opt Holding

Flash Report for Fiscal Year Ended December 31, 2017
[Japan GAAP] (on a consolidated basis)

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Listed on: TSE

Company name: OPT Holding, Inc.
Securities code: 2389 URL: http://www.opt.ne jp/holding/
Representative: Noboru Hachimine, Founder, President and CEO
Contact for inquiries: Tomohiko Adachi, General Manager, Group Finance Division Phone: 03-5745-3611
Scheduled date of annual shareholders' meeting: March 29, 2018 Scheduled start date of dividend payment: March 30, 2018
Scheduled submission date of securities report: March 30, 2018
Supplementary materials for financial results: Prepared
Financial results briefing: Held

(Rounded down to the nearest million yen)

1. Consolidated performance in fiscal 2017 (January 1, 2017–December 31, 2017)

(1) Consolidated business results (% represents year-on-year change)

	Revenue		Operating income		Ordinary income		Net income attributable to owners of parent	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
FY 2017	82,602	18.3	2,224	15.9	1,921	(4.2)	1,011	35 6
FY 2016	69,815	9.0	1,919	18.4	2,004	68.2	745	1790

Note: Comprehensive income: FY 2017: ¥1,161 million (45.6%) FY 2016: ¥797million (— %)

	Net income per share	Diluted net income per share	Return on equity (ROE)	Ordinary income to total assets ratio	Operating income to revenue ratio
	Yen	Yen	%	%	%
FY 2017	43.95	43.44	6.3	4.2	2.7
FY 2016	28.81	28.64	4.5	4.8	2.7

Reference: Equity in earnings (losses) of affiliates: FY 2017: (¥271 million) FY 2016: (¥169 million)

(2) Consolidated financial position

	Total assets	Net assets	Capital-to-asset ratio	Net assets per share
	Yen in millions	Yen in millions	%	Yen
FY 2017	46,127	18,813	33.0	672.87
FY 2016	46,325	19,720	36.1	643.89

Reference: Capital: FY 2017: ¥15,218 million FY 2016: ¥16,708 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalents, end of year
	Yen in millions	Yen in millions	Yen in millions	Yen in millions
FY 2017	2,047	(1,883)	(2,973)	15,417
FY 2016	1,134	(88)	6,860	18,234

2. Dividends

	Annual dividend per share					Total dividends (annual)	Payout ratio (consolidated)	Dividends to net assets ratio (consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total			
	Yen	Yen	Yen	Yen	Yen	Yen in millions	%	%
FY 2017	—	0.00	—	16.00	16.00	415	55.7	2.1
FY 2016	—	0.00	—	12.00	12.00	271	27.3	1.8
FY ending Dec. 31, 2018 (forecast)	—	0.00	—	—	—		—	

・ The forecast of the year-end dividend for FY2018 is yet to be determined.

3. Consolidated business forecasts for fiscal 2018 (January 1, 2018–December 31, 2018)

(% represents year-on-year change)

	Revenue		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
Interim	—	—	—	—	—	—	—	—	—
Full fiscal year	91,000	10.2	2,100	(5.6)	1,500	(21.9)	600	(40.7)	26.53

Note: Since the Company manages its performance on an annual basis, the interim forecast is omitted.
For more information, see Subsection (4) "Future outlook" under Section 1 "Summary of business results, etc." on Page 5 of the attachment to this Flash Report.

Reference:
· EBIT (*1) Forecast for FY 2018: ¥1,600 million
· EBITDA (*2) Forecast for FY 2018: ¥3,500 million
*1: EBIT = Net income before taxes and other adjustments + Interest expenses – Interest income
*2: EBITDA = EBIT + Other financial-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash items

* Notes:

(1) Changes in major subsidiaries (changes in specified subsidiaries involving changes in the scope of consolidation) during the fiscal year under review: None

# of subsidiaries newly included: 0 # of subsidiaries excluded: 0

(2) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

(i) Changes in accounting policies arising from amendments to accounting standards, etc.: None

(ii) Other changes in accounting policies: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatements: None

(3) Outstanding (common) shares

(i) Outstanding shares (including treasury stock) at end of period	FY 2017	23,817,700 shares	FY 2016	30,089,600 shares
(ii) Treasury stock at end of period	FY 2017	1,200,062 shares	FY 2016	4,140,000 shares
(iii) Average of outstanding during period	FY 2017	23,005,100 shares	FY 2016	25,875,992 shares

* Flash reports are not subject to audits.

* Explanation about proper use of business forecasts and other special instructions

The business forecasts and other forward-looking statements contained in this material are based on the information currently available to the Company and certain assumptions deemed to be reasonable, and actual business results and the like may substantially differ due to various factors. For the assumptions serving as a basis of the business forecasts and for the instructions for the use of the business results, see Subsection (4) “Future outlook” under Section 1 “Summary of business results, etc.” on Page 5 of the attachment.

○ Attachment: Table of Contents

1. Summary of business results, etc.

(1) Consolidated business results in the period under review

The expanse of the Internet - the business domain of OPT Group - to date has spawned a plethora of services revolutionizing society, and the digital industrial revolution is expected to keep evolving with undiminished vigor. In this environment, the Group has built up a 1,600-plus pool of human capital, several thousand clients, sales networks in Japan and overseas, and a wealth of knowhow in the digital realm, creating frameworks that enable the Group to advance in great strides in the digital industrial revolution predicted to unfold in the time ahead. We will put these assets of OPT Group to active use as we continue to support the digital shift of our clients and take up the challenges of new value creation. Moreover, every employee of OPT Group, acting as their own CEO, is held to execute a distinctive practice of independent decision-making, implementation, engagement, and closure, driven by the mission to support companies and people in overcoming the challenges of achieving growth, bring about epoch-changing innovation, and serve as engines of future global prosperity.

OPT Group has three business segments comprised of the Marketing Business, the Investment & Incubation Business, and the Overseas Business. Among them the Marketing Business forms the Group's mainstay, rooted in the Internet advertising market which ranks second only to TV advertising with a market size ahead of one trillion yen in 2016, and is seen to keep growing at a fast pace. The reason for this growth has been brand advertising sponsors' switching from TV and flier adverts to Internet advertising in the slipstream of the rapidly evolving global shift to digital media. Prospects are for this high growth to continue. In this environment, we have been supporting clients' advertising and sales efforts through Internet advertising and have been providing clients with digital marketing and digital learning offerings. Moreover, in order to revolutionize the digital sphere, we have been continuously creating new services and engaged in initiatives to deploy marketing knowhow gained in Japan also in Southeast Asia, spearheaded by our activities in Korea. Meanwhile, the Investment & Incubation Business, proactively using the knowhow accumulated to date in the Internet sphere, promotes venture company and new business investment as corporate venture capital with "sharing economy, direct trading, and disruptive technologies" as investment themes, provides information at the vanguard of the digital sphere, and supports the creation of new services and industries, aiming to contribute to next-generation social prosperity.

As a result of these efforts, in the period under review OPT Group posted sales revenues of ¥82,602 million (up 18.3 percent compared with the previous consolidated fiscal year) , with operating income of ¥2,224 million (up 15.9 percent compared with the previous consolidated fiscal year) , ordinary income of ¥1,921 million (up 4.2 percent compared with the previous consolidated fiscal year) , and with ¥1,011 million in net income (up 35.6 percent compared with the previous consolidated fiscal year) attributable to shareholders of the parent company.

Performances by segment developed as follows.

Marketing Business

The Marketing Business has been centered on the growth formula of "Marketing Value Chain × Integrated Marketing" with the objective of helping clients maximize their ROI from digital marketing. To this end, the Marketing Business segment engages in sales of Internet advertising, specifically managed advertising – our field of excellence – as well as video distribution and production, advertisement production, website development, SEO solution services, and the gamut of marketing support solutions. Incidentally, we have been proactively recruiting engineers to address the groundbreaking changes emerging in recent years in the marketing surrounding distribution channels. This has entailed the formation of an organization of engineers dedicated to the development of solutions tailored to clients' needs, centered on advertising technology (Ad Technology), and the advancement of general support for clients' digital shift in Japan.

In the period under review, we have implemented a strategic framework separation for large clients centered on the Tokyo metropolitan area from local and SME clients, while strengthening new client development. These efforts have yielded an increase in brand advertising sponsors while benefiting the retention of existing customers. As a result, sales revenues in the period under review rose 16.3 percent compared with the previous consolidated fiscal year, outpacing market growth.

For the large-client category, a dedicated development team was formed, with OPT, Inc. at the core and centered on the Tokyo metropolitan area, followed by the implementation of proactive sales efforts. Additionally, along with hosting corporate-oriented seminars on the latest in digital marketing, clients responded favorably to our propositions combining the knowledge of OPT with solutions tailored to fit clients' digital-shift support requirements, resulting in a large increase in handling volume. In managed advertising – a field of excellence of OPT – we implemented data management in accordance with client attributes, involving the integrated management of OPT proprietary measuring tools and metrics such as data obtained from media sources. This has enhanced the performance of our managed advertising while the built-up trust in our services has benefited the retention of existing clients.

In the local and SME client category, we have likewise implemented aggressive sales activities at sales offices throughout Japan centered on Soldout, Inc. (securities code 6553), the subsidiary charged with this client category. Together with strengthened cooperation with Yahoo! Japan Corp. and the activities of LISKUL (owned-media operated by Soldout, Inc.), these efforts yielded strong growth in the number of local and SME clients. Incidentally, in the "Growing Businesses Online Segment (Note 1) " of the Google Premier Partner Awards, OPT was awarded the highest distinction of excellence in Japan, marking the top rank among six awardee companies in Japan, thus reflecting our significant contribution to the growth of our clients and the enlargement of the local and SME market through the proactive use of the Internet.

As a result of these efforts, sales revenues in the period under review increased to ¥79,459 million (up 16.3 percent compared with the previous consolidated fiscal year), with operating income of ¥3,487 million (up 30.7 percent compared with the previous consolidated fiscal year).

Note 1: The award that distinguishes the "Agency best qualified to enlarge online sales through customer digital support" in the Google Ad Words agency global contest (honoring the agency with the most outstanding performance among Premia Google Partners).

Investment & Incubation Business

The Investment & Incubation Business engages in launching businesses with the focus on the acquisition of capital gains from investments in venture business and the creation of platforms for generating sustained income streams from new businesses, reflecting the medium and long-term strategy of OPT Group.

To this end, the corporate venture capital business works to identify investment targets through activities that utilize the knowledge and human networks of OPT Group and aids the growth of investees through the application of management resources of OPT Group, accompanied by efforts to raise investees' enterprise value to an IRR target of at least 20 percent.

In the period under review, the Investment & Incubation Business invested a total of ¥2.2 billion in the equity of seven companies in digital business fields – such as Candee Co., Ltd. engaged mainly in video marketing support and video "infomercials" featuring opinion leaders – raising current equity investments to around ¥6 billion. Divestiture gains are again reinvested in businesses in order to accelerate the growth of OPT Group.

Investments in new businesses are intended to create platforms for generating sustained income streams to supplement the medium and long-term strategies of OPT Group. Thus, newly-established OPT Works, Inc., in the second quarter of the period under review, initiated recruitment services specializing in highly trained data scientists, engineers, and other personnel working at the vanguard of advancing companies' AI and big data application, and has been building a platform for the full-scale entry into AI fields that involve the use of data scientists. Likewise, newly consolidated subsidiary OPT Incubate, Inc., engages in incubation activities such as Internet-related new business development and business operations support. In this way, the Group has been working to build a systematic organization for the launch of new businesses.

As a result of these efforts, sales revenues in the period under review increased to ¥174 million (up 229.6 percent compared with the previous consolidated fiscal year), with an operating loss of ¥766 million (compared with an operating loss of ¥179 million in the previous consolidated fiscal year).

Overseas Business

The Overseas Business offers Internet advertising services in Korea and Singapore, overseas business development research and support in Southeast Asia, and information collection services in the US.

In the period under review, Korean domestic Internet advertising service provider eMFORCE Inc. has been showing steady performance on the back of rising demand for Internet advertising in Korea. Sales revenues increased 53.6 percent compared with the previous consolidated fiscal year, with operating income posting a strong 37.3-percent rise compared with the previous consolidated fiscal year. Notably, however, marketing support in Southeast Asia is in a phase of forward-pointing investment in a move to create platforms for growth.

As a result of these efforts, sales revenues in the period under review increased to ¥3,026 million (up 104.4 percent compared with the previous consolidated fiscal year), with an operating loss of ¥25 million (compared with an operating loss of ¥96 million in the previous consolidated fiscal year).

Other operations

Sales revenues in the period under review fell to ¥445 million (down 0.8 percent compared with the previous consolidated fiscal year) while operating income increased to ¥271 million (up 129.4 percent compared with the previous consolidated fiscal year).

(2) Overview of financial position in fiscal year under review

Assets:

The total assets at the end of the fiscal year under review decreased by ¥197 million from a year earlier to ¥46,127 million.

Current assets were ¥36,284 million, a decrease of ¥666 million from a year earlier. This is mainly because of the decrease of ¥1,018 million in cash and deposits due to the stock repurchase of ¥2,868 million, and the decrease of ¥1,999 million in securities due to the redemption of commercial paper, despite the growth of ¥1,448 million in notes and accounts receivable-trade arising from the increased transaction volume in Marketing Business, the growth of ¥187 million in operational investment securities due to investments in the Investment & Incubation Business, and the growth of ¥329 million in other current assets due to the forward stock transaction of the Company's own shares.

Noncurrent assets were ¥9,843 million, an increase of ¥469 million from a year earlier. This is mainly because of the growth of ¥742 million in lease and guarantee deposits due to the initial deposit made for the forward stock transaction of the Company's own shares and the growth of ¥473 million in other intangible assets due to the development of solutions in the Marketing Business, despite the decrease of ¥411 million in investment securities due to the loss on investments in partnership, and the decrease of ¥303 million in goodwill due to the amortization of goodwill.

Liabilities:

The liabilities at the end of the fiscal year under review increased by ¥710 million from a year earlier to ¥27,314 million.

Current liabilities were ¥21,965 million, an increase of ¥5,679 million from a year earlier. This is mainly because of the rise of ¥1,644 million in notes and accounts payable-trade arising from the increased transaction volume in the Marketing Business and the rise of ¥3,927 million in current portion of long-term loans payable due to the transfer from the long-term loans payable.

Noncurrent liabilities were ¥5,349 million, a decrease of ¥4,969 million from a year earlier. This is mainly because of the decrease of ¥4,887 million in long-term loans payable due to the transfer to the current portion of long-term loans payable.

Net assets:

The total net assets at the end of the fiscal year under review decreased by ¥907 million from a year earlier to ¥18,813 million.

This is mainly because of the decrease of ¥4,260 million in capital surplus and the decrease of ¥2,235 million in treasury stock (increase in net assets) due to the stock repurchase and retirement of treasury stock, and the decrease of ¥415 million in retained earnings due to the payment of dividends from surplus, in addition to the increase of ¥1,011 million due to the net income attributable to owners of parent in the fiscal year under review, and the increase of ¥587 million in non-controlling interests due to the allocation of new shares to third parties in association with the listing of the shares of SoldOut, Inc, a subsidiary of the Company.

(3) Overview of cash flows in fiscal year under review

The cash and cash equivalents (hereinafter referred to as "Cash") at the end of the fiscal year under review decreased by ¥2,816 million from a year earlier (¥18,234 million) to ¥15,417 million because the Cash spent in investing activities and the Cash spent in financial activities exceeded the Cash earned in operating activities during the fiscal year.

The status of each category of cash flows in the fiscal year under review and major factors are as follows.

Cash flows from operating activities

The increase in Cash from operating activities was ¥2,047 million (cf., increase of ¥1,134 million in the previous fiscal year).

This is mainly because of the recognition of ¥2,058 million as net income before taxes and other adjustments and the recognition of ¥771 million as depreciation and the growth of ¥2,292 million in notes and accounts payable-trade due to increased transactions, despite the growth of ¥2,156 million in accounts receivable due to increased transactions and the recognition of ¥468 million as gain on valuation of derivatives.

Cash flows from investing activities

The decrease in Cash from investing activities was ¥1,883 million (cf., decrease of ¥88 million in the previous fiscal year).

This is mainly because of the outflow of ¥3,756 million due to the lease and guarantee deposits made in connection with the forward stock transaction of the Company's own shares, the outflow of ¥1,214 million due to the acquisition of property, plant and equipment and intangible assets arising from the solution development centering on the ad technology, and the outflow of ¥524 million due to the acquisition of investment securities in association with the investments in investment funds in the United States, despite the inflow of ¥3,013 million from the lease and guarantee deposits refunded in connection with the forward stock transaction of the Company's own shares.

Cash flows from financial activities

The decrease in Cash from financial activities was ¥2,973 million (cf., increase of ¥6,860 million in the previous fiscal year).

This is mainly because of the outflow of ¥2,868 million due to the stock repurchase, the outflow of ¥416 million due to the dividend payments, and the outflow of ¥2,672 million due to the repayment of long-term loans payable, despite the inflow of ¥1,650 million due to the proceeds from long-term loans payable and the inflow of ¥1,510 million due to the proceeds from stock issuance to non-controlling shareholders.

(4) Future outlook

The Internet advertising market as the major business domain of OPT Group is expected to keep growing at a fast pace due to the significant expanse of demand in the Internet advertising, which will be brought about by the full-fledged digital shift in brand advertisers and local and SME entities, in addition to the continued growth of the acquisition-type advertising that has led the growth of the market to date.

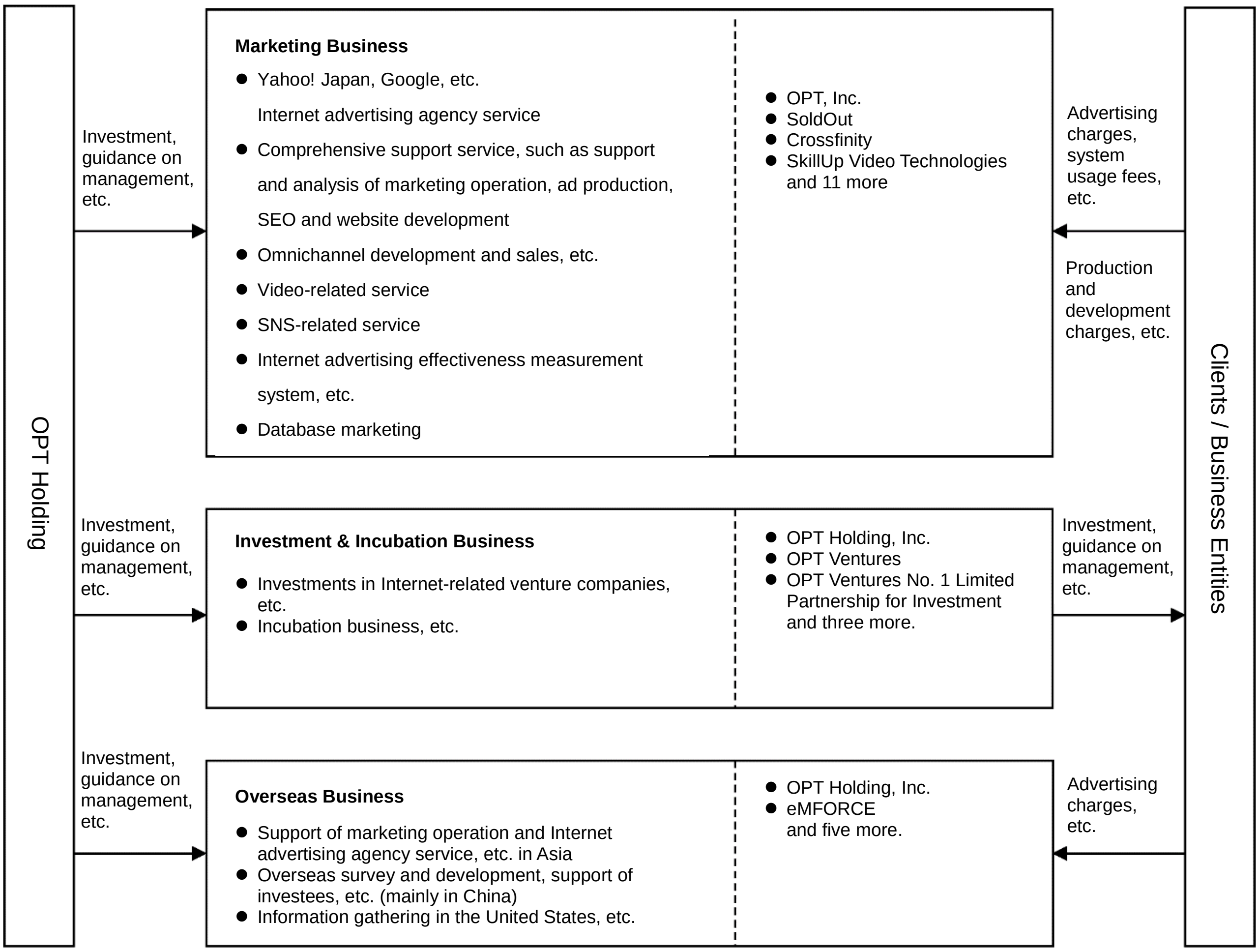
Under these circumstances, OPT Group will, in response to the further accelerating digital shift in the future, focus on: (1) support of digital shift in advertising, (2) support of digital shift within an entity (digital marketing, digital learning), and (3) creation of new businesses in the digital sphere, as a medium- and long-term policy, in order to become a key player in supporting the digital shift. In connection with this, the Group changed its business segmentation into two segments, Marketing Business and Investment & Incubation Business for the fiscal year ending December 31, 2018 onwards to focus on the digital support for business entities and the creation of new digital businesses.

In terms of the business forecast for the fiscal year ending December 31, 2018, we expect that the Company’s consolidated revenue will keep growing through the continued growth of the Internet advertising market and the projected revenue is ¥91,000 million, 10.2% up from a year earlier. (The Company’s consolidated subsidiary, Classified, Inc. is excluded from the scope of consolidation as a result of the share transfer to Yahoo Japan Corporation on December 26, 2017. If the impact of such exclusion is taken into account, the growth rate will be 19.2% from a year earlier, higher than the market.) On the other hand, the projected operating income is ¥2,100 million, 5.6% down from a year earlier because we have reflected the proactive investments in human resources and businesses for medium- and long-term growth and creation of new digital businesses, as well as the cost for the introduction of share-price-based compensation to achieve the medium- and long-term goal. The projected net income attributable to owners of parent is ¥600 million, 40.7% down from a year earlier due to the temporary profits including the gain on valuation of derivatives from the forward stock transaction of the Company’s own shares and the inclusion of investment securities in deductible expenses in fiscal 2017.

Please note that the projected figures provided above are based on the information currently available, and actual business results and the like may substantially differ due to various uncertainties.

2. Corporate group

As of the end of the fiscal year under review, OPT Group consisted of OPT Holding, Inc. and 27 consolidated subsidiaries, and engaged in: (i) Marketing Business, supporting clients' marketing activities in general, such as sales and production of Internet advertising, website development, SEO services, provision of solutions to support marketing, omnichannel development, and database marketing; (ii) Investment & Incubation Business, investing in Internet-related venture companies; and (iii) Overseas Business, primarily selling Internet advertising, collecting information and supporting investees in foreign countries.



3. Basic policy on selection of accounting standards

The Japanese accounting standards are high-quality and world-class standards as a result of the convergence with the International Financial Reporting Standards (IFRS) and are assessed by Europe as an equivalent to the IFRS. Consequently, OPT Group has decided to adopt the Japan GAAP.

Please note that OPT Group has already started some efforts in preparation for the future adoption of the IFRS, such as acquisition of knowledge about the IFRS, analysis on the gap between the Japan GAAP and the IFRS, and survey on the impact of introduction. However, when to adopt the IFRS is yet to be determined.

4. Consolidated financial statements and major notes thereto

(1) Consolidated balance sheets

(Yen in thousands)

	FY 2016 (December 31, 2016)	FY 2017 (December 31, 2017)
Assets		
Assets		
Cash and deposits	16,771,468	15,753,327
Notes and accounts receivable-trade	11,440,621	12,888,753
Securities	1,999,373	—
Operational investment securities	5,410,534	5,597,559
Inventories	48,875	121,051
Deferred tax assets	385,435	509,631
Other	1,149,455	1,478,588
Allowance for doubtful accounts	(254,938)	(64,597)
Total current assets	36,950,824	36,284,315
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	396,594	411,604
Accumulated depreciation	(224,910)	(251,392)
Buildings and structures, net	171,684	160,211
Lease assets	371,561	356,805
Accumulated depreciation	(229,227)	(278,755)
Lease assets, net	142,334	78,050
Other	832,137	786,402
Accumulated depreciation	(525,879)	(560,311)
Other, net	306,258	226,091
Total property, plant and equipment	620,276	464,352
Intangible assets		
Goodwill	1,317,629	1,013,891
Other	1,749,013	2,222,152
Total intangible assets	3,066,642	3,236,044
Investments and other assets		
Investment securities	4,461,159	4,049,558
Lease and guarantee deposits	851,495	1,593,798
Other	1,038,891	567,633
Allowance for doubtful accounts	(664,208)	(67,861)
Total investments and other assets	5,687,337	6,143,129
Total noncurrent assets	9,374,257	9,843,526
Total assets	46,325,081	46,127,842

(Yen in thousands)

	FY 2016 (December 31, 2016)	FY 2017 (December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,307,034	10,951,798
Short-term loans payable	230,000	49,200
Current portion of long-term loans payable	2,556,387	6,483,531
Income taxes payable	920,205	432,899
Provision for bonuses	393,659	568,617
Other	2,878,276	3,478,991
Total current liabilities	16,285,563	21,965,038
Noncurrent liabilities		
Long-term loans payable	9,880,022	4,992,297
Liabilities on retirement benefits	173,581	161,448
Deferred tax liabilities	64,386	73,887
Asset retirement obligations	110,119	116,888
Other	90,900	5,122
Total noncurrent liabilities	10,319,009	5,349,644
Total liabilities	26,604,572	27,314,683
Net assets		
Shareholders' equity		
Capital stock	7,684,034	7,835,926
Capital surplus	7,827,715	3,567,434
Retained earnings	3,838,251	4,214,070
Treasury stock	(3,148,046)	(912,886)
Total shareholders' equity	16,201,954	14,704,545
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,427	(1,389)
Foreign currency translation adjustment	502,201	515,583
Total accumulated other comprehensive income	506,629	514,193
Subscription rights to shares	6,164	1,244
Non-controlling interests	3,005,759	3,593,175
Total net assets	19,720,508	18,813,159
Total liabilities and net assets	46,325,081	46,127,842

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income:

(Yen in thousands)

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Revenue	69,815,591	82,602,185
Cost of sales	55,410,131	66,197,735
Gross profit	14,405,460	16,404,449
Selling, general and administrative expenses		
Salaries and allowances	5,863,509	6,738,681
Bonuses	324,967	334,130
Provision for bonuses	322,510	462,160
Legal welfare expenses	743,220	837,698
Depreciation	294,567	290,618
Provision of allowance for doubtful accounts	38,554	(48,591)
Amortization of goodwill	331,541	338,366
Other	4,567,499	5,227,384
Total selling, general and administrative expenses	12,486,370	14,180,448
Operating income	1,919,089	2,224,001
Non-operating income		
Interest income	7,099	6,419
Dividends income	95,125	44
Foreign exchange gains	107,623	―
Gain on investments in partnership	75,063	―
Gain on valuation of derivatives	―	468,153
Other	59,187	23,142
Total non-operating income	344,099	497,759
Non-operating expenses		
Interest expenses	30,403	39,470
Commission fee	28,000	15,440
Loss on investments in partnership	―	363,668
Equity in losses of affiliates	169,861	271,315
Provision of allowance for doubtful accounts	11,400	17,327
Other	18,731	92,955
Total non-operating expenses	258,396	800,178
Ordinary income	2,004,793	1,921,582
Extraordinary income		
Gain on sales of noncurrent assets	3,083	23
Gain on sales of investment securities	532,206	458,837
Gain on reversal of subscription rights to shares	719	2,397
Other	2,078	―
Total extraordinary income	538,087	461,258

(Yen in thousands)

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Extraordinary loss		
Loss on retirement of noncurrent assets	126,660	18,338
Impairment loss	129,522	2,704
Loss on valuation of investment securities	390,719	17,773
Loss on sales of investment securities	8,187	19,599
Loss on cancellation of joint-venture contracts	―	257,810
Other	5,902	8,376
Total extraordinary losses	660,991	324,603
Net income before taxes and other adjustments	1,881,889	2,058,237
Income taxes-current	1,124,419	1,122,023
Income taxes-deferred	(193,722)	(215,647)
Total income taxes	930,696	906,376
Net income	951,192	1,151,861
Net income attributable to non-controlling interests	205,580	140,773
Net income attributable to owners of parent	745,611	1,011,088

Consolidated statements of comprehensive income:

(Yen in thousands)

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Net income	951,192	1,151,861
Other comprehensive income		
Valuation difference on available-for-sale securities	(14,492)	(7,461)
Foreign currency translation adjustment	(125,174)	(4,294)
Share of other comprehensive income of associates accounted for using equity method	(13,691)	21,260
Total other comprehensive income	(153,358)	9,504
Comprehensive income	797,833	1,161,365
Breakdown:		
Comprehensive income attributable to owners of the parent	594,478	1,018,651
Comprehensive income attributable to non-controlling interests	203,355	142,713

(3) Consolidated statements of changes in net assets

FY 2016 (from January 1, 2016 to December 31, 2016)

(Yen in thousands)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	7,645,948	7,740,278	3,275,303	(3,148,046)	15,513,483
Cumulative effect of changes in accounting policies		(420,795)	242,415		(178,379)
Balance at beginning of year reflecting changes in accounting policies	7,645,948	7,319,483	3,517,718	(3,148,046)	15,335,104
Changes of items during the period					
Issuance of new shares	38,086	38,086			76,172
Dividends from surplus			(335,920)		(335,920)
Net income attributable to owners of parent			745,611		745,611
Changes in ownership interest in subsidiaries		470,146			470,146
Change in scope of consolidation			(39,664)		(39,664)
Change of scope of equity method			(49,494)		(49,494)
Net changes of items other than shareholders' equity					
Total changes of items during the period	38,086	508,232	320,532	—	866,850
Balance at end of year	7,684,034	7,827,715	3,838,251	(3,148,046)	16,201,954

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of year	17,482	640,280	657,762	5,824	1,432,390	17,609,461
Cumulative effect of changes in accounting policies		317	317			(178,061)
Balance at beginning of year reflecting changes in accounting policies	17,482	640,598	658,080	5,824	1,432,390	17,431,399
Changes of items during the period						
Issuance of new shares						76,172
Dividends from surplus						(335,920)
Net income attributable to owners of parent						745,611
Changes in ownership interest in subsidiaries						470,146
Change in scope of consolidation						(39,664)
Change of scope of equity method						(49,494)
Net changes of items other than shareholders' equity	(13,054)	(138,396)	(151,450)	340	1,573,368	1,422,258
Total changes of items during the period	(13,054)	(138,396)	(151,450)	340	1,573,368	2,289,109
Balance at end of year	4,427	502,201	506,629	6,164	3,005,759	19,720,508

FY 2017 (from January 1, 2017 to December 31, 2017)

(Yen in thousands)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	7,684,034	7,827,715	3,838,251	(3,148,046)	16,201,954
Changes of items during the period					
Issuance of new shares	151,892	151,892			303,784
Dividends from surplus			(415,193)		(415,193)
Net income attributable to owners of parent			1,011,088		1,011,088
Stock repurchase				(2,868,273)	(2,868,273)
Retirement of treasury stock		(4,882,871)	(220,562)	5,103,433	―
Changes in ownership interest in subsidiaries		470,698			470,698
Change in scope of consolidation			486		486
Net changes of items other than shareholders' equity					
Total changes of items during the period	151,892	(4,260,280)	375,819	2,235,159	(1,497,409)
Balance at end of year	7,835,926	3,567,434	4,214,070	(912,886)	14,704,545

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	4,427	502,201	506,629	6,164	3,005,759	19,720,508
Changes of items during the period						
Issuance of new shares						303,784
Dividends from surplus						(415,193)
Net income attributable to owners of parent						1,011,088
Stock repurchase						(2,868,273)
Retirement of treasury stock						―
Changes in ownership interest in subsidiaries						470,698
Change in scope of consolidation						486
Net changes of items other than shareholders' equity	(5,817)	13,381	7,563	(4,920)	587,416	590,059
Total changes of items during the period	(5,817)	13,381	7,563	(4,920)	587,416	(907,349)
Balance at end of period	(1,389)	515,583	514,193	1,244	3,593,175	18,813,159

(4) Consolidated statements of cash flows

(Yen in thousands)

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Net income before taxes and other adjustments	1,881,889	2,058,237
Depreciation	659,794	771,594
Amortization of goodwill	331,541	338,366
Increase (decrease) in allowance for doubtful accounts	40,089	(754,646)
Increase (decrease) in provision for bonuses	80,992	176,977
Increase (decrease) in liabilities on retirement benefits	26,285	(26,426)
Interest and dividends income	(102,225)	(6,463)
Interest expenses	30,403	39,470
Equity in (earnings) losses of affiliates	169,861	271,315
Loss (gain) on investments in partnership	(75,063)	363,668
Loss (gain) on valuation of investment securities	390,719	17,773
Loss (gain) on sales of investment securities	(524,019)	(439,237)
Loss (gain) on valuation of derivatives	—	(468,153)
Impairment loss	129,522	2,704
Loss on retirement of noncurrent assets	126,660	18,338
Decrease (increase) in notes and accounts receivable-trade	(1,569,880)	(2,156,424)
Decrease (increase) in operational investment securities	(1,177,239)	(195,383)
Decrease (increase) in long-term accounts receivable-other	2,198	548,788
Increase (decrease) in notes and accounts payable-trade	1,287,228	2,292,320
Increase (decrease) in accrued consumption taxes	(346,194)	619,414
Other	236,644	217,965
Subtotal	1,599,208	3,690,199
Interest and dividends income received	101,310	5,119
Interest expenses paid	(29,440)	(39,670)
Income taxes paid	(821,549)	(1,623,201)
Income taxes refund	285,220	14,964
Cash flows from operating activities	1,134,747	2,047,411
Cash flows from investing activities		
Payments into time deposits	(482,831)	(29,792)
Proceeds from withdrawal of time deposits	455,386	205,326
Purchase of property, plant and equipment	(245,996)	(68,462)
Purchase of intangible assets	(989,846)	(1,146,018)
Increase (decrease) in trade and other payables	(12,898)	—
Purchase of investment securities	(521,440)	(524,537)
Proceeds from sale of investment securities	819,183	52,853
Proceeds from redemption of investment securities	793,215	150,811
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	56,888
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	—	131,038
Payments for leasehold deposits and guarantee deposits	(6,486)	(3,756,221)
Proceeds from collection of leasehold deposits and guarantee deposits	63,749	3,013,131
Payments of loans receivable	(116,918)	(105,270)
Collection of loans receivable	155,599	118,294
Other	1,022	18,728
Cash flows from investing activities	(88,262)	(1,883,229)

(Yen in thousands)

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Cash flows from financial activities		
Net increase (decrease) in short-term loans payable	(430,000)	(180,800)
Proceeds from long-term loans payable	6,500,000	1,650,000
Repayment of long-term loans payable	(986,395)	(2,672,051)
Proceeds from issuance of common stock	75,624	301,599
Proceeds from stock issuance to non-controlling shareholders	1,246,070	1,510,708
Repayments of finance lease obligations	(62,311)	(62,429)
Stock repurchase	—	(2,868,273)
Purchase of treasury stock of subsidiaries in consolidation	—	(110,000)
Cash dividends paid	(337,985)	(416,899)
Cash dividends paid to non-controlling shareholders	(27,998)	(47,791)
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	(39,508)	(74,509)
Proceeds from sale of investments in subsidiaries not resulting in change in scope of consolidation	935,154	—
Other	(12,547)	(2,564)
Cash flows from financial activities	6,860,102	(2,973,012)
Effect of exchange rate change on cash and cash equivalents	102,970	(8,083)
Net increase (decrease) in cash and cash equivalents	8,009,559	(2,816,913)
Cash and cash equivalents at beginning of period	10,136,632	18,234,074
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	87,883	—
Cash and cash equivalents at end of period	18,234,074	15,417,161

(5) Notes to consolidated financial statements

Notes on going concern assumptions:

Not applicable.

Significant matters for preparing consolidated financial statements:

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 27 consolidated subsidiaries.

Names of consolidated subsidiaries:

OPT, Inc.
Soldout, Inc.
Crossfinity, Inc.
s1o Interactive, Inc.
SearchLIFE Co., Ltd.
SkillUp Video Technologies Corporation
ConnectOm, Inc.
Writeup Co., Ltd.
Grooover, inc.
Platform ID, Inc.
Consumer first, Inc.
TechLoCo, Inc.
Growth Gear Co., Ltd.
brainy, Inc.
NETMARKE, Inc.
OPT Ventures, Inc.
OPT Ventures No. 1 Limited Partnership for Investment
OPT Growth Partners, Inc.
OPT Works, Inc.
OPT Incubate Inc.
OPT America, Inc.
eMFORCE Inc.
OPT SEA Pte., Ltd.
grasia Pte., Ltd.
grasia Bangkok Co., Ltd.
Tokyo Gets Co., Ltd.
Multimedia School WAVE, Inc.

Since brainy, Inc., NETMARKE, Inc. and OPT Works, Inc. were newly established during the fiscal year under review, they are included in the scope of consolidation.

Tokyo Gets Co., Ltd. is included in the scope of consolidation from the fiscal year under review as we acquired its shares in February 2017.

OPT Incubate Inc. is changed from an equity method affiliate to a consolidated subsidiary from the fiscal year under review as we additionally acquired its shares.

Classified, Inc. is excluded from the scope of consolidation as we sold our stake in the company. In terms of Classified, Inc., only the statements of income and statements of cash flows before the decrease in the ownership ratio are consolidated.

(2) Major non-consolidated subsidiaries

OPT China Limited
Demand Side Science, Inc.

Reason why they are excluded from the scope of consolidation:

It is because non-consolidated subsidiaries are small companies and their total assets, revenue, net income (amount corresponding to the interests), retained earnings (amount corresponding to the interests), etc. do not have a significant impact on the consolidated financial statements.

2. Application of equity method

(1) Number of equity method affiliates: Four affiliates

Chai Communication Co., LTD.
GENERATE INC.
redfox, Inc.
Jimoty, Inc.

OPT Incubate Inc. is included in the scope of consolidation from the fiscal year under review as we additionally acquired its shares.

(2) Major non-consolidated subsidiaries and affiliates not subject to equity method

Non-consolidated subsidiaries:

OPT China Limited
Demand Side Science, Inc.

Affiliates:

Dot metrix, Inc.

Reason why they are not subject to equity method

These companies not subject to the equity method have a minor impact on the net income (amount corresponding to the interests and retained earnings (amount corresponding to the interests) and are less significant as a whole. Accordingly, they are excluded from the scope of application of the equity method.

(3) Special notes on procedures for application of equity method

Since the closing date of GENERATE INC., an equity method affiliate is March 31, we used the financial statements based on the provisional account closing on the consolidated closing date.

Other equity method affiliates have the same fiscal year ending at the consolidated closing date.

3. Fiscal years of consolidated subsidiaries

Since the closing date of Writeup Co., Ltd., a consolidated subsidiary is March 31, we used the financial statements based on the provisional account closing at the consolidated closing date in preparing the consolidated financial statements.

The closing dates of OPT SEA Pte., Ltd. and grasia Bangkok Co., Ltd. are November 30 and September 30, respectively. We used the financial statements at their respective closing dates. However, significant transactions between consolidated companies before the consolidated closing date are adjusted as required for consolidation.

Other consolidated subsidiaries have the same fiscal year ending at the consolidated closing date.

4. Matters on accounting policies

(a) Valuation standards and valuation method for significant assets

(a) Securities

Held-to-maturity bonds

The amortized cost method (straight-line method) is adopted.

Subsidiaries' and affiliates' stocks

The moving average cost method is adopted.

Available-for-sale securities (including operational investment securities)

Those with market value:

Subject to the market value method based on the market price or the like at the end of the period. (The related valuation differences are directly debited or credited to the net assets and the cost of securities sold is computed by the moving average method.)

Those without market value:

Subject to the moving average cost method.

Investment in limited partnership for investment or the like

Subject to the method where the amount equal to the Company's interests is added to, or subtracted from, the partnership's gains or losses based on the most recent financial statements available.

(b) Derivatives

The market value method based on the market price or the like at the end of the period is adopted.

(c) Inventories

Work in process

The identified cost method is mainly adopted. (The balance sheet value is computed subject to write-down due to decreased profitability.)

Supplies

The identified cost method is mainly adopted. (The balance sheet value is computed subject to write-down due to decreased profitability.)

(2) Depreciation/amortization method for significant depreciable/amortizable assets

(a) Property, plant and equipment (excluding lease assets)

Mainly subject to the declining-balance method.

However, the buildings (excluding equipment attached to buildings) acquired on or after April 1, 1998 and the equipment attached to buildings and structures acquired on or after April 1, 2016 are subject to the straight-line method.

The straight-line method is adopted by overseas consolidated subsidiaries.

Primary useful life is as indicated below.

Buildings and structures: 5 to 18 years.

(b) Intangible assets (excluding lease assets)

Subject to the straight-line method.

The software for internal use is subject to the straight-line method based on the period available for internal use (mainly, five years).

(c) Lease assets

Lease assets from non-ownership transfer finance lease transactions

Subject to the straight-line method where the lease term is the useful life, and the residual value is the guaranteed residual value if the relevant lease agreement stipulates residual value guarantee, or otherwise, residual value is zero.

(3) Standards for recognition of significant allowances

(a) Allowance for doubtful accounts

To prepare for losses from accounts receivable, uncollectible amounts are estimated and recognized, for ordinary receivables, by the actual bad debt ratio based on losses in the past, or for doubtful receivables and other certain receivables, by taking into consideration the collectability of individual accounts.

(b) Provision for bonuses

In terms of provision for bonuses, the part belonging to the fiscal year under review of the estimated amount to be paid to employees is recognized to prepare for payments of bonuses to employees.

(4) Accounting method pertaining to retirement benefits

To calculate liabilities on retirement benefits and retirement benefit expenses, some consolidated subsidiaries have adopted the simplified method, where the necessary amount to pay for voluntary retirement at the end of the period in connection with retirement benefits is regarded as retirement benefit obligations.

(5) Standards for translating significant assets or liabilities in a foreign currency into Japanese currency

The assets and liabilities of overseas subsidiaries are translated into the Japanese yen based on the spot exchange rate as of the closing date while their earnings and expenses are translated into the Japanese yen based on the average rate. The translation differences are included in and recognized as foreign currency translation adjustment and non-controlling interests under net assets.

(6) Amortization method and period for goodwill

Goodwill is regularly amortized over a reasonable period, which we estimate on a case-by-case basis as a duration, during which its effect arises and continues.

(7) Scope of Cash in consolidated statements of cash flows

The Cash (cash and cash equivalents) in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments, which are readily cashable, pose a minimum risk in changing value and are to be redeemed within three months from the date of acquisition.

(8) Other significant matters for preparing consolidated financial statements

(a) Accounting procedures for consumption taxes

The accounting procedures for national and local consumption taxes are subject to the tax-excluded method. Non-deductible national and local consumption taxes are expensed for the fiscal year under review.

(b) Application of consolidated tax payment system

The consolidated tax payment system is adopted by the Company and some of its consolidated subsidiaries.

Changes in presentation method

Consolidated balance sheets

For the fiscal year under review onwards, we decided to separate and independently indicate “lease and guarantee deposits,” which had been included in “other” of “investments and other assets” for the previous fiscal year, due to its growing significance in value. The consolidated financial statements for the previous fiscal year are rearranged in order to reflect this change in the presentation method.

As a result, the amount of ¥851,495 thousand of “other” of ¥1,890,387 thousand under “investments and other assets” in the consolidated balance sheets for the previous fiscal year is rearranged and indicated as “lease and guarantee deposits.”

Additional information

Application of Guidance on Recoverability of Deferred Tax Assets

“Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) is applied from the fiscal year under review.

Segment information

Segment information:

1. Overview of reportable segments

The reportable segments of OPT Group are, among the units making up OPT Group, those which can provide separate financial information, and are subject to the periodical review by the board of directors to determine the allocation of managerial resources and to evaluate business performance.

OPT Group sets its reportable segments by taking into account the similarity of markets and has three reportable segments: Marketing Business, Investment & Incubation Business, and Overseas Business.

The description of business of each reportable segment is as follows.

Business segment	Description of business
Marketing Business	Internet advertising-related services, data marketing, etc.
Investment & Incubation Business	Investments in Internet-related venture companies, etc.
Overseas Business	Advertising agency service in Asia, information gathering in the United States, etc.

2. Calculation methods for revenue, profit or loss, assets and other items of each reportable segment

The profit of a reportable segment is a figure based on operating income. The amounts of internal earnings and transfers between segments are basically based on the prevailing market price.

3. Information on revenue, profit or loss, assets and other items of each reportable segment
FY 2016 (from January 1, 2016 to December 31, 2016)

(Yen in thousands)

	Reportable segments				Others (Note 1)	Total	Adjustments (Note 2)	Amount recognized in consolidated financial statements (Note 3)
	Marketing Business	Investment & Incubation Business	Overseas Business	Subtotal				
Revenue								
Revenue to external customers	68,288,625	52,839	1,437,741	69,779,206	36,384	69,815,591	―	69,815,591
Net internal revenue or transfers between segments	6,038	―	42,899	48,938	412,468	461,406	(461,406)	―
Subtotal	68,294,663	52,839	1,480,641	69,828,144	448,852	70,276,997	(461,406)	69,815,591
Profit (loss) of segment	2,667,359	(179,220)	(96,470)	2,391,669	118,170	2,509,839	(590,749)	1,919,089
Segment assets	22,936,945	7,281,371	6,089,395	36,307,711	720,971	37,028,683	9,296,398	46,325,081
Other items								
Depreciation	466,017	158	15,940	482,116	1,043	483,160	176,634	659,794
Amortization of goodwill	327,908	―	3,633	331,541	―	331,541	―	331,541
Increase in property, plant and equipment, and intangible assets	1,126,191	762	31,071	1,158,025	312	1,158,337	62,330	1,220,668

Note: 1. “Others” are non-reportable segments including the Social and Consumer Business.
2. Adjustments are as follows.
(1) The adjustment amount of -¥590,749 thousand for segment profit (loss) includes the inter-segment elimination and corporate expenses not allocated to reportable segments.
(2) The adjustment amount of ¥9,296,398 thousand for segment assets is of corporate assets not allocated to reportable segments, which are mainly related to the administration unit of the parent company.
3. Segment profit (loss) is adjusted with the operating income in the consolidated statements of income.

FY 2017 (from January 1, 2017 to December 31, 2017)

(Yen in thousands)

	Reportable segments				Others (Note 1)	Total Marketing Business	Adjustments (Note 2) Investment & Incubation Business	Amount recognized in consolidated financial statements (Note 3) Overseas Business
	Marketing Business	Investment & Incubation Business	Overseas Business	Subtotal				
Revenue								
Revenue to external customers	79,434,303	174,143	2,984,749	82,593,196	8,988	82,602,185	—	82,602,185
Net internal revenue or transfers between segments	24,713	—	41,581	66,294	436,164	502,459	(502,459)	—
Subtotal	79,459,016	174,143	3,026,330	82,659,491	445,153	83,104,644	(502,459)	82,602,185
Profit (loss) of segment	3,487,014	(766,749)	(25,167)	2,695,097	271,066	2,966,164	(742,162)	2,224,001
Segment assets	25,265,756	6,914,414	7,162,788	39,342,959	743,698	40,086,657	6,041,184	46,127,842
Other items								
Depreciation	618,180	2,071	13,634	633,886	15,919	649,806	121,787	771,594
Amortization of goodwill	334,892	—	3,474	338,366	—	338,366	—	338,366
Increase in property, plant and equipment, and intangible assets	1,138,538	1,566	28,618	1,168,724	7,215	1,175,939	8,574	1,184,514

Note: 1. "Others" are non-reportable segments including the Social and Consumer Business.

2. Adjustments are as follows.

(1) The adjustment amount of -¥742,162 thousand for segment profit (loss) includes the inter-segment elimination and corporate expenses not allocated to reportable segments.

(2) The adjustment amount of ¥6,041,184 thousand for segment assets is of corporate assets not allocated to reportable segments, which are mainly related to the administration unit of the parent company.

3. Segment profit (loss) is adjusted with the operating income in the consolidated statements of income.

Per-share information

	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Net assets per share (yen)	643.89	672.87
Net income per share (yen)	28.81	43.95
Diluted net income per share (yen)	28.64	43.44

Notes: 1. The basis for calculation of net assets per share is as follows.

Item	FY 2016 (December 31, 2016)	FY 2017 (December 31, 2017)
Total net assets (yen in thousands)	19,720,508	18,813,159
Net assets related to common shares (yen in thousands)	16,708,584	15,218,738
Breakdown of difference (major items) Subscription rights to shares (yen in thousands) Non-controlling interests (yen in thousands)	 6,164 3,005,759	 1,244 3,593,175
Number of outstanding common shares	30,089,600	23,817,700
Number of treasury common shares	4,140,000	1,200,062
Number of common shares used in calculation of net assets per share	25,949,600	22,617,638

2. The bases for calculation of net income per share and diluted net income per share are as follows.

Item	FY 2016 (from January 1, 2016 to December 31, 2016)	FY 2017 (from January 1, 2017 to December 31, 2017)
Net income per share		
Net income attributable to owners of parent in consolidated statements of income (yen in thousands)	745,611	1,011,088
Amount not attributable to common shareholders (yen in thousands)	—	—
Net income attributable to owners of parent related to common shares (yen in thousands)	745,611	1,011,088
Average number of shares during the period	25,875,992	23,005,100
Diluted net income per share		
Adjustment to net income attributable to owners of parent (yen in thousands) Of the above, adjustment related to residual securities of consolidated subsidiaries (yen in thousands)	(4,108) (4,108)	(10,964) (10,964)
Number of increased common shares	11,691	19,339
Of the above, number of subscription rights to shares	11,691	19,339
Outline of residual securities not included in calculation of diluted net income per share due to lack of dilutive effect	Issued on April 12, 2006 Part 1 of the 5th round of subscription rights to shares 47,600 shar Five different types of subscription rights to shares issued by consolidated subsidiaries (11,710 subscription rights to shares)	Four different types of subscription rights to shares issued by consolidated subsidiaries (26,277 subscription rights to shares)

Material subsequent events

● Introduction of restricted stock compensation plan

At the meeting of the board of directors held on February 8, 2018, the Company reviewed its executive compensation system and decided to introduce a restricted stock compensation plan (hereinafter referred to as “Plan”), and resolved to submit a proposal on the Plan to the annual meeting of shareholders for the 25^{th} period to be held on March 29, 2018 (hereinafter referred to as “Shareholder Meeting”).

(1) Purpose to introduce the Plan

The Plan is a system which intends to provide the Company’s directors (here and hereinafter excluding those who are the audit committee members) with incentives for continued improvement of corporate value of the Company and to further share such value with its shareholders.

(2) Condition to introduce the Plan

Since the directors will be paid monetary claims as their compensation for the grant of restricted stock under the Plan, its introduction is subject to the approval of the Company’s shareholders on the payment of such compensation at the Shareholder Meeting.

At the 22^{nd} annual meeting of shareholders held on March 10, 2016, shareholders approved that the annual amount of compensation of the directors (excluding those who are the audit committee members) would be up to ¥200 million (not including the salary for the employee status of a director, who has duties in the capacity of an employee). At the Shareholder Meeting, the shareholders will be asked to approve the introduction of this new Plan and the setting of a limit for compensation to the directors in connection with the Plan.

(i) Overview of the Plan

The Plan is comprised of: (a) the “long-term stock compensation” as a medium- and long-term incentive for the promotion of shareholding by directors and the continued improvement in the Company’s corporate value, and (b) the “medium-term stock compensation” as an incentive to achieve the goal of the Company’s medium-term management plan announced today. With respect to the medium-term stock compensation, the amount of compensation corresponding to the consideration of the execution of duties during the target period of the medium-term management plan (hereinafter referred to as “Service Provision Period”) will be given in a lump sum in the first year of the said period as a general rule.

For a period between three and five years, which is defined by the Company’s board of directors (hereinafter referred to as “Transfer Restriction Period”), the directors shall not transfer, pledge, or otherwise dispose of, the Company’s common shares issued or disposed of in exchange for their payment of all the monetary compensation claims given by the Company under the Plan as properties contributed in kind (hereinafter referred to as “Restriction on Transfer”).

(ii) Upper limits of value of monetary compensation claims and number of shares granted

The total annual amount of monetary compensation claims given to directors under the Plan shall be up to ¥550 million (not including the salary for the employee status of a director, who has duties in the capacity of an employee) to the directors (excluding those who are audit committee members). With regard to the medium-term stock compensation of the said amount, however, the amount of compensation corresponding to the consideration of the execution of duties during the Service Provision Period will be given in a lump sum in the first year of the target period of the medium-management plan as a general rule, and therefore, the amount of the monetary compensation claims to the directors (excluding those who are audit committee members) is considered to be virtually up to ¥300 million per fiscal year. The specific payment time and allocation to individual directors will be determined by the board of directors.

Under the Plan, the total number of common shares newly issued or disposed of by the Company will be up to 360,000 shares per year (provided, however, that in the event of a split (including allotment without contribution) or reverse split of common shares of the Company, the effective date of which is on or after the date of the resolution at the Shareholder Meeting, the total number will be adjusted according to the split ratio, reverse split ratio, or the like on or after the effective date to a reasonable extent as required. With regard to the medium-term stock compensation of the shares granted, however, the shares corresponding to the consideration of the execution of duties during the Service Provision Period will be given in a lump sum in the first year of the target period of the medium-management plan as a general rule, and therefore, we are planning to grant such shares by ensuring that the number of shares granted to the directors (excluding those who are audit committee members) will be virtually up to 200,000 shares per fiscal year. The paid-in amount per share will be the closing price of the Company’s common shares at the Tokyo Stock Exchange on the business day preceding the date of the relevant resolution by the board of directors (if no such shares are traded on such day, the closing price on the immediately preceding day will be used.)

The issuance or disposal of the Company's common shares under the Plan (hereinafter referred to as "Shares") will be subject to the execution of a restricted stock allotment agreement between the Company and the director, to whom the stock compensation with Restriction on Transfer is to be paid, stipulating that: (a) the director shall not transfer to a third party, pledge, or otherwise dispose of, the Shares for a certain period; and (b) the Company will acquire the Shares without charge in certain circumstances. The Shares will be managed in a dedicated account to be opened by the relevant director with Nomura Securities Co., Ltd. so that the director will not be able to transfer, pledge, or otherwise dispose of, the Shares during the Transfer Restriction Period.

Under the Plan, the Company also intends to newly issue or dispose of its common shares by giving restricted stock compensation, which is the same as the one above-mentioned, to the directors of the subsidiaries of the Company and the employees of the Company and its subsidiaries, in addition to the directors of the Company, subject to resolution by the board of directors.

5. Others

(1) Changes in officers
Any changes in officers will be disclosed as soon as decisions are made.

(2) Others
Not applicable.