Uzabase, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2021 (Unaudited)

Uzabase, Inc. and Subsidiaries

Consolidated Balance Sheet
December 31, 2021 （Unaudited）

ASSETS	Millions of Yen 2021	Millions of Yen 2020
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	¥ 10,613	¥ 7,513
Trade notes and accounts receivable (Note 4)	1,147	984
Other current assets	586	748
Allowance for doubtful receivables (Note 4)	(9)	(19)
Total current assets	12,337	9,226
PROPERTY AND EQUIPMENT:		
Buildings	273	557
Tools, furniture and fixtures	474	432
Other	65	4
Total	813	993
Accumulated depreciation	(542)	(438)
Net property and equipment	271	554
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 4 and 5)	2,605	1,219
Goodwill	718	811
Deferred tax assets (Note 10)	3,217	3,226
Other	1,135	875
Total investments and other assets	7,677	6,133
TOTAL	¥ 20,286	¥ 15,915

Uzabase, Inc. and Subsidiaries

Consolidated Balance Sheet
December 31, 2021 （Unaudited）

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020
CURRENT LIABILITIES:		
Trade accounts payable (Note 4)	¥ 484	¥ 370
Current portion of long-term debt (Notes 4 and 6)	1,322	865
Income taxes payable (Note 4)	381	141
Unearned revenue	2,784	1,962
Provision for facility closure (Note 12)	194	—
Other current liabilities	2,297	1,883
Total current liabilities	7,464	5,222
LONG-TERM LIABILITIES:		
Long-term debts (Notes 4 and 5)	2,697	3,447
Other	155	126
Total long-term liabilities	2,852	3,573
EQUITY (Notes 7 and 8):		
Common stock—authorized, 104,000,000 shares; issued, 36,750,126 shares and 36,533,502 shares in 2021 and 2020, respectively	7,188	7,170
Capital surplus	6,124	6,105
Stock acquisition rights	9	14
Accumulated deficit	(6,889)	(7,478)
Treasury stock—at cost, 258 shares in 2021 and 2020	(0)	(0)
Accumulated other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	26	(2)
Foreign currency translation adjustment	47	(21)
Total	6,505	5,787
Noncontrolling interests	3,464	1,330
Total equity	9,970	7,118
TOTAL	¥ 20,286	¥ 15,915

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Operations
Year Ended December 31, 2021 （Unaudited）

	Millions of Yen	
	2021	2020
NET SALES	¥ 16,063	¥ 13,809
COST OF SALES	6,283	6,216
Gross profit	9,780	7,592
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	8,319	7,488
Operating income	1,460	104
OTHER INCOME (EXPENSES):		
Interest income	4	7
Interest expense	(20)	(88)
Gain on sale of investment securities (Note 5)	303	—
Gain on remeasurement of investment securities (Notes 4 and 5)	149	—
Gain on a step acquisition	—	104
Impairment loss (Note 6)	(289)	(7,810)
Loss on sale of a subsidiary's stock (Note 12)	—	(1,042)
Provision for loss on facility closure (Note 12)	(210)	—
Business restructuring costs (Note 12)	—	(279)
Other	(183)	(362)
Other expenses—net	(245)	(9,470)
INCOME (LOSS) BEFORE INCOME TAXES	1,214	(9,366)
INCOME TAXES (Note 10)		
Current	389	232
Deferred	49	(3,004)
Total income taxes	438	(2,771)
NET INCOME (LOSS)	776	(6,594)
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	187	(122)
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 589	¥ (6,472)
	Yen	
PER SHARE OF COMMON STOCK (Note 2.q):		
Basic net income (loss)	¥ 16.07	¥ (186.58)
Diluted net income	15.39	—

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended December 31, 2021 （Unaudited）

	Millions of Yen			
	2021		2020	
NET INCOME (LOSS)	¥	776	¥	(6,594)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 13):				
Unrealized gain (loss) on available-for-sale securities		310		(1)
Foreign currency translation adjustment		69		225
Total other comprehensive income		379		223
COMPREHENSIVE INCOME (LOSS)	¥	1,156	¥	(6,371)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the parent	¥	687	¥	(6,244)
Noncontrolling interests		468		(127)

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2021 （Unaudited）

	Thousands	Millions of Yen									
							Accumulated Other Comprehensive Income				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Accumulated Deficit	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustment	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2020	32,949	¥ 4,096	¥ 3,029	¥ 10	¥ (1,006)	¥ (0)	¥ (0)	¥ (246)	¥ 5,881	¥ 1,249	¥ 7,131
Net loss attributable to owners of the parent	—	—	—	—	(6,472)	—	—	—	(6,472)	—	(6,472)
Issuance of new shares (Note 8)	3,348	3,046	3,046	—	—	—	—	—	6,092	—	6,092
Exercise of stock acquisition rights (Note 9)	235	28	28	—	—	—	—	—	56	—	56
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	1	—	—	—	—	—	1	—	1
Net change in the year	—	—	—	4	—	—	(1)	225	227	81	308
BALANCE, DECEMBER 31, 2020	36,533	7,170	6,105	14	(7,478)	(0)	(2)	(21)	5,787	1,330	7,118
Net income attributable to owners of the parent	—	—	—	—	589	—	—	—	589	—	589
Exercise of stock acquisition rights (Note 9)	216	17	17	—	—	—	—	—	35	—	35
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	1	—	—	—	—	—	1	—	1
Net change in the year	—	—	—	(5)	—	—	28	69	92	2,133	2,226
BALANCE, DECEMBER 31, 2021	36,750	¥ 7,188	¥ 6,124	¥ 9	¥ (6,889)	¥ (0)	¥ 26	¥ 47	¥ 6,505	¥ 3,464	¥ 9,970

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2021 （Unaudited）

	Millions of Yen	
	2021	2020
OPERATING ACTIVITIES:		
Income (loss) before income taxes	¥ 1,214	¥ (9,366)
Adjustments for:		
Income taxes—paid	(246)	(1,001)
Income taxes—refunded	226	—
Depreciation and amortization	349	280
Impairment loss	289	7,810
Amortization of goodwill	93	533
Gain on sale of investment securities	(303)	—
Gain on a step acquisition	—	(104)
Loss on sale of a subsidiary's stock	—	1,042
Provision for loss on facility closure	210	—
Changes in assets and liabilities:		
(Decrease) increase in notes and accounts receivable	(149)	612
Increase in other payables	144	76
Increase in unearned revenue	815	754
Other—net	51	391
Total adjustments	1,481	10,393
Net cash provided by operating activities	2,696	1,026
INVESTING ACTIVITIES:		
Payments into time deposits	—	(672)
Proceeds from withdrawal from time deposits	72	600
Purchases of property and equipment	(126)	(404)
Purchases of intangible assets	(396)	(330)
Purchases of investment securities	(968)	(604)
Proceeds from sale of investment securities	356	—
Payments for purchase of newly-consolidated subsidiaries' stock (Note 14)	—	(170)
Payments for sale of a subsidiary's stock resulting in a change in the scope of consolidation (Note 14)	—	(451)
Other—net	(3)	6
Net cash used in investing activities	(1,066)	(2,028)
FINANCING ACTIVITIES:		
Proceeds from long-term loans	800	1,500
Repayments of long-term loans	(990)	(7,037)
Payments for redemption of bonds	(102)	(102)
Proceeds from issuance of new shares	31	6,043
Proceeds from limited partners of investment partnership	1,735	210
Other—net	(70)	(0)
Net cash provided by financing activities	1,404	613
FORWARD	¥ 3,034	¥ (387)

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2021 （Unaudited）

	Millions of Yen			
	2021		2020	
FORWARD	¥	3,034	¥	(387)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		65		(53)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,100		(441)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		7,513		7,954
CASH AND CASH EQUIVALENTS, END OF YEAR	¥	10,613	¥	7,513

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards ("IFRS") as to the application and disclosure requirements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Uzabase, Inc. (the "Company") is incorporated and operates. The Japanese yen amounts in millions are rounded down to the nearest million. An amount less than one million but not null is stated as "0," whereas "—" represents null.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and all subsidiaries (together, the "Group"). Number of subsidiaries as of December 31, 2021 and 2020, was 14 and 15, respectively. Significant subsidiaries as of December 31, 2021, were: (1) Uzabase China Limited, (2) Mimir, Inc. ("Mimir"), (3) NewsPicks, Inc., (4) NewsPicks Studios, Inc., (5) AlphaDrive Co., Ltd., (6) UB Ventures, Inc., (7) UBV Fund-I Investment Partnership ("UBV Fund"), (8) UBV Fund-I Growth Investment Partnership ("UBV Fund Growth"), and (9) Uzabase USA, Inc. ("Uzabase USA")

UBV Fund Growth was newly established and has been consolidated since 2021.

In 2021, INITIAL, Inc. and, FORCAS, Inc. were deconsolidated because they were merged into the Company. Another former subsidiary was deconsolidated due to liquidation.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The Company did not have any associated companies accounted for by the equity method as of December 31, 2021 and 2020.

Practical Issues Task Force ("PITF") No. 20, "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations," which was issued by Accounting Standards Board of Japan ("ASBJ"), clarifies how the control and influence concept should be practically applied to the consolidation scope of collective investment vehicles, such as limited partnerships, Tokumei-Kumiai and other entities with similar characteristics. The Company has applied this task force and has consolidated UBV Fund and UBV Fund Growth.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of no more than 15 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The closing date of the subsidiaries is December 31, which is the same as that of the Company.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***—Under PITF No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" issued by ASBJ, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP," Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. ***Cash Equivalents***—Cash equivalents are short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and exposed to insignificant risk of changes in value.

e. ***Marketable and Investment Securities***—Under Japanese GAAP, marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

All investment securities held by the Group as of December 31, 2021 and 2020, were available-for-sale securities.

f. ***Property and Equipment***—Property and equipment are stated at cost. Depreciation of property and equipment is computed by the declining-balance method based on the estimated useful lives of the assets, whereas the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016.

The estimated useful lives for buildings are principally 4 years. The estimated useful lives for tools, furniture and fixtures are ranging from 3 to 10 years.

g. ***Impairment of Long-Lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Assets are principally grouped based on managerial accounting categories of each business. Software used in the administrative department of the Company is classified as a corporate asset because it does not generate independent cash inflows.

h. ***Intangible Assets***—Software for internal use is amortized by the straight-line method over a period of no more than five years, based on the estimated useful life of the software.

i. ***Allowance for Doubtful Receivables***—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. ***Provision for facility closure***—The Group provides for losses to be incurred in relation to the scheduled closure of its business facility at an estimated amount as of the balance sheet date.

k. ***Retirement and Pension Plans***—The Company and certain subsidiaries have a defined contribution pension plan and prepaid retirement allowance plans of which each employee is entitled to select one to participate in. The required amount of contribution to the defined contribution pension plan for the year ended December 31, 2021 was ¥35 million.

l. ***Stock Options***—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheets, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

m. ***Leases***—Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

Leased assets of the Group mainly comprise multifunction copiers. No lease transactions were significant for the years ended December 31, 2021 and 2020.

n. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

o. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

p. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. ***Per Share Information***—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share for the year ended December 31, 2020 is not disclosed, as it is anti-dilutive, given the Group's net loss position.

r. ***New Accounting Pronouncements***

Revenue Recognition—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" (subsequently revised on March 31, 2020) and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" (subsequently revised on March 26, 2021). The core principle of the standard and guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company plans to apply the accounting standard and guidance for annual periods beginning on January 1, 2022, and is in the process of evaluating the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Fair Value Measurement, Implementation Guidance on Accounting Standard for Fair Value Measurement, Accounting Standard for Measurement of Inventories, Accounting Standard for Financial Instruments, and Implementation Guidance on Disclosures about Fair Value of Financial Instruments— On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement,” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement.” The basic policy in developing the accounting standard for fair value measurement by the ASBJ was to incorporate the principles of IFRS 13 to ensure the comparability between financial statements. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability.

The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020.

The Company plans to apply the accounting standard and guidance for annual periods beginning on January 1, 2022, and is in the process of evaluating the effects of applying the accounting standard and guidance in future applicable periods.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The Company applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the end of the fiscal year ended December 31, 2021. The information as of December 31, 2020 is not presented in accordance with the transitional treatment set forth in a provision of paragraph 11 of the accounting standard.

Items whose amount is recorded in the consolidated financial statements for the current year based on accounting estimates, and which would have a significant impact on the consolidated financial statements for the following year, are summarized as follows.

Measurement of Investment Securities

(1) Investment securities recorded on the consolidated financial statements

Unlisted equity securities	¥	1,601 million
Unlisted equity securities to which U.S. GAAP is applied	¥	660 million

(2) Other information

(a) Computation method

Unlisted equity securities are stated at their carrying amounts because fair values of which are not reliably determinable. If the substantial value of such securities determined based on equity per share significantly declines, the carrying amounts are reduced unless the likelihood of recovery can be supported by sufficient evidence. In addition, the carrying amounts of such unlisted securities are reduced if all of the following conditions are met: (i) the transaction price to acquire such unlisted equity securities reflects the excess earning power of the investee and therefore are higher than the equity-per-share-based amount determined based on the investee's financial statements; (ii) the excess earning power is expected to be no longer available; and (iii) the substantial value determined by reflecting the excess earning power significantly declined as compared to the carrying amount.

Unlisted equity securities to which U.S. GAAP is applied are measured at fair value as of the date that the observable transaction occurred, provided that the observable price changes have been identified in accordance with Accounting Standards Codification Topic 321 of U.S. GAAP. If the results of the qualitative assessment of indication of impairment indicate that the fair value of the investment is less than its carrying amount, the investment is written down to the fair value.

(b) Major assumptions used in measurement

The Group determines whether the excess earning power is impaired or not based on the assumption that the business plan of the investee is reasonable considering financing prices made by a third party to the investee, current products, management structure, cash flows, changes in key performance indicators, and the status of achievement of the business plan anticipated at the time of executing the investment.

(c) Effect on the consolidated financial statements for the following year

If any revision is required due to changes in circumstances such as business conditions, financial position, and operating environment, as well as the uncertainties in estimates, the Group may recognize a loss on write-down of investment securities in the following year.

Recoverability of Deferred Tax Assets

(1) Deferred tax assets recorded on the consolidated financial statements

Deferred tax assets	¥ 3,217 million

(2) Other information

(a) Computation method

A deferred tax asset is recognized for future deductible temporary differences and tax loss carryforward as of the end of year to the extent that the future tax benefits are considered to be available, based on the classification as defined in ASBJ Guidance No. 26, "Implementation Guidance on Recoverability of Deferred Tax Assets."

(b) Major assumptions used in measurement

Future taxable income to be generated from future profitability is estimated based on the Group's business plans.

The major assumption in making business plans is forecasts for future growth based on current operating environment, trends in main key performance indicators such as MRR (Monthly Recurring Rate that represents the subscription revenue per month) and churn rate, and status of investments in product growth, taking into account uncertainties related to these items.

In forecasting future growth, the Group has assumed that the negative impact of the COVID-19 pandemic will be limited and insignificant.

(c) Effect on the consolidated financial statements for the following year

If any revision is required due to uncertain changes in future economic conditions, the Group may recognize a reversal of deferred tax assets and related tax expenses in the following year.

4. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group raises funds through bank loans and issuance of bonds. The Group's use of its temporary surplus funds is bank deposits. The Group does not enter into any derivative contracts.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Trade accounts receivable are subject to customer credit risk. Most trade accounts payable are due within one year. Funds raised through long-term loans and bonds are mainly utilized for working capital and have maturities up to six years and two years, respectively, after the balance sheet date. Long-term loans and bonds are subject to liquidity risk that the Group cannot meet its contractual obligations on their maturities.

(3) *Risk Management for Financial Instruments*

Credit risk management

The Group manages its credit risk from trade notes and accounts receivable in accordance with internal credit management guidelines, which include monitoring of payment terms, due dates and balances of customers to identify and mitigate the default risk of customers.

Liquidity risk management on fund procurement

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The relevant department prepares and updates the cash management plans in a timely manner based on the reports submitted by each department. In addition, the Group maintains a certain level of liquidity on hand.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Such valuation techniques include certain assumptions. Results may differ if different assumptions are used in the valuation.

Financial instruments whose fair values are readily determinable as of December 31, 2021 and 2020, are as follows:

	Millions of Yen		
	2021		
	Carrying Amount	Fair Value	Unrealized Loss
Assets:			
(1) Cash and cash equivalents	¥ 10,613	¥ 10,613	—
(2) Trade notes and accounts receivable	1,147	1,147	—
(3) Investment securities	1,004	1,004	—
Total	¥ 12,765	¥ 12,765	—
Liabilities:			
(4) Trade accounts payable	¥ 484	¥ 484	—
(5) Income taxes payable	381	381	—
(6) Long-term debt, including current portion	4,019	4,019	¥ (0)
Total	¥ 4,881	¥ 4,881	¥ (0)

	Millions of Yen		
	2020		
	Carrying Amount	Fair Value	Unrealized Loss
Assets:			
(1) Cash and cash equivalents	¥ 7,513	¥ 7,513	—
(2) Trade notes and accounts receivable	984	984	—
(3) Investment securities	—	—	—
Total	¥ 8,497	¥ 8,497	—
Liabilities:			
(4) Trade accounts payable	¥ 370	¥ 370	—
(5) Income taxes payable	141	141	—
(6) Long-term debt, including current portion	4,308	4,283	¥(24)
Total	¥ 4,819	¥ 4,795	¥(24)

Notes: (1), (2), (4), and (5)—As these items are settled within one year and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(3)—Fair value of investment securities is measured at the quoted price in active markets. Certain unlisted equity securities held by a foreign subsidiary is measured at fair value as of the date that the observable transaction occurred, provided that the observable price changes have been identified in accordance with Accounting Standards Codification Topic 321 of U.S. GAAP.

(6)—Long-term debts with variable interest rates are measured at their carrying amount as the interest rate on these loans reflects the market rate in the short term and financial status of the Company has not changed significantly after the transaction and as a result, their market values approximate the carrying amounts. Long-term debts with fixed interest rates are measured at the present value of the total amount of the principal and interest taken as a whole discounted by an expected rate that would be applied to loans or bonds with the same terms and conditions.

Financial instruments which do not have quoted market prices and whose fair values are not reliably determinable are not included in the table above. The carrying amounts of such financial instruments as of December 31, 2021 and 2020, are as follows:

	Millions of Yen	
	2021	2020
Investment securities:		
Unlisted equity securities—available-for-sale securities	¥ 1,437	¥ 792
Unlisted debt securities—available-for-sale securities	—	258
Stock acquisition rights	129	140
Investments in investment partnerships	34	27
	¥ 1,601	¥ 1,219

A maturity analysis for financial assets as of December 31, 2021 and 2020, is as follows:

December 31, 2021	Due in 1 Year Millions of Yen
Cash and cash equivalents	¥ 10,613
Trade notes and accounts receivable	1,147
Total	¥ 11,760

December 31, 2020	Due in 1 Year Millions of Yen
Cash and cash equivalents	¥ 7,513
Trade notes and accounts receivable	984
Total	¥ 8,497

5. INVESTMENT SECURITIES

The costs and aggregate fair value of investment securities which have quoted market prices and whose fair values are reliably determinable as of December 31, 2021 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—				
Equity securities:				
December 31, 2021	¥ 550	¥ 453	¥ —	¥1,004

Note: Certain unlisted equity securities held by a foreign subsidiary is measured at fair value as of the date that the observable transaction occurred, provided that the observable price changes have been identified in accordance with Accounting Standards Codification Topic 321 of U.S. GAAP.

All investment securities as of December 31, 2020 did not have quoted market prices and their fair values were not reliably determinable.

Proceeds from sales of available-for-sale equity securities and related gain for the year ended December 31, 2021 were ¥357 million and ¥303 million, respectively. No sales of available-for-sale equity securities were recorded for the year ended December 31, 2020.

The impairment losses on available-for-sale equity securities for the year ended December 31, 2021 were ¥55 million (¥45 million for equity securities and ¥10 million for others).

The impairment losses on available-for-sale equity securities for the year ended December 31, 2020 were ¥70 million (¥49 million for equity securities and ¥20 million for others).

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2021 and 2020. As a result, the Group recognized an impairment loss of ¥289 million and ¥7,810 million, respectively, for the years ended December 31, 2021 and 2020. The details are as follows:

Year Ended December 31, 2021

		Millions of Yen
NewsPicks, Inc. (Chuo-ku, Tokyo):		
Operating assets:		
Buildings	¥	254
Tools, furniture and fixtures		34

The operating assets in the table above were written down to zero in relation to the decision to close NewsPicks GINZA, a facility of NewsPicks business located in Japan.

Year Ended December 31, 2020

		Millions of Yen
Quartz Media, Inc. (the United States of America):		
Operating assets:		
Buildings	¥	36
Tools, furniture and fixtures		7
Other		9
Goodwill		6,660
NewsPicks USA, LLC (the United States of America)—Goodwill		1,097
Quartz News Limited (Hong Kong)—Tools, furniture and fixtures		0
Quartz News Ltd (the United Kingdom)—Tools, furniture and fixtures		0

The carrying amount of the assets in the table above was written down to zero in relation to the withdrawal from Quartz business.

7. LONG-TERM DEBTS

Long-term debts as of December 31, 2021 and 2020, consisted of the following:

	Millions of Yen			
	2021		2020	
Unsecured 0.02% bonds #1 due serially 2023	¥	90	¥	150
Unsecured 0.02% bonds #2 due serially 2023		84		126
Long-term bank loans, due serially to 2027		3,841		4,032
Obligations under finance leases		3		4
Total		4,019		4,312
Less current portion		(1,322)		(865)
Long-term debt, less current portion	¥	2,697	¥	3,447

The weighted-average interest rates of long-term bank loans as of December 31, 2021 and 2020, were approximately 1.1% and 1.2%, respectively.

Annual maturities of long-term debt as of December 31, 2021, were as follows:

Year Ending December 31	Millions of Yen
2022	¥ 1,322
2023	1,096
2024	781
2025	657
2026	137
2027 and thereafter	24
Total	¥ 4,019

As of December 31, 2021, no assets were pledged as collateral.

The Group has commitment line agreements and a term loan agreement with a commitment period with two financial institutions in order to raise funds flexibly. The total amount of the maximum amounts of the committed lines of credit granted and the term loan, outstanding balance, and remaining balance as of December 31, 2021 and 2020, were as follows:

	Millions of Yen	
	2021	2020
Total amount of the maximum amount of the committed lines of credit and the term loan	¥ 4,000	¥ 3,000
Outstanding balance	(2,000)	(1,500)
Remaining balance	¥ 2,000	¥ 1,500

8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective March 28, 2019. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On April 16, 2020, in accordance with the resolution of the Board of Directors' meeting held on March 25, 2020, the Company issued 657,400 shares of common stock through a third-party allotment to MITSUBISHI ESTATE CO., LTD. The issue price was ¥1,521 per share and the total amount of issuance was ¥999 million. As a result, common stock and capital surplus increased by ¥499 million each.

On July 27, 2020, according to the resolution of the Board of Directors' meeting held on July 9, 2020, the Company issued 2,691,000 shares of its common stock by way of an international offering. The issue price was ¥1,892.54 per share and the total amount of issuance was ¥5,092 million. As a result, common stock and capital surplus increased by ¥2,546 million each.

9. STOCK OPTIONS

Stock compensation expenses for the year ended December 31, 2020, were ¥0 million. No such expense was recorded for the year ended December 31, 2021.

Gain on reversal of stock acquisition rights for the year ended December 31, 2021, was ¥0 million. No such gain was recorded for the year ended December 31, 2020.

Number of shares has been retrospectively adjusted to reflect stock splits conducted in the prior years.

Stock options outstanding as of December 31, 2021, after retroactively adjusted for stock splits, were as follows:

The Company

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
Stock Option #4	1 director 26 employees	391,860 shares	May 4, 2013	¥70	From May 5, 2013 to May 3, 2023
Stock Option #5	2 directors 1 corporate auditor 47 employees	1,383,060 shares	April 30, 2014	¥84	From May 1, 2014 to March 28, 2024
Stock Option #8	71 employees	518,976 shares	July 1, 2015	¥292	From July 2, 2015 to March 27, 2025
Stock Option #9	1 corporate auditor 16 employees 20 employees of subsidiaries	279,840 shares	January 5, 2016	¥292	From January 6, 2016 to December 18, 2025
Stock Option #11	19 employees 4 directors of subsidiaries 11 employees of subsidiaries	548,400 shares	July 19, 2016	¥292	From July 20, 2016 to December 18, 2025
Stock Option #12	10 employees 8 employees of subsidiaries	115,224 shares	July 19, 2016	¥292	From July 20, 2016 to December 18, 2025
Stock Option #20	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2023 to June 30, 2026
Stock Option #22	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2022 to June 30, 2025
Stock Option #24	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2022 to June 30, 2025

Notes: 1. At the time of exercise, the holder of the stock options shall occupy the position of a director, corporate auditor, or employee of the Company or the Company's affiliates unless otherwise approved by the Board of Directors of the Company. For Stock Option #20, #22 and #24, the position of the holder at the time of exercise shall be the same as that on the grant date or higher.

2. The stock options do not have any service-period requirements for vesting.

3. Notwithstanding the exercise period, Stock Option #4, #5, #8, #9, #11 and #12 become exercisable on the stipulated date under the respective stock acquisition right allotment agreements between the Company and the right holders. Stock Option #5, #9 and #11 shall be tax-qualified to become exercisable on the stipulated date. The dates stipulated under such agreements are summarized as follows:

Stock Option Series	Designated Time
Stock Option #4	May 5, 2015
Stock Option #5	May 1, 2016
Stock Option #8	July 2, 2017
Stock Option #9	January 6, 2018
Stock Option #11	July 20, 2018
Stock Option #12	July 20, 2018

4. Vesting conditions of Stock Option #20 through #24 are subject to future operating results and the amount of market capitalization of the Company.

(1) If Adjusted EBITDA (see below*) for the any of specified fiscal years exceeds amounts in the table below, the right holders may exercise the stock option. The following table summarizes such vesting conditions:

* Adjusted EBITDA is calculated by adding back depreciation and amortization, amortization of goodwill, and stock compensation expenses to operating income on a consolidated basis.

Stock Option Series	Amount of Adjusted EBITDA	Fiscal Year Ending December 31
Stock Option #20	¥10,000 million	2022 through 2024
Stock Option #22	¥6,000 million	2021 through 2023
Stock Option #24	¥2,000 million	2021 through 2023

(2) In addition to (1) above, if the average amount of market capitalization for any of 20 consecutive days ending on any of the specified dates that belong to the designated period under the stock option plans exceeds the specified amount in the table below, the right holders may exercise the stock option from that day onward. The following table summarizes such vesting conditions:

Stock Option Series	Amount of Market Capitalization	Designated Period to Which the Specified Dates Belong
Stock Option #11	¥50,000 million	Not designated
Stock Option #20	¥500,000 million	From January 1, 2022 to March 31, 2025
Stock Option #22	¥300,000 million	From January 1, 2021 to March 31, 2024
Stock Option #24	¥200,000 million	From January 1, 2021 to March 31, 2024

5. Stock Option #20 and #22 involve considerations from grantees.

Stock option activity was as follows:

	Stock Option #4	Stock Option #5 (Shares)	Stock Option #8
Year Ended December 31, 2020			
Non-vested			
No activity			
Vested			
January 1, 2020—Outstanding	166,932	531,480	186,132
Vested	—	—	—
Exercised	(21,984)	(37,008)	(67,056)
Canceled	—	—	—
December 31, 2020—Outstanding	144,948	494,472	119,076
Year Ended December 31, 2021			
Non-vested			
No activity			
Vested			
December 31, 2020—Outstanding	144,948	494,472	119,076
Vested	—	—	—
Exercised	(9,444)	(27,240)	(66,312)
Canceled	—	—	—
December 31, 2021—Outstanding	135,504	467,232	52,764
Exercise price	¥70	¥84	¥292
Average stock price at exercise	¥2,599	¥2,761	¥3,045
Fair value at grant date	—	—	—

	Stock Option #9	Stock Option #11	Stock Option #12
		(Shares)	
Year Ended December 31, 2020			
Non-vested			
No activity			
Vested			
January 1, 2020—Outstanding	124,824	253,500	43,008
Vested	—	—	—
Exercised	(37,776)	(74,700)	—
Canceled	—	—	—
December 31, 2020—Outstanding	90,048	178,800	43,008
Year Ended December 31, 2021			
Non-vested			
No activity			
Vested			
December 31, 2020—Outstanding	90,048	178,800	43,008
Vested	—	—	—
Exercised	(13,548)	(5,400)	(13,080)
Canceled	—	—	—
December 31, 2021—Outstanding	76,500	173,400	29,928
Exercise price	¥292	¥292	¥292
Average stock price at exercise	¥3,331	¥3,138	3,113
Fair value at grant date	—	—	—

	Stock Option #20	Stock Option #22	Stock Option #24
		(Shares)	
Year Ended December 31, 2020			
Non-vested			
January 1, 2020—Outstanding	—	—	—
Granted	3,300	3,300	3,300
Forfeited	—	—	—
Vested	—	—	—
December 31, 2020—Outstanding	3,300	3,300	3,300
Vested			
No activity			
Year Ended December 31, 2021			
Non-vested			
December 31, 2020—Outstanding	3,300	3,300	3,300
Granted	—	—	—
Forfeited	3,300	3,300	3,300
Vested	—	—	—
December 31, 2021—Outstanding	—	—	—
Vested			
No activity			
Exercise price	¥2,134	¥2,134	¥2,134
Average stock price at exercise	—	—	—
Fair value at grant date	¥1,087	¥987	¥987

Assumptions Used to Measure the Fair Value of Stock Options Granted During the Year Ended December 31, 2021

No stock options were granted during the year ended December 31, 2021.

Estimation of the Number of Vested Stock Options

Number of options that will expire in the future is estimated considering vesting conditions and other factors of the stock options.

Total Amount of the Intrinsic Values of Stock Options

The total amount of the intrinsic values of the stock options as of December 31, 2021, and the total amount of the intrinsic values of the stock options that were exercised during the year ended December 31, 2021, at the date of grant were ¥1,229 million and ¥372 million, respectively.

Additional information on stock options

On January 12, 2018, the ASBJ issued PITF No. 36, "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions," which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." PITF No. 36 is effective for annual periods beginning on or after April 1, 2018. The Company adopted PITF No. 36 prospectively as of April 1, 2018, and continued to account for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied.

The outline of the Company's accounting policies for such stock acquisition rights is as follows:

1. Before vesting

    (1) Payment from an employee as a consideration for stock acquisition rights is recognized as a stock acquisition right as a separate component of equity.

    (2) If a stock acquisition right is forfeited, gain on reversal of stock acquisition right is recognized.

2. After vesting

    (1) Upon new share issuance due to exercise of a stock acquisition right, the stock acquisition right is transferred to share capital.

    (2) If a stock acquisition right is cancelled, gain on reversal of stock option is recognized in the year when the cancellation is confirmed.

A summary of these transactions that occurred prior to the adoption of PITF No. 36 is as follows.

Stock options, which involve considerations, with vesting conditions outstanding as of December 31, 2021, after retroactively adjusted for stock splits, were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
Stock Option #13	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2023 to June 18, 2027
Stock Option #14	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2022 to June 18, 2027
Stock Option #15	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2021 to June 18, 2027
Stock Option #16	20 employees 4 directors of subsidiaries 21 employees of subsidiaries	732,500 shares	March 31, 2018	¥2,226	From February 15, 2019 to July 31, 2024
Stock Option #17	20 employees 4 directors of subsidiaries 21 employees of subsidiaries	732,500 shares	March 31, 2018	¥2,226	From February 15, 2019 to July 31, 2024

Notes: 1. The holder of the stock options shall occupy the position of a director, corporate auditor, or employee of the Company or the Company's affiliates unless otherwise approved by the Board of Directors of the Company at the time designated by the respective stock option plans, which is summarized as follows:

Stock Option Series	Designated Time
Stock Option #13	On December 31, 2021
Stock Option #14	On December 31, 2021
Stock Option #15	On December 31, 2019
Stock Option #16	At the time of exercise
Stock Option #17	At the time of exercise

For Stock Option #16 and #17, the position of the holder at the time of exercise shall be the same as that on the grant date or higher.

2. The stock options do not have any service-period requirements for vesting.

3. Vesting conditions of the stock options are subject to future operating results and the amount of market capitalization of the Company.

(1) If Consolidated EBITDA (see below*) for any of the specified fiscal years exceeds the amounts in the table below, the right holders may exercise the stock option. The following table summarizes such vesting conditions:

* Consolidated EBITDA is calculated by adding back depreciation and amortization, and amortization of goodwill to operating income on a consolidated basis.

Stock Option Series	Amount of Consolidated EBITDA	Fiscal Year Ending December 31
Stock Option #13	¥1,000 million	2022 or 2023
Stock Option #14	¥1,000 million	2021 or 2022
Stock Option #15	¥1,000 million	2020 or 2021
Stock Option #16	¥2,000 million	2018 through 2023
Stock Option #17	¥1,500 million	2018 through 2023

(2) In addition to (1) above, if the average amount of market capitalization for any of 20 consecutive days ending on any of the specified dates that belong to the designated period under the stock option plans exceeds the specified amount in the table below, the stock option right holders may exercise a certain portion of the stock option from that day onward. The following table summarizes such vesting conditions:

Stock Option Series	Amount of Market Capitalization	Designated Period to Which the Specified Dates Belong
Stock Option #13	(a) If amount of market capitalization exceeds ¥100,000 million: 100% exercisable	From January 1, 2022 to December 31, 2023
	(b) If amount of market capitalization exceeds ¥80,000 million: 50% exercisable	
Stock Option #14	(a) If amount of market capitalization exceeds ¥75,000 million: 100% exercisable	From January 1, 2021 to December 31, 2022
	(b) If amount of market capitalization exceeds ¥60,000 million: 50% exercisable	
Stock Option #15	(a) If amount of market capitalization exceeds ¥50,000 million: 100% exercisable	From January 1, 2020 to December 31, 2021
	(b) If amount of market capitalization exceeds ¥40,000 million: 50% exercisable	
Stock Option #16	If amount of market capitalization exceeds ¥200,000 million: 100% exercisable	From January 1, 2019 to June 30, 2024
Stock Option #17	If amount of market capitalization exceeds ¥150,000 million: 100% exercisable	From January 1, 2019 to June 30, 2024

Stock option activity of stock acquisition rights, which involve considerations, with vesting conditions after retroactively adjusted for stock splits, was as follows:

	Stock Option #13	Stock Option #14 (Shares)	Stock Option #15
Year Ended December 31, 2020			
Non-vested			
January 1, 2020—Outstanding	560,000	560,000	560,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
December 31, 2020—Outstanding	560,000	560,000	560,000
Vested			
No activity			
Year Ended December 31, 2021			
Non-vested			
December 31, 2020—Outstanding	560,000	560,000	560,000
Granted	—	—	—
Forfeited	(105,600)	(95,600)	(78,800)
Vested	—	—	—
December 31, 2021—Outstanding	454,400	464,400	481,200
Vested			
No activity			
Exercise price	¥1,263	¥1,263	¥1,263
Average stock price at exercise	—	—	—

	Stock Option #16	Stock Option #17
	(Shares)	
Year Ended December 31, 2020		
Non-vested		
January 1, 2020—Outstanding	732,500	732,500
Granted	—	—
Forfeited	—	—
Vested	—	—
December 31, 2020—Outstanding	732,500	732,500
Vested		
No activity		
Year Ended December 31, 2021		
Non-vested		
December 31, 2020—Outstanding	732,500	732,500
Granted	—	—
Forfeited	(40,300)	(40,300)
Vested	—	—
December 31, 2021—Outstanding	692,200	692,200
Vested		
No activity		
Exercise price	¥2,226	¥2,226
Average stock price at exercise	—	—

10. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended December 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of December 31, 2021 and 2020, were as follows:

	Millions of Yen	
	2021	2020
Deferred tax assets:		
Enterprise taxes payable	¥ 46	¥ 20
Accrued bonuses	80	70
Provision for facility closure	64	—
Depreciation	108	29
Asset retirement obligations	56	38
Accounts receivable	27	30
Tax loss carryforwards	4,127	4,279
Other	39	26
Total of tax loss carryforwards and temporary differences	4,551	4,494
Less valuation allowance for tax loss carryforwards	(1,302)	(1,195)
Less valuation allowance for temporary differences	(15)	(30)
Total valuation allowance	(1,317)	(1,225)
Deferred tax assets	3,233	3,269
Deferred tax liabilities:		
Asset retirement costs	12	27
Unrealized gain on available-for-sale securities	43	—
Other	2	15
Deferred tax liabilities	59	43
Net deferred tax assets	¥ 3,173	¥ 3,226

As of December 31, 2021, valuation allowances increased by ¥108 million as compared to the amount as of December 31, 2020. This was mainly attributable to increases in tax loss carryforwards of subsidiaries, which mainly comprise ¥74 million recorded by Uzabase USA and ¥20 million recorded by Mimir.

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2021, were as follows:

	Millions of Yen						
	A Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Tax loss carryforwards (Note 1)	—	—	—	—	¥ 10	¥4,116	¥4,127
Valuation allowances	—	—	—	—	(10)	(1,291)	(1,302)
Deferred tax assets (Note 2)	—	—	—	—	¥ —	¥2,825	¥2,825

Notes: 1. The amounts above are determined by multiplying the corresponding tax loss carryforwards by the effective statutory tax rate.

2. The Group recognized deferred tax assets for temporary differences and tax loss carryforwards that were considered to be recoverable, taking account of the expected future taxable income based on the future business plans of the Company and subsidiaries.

	2021
Normal effective statutory tax rate	30.6%
Utilization of tax loss carryforwards	(19.0)
Expenses not deductible for income tax purposes	1.3
Effect of different tax rates applicable to the consolidated subsidiaries	0.2
Per capita levy of inhabitant tax	0.6
Changes in valuation allowances	26.8
Special exemption of income taxes	(2.9)
Amortization of goodwill	2.4
Effect of consolidating investment partnerships	(4.1)
Other—net	0.2
Actual effective tax rate	36.1%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying statement of operations for the year ended December 31, 2020 is not presented because the Company recorded loss before income taxes for the year ended December 31, 2020.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen	
	2021	2020
Salaries	¥ 2,495	¥ 2,375
Advertising	1,318	859
Outsourcing fees	1,025	359
Depreciation and amortization	256	241
Amortization of goodwill	93	533
Rent	456	740

12. OTHER EXPENSES

Year Ended December 31, 2021

In relation to the decision to close NewsPicks GINZA, a facility of NewsPicks business located in Japan, the Group recorded provision for loss on facility closure at an estimated amount of losses (other than impairment losses) to be incurred in the future.

Year Ended December 31, 2020

During the year ended December 31, 2020, the Group reorganized Quartz business focusing on restructuring the advertising business. Subsequently, the Group withdrew from Quartz business and recorded loss on sale of a subsidiary's stock.

13. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended December 31, 2021 and 2020, were as follows:

	Millions of Yen	
	2021	2020
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 616	¥ (2)
Reclassification adjustments to profit or loss	(305)	—
Amount before income tax effect	311	(2)
Income tax effect	(0)	0
Total	¥ 310	¥ (1)
Foreign currency translation adjustments:		
Gains (losses) arising during the year	¥ 70	¥ (241)
Reclassification adjustments to profit or loss	(0)	466
Total	¥ 69	¥ 225
Total other comprehensive income	¥ 379	¥ 223

14. ADDITIONAL CASH FLOW INFORMATION

The components of payments for purchase of newly consolidated subsidiaries' stock for the year ended December 31, 2020 were as follows:

	Millions of Yen
	2020
Mimir	
Current assets	¥ 61
Non-current assets	4
Goodwill	398
Current liabilities	(90)
Non-current liabilities	(65)
Acquisition costs	308
Cash and cash equivalents acquired	(29)
Gain on a step acquisition	(104)
Total issue price of the Company's stock acquisition rights issued for the business combination	(3)
Payments for purchase of newly consolidated subsidiaries' stock	¥ 170

The components of payments for sale of a subsidiary' stock resulting in a change in the scope of consolidation for the year ended December 31, 2020, were as follows:

	Millions of Yen
	2020
Quartz Holdings	
Current assets	¥ 802
Non-current assets	1
Current liabilities	(228)
Foreign currency translation adjustment	446
Loss on sale	(1,042)
Share transfer price	0
Receivable outstanding	(0)
Cash and cash equivalents held by Quartz Holdings	(451)
Payments for sale of a subsidiary' stock resulting in a change in the scope of consolidation	¥ (451)

As a result of the sale of stock, Quartz Holdings, Quartz, NewsPicks USA, and two other consolidated subsidiaries were deconsolidated.

No such transactions were recorded for the year ended December 31, 2021.

15. RELATED PARTY TRANSACTIONS

For the Year Ended December 31, 2021

No significant related-party transactions were recorded for the year ended December 31, 2021.

For the Year Ended December 31, 2020

Transactions of the Group with a related party for the year ended December 31, 2020, consisted of a sale of a subsidiary's stock to Quartz Media Holdings, Inc. ("QMH"), a company in which a majority of its voting rights is held by a director of a significant subsidiary. Details are as follows:

Upon withdrawal from Quartz business, all shares of Quartz Holdings, which holds 100% shares of Quartz, NewsPicks USA, and two other consolidated subsidiaries were transferred to QMH, an entity founded by Mr. Zachary Seward, current Chief Executive Officer of Quartz. QMH is an entity located in the United States of America of which share capital was $5,625 as of the date of the share transfer. The voting rights ratio of QMH held by Mr. Seward immediately before the share transfer was 88.89%. On November 9, 2020, as a result of the share transfer, Mr. Seward and Quartz ceased to be a related party of the Group and QMH became a holding company of Quartz and other subsidiaries. The transaction price may vary depending on the future operating results and corporate actions of Quartz. The details are not disclosed due to the duty of confidentiality; however, the transaction price was fairly determined through a fair process and negotiation with the transferee. Loss on sale of a subsidiary's stock was ¥1,042 million. No balance outstanding as of December 31, 2020.

16. BUSINESS COMBINATIONS

For the Year Ended December 31, 2021

No significant business combinations occurred in the year ended December 31, 2021.

For the Year Ended December 31, 2020

Business Divestiture

a. Outline of the business combination

(1) Name of the transferees

Quartz Intermediate Holdings, Inc. (formerly, Uzabase USA, Inc.), Quartz Media, Inc., NewsPicks USA, LLC and other two companies

(2) Nature of the business

Quartz business (operation of Quartz, a United States-based business media)

(3) Major reason for the business combination

Under the mission of building a global business intelligence infrastructure, the Group has been actively expanding its business beyond Japan, starting with the launch of its SPEEDA business in Asian markets in 2013. As part of this endeavor, in July 2018, the Company acquired Quartz, a global business news media company based in the United States. Following this acquisition, the Company actively invested in Quartz to launch a paid subscription business in addition to its existing advertisement business, and, as a result, the number of paying subscribers was steadily increasing.

However, due to the COVID-19 pandemic, many companies, particularly in the United States, have been putting restraints on their advertising expenditures since the beginning of 2020. In response to this situation, on May 14, 2020, the Company made the decision to execute a business restructuring at Quartz focusing on its advertisement business. Since then, Quartz has operated its business while paying attention to the recovery situation in the advertisement market; however, the recent operating results of Quartz have been lower than the business plan originally projected.

Considering the uncertain outlook of the advertisement market in the United States and the situation where it is difficult to achieve its original target to turn Quartz business profitable in three years as committed at the time of acquisition, in accordance with the internal investment rules and regulations, the Company decided to withdraw from Quartz business by transferring all shares of Quartz Holdings in order to concentrate the Group’s operating resources into SPEEDA and NewsPicks businesses, where higher growths can be expected.

(4) Date of the business divestiture

November 9, 2020

(5) Legal form of business combination

All shares of Quartz Holdings, which owns 100% shares of Quartz and its affiliates, were transferred to QMH, an entity founded by Mr. Zachary Seward, Quartz’s current CEO, who holds a majority of its voting rights.

b. Outline of the accounting treatment

(1) Amount of loss arising from the transfer

Loss on sale of a subsidiary: ¥1,042 million

(2) Carrying amount of assets and liabilities of the transferred business

	Millions of Yen
Current assets	¥ 802
Non-current assets	1
Total	¥ 804
Current liabilities	¥ 228
Non-current liabilities	—
Total	¥ 228

(3) Reportable segment in which the transferred business was included

Quartz business

(4) Approximate amount of profit and loss items of the transferred business included in the consolidated financial statements

	Millions of Yen
Net sales	¥ 973
Operating loss	(1,961)

17. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended December 31, 2021 is as follows:

	Millions of Yen	Shares	Yen
Year Ended March 31, 2021	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS
Basic EPS—Net income available to common shareholders	¥ 589	36,671,771	¥16.07
Effect of dilutive securities—Stock acquisition rights		1,619,682	
Diluted EPS	¥ 589	38,291,453	¥15.39

The corresponding information for the year ended December 31, 2020 is not disclosed because of the Group's net loss position.

18. SUBSEQUENT EVENT

Introduction of Restricted Stock Unit Plan and Stock Option Plan

On February 16, 2022, the Company resolved at its Board of Directors' meeting to revise its compensation plan for directors, officers, and certain employees to introduce a restricted stock unit plan and a stock option plan (collectively, the "Plan"). A proposal concerning changes in compensation to the Company's directors, which is required for the introduction of the Plan, was approved at the 14th Ordinary General Meeting of Shareholders held on March 25, 2022.

(1) Purpose of the Introduction

In line with the Company's mid- to long-term goals of maintaining business growth, globalizing operations, and increasing corporate value, the Plan is intended to enable more officers and employees to share the perspectives of entrepreneurs, business owners, and shareholders, as well as to ensure that the Company can secure talented personnel through an attractive scheme and level of compensation in light of local and international standards. In addition, replacing a part of cash-based compensation with stock-based compensation will positively support the financial position of the Company.

(2) Overview of the Plan

The Company plans to replace a part of the monetary remuneration for certain personnel (the "Recipient(s)") designated by the Company, including directors, officers, and certain employees of the Company or its group companies. Restricted stock units ("RSUs") and stock options, or either one of the two, will be delivered based on the selection made by each recipient.

RSUs and/or stock options offered under the Plan are planned to be delivered from April 2022.

(a) The RSU plan

The Company will issue units according to the selection made by each recipient within the scope of the Plan. If the recipient fulfills certain criteria such as continued service, the Company will determine the number of shares to be delivered according to the units issued to the recipient and grant a monetary compensation claim required to make in-kind contribution. The recipient receives an allotment of the Company's common stock by contributing the monetary compensation claim in full by the method of in-kind contribution.

To determine the amount of the monetary compensation claim granted to each recipient, a calculated amount referring to the stock price of the Company's common stock on the Tokyo Stock Exchange, while made sure to avoid setting an advantageous price for the recipient, is multiplied by the number of shares to be delivered.

(b) The stock option plan

The Company will issue stock options according to the selection made by each recipient within the scope of the Plan. Recipients who fulfill certain criteria, such as continued service, will be able to exercise the stock options issued to them. Although no monetary payment is required in exchange for the issuance of stock options, the exercise price per share shall be at least the market price of the share at the time of granting the stock options. To determine the ratio of stock options to the compensation amount, the fair value of the stock options calculated by a rational method such as the Black-Scholes model is multiplied by the number of stock options granted to each recipient.

(c) Introduction and background of the selective plan

Within the range of the ratio of RSUs and/or stock options to the compensation amount set for each title, each recipient may set their preferred ratio between monetary remuneration and the calculated amount of RSUs and/or stock options, as well as the ratio between RSUs and stock options.

This aspect of the Plan is designed to support each person in designing their own commitments and working style, in line with the Company's value that creativity delivers the best performance in a free environment.

(3) Number of Company Shares to be Delivered under the Plan

The Company plans to set the maximum number of Company shares to be delivered upon exercising the RSUs or stock options under the Plan each fiscal year approximately 1% of the total number of issued shares of the Company at the beginning of the relevant fiscal year.

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(**1**) *Description of Reportable Segments*

The reportable segments are components of the Group for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors to determine allocation of operating resources and evaluate their performance. The reportable segment information is prepared generally under the same accounting policies as discussed in Note 2. Segment profit is determined based on operating income. Intersegment sales and transfers are determined on an arm's-length basis. The Group does not allocate its assets to the reportable segments.

The Group classifies its businesses into two reportable segments based on the characteristics of the services, namely, SaaS business and NewsPicks Business.

SaaS business is comprised of the following products and services: (a) SPEEDA, a web-based platform that supports business strategies of customers by providing information to be utilized in business and industry analysis, such as financial data, intellectual property data, statistical data, and analysis reports, mainly to financial institutions, corporate entities, universities and research institutions, (b) INITIAL, a platform that supports business strategies of customers by utilizing its database of startup entities in Japan, (c) FORCAS, a platform that supports customer strategies of customers by assisting business-to-business marketing activities, and (d) NewsPicks Enterprise, NewsPicks Learning (for business), and Incubation Suite, products that support organizational strategies of customers. The main source of revenue is the initial fee at the time of contract and the monthly fixed fee received from customers as the usage fee of each SaaS product.

NewsPicks business provides a business news platform with social networking features, which enables one-stop view of economic news from various media and articles that the Group has edited and created. Users can read comments from professionals, upload their own comments, and share the news in NewsPicks. Revenue generated from NewsPicks business mainly comprises fixed monthly payment from users and sales of advertisement.

(2) Change in Reportable Segments

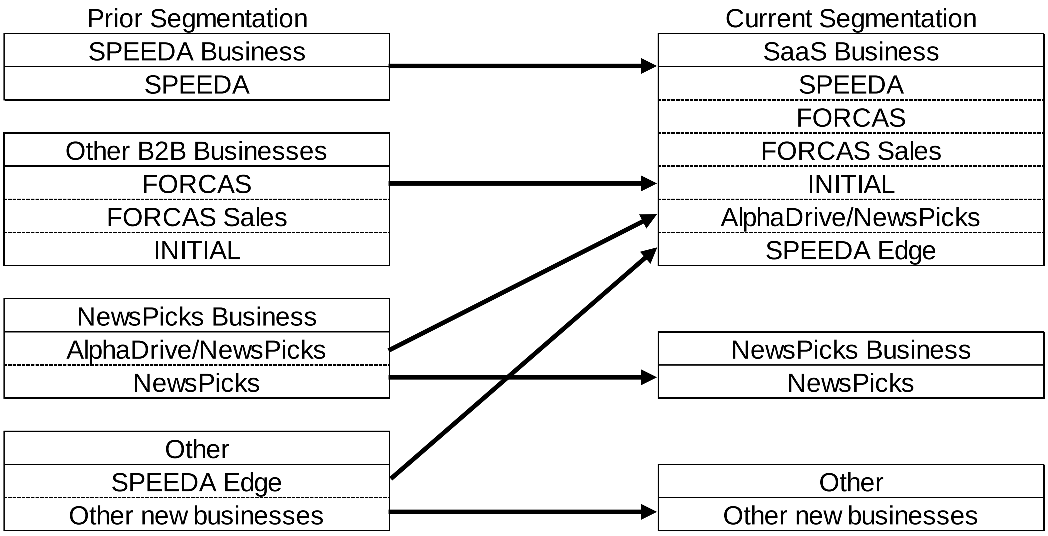
Effective from the year ended December 31, 2021, as a result of reviewing the Group's performance management segmentation considering the current operating conditions, the former reportable segments, namely, SPEEDA business, NewsPicks business, and Other B2B business, have been reclassified into two reportable segments, namely, SaaS business and NewsPicks business.

1) SPEEDA business and Other B2B business have been integrated into SaaS business because they are SaaS businesses that utilize common core assets and the Group plans to manage these businesses in a unified manner including cross-selling.

2) AD/NP, which had been included in NewsPicks business, has been included in SaaS business considering the nature of the business because AD/NP is an enterprise-focused SaaS solution business that utilize the NewsPicks platform, which SPEEDA, FORCAS, and INITIAL also utilize.

3) SPEEDA Edge, which had been classified in "Other," has been reclassified into SaaS business from the perspective of management.

The following table illustrates the change in the reportable segments.



Segment information for the year ended December 31, 2020 has been restated and presented in accordance with the current segmentation.

The Group withdrew from Quartz business in 2020. The reportable segment "Other businesses" was renamed "Other B2B Businesses" in 2021.

(3) Presentation of Additional Performance Indicators

In addition to the disclosure requirements under Japanese GAAP, in order to present the profitability of each reportable segment more appropriately, the Group has disclosed two key performance indicators: Direct EBITDA and Segment EBITDA. Direct EBITDA is calculated by adding depreciation and amortization of intangible assets including goodwill to segment profit or loss, which is equivalent to net sales less the total of operating costs (except for depreciation and amortization of intangible assets including goodwill) and Direct Costs (Note 1). Segment EBITDA is calculated by allocating Indirect Costs (Note 2) to Direct EBITDA of each reportable segment. The allocation of Indirect Costs is based on net sales of each reportable segment.

Notes: 1. Direct Costs are defined as corporate costs that are directly attributable to services and business of each reportable segment.

2. Indirect Costs are defined as company-wide expenses that are not directly attributable to services and business of each reportable segment. Indirect Costs include costs of being a listed company, audit fees, and executive remuneration.

(4) ***Information about Sales, Profit, and Other Items***

Year ended December 31, 2021

	Millions of Yen					
	2021					
	Reportable Segments					
	SaaS Business	NewsPicks Business	Total	Other	Reconciliations (Note)	Consolidated
Net sales:						
Sales to external customers	¥ 10,008	¥ 6,054	¥ 16,063	¥ —	—	¥16,063
Intersegment sales or transfers	3	51	55	—	¥ (55)	—
Total	¥ 10,012	¥ 6,106	¥ 16,118	¥ —	¥ (55)	¥16,063
Segment profit (loss)	¥ 2,178	¥ 846	¥ 3,025	¥ (163)	¥(1,400)	¥ 1,460
Depreciation and amortization	115	134	249	—	99	349
Amortization of goodwill	93	—	93	—	—	93
Direct EBITDA	2,388	980	3,369	(163)	(1,300)	1,904
Allocation of company-wide expenses	(807)	(492)	(1,300)	—	1,300	—
Segment EBITDA	1,580	488	2,068	(163)	0	1,904
Other items:						
Goodwill, end of year	718	—	718	—	—	718
Impairment losses of assets	—	289	289	—	—	289

Notes: 1. Reconciliations of segment profit mainly consisted of ¥3 million of eliminations of intersegment transactions and ¥(936) million of general and administrative expenses that are incurred for group-wide corporate operations that are not allocable to the reportable segments.

2. Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

Year ended December 31, 2020

	Millions of Yen						
	2020						
	Reportable Segments						
	SaaS Business	NewsPicks Business	Quartz Business	Total	Other	Reconciliations (Note)	Consolidated
Net sales:							
Sales to external customers	¥7,579	¥5,257	¥ 972	¥ 13,809	¥ —	—	¥13,809
Intersegment sales or transfers	5	31	0	37	—	¥ (37)	—
Total	¥7,585	¥5,288	¥ 972	¥ 13,846	¥ —	¥ (37)	¥13,809
Segment profit (loss)	¥2,195	¥ 807	¥(1,961)	¥ 1,041	¥ (3)	¥ (932)	¥ 104
Depreciation and amortization	63	100	41	205	—	74	280
Amortization of goodwill	80	—	452	533	—	—	533
Direct EBITDA	2,339	907	(1,466)	1,780	(3)	(858)	917
Allocation of company-wide expenses	(472)	(329)	(60)	(862)	—	862	—
Segment EBITDA	1,866	578	(1,527)	917	(3)	3	917
Other items:							
Goodwill, end of year	811	—	—	811	—	—	811
Impairment losses of assets (Note 3)	—	—	7,810	7,810	—	—	7,810

Notes: 1. Reconciliations of segment profit mainly consisted of ¥3 million of eliminations of intersegment transactions and ¥(936) million of general and administrative expenses that are incurred for group-wide corporate operations that are not allocable to the reportable segments.

2. Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

3. The Group recorded ¥7,810 million of impairment loss for goodwill and other non-current assets in relation to the withdrawal from Quartz business.

Related Information

Information about Geographical Areas

a. Net sales

	Millions of Yen
	2020
Japan	¥ 12,265
Asia	612
North America	701
Europe	230
Total	¥ 13,809

Sales for the year ended December 31, 2021 by geographical areas are not presented because sales to customers in regions other than Japan was insignificant.

b. Property and equipment

Information of property and equipment by geographical area is not presented because the total amount of property and equipment located in regions other than Japan were insignificant.

Information about Major Customers

Information about major customers is not presented because there was no single customer accounting for 10% or more of net sales on the consolidated statement of operations.

* * * * * *

Additional Information on the Consolidated Financial Statements

All the figures in the accompanying consolidated financial statements are unaudited.

The accompanying consolidated financial statements are summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange with certain rearrangements and reclassifications therein.

The consolidated financial statements in the original Japanese Securities Report were audited by Izumi Audit Co. whose report, dated March 28, 2022, expressed an unmodified opinion on those consolidated financial statements.