

Consolidated Financial Statements for the Fiscal Year Ended December 31, 2016

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

February 14, 2017

Link and Motivation Inc.
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<http://www.lmi.ne.jp>

Stock exchange listing: Tokyo, First Section
Code number: 2170

Representative: Yoshihisa Ozasa, Chairman and Representative Director
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Ordinary General Meeting of Shareholders (scheduled):

March 30, 2017

Start of distribution of dividends (scheduled):

March 24, 2017

Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled):

March 30, 2017

Supplementary documents for results:

No

Results briefing:

Yes

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for 2016 (January 1, 2016 – December 31, 2016)

(1) Sales and Income (Percentages represent change compared with the previous year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
2016	33,917	6.2	1,924	121.7	1,826	138.1
2015	31,950	10.7	868	(50.5)	767	(53.9)

	Net income (loss) attributable to owners of the parent (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/Total assets (%)	Operating income/Net sales (%)
2016	1,353	—	12.44	—	22.9	10.1	5.7
2015	(316)	—	(2.79)	—	(4.9)	4.3	2.7

(Reference) Comprehensive income: 2016: ¥1,682 million (—%), 2015: ¥(304) million (—%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
2016	18,773	5,794	30.9	54.85
2015	17,474	6,032	34.5	53.35

(Reference) Net worth: As of December 31, 2016: ¥5,794 million; As of December 31, 2015: ¥6,032 million

(3) Cash Flow

	Cash flow from operating activities (¥ million)	Cash flow from investing activities (¥ million)	Cash flow from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
2016	2,230	(977)	(1,165)	1,082
2015	1,558	(1,544)	(34)	997

2. Dividends

	Dividends per share					Total dividends paid (full year) (¥ million)	Payout ratio (%)	Dividends/ Net assets (%)
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full year			
2015	1.10	1.10	1.10	1.10	4.40	497	—	7.7
2016	1.25	1.25	1.40	1.40	5.30	570	42.6	9.8
2017 (est.)	1.50	1.50	1.50	1.50	6.00		32.6	

3. Forecast of Consolidated Results for 2017 (January 1, 2017 – December 31, 2017)

(Percentages represent change compared to the previous interim period or fiscal year, as applicable)

	Revenues		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Interim period	—	—	—	—	—	—	—	—	—
Full-year	36,300	8.9	3,000	19.2	2,000	19.7	2,000	19.7	18.38

Note: Because the Company has decided to voluntarily adopt International Financial Reporting Standards (IFRS) from 2017, the above forecast of results has been calculated based on IFRS. IFRS results for 2016 used in year-on-year comparisons are provisional and are subject to change based on an accounting audit.

Notes

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to Changes in the Scope of Consolidation): No
- (2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements
 - (a) Changes in accounting policies due to change in accounting standards: Yes
 - (b) Changes in accounting policies other than (a) above: No
 - (c) Changes in accounting estimates: No
 - (d) Restatements: No
- (3) Number of Shares Issued and Outstanding (Common Stock)
 - (a) Number of shares at the end of the period (including treasury stock)
Year ended December 31, 2016: 113,068,000; Year ended December 31, 2015: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Year ended December 31, 2016: 7,445,700; Year ended December 31, 2015: 200
 - (c) Average number of shares outstanding:
Year ended December 31, 2016: 108,793,264; Year ended December 31, 2015: 113,067,800

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for 2016 (January 1, 2016 – December 31, 2016)

(1) Sales and Income (Percentages represent change compared with the previous year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (loss) (¥ million)	Year-on-year change (%)	Ordinary income (loss) (¥ million)	Year-on-year change (%)
2016	6,606	22.3	1,164	—	3,310	—
2015	5,402	(0.9)	(772)	—	(902)	—

	Net income (loss) (¥ million)	Year-on-year change (%)	Earnings (loss) per share (¥)	Earnings per share (diluted) (¥)
2016	3,389	—	31.15	—
2015	(1,091)	—	(9.65)	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets/ Total assets (%)	Net assets per share (¥)
2016	15,536	4,829	31.1	45.72
2015	14,178	3,026	21.3	26.77

(Reference) Net worth: As of December 31, 2016: ¥4,829 million; As of December 31, 2015: ¥3,026 million

* Presentation of Implementation Status of Auditing Procedures

As of the date of publication of these financial statements, the auditing procedures for financial statements pursuant to the Financial Instruments and Exchange Act had not been completed.

* Explanation on Proper Use of the Forecast of Results and Other Special Instructions

Forecasts of results and other statements regarding the future contained in this document are based on currently available information to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

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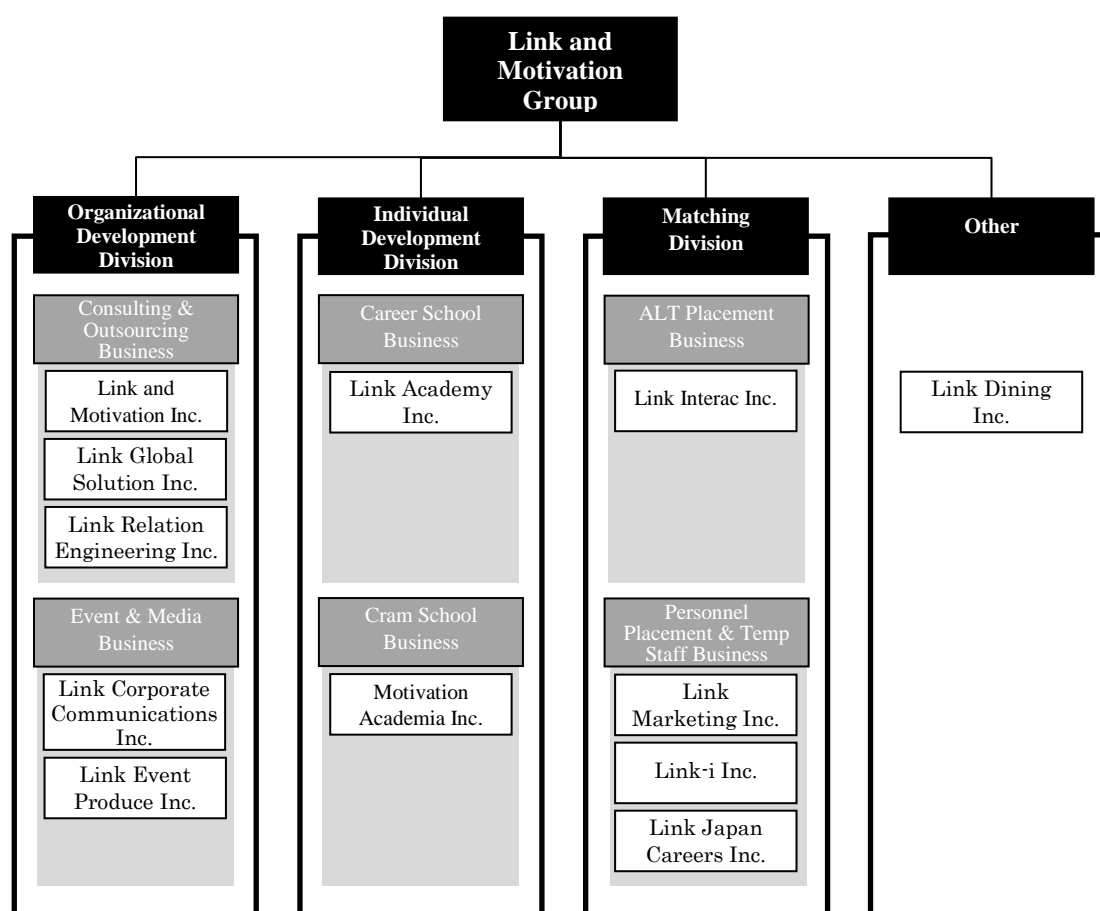
1. Analysis of Results of Operations and Financial Condition

(1) Analysis of Results of Operations

In 2016, the Japanese economy improved gradually due to the effects of economic policies and an upturn in the employment and income environment associated with Abenomics, although personal consumption was weak. Moreover, in Japanese society, interest in and concern about work increased among individuals and corporations, as represented by improvement in the effective demand-supply ratio of the labor force, promotion of work style innovation and other factors.

In this economic environment, net sales of the Link and Motivation Group were ¥33,917 million (a 6.2% increase compared with the previous year). In addition, each level of income increased substantially due to an increase in the profit margin from strong performance by the high-margin Organizational Development Division, and an increase in extraordinary income from sales of shares of investee companies in the incubation business, among other factors. Gross profit was ¥12,275 million (a 12.7% increase), operating income was ¥1,924 million (a 121.7% increase), ordinary income was ¥1,826 million (a 138.1% increase), and net income attributable to owners of the parent was ¥1,353 million (compared with a loss of ¥316 million in the previous year).

The segment and business classifications of the Link and Motivation Group are as shown below, and an overview of 2016 by segment and business follows. Please note that in 2016 the Link and Motivation Group changed the business segments presented as its reportable segments, and comparisons and analysis for 2016 are based on the classifications after the change.



Note: Link Japan Careers Inc. was established in 2016, but had not begun business activities as of December 31, 2016.

Organizational Development Division

The Organizational Development Division offers services for corporate customers that provide support for building and strengthening relationships with a company's stakeholders (employees, job applicants, customers, shareholders) using "Motivation Engineering," which is the core technology of the Link and Motivation Group.

In this segment, due to strong performance by each business, segment sales for 2016 increased substantially compared with the previous year to ¥10,242 million (a 22.3% increase). In addition, with the contribution of strong performance by the Consulting & Outsourcing business, which has a high profit margin, segment income increased substantially to ¥6,503 million (a 53.4% increase). An overview of operating results by business for 2016 is as follows.

Consulting & Outsourcing Business

The Consulting & Outsourcing business acts under the concept of creating numerous "motivation companies" in which employee motivation is a company's growth engine. As its method of providing services, the business diagnoses the state of a company's motivation based on its original diagnostic framework and offers various one-stop solutions for innovations related to organizations and personnel, including recruiting, training, framework and corporate culture.

In this business, sales in 2016 were ¥8,037 million (a 24.0% increase) and gross profit was ¥5,474 million (a 60.4% increase).

In 2016, by capturing rising corporate needs for sales promotion, consulting with the theme of strengthening sales capabilities and stratified training such as new employee training based on the idea of improving employees' basic skills as members of society grew. In addition, due to substantial growth of Motivation Cloud, a new cloud-based service for organizational improvement, sales and gross profit both increased substantially compared with the previous year.

Substantially expanding the number of ~~customers who introduce~~companies that adopt Motivation Cloud and working to deepen customer relationships by developing linked solutions for innovation based on the results of its diagnosis will lead to further growth for the business.

Event & Media Business

The Event & Media business produces events and media for various communications associated with business activities to support the "creation of motivation companies" at corporations. In its event production, the business offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders' meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations sites and visual media such as videos that explain products and webcasts of shareholders' meetings.

In this business, sales in 2016 were ¥3,677 million (a 12.1% increase) and gross profit was ¥1,349 million (a 46.2% increase).

In 2016, due to the growth of high-margin products including planning and operation of anniversary events and employee general meetings, and visual media such as streaming video, sales and gross profit both increased substantially compared with the previous year.

The business will work for growth by developing products with greater advantages using "Motivation Engineering," the Link and Motivation Group's core technology.

Individual Development Division

The Individual Development Division applies "Motivation Engineering," which is the core technology of the Link and Motivation Group, to businesses in areas including career schools and cram schools, to offer individual customers "career navigation" services, which provide total support for independent and autonomous career creation.

In this segment, due to a substantial reduction in transactions among Group companies to focus on sales to external customers, segment sales decreased and segment income decreased substantially compared with the

previous year. Segment sales for 2016 were ¥6,651 million (a 6.5% decrease) and segment income was ¥2,300 million (a 15.8% decrease). An overview of operating results by business for 2016 is as follows.

Please note that for transactions with external customers, excluding transactions among Group companies, segment sales and segment income both increased compared with the previous year.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as “i-companies” and supports the production of numerous i-companies. As for specific services, the business operates career schools for university students and working adults, providing one-stop support for individual career advancement under the three service brands of “Aviva” personal computer schools, “Daiei” qualification schools and “Aviva Pro” programming schools.

In this business, sales in 2016 were ¥6,546 million (a 12.9% decrease) and gross profit was ¥2,314 million (a 28.2% decrease).

In 2016, sales decreased and gross profit decreased substantially compared with the previous year due to a significant reduction in transactions among Group companies to focus on sales to external customers. On the other hand, transactions with external customers were steady due to a smooth shift in the portfolio from the Office course, which was a core service in the past, to programming courses to acquire the IT skills strongly needed by companies, in addition to strong sales of courses to prepare for national examinations and civil service examinations.

The business will enhance its courses as a total career school and establish comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Personnel Placement & Temp Staff business. By doing so, it will promote career navigation with the aim of raising the loyalty of existing customers and attracting more new customers.

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous “i-companies” in addition to improving the academic ability of its students. Its services consist of operating “Motivation Academia” cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society.

In this business, sales in 2016 were ¥104 million (a 45.4% decrease) and gross profit was negative ¥13 million (compared with gross profit of ¥103 million in the same period a year earlier).

In 2016, sales and gross profit both decreased substantially compared with the previous year due to an increase in one-time costs associated with the establishment of the new Shimokitazawa School in November 2016, in addition to a significant reduction in transactions among Group companies to focus on sales to external customers. On the other hand, transactions with external customers were steady due to a smooth increase in the number of students. By further applying the know-how in training adults that has been cultivated in the Consulting & Outsourcing business, this business aims to achieve added value unattainable by conventional cram schools.

Matching Division

The Matching Division provides services under the concept of matching organizations with hiring needs and individuals who want to advance their careers through “motivation matching,” which applies “Motivation Engineering,” the core technology of the Link and Motivation Group, to personnel placement and temp staff dispatch.

In this segment, segment sales increased and segment income decreased slightly compared with the previous year. Segment sales for 2016 were ¥17,973 million (a 3.9% increase) and segment income was ¥4,208 million (a 0.2% decrease). An overview of operating results by business for 2016 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and other schools throughout Japan and provides English-language instruction services on contract. In this business, where barriers to entry are extremely high due to the importance placed on relationships of trust with customers and

a company's track record, the Link and Motivation Group has established the number-one share among private companies.

In this business, sales in 2016 were ¥10,162 million (a 3.5% increase) and gross profit was ¥2,723 million (a 3.8% increase).

In 2016, sales and gross profit both increased compared with the previous year from deepening customer relationships by capitalizing on the trend toward strengthening English ability in educational guidelines for elementary and junior high schools.

The business will use the personnel training capabilities accumulated by the Consulting & Outsourcing business as a new advantage, in addition to the ability to recruit foreign employees and labor management capability it has built up.

Personnel Placement & Temp Staff Business

The Personnel Placement & Temp Staff business provides solutions for corporations that are hiring employees in the form of recruiting and temp staffing of the human resources an organization requires to grow. The main businesses include a recruiting and introduction business that matches university students looking for employment and working adults looking to change jobs with companies, and a temp staff business that dispatches personnel in sales, clerical work, and other fields.

In this business, sales in 2016 were ¥7,820 million (a 4.2% increase) and gross profit was ¥1,494 million (a 16.6% decrease).

In 2016, the temp staff business grew through its understanding of corporate personnel procurement needs, backed by a shortage of human resources. On the other hand, sales of the new graduate recruiting and introduction business decreased substantially compared with the same period a year earlier because of a strategic focus by the Company and its Group companies on strengthening their own new graduate recruiting. As a result, sales increased and gross profit decreased substantially compared with the previous year.

The business will work to increase profitability by further accelerating activities linked to corporate dispatch and introductions for individuals who have improved their skills through the Group's Career School business.

In addition, capitalizing on rising needs for hiring foreigners, the business established Link Japan Careers Inc. to provide companies that employ foreigners with one-stop recruiting, training and work support for foreign staff. The business aims for future business growth by offering a temp staff service that uses the foreigner recruiting and labor management abilities cultivated in the ALT Placement business as a strength.

Other

In the Other segment, the Link and Motivation Group operates a restaurant and other businesses for individual customers as situations for management using "Motivation Engineering," which is the core technology of the Link and Motivation Group.

In this segment, sales and gross profit both decreased substantially compared with the previous year due to the transfer of all shares of a professional basketball team management company to a local corporation in June 2016 to concentrate management resources. Segment sales in 2016 were ¥428 million (a 44.3% decrease) and segment income was ¥98 million (a 70.9% decrease).

(2) Analysis of Financial Condition

A. Assets, Liabilities and Net Assets

Assets

Total assets as of December 31, 2016 were ¥18,773 million, an increase of ¥1,299 million from a year earlier. This was mainly due to factors including an increase in investments in securities and an increase in security deposits.

Liabilities

Total liabilities were ¥12,979 million, an increase of ¥1,537 million from a year earlier. This was mainly due to an increase in long-term debt, despite a decrease in short-term borrowings.

Net Assets

Net assets were ¥5,794 million, a decrease of ¥238 million from a year earlier. This was mainly due to decreases in payment of dividends and acquisition of treasury stock, although net assets increased due to recording net income.

B. Cash Flow

Cash and cash equivalents (“cash”) as of December 31, 2016 were ¥1,082 million, an increase of ¥85 million compared with a year earlier.

Cash flow for the year ended December 31, 2016 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities increased ¥275 million to ¥1,834 million. The principal factors providing cash were income before income taxes of ¥2,129 million, which was an increase of ¥1,563 million compared with the previous year, and an increase in accrued consumption taxes of ¥86 million, which was an increase of ¥396 million compared with the previous year. The principal factors using cash were an increase in notes and accounts receivable — trade of ¥337 million, which was a decrease of ¥557 million compared with the previous year, and income taxes paid totaling ¥1,260 million, which was a decrease of ¥525 million compared with the previous year.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥581 million, a net decrease of ¥963 million from the previous year. The principal factors using cash were ¥443 million in payments for acquisition of investment securities, which was a decrease of ¥362 million compared with the previous year, and ¥780 million in proceeds from sale of investment securities, which was an increase of ¥753 million compared with the previous year. The principal factors providing cash included ¥461 million in payments for security deposits and guarantees, which was an increase of ¥283 million compared with the previous year.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥1,165 million, a net increase of ¥1,130 million in cash from the previous year. The principal factor providing cash was ¥2,992 million in proceeds from long-term debt. The principal factors using cash included a ¥1,216 million decrease in short-term debt, which was a decrease of ¥2,472 million compared with the previous year, and ¥1,373 million in payments for acquisition of treasury stock.

(Reference) Cash Flow Related Indicators

	2012	2013	2014	2015	2016
Net worth ratio (%)	31.5	36.4	38.2	34.5	30.9
Net worth ratio on market value basis (%)	82.5	204.0	101.1	80.9	258.4
Cash flow to interest-bearing debt (times)	2.51	3.97	4.91	3.86	3.70
Interest coverage ratio (times)	27.4	11.9	24.6	36.3	34.2

(3) Qualitative Information on Forecast of Consolidated Results

For 2017, we forecast substantial growth in both net sales and gross profits because we expect strong performance by the Organizational Development Division and the Individual Development Division due to the favorable effect of work style innovation and English language education reforms being promoted by the government.

2. Items Regarding Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

None applicable.

Please note that, although it is not applicable as a change in a specified subsidiary, during the six months ended June 30, 2016 the Company removed Link Sports Entertainment Inc., which was a consolidated subsidiary, from the scope of consolidation as a result of the sale of all of its shares.

(2) Changes in Accounting Policies, Changes in Accounting Estimates and Restatements

Year ended December 31, 2016
<p>(Change in Accounting Policies)</p> <p>From the three months ended March 31, 2016, the Company adopted standards including “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on September 13, 2013, hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter “Consolidated Accounting Standard”) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 issued on September 13, 2013, hereinafter “Business Divestitures Accounting Standard”) and has changed to a method in which the difference made by changes in the ownership interest in subsidiaries in which the Company retains a controlling interest is recorded as capital surplus, and acquisition-related costs are treated as expenses in the consolidated fiscal year in which they are incurred. In addition, for business combinations carried out at or after the beginning of the three months ended March 31, 2016, the Company has changed to a method in which the reallocation of acquisition costs, as determined after reviewing provisional accounting treatment, is reflected in the quarterly consolidated financial statements for the period in which the business combination took place. The Company also changed the manner in which quarterly net income and other items are presented, and changed “minority interests” to “non-controlling interests.” The quarterly consolidated financial statements for the fourth quarter of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes.</p> <p>The Company adopted these accounting standards as of the beginning of the three months ended March 31, 2016 and will apply them thereafter in accordance with the transitional handling set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.</p> <p>The impact of these changes on the consolidated financial statements for the year ended December 31, 2016 is immaterial.</p> <p>(Change in Depreciation Method)</p> <p>Associated with the revision of the Corporation Tax Law, the Company has applied “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32 issued on June 17, 2016) as of the six months ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and structures that were acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.</p> <p>The impact of this change on the quarterly consolidated financial statements for the year ended December 31, 2016 is immaterial.</p>

(3) Additional Information

(Allowance for Shareholders' Benefits)

Associated with the introduction of a shareholder special benefit plan, the Company records the estimated amount of expenses incurred pursuant to the shareholder special benefit plan from the six months ended June 30, 2016.

3. Basic Stance Regarding Selection of Accounting Standards

To improve the international comparability of its financial information in the capital market, the Link and Motivation Group will voluntarily adopt International Financial Reporting Standards (IFRS) in place of the former Japanese generally accepted accounting principles from the first quarter of 2017.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen, rounded down to the nearest thousand)

	As of December 31, 2015	As of December 31, 2016
ASSETS		
Current assets		
Cash and deposits	997,295	1,082,923
Notes and accounts receivable	3,724,562	4,010,842
Products	75,596	70,337
Goods in process	63,132	54,507
Merchandise and supplies	37,388	40,538
Prepaid expenses	340,885	380,744
Deferred tax assets	221,883	206,392
Short-term loans receivable	17,130	11,360
Accrued corporate tax refund	56,855	345,150
Accrued consumption tax	23,173	519,684
Other	323,695	261,015
Allowance for doubtful accounts	(29,948)	(8,910)
Total current assets	5,851,650	6,974,586
Fixed assets		
Property and equipment		
Buildings and structures	1,187,950	1,245,456
Accumulated depreciation	(574,327)	(650,987)
Buildings and structures (net)	613,623	594,469
Vehicles	13,048	4,130
Accumulated depreciation	(11,869)	(3,881)
Vehicles (net)	1,179	248
Furniture and fixtures	685,251	660,871
Accumulated depreciation	(569,581)	(570,725)
Furniture and fixtures (net)	115,669	90,145
Lease assets	509,366	441,494
Accumulated depreciation	(260,930)	(230,146)
Lease assets (net)	248,436	211,347
Total property and equipment	978,908	896,211
Intangible assets		
Goodwill	7,070,661	6,336,912
Software	536,001	434,299
Other	6,389	50,667
Total intangible assets	7,613,053	6,821,879
Investments and other assets		
Investments in securities	1,606,920	2,153,085
Security deposits	1,258,079	1,634,133
Deferred tax assets	18,553	100,244
Claims in bankruptcy	10,878	18,223
Other	190,941	295,556
Allowance for doubtful accounts	(60,878)	(122,174)
Total investments and other assets	3,024,494	4,079,068
Total fixed assets	11,616,456	11,797,158
Deferred assets		
Stock issuance expenses	6,396	1,881
Total deferred assets	6,396	1,881
Total assets	17,474,503	18,773,626

(Thousands of yen, rounded down to the nearest thousand)

	As of December 31, 2015	As of December 31, 2016
LIABILITIES		
Current liabilities		
Accounts	322,478	273,664
Short-term borrowings	3,008,636	1,714,986
Long-term debt due within one year	621,512	1,509,326
Accounts payable	1,580,736	1,782,354
Lease obligations	102,745	112,921
Expenses payable	155,842	235,598
Accrued income taxes	426,525	373,961
Accrued consumption taxes	433,227	1,017,102
Advances received	1,727,406	1,510,340
Asset retirement obligations	—	35,639
Accrued bonuses to employees	194,302	272,069
Accrued bonuses to officers	29,800	29,020
Allowance for shareholder benefit program	—	26,943
Other	263,430	226,442
Total current liabilities	8,866,643	9,120,374
Long-term liabilities		
Long-term debt	2,130,676	3,293,015
Lease obligations	156,887	153,406
Deferred income taxes	21,131	174,011
Asset retirement obligations	88,266	70,809
Other	178,381	167,609
Total long-term liabilities	2,575,343	3,858,851
Total liabilities	11,441,986	12,979,225
NET ASSETS		
Shareholders' equity		
Common stock	1,380,610	1,380,610
Additional paid-in capital	2,146,648	2,146,648
Retained earnings	2,482,106	3,289,032
Treasury stock	(44)	(1,373,485)
Total shareholders' equity	6,009,320	5,442,805
Cumulative other comprehensive income		
Unrealized gain on securities	15,399	345,735
Deferred gain (loss) on hedges	41	—
Foreign currency translation adjustment	7,755	5,859
Total cumulative other comprehensive income	23,196	351,595
Total net assets	6,032,516	5,794,401
Total liabilities and net assets	17,474,503	18,773,626

(2) Consolidated Statements of Operations and Comprehensive Income

Consolidated Statements of Operations

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2015	Year ended December 31, 2016
Net sales	31,950,894	33,917,602
Cost of sales	21,060,886	21,642,097
Gross profit	10,890,007	12,275,504
Selling, general and administrative expenses	10,021,974	10,350,935
Operating income	868,033	1,924,569
Non-operating income		
Interest income	993	1,134
Dividend income	1,461	1,052
Commission fees	5,882	11,664
Gain on foreign exchange	2,946	—
Other	7,692	16,825
Total non-operating income	18,976	30,676
Non-operating expenses		
Interest expenses	42,898	58,858
Commission fees	11,969	48
Carry over of allowance for doubtful accounts	50,000	50,000
Other	14,978	19,924
Total non-operating expenses	119,846	128,831
Ordinary income	767,163	1,826,414
Extraordinary income		
Gain on sale of subsidiaries stock	—	51,894
Gain on sale of property and equipment	—	150
Gain on sale of investment securities	3,690	428,185
Compensation received	33,914	88,360
Other	961	134
Total extraordinary income	38,565	568,724
Extraordinary loss		
Loss on valuation of investments in capital	—	14,554
Head office relocation expenses	—	147,609
Loss on disposal of property and equipment	10,678	37,091
Business structure improvement expenses	1,340	4,081
Loss on impairment	5,157	24,362
Loss on cancellation of leasehold contracts	3,459	—
Loss on valuation of investment securities	218,619	28,441
Other	—	9,500
Total extraordinary loss	239,255	265,642
Income before income taxes	566,472	2,129,497
Current income taxes	715,179	839,101
Deferred income taxes	167,814	(63,321)
Total income taxes	882,994	775,779
Net income (loss)	(316,521)	1,353,717
Net income (loss) attributable to owners of the parent	(316,521)	1,353,717

Consolidated Statements of Comprehensive Income

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2015	Year ended December 31, 2016
Net income (loss)	(316,521)	1,353,717
Other comprehensive income (loss)		
Unrealized gain on securities	9,392	330,336
Foreign currency translation adjustment	2,183	(1,895)
Deferred gain (loss) on hedges	41	(41)
Total other comprehensive income	11,618	328,399
Comprehensive income (loss)	(304,902)	1,682,117
(Attributable to)		
Owners of the parent	(304,902)	1,682,117

(3) Consolidated Statements of Changes in Net Assets

Year ended December 31, 2015

(Thousands of yen, rounded down to the nearest thousand)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the year	1,380,610	2,146,648	3,296,126	(44)	6,823,340
Changes during the year					
Acquisition of treasury stock					—
Dividends from capital surplus	—	—	(497,498)	—	(497,498)
Net income attributable to owners of the parent	—	—	(316,521)	—	(316,521)
Changes in items other than shareholders' equity (net)	—	—	—	—	—
Total changes during the year	—	—	(814,020)	—	(814,020)
Balance at end of year	1,380,610	2,146,648	2,482,106	(44)	6,009,320

	Cumulative other comprehensive income				Total net assets
	Unrealized gain on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustment	Total cumulative other comprehensive income	
Balance at beginning of the year	6,006	—	5,571	11,577	6,834,918
Changes during the year					
Acquisition of treasury stock					—
Dividends from capital surplus	—	—	—	—	(497,498)
Net income attributable to owners of the parent	—	—	—	—	(316,521)
Changes in items other than shareholders' equity (net)	9,392	41	2,183	11,618	11,618
Total changes during the year	9,392	41	2,183	11,618	(802,401)
Balance at end of year	15,399	41	7,755	23,196	6,032,516

Year ended December 31, 2016

(Thousands of yen, rounded down to the nearest thousand)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the year	1,380,610	2,146,648	2,482,106	(44)	6,009,320
Changes during the year					
Acquisition of treasury stock				(1,373,441)	(1,373,441)
Dividends from capital surplus	—	—	(546,791)	—	(546,791)
Net income attributable to owners of the parent	—	—	1,353,717	—	1,353,717
Changes in items other than shareholders' equity (net)	—	—	—	—	—
Total changes during the year	—	—	806,926	(1,373,441)	(566,515)
Balance at end of year	1,380,610	2,146,648	3,289,032	(1,373,485)	5,442,805

	Cumulative other comprehensive income				Total net assets
	Unrealized gain on securities	Deferred gain (loss) on hedges	Foreign currency translation adjustment	Total cumulative other comprehensive income	
Balance at beginning of the year	15,399	41	7,755	23,196	6,032,516
Changes during the year					
Acquisition of treasury stock					(1,373,441)
Dividends from capital surplus	—	—	—	—	(546,791)
Net income attributable to owners of the parent	—	—	—	—	1,353,717
Changes in items other than shareholders' equity (net)	330,336	(41)	(1,895)	328,399	328,399
Total changes during the year	330,336	(41)	(1,895)	328,399	(238,115)
Balance at end of year	345,735	—	5,859	351,595	5,794,401

(4) Consolidated Statements of Cash Flow

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2015	Year ended December 31, 2016
Cash flow from operating activities		
Income before income taxes	566,472	2,129,497
Depreciation and amortization	548,342	547,305
Loss on impairment	5,157	24,362
Amortization of goodwill	733,650	733,749
Increase (decrease) in allowance for doubtful accounts	58,809	40,257
Increase (decrease) in allowance for employees' bonuses	14,531	79,199
Increase (decrease) in allowance for officers' bonuses	28,850	670
Increase (decrease) in allowance for shareholder benefit program	—	26,943
Loss (gain) on valuation of investment securities	218,619	28,441
Loss (gain) on sale of investment securities	(3,690)	(428,185)
Loss (gain) on sale of subsidiaries stock	—	(51,894)
Compensation received	(31,188)	(88,360)
Increase (decrease) in allowance for loss on store closure	(18,259)	—
Loss on disposal of property and equipment	10,678	37,091
Interest and dividend income	(2,455)	(2,187)
Interest expense	42,898	58,858
Increase (decrease) in long-term accounts payable	(32,583)	(7,562)
Decrease (increase) in notes and accounts receivable — trade	220,128	(337,080)
Decrease (increase) in inventories	295,736	(7,223)
Increase (decrease) in notes and accounts payable	88,623	(21,750)
Increase (decrease) in accounts payable	657	209,375
Increase (decrease) in advances received	123,561	(181,836)
Increase (decrease) in accrued consumption taxes	(310,095)	86,087
Other	(263,779)	124,733
Subtotal	2,294,665	3,000,495
Interest and dividends received	2,455	2,778
Interest paid	(42,975)	(53,646)
Compensation paid	31,188	88,360
Income taxes paid	(735,506)	(1,260,750)
Income tax refund	8,483	56,948
Net cash provided by operating activities	1,558,310	1,834,185
Cash flow from investing activities		
Payments for investments	(8,000)	—
Payments for acquisition of property and equipment	(341,959)	(214,609)
Payments for acquisition of intangible fixed assets	(269,449)	(196,315)
Payments for acquisition of investment securities	(806,372)	(443,583)
Proceeds from sale of investment securities	26,150	780,085
Payments for acquisition of subsidiary stock due to a change in the scope of consolidation	—	(22,800)
Payments for loans	(18,063)	(72,308)
Proceeds from recovery of short-term loans	7,739	78,077
Payments for security deposits and guarantees	(178,272)	(461,868)
Proceeds from recovery of security deposits and guarantees	44,721	43,811
Other	(1,218)	(72,033)
Net cash used in investing activities	(1,544,723)	(581,543)
Cash flow from financing activities		
Increase (decrease) in short-term debt	1,256,072	(1,216,649)
Proceeds from long-term debt	—	2,992,800
Repayment of long-term debt	(673,512)	(894,847)
Repayment of lease obligations	(121,515)	(122,092)
Payments for acquisition of treasury stock	—	(1,373,441)
Payment of cash dividends	(495,830)	(550,882)
Net cash used in financing activities	(34,785)	(1,165,112)
Cash and cash equivalents translation adjustment	2,188	(1,900)
Net increase (decrease) in cash and cash equivalents	(19,009)	85,628
Cash and cash equivalents at beginning of year	1,016,304	997,295
Cash and cash equivalents at end of year	997,295	1,082,923

(5) Notes to Consolidated Financial Statements

(Notes Regarding Assumption of Going Concern)

None applicable

(Segment Information)

Segment Information

1. Segment sales, income or loss, assets, liabilities and other items

Year ended December 31, 2015

(Thousands of yen, rounded down to the nearest thousand)

(Thousands of yen, rounded down to the nearest thousand)

	Reportable Segment						Adjustment (Note 1)	Consolidated
	Organizational Development Division	Matching Division		Individual Development Division	Other	Total		
		ALT Placement Business	Personnel Placement & Temp Staff Business					
Segment sales								
Sales to outside customers	8,090,242	9,819,821	6,992,948	6,478,181	569,699	31,950,894	—	31,950,894
Intersegment sales and transfers	284,660	600	510,847	636,533	199,158	1,631,800	(1,631,800)	—
Total	8,374,902	9,820,421	7,503,796	7,114,715	768,858	33,582,694	(1,631,800)	31,950,894
Segment income (profit)	4,238,901	2,623,859	1,609,764	2,731,081	339,082	11,542,689	(652,681)	10,890,007
Segment assets	13,686,928	1,313,552	1,873,320	3,981,423	424,606	21,279,830	(3,805,327)	17,474,503
Segment liabilities	9,984,657	1,034,724	974,149	2,652,157	243,240	14,888,929	(3,446,942)	11,441,986
Other items	183,211	73,438	20,098	267,504	4,088	548,342	—	548,342

Notes: 1. Adjustments are as follows:

- (1) The negative ¥652,681 thousand adjustment to segment income is an elimination of intersegment transactions.
 - (2) The negative ¥3,805,327 thousand adjustment to segment assets is an elimination of intersegment transactions.
 - (3) The negative ¥3,446,942 thousand adjustment to segment liabilities is an elimination of intersegment transactions.
 - (4) The value of intersegment transactions is determined using the same method as transactions outside segments.
2. Segment income is gross profit.

Year ended December 31, 2016

(Thousands of yen, rounded down to the nearest thousand)

(Thousands of yen, rounded down to the nearest thousand)

	Reportable Segment						Adjustment (Note 1)	Consolidated
	Organizational Development Division	Matching Division		Individual Development Division	Other	Total		
		ALT Placement Business	Personnel Placement & Temp Staff Business					
Segment sales								
Sales to outside customers	9,559,417	10,157,278	7,357,045	6,521,490	322,371	33,917,602	—	33,917,602
Intersegment sales and transfers	682,832	5,509	463,397	129,829	105,874	1,387,444	(1,387,444)	—
Total	10,242,250	10,162,788	7,820,442	6,651,319	428,246	35,305,047	(1,387,444)	33,917,602
Segment income (profit)	6,503,645	2,723,126	1,494,046	2,300,543	98,547	13,119,909	(844,404)	12,275,504
Segment assets	15,005,204	1,752,657	1,137,586	3,535,733	75,876	21,507,059	(2,733,432)	18,773,626
Segment liabilities	10,140,790	1,885,218	995,410	2,372,483	8,951	15,402,855	(2,423,629)	12,979,225
Other items	246,950	64,882	22,971	209,721	2,779	547,305	—	547,305

Notes: 1. Adjustments are as follows:

- (1) The negative ¥844,404 thousand adjustment to segment income is an elimination of intersegment transactions.
 - (2) The negative ¥2,733,432 thousand adjustment to segment assets is an elimination of intersegment transactions.
 - (3) The negative ¥2,423,629 thousand adjustment to segment liabilities is an elimination of intersegment transactions.
 - (4) The value of intersegment transactions is determined using the same method as transactions outside segments.
2. Segment income is gross profit.

2. Changes in Reportable Segments

Associated with a reorganization of the business structure for selection and concentration of management resources, from the third quarter of 2016 the classification of business segments has been revised and reportable segments have been changed from the former Business Division and Consumer Division to the Organizational Development Division, the Matching Division ALT Placement Business, the Matching Division Personnel Placement & Temp Staff Business, the Individual Development Division, and Other.

Segment information for the year ended December 31, 2015 presents data prepared based on the classification method after the change.

(Related Information)

Year ended December 31, 2015

1. Information by Product and Service

Omitted because the information disclosed is the same as segment information.

2. Information by Geographic Segment

(1) Net sales

Not applicable because the Company has no sales to external customers outside Japan.

(2) Property and equipment

Not applicable because the Company has no property and equipment outside Japan.

3. Information by Main Customer

Not presented because there are no external customers that account for more than 10% of net sales on the consolidated statements of operations.

Year ended December 31, 2016

1. Information by Product and Service

Omitted because the information disclosed is the same as segment information.

2. Information by Geographic Segment

(1) Net sales

Not applicable because the Company has no sales to external customers outside Japan.

(2) Property and equipment

Not applicable because the Company has no property and equipment outside Japan.

3. Information by Main Customer

Not presented because there are no external customers that account for more than 10% of net sales on the consolidated statements of operations.

(Per Share Information)

	Year ended December 31, 2015	Year ended December 31, 2016
Net assets per share (¥)	53.35	54.85
Earnings (loss) per share (¥)	(2.79)	12.44

Notes: 1. Diluted earnings per share is not presented because the Company has no dilutive shares.

2. The basis for computation of earnings per share is as follows:

(Thousands of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Net income (loss) attributable to owners of the parent on the consolidated statements of income	(316,521)	1,353,717
Net income (loss) attributable to owners of the parent allocated to common stock	(316,521)	1,353,717
Amount unallocated to common stock	—	—
Average number of shares of common stock outstanding during the fiscal year (Shares)	113,067,800	108,793,264

(Significant Subsequent Information)

None applicable