FISCO REPORT 2019

FISCO Ltd.

Corporate Philosophy

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

Vision

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

About Our Logo

Financial **I**ntelligence **S**upport **CO**mpany

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

Issuing Our Integrated Report

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

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

Hiroyuki Matsuzaki
Strategy Planning and Administrative Division

Consolidated Financial Highlights

(¥ million)

	2014	2015	2016	2017	2018	2019
Net sales	¥ 8,430	¥10,206	¥14,004	¥14,620	¥11,168	¥5,789
Operating income (loss)	323	(554)	(778)	7	(1,074)	(586)
Operating margin (%)	3.8	(5.4)	(5.6)	0.0	(9.6)	(10.1)
Ordinary income (loss)	903	(952)	(1,003)	(59)	(2,644)	(984)
Net income (loss) attributable to owners of parent	730	(143)	(1,193)	636	(2,255)	(666)
Total assets	10,615	16,910	15,444	16,729	10,688	2,203
Net assets	4,890	5,670	4,434	6,246	2,982	786
Return on equity (%)	25.8	(4.6)	(47.6)	27.9	(138.9)	(139.6)
Ordinary income (loss)/Total assets (%)	10.8	(6.9)	(6.2)	(0.4)	(19.0)	(44.7)
Equity ratio (%)	30.0	18.0	12.7	15.5	1.9	34.3
Net cash provided by (used in) operating activities	1,852	(1,107)	(9)	(328)	1,818	(576)
Net cash provided by (used in) investing activities	(1,013)	(709)	665	3,915	(1,536)	1,405
Net cash provided by (used in) financing activities	1,590	482	(1,898)	(2,209)	(540)	(712)
Cash and cash equivalents at end of the fiscal year	4,717	3,486	2,256	3,596	1,134	109
Cash dividends per share (yen)	3.0	3.0	3.0	3.0	—	—

Contents

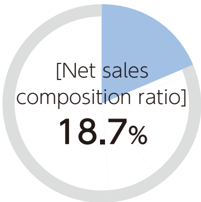
(Change in Accounting Policies)
Application of the Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act
The FISCO Group has applied the Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act (ASBJ PTIF No. 38, March 14, 2018) since the first quarter of the fiscal year ending December 31, 2019. For crypto assets (cryptocurrency) 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.

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.

Review of Operations

Information Services Business

[Net sales]
¥1,078 million



Main Group Companies

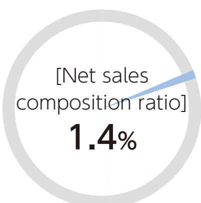
• FISCO Ltd.

In addition to existing real-time services for individual investors, financial institutions, and publicly listed companies, there are growing needs for investment education as self-managed investments are forecast to increase due to Japan's aging society with fewer children. The FISCO Group has already launched programs such as video-based investment education courses and securities analyst development courses. By reinforcing the service menu lineup, the Group will pave the way for expanding sales. Additionally, for institutional investors, the Group has put into operation services that provide financial and economic information to specific clients, as well as offering existing services. For individual investors, the Group has formed an organization of influencers who are active as bloggers and individual investors and are referred to as Social Reporters. This initiative has strengthened the Group's efforts to diversify the information it provides. In the field of corporate IR support services, the Group offers sponsored analyst reports (corporate analysis reports), a service that has grown and obtained the industry's top share. Beginning with these sponsored analyst reports, the Group has developed analyst reports focused on ESG and has put into operation a solution delivery service that provides timely distribution of non-financial corporate information.

Moreover, the Group will strive to win orders for integrated reports and annual reports for major companies, and capture needs for translation services, with the aim of establishing itself as a one-stop solutions provider for corporate IR-related issues and driving business expansion. There is an immense amount of content generated as publicly listed companies to disclose information to institutional investors. The Group is looking to harness AI-based text analytics to effectively turn this content into useful information for investment. With crypto asset (cryptocurrency) content, cooperation with Fisco Cryptocurrency Exchange Inc. (FCCE) will be crucial. In order to help attract customers to FCCE, FISCO will distribute crypto asset (cryptocurrency) content that is useful for investment purposes. FISCO will generate content revenue and supply investment expertise (including in-house AI and partner companies' AI) in crypto assets (cryptocurrencies) as an automated trading API for FCCE. The Group believes that these activities will also directly contribute to increasing earnings.

Advertising Agency Business

[Net sales]
¥78 million



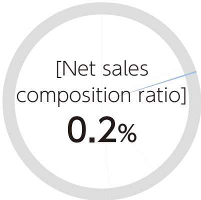
Main Group Companies

• FISCO Ltd.

The Group has been making progress on promoting advertising in its parasport information magazine, which is positioned as a priority field for the Group to strengthen, and on publishing tie-up articles and winning new advertising in related businesses. As the Group enters an Olympic year, it can expect even more demand than before. Accordingly, the Group has been continuing its efforts to strengthen sales, with a view to winning new projects and enlarging the order amounts per project. In addition, the Group will build up expertise in technology trends in advertising areas such as the renewal and operation of corporate IR websites, banner advertising and online video production, and in the characteristics of various media. While taking those steps, the Group will strengthen its ability to make proposals and enhance the production process, thereby paving the way for improving profitability and turning around business performance.

Cryptocurrency and Blockchain Business

[Net sales]
¥10 million



Main Group Companies

- Vulcan Crypto Currency Financial Products K.K.
- FISCO Digital Asset Group Co., Ltd.

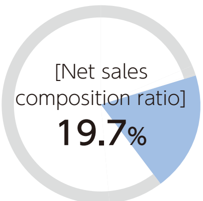
At Vulcan Crypto Currency Financial Products K.K., plans to remain in place for conducting proprietary investment in crypto assets (cryptocurrencies). Vulcan Crypto Currency Financial Products will carefully assess trends in the price of crypto assets (cryptocurrencies) centered on bitcoin, and cautiously conduct trading activities.

On June 21, 2019, Fisco Cryptocurrency Exchange Inc. (FCCE), the Company's equity method affiliate, received a business improvement order from the Financial Services Agency (FSA) based on the Payment Services Act. FCCE is making improvements to correct the situation at the earliest opportunity. Additionally, on February 12, 2020, two FCCE-operated exchanges, namely Fisco Cryptocurrency Exchange and the Zaif cryptocurrency exchange, were integrated to form the Zaif Exchange. As a result of this integration, FCCE expects business performance to improve compared with the previous year. This outlook is based on factors such as a recent increase in commission revenue and the resumption of the acceptance of applications for opening new accounts on March 6, 2020. Other contributing factors include a substantial reduction in the one-time costs needed for the integration and reductions in recurring costs that will be made possible by more efficient operation of the exchange going forward.

FCCE will continue working to ensure systematic security and to provide user-friendly crypto asset (cryptocurrency) services, with the aim of restarting certain services that had been suspended at Zaif Exchange as early as possible.

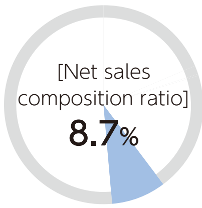
Internet Travel Business

[Net sales]
¥1,138 million



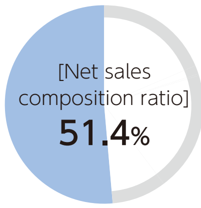
IoT-related Business

[Net sales]
¥502 million



Brand Retail Platform Business

[Net sales]
¥2,973 million



From the third quarter of the fiscal year ended December 31, 2019 (fiscal 2019), important changes have been made to the FISCO Group's business segments following the reclassification of NCXX Group from a consolidated subsidiary to an equity-method affiliate. For this reason, the FISCO Group's business segments now comprise the information services business, the advertising agency business, the cryptocurrency and blockchain business and other. For the Internet travel business, the IoT-related business, and the brand retail platform business, business results are included only up to the first half of fiscal 2019.

Note: The net sales composition ratio is calculated based on total net sales to third parties by the reportable segments.

Corporate Governance

Basic Views on Corporate Governance

The FISCO Group endeavors to continually review and improve its business management framework in terms of effectiveness, in order to make management more efficient and execute management duties appropriately and impartially. In the process, the Group aims to achieve sustained growth and improve medium- and long-term corporate value.

The Group also strives to disclose timely and accurate management information as it works to strengthen supervisory and checking functions for management activities, improve transparency, and rigorously implement compliance and risk management. The Group views the enhancement of corporate governance as one of its top management priorities.

Outline of the Corporate Governance System

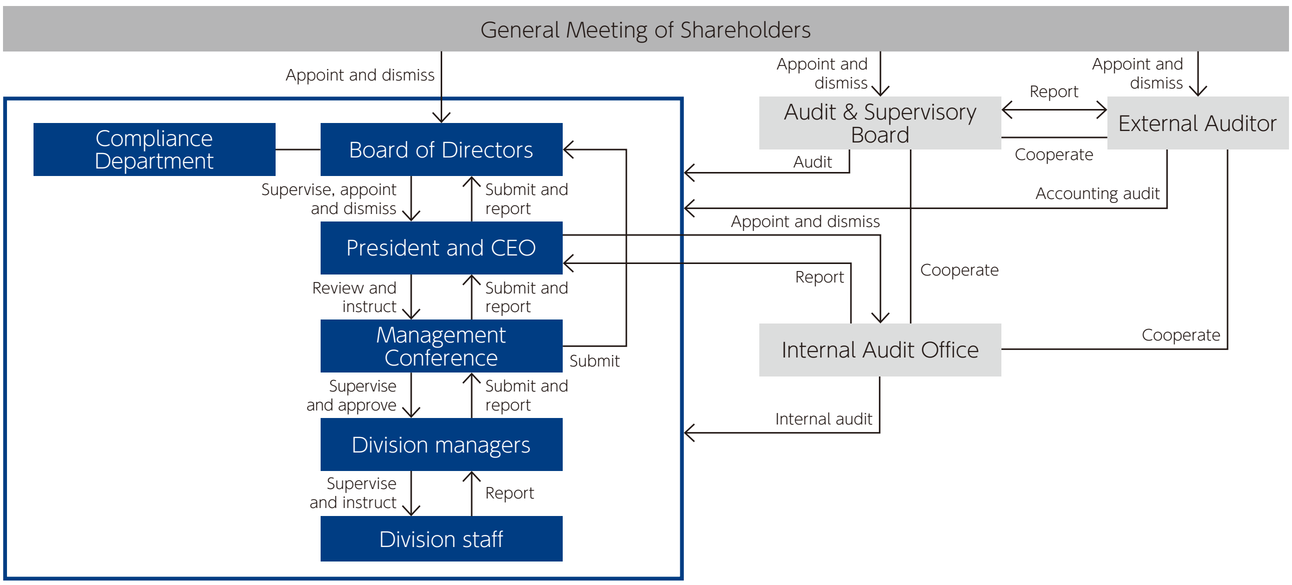
FISCO has a Board of Directors, an Audit & Supervisory Board, and an external auditor. The Board of Directors has seven directors, one of whom is an outside director. The Board of Directors is chaired by President and CEO Hitoshi Kano and meets every month in accordance with the Board of Directors Regulations. 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 is chaired by full-time Audit & Supervisory Board member Masakatsu Mochizuki and 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.

The Management Conference is chaired by President and CEO Hitoshi Kano. It comprises full-time directors and Audit & Supervisory Board members, executive officers nominated by the Board of Directors, persons permitted to regularly attend the Management Conference by the Chair, and those requested to attend the Management Conference as persons with information or expertise about a particular matter. 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.

■ 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 Accounting Audits

(1) Status of Audits by Audit & Supervisory Board Members

FISCO has a corporate governance system with an Audit & Supervisory Board. The Audit & Supervisory Board comprises one full-time Audit & Supervisory Board member and two outside Audit & Supervisory Board members. The Audit & Supervisory Board members audit the execution of directors' duties, in addition to attending the Board of Directors meetings and other important meetings, in accordance with the audit plans, audit policies and other matters determined by the Audit & Supervisory Board. Moreover, the Audit & Supervisory Board members and the external auditor strive to cooperate through such means as mutually exchanging information and opinions on various audit plans and the status of audits regularly or as necessary. Through these efforts, the Audit & Supervisory Board members and the external auditor aim to improve the effectiveness and efficiency of audits.

(2) Status of Internal Audits

The Company has an Internal Audit Office (two members) that reports directly to the President and CEO. The Internal Audit Office audits the business execution of each division, with a view to building an appropriate business management system for the FISCO Group. Moreover, the Internal Audit Office undertakes audits of internal controls over financial reporting in cooperation with the responsible divisions. In addition, it conducts in-depth internal audits according to the type and extent of risk, along with monitoring the status of execution of improvement measures, improvement plans and related matters. Important matters concerning the results of internal audits of the Company are reported to the Board of Directors. Concurrently, the Internal Audit Office carries out the mutual exchange of information and opinions with the Audit & Supervisory Board, the external auditor, and the Compliance Department as necessary, with the aim of conducting efficient and effective internal audits.

Status of Outside Corporate Officers

The Company has one outside director. There are three outside Audit & Supervisory Board members. Additionally, the personnel, capital and business relationships, as well as any other interests and relationships, between the Company and its outside director and outside Audit & Supervisory Board members 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	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. Based on this belief, the Company has designated Mr. Kiroko as an independent corporate officer as stipulated by Tokyo Stock Exchange, Inc. and has notified the Tokyo Stock Exchange of this designation. 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	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.

(2) 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, 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.

(3) 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.

(4) 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 and could stop the functions of the information services business and other operations.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) Risks Related to Material Lawsuits and Other Legal Proceedings

The FISCO Group is expanding its operations in the information services business, advertising agency 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.

(10) 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, 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.

(11) 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.

(12) 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 573,500 shares (2,587 rights) as of December 31, 2019. Those dilutive shares represent approximately 1.25% 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.

(13) Investments and Loans

To drive future business expansion, the Company may undertake initiatives such as business investments and M&As aimed at making capital investments, establishing subsidiaries, conducting joint venture businesses, and forming alliances, both in Japan and overseas.

The Company fully assesses the risk and recoverability of investment and loan projects before it conducts investments and loans. However, in some cases, it may be difficult to forecast with certainty the impact that the business conditions of an investee or borrower could have on the Company. If the Company is unable to recover the investments or loans, the Company's operating results and financial condition could be materially affected.

(14) Cryptocurrency Exchange Business

The Group company Fisco Cryptocurrency Exchange Inc. (FCCE) has registered as a cryptocurrency exchange operator with Japan's Financial Services Agency and other local finance bureaus. 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, FCCE 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 FCCE due to these risks could affect the Group's business performance and financial position.

(15) Loss of Cryptocurrency Due to Cyberattacks

At FCCE, 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.

(16) 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, 2019)

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

CSR Activity Policy

Revitalize Society through Corporate Support Services

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

Examples of CSR Activities

Institutional Investor & Analyst Corporate Analysis Report Awards

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

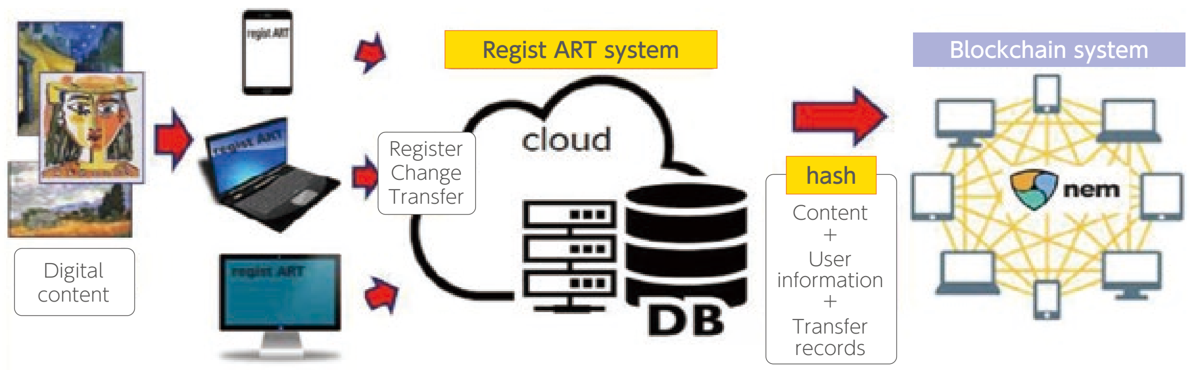
Recently, there has been a growing movement to assess corporate activities based on factors that do not appear directly on the financial statements, such as Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR) activities. According to the Global Sustainable Investment 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

(2019.12.27)

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	○
		▪ Conducted compliance briefings	○
		➡ Plan to continue each policy from next fiscal year onward	

FISCO Group Companies (As of December 31, 2019)

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.

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.

FISCO Capital Ltd.

Vulcan Crypto Currency Financial Products K.K.

FISCO Digital Asset Group Co., Ltd.

Sequedge Investment International Ltd.

Status of Group Companies

Company name	Location	Share capital (¥ million)	Description of main business	Holding or held ratio of voting rights (%)	Description of relationship
(Consolidated subsidiaries)					
FISCO Capital Ltd. (Note 2)	Minato-ku, Tokyo	33	Others	100.0	• There are concurrent corporate officer positions
Vulcan Crypto Currency Financial Products K.K. (Note 3)	Kishiwada, Osaka	10	Cryptocurrency and blockchain business	99.8	• There are concurrent corporate officer positions
(Equity-method affiliates)					
NCXX Group Inc. (Note 4)	Hanamaki, Iwate	10	IoT-related business	19.96	• There are concurrent corporate officer positions
FISCO Digital Asset Group Co., Ltd. (Note 5)	Kishiwada, Osaka	50	Cryptocurrency and blockchain business	33.2 (6.5)	• There are concurrent corporate officer positions
(Other Group companies)					
Sequedge Investment International Ltd.	Hong Kong, China	HK$ 1,000,000	Trading and investing business	(Held) 30.8	—

Notes:
1 The "Description of main business" column provides the names of the applicable segments.
2. Takaya Nakamura, a director of FISCO Ltd., concurrently serves as a director of this company. In addition, Hiroyuki Matsuzaki, a director of FISCO Ltd., concurrently serves as an Audit & Supervisory Board member of the company.
3. Motoki Sato, a director of FISCO Ltd., concurrently serves as a representative director of this company. In addition, Takaya Nakamura and Hiroyuki Matsuzaki, both of whom are directors of FISCO Ltd., concurrently serve as directors of the company. Moreover, Masakatsu Mochizuki, an Audit & Supervisory Board member of FISCO Ltd., concurrently serves as an Audit & Supervisory Board member of the company.
4. Osamu Fukami, a director of FISCO Ltd., concurrently serves as a director of this company.
5. Takaya Nakamura and Hiroyuki Matsuzaki, both of whom are directors of FISCO Ltd., concurrently serve as directors of this company.
6. The figure in parentheses for the holding ratio of voting rights represents the indirect holding ratio, and it is included in the main holding ratio.

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

Business Performance

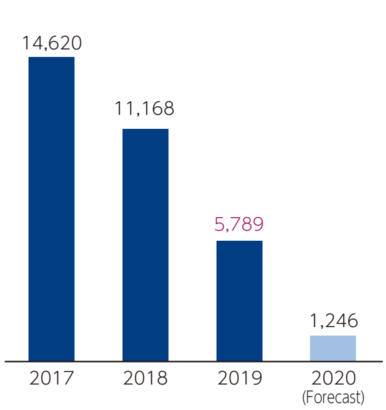
In October 2018, Fisco Cryptocurrency Exchange Inc. (FCCE), an equity-method affiliate of the Company, concluded a business transfer agreement with Tech Bureau, Corp. regarding the transfer of the "Zaif" cryptocurrency exchange business to FCCE. On November 22, 2018, the transfer of business was carried out. The procedures for users to approve the business transfer (succession procedures) were completed as of 13:00 on April 22, 2019. On June 21, 2019, FCCE received a business improvement order from the Financial Services Agency (FSA) based on the Payment Services Act. This business improvement order had no impact on the use of services by customers. That said, the FISCO Group will continue to provide support to FCCE so that it can continue to achieve sustained growth as a socially beneficial crypto asset exchange operator that customers can use with peace of mind. In parallel, FCCE will work to ensure further organizational and systematic security so that it can provide crypto asset (cryptocurrency) services with unrivalled user friendliness, with the aim of restarting certain services that had been suspended at "Zaif Exchange" as early as possible.

Moreover, in July 2019, as part of efforts to enhance equity at an early stage, stabilize the Company's financial base and secure funds for dividends in order to resume dividend payments, the Company absorbed and merged its consolidated subsidiaries FISCO DIAMOND AGENCY, Inc. and FISCO IR Ltd. The Company also transferred its shares of NCXX Group Inc. to Investment Business Limited Partnership Digital Asset Fund and Jitsugyo no Nihon Sha, Ltd. as consideration for the purchase and cancellation of the First Series of Unsecured Convertible Bonds with Stock Acquisition Rights issued by the Company in September 2018. In conjunction with this measure, NCXX Group was reclassified from a consolidated subsidiary of the Company to an equity-method affiliate from the third quarter of fiscal 2019. Furthermore, the Company conducted a debt-equity swap in which it issued ordinary shares by private placement with NCXX Group as the assignee. As a result, FISCO Ltd. realized, on a non-consolidated basis, a substantial reduction in interest-bearing debt compared with fiscal 2018 (from ¥2,450 million in fiscal 2018 to ¥261 million in fiscal 2019) and dramatic improvement in the Company's equity ratio (from 5.9% in fiscal 2018 to 80.3% in fiscal 2019).

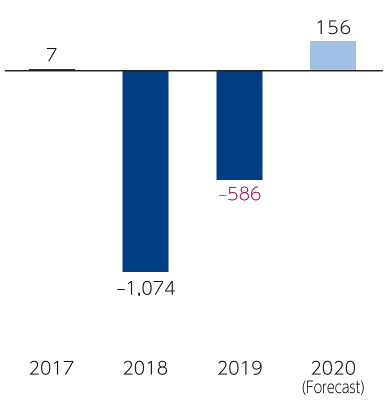
The Company will take the opportunity of this reorganization to generate steady earnings from the information services business, its mainstay business, and specialize in providing services related to crypto assets (cryptocurrencies), as it pools together each company's marketing resources and intensively utilizes their customer networks. By doing so, the Company will implement new strategic initiatives to achieve growth. It will rationalize operations through the integration of management departments and other divisions, reduce costs and accelerate decision-making. Through these efforts, the Company will conduct efficient management and push forward with the growth of its businesses.

As a result of the foregoing, the FISCO Group's consolidated business results for fiscal 2019 were as follows. Net sales were ¥5,789 million, down 48.2%

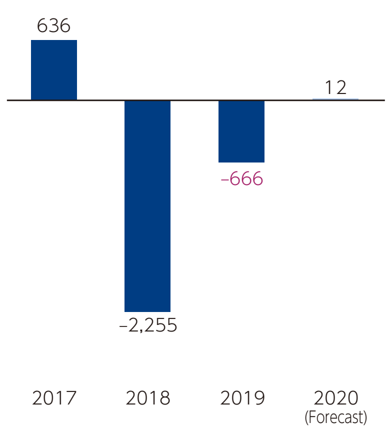
Net Sales (¥ million)



Operating Income (Loss) (¥ million)



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



Note: Figures for the fiscal year ended December 31, 2018 (fiscal 2018) and subsequent fiscal years reflect a major reorganization undertaken in the fiscal year ended December 31, 2019 (fiscal 2019).

year on year. Net sales were affected by factors such as the exclusion of NCXX Group from the scope of consolidation. Cost of sales was ¥3,284 million, down 48.9% year on year. Selling, general and administrative expenses decreased by 46.8% year on year to ¥3,090 million. The Company recorded an operating loss of ¥586 million, compared to an operating loss of ¥1,074 million in the previous fiscal year.

Moreover, the Company posted an ordinary loss of ¥984 million, compared to an ordinary loss of ¥2,644 million in the previous fiscal year. The ordinary loss was mainly due to the recording of ¥361 million in share of loss of entities accounted for using equity method for NCXX Group and FISCO Digital Asset Group Co., Ltd., both of which became equity-method affiliates.

The Company recorded total extraordinary income of ¥397 million, mainly due to a gain on the sale of shares of NCXX Group. Meanwhile, the Company recorded total extraordinary losses of ¥503 million, mainly due to the sale of shares of CAICA, Inc. by NCXX Group, and posted a loss attributable to non-controlling interests of ¥487 million. As a result, in terms of profit (loss) attributable to owners of parent, the Company recorded a loss attributable to owners of parent of ¥666 million, compared to a loss attributable to owners of parent of ¥2,255 million in the previous fiscal year.

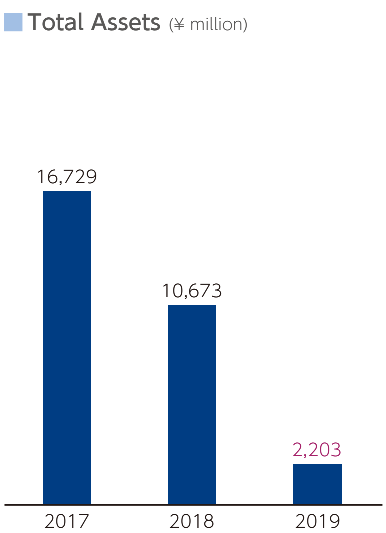
Assets, Liabilities and Net Assets

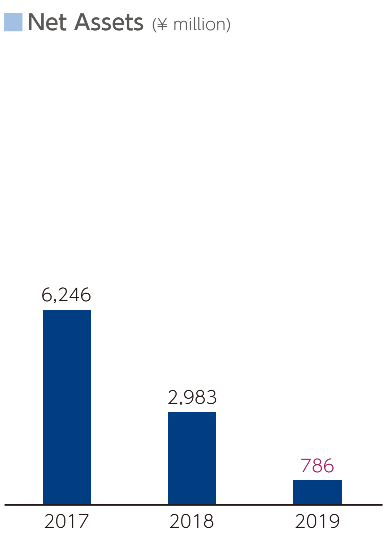
Total assets were ¥2,203 million as of December 31, 2019, a decrease of ¥8,484 million from the previous fiscal year-end.

Total current assets decreased by ¥3,784 million from a year ago. This decrease was mainly due to decreases of ¥1,030 million in cash and deposits, ¥607 million in notes and accounts receivable—trade, ¥1,146 million in merchandise and finished goods, ¥270 million in work in process, and ¥300 million in advance payments—trade. Noncurrent assets decreased by ¥4,699 million from the end of the previous fiscal year. The main contributing factors were decreases of ¥758 million in property, plant and equipment and ¥2,373 million in investment securities.

Total liabilities were ¥1,416 million as of December 31, 2019, a decrease of ¥6,289 million from ¥7,705 million a year earlier. The main contributing factors were decreases of ¥584 million in notes and accounts payable—trade, ¥401 million in short-term borrowings, and ¥1,983 million in long-term borrowings, including the current portion. Other main factors included decreases of ¥374 million in advances received, ¥199 million in accounts payable—other, and ¥1,200 million in convertible bond-type bonds with subscription rights to shares. Other major decreases were ¥377 million in asset retirement obligations, ¥122 million in long-term accounts payable—other, and ¥827 million in deferred tax liabilities.

Total net assets were ¥786 million, a decrease of ¥2,195 million from a year earlier. The main components were a decrease of ¥469 million in share capital, an increase of ¥1,006 million in retained earnings, and a decrease of ¥2,727 million in non-controlling interests.





Cash Flows

Cash and cash equivalents at December 31, 2019 were ¥109 million, a decrease of ¥1,024 million from the previous fiscal year-end. This decrease was mainly due to the reclassification of NCXX Group from a consolidated subsidiary to an equity-method affiliate.

Cash Flows from Operating Activities

Net cash used in operating activities was ¥576 million, compared with net cash provided by operating activities of ¥1,818 million in the previous fiscal year. The main component was gain on sales of shares of affiliates of ¥394 million.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥1,405 million, compared with net cash used in investing activities of ¥1,536 million in the previous fiscal year. The main contributing factors were proceeds from sales of investment securities of ¥1,074 million, and the collection of short-term and long-term loans receivable of ¥742 million, which were partly offset by ¥465 million in payment of long-term loans receivable.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥712 million, compared with net cash used in financing activities of ¥540 million in the previous fiscal year. The main components were a net decrease in short-term borrowings of ¥151 million and repayments of long-term borrowings of ¥522 million.

Segment Information

Information Services Business

In the information services business, net sales were ¥1,082 million, down 15.5% year on year. The FISCO Group won projects with high profit margins and implemented measures that it has continually pursued, such as cost reductions and reviewing business partners. As a result, segment income improved dramatically to ¥194 million, compared to a segment loss of ¥173 million in the previous fiscal year.

Internet Travel Business

In the Internet travel business, net sales were ¥1,141 million, down 51.8% year on year. Segment income was ¥12 million, down 68.0% year on year.

IoT-related Business

In the IoT-related business, net sales were ¥511 million, down 47.3% year on year. Segment income was ¥31 million, down 54.8% year on year.

Advertising Agency Business

In the advertising agency business, net sales were ¥80 million, down 25.7% year on year. Segment loss was ¥10 million, compared to segment loss of ¥3 million in the previous fiscal year.

Brand Retail Platform Business

In the brand retail platform business, net sales were ¥2,977 million, down 53.9% year on year, and segment loss was ¥319 million compared to segment loss of ¥455 million in the previous fiscal year.

Cryptocurrency and Blockchain Business

In the cryptocurrency and blockchain business, net sales were ¥10 million, down 53.2% year on year, and segment loss was ¥1 million, compared to segment income of ¥7 million in the previous fiscal year.

Consolidated Balance Sheet

(As of December 31, 2018 and 2019)

		(Thousands of yen)
	2018	2019
Assets		
Current assets		
Cash and deposits	¥ 1,176,639	¥ 146,123
Notes and accounts receivable—trade	734,219	127,000
Merchandise and finished goods	1,146,284	—
Work in process	285,338	14,930
Raw materials and supplies	11,149	—
Short-term loans receivable	165,000	—
Advance payments—trade	300,864	—
Prepaid expenses	83,400	14,901
Other	258,042	66,827
Allowance for doubtful accounts	(6,289)	(15)
Total current assets	4,154,649	369,767
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,616,460	3,579
Accumulated depreciation	(669,320)	(2,456)
Accumulated impairment loss	(629,066)	(1,123)
Buildings and structures, net	318,073	0
Tools, furniture and fixtures	1,244,690	72,756
Accumulated depreciation	(843,166)	(48,195)
Accumulated impairment loss	(178,371)	(1,797)
Tools, furniture and fixtures, net	223,152	22,762
Land	192,865	—
Leased assets	24,992	—
Accumulated depreciation	(16,048)	—
Leased assets, net	8,943	—
Construction in progress	16,872	—
Other	125,524	—
Accumulated depreciation	(102,626)	—
Accumulated impairment loss	(2,038)	—
Other, net	20,859	—
Total property, plant and equipment	780,766	22,762
Intangible assets		
Goodwill	229,931	79,747
Other	52,609	3,870
Total intangible assets	282,540	83,617
Investments and other assets		
Investment securities	3,971,546	1,597,940
Guarantee deposits	706,072	39,220
Long-term loans receivable	478,691	76,826
Deferred tax assets	2,030	—
Other	490,628	21,157
Allowance for doubtful accounts	(178,904)	(8,145)
Total investments and other assets	5,470,063	1,726,999
Total noncurrent assets	6,533,370	1,833,380
Total assets	¥10,688,019	¥2,203,148

	(Thousands of yen)	
	2018	2019
Liabilities		
Current liabilities		
Notes and accounts payable—trade	¥ 602,327	¥ 17,785
Short-term borrowings	541,200	139,670
Current portion of long-term borrowings	785,015	43,010
Advances received	426,190	51,474
Income taxes payable	51,479	13,862
Accounts payable—other	237,838	38,552
Provision for product warranties	66,000	—
Provision for bonuses	74,165	—
Provision for sales returns	4,908	—
Provision for point card certificates	12,650	—
Other	226,056	32,051
Total current liabilities	3,027,832	336,406
Non-current liabilities		
Long-term borrowings	1,294,787	53,508
Convertible bond-type bonds with subscription rights to shares	1,200,000	—
Retirement benefit liability	47,700	13,032
Asset retirement obligations	377,087	—
Long-term accounts payable—other	134,671	12,492
Deferred tax liabilities	854,681	27,169
Liabilities from application of equity method	731,624	973,922
Other	37,577	—
Total non-current liabilities	4,678,130	1,080,125
Total liabilities	7,705,962	1,416,532

Net assets		
Shareholders' equity		
Share capital	1,269,358	799,991
Capital surplus	520,485	951,864
Retained earnings	(1,678,763)	(671,803)
Treasury shares	(10,351)	(289,964)
Total shareholders' equity	100,729	790,087
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,129	(41,702)
Deferred gains (losses) on hedges	(68)	45
Foreign currency translation adjustment	67,901	7,248
Total accumulated other comprehensive income	98,963	(34,408)
Share acquisition rights	54,991	30,937
Non-controlling interests	2,727,372	—
Total net assets	2,982,056	786,616
Total liabilities and net assets	¥10,688,019	¥2,203,148

Consolidated Statement of Income

(Years ended December 31, 2018 and 2019)

(Thousands of yen)

	2018	2019
Net sales	¥11,168,871	¥ 5,789,403
Cost of sales	6,428,942	3,284,778
Gross profit	4,739,928	2,504,625
Selling, general and administrative expenses	5,814,459	3,090,981
Operating loss	(1,074,531)	(586,356)
Non-operating income		
Interest income	4,129	5,286
Foreign exchange gains	2,638	—
Reversal of provision for loss on store closings	14,602	—
Other	32,301	43,706
Total non-operating income	53,671	48,993
Non-operating expenses		
Interest expenses	50,965	26,041
Share of loss of entities accounted for using equity method	1,036,523	361,887
Commission expenses	16,281	4,526
Foreign exchange losses	—	27,748
Loss on sales of cryptocurrency	201,021	—
Loss on valuation of cryptocurrency	257,079	—
Other	62,238	26,607
Total non-operating expenses	1,624,108	446,811
Ordinary loss	(2,644,969)	(984,174)
Extraordinary income		
Gain on change in equity	474,180	—
Gain on sales of non-current assets	31	106
Gain on sales of investment securities	748,779	3,078
Gain on sales of shares of affiliates	—	394,589
Total extraordinary income	1,222,991	397,774
Extraordinary losses		
Loss on retirement of non-current assets	10,457	12,784
Impairment loss	1,175,586	68,615
Loss on sales of investment securities	—	381,092
Loss on valuation of investment securities	160,216	—
Loss on change in equity	—	40,905
Other	1,000	—
Total extraordinary losses	1,347,260	503,398
Loss before income taxes	(2,769,237)	(1,089,797)
Income taxes—current	117,393	53,313
Income taxes—deferred	(86,574)	11,345
Total income taxes	30,818	64,658
Loss	(2,800,056)	(1,154,456)
Loss attributable to non-controlling interests	(544,365)	(487,786)
Loss attributable to owners of parent	¥ (2,255,690)	¥ (666,670)

Consolidated Statement of Comprehensive Income

(Years ended December 31, 2018 and 2019)

		(Thousands of yen)
	2018	2019
Loss	¥(2,800,056)	¥(1,154,456)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(95,916)	(204,875)
Deferred gains (losses) on hedges	(40)	108
Foreign currency translation adjustment	4,369	2,894
Share of other comprehensive income of entities accounted for using equity method	(2,373)	(17,924)
Total other comprehensive loss	(93,962)	(219,796)
Comprehensive loss	¥(2,894,018)	¥(1,374,253)
Comprehensive loss attributable to:		
Owners of parent	¥(2,315,781)	¥ (780,461)
Non-controlling interests	(578,236)	(593,791)

Consolidated Statement of Changes in Equity

(Years ended December 31, 2018 and 2019)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2018	¥1,266,625	¥ 634,114	¥ 523,737	¥(10,351)	¥ 2,414,126
Cumulative effect of changes in accounting policies			206,944		206,944
Beginning balance after reflecting accounting policy changes	1,266,625	634,114	730,682	(10,351)	2,621,070
Changes in items during period					
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			(2,255,690)		(2,255,690)
Change in scope of equity method			(49,956)		(49,956)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,551)			(1,551)
Change in scope of consolidation			(103,798)		(103,798)
Net changes of items other than shareholders' equity					
Total changes in items during period	2,733	(113,629)	(2,409,445)		(2,520,340)
Balance as of December 31, 2018	¥1,269,358	¥ 520,485	¥(1,678,763)	¥(10,351)	¥ 100,729

(Thousands of yen)

	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 as of January 1, 2018	¥ 87,131	¥(57)	¥ 99,681	¥186,755	¥41,631	¥ 3,604,046	¥ 6,246,559
Cumulative effect of changes in accounting policies						152,085	359,029
Beginning balance after reflecting accounting policy changes	87,131	(57)	99,681	186,755	41,631	3,756,131	6,605,588
Changes in items during period							
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							(2,255,690)
Change in scope of equity method							(49,956)
Change in ownership interest of parent due to transactions with non-controlling interests							(1,551)
Change in scope of consolidation							(103,798)
Net changes of items other than shareholders' equity	(56,002)	(10)	(31,780)	(87,792)	13,360	(1,028,758)	(1,103,191)
Total changes in items during period	(56,002)	(10)	(31,780)	(87,792)	13,360	(1,028,758)	(3,623,532)
Balance as of December 31, 2018	¥ 31,129	¥(68)	¥ 67,901	¥ 98,963	¥54,991	¥ 2,727,372	¥ 2,982,056

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2019	¥ 1,269,358	¥ 520,485	¥(1,678,763)	¥ (10,351)	¥ 100,729
Changes in items during period					
Issuance of new shares	699,991	729,134			1,429,126
Capital reduction	(1,169,358)	1,169,358			—
Deficit disposition		(1,445,130)	1,445,130		—
Loss attributable to owners of parent			(666,670)		(666,670)
Purchase of treasury shares				(279,613)	(279,613)
Change in ownership interest of parent due to transactions with non-controlling interests		(990)			(990)
Change in scope of consolidation		(20,995)	228,500		207,505
Net changes of items other than shareholders' equity					—
Total changes in items during period	(469,367)	431,378	1,006,959	(279,613)	689,357
Balance as of December 31, 2019	¥ 799,991	¥ 951,864	¥ (671,803)	¥(289,964)	¥ 790,087

(Thousands of yen)

	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 as of January 1, 2019	¥ 31,129	¥ (68)	¥ 67,901	¥ 98,963	¥ 54,991	¥ 2,727,372	¥ 2,982,056
Changes in items during period							
Issuance of new shares							1,429,126
Capital reduction							—
Deficit disposition							—
Loss attributable to owners of parent							(666,670)
Purchase of treasury shares							(279,613)
Change in ownership interest of parent due to transactions with non-controlling interests							(990)
Change in scope of consolidation							207,505
Net changes of items other than shareholders' equity	(72,831)	113	(60,653)	(133,371)	(24,054)	(2,727,372)	(2,884,797)
Total changes in items during period	(72,831)	113	(60,653)	(133,371)	(24,054)	(2,727,372)	(2,195,440)
Balance as of December 31, 2019	¥(41,702)	¥ 45	¥ 7,248	¥ (34,408)	¥ 30,937	¥ —	¥ 786,616

Consolidated Statement of Cash Flows

(Years ended December 31, 2018 and 2019)

(Thousands of yen)

	2018	2019
Cash flows from operating activities		
Loss before income taxes	¥(2,769,237)	¥(1,089,797)
Depreciation	224,744	65,371
Amortization of goodwill	72,328	35,670
Interest and dividend income	(5,732)	(5,721)
Interest expenses	50,965	26,041
Loss on valuation of investment securities	160,216	—
Gain (loss) on sales of investment securities	(748,779)	378,013
Gain (loss) on change in equity	(474,180)	40,905
Share of loss of entities accounted for using equity method	1,036,523	361,887
Gain on sales of shares of affiliates	—	(394,589)
Decrease in trade receivables	68,039	30,678
Increase in inventories	(72,927)	(11,557)
Decrease in cryptocurrency	1,885,497	4,431
Decrease in loaned cryptocurrency	113,676	40,760
Loss on sales of cryptocurrency	201,021	—
Loss (gain) on valuation of cryptocurrency	257,079	(3,995)
(Decrease) increase in trade payables	(28,549)	6,718
Foreign exchange losses	163	22,984
Decrease (increase) in advance payments—trade	670,405	(151,723)
Decrease in deposits paid	445,626	22,426
Increase in advances received	108,237	62,524
Decrease in allowance for doubtful accounts	(95,569)	(11,195)
Increase (decrease) in provision for bonuses	6,369	(16,954)
Decrease in other provision	(52,409)	(18,706)
Increase in retirement benefit liability	1,056	7,107
(Decrease) Increase in deposits received	(27,809)	3,761
Share-based remuneration expenses	14,831	5,384
Decrease in accounts receivable—other	104,602	88,137
Gain on sales non-current assets	(31)	(106)
Loss on retirement of non-current assets	10,457	12,784
Impairment loss	1,175,586	68,615
(Increase) decrease in other current assets	(53,093)	5,435
Decrease (increase) in other current liabilities	(2,126)	6,225
Decrease (increase) in accrued consumption taxes	(1,395)	4,824
Decrease in accounts payable—other	(6,120)	(17,082)
Decrease in accrued expenses	(238,037)	(4,658)
Other, net	(75,035)	(63,788)
Subtotal	1,956,389	(489,186)
Interest and dividends received	5,404	3,089
Interest paid	(66,896)	(28,233)
Income taxes paid	(76,486)	(61,913)
Net cash provided by (used in) operating activities	1,818,411	(576,243)
Cash flows from investing activities		
Payments into time deposits	(6,000)	—
Purchase of investment securities	(577,563)	—
Proceeds from sales of investment securities	2,103,167	1,074,291
Purchase of cryptocurrency	(3,112,542)	(97)
Proceeds from sales of cryptocurrency	1,961,815	—
Purchase of property, plant and equipment	(278,724)	(62,864)
Proceeds from sales of property, plant and equipment	55	450
Purchase of intangible assets	(962,445)	(1,069)
Payments of guarantee deposits	(88,981)	(4,483)
Proceeds from refund of guarantee deposits	32,977	83,832
Payments for asset retirement obligations	(33,677)	—
Short-term loans advances	(150,000)	—
Collection of short-term loans receivable	—	150,000
Long-term loans advances	(410,000)	(465,167)
Collection of long-term loans receivable	32,000	592,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(50,000)	—
Other, net	3,561	38,562
Net cash (used in) provided by investing activities	(1,536,358)	1,405,453
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	233,240	(151,530)
Proceeds from long-term borrowings	442,800	2,500
Repayments of long-term borrowings	(1,332,265)	(522,874)
Redemption of bonds	(1,165,000)	(34,115)
Proceeds from issuance of bonds with share acquisition rights	1,200,000	—
Proceeds from issuance of shares resulting from exercise of share acquisition rights	3,996	—
Proceeds from share issuance to non-controlling shareholders	198,000	—
Dividends paid	(114,069)	(3,114)
Payments for changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4,011)	(990)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	2,460	—
Other	(5,255)	1,909
Net cash used in financing activities	(540,107)	(712,034)
Effect of exchange rate change on cash and cash equivalents	(1,793)	(2,561)
Net (decrease) increase in cash and cash equivalents	(259,847)	114,614
Cash and cash equivalents at beginning of period	3,596,185	1,134,446
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(2,201,892)	(1,139,132)
Cash and cash equivalents at end of period	¥ 1,134,446	¥ 109,928

Notes to the Consolidated Financial Statements

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 2

Names of consolidated subsidiaries

FISCO Capital Ltd.

Vulcan Crypto Currency Financial Products K.K.

Notes:

1. FISCO Ltd.'s investment ratio in FISCO Capital No. 1 Investment Limited Partnership, which is funded through investments by both FISCO Ltd. and its consolidated subsidiary FISCO Capital Ltd., decreased in connection with CAICA Inc.'s conversion of iStudy Co., Ltd. into a consolidated subsidiary through a tender offer. For this reason, FISCO Capital No. 1 Investment Limited Partnership has been removed from FISCO Ltd.'s scope of consolidation from the first quarter of fiscal 2019.
2. TITICACA Capital Co., Ltd. (name changed from TITICACA Co., Ltd. on April 26, 2019; hereinafter "TITICACA Capital") newly established TITICACA Co., Ltd. through a company split (incorporation-type split) on April 26, 2019.
3. On July 1, 2019, FISCO Ltd. carried out an absorption-type merger with its consolidated subsidiaries FISCO DIAMOND AGENCY, Inc. and FISCO IR Ltd. as the companies to be absorbed and FISCO Ltd. as the surviving company.
4. On July 8, 2019, the Company purchased and cancelled the First Series of Unsecured Convertible Bonds with Stock Acquisition Rights issued by the Company in September 2018, and as consideration for this purchase, transferred its shares of NCXX Group Inc. As a result, NCXX Group Inc. was reclassified from the Company's consolidated subsidiary to an equity-method affiliate from the third quarter of fiscal 2019. In accordance with this change, NCXX Group's 14 consolidated subsidiaries have also been removed from the scope of consolidation.

(2) Number of non-consolidated subsidiaries: 2

Names of non-consolidated subsidiaries

FISCO Research & Institute

Chanty Co., Ltd.

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: 2

2) Names of affiliates accounted for by the equity method: FISCO Digital Asset Group Co., Ltd.
NCXX Group Inc.

Note:
On July 8, 2019, the Company purchased and cancelled the First Series of Unsecured Convertible Bonds with Stock Acquisition Rights issued by the Company in September 2018, and as consideration for this purchase, transferred its shares of NCXX Group Inc. Accordingly, NCXX Group Inc. was reclassified from the Company's consolidated subsidiary to an equity-method affiliate from the third quarter of fiscal 2019.

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

1) Names of important companies, etc.: FISCO Research & Institute
Chanty Co., Ltd.

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

NCXX Group Inc. among affiliates accounted for by the equity method has 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.

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) Work in process

Specific identification 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. .

The main estimated useful lives are as follows:

Tools, furniture and fixtures 2 to 15 years

2) Intangible assets

Amortized by the strai ght-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.

(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 adjustment 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 (ten years) 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.

(Changes in Accounting Policies)

Adoption of “Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act”

The Company has adopted the “Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act” (ASBJ Practical Issues Task Force No. 38, March 14, 2018) since the beginning of fiscal 2019. Among the cryptocurrencies held by the Group, cryptocurrencies in active markets were recorded on the consolidated balance sheet at a value based on the market price, while differences between the market value and book value were recorded as net sales.

This change in accounting policy has been retrospectively applied to the fiscal year under review, and the consolidated financial statements are presented after retrospective application of the change in policy.

As a result, compared with what would have been recorded before the retrospective application of the change in policy, net sales decreased by ¥286,373 thousand, and there were increases of ¥286,373 thousand in operating loss, ¥168,483 thousand in ordinary loss, ¥169,140 thousand in loss before income taxes, ¥81,453 thousand in loss and ¥102,841 thousand in loss attributable to owners of parent. In addition, the cumulative effect of this change in accounting policy was reflected in the book value of net assets at the beginning of fiscal 2018. As a result, the balance of retained earnings at the beginning of fiscal 2018 after retrospective application of the policy increased by ¥206,944 thousand. In addition, as of the end of fiscal 2018, there were increases of ¥14,493 thousand in total assets and ¥15,689 thousand in total liabilities, while there was a decrease in total net assets of ¥1,196 thousand.

(Accounting Standards Not Yet Adopted)

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)

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"
The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) since the beginning of fiscal 2019. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under non-current liabilities.

(Consolidated Balance Sheets)
Cryptocurrency, accounts receivable—other, and deposits paid, which were previously presented separately under current assets in fiscal 2018, were included in other in fiscal 2019 because their monetary importance has decreased. The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥26,578 thousand presented as cryptocurrency, the ¥55,912 thousand presented as accounts receivable—other, and the ¥27,301 thousand presented as deposits paid under current assets on the consolidated balance sheet as of December 31, 2018 have been restated as other.

Software, which was previously presented separately under intangible assets in fiscal 2018, was included in other in fiscal 2019 because its monetary importance has decreased. The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥41,831 thousand presented as software under intangible assets on the consolidated balance sheet as of December 31, 2018 has been restated as other.

Long-term accounts receivable—other, which were previously presented separately under investments and other assets in fiscal 2018 were included in other in fiscal 2019 because its monetary importance has decreased.

The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥115,543 thousand presented as long-term accounts receivable—other under investments and other assets on the consolidated balance sheet as of December 31, 2018 has been restated as other.

Deposits received and accrued expenses, which were previously presented separately under current liabilities in fiscal 2018, were included in other in fiscal 2019 because their monetary importance has decreased. The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥32,954 thousand presented as deposits received and the ¥137,247 thousand presented as accrued expenses under current liabilities on the consolidated balance sheet as of December 31, 2018 have been restated as other.

(Consolidated Statements of Cash Flows)
Purchase of insurance funds, which was previously presented separately under cash flows from investing activities in fiscal 2018, was included in other, net in fiscal 2019 because its monetary importance has decreased. The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥(2,654) thousand presented as purchase of insurance funds under cash flows from investing activities on the consolidated statement of cash flows for fiscal 2018 has been restated as other, net.

Repayments of lease obligations, which were previously presented separately under cash flows from financing activities in fiscal 2018, was included in other in fiscal 2019 because its monetary importance has decreased. The consolidated financial statements for fiscal 2018 have been restated to reflect this change in presentation method.

As a result, the ¥(5,255) thousand presented as repayments of lease obligations under cash flows from financing activities in the consolidated statement of cash flows for fiscal 2018 has been restated as other.

(Consolidated Balance Sheet)

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

(Thousands of yen)

	Fiscal 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
Investment securities (shares)	¥1,649,729	¥1,582,179

*2 Collateral assets and collateralized liabilities

Assets pledged as collateral are as follows.

(Thousands of yen)

	Fiscal 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
Time deposits	¥ 36,193	¥36,194
Buildings and structures	10,907	—
Land	151,097	—
Investment securities	542,868	—
Total	¥741,067	¥36,194

The above time deposits are provided as collateral to secure operating transactions.

In addition to the above, shares of subsidiaries and associates held by the Company are provided as collateral for the liabilities of subsidiaries and associates.

Collateralized liabilities are as follows.

(Thousands of yen)

	Fiscal 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
Current portion of long-term borrowings	¥137,303	¥—
Long-term borrowings	588,967	—

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

(Thousands of yen)

	Fiscal 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
NCXX Solutions Inc.	¥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 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
Total amount of overdraft facilities and credit line commitments	¥250,000	¥—
Balance outstanding	250,000	—
Difference	¥ —	¥—

(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 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Cost of sales	¥81,585	¥—

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

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Remuneration of director	¥ 122,169	¥ 82,929
Salaries	1,089,682	603,034
Retirement benefit expenses	11,621	14,580
Rent	710,337	381,160
Outsourcing expenses	414,314	336,004
Commission expenses	838,150	454,625
Amortization of goodwill	72,328	35,670
Provision for bonuses	94,770	38,994
Provision of allowance for doubtful accounts	(5,094)	245
Provision for point card certificates	12,650	(2,412)

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

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Research and development expenses	¥29,957	¥6,679

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

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Vehicles	¥31	¥106

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

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Buildings and structures	¥10,411	¥12,784
Tools, furniture and fixtures	46	—
Total	¥10,457	¥12,784

*6 Impairment loss

The Group recognized impairment losses on the following asset groups.

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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

Usage	Type	Location	Impairment loss (Thousands of yen)
Store equipment	Buildings and structures	Shibuya-ku, Tokyo and other locations	¥68,615

(Background to recognition of impairment loss)

Regarding store equipment, the Group recognized as impairment losses under property, plant and equipment the portion of carrying value determined to be unrecoverable for TITICACA stores that are expected to continue to generate losses from operations. This applies to 8 stores.

(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.

(Consolidated Statement of Comprehensive Income)

*1 Reclassification adjustments and tax effects for other comprehensive income

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Valuation difference on available-for-sale securities		
Amount recognized during the fiscal year	¥ 478,675	¥(760,596)
Reclassification adjustments	(616,164)	528,675
Before tax effect adjustment	(137,488)	(231,920)
Tax effect	41,572	27,044
Valuation difference on available-for-sale securities	(95,916)	(204,875)
Deferred gains (losses) on hedges		
Amount recognized during the fiscal year	(40)	154
Reclassification adjustments	—	(45)
Before tax effect adjustment	(40)	108
Tax effect	—	—
Deferred gains (losses) on hedges	(40)	108
Foreign currency translation adjustments		
Amount recognized during the fiscal year	14,691	67,086
Reclassification adjustments	(10,322)	(64,191)
Before tax effect adjustment	4,369	2,894
Tax effect	—	—
Foreign currency translation adjustments	4,369	2,894
Share of other comprehensive income of entities accounted for using equity method		
Amount recognized during the fiscal year	14,487	(17,924)
Reclassification adjustments	(16,861)	—
Share of other comprehensive income of entities accounted for using equity method	(2,373)	(17,924)
Total other comprehensive income	¥ (93,962)	¥(219,796)

(Consolidated Statement of Changes in Net Assets)

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
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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

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)	38,436,000	7,340,722	—	45,776,722
Total	38,436,000	7,340,722	—	45,776,722
Treasury stock				
Common shares	91,700	1	—	91,701
Total	91,700	1	—	91,701

Note:
The number of issued shares of common stock at the end of the fiscal year increased by 161,322 shares due to a merger on July 1, 2019 and by 7,179,400 shares due to a debt-equity swap carried out on July 31, 2019.

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	Common shares	393,500	—	—	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 1)	Common shares	80,000		—	80,000	6,913
Consolidated subsidiary	—	—	—	—	—	—	—
Total		—	573,500	—	—	573,500	¥30,937

Note:
1. 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

Not applicable

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

Resolution	Type of shares	Total dividends (Thousands of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
March 30, 2020 Annual General Meeting of Shareholders	Common shares	¥22,842	Other capital surplus	¥0.5	December 31, 2019	March 31, 2020

(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 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Cash and deposits	¥1,176,639	¥146,123
Time deposits with deposit terms of over 3 months	(42,193)	(36,194)
Cash and cash equivalents	¥1,134,446	¥109,928

*2 Payments for changes in ownership interests in subsidiaries that result in change in scope of consolidation

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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

Not applicable

*3 Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation

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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

NCXX Group Inc., which was formerly a consolidated subsidiary of the Company, and its subsidiaries have been removed from the scope of consolidation from fiscal 2019 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) NCXX Group Inc.

	(Thousands of yen)
Current assets	¥2,636,782
Non-current assets	20,634
Current liabilities	2,693,781
Non-current liabilities	725,832
Cash and cash equivalents of FISCO Digital Asset Group Co., Ltd.	¥1,135,888

*4 Details of material non-financial transactions

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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

(1) In fiscal 2019, the Company conducted an early redemption of bonds using investment securities of ¥1,000,000 thousand as repayment funds.
(2) In fiscal 2019, the Company acquired a loan to a subsidiary of ¥1,000,000 thousand through a transfer of receivables.
(3) In fiscal 2019, the Company conducted a capital increase through a debt-equity swap. As a result, share capital and capital surplus increased by ¥699,991 thousand each.

(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, 2018 and 2019 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 50.)

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 assets	¥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 liabilities	¥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.

Fiscal 2019 (As of December 31, 2019)

	(Thousands of yen)		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	¥146,123	¥ 146,123	¥ —
(2) Notes and accounts receivable—trade	127,000	—	—
Allowance for doubtful accounts(*1)	(15)	—	—
	126,985	126,985	—
(3) Accounts receivable—other	283	—	—
(4) Investment securities	65,240	616,449	551,209
(5) Guarantee deposits	39,220	39,220	—
(6) Long-term loans receivable	76,826	—	—
Allowance for doubtful accounts(*3)	(1,595)	—	—
	75,231	75,231	—
(7) Long-term accounts receivable	8,690	—	—
Allowance for doubtful accounts(*4)	(6,550)	—	—
	2,140	2,140	—
Total assets	¥455,225	¥1,006,434	¥551,209
(8) Notes and accounts payable—trade	¥ 17,785	¥ 17,785	¥ —
(9) Short-term borrowings	139,670	139,670	—
(10) Accounts payable—other	38,552	38,552	—
(11) Long-term borrowings (including current portion)	96,518	95,895	(623)
Total liabilities	¥292,525	¥ 291,902	¥ (623)
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) 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.

(4) Investment securities

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

(5) Guarantee deposits

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

(6) Long-term loans receivable

The fair value of long-term loans receivable is calculated by classifying them into set maturities and calculating the present value for each credit management risk classification by discounting the future cash flows using an interest rate comprising an appropriate index with an additional credit spread.

(7) Long-term accounts receivable

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

Liabilities

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

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

(11) 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 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
Unlisted stocks	¥1,649,929	¥1,532,699

* 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. Planned redemption amounts after the fiscal year-end for monetary claims and investment securities with maturity dates

(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.

(Thousands of yen)

	Fiscal 2019 (As of December 31, 2019)			
	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	¥146,123	¥ —	¥—	¥—
Notes and accounts receivable—trade (Note)	126,985	—	—	—
Short-term loans receivable	283	—	—	—
Guarantee deposits (Note)	—	—	—	—
Long-term loans receivable (Note)	—	75,231	—	—
Long-term accounts receivable—other (Note)	—	2,140	—	—
Total	¥273,391	¥77,371	¥—	¥—

Note:
The above table does not include the following items whose redemption dates are not confirmed: accounts receivable—trade of ¥15 thousand (allowance for doubtful accounts of ¥15 thousand), long-term loans receivable of ¥1,595 thousand (allowance for doubtful accounts of ¥1,595 thousand) and long-term accounts receivable—other of ¥6,550 thousand (allowance for doubtful accounts of ¥6,550 thousand).

The above table does not include guarantee deposits of ¥39,220 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 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	¥—	¥—

(Thousands of yen)

	Fiscal 2019 (As of December 31, 2019)					
	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	¥139,670	¥ —	¥ —	¥—	¥—	¥—
Long-term borrowings	43,010	51,008	2,500	—	—	—
Total	¥182,680	¥51,008	¥2,500	¥—	¥—	¥—

(Securities)

1. Available-for-Sale Securities

Fiscal 2018 (As of December 31, 2018)

(Thousands of yen)

	Type	Carrying amount	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.

Fiscal 2019 (As of December 31, 2019)

(Thousands of yen)

	Type	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount exceeds the acquisition cost	Shares	¥12,850	¥ 3,050	¥ 9,800
	Subtotal	12,850	3,050	9,800
Securities for which the carrying amount does not exceed the acquisition cost	Shares	52,390	777,230	(724,840)
	Subtotal	52,390	777,230	(724,840)
Total		¥65,240	¥780,280	¥(715,040)

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

(Thousands of yen)

Type	Amount sold	Total realized gains	Total realized losses
Shares	¥2,103,167	¥748,779	¥—

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

(Thousands of yen)

Type	Amount sold	Total realized gains	Total realized losses
Shares	¥1,074,291	¥3,078	¥381,092

3. Loss on Valuation of Investment Securities

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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

Not applicable

(Derivative Transactions)

1. Derivative Transactions to Which Hedge Accounting Is Not Applied

Currency related

Fiscal 2018 (As of December 31, 2018)

Not applicable

Fiscal 2019 (As of December 31, 2019)

Not applicable

2. Derivative Transactions to Which Hedge Accounting Is Applied

(1) Currency related

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.

Fiscal 2019 (As of December 31, 2019)

Not applicable

(2) Interest rate

Fiscal 2018 (As of December 31, 2018)

Category	Type of transaction	Main hedge target	Contract amount (Thousands of yen)	Amount of contract exceeding one year (Thousands of yen)	Fair value (Thousands of yen)
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term 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.

Fiscal 2019 (As of December 31, 2019)

Category	Type of transaction	Main hedge target	Contract amount (Thousands of yen)	Amount of contract exceeding one year (Thousands of yen)	Fair value (Thousands of yen)
Special treatment of interest rate swaps	Interest rate swap transaction Variable interest—received Fixed interest—paid	Long-term borrowings	¥55,000	¥35,000	(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 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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

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, 2019 and balance as of December 31, 2019

	(Thousands of yen)
Balance of liability for retirement benefit as of January 1, 2019	¥ 47,700
Retirement benefit expenses	15,117
Retirement benefits paid	(8,300)
Payment resulting from exclusion of subsidiaries from consolidation	(41,484)
Balance of liability for retirement benefit as of December 31, 2019	¥ 13,032

(2) Reconciliation of balance of retirement benefit obligations and liability for retirement benefit on the consolidated balance sheets as of December 31, 2019

	(Thousands of yen)
Retirement benefit obligations for non-funded plans	¥13,032
Net liability on the consolidated balance sheets	¥13,032

(3) Retirement benefit expenses

	(Thousands of yen)
Retirement benefit expenses based on the simplified method	¥15,117

(Stock Options)

1. Stock option expense and amount

(Thousands of yen)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Stock option expense under selling, general and administrative expenses	¥14,831	¥5,384

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 (Note)	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, 2022	From September 29, 2016 to September 29, 2018	From January 15, 2018 to January 15, 2020
Exercise period	August 7, 2014 to August 6, 2022	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 2019 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, 2018	—	—	80,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding	—	—	80,000
After vesting			
As of December 31, 2018	393,500	100,000	—
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding	393,500	100,000	—

(2) Unit price information

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

3. 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

	Fiscal 2018 (As of December 31, 2018)	Fiscal 2019 (As of December 31, 2019)
	(Thousands of yen)	
Deferred tax assets		
Inventories	¥ 74,984	¥ —
Accrued enterprise taxes	4,608	2,844
Provision for bonuses	26,749	—
Provision for product warranties	22,756	—
Carryforwards of unused tax losses	3,958,278	588,843
Non-current assets	316,157	19,041
Investment securities	56,542	55,651
Shares of affiliates	14,678	43,643
Allowance for doubtful accounts	60,408	226,024
Retirement benefit liability	18,599	6,436
Asset retirement obligations	130,019	—
Others	17,547	5,678
Subtotal deferred tax assets	4,701,325	948,160
Valuation allowance for tax loss carryforwards	—	(588,843)
Valuation allowance for total deductible temporary differences	—	(359,321)
Subtotal valuation allowances	(4,699,302)	(856,173)
Total deferred tax assets	¥ 2,023	¥ —
Deferred tax liabilities		
Shares of affiliates	¥ (13,227)	¥ —
Liability adjustment	(3,808)	—
Goodwill	—	(24,418)
Valuation difference on available-for-sale securities	(30,634)	(2,751)
Fund balance difference	(757,050)	—
Reserve for special depreciation	(8,671)	—
Others	(41,290)	—
Total deferred tax liabilities	(854,680)	(27,169)
Net deferred tax liabilities	¥ (852,657)	¥ (27,169)

Notes:
1. The main factors behind changes in valuation allowances were decreases in the loss carryforwards of consolidated subsidiaries due to the removal of certain consolidated subsidiaries from the scope of consolidation.
2. Amounts of tax loss carryforwards and their deferred tax assets by expiration period

Fiscal 2019 (As of December 31, 2019)

	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	Total
				(Thousands of yen)			
Tax loss carryforwards	¥—	¥ 7,581	¥ 2,499	¥ 5,832	¥ 5,842	¥ 567,087	¥ 588,843
Valuation allowances	—	(7,581)	(2,499)	(5,832)	(5,842)	(567,087)	(588,843)
Deferred tax assets	—	—	—	—	—	—	—

* Tax loss carryforwards are multiplied by the statutory income tax rate.

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

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 and 2019.

(Business Combinations)

I. Transaction with entity under common control (Corporate division)

1. Nature of transaction

(1) Name and description of business involved in company split

Name of business

Apparel business of the Company's consolidated subsidiary TITICACA Capital Co., Ltd. (name changed from TITICACA Co., Ltd. on April 26, 2019)

Description of business

The business is engaged in the planning, manufacture, and sale of TITICACA-brand products (original apparel and accessories).

(2) Business combination date

April 26, 2019

(3) Statutory basis of business combination

An incorporation-type company split with TITICACA Capital Co., Ltd. (the Company's consolidated subsidiary) as the splitting company and TITICACA Co., Ltd. (the Company's consolidated subsidiary) as the newly incorporated company.

(4) Name of company after business combination

TITICACA, Co., Ltd. (The Company's consolidated subsidiary)

(5) Other matters concerning the overview of the transaction

Previously, TITICACA Capital Co., Ltd. operated both the cryptocurrency and blockchain business and the apparel business. The apparel business will be spun off into a new company. Through this step, 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 TITICACA Co., Ltd. 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.

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."

II. Transaction with entity under common control (Absorption-type merger)

1. Nature of transaction

(1) Name and business of company involved in business combination

Surviving company of absorption-type merger

Name: FISCO Ltd.

Business: Information services business

Companies to be absorbed through absorption-type merger

Name: FISCO DIAMOND AGENCY, Inc.

Business: Advertising agency business

Name: FISCO IR Ltd.

Business: Information services business

(2) Business combination date (Effective date)

July 1, 2019

(3) Statutory basis of business combination

Absorption-type merger with FISCO Ltd. as the surviving company

(4) Purpose of business combination

To use management resources effectively and streamline business management

2. Overview of accounting treatment to be applied

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."

III. Business divestiture

1. Overview of business divestiture
   - (1) Name and business of the subsidiary
     Name: NCXX Group Inc.
     Business: Planning, development and sale of agricultural ICT and nursing care and rehabilitation robots, etc.
   - (2) Name of companies accepting the transfer
     Investment Business Limited Partnership Digital Asset Fund
     Jitsugyo no Nihon Sha, Ltd.
   - (3) Main reason for conducting the transfer
     To sell the Company's shares of NCXX Group Inc. as purchase consideration in connection with the purchase and cancellation of the 1st Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights issued by the Company in September 2018, and reduce interest-bearing debt.
   - (4) Transfer date
     July 8, 2019
   - (5) Other matters concerning the overview of the transfer, including statutory basis
     Share transfer for which only assets such as bonds were received as consideration

2. Overview of accounting treatment
   - (1) Amount of gain or loss on the transfer
     Gain on sales of shares of affiliates ¥394 million
   - (2) Appropriate carrying amounts of assets and liabilities related to the transferred business and the main components

	(Millions of yen)
Current assets	¥3,769
Non-current assets	3,857
Total assets	¥7,627
Current liabilities	¥2,697
Non-current liabllities	2,160
Total liabilities	¥4,858

   - (3) Accounting method
     The difference between the book value for consolidation purposes and the sales price of the shares was recorded as gain on sales of shares of affiliates under extraordinary income.

3. Reportable segments that included the divested business

IoT-related business, Internet travel business, and Brand retail platform business

4. Estimated amount of profit and loss related to the divested business recorded on the consolidated statement of income for fiscal 2019

Net sales ¥4,630,323 thousand
Operating income ¥ (276,522) thousand

(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 2018 (From January 1, 2018 to December 31, 2018)	Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Balance at beginning of period	¥389,687	¥ 377,087
Increase due to acquisition of property, plant and equipment	13,909	3,343
Adjustment due to the passage of time	181	82
Decrease due to fulfillment of asset retirement obligations	(26,690)	(8,555)
Decrease resulting from exclusion of consolidated subsidiaries	—	(371,959)
Balance at end of period	¥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 2018 (As of December 31, 2018)

Not applicable

Fiscal 2019 (As of December 31, 2019)

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.

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 Corporate IR support services, such as integrated reports and annual reports
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

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 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	¥ 22,812	¥11,132,930
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	22,812	11,203,925
Segment profit (loss)	(173,401)	38,028	68,654	(3,546)	(455,690)	7,686	(518,268)
Segment assets	3,768,091	526,482	1,958,801	344,110	2,575,612	376,952	9,550,051
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	¥11,168,871	¥ —	¥11,168,871
Inter-segment sales and transfers	3,059	74,053	(74,053)	—
Total	38,999	11,242,925	(74,053)	11,168,871
Segment profit (loss)	(71,730)	(589,998)	(484,532)	(1,074,531)
Segment assets	400,119	9,950,170	737,849	10,688,019
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 loss in the consolidated statement of income.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

(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	¥1,078,540	¥1,138,304	¥502,014	¥ 78,438	¥2,973,702	¥ 10,674	¥5,781,674
Inter-segment sales and transfers	3,909	3,616	9,005	2,094	3,682	—	22,307
Total	1,082,450	1,141,920	511,019	80,532	2,977,384	10,674	5,803,981
Segment profit (loss)	194,896	12,166	31,035	(10,858)	(319,723)	(1,539)	(94,023)
Segment assets	291,734	—	—	—	—	1,492,622	1,784,357
Other items							
Depreciation and amortization	2,078	921	1,830	6,012	34,618	372	45,833
Amortization of goodwill	17,721	16,033	1,915	—	—	—	35,670
Investments in entities accounted for using equity method	—	—	—	—	—	1,488,129	1,488,129
Increase in property, plant and equipment and intangible assets	1,605	251	9,392	—	27,013	—	38,263

(Thousands of yen)

	Other(Note 1)	Total	Adjustments(Note 2, 3)	Consolidated
Net sales				
Sales to third parties	¥ 7,729	¥5,789,403	¥ —	¥5,789,403
Inter-segment sales and transfers	501	22,808	(22,808)	—
Total	8,230	5,812,212	(22,808)	5,789,403
Segment profit (loss)	7,379	(86,644)	(499,712)	(586,356)
Segment assets	56,169	1, 840,527	362,621	2,203,148
Other items				
Depreciation and amortization	—	45,833	13,720	59,553
Amortization of goodwill	—	35,670	—	35,670
Investments in entities accounted for using equity method	—	1,488,129	49,680	1,537,810
Increase in property, plant and equipment and intangible assets	17,109	55,372	—	55,372

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 ¥(499,712) thousand comprises elimination of intersegment transactions of ¥(22,808) thousand and corporate expenses of ¥(476,903) 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 ¥362,621 thousand comprises corporate assets not allocated to the reportable segments and eliminations to offset claims and obligations of consolidated subsidiaries.
4. Segment profit (loss) is adjusted to operating loss in the consolidated statement of income.
5. In conjunction with the sale of a portion of NCXX Group Inc. shares, NCXX Group Inc. was reclassified from the Company's consolidated subsidiary to an equity-method affiliate. As a result, the Internet travel business, IoT-related business, and brand retail platform business have been removed from the scope of consolidation from the third quarter of fiscal 2019.

[Related information]

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.

Fiscal 2019 (From Janua1ry 1, 2019 to December 31, 2019)

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 non-current assets by reportable segment]

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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

(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	¥—	¥—	¥—	¥—	¥64,450	¥—	¥—	¥4,165	¥68,615

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

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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

(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	¥16,033	¥1,915	¥—	¥—	¥—	¥—	¥—	¥35,670
Unamortized balance at end of year	79,747	—	—	—	—	—	—	—	79,747

[Information on gain on bargain purchase by reportable segment]

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

Not applicable

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

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. Non-consolidated subsidiaries and affiliates of the filling company

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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Thousands of yen)	Description of business or occupation	Percentage of voting rights held (%)
Affiliates	FISCO Digital Asset Group Co., Ltd.	Kishiwada-shi, Osaka	¥50,000	Cryptocurrency and blockchain business	Direct (26.72) Indirect (6.53)
	NCXX Group Inc. (Note 3)	Hanamaki-shi, Iwate	¥10,000	IoT-related business	Direct (19.96)

Type	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Affiliates	Concurrent officers	Funds recovered	¥ 20,000	Notes and accounts receivable—trade	¥4,281
		Interest received	10	—	—
	Concurrent officers Funds borrowed	Funds borrowed	150,000	Long-term borrowings from Group companies	—
		Funds repaid	50,017	—	—
		Shares issued (Note 4)	1,399,983	—	—
		Receivables assumed (Note 5)	1,000,000	—	—
		Interest paid	4,613	—	—
		Collateral pledged (Note 6)	575,000	—	—
		Debt guaranteed	585,000	—	—

Notes:
1. Consumption taxes are not included in the amounts of transactions and the ending balances.
2. Transaction terms and policy on deciding transaction terms and conditions
The interest rate on funds lent or borrowed is determined reasonably based on prevailing market interest rates. Moreover, collateral is not provided.
3. NCXX Group Inc., a former subsidiary of the Company, is no longer classified as its subsidiary because the Company transferred its shares of NCXX Group Inc. on July 8, 2019. However, although it is no longer classified as a subsidiary, NCXX Group Inc. continues to be classified as a related party of the Company even after the transfer.
4. With regard to the shares issued, the transaction was an investment in kind through a debt-equity swap, where shares were issued at ¥195 per share.
5. Receivables assumed refer to a long-term loan to Vulcan Crypto Currency Financial Products K.K. that was assumed. With this loan being assumed, a debt guarantee extended to this company in the same amount of the loan was dissolved.
6. Collateral pledged refers to a collateral guarantee (real guarantee) pledged against borrowings of NCXX Group Inc. The amount of transaction indicates the ending balance of the debt secured by the collateral asset (shares of affiliates).

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

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

Fiscal 2019 (From January 1, 2019 to December 31, 2019)

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)
Officer and individual major shareholder	Hitoshi Kano	—	¥—	Representative Director of the Company	Direct (2.06)

Type	Relationship with related party	Nature of transaction	Amount of transaction (Thousands of yen)	Item	Ending balance (Thousands of yen)
Officer and individual major shareholder	Funds lent	Funds lent	¥35,167	Long-term loans receivable for directors	¥35,167

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 interest rate on funds lent or borrowed is determined reasonably based on prevailing market interest rates. Moreover, collateral is not provided.

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

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

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

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

Type	Name of company or other entity	Head office location	Paid-in capital or investment (Millions of yen)	Description of business or occupation	Percentage of voting rights held (%)
Officer of significant subsidiary and his relatives	Hiroshi Sasaki	—	¥—	Director of a subsidiary	—

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	Debt guarantee received	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.

Fiscal 2019 (From January 1, 2019 to December 31, 2019)
Not applicable

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 NCXX Group Inc. were significant related companies in fiscal 2019, and their condensed consolidated financial statements are as follows. As disclosed in "Notes to Consolidated Financial Statements, (Business Combinations), I. and II. Business divestiture," NCXX Group Inc. have been reclassified from consolidated subsidiaries to equity-method affiliates from fiscal 2019.

FISCO Digital Asset Group Co., Ltd.

	(Thousands of yen)
Current assets	¥ 9,372
Non-current assets	3,296,890
Current liabilities	477,776
Non-current liabilities	—
Total net assets	2,828,485
Net sales	12,000
Profit before income taxes	75,923
Profit	55,246

NCXX Group Inc.

	(Thousands of yen)
Current assets	¥ 217,291
Non-current assets	2,888,431
Current liabilities	902,906
Non-current liabilities	1,398,392
Total net assets	804,424
Net sales	95,000
Loss before income taxes	(1,579,226)
Loss	(1,572,590)

(Per Share Information)

	Fiscal 2018 (From January 1, 2018 to December 31, 2018) (Yen)	Fiscal 2019 (From January 1, 2019 to December 31, 2019) (Yen)
Net assets per share	¥ 5.21	¥ 16.54
Loss per share	(58.93)	(16.13)
Diluted profit per share	—	—

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:

3. The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) and "Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act" (ASBJ Practical Issues Task Force No. 38, March 14, 2018) from the beginning of fiscal 2019. Figures for fiscal 2018 have been presented after retrospectively application of the aforementioned accounting standards and related rules.

	Fiscal 2017 (From January 1, 2017 to December 31, 2017) (Thousands of yen)	Fiscal 2018 (From January 1, 2018 to December 31, 2018) (Thousands of yen)
Amounts for loss per share		
Loss attributable to owners of parent	¥ (2,255,690)	¥ (666,670)
Amounts not attributable to common shareholders	—	—
Loss attributable to owners of parent	(2,255,690)	(666,670)
Average number of common shares during the period (Shares)	38,275,575	41,322,391

(Subsequent Events)

Not applicable

(Consolidated Supplementary Schedules)

[Schedule of corporate bonds]

Issuer	Series	Issuance date	Starting balance in fiscal 2019 (Thousands of yen)	Ending balance in fiscal 2019 (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. (Note 2)	7th Series of Unsecured Convertible Bond-type Bonds with Share Acquisition Rights	May 1, 2018	200,000 (—)	— (—)	0.70	None	April 30, 2020
Total	—	—	¥1,200,000 (—)	¥ — (—)	—	—	—

Notes:
1. Amounts in parentheses are the current portion of bonds.
2. The ending balance in fiscal 2019 is not disclosed because NCXX Group Inc. was removed from the scope of consolidation.

[Schedule of borrowings]

Category	Starting balance in fiscal 2019 (Thousands of yen)	Ending balance in fiscal 2019 (Thousands of yen)	Average interest rate (%)	Repayment
Short-term borrowings	¥ 541,200	¥139,670	1.46	—
Current portion of long-term borrowings	785,015	43,010	1.93	—
Long-term borrowings (excluding current portion)	1,294,787	53,508	0.58	2021 to 2022
Total	¥2,621,002	¥236,188	—	—

Notes:
1. Average interest rate represents the weighted average interest rate for the balance of debt at December 31, 2019.
2. Scheduled repayments of long-term loans payable (excluding current portion) due within five years subsequent to December 31, 2019 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	¥53,508	¥—	¥—	¥—

[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 2019

	(Thousands of yen) Cumulative			
	First quarter	Second quarter	Third quarter	Fiscal year
Net sales	¥2,637,753	¥ 5,161,124	¥5,501,480	¥ 5,789,403
Loss before income taxes	(500,912)	(1,204,509)	(931,665)	(1,089,797)
Loss attributable to owners of parent	(351,817)	(758,834)	(496,173)	(666,670)
Loss per share (Yen)	(9.19)	(19.83)	(12.01)	(16.13)

	(Yen) Quarterly			
	First quarter	Second quarter	Third quarter	Fourth quarter
Loss per share	¥(9.19)	¥(10.64)	¥6.71	¥(4.62)

Investor Information

Stock Information (As of December 31, 2019)

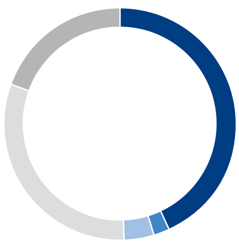
Listed exchanges:	Tokyo Stock Exchange, JASDAQ
Securities code:	3807
Number of shares authorized:	100,000,000
Total number of shares issued:	45,776,722
Number of shares in one trading unit:	100
Number of shareholders:	11,777
Fiscal year-end:	December 31
Annual General Meeting of Shareholders:	Within 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	30.84
NCXX Group Inc.	7,179,400	15.71
Japan Trustee Services Bank, Ltd. (trust account)	977,200	2.14
Hitoshi Kano	941,422	2.06
Sanji International Co., Ltd.	788,000	1.72
CAICA Inc.	575,000	1.26
Thomson Reuters (Markets) SA	550,000	1.20
Matsui Securities Co., Ltd.	483,900	1.06
Tadahide Arakawa	318,000	0.70
Rakuten Securities, Inc.	273,500	0.60

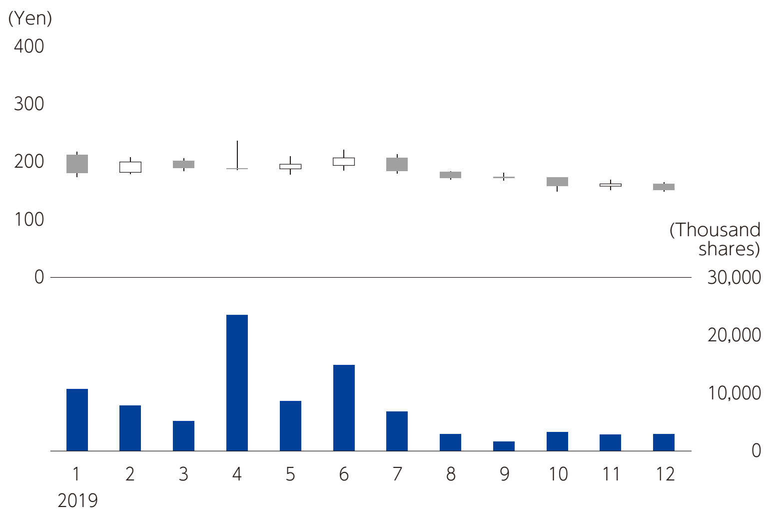
Note:
The Company disclosed a news release titled "Notice of Issuance of Ordinary Shares by Private Placement (Debt-Equity Swap)" on July 10, 2019. As described in the news release, the Company issued ordinary shares by private placement with NCXX Group Inc. as the assignee. As a result, NCXX Group Inc., which was not a major shareholder as of the previous fiscal year-end, has become a major shareholder as of the end of the fiscal year under review.

Composition of Shareholders



Individuals	40.2%
Financial institutions	2.2%
Financial instruments business operators	4.4%
Foreign companies, etc.	32.7%
Other companies	20.4%

Stock Price/Trading Volume



Corporate Information

Corporate Data (as of December 31, 2019)

Name of corporation	FISCO Ltd.
Head Office	3F Lexington Aoyama Building, 5-11-9 Minami-Aoyama, Minato-ku, Tokyo, Japan TEL: +81-3-5774-2440
Foundation	May 15, 1995
Capital	799 million yen
President and CEO	Hitoshi Kano
Number of employees	47

Corporate Officers (as of December 31, 2019)

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

Organization