreciation and amortization	8,246	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 business (consulting business) that is not included in the reportable segments.
2. The adjustment for segment profit (loss) of ¥(882,358) thousand comprises elimination of intersegment transactions of ¥(280,185) 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 in the consolidated statement of income.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

(Thousands of yen)

	Reportable segment						
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Total
Net sales							
Sales to third parties	¥1,245,972	¥2,361,242	¥ 949,947	¥102,972	¥6,449,983	¥ 309,185	¥11,419,303
Inter-segment sales and transfers	35,507	8,813	19,597	5,481	1,594	—	70,994
Total	1,281,480	2,370,055	969,544	108,453	6,451,578	309,185	11,490,298
Segment profit (loss)	(173,401)	38,028	68,654	(3,546)	(455,690)	294,060	(231,895)
Segment assets	3,768,091	526,482	1,958,801	344,110	2,536,764	375,874	9,510,125
Other items							
Depreciation and amortization	12,640	1,590	10,728	6,035	149,547	1,547	182,089
Amortization of goodwill	17,721	32,066	3,830	—	18,709	—	72,328
Increase in property, plant and equipment and intangible assets	362	5,228	4,116	311	1,155,536	41,238	1,206,793

(Thousands of yen)

	Other(Note 1)	Total	Adjustments(Note 2, 3)	Consolidated
Net sales				
Sales to third parties	¥ 35,940	¥11,455,244	¥ —	¥11,455,244
Inter-segment sales and transfers	3,059	74,053	(74,053)	—
Total	38,999	11,529,298	(74,053)	11,455,244
Segment profit (loss)	(71,730)	303,625	(484,532)	(788,158)
Segment assets	400,119	9,910,244	763,282	10,673,526
Other items				
Depreciation and amortization	8,359	190,448	34,295	224,744
Amortization of goodwill	—	72,328	—	72,328
Increase in property, plant and equipment and intangible assets	—	1,206,793	65,776	1,272,569

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 ¥(484,532) thousand comprises elimination of intersegment transactions of ¥(74,053) thousand and corporate expenses of ¥(410,479) 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 ¥763,282 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 statement of income.

[Related information]

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 statement 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 sheet.

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 2018 (From Janua1ry 1, 2018 to December 31, 2018)

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 statement 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 sheet.

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

(Thousands of yen)

	Reportable segment								
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Others	Corporate and elimination	Total
Impairment loss at end of year	¥—	¥—	¥312,639	¥158,314	¥1,191,307	¥—	¥59,896	¥(3,014)	¥1,719,144

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

(Thousands of yen)

	Reportable segment								
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Others	Corporate and elimination	Total
Impairment loss at end of year	¥48,092	¥—	¥45,843	¥461	¥1,081,188	¥—	¥—	¥—	¥1,175,586

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

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

(Thousands of yen)

	Reportable segment								
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Others	Corporate and elimination	Total
Amortized amount during the year	¥ 17,721	¥ 32,066	¥139,537	¥18,657	¥ 16,645	¥1,247	¥24,563	¥—	¥250,439
Unamortized balance at end of year	115,190	145,055	23,303	—	205,674	—	—	—	489,224

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

(Thousands of yen)

	Reportable segment								
	Information services business	Internet travel business	IoT-related business	Advertising agency business	Brand retail platform business	Cryptocurrency and blockchain business	Others	Corporate and elimination	Total
Amortized amount during the year	¥17,721	¥ 32,066	¥ 3,830	¥—	¥18,709	¥—	¥—	¥—	¥ 72,328
Unamortized balance at end of year	97,468	112,989	19,472	—	—	—	—	—	229,931

[Information on gain on bargain purchase by reportable segment]

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

Not applicable

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

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 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.

Fiscal 2018 (From January 1, 2018 to December 31, 2018)
Not applicable

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

Fiscal 2018 (From January 1, 2018 to December 31, 2018)

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)	¥11,530	—	¥—

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

FISCO Digital Asset Group Co., Ltd. and Fisco Cryptocurrency Exchange Inc. were significant related companies in fiscal 2018, and their condensed consolidated financial statements are as follows. As disclosed in "Notes to Consolidated Financial Statements, (Business Combinations), I. and II. Business divestiture," both companies have been reclassified from consolidated subsidiaries to equity-method affiliates from fiscal 2018.

FISCO Digital Asset Group Co., Ltd.

	(Thousands of yen)
Current assets	¥ 23,338
Non-current assets	2,774,381
Current liabilities	4,480
Non-current liabilities	20,000
Total net assets	2,773,238
Net sales	12,000
Loss before income taxes	(2,359,541)
Loss	(2,360,751)

Fisco Cryptocurrency Exchange Inc.

	(Thousands of yen)
Current assets	¥ 6,975,171
Non-current assets	3,196,153
Current liabilities	6,797,493
Non-current liabilities	1,648,992
Total net assets	1,724,838
Net sales	140,774
Loss before income taxes	(2,651,631)
Loss	(2,707,695)

(Per Share Information)

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
	(Yen)	
Net assets per share	¥67.96	¥ 5.24
Profit (loss) per share	16.73	(56.25)
Diluted profit per share	16.48	—

Notes:
1 Diluted profit per share is not recorded for fiscal 2018, despite the existence of dilutive shares, as the Company recorded a loss per share.
2. The basis for calculating the amounts for profit (loss) per share is as follows:

	Fiscal 2017 (From January 1, 2017 to December 31, 2017)	Fiscal 2018 (From January 1, 2018 to December 31, 2018)
	(Thousands of yen)	
Amounts for profit (loss) per share		
Profit (loss) attributable to owners of parent	¥ 636,719	¥ (2,152,849)
Amounts not attributable to common shareholders	—	—
Profit (loss) attributable to owners of parent related to common shares	636,719	(2,152,849)
Average number of common shares during the period (Shares)	38,050,733	38,275,575
Amounts of diluted profit per share		
Adjusted profit 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 profit per share due to lack of dilutive effect	—	—

(Subsequent Events)

I. Recording of extraordinary loss

NCXX Group Inc. (hereinafter "NCXX Group"), a consolidated subsidiary of the Company, sold a portion of its shares of CAICA Inc. from January 17, 2019 to January 25, 2019.

In conjunction with this sale, the Company now expects to record an extraordinary loss of ¥134 million in its consolidated financial statements for fiscal 2019.

1. Reason for sale of investment securities

The investment securities were sold as part of efforts to streamline assets and strengthen the Company's financial base.

2. Description of sales of investment securities

(1) Stock sold: shares of CAICA Inc. common stock
(2) Sales period: from January 17 to 25, 2019
(3) Description of extraordinary loss: loss on sales of investment securities of ¥134 million

In addition, at a meeting of the Board of Directors held on March 20, 2019, NCXX Group passed a resolution to sell a portion of its current shares of CAICA Inc., with the aim of revising its investment securities portfolio and achieving even higher investment returns. As a result, NCXX Group expects to record an extraordinary loss in its fiscal year ending November 30, 2019. In conjunction with this sale, the Company is also expected to record an extraordinary loss in its consolidated financial statements for fiscal 2019.

Description of sales of investment securities
(1) Stock sold: shares of CAICA Inc. common stock
(2) Sales period: from March 30 to April 10, 2019
(3) Description of extraordinary loss: loss on sales of investment securities

II. Important mergers

At a meeting of the Board of Directors held on February 27, 2019, the Company passed a resolution to absorb by amalgamation two of its consolidated subsidiaries, specifically FISCO DIAMOND AGENCY, Inc. (hereinafter "FDAC") and FISCO IR Ltd. (hereinafter "FIR"), on July 1, 2019.

1. Purpose of merger

The FISCO Group's overall growth strategy is to enable the one-stop provision of a complete range of crypto asset (cryptocurrency) services centered on bitcoin, covering crypto asset (cryptocurrency) information, exchanges, exchange systems, and financial brokerage functions, and including integration with IoT and industrial sectors. Based on this growth strategy, the Company has been making upfront investments. The Company will also increase and diversify earnings from platform services in the financial information services business. In services for not only corporate customers but also individual customers, the Company will focus on information distribution in the field of crypto assets (cryptocurrency) in an effort to improve earnings.

FDAC conducts a general advertising agency business. In this business, FDAC plans and implements corporate communication strategies through the creation of branding and communication ideas. Since its founding, FDAC has secured business accounts with numerous media firms such as major newspaper companies and business media firms, including DIAMOND, Inc. and Nikkei Inc. As a result, FDAC has built up a network of customers who position mass media as their main strategic media in the advertising industry. However, FDAC has been impacted by factors such as the recent shift of strategic media to Internet channels. In response, FDAC has explored new strategic initiatives to achieve growth while gradually increasing its reliance on the FISCO Group's customer network for its net sales. The Group has determined that the optimal means of conducting strategic initiatives to achieve growth at FDAC will be to concentrate marketing resources within the FISCO Group and to intensively utilize the customer network of FISCO and FIR (16 financial institutions and 457 business enterprises).

Meanwhile, FIR has steadily expanded business by capturing demand for IR support services centered on communication tool services, such as corporate analysis reports, integrated reports, annual reports, CSR reports, and shareholder newsletters. FIR has also worked to strengthen its framework for developing new businesses, such as European Union General Data Protection Regulation (GDPR) consulting services, with the aim of providing high-quality services that truly help to enhance corporate value. Furthermore, FIR aims to continue to expand its customer base of listed companies. To do so, FIR will develop new products through services that will provide companies with feedback on the voice of investors based on perception studies or offer consulting services based on this information. Through this amalgamation by absorption, FIR will utilize FISCO's investor network (institutional investors and individual investors) and financial information distribution network (Yahoo! Finance, LINE, SmartNews and others) to strengthen, upgrade and expand its communication tools in the information services business.

Through this amalgamation by absorption, the Group will centralize ledgers, bank accounts, personnel systems, compliance, internal audit operations and other matters, with the goal of reducing expenses in management divisions. At the same time, the Group will strive to create business through such means as maximizing business value and developing new businesses.

2. Overview of the merger

(1) Merger schedule

February 27, 2019 Meeting of the Board of Directors on the merger
Conclusion of merger agreement

July 1, 2019 Scheduled merger date (effective date)

As the mergers are simple mergers as defined under Article 796, Paragraph 2 of the Companies Act for the Company, and FDAC and FIR fall under a short form amalgamation under Article 784, Paragraph 1 of the Companies Act, a General Meeting of Shareholders will not be convened to approve the mergers.

(2) Merger method

FISCO Ltd. will be the surviving company and FDAC and FIR will be dissolved under the amalgamation by absorption method.

(3) Description of allotments related to the merger

1) Description of allotment related to the merger with FDAC

	Surviving company (FISCO Ltd.)	Dissolving company (FDAC)
Allotment related to the merger	1	0.04

Notes:
1. The Company will allot and grant 0.04 of a share of FISCO Ltd. common stock for every 1 share of common stock held by shareholders listed or recorded in FDAC's final register of shareholders on the day before the effective date of the merger.
2. The number of shares of the Company scheduled to be granted through this merger is 15,889 shares of common stock.

2) Description of allotment related to the merger with FIR

	Surviving company (FISCO Ltd.)	Dissolving company (FIR)
Allotment related to the merger	1	3

Notes:
1. The Company will allot and grant 3 of a share of FISCO Ltd. common stock for every 1 share of common stock held by shareholders listed or recorded in FIR's final register of shareholders on the day before the effective date of the merger.
2. The number of shares of the Company scheduled to be granted through this merger is 150,432 shares of common stock.

(4) Treatment of subscription rights to shares and bonds with subscription rights to shares in connection with this merger

The dissolving company has not issued any subscription rights to shares or bonds with subscription rights to shares.

3. Overview of the companies involved in the merger (as of December 31, 2018)

	Surviving company (FISCO Ltd.)	Dissolving company (FDAC)	Dissolving company (FIR)
(1) Name	FISCO Ltd. (Surviving company under the amalgamation by absorption method)	FISCO DIAMOND AGENCY, Inc. (Company to be dissolved under the amalgamation by absorption method)	FISCO IR Ltd. (Company to be dissolved under the amalgamation by absorption method)
(2) Address	2-18-15 Araki-cho, Kishiwada, Osaka, Japan	5-4-30 Minamiaoyama, Minato-ku, Tokyo, Japan	2-18-15 Araki-cho, Kishiwada, Osaka, Japan
(3) Name and title of representative	Hitoshi Kano, Representative Director	Kaoru Ueta, Representative Director	Motoki Sato, Representative Director
(4) Main business	Information services business	Advertising agency business	Information services business
(5) Capital stock	¥1,269 million	¥407 million	¥89 million
(6) Establishment	May 15, 1995	April 2, 1962	August 9, 1968
(7) Number of shares issued	38,436,000	163,177,777	1,218,580
(8) Fiscal year-end	December 31	December 31	December 31
(9) Number of employees	31	1	40

(10) Operating results and financial condition of the previous fiscal year

(Millions of yen)

	Fiscal 2018 (Consolidated)	Fiscal 2018 (Non-consolidated)	Fiscal 2018 (Consolidated)
Net assets	¥ 2,983	¥ 759	¥ 794
Total assets	10,673	862	1,111
Net assets per share (Yen)	5.24	4.65	652.10
Net sales	11,455	107	832
Operating income (loss)	(788)	(13)	48
Ordinary income (loss)	(2,476)	(13)	55
Profit (loss)	(2,152)	(14)	36
Profit (loss) per share (Yen)	(56.25)	(0.09)	29.91

4. Status of the Company after the merger

Following the merger, there have been no changes to the Company's name, address, titles and names of representatives, business type, and fiscal year. Equity capital, net assets, and total assets, which are forecast to increase, have not been determined at this time.

III. Reductions in the amounts of capital stock and legal capital surplus and appropriation of surplus

At a meeting of the Board of Directors held on February 27, 2019, the Company passed a resolution to submit a "proposal on reductions in the amounts of capital stock and legal capital surplus and appropriation of surplus" for approval to the 25th Ordinary General Meeting of Shareholders scheduled to be held on March 28, 2019. The purpose of this proposal is to successfully implement shareholder return measures through the payment of dividends of surplus and other means as early as possible. The proposal was approved as originally submitted at the 25th Ordinary General Meeting of Shareholders.

1. Purpose of reductions in the amounts of capital stock and legal capital surplus and appropriation of surplus

The Company seeks to restore a sound financial position by covering the current deficit in retained earnings carried forward, as it aims to ensure the flexibility and agility of future capital policies and successfully implement shareholder return policies through the payment of dividends of surplus and other means. For these purposes, the Company will reduce the amounts of capital stock and legal capital surplus and transfer the reductions to other capital surplus in accordance with the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act. Along with this, the Company will transfer the increased amount of other capital surplus to retained earnings carried forward and use the funds to cover the deficit, in accordance with Article 452 of the Companies Act.

This measure does not change the total number of issued shares. It reduces only the amounts of capital stock, legal capital surplus, and other capital surplus, so it will have no impact on the number of shares held by shareholders. Additionally, the amounts of the reductions in capital stock, legal capital surplus and other capital surplus all involve transfers between accounts in the net assets section of the balance sheet. Since the amount of the Company's net assets has not changed, this will cause no change in net assets per share. Going forward, the Company plans to increase capital stock and legal capital surplus by further encouraging the exercise of the conversion rights of convertible bonds with subscription rights to shares.

2. Main points of the reductions in the amounts of capital stock and legal capital surplus

The Company will reduce the amounts of capital stock and legal capital surplus as of December 31, 2018 and transfer the reductions to other capital surplus.

(1) Amounts of reductions in capital stock and legal capital surplus

Share capital	¥1,169,358,951 out of ¥1,269,358,951
Legal capital surplus	¥115,242,636 out of ¥115,242,636

3. Main points of appropriation of surplus

Conditional upon the reductions in the amounts of capital stock and legal capital surplus disclosed in the abovementioned item 2. taking effect, the Company will reduce other capital surplus by ¥1,445,130,015, and transfer it to retained earnings carried forward to cover the deficit.

(1) Component and amount of surplus to be reduced
Other capital surplus ¥1,445,130,015

(2) Component and amount of surplus to be increased
Retained earnings brought forward ¥1,445,130,015

4. Schedule

(1) Decided date by the Board of Directors	February 27, 2019
(2) Resolved date by the Ordinary General Meeting of Shareholders	March 28, 2019 (Scheduled)
(3) Final day for creditors to make objections	April 30, 2019 (Scheduled)
(4) Effective date	May 1, 2019 (Scheduled)

IV. Extension of the exercise period for the 3rd Series of Subscription Rights to Shares

The 3rd Series of Subscription Rights to Shares was approved at the Company's extraordinary general meeting of shareholders held on September 16, 2011, and resolved upon by a meeting of the Company's Board of Directors held on August 6, 2012. At a meeting of the Board of Directors held on February 27, 2019, the Company passed a resolution to submit a proposal to seek approval for the following revision to some of the details of the 3rd Series of Subscription Rights to Shares issued as stock options, at the 25th Ordinary General Meeting of Shareholders scheduled to be held on March 28, 2019. The proposal was approved as originally submitted at the 25th Ordinary General Meeting of Shareholders.

1. Reasons for revision

The 3rd Series of Subscription Rights to Shares had not been exercised for a long period of time. Accordingly, this revision will extend the exercise period in order to advance priorities such as providing rights holders with additional incentive to improve the Company's business performance and foster greater responsibility toward such business performance by facilitating the exercise of subscription rights to shares.

2. Revised item: exercise period of subscription rights to shares

Before revision: From August 7, 2014 to August 6, 2019
After revision: From August 7, 2014 to August 6, 2022

V. Issuance of stock options (share acquisition rights)

On February 27, 2019, the Board of Directors decided to submit a proposal for approval by the 25th Ordinary General Meeting of Shareholders to be held on March 28, 2019, delegating it the authority to decide the particulars for issuing and allotting share acquisition rights, pursuant to the provisions of Article 236, Article 238 and Article 239 of the Companies Act. The Board of Directors plans to allot share acquisition rights 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 25th Ordinary General Meeting of Shareholders.

This resolution will be effective for allotment dates falling within one year of March 28, 2019, pursuant to Article 239, Paragraph 3 of the Companies Act.

Resolution date	March 28, 2019; Ordinary General Meeting of Shareholders
Status and number of option holders (Note)	To be determined
Type of shares underlying the share acquisition rights	Common shares
Number of shares	Up to 100,000 shares
Payment upon exercise of share acquisition rights (Yen)	To be determined
Exercise period of share acquisition 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 share acquisition rights, and the expiration date shall be five years from the day following this resolution date.
Conditions for exercising share acquisition rights	To exercise the share acquisition rights, individuals must hold a position as a director or employee of the Company or its subsidiaries at the time of exercising the share acquisition rights, unless the Board of Directors makes a special exception.
Matters relating to the assignment of share acquisition rights	Approval of the Company's Board of Directors shall be required for the assignment of share acquisition rights.
Matters relating to substitute payment	—
Matters relating to the issue of share acquisition rights 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.

VI. Important company split

TITICACA, Co., Ltd. (scheduled to change its name to TITICACA CAPITAL Co., Ltd. on April 26, 2019, hereinafter "the splitting company"), a consolidated subsidiary of the Company, passed a resolution at a Board of Directors meeting held on March 22, 2019 to transfer the apparel business of the splitting company to TITICACA, Co., Ltd., which will be newly established as a wholly owned subsidiary of the splitting company through a company split (incorporation-type company split).

1. Purpose of the company split

Previously, the splitting company had not only the cryptocurrency and blockchain business but also the apparel business. The apparel business will be spun off into a new company. A change in the representative director of the splitting company is also planned. Through these steps, the Group will set up a framework that enables even faster management decisions, and clearly define authority, responsibility and governance for each business. It will rapidly enhance and streamline back office departments and further review unprofitable stores.

The transfer of the apparel business to the new company through the incorporation-type company split will enable all of the employees of each company to focus on their respective fields of expertise, with the aim of achieving a faster turnaround in business performance.

Borrowings that represent rights and obligations not needed to continue the apparel business will be excluded from the transferred assets.

2. Overview of the company split

(1) Schedule for the company split

Date of Board of Directors' resolution on the company split	March 22, 2019
Date of General Meeting of Shareholders' resolution on the company split	April 5, 2019 (Scheduled)
Effective date of the company split (date of incorporation of the new company)	April 26, 2019 (Scheduled)

(2) Method of the company split

An incorporation-type company split that will spin off a business into a newly incorporated company

(3) Allotment of stock

The new company will issue 20 shares of common stock and allot all of those shares to the splitting company.

(4) Treatment of subscription rights to shares and bonds with subscription rights to shares in connection with this reorganization

This treatment is not applicable, as the splitting company has not issued any subscription rights to shares or bonds with subscription rights to shares.

(5) Decrease in capital stock due to the company split

There is no decrease in the capital stock of the splitting company due to the company split.

(6) Rights and obligations to be assumed by the new company

The rights and obligations to be assumed by the new company from the splitting company will be the assets, liabilities, employment contracts and other rights and obligations belonging to the apparel business as of the effective date of the company split, excluding any rights and obligations otherwise provided for in the incorporation-type company split plan dated March 22, 2019.

(7) Prospects for fulfilling liabilities

The Group has judged that there are no problems with the prospects for the splitting company and the new company to fulfill the liabilities they should bear in the company split.

3. Status of subsidiary subject to the company split

Fiscal 2018 (From November 1, 2017 to October 31, 2018)

Name	TITICACA, Co. Ltd.
Name and title of representative	Osamu Hashikata, Representative Director (As of March 1, 2019)
Address	2-2-3 Shinyokohama, Kouhoku-ku, Yokohama, Kanagawa, Japan
Establishment	July 1, 2005
Main business	Apparel/Cryptocurrency and blockchain business
Fiscal year-end	October 31

(Millions of yen)

Share capital	¥ 10
Total assets	2,314
Net assets	(2,444)
Number of shares issued	1,990
Major shareholders and shareholding ratio	NCXX Group Inc. 90.00%
Net sales	¥ 5.725
Operating loss	(319)
Ordinary loss	(688)
Loss	(724)
Loss per share	(0.36)
Net assets per share	(1.22)

4. Status of subsidiaries after the company split

	Splitting company	New company
Name	TITICACA Capital, Co. Ltd. (Name scheduled to change)	TITICACA, Co. Ltd.
Name and title of representative	Osamu Hashikata, Representative Director (Representative director scheduled to change)	Osamu Hashikata, Representative Director
Address	2-2-3 Shinyokohama, Kouhoku-ku, Yokohama, Kanagawa, Japan	2-2-3 Shinyokohama, Kouhoku-ku, Yokohama, Kanagawa, Japan
Establishment	July 1, 2005	April 26, 2019 (Scheduled)
Main business	Cryptocurrency and blockchain business	Apparel business
Fiscal year-end	October 31	October 31
		(Millions of yen)
Share capital	¥ 10	¥ 10
Total assets	104	2,221
Net assets	(2,444)	Scheduled to be determined on or after the effective date
Number of shares issued	1,990	20
Major shareholders and shareholding ratio	NCXX Group Inc. 90.00%	TITICACA Capital, Co. Ltd. 100.00%

5. Overview of the business division to be separated

(1) Type of business of the division to be separated

Apparel business

(2) Business performance of the division to be separated

(Millions of yen)

	Performance of the business to be separated (a)	Consolidated performance (b)	Ratio (a/b)
Net sales	¥5,759	¥11,125	0.52

Note:
Item (a) is for the fiscal year ended October 31, 2018. Item (b) is estimated based on business results from the fiscal year ended November 30, 2018.

(3) Components and amounts of assets and liabilities to be separated (as of October 31, 2018)

Assets		Liabilities	
Item	Carrying amount (Millions of yen)	Item	Carrying amount (Millions of yen)
Current assets	¥1,402	Current liabilities	¥1,336
Non-current assets	807	Non-current liabilities	902
Total	¥2,210	Total	¥2,238

Note:
The amounts of assets and liabilities to be separated will be determined by adjusting for changes in the above amounts that occur up to the day before the effective date.

6. Status after the company split

There are no changes to the Head Office address, capital stock, and fiscal year of the splitting company as a result of the company split.

(Consolidated Supplementary Schedules)

[Schedule of corporate bonds]

Issuer	Series	Issuance date	Starting balance in fiscal 2018 (Thousands of yen)	Ending balance in fiscal 2018 (Thousands of yen)	Interest (%)	Collateral	Maturity date
FISCO Ltd.	1st Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	September 18, 2018	¥ — (—)	¥1,000,000 (—)	0.70	None	September 17, 2020
NCXX Group Inc.	5th Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	March 30, 2015	1,165,000 (1,165,000)	— (—)	0.50	None	March 29, 2018
NCXX Group Inc.	7th Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	May 1, 2018	— (—)	200,000 (—)	0.70	None	April 30, 2020
Total	—	—	¥ 1,165,000 (1,165,000)	¥1,200,000 (—)	—	—	—

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

Series	FISCO Ltd. 1st Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	NCXX Group Inc. 5th Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	NCXX Group Inc. 7th Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights
Type of shares to be issued	Common shares	Common shares	Common shares
Issue price of share acquisition rights (Yen)	Gratis	Gratis	Gratis
Issue price of shares (Yen)	¥ 100	¥ 1,089	¥ 410
Total face amount (Thousands of yen)	1,000,000	1,165,000	200,000
Total amount of shares issued upon exercise of share acquisition rights (Thousands of yen)	—	—	—
Percentage of shares granted per share acquisition right (%)	100	100	100
Exercise period of share acquisition rights	From September 18, 2018 to September 17, 2020	From March 30, 2015 to March 29, 2018	From May 1, 2018 to April 30, 2020

Note:
The information above assumes that the full payment due for exercising share acquisition rights 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 share acquisition rights. It is further assumed that such a request is made when the share acquisition rights are exercised.

3. Scheduled redemptions due within five years subsequent to December 31, 2018 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
¥—	¥1,200,000	¥—	¥—	¥—

[Schedule of borrowings]

Category	Starting balance in fiscal 2018 (Thousands of yen)	Ending balance in fiscal 2018 (Thousands of yen)	Average interest rate (%)	Repayment
Short-term borrowings	¥ 357,960	¥ 541,200	0.81	—
Current portion of long-term borrowings	1,095,656	785,015	1.51	—
Long-term borrowings (excluding current portion)	2,019,242	1,294,787	1.53	2020 to 2021
Total	¥3,472,859	¥2,621,002	—	—

Notes:
1. Average interest rate represents the weighted average interest rate for the balance of debt at December 31, 2018.
2. Scheduled repayments of long-term loans payable (excluding current portion) due within five years subsequent to December 31, 2018 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 borrowings	¥1,014,313	¥210,543	¥69,931	¥—

[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 2018

	(Thousands of yen)			
	Cumulative			
	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥3,216,110	¥5,544,660	¥8,812,986	¥11,455,244
Loss before income taxes	(97,230)	(265,348)	(223,794)	(2,600,097)
Loss attributable to owners of parent	(322,168)	(467,539)	(547,936)	(2,152,849)
Loss per share (Yen)	(8.43)	(12.22)	(14,32)	(56.25)

	(Yen)			
	Quarterly			
	First quarter	Second quarter	Third quarter	Fourth quarter
Loss per share	¥(8.43)	¥(3.80)	¥(2.10)	¥(41.90)

Investor Information

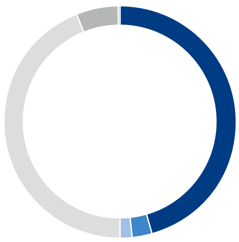
Stock Information (As of December 31, 2018)

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:	12,822
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

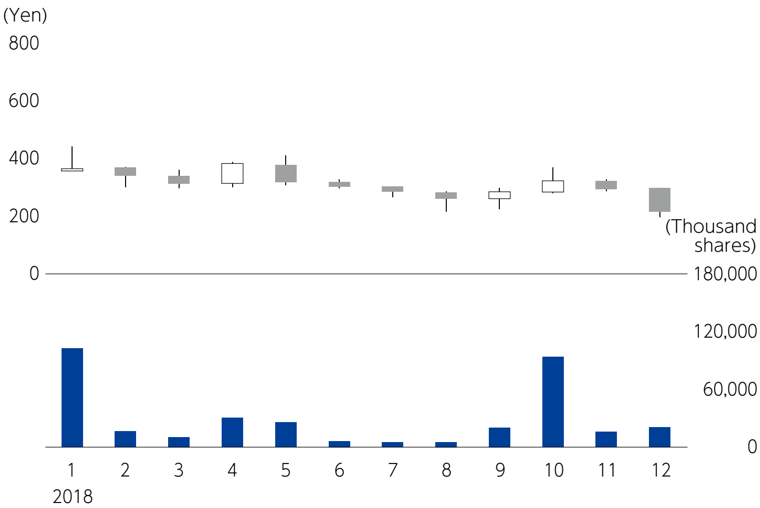
Major shareholders	Number of shares held	Proportion of total shares issued (%)
SEQUEDGE INVESTMENT INTERNATIONAL LIMITED (Standing proxy: SEQUEDGE Japan Holdings Co., Ltd.)	14,090,000	36.75
Japan Trustee Services Bank, Ltd. (trust account)	988,200	2.58
Sanji International Co., Ltd.	788,000	2.06
Hitoshi Kano	785,600	2.05
Goldman Sachs International (Standing proxy: Goldman Sachs Japan Co., Ltd.)	754,902	1.97
CAICA Inc.	575,000	1.50
Thomson Reuters (Markets) SA	550,000	1.43
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Standing proxy: MUFG Bank, Ltd.; President & CEO: Kanetsugu Mike)	511,198	1.33
Matsui Securities Co., Ltd.	323,200	0.84
Tadahide Arakawa	318,000	0.83

Composition of Shareholders



Individuals	45.7%
Financial institutions	2.7%
Financial instruments business operators	1.8%
Foreign companies, etc.	43.9%
Other companies	5.7%
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	378

Corporate Officers (as of December 31, 2018)

President and CEO	Hitoshi Kano
Directors	Takaya Nakamura Hiroyuki Matsuzaki Osamu Fukami Motoki Sato Yoshiyuki Kiroko (outside)
Full-time Audit & Supervisory Board member	Masakatsu Mochizuki (outside)
Audit & Supervisory Board members	Nobutoshi Kajisa (outside) Tatsuo Morihana (outside)

Organization