



DIGITAL GARAGE ANNUAL REPORT 2018

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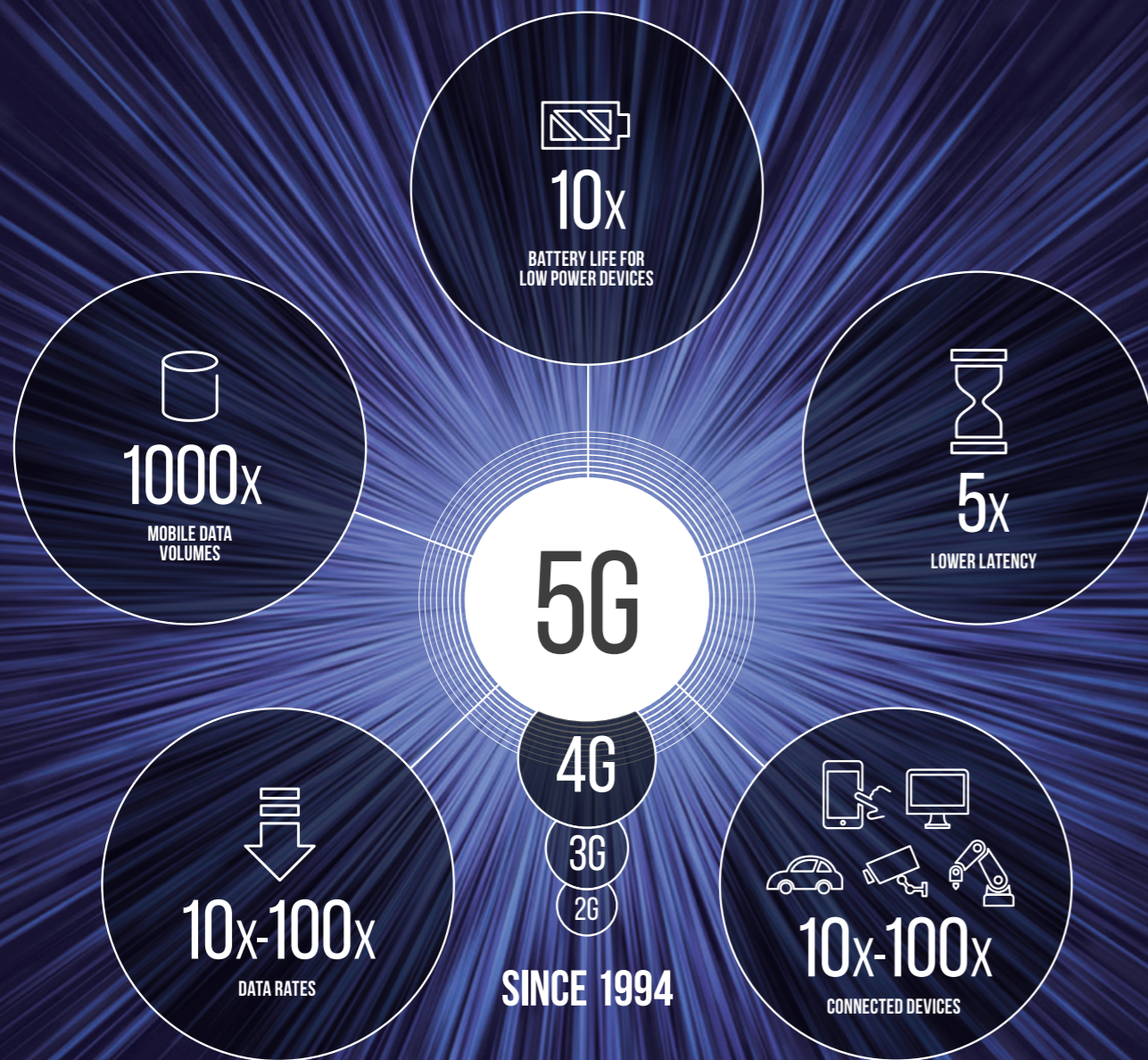
# CONTEXT COMPANY

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## Cautionary Statement

Discussions of Digital Garage's current plans and strategies, and outlooks for future performance, included in this annual report are based on information available as of the preparation of this report. Digital Garage believes the views expressed are reasonable as of the time this report was prepared. Nevertheless, risk and uncertainty are inherent in discussions of the future. Users of this report should bear in mind that various factors may cause actual results to differ from expectations or outlooks expressed in this annual report.





## MISSION

CONTEXT  
COMPANY

REAL  
LOCAL  
MARKETING  
PRESENT

&

CYBER  
INTERNATIONAL  
TECHNOLOGY  
FUTURE

Since its establishment 23 years ago, Digital Garage has put itself forward as a company that creates contexts for the internet era. In using the word, “context,” we mean shared understanding based on relationships, environments, culture, and ideas. We established DG as a company that would explore ways for creating internet contexts incorporating real space and cyberspace — which is set to expand by leaps and bounds—and linking Japan with the rest of the world, marketing with technology, and the present with the future. We also established DG to be a company that would create contexts useful for the world. And, indeed, DG has built a solid track record of constantly being at the cutting edge of internet development, and taking on “first-in-Japan” projects. We are proud that the history of DG is **the history of the internet in Japan**. Looking to the future, we will remain steadfast in our efforts to add a new page to the history of the internet by creating new services that contribute to society. We aim to accomplish much and welcome anticipation of our results.



**HIGHLIGHTS**

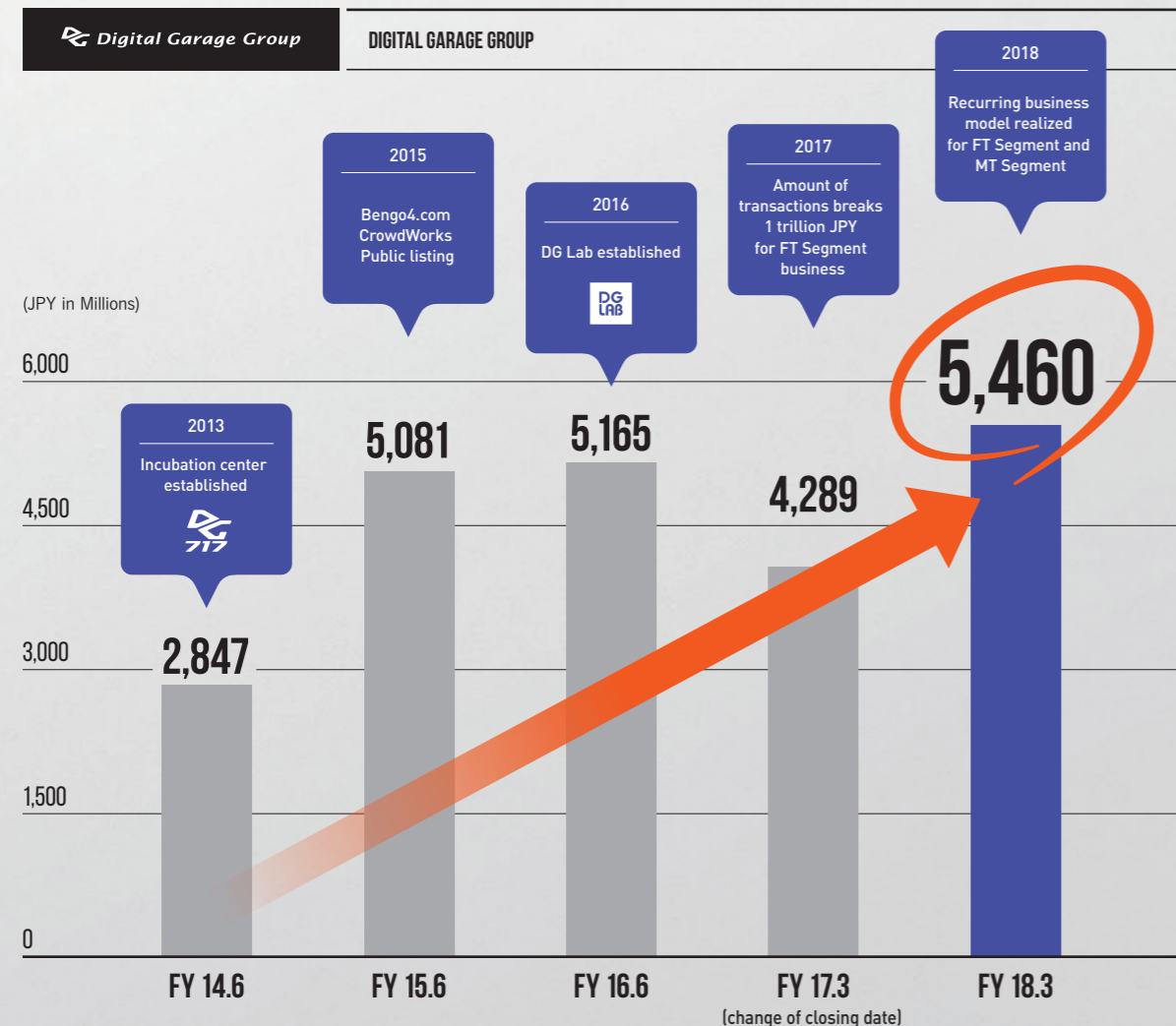
**FY 2018 Highlights**



# Recorded an all-time high for profit for the first time in nine periods

Entering the 4th stage of incubation toward our 25th anniversary in 2020

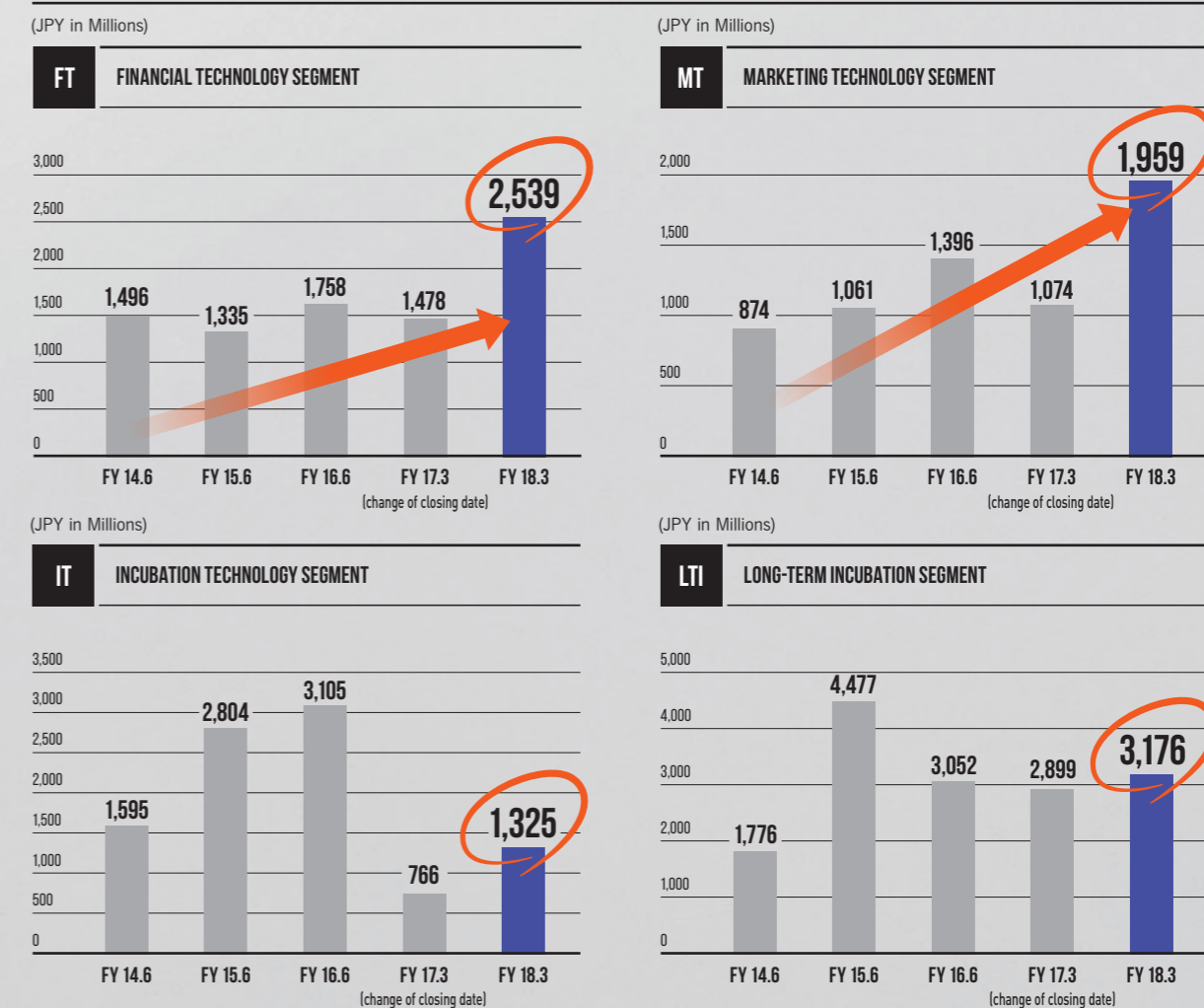
**Consolidated profit**



# All business segments realize increased sales and earnings

The Marketing Technology Segment and Financial Technology Segment achieve substantial increase in profits, growth accelerates

**Consolidated profit before taxes by segment**



\* In FY 18.3, the MI (Media Incubation) Segment was renamed to the Long-term Incubation Segment.



## MESSAGE FROM THE CEO

# OPEN INCUBATION TOWARD 2020



**KAORU HAYASHI**

Representative Director, President  
Executive Officer and Group CEO  
Digital Garage, Inc.

## Entering the 4th Stage of Incubation toward our 25th Anniversary in 2020

### Mid-term Business Plan First Year (FY 2018) Financial Summary

Digital Garage Group launched the Mid-term Business Plan in FY 2018 (ended March 31, 2018) based on the slogan of "Open Incubation," which aims to further advance the technological innovation taking place through the cooperation with various companies in the form of "Open Innovation," and to develop businesses with future potential through an open ecosystem facilitated by collaboration with other companies. The breakdown and creation of the existing business environment brought about by the emergent rapid technological innovation offer a chance, and while going beyond the boundaries of business areas, we are collaborating openly with all companies taking a forward-thinking approach, from startups to major companies.

In FY 2018, the first year of the Mid-term Business Plan, net sales were 60.1 billion JPY, while profit before income taxes was 7.6 billion JPY, and profit attributable to owners of parent was 5.4 billion JPY. Profit attributable to owners of parent recorded an all-time high for the first time in nine periods. In FY 2018, because we used a nine-month irregular account settlement as a result of the change of the closing date for the previous fiscal year, we have compared annualized figures from the previous fiscal year (YoY), **resulting in a 24% increase in net sales, 2.4-fold increase in operating profit, a 14% increase in profit before income taxes, and a 16% increase in profit attributable to owners of parent.**

Financial Technology (FT) Segment continued growth that largely exceeded the overall e-commerce market, as total amount of payments handled, one of the KPIs\*, **rose 20% YoY** to 1.5 trillion JPY. In addition to the main e-commerce sector, the non-e-commerce sector,

on which we are placing strategic focus, is rapidly expanding in the forms of face-to-face payments, cash charges, and transfers for virtual currency exchanges. Marketing Technology (MT) Segment continued its strong growth driven by performance-based ads centered on the smartphone and app sectors, **with profit before income taxes rising 37% YoY** and particularly strong fourth quarter sales to financial institutions, which rose 50% YoY. These results in both the FT and MT segments largely surpassed the 15% growth in profit before income taxes that was set as one of the KPIs in the Mid-term Business Plan.

While Incubation Technology (IT) Segment did not achieve initial forecasts due to some planned sales in the divestment portfolio being postponed, it still **rose 30% YoY**. In Long-term Incubation (LTI) Segment, results at Kakaku com, Inc., an equity-method affiliate, grew steadily as a result of pursuing long-term investment development and continuous cash inflow, and in terms of new businesses, we are moving forward with preparations in the life design field and healthcare sector.

In the IT and LTI segments, we have set plans for 2.5 × ROI (return on investment) as a KPI in the Mid-term Business Plan and believe we have implemented investment schemes in line with that KPI.

Each segment made a favorable start and exceeded each KPI in the first year of the Mid-term Business Plan. Furthermore, we also believe we were able to implement the various policies forming the first step toward future growth at in the IT segment, LTI segment, and DG lab, our R&D platform.

\* Key Performance Indicator



### Expanding our earnings bases centered on the payment business

Looking broadly at our individual businesses, regarding FT (Financial Technology Segment), this year we created a foothold toward further growth in our earnings bases. Specifically, toward the cashless society that we will welcome in the near future, **the development of our public-funds payment services started in full swing.** In October 2017, we were contracted to provide a service allowing for the payment of national pension premiums with credit cards. In October 2018, we began providing convenience store payment services for administrative processing fees to Osaka Prefecture. Additionally, in April 2018, we decided to begin providing a system for a service allowing national taxes to be paid at convenience stores nationwide using a QR code without prior registration starting with 2019 tax returns. Moreover, in February 2018, **we formed a business alliance with TOSHIBA TEC CORPORATION,** which has the largest share in POS systems both in Japan and overseas, and are promoting multi-payment solutions for real stores.

Regarding the payment business, with a view to commercialization in a few years, DG Lab is leading our development of new payment solutions using blockchain. As one of those core technologies, in October 2017, we announced the "DG Lab DVEP (Digital Value Exchange Platform)"™, a universal framework aimed at a payment system that can issue independent virtual currencies on the blockchain used for Bitcoin. We are using the core technology of our strategic investee Blockstream. Going forward, we plan to use DVEP to allow credit card



points to be easily exchanged for a range of products and services, thereby using it in a system that encourages the fluidization of points. Additionally, in March 2018, in partnership with Bengo4.com, Inc., we began trial operations of a smart contract system to realize the streamlining of personal loan operations with Resona Bank, Limited using blockchain. This was the first example in Japan of development utilizing the blockchain used in Bitcoin. Furthermore, as the first step with a view toward the commercialization of smart contracts, in May 2017, we began providing the cloud service "CloudSign Payment," which allows simultaneous contract conclusion and payments for corporate clients in partnership with Bengo4.com, Inc.

Going forward, we plan to use blockchain to enter the company-to-company payment business. As such, we formed an alliance with the Tokyo Tanshi Co., Ltd., which provides intermediary and brokerage services in the interbank transaction and open markets, to create new Fintech businesses using blockchain and artificial intelligence (AI). To accelerate activities toward commercialization, in September 2018, we established **Crypto Garage, Inc.** as a joint-venture company with the Tokyo Tanshi Co., Ltd. for the R&D and commercialization of blockchain financial services in the Fintech field. Crypto Garage, Inc. is accelerating R&D in use cases of advanced financial services leveraging blockchain and encryption technology while using the core technology developed by Blockstream. It is promoting technological development for the real expansion of innovative services in the emergent virtual currency and blockchain fields.

While the speculative element of Bitcoin has stolen the spotlight thus far, through the evolution of this kind of business development, we are convinced that we will welcome the age of commercialization of businesses using the real attributes of blockchain. We aim to create Japanese-developed, world-leading financial services at Crypto Garage, Inc. and to establish new markets in the blockchain industry.



### Promoting "Open Incubation"

In IT (Incubation Technology Segment), which identifies, invests in, and carries out business development for promising startups represented by Blockstream, we are expanding DG's overseas investment business to further strengthen the incubation stream connecting North America, Japan, Asia, and Europe. In addition to an AI-related startup support studio All Turtles Corporation connecting the San Francisco, Tokyo, and Paris locations and a Hong Kong-based startup support company Mind Fund and its Asian network, we began collaboration with byFounders, a fund formed by a group of founders of promising northern European startups. We have built **Global Incubation Stream** connecting Japan, America, western Europe, Asia, and northern Europe, and created an even stronger system to quickly identify, invest in, and

carry out business development for startups that will lead the next generation.

In Japan, through the nationwide development of Open Network Lab, which runs the Seed Accelerator Program recognized as one of the country's top entrepreneur support programs, we will also enhance our startup development business in regional cities.

As the first step, in April 2018, we launched **Open Network Lab HOKKAIDO** in partnership with The Hokkaido Shimbun Press.

Using the strengths of the knowhow and global entrepreneur network cultivated by Open Network Lab in its eight years of activity and



the media network of The Hokkaido Shimbun Press, by partnering with universities and companies in Hokkaido, we aim to invigorate the Hokkaido startup scene.

Moreover, we also began strengthening our startup development business specialized for specific sectors. In May 2018, with the cooperation of more than 20 major pharmaceutical manufacturers and medical device companies, we established "**Open Network Lab BioHealth,**" an accelerator program aimed at promoting startup development and open innovation in the biotechnology and healthcare field, one of DG Lab's focus fields. We are in the middle of implementing a 4.5-month development program that began in September 2018.



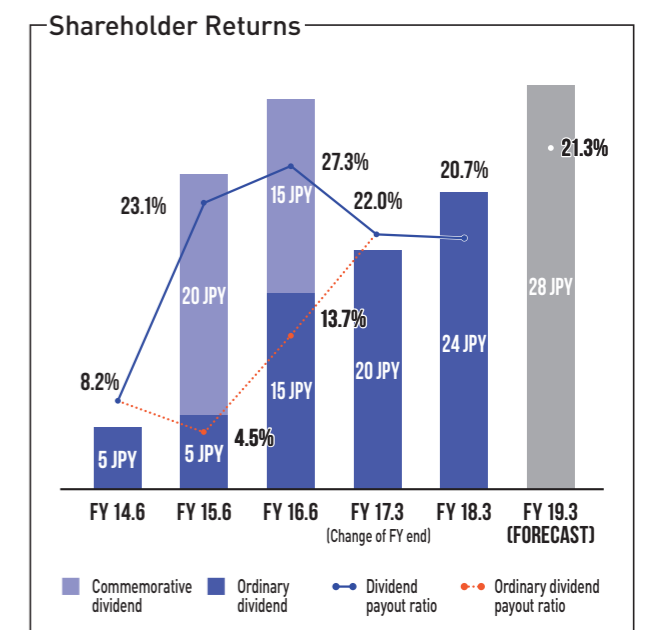
Going forward, Open Network Lab will work with the Global Incubation Stream built by DG, contribute to the development of startups in Tokyo, regional cities in Japan, and regions worldwide, and further accelerate development on a range of cross-area and cross-field axes.



### Shareholder Returns

DG views shareholder returns as one of its principal management concerns. We make decisions on shareholder returns based on considerations of factors such as financial condition, business performance outlook, and capital needs for growth investments. The Mid-term Business Plan calls for us to achieve more than 20% of dividend payout ratio. Based on this policy, we paid an ordinary dividend of 24 JPY per share as a year-end dividend in FY 2018. This resulted in a dividend payout ratio of 20.7%. We plan to pay a dividend of 28 JPY per share in FY 2019, for a dividend payout ratio of 21.3%. In two years, in 2020, Digital Garage will welcome the 25th anniversary of its founding. This is also the year the Tokyo Olympic and Paralympic Games will be held, and Tokyo will attract international attention. The DG Group will maintain its spirit of the "First Penguin," and through further technological innovation utilizing the incubation knowhow, global network, and research results at DG lab accumulated up until now, it will work to contribute to society.

I would like to take this opportunity to ask all our stakeholders, including our shareholders, for an even greater level of support and encouragement.





Message from the Executive in Charge of Finance

# Introducing Management Indicators that Accurately Reflect Business Value in Our Financial Statements and Introducing IFRS



Member, Board of Directors,  
Senior Executive Officer  
and Senior Executive Vice  
President  
**MAKOTO SODA**

Set an all-time high for profit attributable to owners of parent in FY 2018

In FY 2018, we posted net sales of 60.1 billion JPY (+24.1% YoY), ordinary profit of 5.0 billion JPY (+25.4% YoY), profit before income taxes of 7.6 billion JPY (+13.6% YoY), and profit attributable to owners of parent of 5.4 billion JPY (+16.2% YoY). Net sales, profit before income taxes, and profit attributable to owners of parent all greatly exceeded prior year figures (annualized figures for FY 2017). We recorded an all-time high for net sales for the first time in two periods and an all-time high for profit attributable to owners of parent for the first time in nine periods. Furthermore, when compared to the initial plans, net sales were 102.9% of the initial forecast of 58.5

billion JPY, and profit before income taxes, an indicator DG places significant weight on, was 95.2% of the initial forecast of 8.0 billion JPY, while profit attributable to owners of parent was 99.3% of the initial forecast of 5.5 billion JPY, meaning results were mostly in line with initial forecasts. Looking at individual segments as well, all business segments achieved higher sales and earnings, and the FT Segment and MT Segment, two continuing operations, were particularly strong, recording large earnings increases of +29.1% YoY and +37.1% YoY, respectively, in profit before income taxes.

JPY in Millions	FY17.3	FY17.3	FY18.3		YoY		Act vs Fcst	
	[Full Year Act] [Jul-Mar]	[12 months Conversion] [Reference]	[Initial Forecast] [Apr-Mar]	[Full Year Act] [Apr-Mar]	[%]	[Amount]	[%]	[Amount]
<b>Net sales</b>	36,451	48,480	<b>58,500</b>	<b>60,168</b>	+24.1	+11,687	+2.9	+1,668
<b>Operating profit</b>	723	962		<b>2,310</b>	2.4 X	+1,347		
Non-operating income	3,246	3,427		3,305	-3.6	-122		
Share of profit of entities accounted for using equity method	2,528	2,479		2,768				
Foreign exchange gain	171	227		-				
Non-operating expenses	292	388		597	+53.9	+209		
Foreign exchange loss	-	-		160	-	-		
<b>Ordinary profit</b>	<b>3,678</b>	<b>4,001</b>		<b>5,017</b>	+25.4	+1,016		
Extraordinary income	2,265	2,869		2,669	-7.0	-200		
<b>Profit before income taxes</b>	<b>5,819</b>	<b>6,705</b>	<b>8,000</b>	<b>7,619</b>	+13.6	+913	-4.8	-380
Income taxes	1,525	1,999		2,133	+6.7	+133		
<b>Profit attributable to owners of parent</b>	<b>4,289</b>	<b>4,699</b>	<b>5,500</b>	<b>5,460</b>	+16.2	+761	-0.7	-39

Note: Due to the change of the fiscal year end last year, the YoY comparisons here are between annualized FY17.3 (nine months accounting) and FY18.3 full year. The annualized value of FY17.3 is 1.33 times the FY17.3 results (nine months accounting). However, equity method affiliate Kakaku.com, Inc.'s fiscal year end has been March 31, therefore annualized adjustment is not applicable. Kakaku.com, Inc. started to apply IFRS from FY18.3. The figures on FY17.3 has been applied retrospectively.

“Sum of the parts” as a Method for Evaluation of Corporate Value

The DG Group's business is composed of four business segments, and because the stock valuation method differs depending on the business, it is difficult to value DG on its consolidated financial statements alone. Furthermore, in DG's case, it is often pointed out that the approach to DG's corporate valuation is inconsistent and difficult to understand due to the large results produced by our equity-method affiliate Kakaku.com, Inc. and Twitter in the incubation business and the value of our holdings in Kakaku.com, a consolidated subsidiary.

Given these current conditions, in the Mid-term Business Plan that began in the previous period, rather than disclosing the financial goals of the consolidated financial statements as in the past, instead we have

disclosed KPI values for each segment. Our goal here was first to allow for a deep understanding of the business structure of the DG Group, as well as an understanding of the value of each business sector. Then, through the Mid-term Business Plan, by using the so-called “Sum-of-the-parts” valuation method in which “the value of each business segment (each part) is calculated using the optimal valuation method for that business, and the individual results are totaled to calculate the overall value,” we believe we have provided the raw materials for our investors to discuss DG's corporate value.

Voluntary application of the International Financial Reporting Standards (IFRS)

Starting from the consolidated financial statements in the quarterly financial results reports for FY 2019, we have decided to change from the previous Japanese standards and to voluntarily apply the International Financial Reporting Standards (IFRS). The goal of introducing IFRS was to more appropriately reflect the DG Group's business in our corporate value. Specifically, we changed the valuation of our investment targets in the IT segment from the previous book value to the market value (fair value), leading to a more suitable valuation of our holdings. Furthermore, in the FT and MT segments, we changed part of our net sales to net recording, a change that bases the revenue structure disclosed for each segment more closely on our

business structure.

Moreover, because foreign investors account for nearly 40% of DG's shareholder composition, the background behind the introduction of IFRS was also the reality of pressure to increase our international comparability in the capital market and the DG Group's preparedness to flexibly make organizational changes in the future.

We believe that the introduction of IFRS will contribute to DG's business value being more suitably reflected in its financial statements, and going forward, we will continue to promote a financial and IR strategy that leads to the maximization of the DG Group's stock value.

JPY in Millions	FY18.3 Full Year Act
<b>J-GAAP</b>	
<b>Net sales</b>	<b>60,168</b>
FT Financial Technology	20,956
MT Marketing Technology	34,938
IT Incubation Technology	3,123
LTI Long Term Incubation	1,150
<b>Profit before income taxes</b>	<b>7,619</b>
FT Financial Technology	2,539
MT Marketing Technology	1,959
IT Incubation Technology	1,325
LTI Long Term Incubation	3,176
<b>Profit attributable to owners of parent</b>	<b>5,460</b>

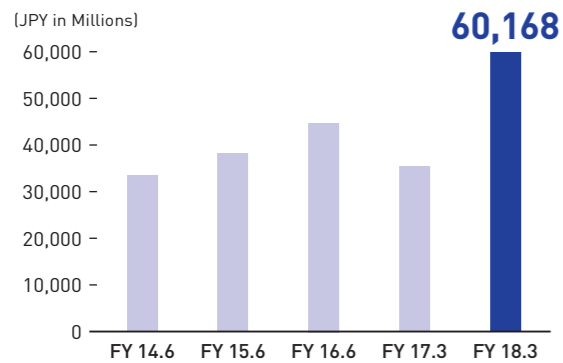
JPY in Millions	FY19.3 Full Year Forecast
<b>IFRS</b>	
<b>Revenue</b>	<b>33,500</b>
FT Financial Technology	6,500
MT Marketing Technology	14,500
IT Incubation Technology	3,100
LTI Long Term Incubation	6,500
<b>Profit before tax</b>	<b>9,000</b>
FT Financial Technology	3,200
MT Marketing Technology	2,250
IT Incubation Technology	1,350
LTI Long Term Incubation	3,450
<b>Profit attributable to owners of parent</b>	<b>6,200</b>

Note: The main effects of the voluntary application of IFRS are expected to be the net presentation of income, the recording of unrealized gains/losses on the fair value of operational investment securities, a decrease in amortization of goodwill, and reclassification of equity in earnings of affiliates.



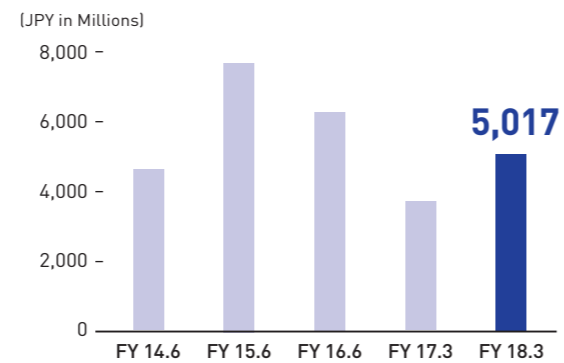
## Key Performance Indicators

### Net Sales



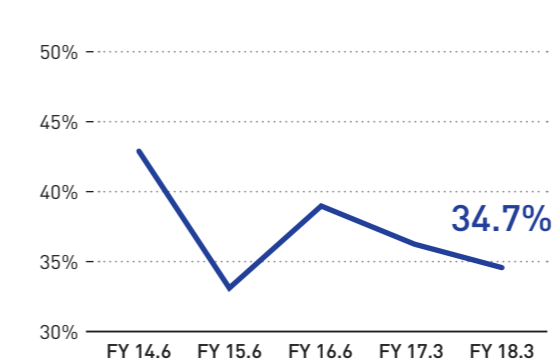
Net sales rose 24.1% YoY, to 60.1 billion JPY in FY 2018. In the most recent five fiscal years, strong growth continued with a CAGR of 16.6%, recording an all-time high. The FT Segment, which continued to achieve results exceeding the e-commerce market, as well as the MT Segment, which continued its strong growth centered on performance-based ads, both stably posted double-digit gains, driving growth in sales for the entire company.

### Ordinary Profit



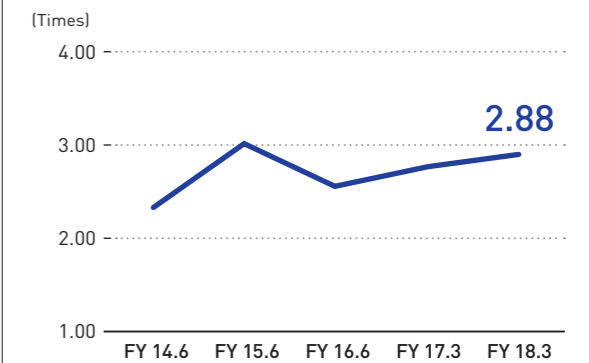
Ordinary profit rose 25.4% YoY, to 5.0 billion JPY in FY 2018. In the most recent five fiscal years, we realized a CAGR of 10.3%, returning to double-digit growth. In addition to recording high profit growth exceeding 20% in the FT and MT Segments, our recurring businesses, the LTI Segment remained strong, allowing us to record around 2.7 billion JPY in share of profit of entities accounted for using equity method, contributing to growth.

### Equity Ratio



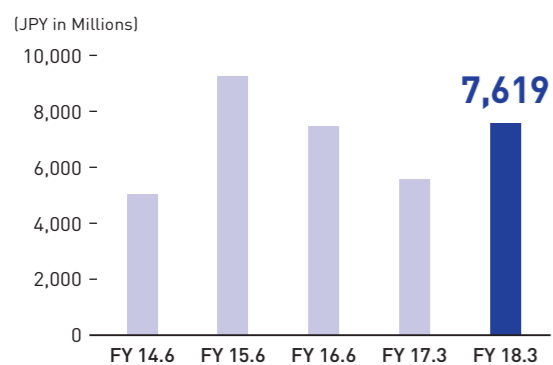
The equity ratio fell 1.9 percentage points YoY, to 34.7% in FY 2018. In FY 2018, due to strong business growth in the FT segment, FT-related-business assets and liabilities both increased. Specifically, this includes money held in trust, accounts receivable - other, and deposits received. As the increase in these items exceeded the increase in net assets, as a result, our equity ratio declined. However, this decline did not affect our financial health, and the current level poses no problems whatsoever in terms of our financial condition.

### Asset/Equity Ratio



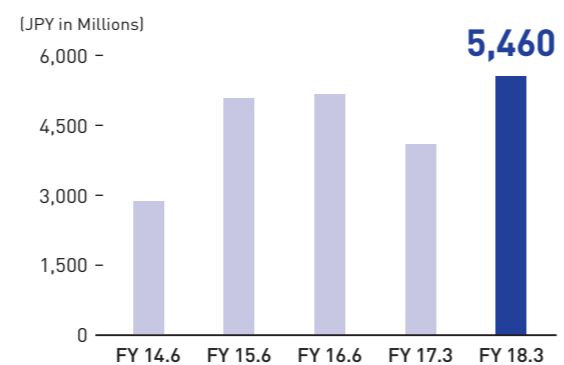
In FY 2018, the asset/equity ratio rose 0.1 percentage points YoY, to 2.88. In FY 2018, without relying on interest-bearing bonds, we conducted investment within the scope of our cash flow. As a result, our asset/equity ratio was around the same level as the previous fiscal year. Going forward, we will continue to maintain financial health while conducting management utilizing some level of asset/equity ratio.

### Profit Before Income Taxes



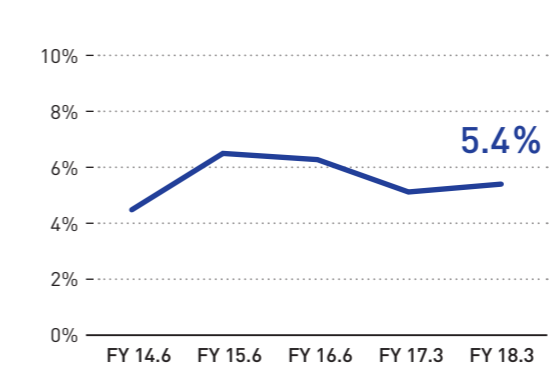
Profit before income taxes rose 13.6% YoY, to 7.6 billion JPY in FY 2018. In the most recent five fiscal years, we maintained double-digit growth with a CAGR of 12.6%. In addition to strong growth in the FT Segment and MT Segment, in the IT Segment as well, we maintained steady sales of securities held in Japan and overseas, contributing to 30% growth YoY.

### Profit attributable to owners of parent



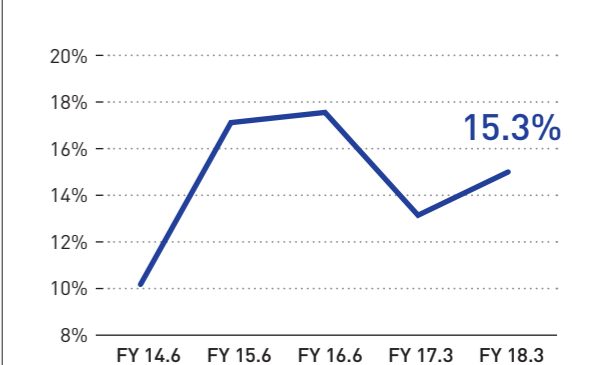
In FY 2018, profit attributable to owners of parent rose 16.2% YoY to 5.4 billion JPY, recording an all-time high for the first time in nine periods. Growth continues, with a 15.0% CAGR in the most recent five fiscal years. In addition to recurring business growth in the FT Segment, MT Segment, and LTI Segment, we believe this was also the result of building a structure to create stable incubation results in the IT Segment.

### ROA



In FY 2018, ROA rose 0.3 percentage points YoY to 5.4%. This was due to a significant YoY improvement in asset efficiency following an increase in net sales that exceeded the increase in total assets, despite decreased profitability caused by the impact of extraordinary income and losses, which was, in turn, in spite of an increased operating margin.

### ROE



In FY 2018, ROE rose 1.7 percentage points YoY, to 15.3%. While net assets increased due to an increase in retained earnings, every segment was strong, contributing to the recording of an all-time high in profit attributable to owners of parent. Going forward, DG will place every effort into achieving the 20% ROE set forth as a target in the Mid-term Business Plan, taking into account profitability and capital efficiency.

\*All YoY comparisons of key performance indicators use annualized figures from FY 2017.



## The Two Co-Founders Discuss

**KAORU HAYASHI**

Here, DG's co-founders, Kaoru Hayashi (Representative Director, President Executive Officer) discuss the current state and future of

## Future Focus Business Fields

**JOI ITO**

and Group CEO) and Joi Ito (Director, Digital Garage, Inc.; Director, MIT Media Lab) focus fields for DG's continued growth.

### Hayashi

DG is working with its strategic business partner Blockstream<sup>\*1</sup> to pursue the application of the public blockchain<sup>\*2</sup> technology used in Bitcoin in various uses, but we also see many attempts throughout the world using "private blockchains"<sup>\*3</sup>, to which only limited users can connect. Some of these efforts appear only to be attracting attention, despite lacking real substance. As the wheat and chaff is being separated, proper blockchains could face reputational damage through complaints that "security is not maintained despite taking the trouble to use

blockchain," and that "costs did not decline whatsoever."

### Ito

Personally, I believe that "private blockchains" are "pseudo blockchains" and not real blockchains. The reality is that even simple distributed databases<sup>\*4</sup> are being called private blockchains. "Blockchain" has spread like wildfire just like other buzzwords such as "IoT"<sup>\*5</sup> and "cloud"<sup>\*6</sup>, and I believe a gap is emerging between what is being advertised throughout the world as "blockchain" and "blockchain" properly defined in technological terms. This

is like the "multimedia boom" in the early 1990s. At the time, telephone companies and cable television companies used pre-internet online services and set-top boxes<sup>\*7</sup> to develop a range of independent services.

### Hayashi

Some even placed the "CAPTAIN System"<sup>\*8</sup> and pre-internet online services of that time on equal footing with the Internet.

### Ito

If we look under the surface, the positioning of applications being pursued by various companies using private blockchains is like that of the pre-internet online services that came before the Internet. By doing so, we get a better image of new applications. However, we cannot say that if pre-internet online services had never existed, the Internet would not have been born. The Internet, which gained popularity later, was clearly superior to the pre-internet online services and led to the creation of a range of applications.

\*1 Blockstream: Company engaged in the technological development of the blockchain used in Bitcoin for use in a range of applications. DG has a capital and business alliance with Blockstream.

\*2 Public blockchain: Blockchain with no restrictions on network participants (nodes). Comparable to the Internet.

\*3 Private blockchain: Blockchain in which only restricted participants (nodes) can join the network. Comparable to a dedicated line.

\*4 Distributed database: Centrally managed system that allows multiple databases managed on a network to function as one database.

\*5 IoT: Internet of Things. The IoT allows not only PCs and smart phones, but also a range of devices to be connected to the Internet and managed.

\*6 Cloud: Refers to an environment that allows computing resources distributed on a network to be used when necessary.

\*7 Set-top box: A multimedia terminal connected to the television set that uses CD-ROMs as recording media. Gained attention in the mid-1990s.

\*8 CAPTAIN System: A multimedia service launched by the then Nippon Telegraph and Telephone Public Corporation in 1984. Using analog telephone lines, the system displayed images and texts on television screens.



**KAORU HAYASHI**

Representative Director, President  
Executive Officer and Group CEO  
Digital Garage, Inc.

**Hayashi**

That said, there are decisive differences between the Internet and blockchain. In the initial Internet, the only effect of bugs was that contents would not display well, but as blockchain handles the values for cryptocurrencies, experimental testing is difficult.

**Ito**

That is the real reason that startups such as Blockstream applying the blockchain used in Bitcoin in other applications are rare. We have to proceed very carefully as we begin to extend the functionality of blockchain since its original function is the platform for bitcoin. Startups that wish to make aggressive moves quickly are avoiding this situation and tending to focus on the development of private blockchains. Be that as it may, there are separate risks there too.

**Hayashi**

Ultimately, when do you think the public blockchain will be used in a range of applications as a form of social

infrastructure? Personally, I am interested in whether it will be ready for the Tokyo Olympics.

**Ito**

It appears that it will take several years for the Bitcoin blockchain to be able to be used safely in other applications. Furthermore, at that time applications will likely be limited. It appears that it will take time for the blockchain to be stably used in a range of applications as social infrastructure like the current Internet.

**Establishing blockchain as a core technology is the top priority****Hayashi**

DG is now working with domestic financial companies to develop globally unprecedented revolutionary financial infrastructure\*9, but do you believe there is a possibility of a world-leading blockchain business being created in Japan?

**To create systems with worldwide interoperability, it is essential to be involved not only with the application layer development, but also with the Bitcoin Core development.**

**Ito**

I believe there is a possibility. If we think back to the early days of the Internet, because engineers extremely familiar with network protocol gathered at the research lab of Professor Jun Murai at the Faculty of Environment and Information Studies, Keio University is exactly why the lab was a worldwide leader in IPv6<sup>10</sup>, for example. With blockchain as well, if we assemble Bitcoin Core developers and can carry out technological development considering not the Japanese market but the global market, I believe Japan can lead the world.

**Hayashi**

In the Fintech field, which is increasingly expected to be a target for the application of blockchain, coordination with regulatory authorities is essential in commercialization. Regarding this point as well, I feel that momentum is increasing in Japan as well, but how do you see it Joi?

**Ito**

In the 1990s in Japan, cutting-edge initiatives were underway, such as experiments with digital cash by the Bank of Japan and NTT DATA Corporation. The skill level of the people involved with these experiments was high even on a global level. To the extent that this knowhow has been accumulated, the Japanese authorities should have a slight advantage.

**Hayashi**

How do you feel about ICOs<sup>11</sup>, which have gained attention as a new funding method for startups?

**Ito**

From a medium- to long-term perspective, I feel that the idea of ICOs itself is interesting. However currently, because the issuing companies do not want ICOs to be regulated as securities, they are trying to avoid regulations by not marketing them as such, which is problematic. I personally believe that ICO regulations should be properly established as a simpler version of the Securities and Exchange Act and that ICOs should be handled similarly to securities.

**Hayashi**

It appears we will need an idea to link the value of the tokens to the value of what actually exists.

**Ito**

That is also one way of doing things. At the very least, if investors are attracted by arbitrarily changing the price, ultimately those who bought at a high price will face losses. While we can think of schemes to prevent token prices from rising above actual prices, the ICO market itself is now becoming a bubble that will be hard to slow down. On Wall Street, we often see products being created where someone is guaranteed to lose, but I do not think this is a good thing. I think that if the market can create a scheme to prevent token prices from spiking above real prices, ICOs could be a good tool.

**Hayashi**

What will be required for Japanese blockchain applications to lead the world?

**Ito**

Like the Internet, I think naturally what will be important are technological capabilities. To create systems with worldwide interoperability, it is essential to be involved not only with the application layer development, but also with the Bitcoin Core<sup>12</sup> development. We must assemble a team of engineers whose development capabilities are on par with the world's top-level engineers and proactively engage in Bitcoin Core development. When blockchain begins to truly spread, the deciding factor in competition will be the presence of reliable, world-class engineers.

**Hayashi**

Exactly — when the Internet was being developed, the companies that included individuals who participated in the WIDE Project<sup>13</sup> with Professor Murai's group were later competitive on a global stage.

**Ito**

With blockchain, I think DG should play that role.

\*9 Globally unprecedented revolutionary financial infrastructure: In September 2018, DG and Tokyo Tanshi established a joint-venture company for blockchain financial service R&D and business in the Fintech field.

\*10 IPv6: Internet Protocol version 6. As opposed to the existing IPv4 which defines 32-bit IP addresses, as IPv6 can define 128-bit IP addresses, it is suitable for the age in which a range of devices will be connected to the Internet.

\*11 ICO: initial coin offering. A fundraising method that issues dedicated cryptocurrency in place of stock.

\*12 Bitcoin Core: Refers to Bitcoin's core software. Requires sophisticated knowledge and skills.

\*13 WIDE Project: Research project to build a large-scale distributed computing environment. Began in 1988 by connecting multiple universities through the Internet.



**The wave of technology's rapid advancement that was born from the Internet spread to the BioHealth field and led to the beginning of innovations unlike anything that came before.**

### Launch startup development in the BioHealth field

#### Hayashi

In the biotechnology and healthcare fields as well, recently there has been an active move toward new business development. Open Network Lab BioHealth<sup>\*14</sup>, the BioHealth field startup accelerator program launched by DG, has gathered more than 20 participating companies including major pharmaceutical companies.

#### Ito

Part of the background for this is that the research and development of major pharmaceutical companies is starting to level off. While more and more money is being invested into research and development, the number of medicines created as a result is declining. This type of business model will be unsustainable five years from now. The issue for major pharmaceutical companies is how to break out of this situation. They are introducing AI to the drug creation process and working to streamline the testing process but are beginning to realize that it will be difficult to pursue internal innovation for the measures they have taken thus far. This is occurring not only in Japan but also worldwide. This is like how newspaper companies, which have a lot of printing presses, cannot easily change over when quickly trying to shift to digital. Additionally, the new knowledge being created in the field of biology is forcing innovation in existing ways of creating drugs. For example, we have come to understand that the systems of immunity, microorganisms, and the brain are complexly interconnected. This means that there are many illnesses for which we cannot simply take medicine to cure and which only resolve if changes are also made to the living environment. In other words, we are coming to see the limits to health that can be brought about by doctors, pharmaceutical companies and medicine alone. A new model and approach are required. I believe that this new approach will require different innovation and investment methods than those that major

pharmaceutical companies have pursued thus far. Therefore, an increasing number of pharmaceutical companies are placing hopes on cooperation with startups where free thinking is possible. For example, there are professors at Japanese universities with ideas for allergy medications using microorganisms who wish to pursue commercialization. However, major pharmaceutical companies lack the concept of treatment using microorganisms and have neither the facilities nor the personnel to cultivate and test microorganisms. To breakthrough these conditions, our business alliance partner PureTech is assembling human resources from around the world and focusing on new concept drug creation.

#### Hayashi

If that is the case, I wonder how startups with new approaches to drug creation and major pharmaceutical companies will cooperate.

#### Ito

I think startups will bring the new drugs they have developed to major pharmaceutical companies, who will handle the manufacturing and distribution. This is because it is almost impossible for startups to globally distribute drugs they have developed themselves. When a new idea is born among major pharmaceutical companies, because development has not progressed with the existing internal process, there has been an increasing pattern of spinning out a team externally, and where development is successful, once again reincorporating the team internally.

### Protecting personal information with the Japanese GDPR

#### Hayashi

The GDPR<sup>\*15</sup> was enacted in Europe in May 2018, meaning we now live in an age where service providers will be held strictly accountable for their personal information protection initiatives.

<sup>\*14</sup> Open Network Lab BioHealth: Accelerator program started at DG Lab, an R&D organization operated jointly by Digital Garage, Kakaku.com and Credit Saison. Its purpose is to nurture startup companies in the fields of biotechnology and health.

<sup>\*15</sup> GDPR: General Data Protection Regulation. It is a framework for protecting personal information that the European Union (EU) began applying from May 2018. Its purpose is to strengthen and unify measures to protect personal information in EU countries.



#### JOI ITO

Member of the Board of Directors and Co-Founder, Digital Garage, Inc.  
Director, MIT Media Lab



**Ito**  
I see GDPR as a positive trend. This is because the world has undervalued protection of personal information thus far. All advertisements should be good both for the buyer and the seller, but with current online advertisement, it looks as if there is fierce competition over how to make people feel like buying something they do not want.

**Hayashi**  
You see the same advertisements no matter which website you visit. It is exactly like stalking.

**Ito**  
For example, we see poisonous advertisements targeting the weaknesses of people visiting the site and politically leading advertisements. We need to return to the starting point and reconsider what purpose advertisements serve in the first place. For example, old television advertisements were fun to watch.

**Hayashi**  
How do you think Japan should respond to GDPR? It looks like the response guidelines differ by service provider.

**Ito**  
The basic approach of GDPR is not wrong. I believe that Japan should organize its laws, create a Japanese version of the GDPR, and protect personal information.

**Hayashi**  
Fake news has become an issue, and more people are calling for neutrality in media. However, the reality is also that even if you continue to post fantastic content on online media, you cannot make money with the current advertising model. As an outside director at the New York Times, do you have a real sense of the difficulty in balancing the neutrality and earning potential of media?

**Ito**  
The New York times and Washington Post are well

known, but they are actually small compared to major Japanese newspapers in terms of circulation. However, their small readership is also extremely loyal. Just as newspaper reports were the starting point<sup>\*16</sup> forcing the resignation of President Nixon, because everyone in America realizes that the news media has an extremely important political role, a certain group feels extremely strongly that it is essential to society.

**Hayashi**  
There have been many Hollywood movies depicting the activities of newspaper reporters.

**Ito**  
Everyone believes that the media has an important function in democracy. In reality, since Donald Trump became president, the New York times has experienced a substantial increase in sales. Sales have been boosted by public opinion supporting media that confronts the administration. On the point of whether "democracy will not function without mass media," more liberal Americans strongly believe this, but I think this point is unclear in Japan. Recently, my friend made a documentary on the doping problem in Russia, but to protect himself, he involved the New York Times and hired lawyers and security. To put your life on the line as a reporter like my friend is something you cannot necessarily do as a freelancer. The role of major media outlets like newspaper companies is to support this type of reporting.

**Hayashi**  
DG offered its cooperation as the organizing office to Establish the "Japan Premium Media Consortium"<sup>\*17</sup>, of which more than 20 major media companies are members. The aim is to break out of the current reality in which Japanese online media prices are the lowest among developed countries. We are considering introducing a tool to measure the metric of "engagement," which shows the interest site visitors

have in the page, rather than the "pageviews" currently being widely used, and a scheme to appropriately set advertising fees for articles with strong engagement. By popularizing a scheme that, instead of attracting sites posting fake news, attracts quality advertisements to media that posts articles with value earned through journalists' work, i.e. quality media, we could give a boost to Japan's contents industry.

**Ito**  
I think those kinds of ideas are extremely interesting and should be actively pursued. Surprisingly, in America these kinds of initiatives are not pursued in consortiums, but rather by individual media outlets. However, engagement is also given as an important metric in America. Also, in America, Facebook has an extremely large presence as a news platform, and how to interact with Facebook is becoming an issue. Major media outlets

fear a situation in which there are only platforms and companies issuing news information.

**Hayashi**  
A move is also underway in France involving major publishers to review advertising fees with engagement as a metric. People are saying the same thing everywhere. Not limited to the Japan Premium Media Consortium, DG will continue to contribute to the world while creating businesses that play a role throughout society.

**Ito**  
This is because DG's strength is that, for a company welcoming the 25th anniversary of its founding, it has not lost its venture-company-like approach to facing new challenges.

**DG will continue to contribute to the world while creating businesses that play a role throughout society.**

\*16 Newspaper reports were the starting point: In the "Watergate Scandal" that forced the resignation of then president Nixon in 1974, the scoop from the Washington Post played a large role.

\*17 Japan Premium Media Consortium: A voluntary consortium of quality media outlets that aims to evaluate and appeal for media content value and have that content value reflected in advertising prices.





✓ PHILOSOPHY

# FIRST PENGUIN SPIRIT

For a colony of penguins to survive, they require their staple food: fish. However, the deep ocean where fish thrive is also home to dangerous predators such as killer whales and leopard seals that prey on penguins. The penguin that courageously decides to be the first to take the plunge, despite the possibility of encountering such predators, is referred to as the “**First Penguin**.” The Digital Garage Group was founded on the creed of being the “**First Penguin**”—having the courage and unshakeable will to be the first to step forward and take up a challenge.

With all of our employees guided by the spirit of leading and being the “**First Penguin**,” we will move forward to provide services that are useful to the world.



## Entering the 4th Stage of Incubation toward our 25th Anniversary in 2020

In the two years leading up to the Tokyo 2020 Olympic and Paralympic Games, the business environment is expected to experience the end of some existing businesses and the creation of new businesses, brought about by unprecedented rapid technological innovation. To respond to these major shifts, DG started a new Mid-term Business Plan with the slogan “**Open Incubation**,” which is the next step for “**Open Innovation**.”

With **DG Lab**, an open innovation platform for R&D established in July 2016, at the core, DG will support the creation of a new Japan and further expand business. We will accomplish this by using context to connect new businesses created by technological innovation while collaborating with various corporations, from startups to major corporations, engaged in progressive initiatives.

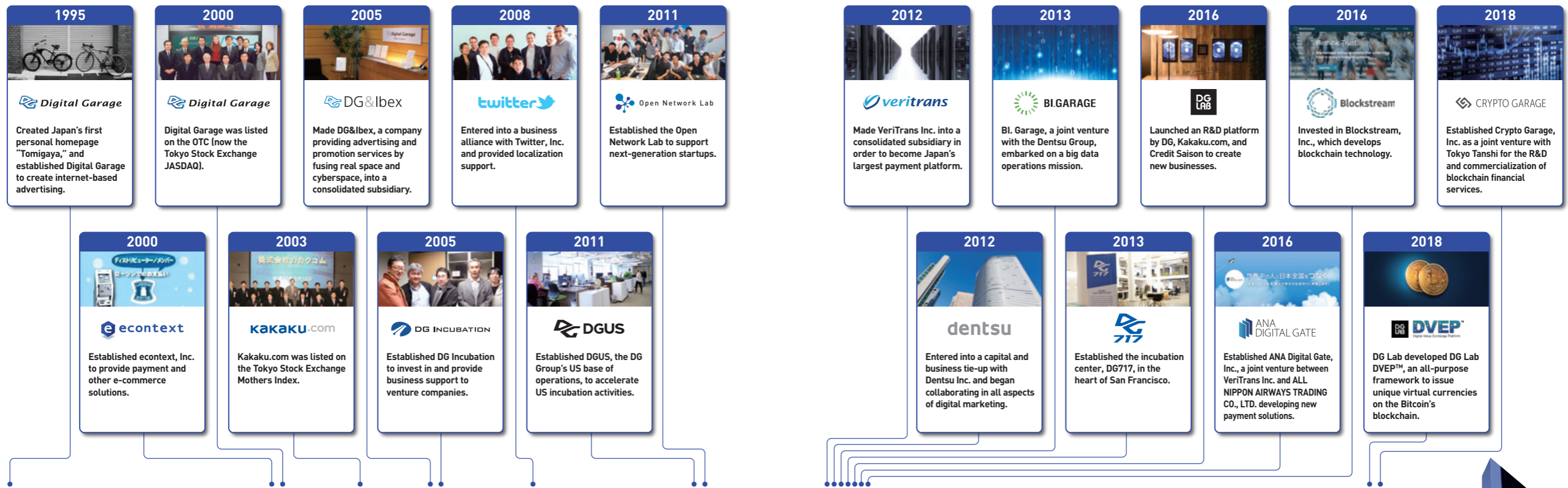
**THINK FOR YOURSELF AND QUESTION AUTHORITY**  
- TIMOTHY LEARY

A handwritten signature in black ink, appearing to read 'Timothy Leary', positioned to the right of the quote.



# ✓ DG HISTORY

Starting with the creation of Japan's first personal home page in 1994, Digital Garage's history has always been ahead of the times, paralleling the growth of the internet. Over this period, our efforts include not only Japanese localization of crawler-based search services, building e-commerce sites, provision of payment platforms, and commercialization of blog search, but also fusion of CGM and advertisements, support for social media operations, and the Asian development of payment platforms. Our accumulated experience and track record through constant involvement with these kinds of cutting-edge internet businesses are Digital Garage Group's strength and the source of our ability to create high value-added context.



**1995** '95-'00 PORTAL SEARCH  
 Established an internet advertising business with a high-traffic portal site and crawler-based search engine at its core.

**2000** '00 E-COMMERCE DESTINATION SITE  
 Established an operational base through by developing a settlement service targeting e-commerce sites, and by investing in Kakaku.com, a company developing a price-comparison site.

**2008** '08 SOCIAL MEDIA  
 Expanded advertising/marketing businesses for a new era of users utilizing blogs, Twitter, and other forms of social media.

**2016**  
 Established "DG Lab," an R&D platform, with the aim of developing technology that supports next-generation businesses.

**2017**  
 In anticipation of the business environment in the year 2020 and beyond, starting preparations to develop new businesses through open incubation.

**2018** '18 FUTURE...  
 Recorded an all-time high for profit for the first time in nine periods, and DG Lab began full-scale initiatives aimed at commercialization.

Hybrid Solution

Social Media Incubator

Lean Global  
Providing New Contexts

IT/MT/FT × Open Innovation

Open Incubation toward 2020

Key Web Milestones

1995  
 Microsoft introduces Windows 95

1998  
 Number of internet users in Japan surpasses 10 million

2000  
 Google introduces a Japanese language search service

2007  
 Apple introduces the iPhone

2008  
 Number of fiber-optic service users exceeds number of ADSL users in Japan

2014  
 Number of smartphone subscribers exceeds number of feature phone subscribers

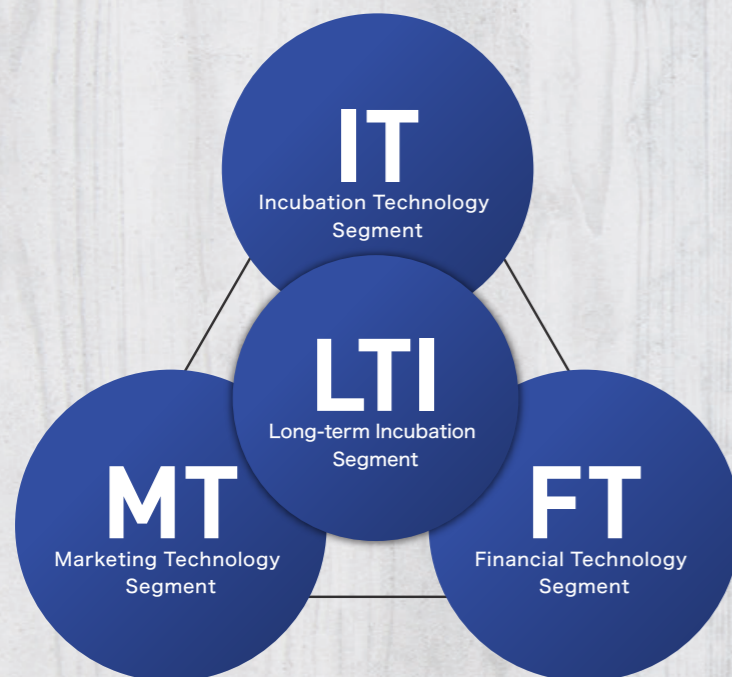
2017  
 AI program called "AlphaGo" beats the best professional Go player in the world

2020  
 Tokyo Olympic and Paralympic Games



# ✓ FOUR SEGMENTS

FOUR SEGMENTS and BUSINESS CONCEPTS



## Business Model

We create innovative internet services with open innovation in four segments. Adding to sustainable growth in marketing (MT) and payment services (FT), which are indispensable for the profitability of internet-related businesses, we will discern the future of technology evolution and create new businesses through DG Lab, an open innovation platform.

### POINT 01

Organic growth in the IT, MT, and FT Segments.

### POINT 02

Acceleration of incubation with DG's unique cross-segment platform.

### POINT 03

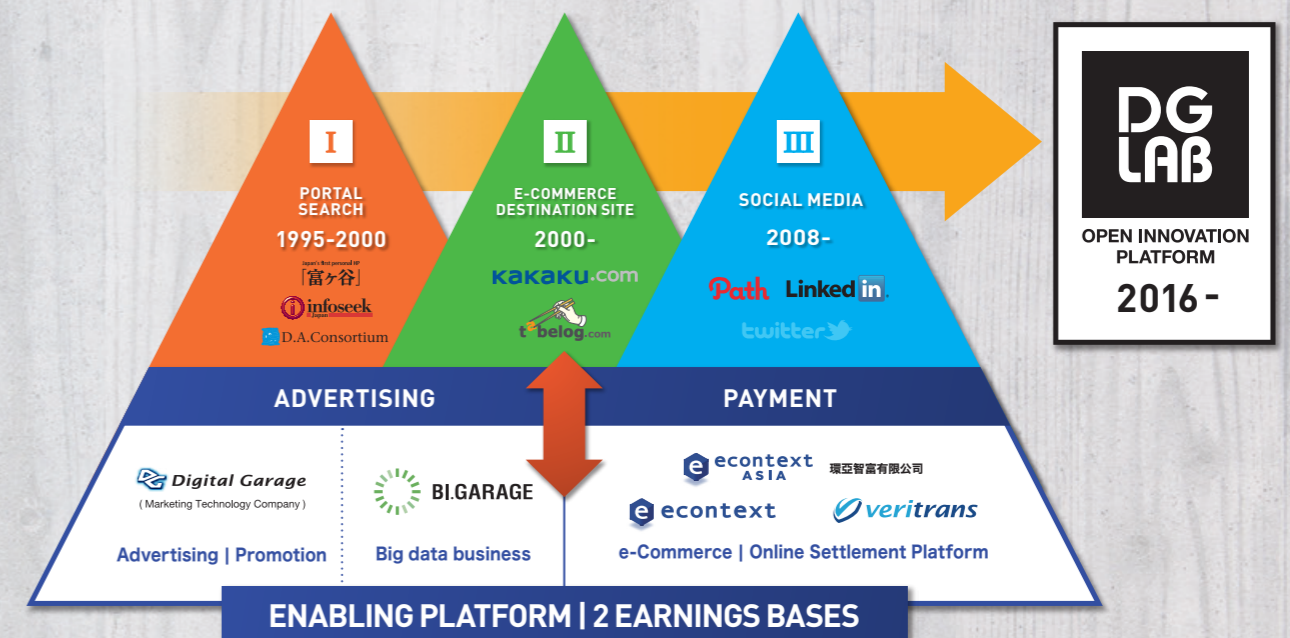
Achievement of long-term benefits from business incubation by bringing incubated businesses into the DG Group.

Connecting diverse business areas with contexts, discerning the evolution of technology, and building a system capable of ongoing business growth

DG applies three fundamental technologies – IT (Information Technology), MT (Marketing Technology) and FT (Financial Technology) – to create new contexts for the internet era. These new contexts, projected onto business areas, have given rise to our Incubation Technology Segment, Marketing Technology Segment, Financial Technology Segment, and Long-term Incubation Segment.

# ✓ BUSINESS MODEL

THE DIGITAL GARAGE GROUP'S THREE EARNINGS BASES



Incubation model applying the enabling platform

The Marketing Technology Segment and Financial Technology Segment are generating stable earnings as two earnings bases (enabling platform). Digital Garage's incubation model uses this enabling platform to invest in and nurture companies in Japan and abroad. Adding DG Lab to this incubation model, we are striving to continue contributing to society by further accelerating incubation, and developing and providing useful services.



# BUSINESS OVERVIEW

Principal Companies

FY 2018 Highlights



**Our handling of transactions in the public-funds sector has increased, in addition to e-commerce and face-to-face retail store payments, and we grew our position in social infrastructure**

In addition to e-commerce, development into the non-EC market, including face-to-face payments in response to inbound consumption by foreign visitors to Japan, is expanding, and we are continuing to realize growth exceeding the market. Furthermore, this fiscal year we began handling transactions for national pension premiums, as the role of DG's payment business as a form of social infrastructure grows in importance each year.



- Growth continues to top the e-commerce market, total amount of payments handled grew 20% YoY to more than 1.5 trillion JPY
- Developing new fields in the non-EC market. Business alliance launched with major Japanese POS manufacturer TOSHIBA TEC CORPORATION



**As a "Business Strategy Partner" leading clients toward growth, we support marketing activities centering on programmatic advertising**

Against the backdrop of growth in the Japanese internet advertising market, double-digit growth has continued, with net sales rising 28% and profit before taxes rising 37% from the previous fiscal year. The segment will continue to apply the most advanced technologies and collaborate with DG Lab to create next-generation marketing solutions.

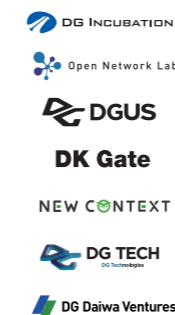


- Performance-based ads drove a large increase in both sales and earnings, as net sales rose 28% YoY and profit before taxes rose 37% YoY
- Collaborating with Kakaku.com, Inc. to strengthen the data marketing business. Promoting operational streamlining and launching work-style reforms

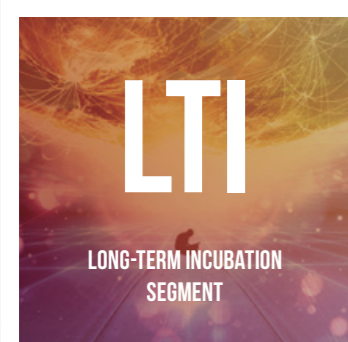


**Real start to the global promotion of investing in and nurturing businesses**

We have further strengthened the global incubation stream connecting North America, Japan, Asia, and Europe, and expanded DG's overseas investment business. Also, by gradually selling off our investment portfolio in Japan and overseas, we recorded strong YoY growth in profit before taxes. In addition, in line with our Mid-term Business Plan, we are implementing investment schemes with ROI 2.5x as an investment criterion.



- Supporting the global development of startup companies "Global Incubation Stream"
- Launching the accelerator program "Open Network Lab HOKKAIDO"



**New segment launched to create long-term, continuous cash inflow**

In FY 2018, the segment name was changed to the Long-term Incubation Segment (LTI). In addition to our equity-method affiliate Kakaku.com, Inc., by making companies receiving DG investment group companies, we are promoting a style which continuously realizes incubation results. Going forward, in addition to the above, we will establish joint ventures with other alliance partners and aim to create long-term, continuous cash inflow.



- Kakaku.com, Inc.'s investment profit on equity method remains strong, profit before taxes of 3.1 billion JPY
- Enhancing initiatives in life design businesses

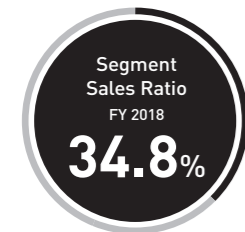


# FT

FINANCIAL TECHNOLOGY SEGMENT

Our handling of transactions in the public-funds sector has increased, in addition to e-commerce and face-to-face retail store payments, and we grew our position in social infrastructure

In addition to e-commerce (EC), development into the non-EC market, including face-to-face payments in response to inbound consumption by foreign visitors to Japan, is expanding, and we are continuing to realize growth exceeding the market. Furthermore, this fiscal year we began handling transactions for national pension premiums, as the role of DG's payment business as a form of social infrastructure grows in importance each year.



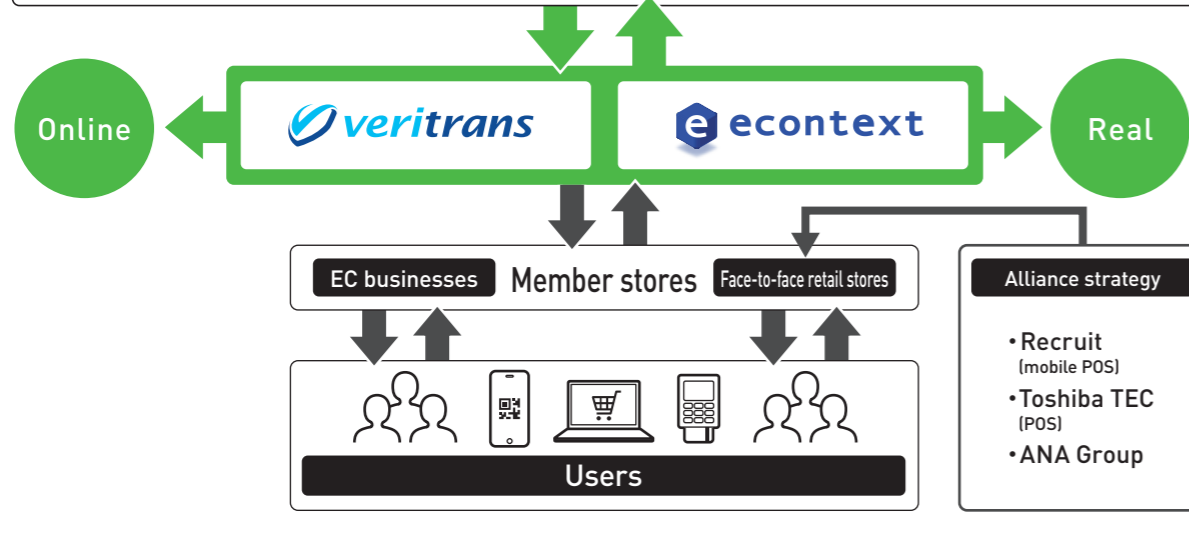
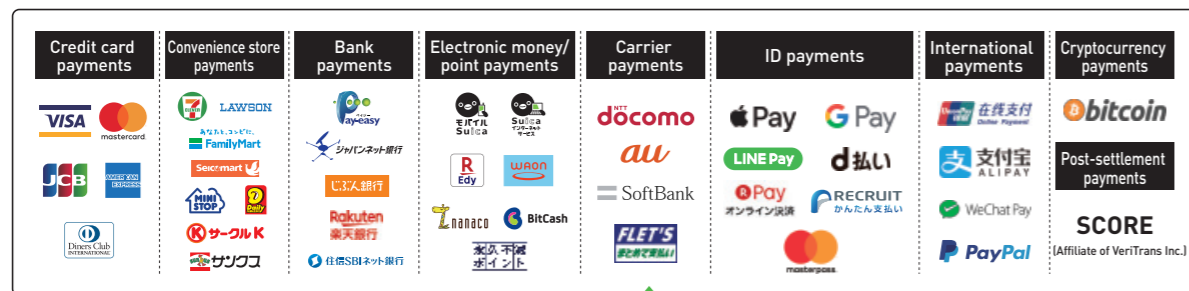
KEY FIGURES FY 2018

Segment net sales	Segment profit before taxes	Amount of annual transactions
<b>20.9</b> billion JPY	<b>2.5</b> billion JPY	<b>1.5</b> trillion JPY

Business Model

As one of Japan's largest payment service providers with more than 1.5 trillion JPY in annual transactions, we provide diverse, comprehensive payment platforms including credit card and convenience store payments, and QR and bar code payments

Business model and stakeholders



The Financial Technology Segment is responsible for **payment**, one of Digital Garage's earnings bases (enabling platform).



As a payment service provider (PSP), in addition to credit card payments and convenience store payments, we collectively provide an ever-increasing number of diverse payment methods including digital money services starting with Apple Pay, LINE Pay, Alipay, Wechat Pay, and Suica to EC businesses and face-to-face retail stores.

With cashless payments also being promoted as national policy, various payment methods such as electronic money and QR payments are continuing to increase. For EC businesses and face-to-face retail stores, while introducing the wide variety of payment methods demanded by consumers is important, individually carrying out system development, managing personal information including payment data, and conducting payment receiving operations is a large challenge due to the complexity of these processes. Furthermore, recently it has become commonplace to conduct sales promotions based on payment and purchasing data analysis. The Financial Technology Segment's business is to collectively provide

comprehensive payment platforms to those types of retail businesses.

The basic business model is to record the payment commissions resulting from multiplying the amount of payments handled by retail businesses by the commission rate as sales, and to record the commissions paid to the credit card companies and convenience store chains providing the individual payment methods as base costs. Recently, transaction types are diversifying, as commissions are being collected by the number of payments through the provision of capabilities such as fraud detection systems and QR code issuing systems.



Market Environment and Business Overview

Growth continues to top the EC market, total amount of payments handled grew 20% YoY to more than 1.5 trillion JPY

In FY 2018, the Financial Technology Segment reported net sales of 20.9 billion JPY (+11.4% YoY) and profit before income taxes of 2.5 billion JPY (+29.1% YoY) [compared to FY 2017 [annualized value for the nine-month irregular account settlement period {reference value}]]. These results largely surpassed the 15% growth in profit before income taxes set as one KPI in the Mid-term Business Plan.

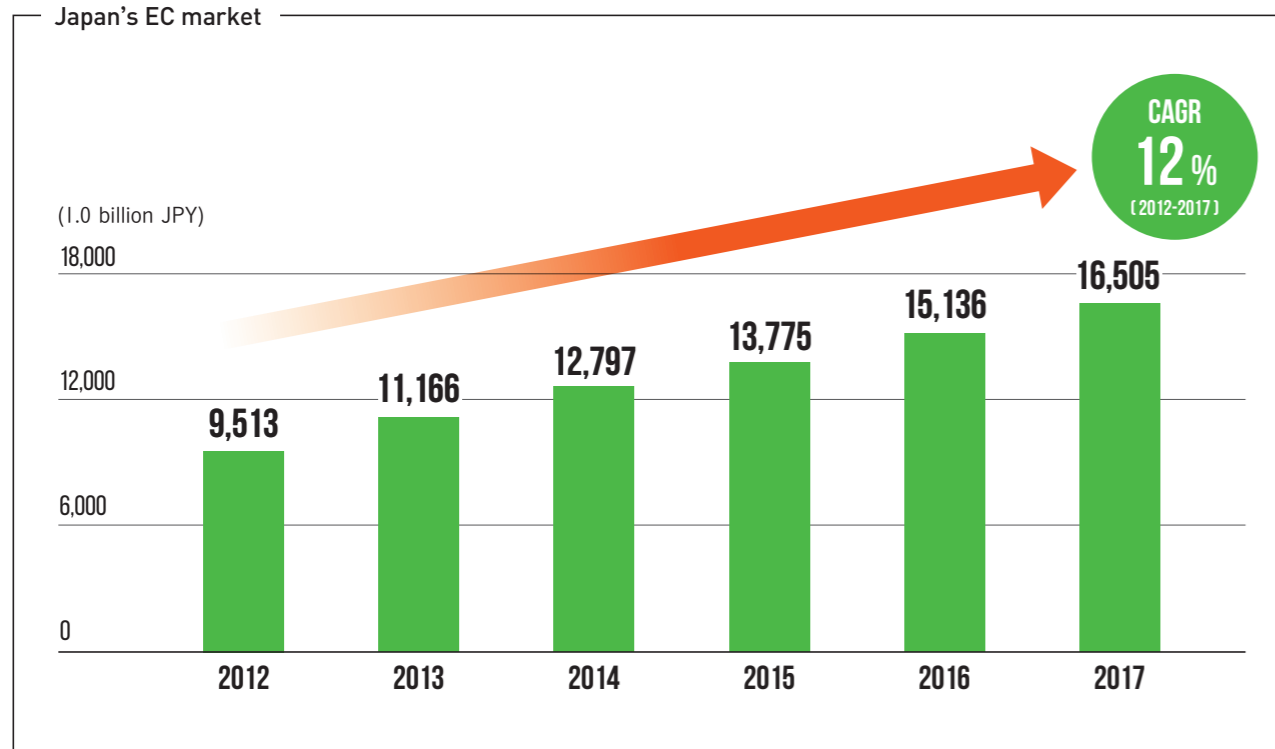
In calendar year 2017, Japan's BtoC EC market grew by a solid 9.1%, to 16.5 trillion JPY, according to the "e-commerce market survey results" of the Ministry of Economy, Trade and Industry (METI). However, the entire electronic payment market including EC is 68 trillion JPY, and going forward, rapid growth is expected with the evolution of a cashless society.

Operating subsidiaries in the segment VeriTrans Inc. and econtext Inc. grew their total amount of payments handled by 20% YoY (April 2016 - March 2017) to 1.5 trillion JPY, achieving growth that largely exceeded the growth rate of

the overall market. In addition to growth in the EC market, increased transactions in the non-EC market including face-to-face payments contributed to this growth.







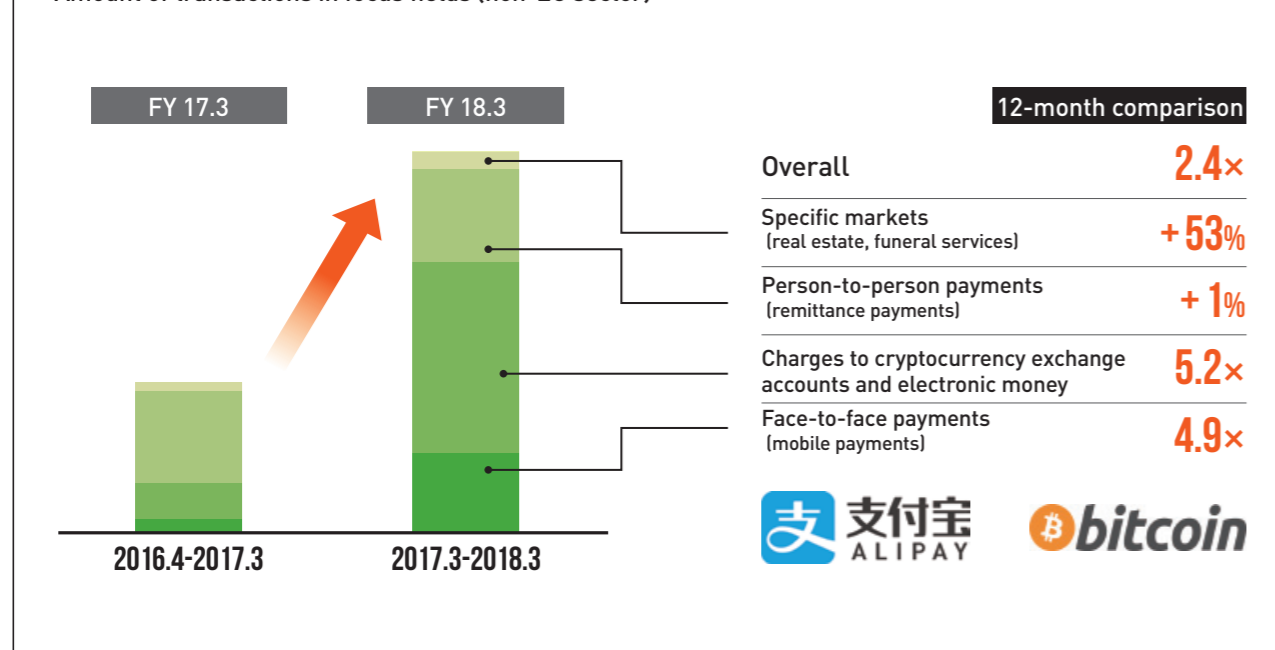
### FY 2018 Key Initiatives

#### Developing new fields in the non-EC market

As our main initiatives, we are focusing on the development of payments to face-to-face retail stores and cryptocurrency exchanges, and payments for specific markets (real estate, funeral services), and have increased our amount of payments in the non-EC sector by 2.4× YoY. Of that, the amount of face-to-face payments handled including Alipay rose by 4.9× YoY due to growth in inbound consumption, and deposit charge payments to various electronic money and

cryptocurrency exchange accounts grew by 5.2×. Furthermore, **public funds transactions** including taxes and insurance premiums rose, and we began providing services for credit card payment clearing for national pension premiums to the Ministry of Health, Labour and Welfare and convenience store payments of administrative processing fees to Osaka Prefecture.

#### Amount of transactions in focus fields (non-EC sector)



### Growth Strategy

As a payment platformer, use the tailwind provided by the government's cashless promotion policies to expand various payment methods in diverse fields, and create a Fintech business to handle social infrastructure

Japan's ratio of cashless payments is low compared to foreign countries, at 19.8% in 2016. To also respond to inbound demand ahead of the 2020 Tokyo Olympics, in its "Cashless Vision" released in April 2018, the Ministry of Economy, Trade and Industry aims to achieve a cashless payment ratio of 40% by June 2025. Furthermore, with the legal amendments in June 2018, face-to-face retail stores are required not to maintain credit card information and to accept IC cards by March 2020. Additionally, verification testing has begun for unstaffed stores and unstaffed registers due to the issue of spiking personnel costs from personnel shortages.

The progressing shift to a cashless society is a tailwind for DG's payment business, and because the economies of scale from increased transaction volume and transaction numbers will lead to increased profitability, we are focusing on the following initiatives.

#### I Non-EC payment growth

Firstly, while of course expanding our share in the EC market, one of our main sectors, with the legal groundwork being laid to promote cashless payments due to the sharp increase in foreign visitors to Japan, we will work to further develop the non-EC market, which still has ample room for growth. In addition to initiatives in specific markets where digitalization is not progressing such as real estate and funerals, we will work to expand international payments by responding to the globally expanding QR, bar code, and contactless payments of various countries.

#### II Growth in public-funds sector payments

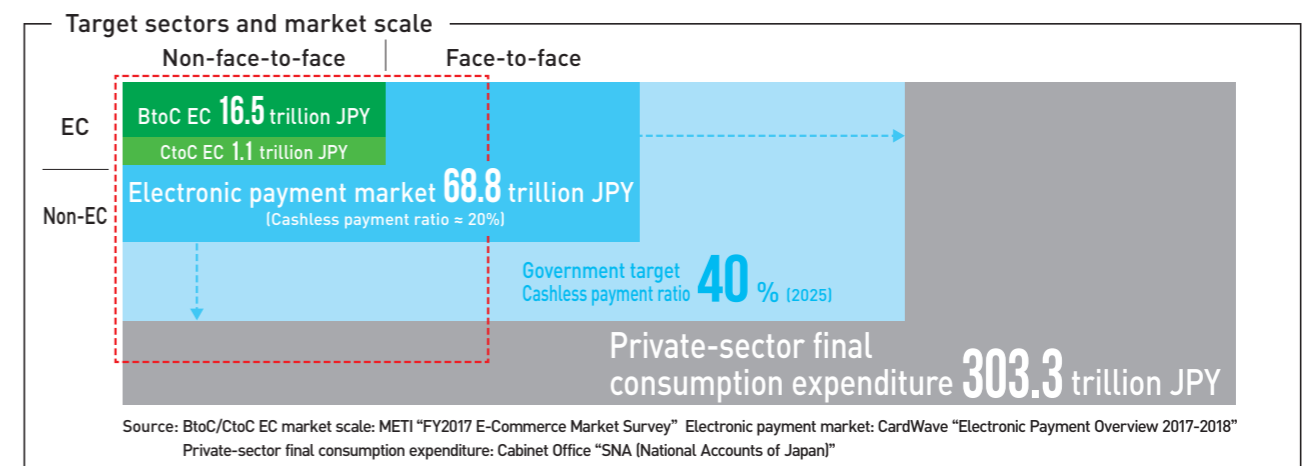
Next, public-funds sector payments are also steadily growing. After providing the service for convenience store

payments for various administrative processing fees for Osaka Prefecture, we concluded a contract with the National Tax Agency, and starting with 2019 tax returns, we will also provide a service system allowing national taxes to be paid at convenience stores nationwide using a QR code without prior registration. Of the numerous payment service providers, only the DG Group exclusively provides these payment services. Going forward, we will continue to focus on the government service sector, including public funds.

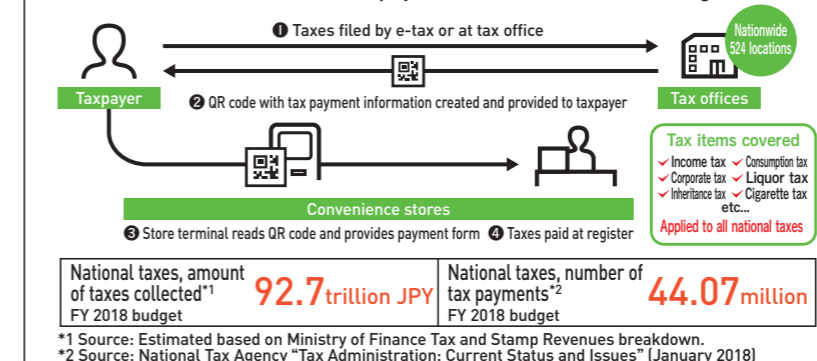
#### III Promoting alliances

Furthermore, as our alliance strategy, we will promote business expansion through system collaboration or business alliances with business partners with large-scale customers or core systems. While we already have alliances mainly in face-to-face payments with the ANA Group and Recruit Group, in February 2018, we formed a business alliance to develop multi-payment solutions for face-to-face retail stores with TOSHIBA TEC CORPORATION, which has the largest share in POS systems both in Japan and overseas. Additionally, initiatives are also expanding to link biometric authentication such as fingerprint authentication and facial authentication with payment systems.

As we handle personal and confidential information related to payments and purchases and move forward with the response to real demand for cryptocurrencies, we will continue to maintain close cooperation with government. Based on longstanding knowledge and technological capabilities, we are accelerating the growth of payment systems, which have become an extremely important part of social infrastructure, as a new Fintech platform.



#### Overview of convenience store payments of national taxes using QR codes



#### Initiatives and progress in the public-funds sector

- ✓ Ministry of Health, Labour and Welfare: card payments of national pension premiums
  - ✓ Osaka Prefecture: convenience store payments of administrative processing fees
  - ✓ Japan Patent Office: card payments of fees including patent fees
- Based on the government's "Japan Revitalization Strategy," the expanded use of electronic payments in the public sector is being promoted by the relevant government agencies as "Policies for the shift to a cashless society"
- Electronic payments will continue to increase in various public-funds sectors in the future



# MT

MARKETING TECHNOLOGY SEGMENT

As a “Business Strategy Partner” leading clients toward growth, we support marketing activities centering on programmatic advertising

Against the backdrop of growth in the Japanese internet advertising market, double-digit growth has continued, with net sales rising 28% and profit before taxes rising 37% from the prior year. The segment will continue to apply the most advanced technologies and collaborate with DG Lab to create next-generation marketing solutions.



KEY FIGURES FY 2018

Segment net sales	Segment profit before taxes	Amount of annual transactions
<b>34.9</b> billion JPY	<b>1.9</b> billion JPY	<b>27.7</b> billion JPY

### Business Model

As an internet advertising agency, we will support the maximization of our clients’ marketing ROI

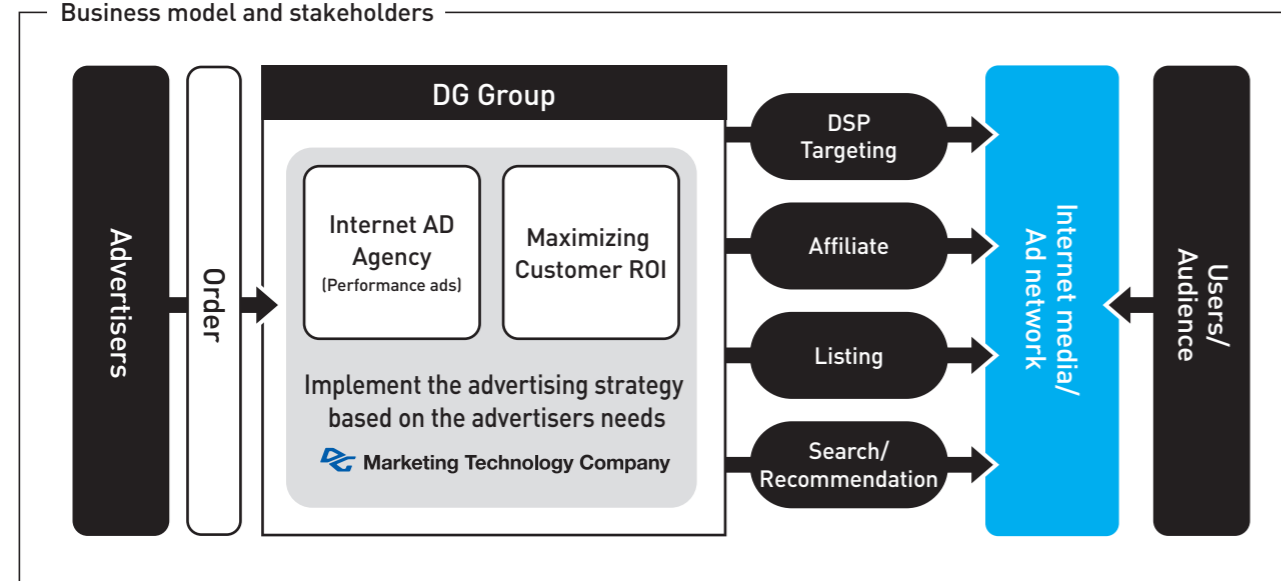
The Marketing Technology Segment is responsible for advertising, one of Digital Garage’s enabling platforms. As an internet advertising agency, we support our clients’ businesses by providing comprehensive promotions fusing real space and cyberspace as well as internet advertising. Specifically, by providing optimal solutions for our clients’ needs and challenges in a range of industries including financial, cosmetics, human resources, foods, entertainment/game and manufacturing, we maximize our

clients’ marketing ROI (cost-effectiveness).

This segment is characterized by the provision of optimal solutions to clients from a neutral standpoint without bias toward specific technologies or media, sophisticated advertising operational capabilities backed by the results of our core performance-based ads\*, and the provision of solutions utilizing the big data owned by the DG Group, realizing improved marketing ROI.

\*Actively managed ads that maximize advertising cost-effectiveness by changing and improving bid amounts, targets, and creative elements, etc. in real time.

### Business model and stakeholders



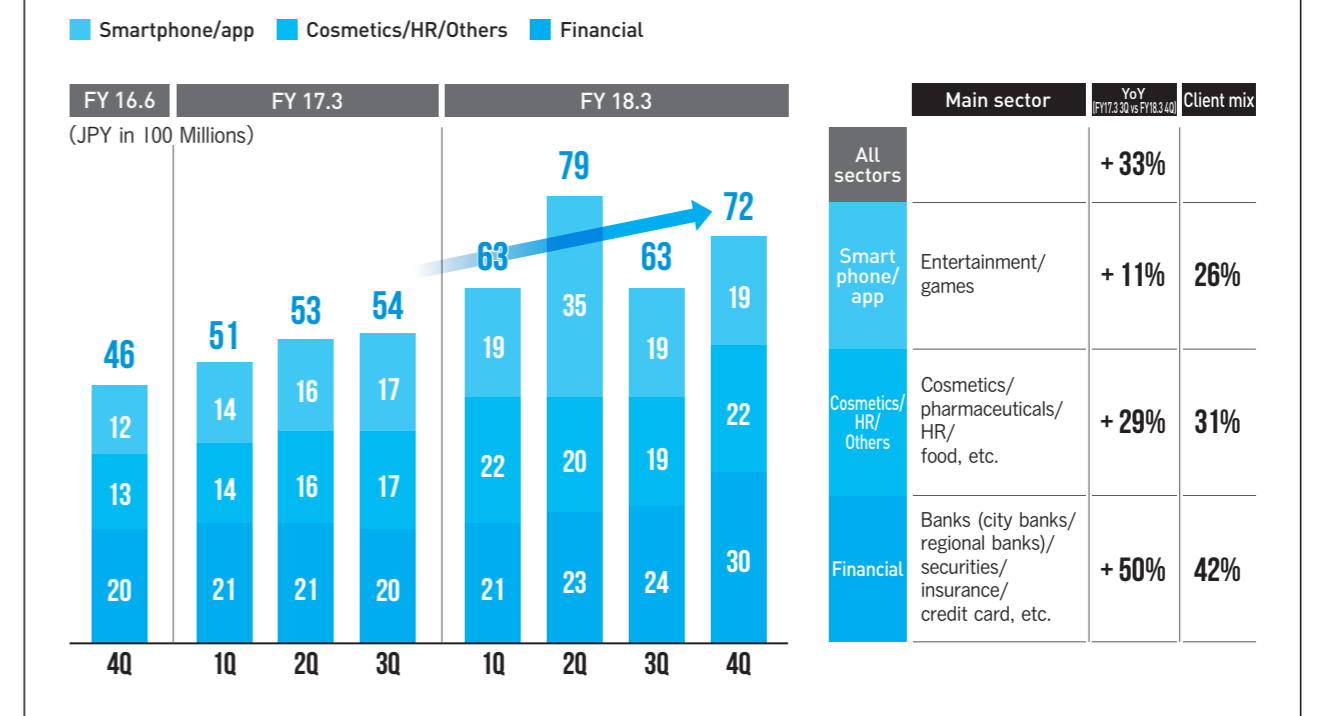
### Market Environment and Business Overview

Performance-based ads drove a large increase in both sales and earnings, as net sales rose 28% YoY and profit before income taxes rose 37% YoY

The Marketing Technology Segment posted net sales of 34.9 billion JPY (+28.2% YoY) and profit before income taxes of 1.9 billion JPY (+37.1% YoY). These results largely surpassed the 15% target CAGR based on profit before income taxes set as one KPI in the Mid-term Business Plan. Furthermore, operating margin, an indicator of profitability, rose 0.4 percentage points YoY, to 35.5%, realizing growth balancing further growth potential and increased profitability following the previous fiscal year. Performance-based ads continued to see increased sales in all sectors, with sales to the smartphone and app sector experiencing large sales growth in the second quarter and sales to the financial sector rising largely in the fourth quarter.



### Sales by sector (performance-based ads)

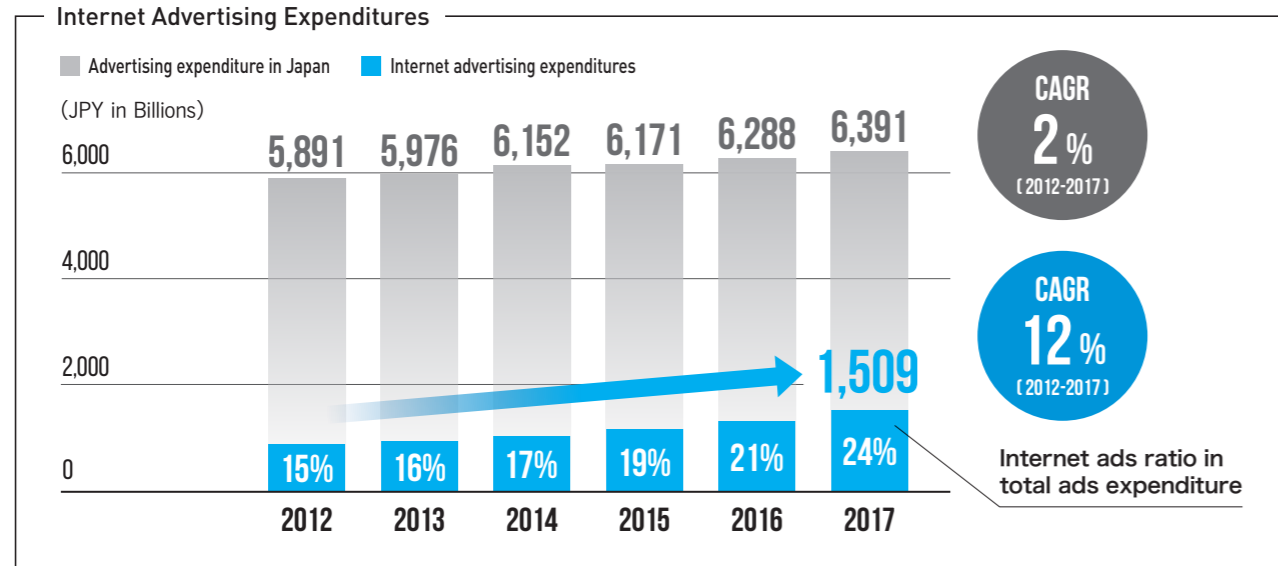




In terms of the market environment, internet advertising expenditures in Japan\* grew by 15.2% to 1.50 trillion JPY in calendar year 2017, and internet advertising's share of total advertising expenditures continued its expansion, rising 2.8 percentage points YoY, to 23.6%. In terms of trends in recent years, the shift to actively managed ads and the

growth in mobile video ads with the consumer shift to mobile stand out. Given that internet advertising's share of total advertising expenditures in the U.S. is just less than 50%, the Japanese internet advertising market still has room for growth.

\*Dentsu Inc., 2017 Advertising Expenditures in Japan



**FY 2018 Key Initiatives**

**Collaborating with Kakaku.com to strengthen the data marketing business  
Promoting operational streamlining and launching work-style reforms**

With our core performance-based ads trending strongly, we are focusing on the data marketing business as a pillar supporting future growth in the segment. Sales are expanding steadily for advertising products combining data owned by the Kakaku.com Group and social media data. We will grow this business into an even stronger service by working with other data providers. Furthermore, to increase advertising effectiveness and media value, we have jointly established a media consortium with major Japanese media companies and launched initiatives in new fields.

Amid rapid business growth with continued double-digit sales and earnings growth, operational streamlining and

work-style reforms are becoming important themes. We see this trend as an opportunity and have worked to systematize routine operations and begun preparations to establish near-shore development sites within the DG Group. In April 2018, we opened the "Digital Marketing center" (Sapporo, Hokkaido) as a near-shore site. With the progressing automation and commodification of routine operations, going forward we will need to shift to higher value-added operations. Looking ahead several years, to connect to enhanced competitiveness, we have focused on enhancing our acquisition of excellent human resources and improving our training programs.



**Growth Strategy**

**Promoting new digital marketing that integrates Digital/Real**

In the existing internet advertising and promotions business, in addition to pursuing initiatives aimed at diversifying advertising approaches and developing new services, by expanding the scope of our business by enhancing upstream marketing consulting, we are aiming for further business growth.

In the data marketing business, there are opportunities to utilize the range of data owned by the DG Group in marketing. As a key field, we are working to expand our collaborative advertising platform with Kakaku.com. Furthermore, aiming to improve advertising effectiveness and media value, we will promote initiatives in the media consortium.

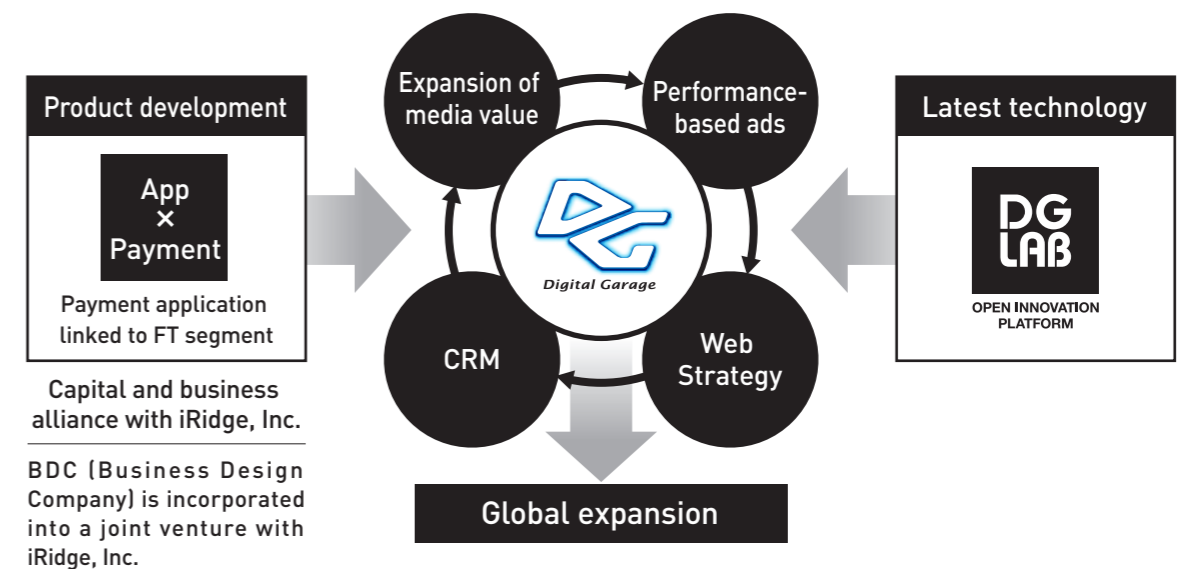
In terms of initiatives as part of our global response, we will proactively promote mainly Asian development. Starting

with support for our Japanese clients' expansion into Asia, we will work to strengthen our response to cross-border EC malls and inbound demand.

In May 2018, we formed a capital business alliance with iRidge, Inc. By fusing iRidge, Inc.'s app development results with DG Group's marketing knowhow, we will now be able to promote end-to-end marketing solutions that integrate Digital/Real.

The transition to the 5G era is expected to take place in 2020, along with changes in clients and media. To continue responding to needs that change with dizzying speed, we will work to create next-generation marketing solutions through collaboration with DG Lab and the utilization of the most advanced technologies.

**Value creation for 5th generation of mobile communication system utilizing the latest technology**



**Main approaches**

- Internet ads/promotion**
  - Strengthen upstream marketing consultant
  - Considering work style reform, operational efficiency, and cost optimization
  - Established a digital marketing center in Sapporo as a near-shore center (Cooperate with Sapporo Electronics and Industries Cultivation Foundation)
- Data science**
  - Aiming to build an ad tech platform in collaboration with Kakaku.com
  - Implement "Media Consortium" targeting to improve media value and brand value
- Global**
  - Consulting clients to support their business to expand overseas. First opening up in Taiwan and Thailand
  - Before launching cross-border EC malls in Asian countries, preparations started in Taiwan



# IT

## INCUBATION TECHNOLOGY SEGMENT

### Real start to the global promotion of investing in and nurturing businesses

We expanded Digital Garage's overseas investment business to further strengthen the global incubation stream connecting North America, Japan, Asia, and Europe. By gradually selling off our investment portfolio in Japan and overseas, we recorded strong YoY growth in profit before taxes. Furthermore, in line with our Mid-term Business Plan, we are implementing investment schemes with ROI 2.5x as an investment criterion.

Additionally, as an open innovation initiative, we launched a joint business with The Hokkaido Shimbun Press to develop startups and promote open innovation in Hokkaido. In addition to the knowhow and global community cultivated at Open Network Lab and Hokkaido Shimbun's media networks, through collaboration with university organizations, local governments, and groups in Hokkaido, we aim to build a Hokkaido-based innovation ecosystem utilizing the resources of Hokkaido such as primary industry, tourism, and its abundant nature, and to develop an accelerator program to identify and cultivate startups active on the global stage.

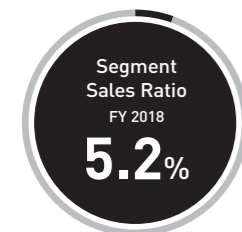


### Growth Strategy

Through a positive cycle of high ROI and reinvestment, realize continuous incubation results

**Open Network Lab** With the formulation of the new Mid-term Business Plan in May 2017, we have established new investment criteria for the investment business and further clarified the investment standards to create a platform that produces more stable returns. We have set a 2.5x target for ROI in the new Mid-term Business Plan. Amid an increasing sense of overheating in the investment environment for startups, going forward we will continue to utilize our global network to carefully advance investment schemes in line with the criteria

listed in the Mid-term Business Plan. Furthermore, by solidifying a stable exit system unaffected by IPOs, we expanded our investment balance to 12.3 billion JPY, and while maintaining our policy of aggressive new investments, we will rotate our portfolio, maintain our investment balance, and establish an investment cycle that realizes stable annual investment returns. Through these initiatives, we will establish high ROI and a reinvestment cycle, realizing continuous incubation results.



#### KEY FIGURES FY 2018

Segment net sales	Segment profit before taxes	Investment balance
<b>3.1</b> billion JPY	<b>1.3</b> billion JPY	<b>12.3</b> billion JPY

### Market Environment and Business Overview

#### The investment market environment remained strong

**Open Network Lab** For FY 2018, the Incubation Technology Segment achieved net sales of 3.1 billion JPY (+32.3% YoY) and profit before income taxes of 1.3 billion JPY (+30.0% YoY). Furthermore, the investment balance totaled 12.3 billion JPY as of March 31, 2018. In the investment business, we maintained steady sales of securities held in Japan and overseas, leading to **more than 30% growth YoY in sales and earnings**. In particular, overseas, we sold the major Indonesian online payment company PT Midtrans to an Indonesian unicorn venture company through M&A and executed the sales of multiple companies in Japan as well through M&A and other means. We believe we were able to build a stable sales system not dependent on the success of IPOs of companies receiving DG investment.

In terms of the market environment, annual investment (Japan and overseas) for Japanese VCs and CVCs in FY 2017 totaled 188.3 billion JPY (+26% YoY)\*, as robust funding demand from startups continued from the previous fiscal year, but a sense of overheating is starting to be pointed out. However, the number of IPOs in Japan in 2017 rose by seven companies YoY to 90 companies. Furthermore, against the backdrop of more stringent listing standards, increased comfort among investors toward the IPO market led to a noticeable trend of firm stock prices following new listings. While there is a positive exit environment, a sense of overheating is being felt in the investment environment, and as the market environment has a large effect on results, continuing to keep a close eye on the industry environment is essential.

\*Source: Venture Enterprise Center "Quarterly Trend"

### FY 2018 Key Initiatives

#### Supporting the global development of startup companies "Global Incubation Stream" Launching the accelerator program "Open Network Lab HOKKAIDO"

**Open Network Lab HOKKAIDO** As one of our main initiatives, we expanded Digital Garage's overseas investment business to further strengthen the global incubation stream connecting North America, Japan, Asia, and Europe. In addition to a North American AI-related startup support studio All Turtles and a Hong Kong-based startup support company Mind Fund and its network in Asia, we began collaboration with byFounders, a fund formed by a group of founders of promising northern European startups. In addition to

collaboration with these companies, we planned events gathering top startups at the San Francisco-based incubation center DG717 to match startups with local investors, collaborated with worldwide programs, and evaluated alliances to allow the common use of office space by entrepreneurs in each region, enhancing our support of startups utilizing the global network of Open Network Lab, a development program for globally focused startups that is now expanding into the US, Japan, Europe, and Asia.

### Supporting the global development of startup companies "Global Incubation Stream"

**Digital Garage** Promoting global collaboration with the seed accelerator "Open Network Lab"

- ✓ By strengthening collaboration in the US, Japan, Europe, and Asia, support globally focused startups
- ✓ Collaborate with worldwide programs and evaluate alliances to allow the common use of office space by entrepreneurs in each region
- ✓ Plan events in San Francisco to gather top startups and match them with local investors



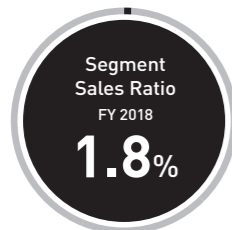


# LTI

LONG-TERM INCUBATION SEGMENT

## New segment launched to create long-term, continuous cash inflow

In FY 2018, the segment name was changed to the Long-term Incubation Segment (LTI). In addition to our equity-method affiliate Kakaku.com, Inc., by making companies receiving DG investment group companies, we are promoting a style which continuously realizes incubation results. Going forward, in addition to the above, we will establish joint ventures with other alliance partners and aim to create long-term, continuous cash inflow.



### KEY FIGURES FY 2018

Segment net sales: **1.1 billion JPY**  
 Segment profit before taxes: **3.1 billion JPY**

## Market Environment and Business Overview

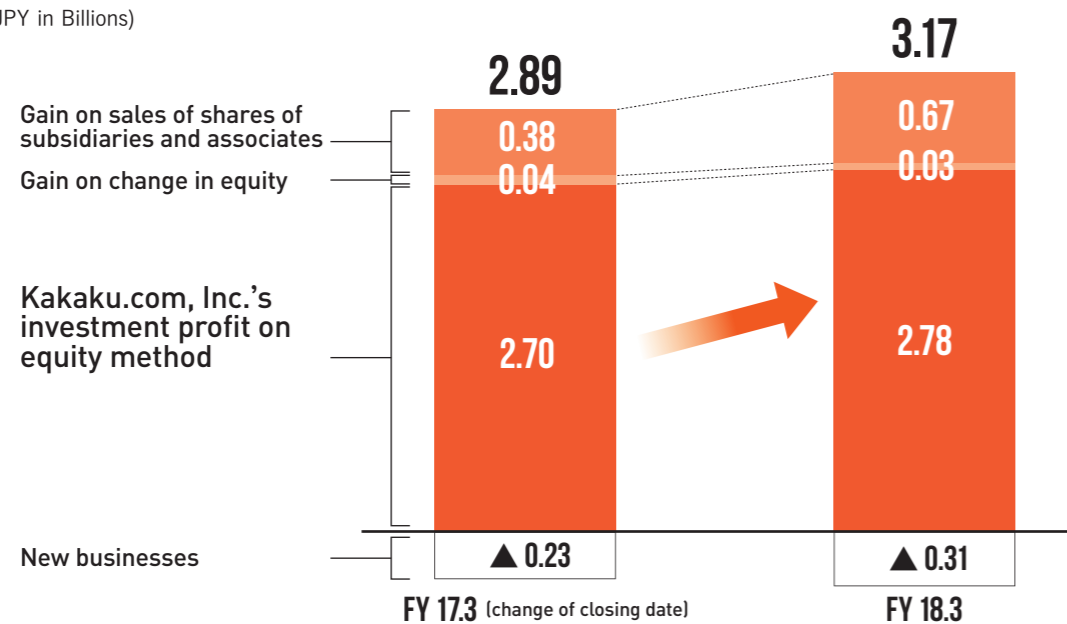
### Kakaku.com, Inc.'s investment profit on equity method remains strong, profit before taxes of 3.1 billion JPY

For FY 2018, the Long-term Incubation Segment achieved profit before income taxes of 3.1 billion JPY (+12.6% YoY). This was due mainly to steady progress in Kakaku.com, Inc.'s business and strong investment profit on equity method, as well as a YoY increase in gain on sales of shares of subsidiaries and associates. Furthermore, in July 2017,

equity-method affiliate DG Life Design, Inc. was made a consolidated subsidiary through the additional acquisition of shares. As a result, DG Life Design, Inc. Group's sales are recorded in the LTI Segment from the third quarter of FY 2018.

### Profit before taxes

(JPY in Billions)



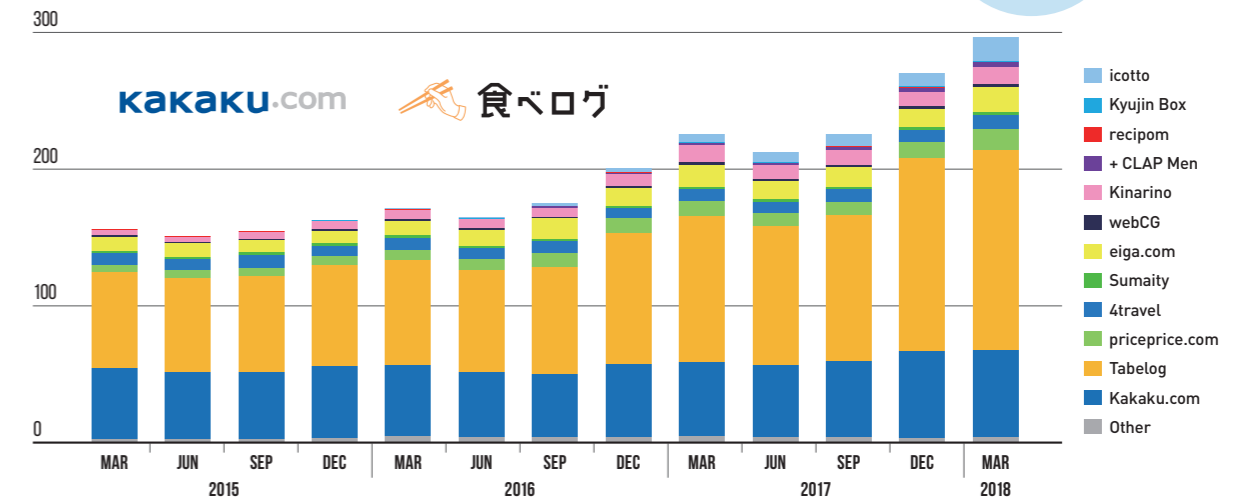
\*Twelve months' worth of Kakaku.com's results, which make up a large part of the LTI Segment, are included in FY 17.3.

### Kakaku.com, Inc.'s main business progress

[Kakaku.com, Inc. Group Accumulated Traffic]

Monthly users for the overall group are increasing year by year, totaling 288.21 million users, a 31.5% YoY increase (March 2018)

(Millions of people)



\*Extracted from Kakaku.com, Inc.'s Results Briefing for FY2018/3

## FY 2018 Key Initiatives

### Strengthened initiatives in life design businesses

In FY 2018, equity-method affiliate DG Life Design, Inc. was made a consolidated subsidiary through the additional acquisition of shares in July 2017, strengthening the DG Group's support system. Affluent customers are the initial target market of DG Life Design, Inc., and we will make broad "Valuable Life" proposals to customers by offering new life designs through collaboration inside and outside the Group in fields such as life care and sports marketing. Additionally, while there were no new companies receiving DG investment entering the segment in FY 2018, we are promoting capital and business alliances with multiple companies and strengthening our initiatives to continuously realize incubation results in the medium- to long-term.



## Growth Strategy

### For the creation of medium- to long-term, continuous cash inflow

In formulating our new Mid-term Business Plan, we changed the MI (Media Incubation) Segment, mainly active Kakaku.com, Inc.'s investment profit on equity method and media development businesses, to the LTI (Long-term Incubation) Segment starting in FY 2018.

DG is known as an internet incubator, and to realize one of its missions of creating new businesses, in addition to short-term incubation results (gains on sales of shares), we believe it is important to create long-term, continuous cash inflow as we did in the past with our investment and business development at Kakaku.com, Inc.

Furthermore, DG Lab welcomed its third year of

operations, and is transitioning from the R&D phase to the commercialization phase. Going forward, in the phase where we commercialize the business seeds born from DG Lab, we expect to see the increasing establishment of alliance-type joint ventures with other companies. These joint ventures will be subject to business development in the LTI Segment from a medium- to long-term standpoint, aiming to create long-term, continuous cash inflow.

Through these businesses, we will pursue continuous cash inflow including investing in and nurturing businesses and business alliances, and in the incubation field as well, we will work to expand a recurring earnings model.



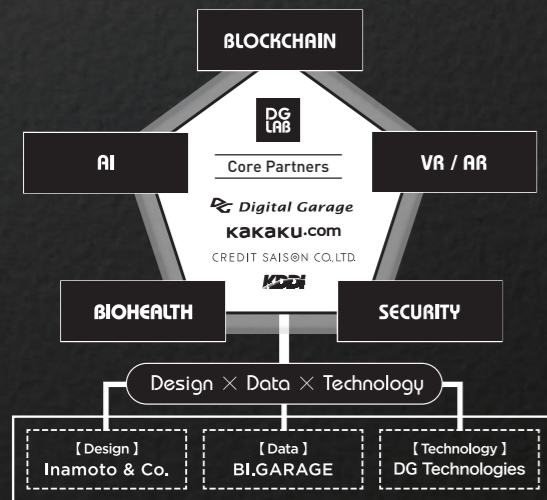


# Open Innovation Platform

## Business Development Born from an Open Innovation Platform with a View to the Next Generation Starts in Full Swing

"DG Lab," an R&D platform established by DG to develop the technological seeds of what promise to become new core businesses in collaboration with Kakaku.com, Inc. and Credit Saison Co., Ltd., is producing results in basic research in five

top priority areas of research. Going forward, we will start initiatives in full swing aimed at developing specific products and services, creating a series of businesses that play roles in society from a global perspective.



### Initiatives involving DG Lab

**DG Daiwa Ventures**  
**DGLAB FUND**  
 Joint funds with Daiwa Securities Group Inc. to invest in startups that have next-generation technologies relevant to DG Lab's five priority research areas, and to work with DG Lab to promote increases in the corporate value of investee companies

**DG TECH**  
 An independent R&D platform established with TIS Inc. to engage in rapid development in each of DG Lab's priority research areas

**HAUS**  
 The HAUS website provides information regarding innovation happening around the world through introductions to various events related to DG Lab's five priority research areas, interviews with famous individuals, and more <http://media.dglab.com>

### Projects being pursued by DG Lab toward commercialization (partial excerpt)

BLOCKCHAIN	
<h4>DVEP</h4> <p>We promote businesses using "DG Lab DVEP"™ developed by DG Lab. As a highly reliable digital value exchange platform, DVEP has technology to realize "digital money point issuance" and "point exchange," and has begun collaboration with the FT Segment, DG Lab partners, local governments, and point vendors, etc.</p>	<h4>SMART CONTRACT</h4> <p>Together with Bengo4.com, Inc., we began trial operations of a smart contract system to realize the streamlining of personal loan operations with Resona Bank, Limited. Based on the results of these trial operations using blockchain technology in the bank operating system, in the future, we will work to realize the large-scale streamlining of various contract-related operations within the bank as well as cost cutting and increased customer convenience.</p>

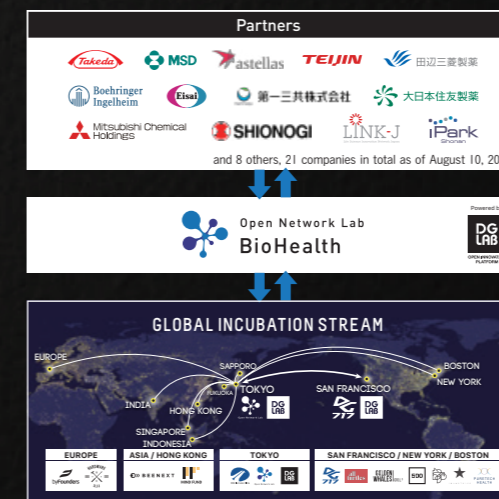
Digital Garage | kakaku.com | CREDIT SAISON CO.,LTD | KDDI

TIS INTEC Group | Daiwa Securities Group, Inc. | リソな銀行

## BIOHEALTH

### OPEN NETWORK LAB BIOHEALTH

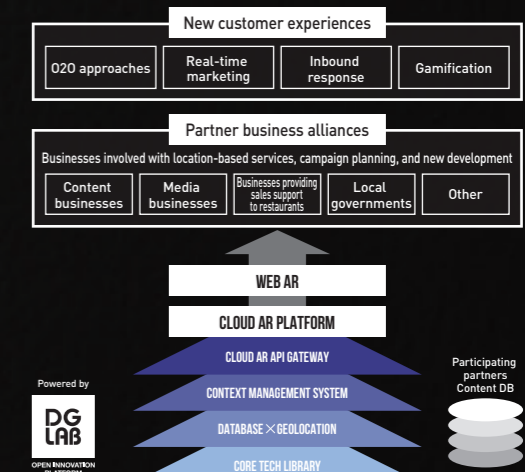
We are developing an accelerator program centered on the development and support of startups developing businesses in fields where biotechnology and healthcare intersect with IT. Through this program, DG will play the center role in the ecosystem that promotes innovation in the global biotechnology and healthcare field, and going forward, we will further promote new business development in this field.



## VR / AR

### CLOUD AR PLATFORM

We introduced patent-pending video processing technology to the "Cloud AR Platform," built independently by DG Lab. We are developing "Web AR" technology built into web pages to provide a new user experience. Web AR offers lower barriers to entry than developing applications from scratch and can be embedded into existing services and applications. We are also promoting collaboration with various services including O2O businesses.



## SMART CITY PROJECT

We are expanding projects to boost local business by establishing various areas across Japan as strategic development hubs that are test-beds for technology from DG Lab's five priority research areas and for technology from companies the DG Lab Fund invests in.

<h4>SAPPORO</h4> <p>DG and Hokkaido Shimbun launched a joint business to develop startups and promote open innovation in Hokkaido.</p>	<h4>FUKUOKA</h4> <p>In two large projects being developed in Fukuoka, "Tenjin Big Bang Project" and "Land Use Plan for the Former Hakozaki Campus, Kyushu University," we will provide our knowhow regarding the transition to smart cities, plan and promote projects with local Fukuoka companies, and establish designated areas in collaboration with the local government to conduct trial operations of cutting-edge technologies.</p>	<h4>[Boosting Local Businesses]</h4> <p>We plan to develop Smart City Project nationwide</p> <p>Sapporo              Fukuoka              2020 CREATIVE CITY SHIBUYA              TOKYO (SHIBUYA)</p>
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# Directors



**KAORU HAYASHI**

Representative Director  
**KAORU HAYASHI**

- Apr 1983 Representative Director, From Garage, Inc.
- Aug 1995 Founded Digital Garage, Inc. Representative Director, Digital Garage, Inc.
- Jun 2003 Chairman of the Board, Kakaku.com, Inc. (current)
- Nov 2004 Representative Director, President and Group CEO, Digital Garage, Inc.
- Jun 2009 Representative Director and Chairman, DG Incubation, Inc. (current)
- Jun 2016 Director, Credit Saison Co., Ltd. (current)
- Jul 2016 Director Chairman and CEO, Digital Garage US, Inc. (current)
- Sep 2016 Representative Director, President Executive Officer and Group CEO, Digital Garage, Inc. (current)
- May 2017 Representative Director, Chairman and President, DG Incubation, Inc. (current)



**JOI ITO**

Member, Board of Directors and Co-Founder  
**JOICHI ITO**

- Aug 1995 Founded Digital Garage, Inc. Representative Director, Digital Garage, Inc.
- Sep 2006 Director, Digital Garage, Inc. (current)
- Apr 2011 Director, MIT Media Lab (current)
- Jun 2012 Director, The New York Times Company (current)
- Jun 2017 Strategic Adviser, Sony Corporation (current)



**MAKOTO SODA**

Member, Board of Directors  
**MAKOTO SODA**

- Jun 1994 Joined Dresdner Kleinwort Benson Securities, Ltd.
- Jun 1997 Joined Daiwa Institute of Research Ltd.
- Apr 2000 Joined Monex Securities Inc.
- Mar 2007 Joined Digital Garage, Inc. Executive Officer in charge of the Corporate Strategy Division, Digital Garage, Inc.
- Sep 2009 Director, Head of the Group CEO Office, Digital Garage, Inc.
- Jan 2012 Director, in charge of the Corporate Strategy Division, Digital Garage, Inc.
- Sep 2016 Member, Board of Directors, Senior Executive Officer, in charge of the Corporate Strategy Division and the Media Incubation Technology Segment, Digital Garage, Inc.
- Apr 2017 Member, Board of Directors, Senior Executive Officer, in charge of the Corporate Strategy Division, Digital Garage, Inc.
- Apr 2018 Member, Board of Directors, Senior Executive Officer, in charge of the Corporate Strategy Division and the Long-term Incubation Segment, Digital Garage, Inc. (current)



**KEIZO ODORI**

Member, Board of Directors  
**KEIZO ODORI**

- Apr 2000 Joined Faith, Inc.
- Jun 2005 Director, Faith, Inc.
- Sep 2010 Director, Digital Garage, Inc. in charge of the Payment Segment (now the Financial Technology Segment)
- Sep 2012
- Oct 2013 Representative Director and President, econext, Inc. (current)
- Aug 2016 Representative Director and President, DK Media, Inc. (current)
- Sep 2016 Member, Board of Directors, Senior Executive Officer, in charge of the Financial Technology Segment, Digital Garage, Inc. (current)
- Jun 2017 Representative Director and President, DK Gate, Inc. (current)



**EMI OMURA**

Outside Director  
**EMI OMURA**

- Oct 2002 Admitted to practice law in Japan (Tokyo Bar Association)
- Jul 2008 Partner, Athena Law Office (current)
- Sep 2010 Associate Expert, International Labour Office in Geneva, the International Labour Organization (ILO)
- Jan 2014 Director, the Office of International Affairs, Japan Federation of Bar Associations
- Sep 2014 Outside Director, Digital Garage, Inc. (current)



**YASUYUKI ROKUYATA**

Director, Audit and Supervisory Committee Member  
**YASUYUKI ROKUYATA**

- Dec 1995 Director, Digital Garage, Inc.
- Mar 2011 Representative Director and President, DG Incubation, Inc.
- Jul 2011 Director and COO, Digital Garage, Inc.
- Sep 2012 Director and Vice President, in charge of the Incubation Segment (now the Incubation Technology Segment), Digital Garage, Inc.
- Jul 2013 Director, Digital Garage US, Inc.
- Sep 2016 Member, Board of Directors, Vice President Executive Officer, in charge of the Incubation Technology Segment, Digital Garage, Inc.
- Apr 2017 Member, Board of Directors, Vice President Executive Officer, Digital Garage, Inc.
- Jun 2018 Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)



**MAKOTO SAKAI**

Outside Director, Audit and Supervisory Committee Member  
**MAKOTO SAKAI**

- Apr 1986 Admitted to practice law in Japan (Nagoya Bar Association)
- Apr 1988 Registered to the Tokyo Bar Association
- Aug 2000 Established the Sakai Makoto Law Office
- Mar 2005 Established the Sirius Law Office (current)
- Sep 2010 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)



**JUNJI INOUE**

Outside Director, Audit and Supervisory Committee Member  
**JUNJI INOUE**

- Apr 1974 Joined Mitsubishi Corporation
- Apr 2003 Executive Officer, Mitsubishi Corporation
- Jun 2003 Director, Executive Officer & President, IT Frontier Corp.
- Jun 2007 Director, e-Access Ltd.
- Sep 2012 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)



**MASASHI TANAKA**

Member, Board of Directors  
**MASASHI TANAKA**

- Aug 2001 Joined Digital Garage, Inc.
- Jul 2006 Director, DG&Ibex Company (now Marketing Technology Company)
- Jan 2011 Senior Operating Officer, Digital Garage, Inc. Executive Vice President, DG&Ibex Company (now Marketing Technology Company)
- Sep 2012 Director, Digital Garage, Inc. Head of Corporate Strategy Division Executive Vice President of DG&Ibex Company (now Marketing Technology Company)
- Jul 2016 Director and President, Digital Garage US, Inc. (current)
- Sep 2016 Representative Director, DG Technologies, Inc. (current)
- May 2017 Director, Vice President and COO, DG Incubation, Inc. (current)
- May 2018 Member, Board of Directors, Senior Executive Officer, in charge of DG Lab, the Incubation Technology Segment and Group CEO Division, Digital Garage, Inc. (current)



**HIDEO EDASAWA**

Member, Board of Directors  
**HIDEO EDASAWA**

- Apr 1984 Joined Recruit Co., Ltd. (now Recruit Holdings Co., Ltd.)
- Oct 1999 Joined Digital Garage, Inc.
- Sep 2002 Director, Digital Garage, Inc.
- Nov 2008 Vice President, DG Communications Co., Ltd.
- Jun 2009 President, DG Communications Co., Ltd.
- Jun 2017 Director, Senior Executive Officer, in charge of the Marketing Technology Segment, Digital Garage, Inc. (current)



**MASAHITO OKUMA**

Member, Board of Directors  
**MASAHITO OKUMA**

- Apr 1999 Joined Mitsubishi Corporation
- Mar 2011 Joined FAST RETAILING CO., LTD.
- Dec 2015 Vice President, UNIQLO USA LLC
- Nov 2016 Joined Digital Garage, Inc.
- Apr 2017 Executive Officer and COO of DG Lab, Digital Garage, Inc.
- May 2017 Director, DG Incubation, Inc. (current)
- Dec 2017 Director COO, Digital Garage US, Inc. (current)
- Apr 2018 Executive Officer and COO of DG Lab, Digital Garage, Inc.
- Jun 2018 Director, Executive Officer, COO of DG Lab, Head of Group CEO Division, Digital Garage, Inc. (current)



**KENJI FUJIWARA**

Outside Director  
**KENJI FUJIWARA**

- Apr 1969 Joined Shufu-no-mise Daiei, Inc. (now The Daiei, Inc.)
- Jun 1994 Representative Director & President, Daiei Convenience Systems, Co. Ltd. (now Lawson, Inc.)
- Jun 2003 President, Representative Director, FANCL CORPORATION
- Sep 2008 Outside Director, Digital Garage, Inc. (current)
- Jun 2009 Director, Kakaku.com, Inc. (current)



**KOJI MAKINO**

Outside Director, Audit and Supervisory Committee Member  
**KOJI MAKINO**

- Oct 1988 Joined KPMG Minato Audit Firm (now KPMG AZSA LLC) Tokyo Office
- Aug 1992 Became a Certified Public Accountant
- Jan 2006 Established and Representative, Makino Koji Certified Public Accountant Office (current)
- Feb 2009 Director, BE1 Accounting Office (current)
- Sep 2012 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)



**MINORU OHNO**

Outside Director, Audit and Supervisory Committee Member  
**MINORU OHNO**

- Jan 1977 Established Labor Consultants Ohno Office
- Apr 2003 Representative Member, Labor Consultants Ohno Office (current)
- Sep 2003 Outside Auditor, Digital Garage, Inc.
- Jun 2015 Advisor, Japan Federation of Labor and Social Security Attorney's Associations
- Jun 2017 President, Labor and Social Security Attorney's Associations of Tokyo (current)
- Jun 2017 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)
- Jun 2017 Vice President, Japan Federation of Labor and Social Security Attorney's Associations (current)

(as of July 1, 2018)



# Corporate Governance

## Basic Concepts

Consistent with our philosophy and credo, as described below, Digital Garage, Inc. (DG) is committed to living up to the faith of our shareholders and all other stakeholders, and to achieving ongoing growth and medium- to long-

term increases in corporate value, by enhancing and strengthening corporate governance that emphasizes transparency, fairness, and speedy, resolute decision-making.

### <Philosophy>

We contribute new value to society by using the internet and other resources to link developments across different fields and create contexts that are useful for the world.

### <Credo>

TENACITY  
OPENNESS  
INTEGRITY  
AGILITY  
COURAGE



## Corporate Governance

DG has always viewed corporate governance as a critical management concern and striven to take the steps necessary to ensure strong governance. However, given the adoption of Japan's Corporate Governance Code, we switched to the "company with audit and supervisory committee" form of organization to achieve the "growth-oriented governance" called for by the code. This organizational change was formalized following the approval of a resolution to that effect at the 21st

Shareholders' General Meeting, convened on September 29, 2016. Under the "company with audit and supervisory committee" form of organization, directors who are Audit and Supervisory Committee members perform oversight for management decision making and the performance of duties by directors in meetings of the Board of Directors. The Audit and Supervisory Committee, meanwhile, oversees the performance of duties by directors more broadly. While realizing a greater strengthening of

corporate governance through ensuring no less than a 1-to-3 ratio of outside directors in the Board of Directors, DG has introduced an executive officer system to clearly separate the business execution function from the decision making and supervisory functions with the aim of bringing greater speed and efficiency to the execution of business.

directors are independent directors in accordance with the regulations of the Tokyo Stock Exchange. In this way, we believe a system is in place at the Board of Directors to conduct highly effective oversight.

### Board of Directors

The Board of Directors of DG consists of 14 members. Five of the 14 members are also Audit and Supervisory Committee members, and four of these five members are outside directors. Of the nine members who are not Audit and Supervisory Committee members, two are outside directors. In addition to its regular monthly meetings, the Board of Directors meets at other times, as necessary. In FY 2018, meetings of the Board of Directors were held a total of 16 times. The Board of Directors makes decisions on important matters set forth in laws and regulations, the Articles of Incorporation, and Board of Directors Provisions. It also oversees the activities of board members as they perform their duties. Outside directors perform governance functions by drawing on their individual expertise, management experience and insight, to oversee board activities and contribute advice, from an independent perspective. Six of the 14 members of the Board of Directors are outside directors, making up more than one third of all members, and these six outside

### Audit and Supervisory Committee

DG's Audit and Supervisory Committee consists of five members - one director and four outside directors. Audit and Supervisory Committee members attend Audit and Supervisory Committee meetings held after regular monthly meetings of the Board of Directors. They attend other important meetings, including those of the Board of Directors, as well, and are free to express their opinions and contribute in other ways to enhance the effectiveness of corporate governance.

### Internal Control System

To provide an environment that supports appropriate risk taking by directors and others, the Board of Directors has acted to build and maintain proper internal control and risk management systems. The Board of Directors supervises these systems to ensure their effective operation. It has also approved resolutions for the formulation of the Basic Policies on the Construction of an Internal Control System, in accordance with Japan's Companies Act, Ordinance for Enforcement of the Companies Act, and Financial Instruments and Exchange Act.

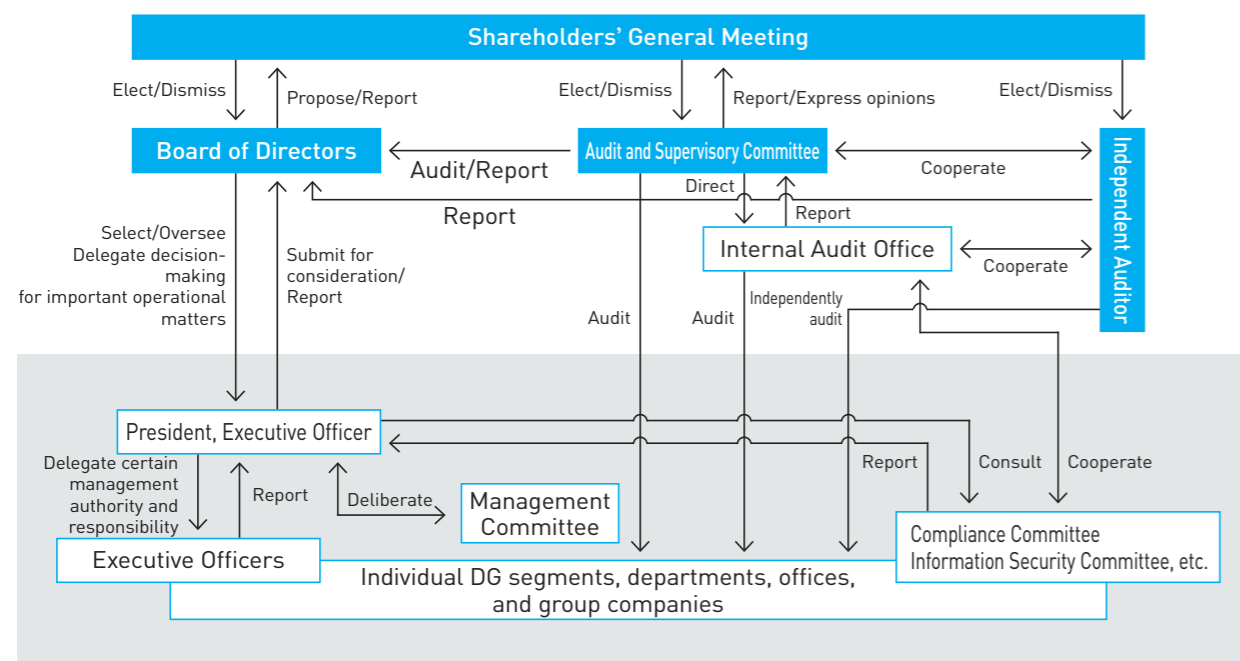
## Stronger Governance from Compliance with the Corporate Governance Code

During the fiscal year ended March 2018, we addressed the following points by taking steps to strengthen our governance in accordance with the fundamental principles of the Corporate Governance Code established by the Tokyo Stock Exchange.

Outline of initiatives based on the fundamental principles of the Corporate Governance Code	
Exercise Shareholder Rights at General Shareholder Meetings	<p>To provide shareholders enough time to consider the general meeting agenda, the following decisions were made at the 23rd Ordinary Shareholders' General Meeting. [Supplementary principle 1-2 (2)]</p> <ul style="list-style-type: none"> <li>Convening notices will be sent promptly by postal mail 18 days prior to the general meeting date.</li> <li>Convening notices will be posted on the web 22 days prior to the general meeting date.</li> </ul> <p>Scheduling the general meeting to avoid the peak day [Supplementary principle 1-2 (3)]</p> <ul style="list-style-type: none"> <li>The 23rd Ordinary Shareholders' General Meeting was scheduled to be held on June 22, 2018 to avoid the so-called general meeting peak day.</li> </ul> <p>Promoting disclosure and provision of information in English in consideration of the share of overseas investors, etc. [Supplementary principle 3-1 (2)]</p> <ul style="list-style-type: none"> <li>Operation of an English language version of the Company's website</li> <li>Creation of English language versions of convocation notices, financial results and important press releases</li> </ul>
Director Remuneration	<p>Establishment of optional advisory committees [Supplementary principle 4-10 (1)]</p> <p>To enhance the transparency of the remuneration determination process, the following actions were taken.</p> <ul style="list-style-type: none"> <li>Evaluating directors on the performance of their duties and contributions to the company based on a director grading system</li> <li>Implementation of reporting by an advisory committee consisting of the representative director(s) and at least one outside director on proposed remuneration for the representative director(s)</li> </ul> <p>The following steps were taken as measures related to provision of incentives to Directors.</p> <ul style="list-style-type: none"> <li>Performance-based remuneration plan</li> <li>Stock option plan</li> </ul>
Evaluation, Analysis, and Disclosure of Board Effectiveness	<p>Implemented the evaluation and analysis of overall board effectiveness. Evaluations and analyses are based on self-evaluations by individual directors and cover matters such as the composition of the board, operation of the board, matters concerning board deliberations, and the role and duties of the board.</p> <p>The evaluation and analysis confirmed that the effectiveness of the board is functioning and that it is improving compared with FY 2017. In particular, the evaluation and analysis recognized that the board has an appropriate size and composition, including the number and ratio of outside directors, from the perspective of the nature and size of business operations, and that the management of board's agenda items, such as proposals of the direction of corporate strategy and the like, is appropriately being carried out. [Supplementary principle 4-11 (3)]</p>

## Corporate Governance Organization Chart

(as of March 31, 2018)





## DG's Corporate Governance System as Seen by Chair of the Audit and Supervisory Committee



Director (Chair of Audit and Supervisory Committee) **Yasuyuki Rokuyata**

I recognize that for DG, which aspires to an open-innovation style of corporate management, the functions of speedy business execution and appropriate auditing are equally important for maximizing corporate value. To this end, DG aims to constantly stay one step ahead in this ever-changing world and to realize an auditing system that is able to respond to such changes with agility in order to meet the expectations of our shareholders.

## Functions and Roles of Outside Directors

The six outside directors actively express opinions from a position independent of management.



Outside Director  
**Kenji Fujiwara**

Recently, there has been a string of misconduct at well-known companies. At the time of these incidents, the dysfunction of outside directors has been pointed out.

Since our founding, DG has enjoyed steady growth based on our philosophy of being a company that contributes to the betterment of society. Now is precisely the time that we must carefully ask ourselves "Can we explain this project to society?" I believe we have an important responsibility to fulfill from this standpoint as outside directors going forward.



Outside Director (Audit and Supervisory Committee Member)  
**Makoto Sakai**

I feel that quick and bold decision making is required of DG as we stand at the threshold of a transformative age. As an Audit and Supervisory Committee member, I wish to exercise my expertise and contribute to the realization of a corporate governance system that meets these demands.

Supervisory Committee member, I wish to exercise my expertise and contribute to the realization of a corporate governance system that meets these demands.



Outside Director (Audit and Supervisory Committee Member)  
**Koji Makino**

To succeed in DG's mission of "Creating New Contexts for a Better Society," I, together with the management team, who are fighting

hard with the spirit of the "first penguin," will contribute through an outside perspective toward the increased trust and sound development of DG.



Outside Director  
**Emi Omura**

Especially now when contributions to SDGs and sustainability are being called for, the importance of DG's philosophy to create context among different fields is growing more

important. To further respond to the demand for increased corporate value, I will support initiatives to promote the hiring of women to director and management positions and to promote diversity.



Outside Director (Audit and Supervisory Committee Member)  
**Junji Inoue**

Everyone is expecting DG to continue to stand at the crests of two large waves: the globalization of the capital market, and evolution

of digital information technology. I will constantly consider and make suggestions from the standpoint of an Audit and Supervisory Committee member as to what we as the Board of Directors should do toward these ends.



Outside Director (Audit and Supervisory Committee Member)  
**Minoru Ohno**

As my experience lies with "people," an area I have been involved in for many years, I believe it is my role to use this perspective to support the

realization of our corporate philosophy through focusing on the core of our corporate activities, namely, DG's strength of utilizing different technologies in a one-stop, seamless manner.

## Compliance and Risk Management

### Compliance Statement

The corporate philosophy of Digital Garage is to create new business opportunities and contribute to the betterment of society through providing digital contexts that connect multiple elements from various domains via internet business.

In order to achieve this and ensure our sustainable growth, each and every employee is called upon to understand changes in society and ensure that our actions resonate with our environment, in the spirit of the "first penguin." We recognize the irreplaceable roles that our employees play in our efforts and the importance of providing them

with a rewarding working environment that they are proud to be a part of. In addition, individuals must also commit to regulatory compliance.

DG has established a compliance program outlining standards for individual business conduct with integrity and efficiency based on our shared ethical values.

In order to exercise the aforementioned corporate philosophy, every staff member at DG is committed to adhering to the compliance program guidelines as detailed in the following seven articles in our code of conduct.

1. Hold high ethical standards and conduct business in compliance with laws
2. Respect fundamental individual rights and diversity and maintain a healthy work environment free from discrimination and harassment
3. Promote harmonious co-existence with society and conduct environmentally-responsible business activities
4. Foster transparency of business and fair and free competition
5. Maintain fair and healthy relationships with government and other public offices
6. Disclose necessary corporate information to stakeholders fairly and openly
7. Manage and utilize corporate assets and information appropriately and effectively

DG's Compliance Statement can be viewed on the following webpage.  
<https://www.garage.co.jp/en/compliance/>

### Basic Information Security Policy

DG believes that achieving sustained growth of DG requires that each employee contributes to the betterment of society by creating new business opportunities. We recognize the role our information systems (e.g., data, computers and networks) play toward that end and strive to make the most of them as information assets.

DG recognizes the value and importance of its information assets and believes maintaining the completeness, confidentiality and availability of information by establishing effective security measures is critical for clients, business partners and ourselves. To offer better services and foster trust, every employee must fully recognize and understand the importance of information

security in protecting our assets, brand image and the trust that our clients and business partners have in us. Against this backdrop, we established the Basic Information Security Policy to properly secure our information assets against various threats. We have also established an information security system and will work to further enhance its management and operation as necessary going forward.

DG employees strictly adhere to all information security provisions and practice stringent compliance management in accordance with the protocols of applicable regulations, industry business norms and our code of conduct, as well as contractual security obligations.

For information on the Basic Information Security Policy, please refer to the webpage below.  
<https://www.garage.co.jp/en/compliance/security/>

### Disclosure Policy

Emphasizing transparency, fairness, and continuity, DG endeavors to provide information in a timely manner to all of its shareholders, investors and other stakeholders. Our basic policy is to disclose information in compliance with the regulations on timely disclosure established

under the Financial Instruments and Exchange Act and by Tokyo Stock Exchange, Inc. DG also strives to disclose as proactively and quickly as possible even information to which the timely disclosure regulations do not apply, if we consider it useful in promoting understanding of DG.

For information on the Disclosure Policy, please refer to the webpage below.  
<https://www.garage.co.jp/en/ir/disclosurepolicy/>

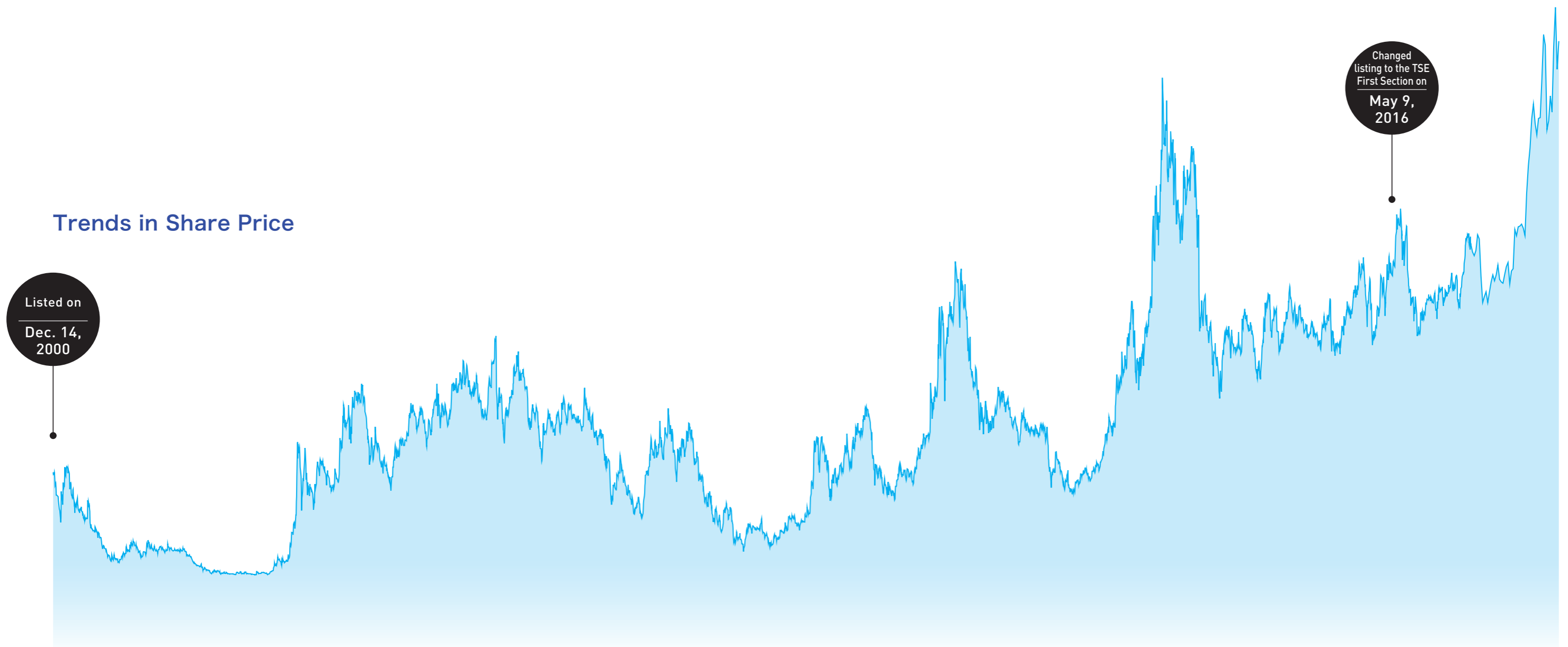


## 15-Year Summary of Consolidated Business Performance Indicators

## Key Performance Indicators

(JPY in Millions)	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
Net sales	6,217	7,846	12,476	17,338	39,582	34,499	8,346	11,067	14,903	27,964	33,751	38,087	43,763	36,451	60,168
Operating profit	-319	442	1,703	1,613	-172	981	-960	135	1,621	1,322	2,608	4,810	4,201	723	2,310
Profit before income taxes	929	1,426	1,451	2,606	-336	12,259	-2,183	958	2,535	4,215	5,035	9,248	7,574	5,819	7,619
Profit attributable to owners of parent	380	633	338	588	-2,430	5,450	-2,207	901	2,106	2,715	2,847	5,081	5,165	4,289	5,460
Total assets	14,742	24,259	27,774	42,407	40,057	30,275	19,706	20,421	49,338	56,010	71,009	86,504	77,335	91,686	108,791
Net assets	3,576	9,330	10,668	11,743	9,716	11,989	8,829	9,895	20,476	27,258	36,489	29,074	30,664	31,371	39,017
Cash flows from operating activities	-1,647	2,295	1,898	779	-1,049	1,963	-5,163	131	2,542	3,211	-34	5,040	-2,618	4,148	14,293
Cash flows from investing activities	-3,795	-165	-3,305	3,355	486	7,346	1,233	-165	-9,411	1,514	-5,155	508	-1,071	-1,452	1,008
Cash flows from financial activities	6,850	573	2,806	-203	1	-5,152	-3,294	-568	15,273	-1,816	11,260	1,390	-11,637	4,176	-2,307
Cash and cash equivalents at end of year	3,369	6,072	7,471	11,509	10,951	15,100	7,875	7,271	15,758	19,090	25,183	34,077	18,321	25,335	38,248

## Trends in Share Price





## Consolidated Balance Sheet

(JPY in Millions)	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
<b>Current assets</b>	<b>8,114</b>	<b>13,600</b>	<b>17,523</b>	<b>31,918</b>	<b>29,855</b>	<b>24,000</b>	<b>14,208</b>	<b>14,345</b>	<b>28,005</b>	<b>33,837</b>	<b>45,455</b>	<b>57,752</b>	<b>48,324</b>	<b>59,624</b>	<b>75,496</b>
Cash and deposits	4,622	6,815	7,575	13,499	9,898	13,133	4,799	4,784	12,308	15,329	24,294	30,956	15,703	23,029	32,922
Notes and accounts receivable	1,298	2,069	2,662	9,546	9,379	2,850	2,238	1,466	2,479	2,688	3,658	3,824	5,441	7,056	7,741
Money held in trust	-	-	-	-	4,431	2,048	3,155	2,501	3,404	3,768	889	3,120	2,592	2,264	5,307
Operational investment securities	-	-	4,528	3,769	1,730	89	323	912	1,904	2,641	8,063	8,208	11,164	11,856	12,364
Receivables	1,623	4,021	2,542	3,100	3,591	5,449	3,413	4,351	7,577	9,037	8,596	11,646	13,946	15,422	16,889
Other	570	694	213	2,002	823	429	277	329	329	372	-48	-2	-524	-5	270
<b>Non-current assets</b>	<b>6,356</b>	<b>10,631</b>	<b>10,250</b>	<b>10,489</b>	<b>10,202</b>	<b>6,274</b>	<b>5,497</b>	<b>6,075</b>	<b>21,333</b>	<b>22,173</b>	<b>25,554</b>	<b>28,752</b>	<b>29,011</b>	<b>32,061</b>	<b>33,295</b>
Tangible fixed assets	140	233	300	360	408	56	429	377	912	2,038	2,158	2,250	2,279	2,245	2,338
Intangible assets	612	6,146	6,119	7,543	6,910	3,899	2,248	2,102	13,080	11,093	8,587	7,574	7,455	7,224	9,869
Software	215	242	790	880	936	293	283	316	959	1,106	1,210	1,314	1,664	1,784	2,019
Goodwill	388	5,715	5,186	6,645	5,956	3,590	1,945	1,768	12,104	9,968	7,354	6,237	5,765	5,411	7,822
Other	9	188	142	17	17	15	19	17	16	18	23	22	25	27	28
Investments and other assets	5,873	4,279	3,830	2,584	2,883	2,319	2,818	3,595	7,340	9,041	14,808	18,927	19,276	22,592	21,087
Investment securities	4,716	3,843	3,168	536	1,192	2,081	2,504	3,305	4,299	5,521	10,644	14,220	14,844	18,357	16,552
Other	1,156	435	662	2,048	1,690	237	314	290	3,040	3,519	4,163	4,706	4,432	4,235	4,535
<b>Total assets</b>	<b>14,742</b>	<b>24,259</b>	<b>27,774</b>	<b>42,407</b>	<b>40,057</b>	<b>30,275</b>	<b>19,706</b>	<b>20,421</b>	<b>49,338</b>	<b>56,010</b>	<b>71,009</b>	<b>86,504</b>	<b>77,335</b>	<b>91,686</b>	<b>108,791</b>
<b>Current liabilities</b>	<b>6,469</b>	<b>14,379</b>	<b>13,784</b>	<b>26,384</b>	<b>27,635</b>	<b>17,360</b>	<b>9,941</b>	<b>9,933</b>	<b>28,505</b>	<b>21,801</b>	<b>25,461</b>	<b>50,623</b>	<b>30,187</b>	<b>38,815</b>	<b>49,540</b>
Notes and accounts payable	118	1,123	1,238	10,640	7,249	1,237	1,021	540	1,154	1,232	1,629	2,039	2,728	3,713	5,018
Short-term borrowing	272	1,365	1,541	5,870	8,210	4,947	2,809	2,519	10,740	305	3,690	23,533	3,200	6,937	4,137
Income taxes payable	430	248	819	893	1,045	3,775	4	46	740	810	1,241	2,147	720	435	1,008
Deposits	4,907	10,237	9,542	6,399	9,143	6,691	5,743	6,168	14,956	18,229	16,434	20,998	21,876	25,127	36,499
Other	741	1,404	641	2,581	1,987	708	362	658	914	1,224	2,464	1,904	1,660	2,601	2,876
<b>Non-current liabilities</b>	<b>4,696</b>	<b>549</b>	<b>3,321</b>	<b>4,279</b>	<b>2,704</b>	<b>925</b>	<b>935</b>	<b>592</b>	<b>355</b>	<b>6,950</b>	<b>9,058</b>	<b>6,805</b>	<b>16,484</b>	<b>18,499</b>	<b>20,233</b>
Bonds payable	3,956	220	420	816	440	-	-	-	-	-	-	-	-	-	-
Long-term borrowing	300	281	2,870	2,630	1,630	845	670	351	183	6,799	8,841	5,546	15,370	17,207	18,890
Deferred tax liabilities	-	0	-	146	69	41	5	30	-	20	43	938	596	488	551
Other	440	47	31	687	565	38	259	210	172	129	174	321	517	803	792
<b>Total liabilities</b>	<b>11,165</b>	<b>14,929</b>	<b>17,106</b>	<b>30,663</b>	<b>30,340</b>	<b>18,286</b>	<b>10,876</b>	<b>10,525</b>	<b>28,861</b>	<b>28,752</b>	<b>34,519</b>	<b>57,429</b>	<b>46,671</b>	<b>57,315</b>	<b>69,774</b>
<b>Shareholders' equity</b>	<b>2,801</b>	<b>6,646</b>	<b>7,041</b>	<b>7,452</b>	<b>5,066</b>	<b>11,924</b>	<b>8,785</b>	<b>9,759</b>	<b>20,155</b>	<b>25,279</b>	<b>27,762</b>	<b>24,650</b>	<b>28,610</b>	<b>31,633</b>	<b>36,363</b>
Common stock	1,390	1,769	1,798	1,809	1,831	1,835	1,835	1,872	6,017	7,330	7,399	7,426	7,435	7,437	7,464
Capital surplus	1,483	4,303	4,331	4,152	4,174	5,521	5,521	5,558	9,703	11,016	10,817	2,854	2,825	2,946	3,104
Retained earnings	-71	575	913	1,492	-937	4,637	1,497	2,398	4,505	7,003	9,615	14,439	18,419	21,300	25,819
Treasury stock	-1	-1	-1	-1	-1	-69	-69	-69	-69	-69	-69	-69	-69	-50	-26
<b>Accumulated other comprehensive income</b>	<b>-168</b>	<b>37</b>	<b>206</b>	<b>-157</b>	<b>-275</b>	<b>64</b>	<b>-17</b>	<b>64</b>	<b>115</b>	<b>426</b>	<b>2,679</b>	<b>4,002</b>	<b>1,502</b>	<b>1,956</b>	<b>1,440</b>
Valuation difference on available-for-sale securities	-168	37	206	-157	-275	64	-17	64	-76	31	2,193	2,585	138	644	339
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	191	394	485	1,416	1,363	1,312	1,100
<b>Minority interests</b>	<b>943</b>	<b>2,646</b>	<b>3,419</b>	<b>4,445</b>	<b>4,921</b>	<b>0</b>	<b>61</b>	<b>71</b>	<b>174</b>	<b>1,468</b>	<b>5,906</b>	<b>126</b>	<b>119</b>	<b>132</b>	<b>369</b>
<b>Share acquisition rights</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>84</b>	<b>141</b>	<b>295</b>	<b>431</b>	<b>648</b>	<b>844</b>
<b>Total net assets</b>	<b>3,576</b>	<b>9,330</b>	<b>10,668</b>	<b>11,743</b>	<b>9,716</b>	<b>11,989</b>	<b>8,829</b>	<b>9,895</b>	<b>20,476</b>	<b>27,258</b>	<b>36,489</b>	<b>29,074</b>	<b>30,664</b>	<b>34,371</b>	<b>39,017</b>
<b>Total liabilities/net assets</b>	<b>14,742</b>	<b>24,259</b>	<b>27,774</b>	<b>42,407</b>	<b>40,057</b>	<b>30,275</b>	<b>19,706</b>	<b>20,421</b>	<b>49,338</b>	<b>56,010</b>	<b>71,009</b>	<b>86,504</b>	<b>77,335</b>	<b>91,686</b>	<b>108,791</b>



## Consolidated statement of Profit or Loss

(JPY in Millions)	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
<b>Net sales</b>	<b>6,217</b>	<b>7,846</b>	<b>12,476</b>	<b>17,338</b>	<b>39,582</b>	<b>34,499</b>	<b>8,346</b>	<b>11,067</b>	<b>14,903</b>	<b>27,964</b>	<b>33,751</b>	<b>38,087</b>	<b>43,763</b>	<b>36,451</b>	<b>60,168</b>
Cost of sales	4,476	4,664	6,627	10,046	28,733	22,058	6,630	8,282	10,644	21,533	25,534	27,301	32,273	29,838	48,524
<b>Gross profit</b>	<b>1,741</b>	<b>3,182</b>	<b>5,849</b>	<b>7,291</b>	<b>10,849</b>	<b>12,441</b>	<b>1,716</b>	<b>2,784</b>	<b>4,258</b>	<b>6,431</b>	<b>8,216</b>	<b>10,785</b>	<b>11,490</b>	<b>6,613</b>	<b>11,644</b>
<b>Selling, general and administrative expenses</b>	<b>2,060</b>	<b>2,739</b>	<b>4,145</b>	<b>5,665</b>	<b>11,014</b>	<b>11,459</b>	<b>2,676</b>	<b>2,649</b>	<b>2,637</b>	<b>5,109</b>	<b>5,608</b>	<b>5,975</b>	<b>7,288</b>	<b>5,889</b>	<b>9,333</b>
Directors' compensation	249	281	452	609	768	632	247	286	287	403	458	523	466	330	481
Salaries	565	734	1,000	1,298	3,345	3,422	911	851	825	1,319	1,428	1,509	2,599	1,998	3,178
Bonuses	42	42	44	75	507	626	11	40	77	65	85	90	171	181	276
Legal welfare expenses	82	110	146	189	430	475	113	128	128	162	199	211	381	306	496
Welfare expenses	8	9	13	21	117	91	23	21	25	48	82	101	99	74	105
Retirement benefit expenses	3	6	3	3	175	169	7	6	9	33	34	52	66	49	72
Advertising expenses	191	236	501	898	1,288	1,105	20	31	39	95	190	100	194	127	180
Travel and transportation expenses	46	63	80	111	275	253	55	52	84	157	200	188	167	125	212
Taxes and dues	10	34	59	84	106	196	30	34	58	111	91	128	143	131	217
Commission fees	97	141	200	255	413	763	132	137	124	203	277	285	317	228	478
Business consignment expenses	51	42	132	189	401	224	95	75	76	291	241	288	306	258	416
Research and development expenses	132	43	41	49	38	20	39	29	52	38	59	79	56	114	252
Rent expenses	145	184	245	302	743	724	219	269	274	404	430	433	644	447	658
Depreciation	23	19	27	37	52	66	59	66	39	99	107	122	140	120	153
Amortization of goodwill	134	279	526	624	635	627	249	177	188	940	756	754	471	353	570
Other	275	508	668	914	1,713	2,214	461	439	343	731	962	1,105	1,062	1,039	1,581
<b>Operating profit</b>	<b>-319</b>	<b>442</b>	<b>1,703</b>	<b>1,613</b>	<b>-172</b>	<b>981</b>	<b>-960</b>	<b>135</b>	<b>1,621</b>	<b>1,322</b>	<b>2,608</b>	<b>4,810</b>	<b>4,201</b>	<b>723</b>	<b>2,310</b>
Operating profit rate	-5.1%	5.6%	13.7%	9.3%	-0.4%	2.8%	-11.5%	1.2%	10.9%	4.7%	7.7%	12.6%	9.6%	2.0%	3.8%
<b>Non-operating income</b>	<b>474</b>	<b>272</b>	<b>133</b>	<b>1,032</b>	<b>142</b>	<b>110</b>	<b>616</b>	<b>925</b>	<b>1,215</b>	<b>2,179</b>	<b>2,307</b>	<b>3,736</b>	<b>3,031</b>	<b>3,246</b>	<b>3,305</b>
Interest income	8	26	8	15	59	57	24	17	8	14	7	18	18	5	9
Dividends income	0	11	0	0	18	20	11	11	42	43	30	0	0	29	0
Investment profit on equity method	-	-	-	-	-	-	547	866	1,004	1,361	1,741	2,080	2,406	2,528	2,768
Foreign exchange gains	-	-	-	-	-	-	-	-	112	499	143	1,090	-	-	-
Rent expenses on real estates	-	-	-	-	-	-	-	-	32	222	278	337	371	331	359
Other	465	234	124	1,016	64	31	33	30	15	38	105	209	236	352	167
<b>Non-operating expenses</b>	<b>364</b>	<b>606</b>	<b>332</b>	<b>170</b>	<b>345</b>	<b>553</b>	<b>113</b>	<b>88</b>	<b>128</b>	<b>423</b>	<b>472</b>	<b>936</b>	<b>1,040</b>	<b>292</b>	<b>597</b>
Interest expenses	49	108	131	139	201	222	84	43	49	102	88	97	85	56	79
Commission fees	-	-	-	-	72	41	6	6	1	50	0	554	-	0	66
Foreign exchange losses	-	-	-	-	-	-	-	30	-	-	-	-	689	-	160
Rent cost of real estate	-	-	-	-	-	-	-	-	13	127	189	275	248	223	259
Listed expenses	-	-	-	-	-	-	-	-	-	94	191	-	-	-	-
Investment loss on equity method	124	320	144	-	-	-	-	-	-	-	-	-	-	-	-
Other	191	177	56	30	71	290	22	0	62	48	3	8	16	10	31
<b>Ordinary profit</b>	<b>-210</b>	<b>108</b>	<b>1,505</b>	<b>2,475</b>	<b>-375</b>	<b>537</b>	<b>-457</b>	<b>972</b>	<b>2,708</b>	<b>3,078</b>	<b>4,442</b>	<b>7,610</b>	<b>6,193</b>	<b>3,678</b>	<b>5,017</b>
Ordinary profit rate	-3.4%	1.4%	12.1%	14.3%	-0.9%	1.6%	-5.5%	8.8%	18.2%	11.0%	13.2%	20.0%	14.2%	10.1%	8.3%
<b>Extraordinary income</b>	<b>1,355</b>	<b>1,437</b>	<b>7</b>	<b>236</b>	<b>473</b>	<b>16,147</b>	<b>49</b>	<b>58</b>	<b>63</b>	<b>1,304</b>	<b>630</b>	<b>2,463</b>	<b>1,392</b>	<b>2,265</b>	<b>2,669</b>
Gain on change in equity	323	848	-	113	15	106	30	46	20	18	374	2,363	157	47	33
Gain on sales of investment securities	-	-	5	-	-	-	-	0	42	153	220	-	-	1,829	1,032
Gain on sales of shares of subsidiaries and associates	1,027	484	-	122	417	16,031	15	-	-	1,131	-	-	521	386	1,471
Other	4	104	2	0	41	8	3	0	0	1	35	99	713	2	131
<b>Extraordinary losses</b>	<b>215</b>	<b>119</b>	<b>61</b>	<b>105</b>	<b>435</b>	<b>4,424</b>	<b>1,775</b>	<b>71</b>	<b>236</b>	<b>168</b>	<b>38</b>	<b>824</b>	<b>10</b>	<b>124</b>	<b>67</b>
Loss on retirement of non-current assets	73	0	2	10	5	144	4	9	3	22	7	27	8	16	31
Loss on liquidation of subsidiaries and associates	-	-	-	-	-	-	-	-	-	-	-	77	-	-	-
Impairment loss	-	-	-	-	62	1,759	1,435	22	222	88	0	657	-	104	25
Loss on valuation of investment securities	-	9	-	37	170	787	332	-	8	33	-	-	-	-	10
Other	141	109	59	57	197	1,732	1	0	2	23	30	62	1	3	0
<b>Profit before income taxes</b>	<b>929</b>	<b>1,426</b>	<b>1,451</b>	<b>2,606</b>	<b>-336</b>	<b>12,259</b>	<b>-2,183</b>	<b>958</b>	<b>2,535</b>	<b>4,215</b>	<b>5,035</b>	<b>9,248</b>	<b>7,574</b>	<b>5,819</b>	<b>7,619</b>
Profit before income taxes rate	15.0%	18.2%	11.6%	15.0%	-0.8%	35.5%	-26.2%	8.7%	17.0%	15.1%	14.9%	24.3%	17.3%	16.0%	12.7%
Income taxes-current	481	327	875	1,202	1,560	5,506	3	47	409	1,520	1,919	3,699	2,241	1,647	2,028
Income taxes-deferred	-19	152	-290	256	-114	0	-	-	-	-9	-32	155	143	-121	104
Profit attributable to non-controlling interests	87	313	528	558	648	1,301	3	9	19	-11	300	312	24	4	25
<b>Profit attributable to owners of parent</b>	<b>380</b>	<b>633</b>	<b>338</b>	<b>588</b>	<b>-2,430</b>	<b>5,450</b>	<b>-2,207</b>	<b>901</b>	<b>2,106</b>	<b>2,715</b>	<b>2,847</b>	<b>5,081</b>	<b>5,165</b>	<b>4,289</b>	<b>5,460</b>
Profit rate	6.1%	8.1%	2.7%	3.4%	-6.1%	15.8%	-26.5%	8.1%	14.1%	9.7%	8.4%	13.3%	11.8%	11.8%	9.1%



## Consolidated Statement of Cash Flows

(JPY in Millions)

	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
<b>Cash flows from operating activities</b>	<b>-1,647</b>	<b>2,295</b>	<b>1,898</b>	<b>779</b>	<b>-1,049</b>	<b>1,963</b>	<b>-5,163</b>	<b>131</b>	<b>2,542</b>	<b>3,211</b>	<b>-34</b>	<b>5,040</b>	<b>-2,618</b>	<b>4,148</b>	<b>14,293</b>
Income before income taxes and minority interests	929	1,426	1,451	2,606	-336	12,259	-2,183	958	2,535	4,215	5,035	9,248	7,574	5,819	7,619
Depreciation	46	54	83	107	136	223	75	90	86	209	229	291	307	264	351
Amortization of software	33	77	125	269	361	401	97	102	119	407	401	419	453	392	612
Impairment loss	-	-	-	-	-	1,759	1,435	22	222	88	0	657	-	104	25
Amortization of goodwill (2003-)	134	279	526	624	635	627	249	177	188	940	756	754	471	353	570
Amortization of goodwill (-2003)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest or dividends income	-8	-37	-22	-32	-89	-78	-35	-28	-50	-58	-37	-18	-18	-34	-9
Interest expenses	49	108	131	139	201	222	84	43	49	102	88	97	85	56	79
Foreign exchange gains (losses)	0	-0	-0	-1	2	20	1	2	-36	-468	-153	-1,102	699	-222	139
Investment profit (loss) on equity method	194	320	144	-	-	-	-547	-866	-1,004	-1,361	-1,741	-2,080	-2,406	-2,528	-2,768
Loss (gain) on change in equity	-323	-848	14	-63	-7	-95	-30	-46	-20	-18	-374	-2,363	-157	-47	-33
Loss (gain) on sales of shares of subsidiaries and associates	-1,027	-484	-	-122	-417	-15,936	-15	15	0	-1,131	0	0	-521	-386	-1,471
Loss (gain) on sales of investment securities	-455	-126	-5	-	-	157	-	19	-42	-153	-220	-68	-	-1,829	-1,032
Loss (gain) on valuation of investment securities	-	-	-	-	170	787	332	0	8	33	0	55	-	-	-
Increase (decrease) in accounts receivable-trade	-117	-57	-632	-1,983	180	1,690	639	732	-275	-34	-960	-148	-1,526	-808	-907
Increase (decrease) in investment securities for sale	-	-	136	177	1,360	1,445	-250	-529	-1,018	-582	-1,971	-1,437	-4,239	-66	-1,100
Increase (decrease) in allowance for investment loss	-	-	-	-282	265	-491	0	9	84	156	267	-49	531	45	189
Increase (decrease) in receivables-other	-491	-2,300	979	-551	-492	309	-113	-992	-2,377	-1,456	444	-3,016	-2,338	-1,025	-411
Increase (decrease) in notes and accounts payable-trade	-738	774	135	1,112	-3,390	-1,180	-257	-505	130	15	459	489	710	950	1,126
Increase (decrease) in deposits	-215	3,701	-598	1,574	423	607	-947	430	3,542	3,269	-1,751	4,612	975	3,247	11,365
Other	385	7	-142	-1,434	1,406	826	-56	296	187	156	417	403	-495	1,122	-32
<b>Subtotal</b>	<b>-1,605</b>	<b>2,896</b>	<b>2,328</b>	<b>2,139</b>	<b>408</b>	<b>3,556</b>	<b>-1,520</b>	<b>-68</b>	<b>2,328</b>	<b>4,329</b>	<b>888</b>	<b>6,746</b>	<b>105</b>	<b>5,407</b>	<b>14,312</b>
Interest and dividends income received	9	34	11	-	19	219	168	234	313	420	517	629	824	528	1,145
Interest expenses paid	-42	-103	-128	-144	-205	-235	-77	-41	-61	-82	-102	-102	-83	-49	-89
Income taxes paid	-131	-532	-314	-1,223	-1,422	-1,624	-3,733	-2	-55	-1,456	-1,396	-2,241	-3,465	-1,789	-1,228
Income taxes refund	121	-	2	7	151	48	0	10	16	0	57	7	0	51	153
<b>Cash flows from investing activities</b>	<b>-3,795</b>	<b>-165</b>	<b>-3,305</b>	<b>3,355</b>	<b>486</b>	<b>7,346</b>	<b>1,233</b>	<b>-165</b>	<b>-9,411</b>	<b>1,514</b>	<b>-5,155</b>	<b>508</b>	<b>-1,071</b>	<b>-1,452</b>	<b>1,008</b>
Payments into time deposits	-1,150	-640	-16	-300	-60	-	-	-	-	-	-	-	-	-	-
Proceeds from withdrawal of time deposits	-	1,243	656	360	855	169	-	-	-	-	-	-	-	-	-
Payments for acquisition of tangible fixed assets	-84	-82	-171	-165	-191	-193	-362	-32	-559	-1,247	-303	-164	-315	-223	-308
Payments for acquisition of intangible assets	-96	-354	-692	-379	-472	-378	-116	-134	-269	-688	-512	-581	-721	-630	-833
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	678	-	1,307	-	-	-	-	-	-	-	-	-	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	-	-	-	-	-	-	-	-5,678	-447	-	-	-	-	-538
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	-	-	-	14	11,402	2,090	-	-	-	-	-	-	-	-
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	-1	-765	-	-	-	-2,754	-	-3	-	-	-	-	-	-	-
Purchase of investment securities	-1,945	-268	-3,115	-468	-88	-84	-662	-75	-370	-418	-4,189	-951	-1,195	-223	-1,190
Purchase of stocks of subsidiaries and affiliates	-1,717	-871	-500	-560	-73	-178	-142	-	-	-51	-214	-332	-204	-2,334	-14
Proceeds from sales of investment securities	460	352	22	3	0	141	8	6	66	211	893	0	-	2,427	2,863
Proceeds from sales of stocks of subsidiaries and affiliates	1,165	234	489	181	610	-	32	-	-	4,303	-	2,613	549	-	1,763
Proceeds from withdrawal of investments in silent partnership	-	-	-	3,000	4	-	-	-	-	-	-	-	-	-	-
Payments for investments in real estates	-	-	-	-	-	-	-	-	-2,549	-48	-249	-43	-	-19	-57
Other	-426	309	20	377	-112	-777	386	73	-51	-98	-580	-32	816	-447	-674
<b>Cash flows from financing activities</b>	<b>6,850</b>	<b>573</b>	<b>2,806</b>	<b>-203</b>	<b>1</b>	<b>-5,152</b>	<b>-3,294</b>	<b>-568</b>	<b>15,273</b>	<b>-1,816</b>	<b>11,260</b>	<b>1,390</b>	<b>-11,637</b>	<b>4,176</b>	<b>-2,307</b>
Net increase (decrease) in short-term borrowing	-903	77	270	-331	262	-1,168	-2,122	-110	7,440	-10,640	3,300	12,245	-14,545	2,800	-2,200
Net increase (decrease) in long-term borrowing	356	-611	2,494	-411	1,077	-2,678	-191	-499	-387	6,586	1,952	3,986	4,163	2,786	720
Proceeds from issuance of bonds	3,394	194	300	-	-	-	-	-	-	-	-	-	-	-	-
Redemption of bonds	-48	-96	-436	-100	-988	-376	-40	-	-	-	-	-	-	-	-
Payments for retirement by purchase of bonds	-	-2,576	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of common shares	175	33	54	18	43	7	-	72	8,244	2,611	136	54	17	0	38
Cash dividends paid	-	-	-	-	-	-908	-923	-6	-0	-216	-233	-233	-1,174	-1,407	-943
Proceeds from stock issuance to minority shareholders	897	1,750	269	672	94	221	-	-	-	-	6,371	3	-	7	81
Cash dividends paid to minority shareholders	-20	-28	-25	-50	-113	-44	-	-	-	-	-	-404	-	-	-
Proceeds from deposits received	3,001	2,137	2,840	-	-	-	-	-	-	-	-	-	-	-	-
Repayments of deposits received	-	-302	-2,937	-	-	-	-	-	-	-	-	-	-	-	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-	-14,087	-85	-	-
Other	-1	-5	-22	0	-374	-205	-17	-25	-23	-157	-265	-172	-13	-10	-4
Effect of exchange rate changes on cash and cash equivalents	-1	-0	0	0	2	-2	-0	-2	82	422	21	1,954	-427	141	-81
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,405</b>	<b>2,702</b>	<b>1,399</b>	<b>3,932</b>	<b>-558</b>	<b>4,155</b>	<b>-7,224</b>	<b>-604</b>	<b>8,487</b>	<b>3,332</b>	<b>6,092</b>	<b>8,893</b>	<b>-15,755</b>	<b>7,013</b>	<b>12,913</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,963</b>	<b>3,369</b>	<b>6,072</b>	<b>7,471</b>	<b>11,509</b>	<b>10,951</b>	<b>15,100</b>	<b>7,875</b>	<b>7,271</b>	<b>15,758</b>	<b>19,090</b>	<b>25,183</b>	<b>34,077</b>	<b>18,321</b>	<b>25,335</b>
Increase in cash and cash equivalents from newly consolidated subsidiary	-	-	-	105	-	-	-	-	-	-	-	-	-	-	-
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	-	-	-	-	-6	-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents at end of period</b>	<b>3,369</b>	<b>6,072</b>	<b>7,471</b>	<b>11,509</b>	<b>10,951</b>	<b>15,100</b>	<b>7,875</b>	<b>7,271</b>	<b>15,758</b>	<b>19,090</b>	<b>25,183</b>	<b>34,077</b>	<b>18,321</b>	<b>25,335</b>	<b>38,248</b>



# COMPANY INFORMATION

(as of March 31, 2018)

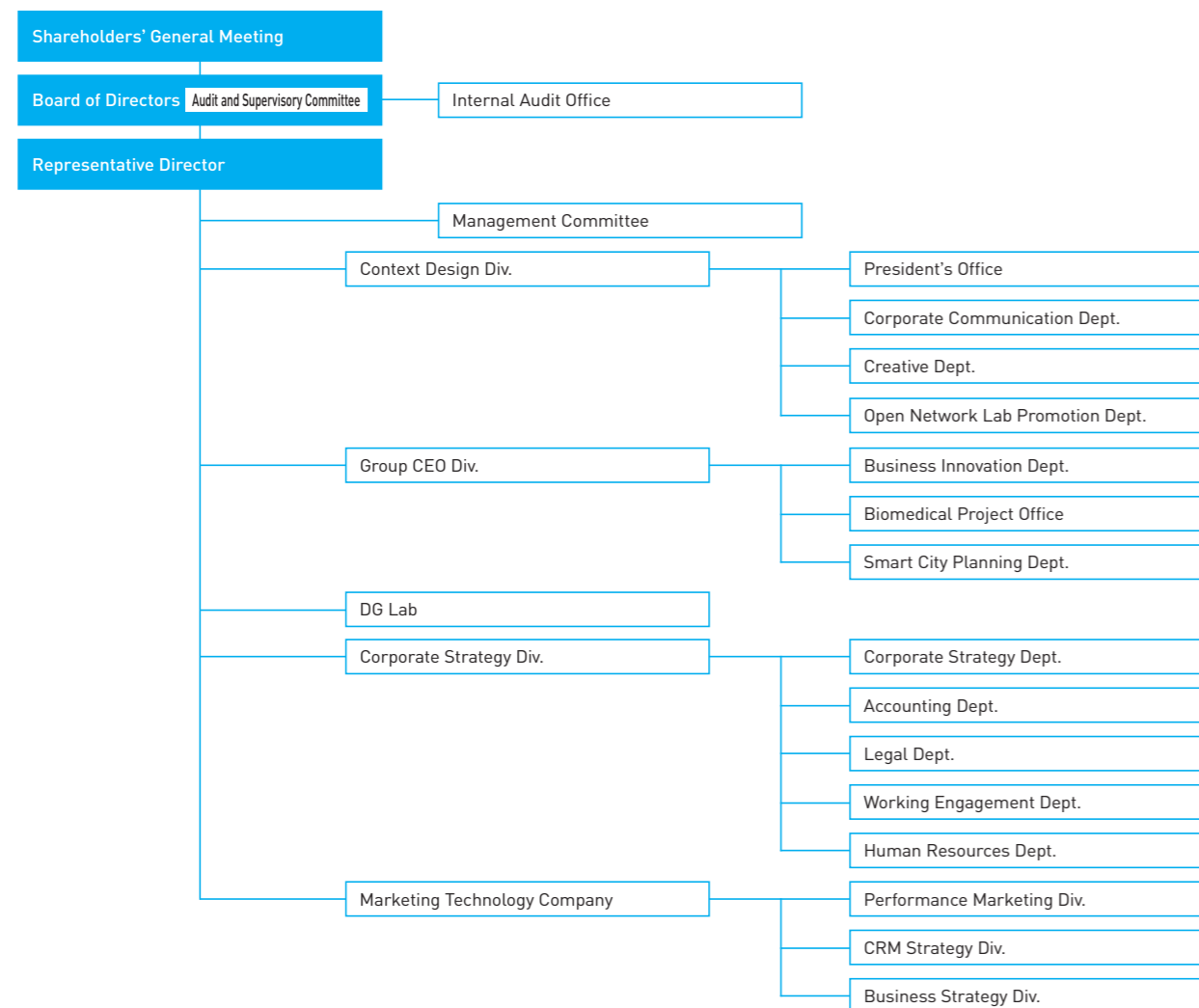
## Basic Information

Company Name	Digital Garage, Inc.
Head Office	DG Bldg., 3-5-7 Ebisu Minami, Shibuya-ku, Tokyo 150-0022, Japan
Established	August 17th, 1995
Phone	03-6367-1111 (Main)
Fax	03-6367-1119
Stock listings	Tokyo Stock Exchange 1st section (4819)
Fiscal year end	March 31
Stock Capitalization	7,464 million yen
Total number of shares issued	47,312,800
Number of employees	744 [consolidated] / 436 [non-consolidated]

# DIGITAL GARAGE GROUP CHART

(as of July 1, 2018)

## Organization Chart



# STOCK INFORMATION

## Stock Information

(as of March 31, 2018)

Authorized shares	120,000,000
Issued shares	47,312,800
Voting rights	471,847
Shareholders	6,174

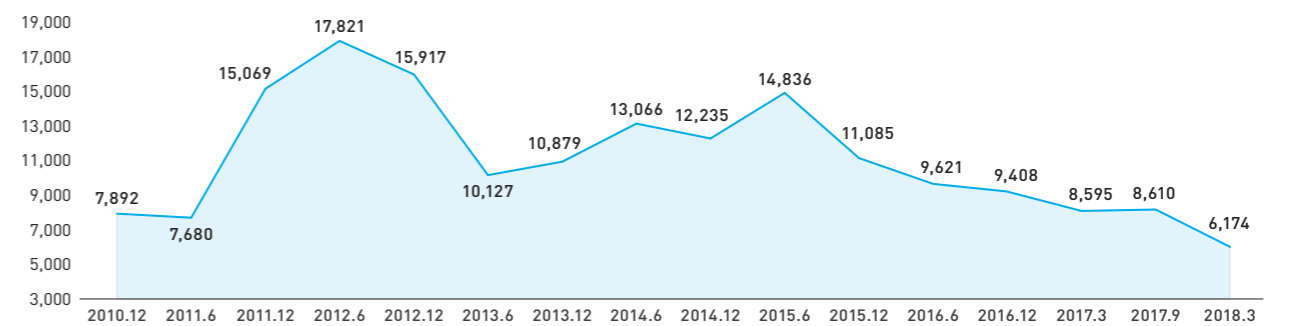
## Major Shareholders

(as of March 31, 2018)

	Shares Owned	Ownership Percentage
Kaoru Hayashi	6,812,200	14.44
Dentsu Inc.	3,300,000	6.99
The Master Trust Bank of Japan, Ltd. (Trust accounts)	2,709,300	5.74
The Bank of New York 133524	2,446,000	5.18
TIS Inc.	2,364,500	5.01
Japan Trustee Services Bank, Ltd. (Trust accounts)	1,343,600	2.85
Japan Trustee Services Bank, Ltd. (Trust accounts 9)	1,161,900	2.46
JPMorgan Chase Bank Luxembourg SA 380578	983,000	2.08
JPMorgan Chase Bank Luxembourg SA 385576	969,300	2.05
State Street Bank and Trust Company 505025	890,700	1.89

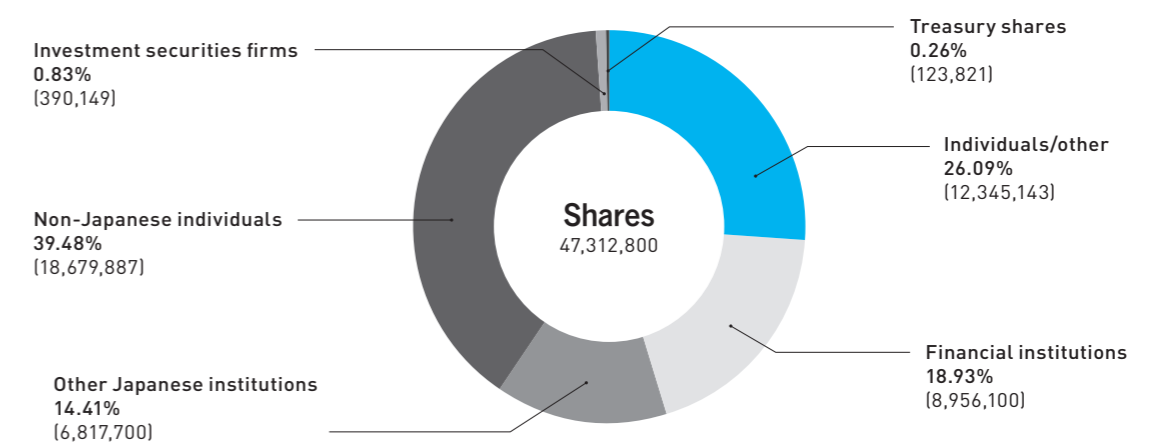
\* Share ownership percentages were calculated based on issued shares net of treasury shares (123,821 shares).

## Number of Shareholders



## Share Ownership Distribution





(as of March 31, 2018)











# GROUP BUSINESS ACTIVITIES







## FINANCIAL TECHNOLOGY SEGMENT

	<b>econtext Asia Limited</b> Consolidated subsidiary	econtext Asia is a holding company for payment businesses for the global use of EC platforms of all types.
	<b>econtext Inc.</b> Consolidated subsidiary	econtext Inc. pioneered cash payments using kiosk terminals at convenience stores and has promoted the provision of online payment services to EC businesses centered on convenience store payments. As a money transfer business, it also operates a money sending service.
	<b>VeriTrans Inc.</b> Consolidated subsidiary	Since its establishment in 1997, VeriTrans Inc. has provided a credit card payment system incorporating the latest security technology in the US, and been a leader in the payment aspect of e-commerce in Japan. Going forward, VeriTrans Inc. will focus on developing, and introducing credit card payment systems, in major markets where electronic payment has yet to be adopted.
	<b>ANA Digital Gate, Inc.</b> Affiliate	ANA Digital Gate is a joint venture between VeriTrans Inc. and the ANA Group's ALL NIPPON AIRWAYS TRADING CO., LTD., that is developing a corporation-oriented payment solution business that uses FinTech.

## MARKETING TECHNOLOGY SEGMENT

	<b>Digital Garage Marketing Technology Company</b> Company	Provides integrated overall digital marketing services including online promotions, online strategies, and CRM solutions. Utilizing cutting-edge technology, Digital Garage Marketing Technology Company responds to full funnel marketing and diversifying advertising methods, while also working to develop new services and supporting marketing activities as a "business strategy partner" leading clients' businesses to growth.
	<b>DG Communications Co., Ltd.</b> Consolidated subsidiary	Utilizing the real-estate-advertisement-related knowhow cultivated and accumulated over many years including knowledge, experience, and data, as well as the DG Group's advanced technology and sophisticated strategy management, DG Communications' business does not stop at property sales in the real estate field, but uses real estate as a gateway to provide solutions to help people live more comfortable lives.
	<b>BI.Garage, Inc.</b> Consolidated subsidiary	BI.Garage — based on the philosophy that data creates new marketing context — combines, processes, and analyzes payment data accumulated by the Digital Garage Group, purchase behavior data owned by Kakaku.com, Inc., and advertising-related data of the Dentsu Group—a major DG shareholder—to optimize customer communications for company marketing activities.
	<b>NaviPlus Co., Ltd.</b> Consolidated subsidiary	Based on its proprietary technology, provides marketing solutions to optimize the content and navigation of EC sites and effective security solutions to prevent and avoid risk in websites and various systems.
	<b>DG Marketing Design, Inc.</b> Affiliate	Provides integrated marketing solutions from planning, to creative, to data analysis that surpasses the barriers of real and digital in promotions, conversions, and relations in the marketing field.
	<b>Inamoto &amp; Co.</b> Capital alliance	Inamoto & Co. was established by internationally renowned digital creator Rei Inamoto. Inamoto & Co. creates hybrid businesses for global incubation by combining its world-class creative ability with the data science business, etc. that Digital Garage operates.

## INCUBATION TECHNOLOGY SEGMENT

	<b>DG Incubation, Inc.</b> Consolidated subsidiary	As the investment arm of the Digital Garage Group, DG Incubation supports Internet entrepreneurs throughout the world. Targeting startup companies that can be expected to give rise to synergies with the DG Group's various businesses, DG Incubation, going beyond simple investment, focuses on being an incubator that engages in collaborative business creation.
	<b>Open Network Lab, Inc.</b> Consolidated subsidiary	Open Network Lab was established in April 2010 for the purpose of cultivating startups that build world-class products. Through its Seed Accelerator Program, Open Network Lab has already nurtured and supported several dozen startups.
	<b>Digital Garage US, Inc.</b> Consolidated subsidiary	Digital Garage US is the DG Group's US-based global strategy headquarters. It operates the DG717 incubation center established in the heart of San Francisco in 2013, supporting entrepreneurs and engineers from around the world.
<b>DK Gate</b>	<b>DK Gate, Inc.</b> Consolidated subsidiary	A joint venture of Digital Garage and Kodansha Ltd., the purpose of DK Gate is to make strategic investments in content businesses. DK Gate focuses on identifying and nurturing companies pursuing next-generation content businesses throughout the world.
<b>NEW CONTEXT</b>	<b>New Context Services, Inc.</b> Consolidated subsidiary	New Context Services provides security systems for all manner of services, including infrastructure, for daily life.
	<b>DG Technologies, Inc.</b> Consolidated subsidiary	As a strategic company that supports the technological aspects of DG Lab, DG Technologies engages in research and development with an eye toward business application and promotes the development of cutting-edge technology by combining the technological capabilities, etc. of Digital Garage and TIS Inc.
	<b>DG Daiwa Ventures</b> Affiliate	DG Daiwa Ventures operates DG Lab First Investment Limited Partnership (DG Lab Fund), which was established with the merger between Digital Garage, Inc. and Daiwa Securities Group Inc. The purpose of this fund is to promote investment in promising Japanese and overseas startups with advanced technologies in the research areas DG Lab has designated as high priorities.
<b>kakaku.com</b>	<b>Kakaku.com, Inc.</b> Affiliate	Kakaku.com, Inc. operates a price comparison site (kakaku.com) and a restaurant review and advertising site (tabelog.com).
<b>DENTSU SCIENCEJAM</b>	<b>Dentsu ScienceJam Inc.</b> Affiliate	Dentsu ScienceJam commercializes scientific research results.
<b>DK MEDIA</b>	<b>DK Media, Inc.</b> Affiliate	DK Media operates an internet media business using women's fashion magazine content by Kodansha Ltd.
	<b>DG Life Design, Inc.</b> Consolidated subsidiary	With its mission of providing "Valuable Life," DG Life Design creates new businesses that go beyond business integration synergies while expanding the existing life care business, sports marketing business and wine school business.

(as of July 1, 2018)