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(Securities code: 2389)

March 6, 2019

To our shareholders:

Noboru Hachimine
Founder, President and CEO
OPT Holding, Inc.
6, Yonbancho, Chiyoda-ku, Tokyo

Convocation Notice of the 25th General Meeting of Shareholders

You are cordially invited to attend the 25th General Meeting of Shareholders of OPT Holding, Inc. (the “Company”), which will be held as described below.

If you are unable to attend the meeting, you can exercise your voting rights by mailing the enclosed Voting Rights Exercise Form or via the Internet. Please refer to the Reference Documents for the General Meeting of Shareholders, and exercise your voting rights no later than 6 p.m., Wednesday, March 27, 2019 (JST).

- 1. Date and time:** Thursday, March 28, 2019 at 10:00 a.m. (JST)
- 2. Place:** Conference room, Head office, OPT Holding, Inc.
5th floor, 6 Yonbancho, Chiyoda-ku, Tokyo, Japan

3. Agenda of the Meeting:

Matters to be reported:

- I. The Business Report, the Consolidated Financial Statements, and the audit results of the Consolidated Financial Statements by the External Auditor and the Audit & Supervisory Committee of the Board for the 25th Fiscal Term (from January 1, 2018 to December 31, 2018) on OPT Holding consolidated basis..
- II. Report on the Non-Consolidated Financial Statements of OPT Holding Inc. for the 25th Fiscal Term (from January 1, 2018 to December 31, 2018).

Proposals to be resolved:

- Proposal:** Election of five (5) Directors (Excluding the Audit & Supervisory Committee members)

4. Instructions for Exercising Voting Rights

1 Exercising voting rights by paper form

To vote in writing, please indicate your approval or disapproval of the proposals on the enclosed Voting Rights Exercise Form, and return the Form by post to reach us by 6 p.m. (JST) on Wednesday, March 27, 2019.

2 Exercising voting rights via the Internet

To vote via the Internet, please refer to the “Voting Right Exercise Site (<https://www.net-vote.com/>)” (Japanese only) which are noted on the enclosed Voting Rights Exercise Form. Follow the instructions and indicate your approval or disapproval by 6 p.m. (JST) on Wednesday, March 27, 2019. If you want to use your smartphone, you can exercise your voting rights by using QR code (Please refer to the next page for details.)

3 Handling of duplicate voting

- (1) If you vote both in writing and via the Internet, we will treat the vote submitted via the Internet as valid..
- (2) If you vote both more than once via the Internet, we will treat the most recent vote as valid.

Request When attending the meeting in person, you are kindly requested to submit the enclosed voting rights exercise form to the receptionist at the meeting site. Please bring this Notice of the 25th Annual General Meeting of Shareholders with you to the meeting.

Notice The digital documents of the Convocation Notice of the General Meeting of Shareholders and the Reference Documents for the General Meeting of Shareholders are available on the Company’s website (<http://www.optholding.co.jp/>).

The English translated document of the Convocation Notice of the General Meeting of Shareholders and the Reference Documents for the General Meeting of Shareholders are made available on the Company’s website (<http://www.optholding.co.jp/en>).

Any amendments to the reference documents for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements or Non-consolidated Financial Statements will be posted on the Company website. (<http://www.optholding.ne.jp/>).

Instructions Exercise of Voting Rights via the Internet

You can exercise your voting rights via the Internet by accessing the Voting Right Exercise Site as instructed below from your PCs or smartphones.

1. Accessing the Voting Right Exercise Site

Address of Voting Right Exercise Site (<https://www.net-vote.com/>)

Please use the Company's designated voting website to submit votes regarding the proposals. Votes can be submitted until 6 p.m., Wednesday, March 27, 2019.

2. How to vote online

[For PC users]

Access the Voting Right Exercise Site at the URL provided above, log in using the login ID and password printed on enclosed voting rights exercise form and follow the instructions on the screen to indicate your approval or disapproval of the proposal.

[For smartphone users]

Simply scan the QR code® located on the bottom right of the enclosed voting rights exercise form. You don't have to enter Log-in ID nor password.

In case you wish to change any of your votes, access the Voting Right Exercise Site at the URL, you need to log in using the login ID and password printed on the voting rights exercise form and follow the instructions on the screen to indicate approval or disapproval of the proposal. (QR code® is a registered trademark of DENSO WAVE INCORPORATED).

3. Notes

- (1) Any costs arising from accessing the Voting Right Exercise Site shall be born by you.
- (2) Depending on your network environments, you may not be able to exercise your voting rights.
- (3) The Voting Right Exercise Site is not accessible via the cellular phones.

Institutional investors can exercise the voting rights through "The Electronic Proxy Voting Platform" operated by ICJ, Inc.

For an inquiry regarding online exercise of the voting rights, please contact the following

IR Japan, Inc., Custody Service Department

TEL 0120-975-960

Business Hours: 9:00 a.m. to 5:00 p.m. JST (not available on Saturdays, Sundays and holidays)

Business Report (January 1, 2018 to December 31, 2018)

1. Overview of the Group

(1) Business for the year ended December 31, 2018

OPT Group (hereinafter “The Group”) announced mid-term management plan; “NEW STAGE 2020” (three-year plan from 2018 to 2020) which with the target of CAGR 16 to 18 % of revenue growth and CAGR 18 to 20% of EBITDA growth from 2017 through strengthen group linkages and optimizing its resources in order to maximize mid-to-long term enterprise value and cash flow.

The Group also seek continuous growth of its revenue, profit and cash flow by proactively allocating generated cash to investments on resources related to digitalization. At the same time, the Group aims over 10% of ROE through building optimal capital structure taking into consideration of capital cost.

The Group’s core growth strategy is to be a leader of any and all “digital shift” in rapidly expanding digital economy. The group will realize it by actively leveraging our business assets: rich pool of digital talents and professionals, sales network covering thousands of clients both inside and outside of Japan, and the know-how of investments and services on digital technology and its related businesses. The Group will lead “digital shift” of “ad and sales promotion” where TV and flyers losing grounds in Japanese advertisement market, “business operations and human resources” for developing technologies such as big data analytics, Internet of Things (IoT), Artificial Intelligence (AI), robotics, etc, and “business process/model” that many corporations are working on.

As a results of business operations based on above management policy, the results of operation for the year ended December 31, 2018, were as follows.

<i>(in million yen unless otherwise stated)</i>	2018	Year-on-year change (%)	
	Actual	Adjusted*5	Nominal
Revenue	87,216	14.2%	5.6%
Gross profit	17,347	13.1%	5.7%
Operating income	1,767	(15.1%)	(20.5%)
EBIT*1	3,265	106.6%	56.1%
EBITDA*2	6,089	71.9%	49.7%
Net income attributable to owners of parent	1,922	232.4%	90.2%
ROE (Last twelve month; LTM, %)*3	9.9%	-	-
Free cash flow*4	3,805	-	311.4%
Earnings per share- diluted (yen)	84.20	-	-
Earnings per share- basic (yen)	84.66	-	-

Notes:

1. EBIT= Net income before taxes and other adjustment+interest paid-interest received
2. EBITDA = EBIT + other financial related gains (losses)+ depreciation + amortization of intangible assets + amortization of long-term prepaid expenses + Non-cash gain(loss)
3. Return on equity (ROE): Net income attributable to owners of parent in last twelve months/average amount of equity as of the end of reporting year and previous year
4. Free cash flow (FCF)=Operating cash flow+ investing cash flow ±one-off cash flow items
5. A previously consolidated subsidiary, Classified Inc. was sold at the end of 2017 (approximately 8% of consolidated revenue in 2017); the earnings and the gain of sales of Classified in 2017 were excluded.

Change of reporting segments

The Company has changed reporting segments from three segments; Marketing Business, Investment and incubation business and Overseas business into two segments; Marketing Business and Synergy Investment Business from the beginning of the year ended December 2018. The Company has expanded the scope of disclosure shown as below. Detailed J-GAAP segment results are Segment information in “Primary Notes on Consolidated Financial Statements.”

<Reporting segments, major line of business, and disclose items>

New segments	Previous segments	Business description	Disclosure items
Marketing Business	Marketing Business	<ul style="list-style-type: none"> ● Digital marketing ● Internet advertisement agency business in Japan ● Development of solutions ● HR and IT support 	Revenue, Operating income EBIT EBITDA
Synergy Investment Business	Investment & incubation Business	<ul style="list-style-type: none"> ● Investment on start-ups ● Investment fund management ● AI related business 	Revenue Operating income EBIT EBITDA AUM*1 IRR*2
	Overseas Business	<ul style="list-style-type: none"> ● Overseas internet ad agency business ● China cross-border e-commerce business 	Revenue Operating income EBIT EBITDA

Notes;

1. AUM: total amount of (1) book value of subsidiaries and affiliates' stocks, (2) fair market value (FMV*3) of operational investment securities and invested securities.
2. IRR: Internal Rate of Return
3. FMV (Fair market value): an estimate of the fair market value of a assets or liabilities

The full-year results for each reporting segment are discussed as follows. The previous year results have been re-categorized into the current reporting segments.

Marketing Business

The table below shows 2018 full-year results of Marketing Business before Corporate Function Cost allocation.

(in million yen unless otherwise stated)

	2018	Year-on-year change (%)	
	Actual	Adjusted*	Nominal
Revenue	82,040	14.9%	5.7%
Gross profit	14,892	14.1%	5.3%
Operating income	4,058	11.5%	6.2%
EBIT	4,216	15.8%	0.8%
EBITDA	6,171	37.0%	21.8%

Note:

Adjusted YoY figures compares the reporting period of 2018 full-year and to the 2017 full-year results excluding 2017 Classified earnings (approximately 8% of consolidated revenue) and gain of sales of Classified at the end of the previous year.

Operating results of the Marketing Business segment for full-year 2018 was as follows. Revenue was JPY 82,040 million (YoY +5.7%), gross profit was JPY14,892 million (YoY +5.3%), operating income was JPY4,058 million (YoY +6.2%), EBIT was JPY4,216 million (YoY+0.8%) and EBITDA was JPY6,171 million (YoY +21.8%). Adjusted results excluding the impact of Classified, the growth rate from the previous year was +14.9% for revenue, +14.1% for gross profit, +11.5% for operating income, +15.8% for EBIT, and +37.0% for EBITDA .

The reasons for the difference from the previous year excluding the impact of Classified's earnings and the gain from the sale of Classified were as follows.

1. Revenue for Marketing Business segment increased by JPY 6,131 million in Large Corporation segment, mainly due to continued favorable order from brand sponsors and new business from retail clients in addition to existing clients.

In Local/SME segment, revenue increased by JPY 4,869 million mainly due to continued robust new orders from e-Commerce clients capturing “digital shift” among Local/SMEs. As a result, aggregate marketing segment revenue increased by 14.9%.

- Operating income grew by 11.5% from the previous year although costs such as hiring and training for further growth increased. Operating income increased by JPY 272 million in Large Corporation segment, and JPY 145 million increase in Local/SME segment due to an increase in revenue and gross profit.
- EBITDA increased by JPY 1,493 million for Large Corporation mainly due to increased operating income and the gain from business transfer (video streaming business operated by Skillup), and JPY 252 million yen for Local SMEs mainly due to increased operating income. As a result, the aggregate Marketing segment growth rate of EBITDA was +37.0%.

Measures taken in Marketing Business segment in 2018 were as shown below.

- Sales initiatives to acquire large-scale clients mainly by OPT, Inc. were taken in Tokyo metropolitan area and other regions
- The Omni-channel Innovation Center, specialized in “digital shift” for retail business, has started. New service utilizing location data was highly appreciated and acquisition of new clients has progressed.
- Responding to digital shift by clients, the Group have provided not only digitalization of advertisement, but one-stop digital marketing consultation including development of marketing and CRM (customer relation management) strategy, research, analysis and operation.
- Established a specialized organization called “Studio Opt” involving creators who work independently or at design firms inside and outside Japan through promoting open innovation for creating new business or services.
- Established “Amazon Strategy Department” which supports to produce ad on Amazon for clients.
- Awarded “Top New Go-to-Market Partner” at IBM Geography Excellence Awards 2018.
- Acquired new local and SME clients using 21 local offices by a consolidated subsidiary; SoldOut, Inc. (hereinafter, “SoldOut”, securities code: 6553).
- SoldOut started business alliance with Nihon M&A Center Inc., the No.1 player in M&A for SMEs.
- SoldOut invested in Linkers Corporation that operates manufacturer-focus business matching site called “Linkers”
- SoldOut concluded a strategic partnership contract with LINE Corporation

Synergy Investment Business

The table below shows 2018 full-year results of Synergy Investment Business before corporate function cost allocation.

<i>(in million yen unless otherwise stated)</i>	2018	Year-on-year change (%)
Revenue	5,270	2.5%
Gross profit	2,498	10.6%
Operating income or loss	(466)	-*
EBIT	949	-*
EBITDA	1,639	-*

Note: Figures were omitted due to relevant amounts in reporting or the previous period are negative.

Operating results of the Synergy Investment Business segment for 2018 was as follows. Revenue was JPY 5,270 (YoY +2.5%), gross profit was JPY 2,498 million (YoY +10.6%), operating loss was JPY 466 million (JPY 310 million loss for 2017), EBIT was JPY949 million (JPY1,350 million loss for 2017) and EBITDA was JPY1,639 million (JPY 429 million loss for 2017).

The reasons for the difference from the previous year were as follows.

- Revenue was JPY 5,270 million, a 2.5% increase, mainly due to an increased revenue from cross-border China e-Commerce business and the gain from sales of operational investment securities against factors such as deconsolidation of WriteUp Corporation (hereinafter WriteUp) of which the Company sold the part of shares and weak performance of overseas businesses.
- In spite of deconsolidation of WriteUp, gross profit was JPY 2,498 million, (YoY +10.6%) due to a gain of sales of operational investment securities.

3. EBITDA was JPY 1,639 million, increased by JPY 2,068 million (JPY429 million loss for previous year). Although there were factors lowering profit such as de-consolidation of WriteUp, weak oversea business, evaluation loss of invested securities, EBITDA increased mainly due to gains from the sales of WriteUp, and sales of other operational investment securities.

The company disclose fair market value (hereinafter “FMV”) of the invested assets for improving transparency of its return. At the time, the Company has amended the definition of assets under management. The AUM is defined as “total amount of 1) book value of subsidiaries’ and affiliates’ shares and 2) fair market value (FMV*¹) of operational investment securities and other investments. , and the total book value*² of the acquired asset was JPY 9,700 million as of the end of 2018.

Note;

1. FMV: an estimated market value of a property or liability, based on the third-party transaction between a knowledgeable and willing buyer and a knowledgeable and willing seller
2. Total book value: aggregate amount of 1) book value of subsidiaries’ and affiliates’ shares and 2) acquisition value of operational investment securities and invested securities. For assets categorized 2), impairment will be reflected to the value to be aggregated.

FMV of each operating investment security and invested securities were calculated by category defined as follows.

- (1) Shares of subsidiaries and affiliates; book value
- (2) Operational investment securities and other investment securities: calculated depending on the following classification
 - i Notes or securities of which investment amount is small: acquisition price
 - ii Listed companies’ shares: closing price as of the end of December, 2018.
 - iii Securities with financing in recent period: based on value of relevant financing
 - iv Other securities estimated by comparable multiple, DCF, or net asset valuation depending on each company’s performance

The FMV calculation is prepared with guidance and advice by KPMG Azsa.

Also, internal rate of return (hereinafter “IRR”) for the investments is also disclosed with the aim of improved transparency of our return from investment based on the definition as follows. IRR is calculated by applying the same computation method on securities which have not been sold yet.

Prerequisite:

Subject to calculate: Those the Company has invested in from 2003 to the end of December 2018 (includes business investments)

The reference date for calculation: December 31, 2018

Method of calculation:

- Impaired investment: Calculated as if they were sold at the net asset value after impairment.
- Investment with recent financing: Calculated as if they were sold at the valuation amount of the share value at the time of financing.
- IPOed investment: Calculated as if they were sold at the market value as of the reference date.
- Fund: Calculated with the amount collected before the end of the reporting period and the book value as of the end of reporting period.
- Others: Any other investment with no change in their acquisition cost due to sale, impairment, financing, IPO or the like are calculated as if they were sold on the reference date at the acquisition cost.

Income tax are included when to calculate IRR.

The IRR after deducting taxes as of the end of December 2018 based on the method above was 14.0%.

Measures taken by the companies under Synergy Investment segments in 2018 were discussed below.

- Established a new company “SIGNATE Inc. (hereinafter SIGNATE)” in April 2018. SIGNATE provides algorithm development through the competition platform which offers data analysis contests, and placement service with a

focus on high skilled IT professionals such as data scientists or AI developers who promote business use of big data, etc.

- SIGNATE launched “SIGNATE Career” web site targeted at highly-skilled IT engineers, especially data scientists or AI developers.
- Raksul Inc., an existing investee, was listed on the TSE Mothers on May 31, 2018.
- WriteUp Co., Ltd., an existing investee, which had been a consolidated subsidiary until the second quarter of 2018, was listed on the TSE Mothers on June 22, 2018
- OPT Ventures established #2 Investment Limited Partnership Limited. .

Corporate Function Cost

The table below shows 2018 results of Corporate Function Cost (excluding gain/loss on derivative evaluation)

<i>(in million yen unless otherwise stated)</i>	2018	Difference from 2017*
Selling and administrative expense	(1,822)	(827)
Operating income or loss	(1,822)	(827)
EBIT	(1,793)	(939)
EBITDA	(1,598)	(885)

Note: Negative amount in this column means increase of expense.

As for corporate functions, continued efforts for human resource development, and started introducing a common system to support corporate function. As a result, selling, general and administrative expense in corporate function for 2018 was JPY 1,822 million, (JPY 994 million in 2017), EBITDA was negative JPY 1,598 million (negative JPY 712 million in 2017).

Consolidated Results of Operations for the Year

For the year ended December 31, 2018, consolidated operating results were as follows. JPY 87,216 million yen (YoY +5.6%) for revenue, JPY17,347 million (YoY 5.7%) for gross profit, JPY 1,767 million (YoY -20.5%) for operating income, JPY 3,265 million (YoY +56.1%) for EBIT, JPY6,089 million (YoY +49.7%) for EBITDA, JPY 1,922 million (YoY +90.2%) for net income attributable to owners of parent. Excluding the impact of Classified earnings and gain of sales of its stocks from the 2017 full-year results, the growth rates were +14.2% for consolidated revenue, +13.1% for gross profit, -15.1% for operating income, +106.6% for EBIT, +71.9% for EBITDA, and 232.4% for net income attributable to owners of parent.

(2) Issues to be addressed

With regard to issues to be addressed by the Group, the following seven items are the major management agenda.

1. Further accumulation of marketing know-how and insights
2. Achievement of higher profitability by developing own products of the Group and differentiation of our uniqueness
3. Strengthening of sales force and technology development by our engineers
4. Establishment of group-wide management system which enable both effective governance and management decision
5. Improvement of IT system for improved productivity
6. Hiring and training of excellent talents

(3) Capital Expenditure

There were no significant capital expenditures.

(4) Financing

There were no significant capital financing.

(5) Significant Reorganizations and Other Such Events

- 1) Effective September 1, 2018, the consolidated subsidiary relaido, Inc., (hereinafter “relaido”) implemented absorption-type split, in which the video streaming business was separated and succeeded by a newly established subsidiary of Nippon Television Network Corporation.
- 2) The consolidated Crossfinity Inc. acquired 90,000 treasury shares on June 6, 2018 and retired them on June 7, 2018. As a result, Crossfinity became a wholly owned consolidated subsidiary of the Company.

The Company acquired additional shares of a consolidated subsidiary, relaido, Inc., on September 10, 2018, making it a wholly owned consolidated subsidiary.

(6) Assets, revenue and income

(Yen in thousand, unless otherwise stated)	FY2015	FY2016	FY2017	FY2018
Revenue	64,052,229	69,815,591	82,602,185	87,216,948
Operating income	1,191,850	2,004,793	1,921,582	1,669,787
Net income attributable to owners of parent	267,280	745,611	1,011,088	1,922,614
Net income per share (Yen)	10.34	28.81	43.95	84.66
Total assets	37,421,413	46,325,081	46,127,842	57,181,793
Net assets	17,609,461	19,720,508	18,813,159	27,133,666

(Note) Net income per share is calculated based on the average number of shares outstanding (total issued shares net of treasury shares) during each fiscal year.

(7) Status of Parent Company and Principal Subsidiaries (As of December 31, 2018)

1) Status of Parent Company

Not applicable

2) Status of Principal Subsidiaries

Company Name	Capital (Yen in thousands)	Voting rights owned by the Company	Major businesses
OPT, Inc.	100,000	100.0%	Marketing business
Crossfinity, Inc.	30,000	100.0%	SEO solution services and media consulting services
Soldout, Inc.	573,923	57.4%	Advertising agency business serving mid-sized and venture companies
Heartlass, Inc.	15,101	100.0%	Full-line of programmatic advertising operations

(Notes) 1. The Company has 31 consolidated subsidiaries, including those in the table above.

2. The Company does not have any specified wholly owned subsidiaries as defined in the Companies Act.

3. Company subsidiary s1o Interactive, Inc., was renamed Heartlass, Inc., on October 1, 2018.

(8) Principal Businesses

The Group is comprised of OPT Holding, Inc., and 31 consolidated subsidiaries as of December 31, 2018. It operates Marketing Business and Synergy Investment Business. The Marketing Business provides a full range of customer marketing support services, including Internet advertising agency, ad production, website development, SEO services, various other marketing support solutions, omni-channel development and database marketing. The Synergy Investment Business includes overseas Internet advertising agency, information gathering and investee support. The Synergy Investment Business also invests in Internet-related venture companies.

Segment	Major businesses
Marketing Business	<ul style="list-style-type: none"> • Internet advertising related services and data marketing, etc.,FI
Synergy Investment Business	<ul style="list-style-type: none"> • Investments in Internet-related venture companies • Internet advertising agency and marketing campaign support in Asia (excluding Japan) • Overseas research, development and investee support (mainly in China) • Information gathering in US

(9) Major Offices (As of December 31, 2018)

1) Main Office

Office	Address
Head Office	Chiyoda-ku, Tokyo

2) Subsidiaries

Company Name	Address
OPT, Inc.	Chiyoda-ku, Tokyo
Crossfinity, Inc.	Chiyoda-ku, Tokyo
Soldout, Inc.	Chiyoda-ku, Tokyo
Heartlass, Inc.	Chiyoda-ku, Tokyo

(10) Workforce (As of December 31, 2018)

Number of Employees	Change from Dec. 31, 2017
1,631	+58

- (Notes) 1. Part-time, contractors and temporary workers are not counted as employees.
2. Personnel seconded to positions outside of the Group are not counted as employees.

(11) Main Lenders (As of December 31, 2018) (Yen in millions)

Lender	Amount borrowed
Sumitomo Mitsui Banking Corporation	3,000
Syndicate Loan	2,750
Mizuho Bank, Ltd.	2,500
MUFG Bank, Ltd.	1,000
Resona Bank, Limited.	750

(Note) The syndicate loan is a 15-bank syndicate lead-managed by Sumitomo Mitsui Banking Corporation.
Workforce (As of December 31, 2018)

(12) Other Significant Matters Concerning the Group

Not applicable.

2. Status of the Company

(1) Matters Concerning Stock (As of December 31, 2018)

- | | |
|---|---|
| 1) Total number of shares authorized to be issued | 86,630,400 shares |
| 2) Total number of shares issued | 23,817,700 shares (including 917,705 treasury shares) |
| 3) Number of shareholders | 3,665 |
| 4) Major Shareholders (Top 10) | |

Shareholder	Number of Shares Held (Shares)	Ownership of Shares (%)
HIBC Co., Ltd.	4,899,200	21.39%
Japan Trustee Services Bank, Ltd. (Trust account)	3,835,800	16.75%
Tomohito Ebine	1,036,900	4.52%
GOLDMAN,SACHS& CO.REG	1,005,700	4.39%
Atsushi Nouchi	885,000	3.86%
CGML PB CLIENT ACCOUNT/COLLATERAL	801,900	3.50%
Mynavi Corporation	755,800	3.30%
Japan Trustee Services Bank, Ltd. (Trust account)	597,900	2.61%
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN(CASHPB)	576,000	2.51%
Japan Trustee Services Bank, Ltd. (Trust account 9)	553,900	2.41%

(Notes) 1. The Company holds 917,705 treasury shares which is omitted from the above list of major shareholders. The treasury shares (917,705 shares) do not include the shares held by OPT Group Employee Stock Ownership Plan (29,400 shares).

- Ownership percentages are calculated based on shares outstanding (issued shares net of treasury shares) and rounded off to two decimal places.
- HIBC Co., Ltd., is an asset management company wholly owned by the Company President and Group CEO, Noboru Hachimine.
- Time and Space, Ltd, an asset management company wholly owned by the Director and COO, Atsushi Nouchi, holds 390,800 shares of the Company.
- Tempered Investment Management, Ltd., held the following shares as of April 4, 2018, which was reported by Large Shareholding Report (Change Report) submitted on April 6, 2018. However, the Company could not confirm the number of shares actually held by the entity as of the end of reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting year. The following table is the summary of the Report.

Name or Name of Institution	Address	Number of shares held*
Tempered Investment Management Ltd.	1431 Bramwell Road West Vancouver, B.C. V7S 2N8 CANADA	1,182,600

(Note) The number of shares held is described in the Report as of April 6, 2019.

- 3D Investment Partners Private Ltd., held the following shares as of July 18, 2018, which was reported by Large Shareholding Report (Change Report) submitted on July 18, 2018. However, the Company could not confirm the number of shares actually held by the entity as of the end of reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting year. The following table is the summary of the Report.

Name or Name of Institution	Address	Number of shares held*
3D Investment Partners Private Ltd.	250 North Bridge Road #13-01 Raffles Ci Raffles City Singapore, 179101 Singapore	1,342,400

(Note) The number of shares held is described in the Report as of July 25, 2019.

7. Rheos Capital Works Corporation held the following shares as of August 15, 2018, which was reported by Large Shareholding Report (Change Report) submitted on August 21, 2018. However, the Company could not confirm the number of shares actually held by the entity as of the end of reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting year. The following table is the summary of the Report.

Name or Name of Institution	Address	Number of shares held*
Rheos Capital Works	1-11-1 Marunouchi, Chiyoda-ku, Tokyo, 100-6227, Japan	1,139,800

(Note) The number of shares held is described in the Report as of August 21, 2019.

8. Dalton Investments LLC., held the following shares as of December 18, 2018, which was reported by Large Shareholding Report (Change Report) submitted on December 21, 2018. However, the Company could not confirm the number of shares actually held by the entity as of the end of reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting year. The following table is the summary of the Report.

Name or Name of Institution	Address	Number of shares held*
Dalton Investments LLC	1601 Cloverfield Blvd. #5050N, Santa Monica, California, 90404, United State	2,653,100

(Note) The number of shares held is described in the Report as of December 21, 2019.

5) Other Significant Matters Concerning Stock

A. Issuance of New Shares

The Company has adopted a restricted stock compensation plan pursuant to a resolution passed at its 24th Annual General Meeting of Shareholders on March 29, 2018. In line with the plan's adoption, the Company issued new shares as follows pursuant to an August 17, 2018 resolution of its Board of Directors.

- Class of shares issued Common stock of the Company
- Total number of shares issued 282,528
- Total value of shares issued 752,654,592 yen
- Issuance date September 3, 2018

B. Retirement of treasury shares

The Company retired treasury shares as follows pursuant to an August 17, 2018 resolution of its Board of Directors to alleviate shareholder concerns about potential equity dilution.

- Class of shares retired Common stock of the Company
- Total number of shares retired 282,528
- Retirement date September 3, 2018

(2) Matters Concerning Corporate Officers

1) Matters Concerning Directors (As of December 31, 2018)

Position in Company	Name	Area of Responsibility and Significant Other Positions
President and Group CEO	Noboru Hachimine	Director at Soldout, Inc. Independent Outside Director at UT Group Co., Ltd.
Vice President and Group COO	Atsushi Nouchi	CEO at Opt Ventures, Inc. Representative Director and CEO at OPT Incubate, Inc. Director, SIGNATE, Inc.
Director Group CFO	Hiroshi Teraguchi	
Director	Syusaku Minoda	
Director	Tomoyuki Mizutani	
Director (Chairman of Audit and Supervisory Committee, full-time)	Fumiyuki Shinomiya	Company Director and Auditor full-time Auditor, Crossfinity Inc.
Director (Audit and Supervisory Committee member)	Nobuaki Ishizaki	Auditor, SIGNATE, Inc. Outside Auditor, Aucfan Co., Ltd. Outside Auditor, Global Group Corp.
Director (Audit and Supervisory Committee member)	Toshio Yamaue	Lawyer Auditor, Heartlass, Inc.

(Notes)

1. Director Tomoyuki Mizutani, and Directors and Audit and Supervisory Committee members, Fumiyuki Shinomiya, Nobuaki Ishizaki and Toshio Yamaue are External Directors.
2. Director and Audit and Supervisory Committee member Fumiyuki Shinomiya had a long career at a financial institution and possesses considerable expertise in financial matters and accounting.
3. Director and Audit and Supervisory Committee member Nobuaki Ishizaki previously worked in finance and accounting at a listed company and possesses considerable expertise in financial matters and accounting as a credentialed SME management consultant.
4. The Board of Directors' composition changed as follows during the fiscal year ended December 31, 2018.
 - 1) Mr. Hiroshi Teraguchi was newly appointed and elected as a Director at the 24th Annual General Meeting of Shareholders on March 29, 2018.
 - 2) Mr. Fumiyuki Shinomiya was newly appointed and elected as a Director (Audit and Supervisory Committee member) at the 24th Annual General Meeting of Shareholders on March 29, 2018.
 - 3) Former director and Audit and Supervisory Committee member Masatoshi Go terminated his directorship upon its expiration at the conclusion of the 24th Annual General Meeting of Shareholders on March 29, 2018.
5. Director and Audit and Supervisory Committee member Fumiyuki Shinomiya was newly appointed and elected as an Auditor of the Company's subsidiary OPT, Inc., on March 23, 2018.
6. Director and Audit Committee member Nobuaki Ishizaki terminated his former position as an auditor at the Company's subsidiary OPT, Inc., on March 8, 2018.
7. The Company established a full-time Audit and Supervisory Committee position to strengthen audit and oversight functions, improve information gathering and increase audit effectiveness.
8. The Company has designated Director Tomoyuki Mizutani and Directors and Audit and Supervisory Committee members Fumiyuki Shinomiya, Nobuaki Ishizaki and Toshio Yamaue as independent directors in accordance with the Tokyo Stock Exchange's independence standards and filed a notification to that effect with the Tokyo Stock Exchange.
9. The Company and Directors Syusaku Minoda and Tomoyuki Mizutani and Directors and Audit and Supervisory Committee members Fumiyuki Shinomiya, Nobuaki Ishizaki and Toshio Yamaue have entered into agreements limiting each of the five Directors' liability for damages under Article 423 (1) of

the Companies Act to the statutory prescribed minimum liability, pursuant to the Company's Articles of Incorporation.

2) Directors' Total Compensation

Subgroup	Number of Recipients	Total Compensation (Yen in thousands)
Directors (excluding those who are Audit and Supervisory Committee members) (External Directors' share thereof)	5 (1)	¥131,978 (¥9,250)
Directors (Audit and Supervisory Committee members) (External Directors' share thereof)	4 (4)	¥24,387 (¥24,387)
Total (External Directors' share thereof)	9 (5)	¥156,365 (¥33,637)

- (Notes) 1. Director Tomoyuki Mizutani and Directors and Audit and Supervisory Committee members, Fumiyuki Shinomiya, Nobuaki Ishizaki and Toshio Yamaue are External Directors.
2. Directors' total compensation does not include salaries earned as employees by Directors who concurrently hold employee positions.
3. The above compensation includes a 20,728,000 yen expense recognized in the fiscal year ended March 31, 2018, in connection with one Director's restricted stock compensation.
4. At an Annual General Meeting of Shareholders on March 25, 2016, shareholders passed a resolution limiting Directors' annual compensation to a maximum of 200 million yen for Directors who are not Audit and Supervisory Committee members and 30 million yen for Directors who are Audit and Supervisory Committee members. To award restricted stock grants to Directors (excluding External Directors and Directors who are Audit Committee members), shareholders passed an additional resolution authorizing total Directors' compensation of up to 550 million yen per year at the 24th Annual General Meeting of Shareholders on March 29, 2018.

3) Matters Concerning External Directors

Position in the Company	Name	Significant Concurrent Positions at Other Entities	Main Activities at the Company
Director	Tomoyuki Mizutani		Mr. Mizutani attended 22 of 23 Board meetings held in 2018. He appropriately spoke up at meetings to ensure the soundness of the Board's decision-making from an objective and neutral standpoint independent from management, capitalizing on his wealth of experience and long track record in corporate management.
Director (Chairman of Audit and Supervisory Committee, full-time)	Fumiyuki Shinomiya	Company Director and Auditor Full-time Auditor, Crossfinity Inc.	Mr. Shinomiya attended all 19 Board meetings and all 10 Audit and Supervisory Committee meetings held in 2018 after his appointment. He appropriately provided valuable perspectives on agenda items and other discussions, capitalizing on his insight and wealth of domestic and international experience, mainly in the financial sector.
Director (Audit and Supervisory Committee member)	Nobuaki Ishizaki	Auditor, SIGNATE, Inc. Outside Auditor, Aucfan Co., Ltd. Outside Auditor, Global Group Corp.	Mr. Ishizaki attended all 23 Board meetings and all 14 Audit and Supervisory Committee meetings held in 2018. He appropriately provided valuable perspectives on agenda items and other discussions from both fairness and objectiveness viewpoint as certified SME management consultant.
Director (Audit and Supervisory Committee member)	Toshio Yamaue	Lawyer Auditor, Heartlass, Inc.	Mr. Yamaue attended 21 of 23 Board meetings and all 14 Audit Committee meetings held in 2018. He appropriately provided valuable agenda items and other discussions from lawyer's perspectives.

(Notes) 1. OPT, Inc., and Crossfinity Inc., companies at which Director (Audit and Supervisory Committee Chairman) Fumiyuki Shinomiya holds positions, are subsidiaries of the Company.

2. SIGNATE, Inc., where Director (Audit and Supervisory Committee member) Nobuaki Ishizaki, holds a position, is a subsidiary of the Company. The Company's relationships with Aucfan Co., Ltd., and Global Group Corp., the other two companies at which Mr. Ishizaki holds positions, do not warrant disclosure.

3. Heartlass, Inc., where Director (Audit and Supervisory Committee member) Toshio Yamaue holds a position, is a subsidiary of the Company.

(3) Independent External Auditor

1) Name KPMG AZSA LLC

2) Amount of Compensation

(Yen in thousands)

Independent auditor's compensation for fiscal year ended December 31, 2018 ¥59,500

Total monetary amount payable to the independent auditor by the Company and its subsidiaries ¥87,500

(Notes) 1. The audit agreement between the Company and its independent auditor does not explicitly distinguish the compensation for audit services performed pursuant to the Companies Act from the compensation for audit services performed pursuant to the Financial Instruments and Exchange Act. Given disaggregating compensation between the two types of audit services is not feasible, the Company is disclosing the above total amount as its independent auditor's compensation for the fiscal year ended December 31, 2018.

2. A consolidated subsidiary eMFORCE Inc. was audited by an accounting firm other than the Company's independent auditor.

3. The Audit and Supervisory Committee approved the independent auditor's compensation after performing required verification of the appropriateness of the independent auditor's audit plan, audit performance and basis for calculating estimates of its compensation.

3) Non-Audit Services

The Company paid KPMG AZSA LLC compensation for advisory services.

4) Policy for Dismissal or Non-reappointment of Independent External Auditor

If the Audit and Supervisory Committee decides that the independent auditor needs to be replaced for failure to perform its duties or for other reasons, it shall draft a proposal regarding dismissal or non-reappointment of the independent auditor to an Annual General Meeting of Shareholders. Additionally, if any of the causes for dismissal fall into the stipulation of Article 340(1) of the Companies Act, the Audit and Supervisory Committee may dismiss the independent auditor with the unanimous consent of all of its members.

If the independent auditor is dismissed, an Audit and Supervisory Committee member selected by the Audit and Supervisory Committee shall report on the dismissal, including the reason(s) for it, at the earliest Annual General Meeting of Shareholders convened after the dismissal.

3. The Systems and Policies of the Group

(1) Controls to Ensure Operational Soundness

1) Controls to Ensure the Company and Its Subsidiaries' Directors and Employees Comply with Laws and Articles of Incorporation in Executing Their Duties

The Company is committed to improving compliance awareness among its own and its subsidiaries' directors, officers and employees, and cultivating a Group-wide mindset of respect for compliance through such means as conducting training sessions and preparing and distributing manuals. This initiative is led by its corporate officers in charge of administrative organizational units, working in concert with organizational units responsible for administrative functions.

2) Controls Related to Retention and Management of Information Concerning Directors' Execution of Their Duties

The Company and its subsidiaries' directors prepare, retain and manage documents related to significant decisions and reports in accordance with Document Management Regulations. The Company's subsidiaries keep such documents readily accessible if requested to do so by the Company's Audit and Supervisory Committee or their own auditors.

3) Regulations and Other Controls Related to Management of the Company and Its Subsidiaries' Risk of Losses

The Company manages risk in accord with Basic Risk Management Policies established by its Board of Directors. It does so through a Risk Management Office staffed with employees and corporate officers, mainly the officers in charge of administrative organizational units. The Risk Management Office reports on risk management matters to the Board of Directors on an as-needed basis. The Company's subsidiaries have established regulations aligned with the Company's internal regulations and other controls, and implemented their own controls for managing risks, including the risk of losses, to the extent needed by their scale, attributes and other relevant circumstances.

4) Controls to Ensure the Company and Its Subsidiaries' Directors Execute Their Duties Effectively

The Company adopts business plans, explicitly sets operating performance targets on a company-wide basis, and clarifies how it evaluates performance. It pursues improvement in operating efficiency by clearly defining every organizational unit's responsibilities with respect to operating performance. The Company's subsidiaries also analyze and make decisions on significant management matters through their respective Boards of Directors, which meet monthly as a general rule.

5) Controls to Ensure Operational Soundness of the Group Consisting of the Company and Its Subsidiaries

To ensure Group companies' operational soundness, the Company supervises its subsidiaries as required based on their respective circumstances in accordance with its affiliated company management regulations. Additionally, the Company's Board of Directors and subsidiaries' management teams promote information-sharing and effective communication among Group companies and alignment of Group management policies, exchanging information on important matters affecting the Group as a whole whenever such matters arise.

6) Matters Concerning Staffing Requested by Audit and Supervisory Committee to Assist with Its Duties

When the Audit and Supervisory Committee requests staff to assist performing its duties, the Company assigns the needed staff to the Committee.

7) Matters Concerning Assurance that Staff Assigned to Audit and Supervisory Committee are Independent from Directors and Effectively Supervised

The Company respects the Audit and Supervisory Committee's request on assignment of staff to assist the Audit and Supervisory Committee. Staff that have been ordered to perform auditing tasks by the Audit and Supervisory Committee will not obey to orders or directions from Company Directors (excluding Directors who are Audit and Supervisory Committee members) against the orders from the Audit Committee.

8) Channels Through which the Company and Its Subsidiaries' Directors (excluding Company Directors Who Are Audit and Supervisory Committee Members) and Employees Can Report to Audit and Supervisory Committee Chairman

Company Directors (excluding Directors who are Audit and Supervisory Committee members) and employees are required to immediately report to the Audit and Supervisory Committee Chairman if they become aware of an illegal act or misconduct by a Director (other than a Director who is an Audit and Supervisory Committee member) or if any matter that would cause a material loss on the Company arises or is at risk of arising. Additionally, the Company is endeavoring to strengthen compliance with respect to preventing irregularities and illegalities on a Group-wide basis. Toward this end, the Company has set up a communication channel through which its subsidiaries' Directors and Auditors can directly consult with or indirectly report to its Audit and Supervisory Committee Chairman regarding illegalities, irregularities and facts materially detrimental to the subsidiary in question.

9) Controls to Prevent Retaliation Against Whistleblowers

The Company prohibits retaliatory treatment for individuals who have reported to the Audit and Supervisory Committee Chairman and promotes universal awareness of this prohibition among its directors (excluding Directors who are Audit and Supervisory Committee members), employees, its subsidiaries' Directors and employees.

10) Matters Concerning Policies Pertaining to Prepayment or Reimbursement of Expenses Related to Execution of Audit and Supervisory Committee Members' Duties or Handling of Other Expenses or Liabilities Related to Said Duties' Execution

When billed in advance for necessary expenses related to execution of Audit and Supervisory Committee members' duties, the Company promptly pays the billed charges.

11) Other Controls to Ensure Effectiveness of Audit and Supervisory Committee's Audits

Directors (excluding Directors who are Audit and Supervisory Committee members) endeavor to make the audit system function efficiently by promoting deeper understanding about the audit system and creating an audit-friendly environment within the Company. The Representative Director notifies Audit and Supervisory Committee members of Board of Directors meeting dates in advance and promotes appropriate communication and effective performance of audit work to ensure that the Audit and Supervisory Committee's audits are conducted effectively.

12) Controls to Ensure Reliability of Financial Reporting

To ensure the reliability of its financial reporting, and effective and appropriate reporting on internal controls in accordance with the Financial Instruments and Exchange Act, the Company has established the Basic Policies for Implementing, Operating and Evaluating Internal Controls over Financial Reporting, and implements an internal control system accordingly. It also continually evaluates whether its internal controls are functioning properly and modifies them as needed.

13) Controls to Eradicate Antisocial Forces

The Company's rules and regulations contain required provisions on severing relations with anti-social forces (as defined in the Guideline for How Companies Prevent Damage from Anti-Social Forces issued by the Ministerial Meeting Concerning Measures Against Crime) pursuant to the Basic Compliance Policies approved by Board of Directors. Such rules and regulations mandate that the Company sever all relations with antisocial forces and respond organizationally to any illicit demands by anti-social forces.

Additionally, the Company is a long-standing member of the Special Anti-Violence Countermeasures Federation of the Metropolitan Police Department. It also builds cooperative relationships with attorneys and other concerned external organizations, and incorporates an anti-social forces clause into its contracts with new suppliers and customers.

(2) Overview of Implementation Status of Controls to Ensure Operational Soundness

1) Execution of Directors' Duties

In the fiscal year ended December 31, 2018, the Board of Directors met 23 times and made management decisions. The Board of Directors instituted Board of Directors Regulations and other internal regulations to ensure that Directors act in accordance with laws, government regulations and the Company's Articles of Incorporation.

2) Execution of Duties by Directors Who Are Audit and Supervisory Committee Members

In addition to conducting audits pursuant to audit plans formulated at Audit and Supervisory Committee meetings, the Directors who are Audit and Supervisory Committee members oversee Directors' execution of their duties through such means as attending important meetings, including Board of Directors meetings and regularly exchanging information with the independent external auditor and Internal Audit Office.

3) Risk Management and Compliance

To mitigate, prevent and swiftly respond to risks, the Company has established Risk Management Regulations and is strengthening its risk-management system. Additionally, it is endeavoring to elevate its employees' compliance awareness by periodically conducting compliance trainings.

(3) Policy for Determination of Dividends from Retained Earnings

As its dividend policy, the Company aims to pay dividends equivalent to 20% of net income attributable to owners of the parent before amortization of goodwill so it can internally retain earnings to fund investments, including business and human-resource investments needed to strengthen its management team and boost earnings in pursuit of further growth in line with its Group's corporate vision over the medium to long term. For the fiscal year ended December 31, 2018, the Company's Board of Directors passed a resolution authorizing a dividend of 19.00 yen per share on February 7, 2019.

Monetary values presented in this Business Report are rounded down to the nearest whole unit in which they are presented; percentages and other numbers are rounded off to one decimal places.

Consolidated balance sheet

(As of December 31, 2018)

(Yen in thousands)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	50,236,554	Current liabilities	20,979,042
Cash and deposits	19,631,361	Notes and accounts payable-trade	12,163,997
Notes and accounts receivable-trade	13,652,827	Current portion of long-term loans payable	1,300,000
Operational investment securities	15,337,154	Income taxes payable	557,799
Inventories	252,727	Deferred tax liabilities	2,400,057
Deferred tax assets	145,450	Provision for bonuses	727,989
Other	1,266,380	Other	3,829,198
Allowance for doubtful accounts	(49,347)		
Noncurrent assets	6,945,238	Noncurrent liabilities	9,069,084
Property, plant and equipment	299,617	Long-term loans payable	8,700,000
Buildings and structures	132,265	Liabilities on retirement benefits	200,376
Lease assets	2,233	Deferred tax liabilities	61,734
Other	165,118	Asset retirement obligations	104,979
		Other	1,992
Intangible assets	1,498,224	Total liabilities	30,048,126
Other	1,498,224	Net assets	
Investments and other assets	5,147,396	Shareholders' equity	16,872,113
Share of subsidiaries	0	Capital stock	8,212,254
Shares of affiliates	1,027,800	Capital surplus	3,915,198
Investment securities	2,208,615	Retained earnings	5,442,903
Lease and guarantee deposits	731,289	Treasury shares	(698,241)
Deferred tax assets	702,109	Accumulated other comprehensive income	6,604,672
Other	557,588	Valuation difference on available-for-sale securities	6,214,119
Allowance for doubtful accounts	(80,007)	Foreign currency translation adjustment	390,552
		Subscription rights to shares	228
		Non-controlling interests	3,656,652
		Total net assets	27,133,666
Total assets	57,181,793	Total liabilities and net assets	57,181,793

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Consolidated statement of income

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

(Yen in thousands)

Account	Amount	
Revenue		87,216,948
Cost of sales		69,869,664
Gross profit		17,347,284
Selling, general and administrative expenses		15,579,302
Operating income		1,767,981
Non-operating income		
Interest income	5,329	
Dividends income	164	
Gain on investments in partnership	78,214	
Gain on valuation of derivatives	56,525	
Other	41,108	181,342
Non-operating expenses		
Interest expenses	31,894	
Commission fee	15,638	
Loss on investments in partnership	115,543	
Other	116,459	279,536
Ordinary income		1,669,787
Extraordinary income		
Gain on sales of investment securities	1,677,013	
Gain on transfer of business	526,544	
Gain on reversal of subscription rights to shares	240	
Other	2,526	2,206,325
Extraordinary loss		
Loss on retirement of noncurrent assets	92,263	
Impairment loss	379,013	
Loss on valuation of investment securities	129,375	
Loss on sales of investment securities	15,714	
Other	21,101	637,468
Net income before taxes and other adjustments		3,238,644
Income taxes-current	1,585,648	
Income taxes-deferred	(386,851)	1,198,797
Net income		2,039,847
Net income attributable to non-controlling interests		117,232
Net income attributable to owners of parent		1,922,614

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Consolidated statement of changes in net assets

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

(Yen in thousands)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of year	7,835,926	3,567,434	4,214,070	(912,886)	14,704,545
Changes of items during the period					
Issuance of new shares	376,327	376,327			752,654
Dividends from surplus			(271,411)		(271,411)
Net income attributable to owners of parent			1,922,614		1,922,614
Purchase of treasury shares				(318)	(318)
Retirement of treasury shares			(214,963)	214,963	—
Changes in ownership interest in subsidiaries		(28,563)			(28,563)
Change in scope of consolidation			(207,407)		(207,407)
Net changes of items other than shareholders' equity					
Total changes of items during the period	376,327	347,763	1,228,832	214,645	2,167,568
Balance at end of year	8,212,254	3,915,198	5,442,903	(698,241)	16,872,113

	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	(1,389)	515,583	514,193	1,244	3,593,175	18,813,159
Changes of items during the period						
Issuance of new shares						752,654
Dividends from surplus						(271,411)
Net income attributable to owners of parent						1,922,614
Purchase of treasury shares						(318)
Retirement of treasury shares						—
Changes in ownership interest in subsidiaries						(28,563)
Change in scope of consolidation						(207,407)
Net changes of items other than shareholders' equity	6,215,508	(125,030)	6,090,478	(1,016)	63,477	6,152,938
Total changes of items during the period	6,215,508	(125,030)	6,090,478	(1,016)	63,477	8,320,507
Balance at end of year	6,214,119	390,552	6,604,672	228	3,656,652	27,133,666

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Notes to Consolidated Financial Statements

1. Significant matters for preparing consolidated financial statements:

(1) Scope of consolidation

1) Status of consolidated subsidiaries

- Number of consolidated subsidiaries: 31 consolidated subsidiaries
- Names of consolidated subsidiaries

OPT, Inc.
Soldout, Inc.
Crossfinity, Inc.
Heartlass, Inc.
SearchLIFE Co., Ltd.
relaido, Inc.
ConnectOm, Inc.
Platform ID, Inc.
Consumer first, Inc.
Demand Side Science, Inc.
Plugworldwide Inc.
Marketinginsu Inc.
TechLoCo, Inc.
Growth Gear Co., Ltd.
Internet Utilization Association
brainy, Inc.
OPT Ventures, Inc.
OPT Ventures No. 1 Limited Partnership for Investment
OPT Ventures No. 2 Limited Partnership for Investment
SIGNATE Inc.
OPT Incubate Inc.
IMJ FENOX PTE. LTD. No.2
OPT China Limited
OPT Shenzhen (China)
OPT America, Inc.
eMFORCE Inc.
OPT SEA Pte., Ltd.
OPTOK Co., Ltd.
Lead Commerce Pte., Ltd.
grasia Pte., Ltd.
Multimedia School WAVE

Internet Utilization Association is newly included in the scope of consolidation because the Company acquired control of them in the fiscal year ended December 31, 2018. Also newly funded OPT Ventures No. 2 Limited Partnership for Investment is newly included in the scope of consolidation. .

Demand Side Science, Inc., Plugworldwide Inc., Marketinginsu Inc., IMJ Fenox GlobaSide Science, Inc., OPT China Limited, OPT Shenzhen (China), OPTOK Co., Ltd., and Lead Commerce Pte., Ltd. are newly included in the scope of consolidation from the fiscal year ended December 31, 2018 associated with their increased materiality. .

Tokyo Gets Co., Ltd., WriteUp Co., Ltd. and grasia Bangkok Co., Ltd. were excluded from the scope of consolidation by the sales of these companies' shares.

Groover inc. (merged to OPT Inc.) and OPT Growth Partners Inc. (merged to OPT Incubate Inc.) were removed from the scope of consolidation.

NETMARKE, Inc., was removed from the scope of consolidation due to its liquidation.

As of April 1, 2018, SIGNATE Inc., was renamed from OPT Works, Inc. As of September 2018, relaido, Inc., was renamed from SkillUp Video Technologies Corporation. As of October 1, 2018, Heartlass, Inc., was also renamed from s1o Interactive, Inc.

2) Status of non-consolidated subsidiaries

- Name of major non-consolidated subsidiaries
Crossfinity Taiwan, Co., Ltd.

- The reason for exclusion from the scope of consolidation

The non-consolidated subsidiary was a small-scale company and neither of its total assets, revenue, net income/loss (relevant amount according to shares we hold) nor retained earnings (relevant amount according to shares we hold) had significant impact on the Consolidated Statement of Income.

(2) Application of equity method

1) Status of equity-method affiliates

- Number of equity-method affiliates: Three affiliates

- Names of equity-method affiliates

Chai Communication Co.,LTD.

GENERATE INC.

Jimoty, Inc.

redfox, Inc., was excluded from the scope of consolidation as the Company has sold their shares.

2) Status of major non-consolidated subsidiaries and affiliates not subject to equity method

- Name of non-consolidated subsidiaries and affiliates in this category

Non-consolidated subsidiary: Crossfinity Taiwan, Co., Ltd.

- The reason for exclusion from equity method

The non-consolidated subsidiaries and affiliates which were excluded from equity method, due to the amount of the Company's pro rata share of net income and retained earnings, have minor impact on the consolidated financial statements and immaterial as a whole. Also, Dot metrix.Inc., which was non-consolidated affiliates not subject to equity method, was excluded due to its liquidation.

(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.

(4) Fiscal years of consolidated subsidiaries

The closing dates of OPT SEA Pte., Ltd., OPTOK Co., Ltd and Commerce Pte., Ltd. is November 30. 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.

(5) Matters on accounting policies

1) Valuation standards and valuation method for significant assets

A. Held-to-maturity bonds

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

B. Shares of subsidiaries and affiliates

They are valued at cost by the moving-average method.

C. 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 recently available financial statements.

D. Derivatives

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

E. Inventories

• Merchandise and Work in process:

The FIFO 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 leased 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 leased 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. Leased assets

- Leased 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 receivable accounts.

B. Provision for bonuses

In terms of provision for bonuses, the amount accrued in the fiscal year under review for the estimated payout 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 expenses, some consolidated subsidiaries have adopted the simplified method, where the necessary amount to pay for voluntary retirement benefits at the end of the period in line with the retirement benefit plan is regarded as the retirement benefit obligations.

5) Standards for translating significant assets or liabilities in 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 case-by-case based on the duration of its effect.

7) 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.

2. Notes on changes in accounting policies

(Change in inventory valuation methods)

The Groups inventories (excluding supplies) have previously been mainly valued at cost by the identified cost method. Effective from the fiscal year ended December 31, 2018, the Group switched mainly to the FIFO cost method. The Group

made this change to more appropriately value its inventories and measure profit for the period as a result of reassessing its inventory management system in response to an increase in its inventories materiality.

The change's financial statement impact is immaterial. The change has accordingly not been retroactively applied.

3. Changes in presentation method

(Consolidated balance sheet)

Shares of subsidiaries, which were included in investment securities under investments and other assets in the previous fiscal year, are presented as a separate line item from the fiscal year ended December 31, 2018, with the aim of improving clarity.

“Shares of affiliates”, which were included in investment securities under investments and other assets in the previous fiscal year, are presented as a separate line item from the fiscal year ended December 31, 2018, with the aim of improving clarity.

Deferred tax assets, which were included in the other line item under investments and other assets, in the previous fiscal year, are presented as a separate line item from the fiscal year ended December 31, 2018, because their monetary materiality has increased.

For the fiscal year under review onwards, we decided to separate and independently indicate Deferred tax liabilities, which had been included in other of Current liabilities for the previous fiscal year, due to its growing significance in value.

(Consolidated statement of income)

Provision of allowance for doubtful accounts, which was presented as a separate line item under non-operating expenses for the previous fiscal year, is included in the other line under non-operating expenses for the fiscal year under review. The change resulted from a revision of accounts presented on the consolidated statement of income with the aim of improving clarity.

4. Notes on additional information

(Adoption of Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act)

The Company began accounting for cryptocurrencies in accordance with the Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act (ASBJ Practical Issues Task Force (PITF) No. 38; March 14, 2018) from the fiscal year ended December 31, 2018, the first year in which PITF No. 38 was permitted to be adopted.

5. Notes on consolidated balance sheet

(1) Breakdown of inventories presented as a single line item

(Yen in thousands)

Merchandise	¥243,146
Work in process	¥9,364
Supplies	¥216

(2) Assets pledged as collateral and secured liabilities

1) Assets pledged as collateral (Yen in thousands)

Cash and deposits (term deposits)	¥21,257
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2) Liabilities secured by above assets (Yen in thousands)

Accounts payable	¥33,588
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(Yen in thousands)

(3) Accumulated depreciation on property, plant and equipment

¥422,804

733 thousand yen of impairment loss for non-current assets were included above accumulated depreciation on property, plant and equipment.

6. Notes on consolidated statement of changes in net assets

(1) Matters concerning classes and numbers of issued shares and treasury shares

Class of stock	As of Jan. 1, 2018	Additions	Subtractions	As of Dec. 31, 2018
Issued common shares				
Common shares	23,817,700 shares	282,528 shares	282,528 shares	23,817,700 shares
Treasury shares				
Common shares	1,200,062 shares	171 shares	282,528 shares	917,705 shares

(2) Matters concerning subscription rights to shares

Category	Type	Class of underlying stock	Number of shares underlying stock options				Balance as of Dec. 31, 2018 (Yen in thousands)
			As of Jan. 1, 2018	Additions	Subtractions	As of Dec. 31, 2018	
Consolidated subsidiaries	Subscription rights to shares granted as stock options	Common shares	—	—	—	—	228
Total			—	—	—	—	228

(3) Matters concerning dividend

1) Amount of dividend distribution

Authorization	Class of stock	Total dividend distribution (Yen in thousands)	Dividend per share (Yen)	Record date	Declaration date
March 29, 2018 Annual Shareholders' Meeting	Common shares	271,411	12.0	December 31, 2017	March 30, 2018

2) Dividends with a record date in the fiscal year ended December 31, 2018, and declaration date in the following fiscal year

Scheduled authorization	Class of stock	Dividend funding source	Total dividend distribution (Yen in thousands)	Dividend per share (Yen)	Record date	Declaration date
February 7, 2019 Board of Directors Meeting	Common shares	Retained earnings	435,099	19.0	December 31, 2018	March 7, 2019

7. Notes on financial instruments

(1) Matters concerning financial instruments

1) Activities and policies related to financial instruments

The Group invest into financial assets focusing on safety and liquidity given own cash flows and financial market conditions. When borrowing funds or otherwise raising capital, the Group takes stability, cost-efficiency and flexibility into consideration in selecting funding instruments.

The Group manages investment businesses that invest in securities for investment purposes through dedicated business units.

2) Nature of financial instruments and associated risks

Trade notes and accounts receivable are subject to customer credit risk. With respect to this risk, the Group has staff that manage receivable collection schedules and receivable balances on a customer-by-customer basis and periodically assess major customers' credit status in accord with the Group's credit management regulations. Trade receivables denominated in foreign currencies are subject to currency risk. Investment securities are mainly stocks of companies with which the Company has business relationships. They are subject to the risk of market price fluctuations.

The Group's holdings of operational investment securities and investment securities other than the aforementioned stockholdings mainly consist of stocks and equity interests in partnerships and other such entities. The Group holds the securities for purely investment purposes or to advance its businesses. The listed stocks among these securities are subject to the risk of market price fluctuations. The unlisted stocks among these securities are subject to the two risks disclosed below because unlisted companies tend to be more sensitive than listed companies to changes in the economic environment and other such developments as a result of having less stable financial/earnings foundations and being more constrained in terms of management resources.

- a. The Group has no assurance of earning any capital gains on its investments.
- b. The Group may incur capital losses on its investments.

Trade notes and accounts payable are predominately payable within one year. Trade payables denominated in foreign currencies are subject to currency risk.

Loans payable and long-term loans payable are mostly funding needed for working capital, among other purposes.

3) Financial instrument risk-management regime

- Management of credit risk (risk associated with, e.g., counterparties' contractual nonperformance)

For trade receivables, the Group conducts credit screenings when it starts doing business with a new customer, continually monitors receivables' collection status, reviews credit limits and revises them when necessary in accord with its credit management regulations.

- Management of market risks (e.g., foreign currency risk, interest rate fluctuation risk)

For operational investment securities and other investment securities, the Group periodically checks market values and assesses the issuer's (or partner company's) financial condition and continually reviews and, as necessary, adjusts its holdings in light of market conditions and/or its relationship with the partner company.

- Management of liquidity risk in connection with borrowings (risk of inability to repay borrowings by repayment date)

The Group manages liquidity risk through such means as having its finance staff prepare and update cash flow schedules on a timely basis.

4) Supplemental information on financial instruments' fair value

Financial instruments' fair values include valuations based on market prices and, in the case of financial instruments without market prices, valuations measured by reasonable means. The latter valuation measurements incorporate variables and are therefore subject to change in response to, e.g., changes in underlying assumptions.

(2) Matters concerning financial instruments' fair value

Financial instruments' carrying amounts on the consolidated balance sheet and fair values as of December 31, 2018 (the consolidated balance sheet date for the fiscal year under review), and the differences between the two are presented in the table below. The table omits financial instruments for which fair-value measurement is deemed unfeasible (see Note 2).

(Yen in thousands)

	Carrying amount on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	19,631,361	19,631,361	—
(2) Notes and accounts receivable-trade	13,652,827	13,652,827	—
(3) Operational investment securities and investment securities, etc.	11,724,352	11,724,352	—
Total assets	45,008,542	45,008,542	—
(1) Notes and accounts payable-trade	12,163,997	12,163,997	—
(2) Long-term loans payable (including current portion thereof)	10,000,000	9,987,371	(12,628)
Total liabilities	22,163,997	22,151,368	(12,628)

(Note 1) Matters concerning financial instrument fair-value measurement methods and securities

Assets

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Because these assets all have short-term maturities, their fair value approximates their carrying amounts. Their fair value is accordingly measured at their respective carrying amounts.

(3) Operational investment securities and investment securities

As a general rule, these securities' fair value is based on exchange-traded prices in the case of equities and, in the case of bonds, on price quotes provided by financial institutions or total principal and interest receivable discounted to present value using the discount rate that factors in residual maturity and credit risk.

Liabilities

(1) Notes and accounts payable-trade

Because these liabilities have short-term maturities, their fair value approximates their carrying amounts. Their fair value is accordingly measured at their respective carrying amounts.

(2) Long-term loans payable (including current portion thereof)

The fair value of long-term loans payable is measured by discounting total principal and interest payable using a discount rate that incorporates a benchmark rate (e.g., government bond yield) plus a credit spread.

(Note 2) Financial instruments for which fair-value measurement is deemed infeasible

(Yen in thousands)

Type	Carrying amount on consolidated balance sheet
Operational investment securities and investment securities*1	
Unlisted equities	4,953,543
Equity interests in investment limited partnerships and similar partnerships	1,895,673
Subsidiaries' share*2	0
Unlisted equities	
Affiliates' shares*2	1,027,800
Unlisted equities	
Total	6,849,216

(*1) Fair-value measurement is deemed infeasible for the above financial instruments, which do not have market prices. They are therefore omitted from "(3) Operational investment securities and investment securities."

(* 2) Fair-value measurement is deemed infeasible for the above financial instruments, which do not have market prices. They are therefore not included above table.

(Note 3) Post-reporting-date maturity schedule for receivables and securities with maturity dates

(Yen in thousands)

Type	Within 1 year	1-5 years	5-10 years	Over 10 years
(1) Cash and deposits	19,631,361	—	—	—
(2) Notes and accounts receivable—trade	13,652,827	—	—	—
Total	33,284,189			

(Note 4) Repayment schedule for loans payable and other interest-bearing debt

(Yen in thousands)

Type	Within 1 year	1-5 years	5-10 years	Over 10 years
Long-term loans payable	1,300,000	8,700,000	—	—
Total	1,300,000	8,700,000	—	—

8. Notes on per-share information

Net assets per share ¥1,025.19
Net income per share ¥84.66

9. Notes on significant subsequent events

Not applicable.

Balance sheet

(As of December 31, 2018)

(Yen in thousands)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	28,049,178	Current liabilities	11,826,081
Cash and deposits	13,889,916	Current portion of long-term loans payable	1,300,000
Accounts receivable-trade	318,508	Accounts payable	308,552
Merchandise	243,146	Deposits received from subsidiaries and associates	7,132,968
Operational investment securities	12,626,853	Accrued expenses	65,291
Advances paid	77,574	Income taxes payable	232,646
Short-term loans receivable from subsidiaries and associates	80,000	Advances received	22,569
Accounts receivable - other	447,959	Deposits received	21,900
Consumption taxes receivable	23,533	Provision for bonuses	65,978
Other	341,778	Deferred tax liabilities	2,559,455
Allowance for doubtful accounts	(94)	Other	116,719
Noncurrent assets	11,661,276	Noncurrent liabilities	8,776,998
(Property, plant and equipment)	133,493	Long-term loans payable	8,700,000
Buildings and structures	83,765	Asset retirement obligations	76,631
Tools, furniture and fixtures	49,728	Other	367
(Intangible assets)	64,503		
Patent right	759	Total liabilities	20,603,080
Trademark right	3,310		
Software	55,471	Net assets	
Software in progress	1,701	Shareholders' equity	12,892,426
Other	3,260	Capital stock	8,212,254
(Investments and other assets)	11,463,279	Capital surplus	3,423,712
Investment securities	201,976	Legal capital surplus	3,423,712
Shares of subsidiaries and associates	8,003,009	Retained earnings	1,954,701
Investments in other securities of subsidiaries and associates	809,740	Other retained earnings	1,954,701
Long-term loans receivable	35,404	Retained earnings brought forward	1,954,701
Loans receivable from subsidiaries and associates	1,110,200	Treasury shares	(698,241)
Long-term loans receivable from shareholders, directors or employees	4,442	Valuation and translation adjustments	6,214,948
Long-term prepaid expenses	173,754	Valuation difference on available-for-sale securities	6,214,948
Lease and guarantee deposits	541,290		
Deferred tax assets	618,866	Total net assets	19,107,374
Allowance for doubtful accounts	(35,404)		
Total assets	39,710,455	Total liabilities and net assets	39,710,455

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Statement of income

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

(Yen in thousands)

Account	Amount	
Revenue		4,197,362
Cost of sales		2,883,229
Gross profit		1,314,133
Selling, general and administrative expenses		1,361,696
Operating loss		47,562
Non-operating income		
Interest income	40,286	
Dividends income	5,097	
Gain on valuation of derivatives	56,525	
Other	8,915	110,825
Non-operating expenses		
Interest expenses	29,223	
Commission fee	1,000	
Loss on investments in partnership	127,495	
Foreign exchange losses	20,937	
Other	9,608	188,264
Ordinary loss		125,001
Extraordinary income		
Gain on sales of shares of subsidiaries	1,152,253	
Gain on sales of investment securities	12,277	1,164,530
Extraordinary loss		
Loss on retirement of noncurrent assets	5,438	
Loss on valuation of investment securities	10,264	
Loss on valuation of shares of subsidiaries	1,444,138	
Loss on liquidation of subsidiaries	310,824	
Other	17,601	1,788,268
Loss before income taxes		(748,740)
Income taxes-current	131,937	
Income taxes-deferred	(264,006)	(132,068)
Loss		616,671

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Statement of changes in net assets

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

(Yen in thousands)

	Shareholders' equity				
	Capital stock	Capital surplus		Retained earnings	
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
				Retained earnings brought forward	
Balance at beginning of year	7,835,926	3,047,385	3,047,385	3,057,747	3,057,747
Changes of items during period					
Issuance of new shares	376,327	376,327	376,327		
Dividends from surplus				(271,411)	(271,411)
Profit (loss)				(616,671)	(616,671)
Purchase of treasury shares					
Retirement of treasury shares				(214,963)	(214,963)
Net changes of items other than shareholders' equity					
Total changes of items during the period	376,327	376,327	376,327	(1,103,046)	(1,103,046)
Balance at end of year	8,212,254	3,423,712	3,423,712	1,954,701	1,954,701

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(912,886)	13,028,172	(1,145)	(1,145)	13,027,026
Changes of items during period					
Issuance of new shares		752,654			752,654
Dividends from surplus		(271,411)			(271,411)
Profit (loss)		(616,671)			(616,671)
Purchase of treasury shares	(318)	(318)			(318)
Retirement of treasury shares	214,963	—			—
Net changes of items other than shareholders' equity			6,216,094	6,216,094	6,216,094
Total changes of items during the period	214,645	(135,746)	6,216,094	6,216,094	6,080,348
Balance at end of year	(698,241)	12,892,426	6,214,948	6,214,948	19,107,374

(Note) The amounts presented above are rounded down to the nearest whole thousand yen.

Notes to Non-Consolidated Financial Statements

1. Notes on significant accounting policies

(1) Asset valuation standards and methods

1) Securities valuation standards and methods

A. Held-to-maturity bonds

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

B. Shares of subsidiaries and affiliates

The moving-average cost method is used.

C. 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.

D. Derivatives

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

2) Inventory valuation standards and methods

A. Merchandise and Work in process:

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

B. Supplies:

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

(2) Noncurrent asset depreciation and amortization methods

1) 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.

Tools, furniture and fixtures: 4 to 6 years

2) Intangible assets (excluding leased 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).

3) Leased assets

- Leased assets from non-ownership transfer finance lease transactions

Subject to the straight-line method where the lease term is the projected life in use, 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

1) 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 receivable accounts.

2) Provision for bonuses

In terms of provision for bonuses, the amount accrued in the fiscal year under review for the estimated payout to employees is recognized to prepare for payments of bonuses to employees.

(4) Other significant matters for preparing consolidated financial statements

1) 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.

2) Application of consolidated tax payment system

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

(5) Changes to significant matters that form the basis of financial statements' preparation

Not applicable.

2. Notes on changes in accounting policies

The Company's inventories (excluding supplies) previously were mainly valued at cost by the identified cost method. Effective from the fiscal year ended December 31, 2018, the Group switched mainly to the FIFO cost method. The Company made this change to more appropriately value its inventories and measure profit for the period as a result of reassessing its inventory management system in response to an increase in its inventories' materiality.

3 Notes on balance sheet

(1) Assets pledged as collateral and secured liabilities

Not applicable.

(2) Monetary receivables from and monetary payables to affiliates (excluding those presented as separate line items)

	(Yen in thousands)
Short-term monetary receivables	¥789,472
Short-term monetary payables	¥135,811

(3) Accumulated depreciation on property, plant and equipment

(Yen in thousands)

¥307,828

578 thousand yen of accumulated impairment loss on property, plant and equipment were included above accumulated depreciation.

4 Notes on statement of income

Transactions with affiliates accounted for the following transaction volumes included in line items is presented on the statement of income.

	(Yen in thousands)
Operating transactions	¥3,336,526
Non-operating transactions	¥45,344

5 Notes on statement of changes in net assets

Matters concerning class and number of treasury shares

Class of stock	As of Jan.1, 2018	Additions	Subtractions	As of Dec. 31, 2018
Treasury shares				
Common shares	1,200,062 shares	171 shares	282,528 shares	917,705 shares

6 Notes on deferred tax accounting matters

Breakdown of deferred tax assets and deferred tax liabilities by main cause (Yen in thousands)

Deferred tax assets	
Allowance for doubtful accounts	10,871
Provision for bonuses	20,205
Asset retirement obligations	18,934
Long-term accounts receivable - other	168,065
Loss on valuation of investment securities	1,301,452
Adjustment of investments' carrying amount	92,754
Loss on liquidation of subsidiaries	95,189
Enterprise taxes payable	16,152
Other	30,073
Subtotal deferred tax assets	<u>1,753,697</u>
Valuation allowance	(920,295)
Total deferred tax assets	<u>833,401</u>
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(2,773,990)
Total deferred tax liabilities	<u>(2,773,990)</u>
Net deferred tax assets	<u>(1,940,588)</u>

(Note) Net deferred tax assets are included in the following balance sheet accounts.

	(Yen in thousands)
Noncurrent assets, deferred tax assets	618,866
Current liabilities, deferred tax liabilities	(2,559,455)

7 Notes on transaction with related party

(1) Consolidated subsidiary

Type	Name of company	Address	Capital stock or equity stake (yen in millions)	Business	Ownership percentage (reciprocal ownership percentage)
Consolidated subsidiary	OPT, Inc.	Chiyoda-ku, Tokyo	100	Marketing Business	100.00% (—)
Consolidated subsidiary	Crossfinity, Inc.	Chiyoda-ku, Tokyo	30	Marketing Business	100.00% (—)
Consolidated subsidiary	relaido, Inc.	Shibuya-ku, Tokyo	50	Marketing Business	100.00% (—)
Consolidated subsidiary	OPT Ventures, Inc.	Chiyoda-ku, Tokyo	75	Investment Business	100.00% (—)
Consolidated subsidiary	OPT America, Inc	California, U.S.A	2,405	Investment Business	100.00% (—)

Type	Relationship with related party	Nature of transaction	Transaction amount (Yen in thousands)	Account	Ending balance (Yen in thousands)
Consolidated subsidiary	Director interlock Management involvement CMS transactions	Management consulting fee	1,471,961	Accounts receivable	126,330
		Collection of loan receivable			—
		Receipt of interest (Note 3)	590,000	—	—
		Borrowing of funds via CMS (Note 2)	862	Deposits received from subsidiaries and associates	3,384,937
		Payment of interest (Note 3)	—	—	—
Consolidated subsidiary	Director interlock Management involvement CMS transactions	Borrowing of funds via CMS (Note 2)	—	Deposits received from subsidiaries and associates	1,365,335
		Payment of interest (Note 3)	6	—	—
Consolidated subsidiary	Management involvement CMS transactions	Borrowing of funds via CMS (Note 2)	—	Deposits received from subsidiaries and associates	914,172
		Payment of interest (Note 3)	1	—	—
Consolidated subsidiary	Director interlock Management involvement CMS transactions	Borrowing of funds via CMS (Note 2)	—	Deposits received from subsidiaries and associates	969,153
		Payment of interest (Note 3)	1	—	—
		Payment of outsourcing fees (Note 4)	774,626	—	—
Consolidated subsidiary	Loans of funds	Lending of funds	—	Loans receivable from subsidiaries and associates	1,110,200
		Receipt of interest (Note 3)	36,750	Other current assets	12,557

(Notes) 1. Transaction amounts do not include consumption tax.

2. For borrowing transactions through the CMS (cash management system), only fiscal year-end balances are presented because balances frequently change.

3. For interest payment amounts, interest rates are rationally determined based on market interest rates and other relevant factors.
4. The Company pays outsourcing fees in an amount determined based on an outsourcing agreement pertaining largely to general management advisory services.

(2) Corporate officers and individual shareholders

Not applicable.

8 Notes on per-share information

Net assets per share

¥834.38

Net loss per share

¥(27.15)

9 Notes on significant subsequent events

Not applicable.

AUDITOR'S REPORTS

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

February 15, 2019

The Board of Directors
OPT Holding, Inc.

KPMG AZSA LLC

Masaki Sugiyama (Seal)
Designated Limited Liability Partner Engagement Partner
Certified Public Accountant

Toru Narushima (Seal)
Designated Limited Liability Partner Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheets, the consolidated statement of profit or loss, the consolidated statements of changes in net assets and the notes to consolidated financial statements of OPT Holding, Inc. ("the Company") as at December 31, 2018 and for the year from January 1, 2018 to December 31, 2018 in accordance with Article 444 (4) of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan. Management is also responsible for the establishment and operation of such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In the independent auditor's opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and operating results of the corporate group comprising OPT Holding, Inc., and its consolidated subsidiaries for the period to which said consolidated financial statements pertain, in conformity with corporate accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act

Independent Auditor's Report

February 15, 2019

The Board of Directors
OPT Holding, Inc.

KPMG AZSA LLC

Masaki Sugiyama (Seal)
Designated Limited Liability Partner Engagement Partner
Certified Public Accountant

Toru Narushima (Seal)
Designated Limited Liability Partner Engagement Partner
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in equity and the notes to financial statements, and the supporting schedules of OPT Holding, Inc. ("the Company") as at December 31, 2018 and for the 25th business year from January 1, 2018 to December 31, 2018 in accordance with Article 436 (2) (i) of the Companies Act.

Management's Responsibility for the Financial Statements and Others

Management is responsible for the preparation and fair presentation of the financial statements and the supporting schedules in accordance with accounting principles generally accepted in Japan, and for the establishment and operation of such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements and the supporting schedules that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supporting schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supporting schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supporting schedules. The procedures selected and applied depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the supporting schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supporting schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supporting schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of the Company for the period, for which the financial statements and supporting schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act

AUDIT COMMITTEE'S REPORT

AUDIT REPORT

We, the Audit and Supervisory Committee of OPT Holding, Inc.. (“the Company”), have audited the performance of duties by Directors and Executive Officers during the 25th business year from January 1, 2018 to December 31, 2018. We report the method and results as follows.

1. Method and details of audit

We, the Audit and Supervisory Committee, have received reports from the Executive Officers and employees on a regularly basis on the details of the board resolutions with respect to items prescribed in Article 399-13(1)(i)(b)-(c) of the Companies Act, and the status of the establishment and operation of the system established based on such board resolutions (internal control system), sought explanations, whenever the necessity arose, and expressed our opinions. Additionally, we conducted audits as follows.

- (1) In coordination with the Company’s internal audit staff, we attended important meetings, received reports from Directors, employees and others regarding the execution of their job duties, requested explanations as needed, inspected documents, including documentation of significant decisions, and investigated the status of operations and property at the Company’s Head Office and other major places of business, all in compliance with auditing standards prescribed by the Audit and Supervisory Committee and in accordance with audit policies, audit plans and an agreed-upon division of duties. We also communicated and exchanged information with subsidiaries’ Directors, Auditors and other personnel and, as needed, received reports from subsidiaries on their operations.
- (2) In addition to monitoring and examining whether the Accounting Auditor maintained an independent position and performed auditing appropriately, we received reports from the Accounting Auditor on the performance of its duties and requested explanations when necessary. In addition, we received notice from the Accounting Auditor that “The systems for ensuring the proper performance of duties” (set forth in each item of Article 131 of the Regulations of Corporate Financial Calculation) are organized in accordance with the “Standards for Quality Control of Audit” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations whenever necessity arose.

Based on the above methods, we examined the business report, financial statements (balance sheet, statement of income, statement of changes in equity, notes to financial statements), supporting schedules, and the consolidated financial statements (the consolidated balance sheets, the consolidated statement of profit or loss, the consolidated statements of changes in net assets and the notes to consolidated financial statements) for the fiscal year under review.

2. Results of audit

(1) Results of audit of business report, etc.

- i) In our opinion, the business report and accompanying schedules fairly represent the condition of the Company in accordance with the laws, regulations and Articles of Incorporation of the Company.
- ii) We have determined that there were no serious occurrences of dishonest or false activity or violations of any laws, regulations or the Company’s Articles of Incorporation by any Directors or Executive Officers in carrying out their duties.
- iii) We believe the details of resolutions of the Board of Directors regarding the internal control system are appropriate. We found no matters of note with respect to the execution of duties of Executive Officers regarding the internal control system.

(2) Results of audit of financial statements and accompanying schedules

In our opinion, the audit method and audit results received from the accounting auditor KPMG AZSA LLC are appropriate.

(3) Results of audit of consolidated financial statements

In our opinion, the audit method and audit results received from the accounting auditor KPMG AZSA LLC are appropriate.

February 21, 2018

Audit Committee of OPT Holding, Inc.

Audit Committee Member (time)	Fumiyuki Shinomiya	(Seal) (Full-
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Audit Committee Member	Nobuaki Ishizaki(Seal)
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Audit Committee Member	Toshio Yamaue (Seal)
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Notes to the Reader of Audit Report:

1. The Audit Report herein is the English translation of the Audit Report as required by the Companies Act.
2. Mr. Fumiyuki Shinomiya, Mr. Nobuaki Ishizaki and Mr. Toshio Yamaue are External Directors as provided for in Article 2, Item 15 and Article 331, Paragraph 6 of the Companies Act.

Reference Documents for the General Meeting of Shareholders

Proposal: Election of Five (5) Directors (Excluding those who are the Audit and Supervisory Committee members)

The terms of office of all of the current five (5) Directors will expire at the conclusion of this Annual General Meeting of Shareholders. Accordingly, the election of five (5) directors is proposed on the basis of the decision by the Nomination and Compensation Committee.

All candidates for Director in this proposal are deemed qualified by the Company's Audit and Supervisory Committee.

The candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Career Summary and Position in the Company (Significant concurrent positions)	Number of the Company's Shares Owned
1	Noboru Hachimine (June 22, 1967)	Apr. 1991 Joined Mori Building Co., Ltd. Mar. 1994 Established Deca Legs Ltd. (currently OPT Holdings Inc.), assumed position as President of the Company Mar. 2009 President and CEO of the Company (current position) Jun. 2016 Outside Director, UT Group Co., Ltd. (current position) Mar. 2017 Independent Outside Director at UT Group Co., Ltd., SoldOut, Inc. (current position)	5,000
[Reasons for nomination as candidate for Director] Mr. Noboru Hachimine has long demonstrated excellent leadership and driven growth in the Group's corporate value. He has been nominated because he is well-qualified to continue to build an operational foundation for the realization of sustained Group-wide growth and to grow corporate value over the medium to long term.			
2	Atsushi Nouchi (December 21, 1967)	Apr. 1991 Joined Mori Building Co., Ltd. Oct. 1996 Joined the OPT Holdings Inc. Mar. 1999 Director of the Company Feb. 2015 CEO at Opt Ventures, Inc. (current position) Mar. 2015 Representative Director and CEO at OPT Incubate, Inc. (current position) Mar. 2017 Vice President and COO of OPT Holdings Inc. (current position) May 2017 Director, OPT Works (currently SIGNATE Inc.) (current position)	885,000
[Reasons for nomination as candidate for Director] Mr. Atsushi Nouchi is well-versed in all aspects of the Company's operations and has been driving growth in the Group's corporate value through strong leadership, decisiveness and executive capabilities. He has been nominated because he is well-qualified to continue to build an operational foundation for the realization of sustained Group-wide growth and to grow corporate value over the medium to long term.			

Candidate No.	Name (Date of birth)	Career Summary and Position in the Company (Significant concurrent positions)	Number of the Company's Shares Owned
3	Hiroshi Teraguchi (October 27, 1959)	<p>Apr. 1982 Joined Mobil Sekiyu K.K.</p> <p>Dec. 2000 CFO, Aoba Life Insurance Company, Ltd.</p> <p>Sept. 2005 Executive Officer, Axa Life Insurance Co., Ltd.</p> <p>Mar. 2007 General Manager of Accounting and Finance and CFO, Quintiles Transnational Japan K. K. (currently IQVIA Services JAPAN K. K.)</p> <p>Apr. 2012 Director and Managing Executive Officer, Intelligence, Ltd.</p> <p>Mar. 2014 Director and CFO, Skylark Co., Ltd.</p> <p>Aug. 2017 Senior Executive Officer and Group CFO of the Company</p> <p>Mar. 2018 Director and Group CFO of the Company (current position)</p>	70,028
<p>[Reasons for nomination as candidate for Director]</p> <p>Mr. Hiroshi Teraguchi has long been involved in business, including accounting and finance roles, and corporate management. He has been spearheading restructuring of the Company's administrative organizational units from a finance standpoint, capitalizing on his wealth of experience and expertise. He has been nominated because he is well-qualified to continue to build an operational foundation for the realization of sustained Group-wide growth and to grow corporate value over the medium to long term.</p>			
4	Syusaku Minoda (July 20, 1951)	<p>Apr. 1974 Joined The Industrial Bank of Japan (currently Mizuho Bank, Ltd.)</p> <p>Jun. 1998 Manager of Business Promotion Arrangement Office, Mizuho Bank, Ltd.</p> <p>Apr. 2000 Manager of Syndication, Mizuho Bank, Ltd.</p> <p>Apr. 2002 Manager of Syndication, Mizuho Corporate Bank (currently Mizuho Bank, Ltd.)</p> <p>Apr. 2004 Managing Executive Officer, Supervisor of Syndicated Finance Business Unit, Supervisor of Syndicated Finance & Loan Trading Compliance, and Group Supervisor, Mizuho Bank, Ltd.</p> <p>Apr. 2006 Managing Executive Officer, Supervisor of Global Syndication Unit and Global Products Unit, Mizuho Bank, Ltd.</p> <p>Jul. 2007 Managing Director and Co-Chief Executive Officer, Kohlberg Kravis Roberts & Co. (KKR) Japan</p> <p>Sept. 2007 Director, KKR Capital Markets (KCM)</p> <p>Jan. 2008 President, KKR Japan</p> <p>Apr. 2009 Director, Toys"R"US Japan</p> <p>May 2013 Chairman, KKR Japan</p> <p>Sept. 2014 Company Advisor, OPT Holding Inc.</p> <p>Mar. 2015 Director of the Company (current position)</p>	10,000
<p>[Reasons for nomination as candidate for Director]</p> <p>Mr. Syusaku Minoda has vast experience in the financial sector both in Japan and overseas. He also possesses extensive experience and broad insight as a high-ranking corporate executive. He has been nominated to offer opinions and advice to the Company's management from various perspectives.</p>			

Candidate No.	Name (Date of birth)	Career Summary and Position in the Company (Significant concurrent positions)	Number of the Company's Shares Owned
5	Tomoyuki Mizutani (August 16, 1964)	<p>Apr. 1988 Joined Recruit Co., Ltd. (currently Recruit Holdings Co., Ltd.)</p> <p>Apr. 1997 Editor-in-Chief, "Tech Being"</p> <p>Apr. 2001 Editor-in-Chief, "Recruit Navi Career"(currently "RikuNavi NEXT")</p> <p>Apr. 2002 Editor-in-Chief, "Being" (Kanto region edition)</p> <p>Apr. 2004 Corporate Executive Officer (responsible for Human Resource (HR) Division) of Recruit Holdings Co., Ltd.</p> <p>Apr. 2006 Director, Recruit HR Marketing Co., Ltd. (currently Recruit Jobs Co., Ltd.)</p> <p>Apr. 2007 Director and Corporate Executive Officer (responsible for HR, administration, corporate communication, Recruit Holdings Co., Ltd.)</p> <p>Apr. 2009 Managing Executive Officer, Recruit Agent Co., Ltd. (currently Recruit Career Co., Ltd.)</p> <p>Apr. 2011 President, Recruit Agent Co., Ltd.</p> <p>Oct. 2012 First President, Recruit Career Co., Ltd.</p> <p>Apr. 2015 Advisor, Recruit Holdings Co., Ltd.</p> <p>April 2016 Advisor, Japan Executive Search and Recruitment Association (current position)</p> <p>Mar. 2017 External Director of the Company (current position)</p>	10,000
<p>[Reasons for nomination as candidate for Director]</p> <p>Mr. Tomoyuki Mizutani has spent much of his career at Recruit Co., Ltd. (currently Recruit Holdings Co., Ltd.), mainly in the HR business domain. He was active in multiple high-ranking executive positions, including as a Corporate Executive Officer (responsible for HR Division) at Recruit and the first President of Recruit Career Co., Ltd. Outside of the Recruit Group, he has been active in a wide range of activities with HR and societal-contribution themes, including cultivation of social entrepreneurs. In addition to such extensive experience, Mr. Mizutani possesses broad insight. He has been nominated to offer opinions and advice to ensure appropriate, sound management decision-making from an independent, objective standpoint.</p>			

(Notes)

1. The Company was renamed OPT Holding, Inc., in April 2015.
2. None of the candidates has any special interests in the Company or vice versa.
3. Mr. Tomoyuki Mizutani is an External Director candidate.
4. Mr. Tomoyuki Mizutani is currently an External Director of the Company; he will have served as an External Director for two years as of the conclusion of the 24th Annual General Meeting of Shareholders.
5. If Messrs. Syusaku Minoda and Tomoyuki Mizutani are reappointed, the Company plans to renew existing agreements with both of them pursuant to Article 427(1) of the Companies Act. The agreements limit their liability for damages under Article 423(1) of the Companies Act to the minimum liability stipulated in Article 425(1) of the Companies Act.
6. Mr. Tomoyuki Mizutani meets the independent director requirements of the Tokyo Stock Exchange, Inc. If reappointed, he will continue to serve as an independent director.
7. HIBC Co., Ltd., an asset management company wholly owned by Mr. Noboru Hachimine, owns 4,899,200 shares of the Company's stock.

8. Time & Space, an asset management company wholly owned by Mr. Atsushi Nouchi, owns 390,800 shares of the Company's stock.
9. The above numbers of the Company's shares owned by the Director candidates are as of February 21, 2019.