Consolidated Financial Statements for the Nine Months Ended September 30, 2018 (IFRS)

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

November 14, 2018

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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): November 14, 2018
Start of distribution of dividends (scheduled): December 25, 2018
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Nine Months Ended September 30, 2018 (January 1, 2018 – September 30, 2018)

(1) Revenues and Income (Percentages represent change compared with the same quarter of the previous year.)

	Revenues (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Income before income taxes (¥ million)	Change (%)	Net income (¥ million)	Change (%)
Nine months ended September 30, 2018	29,875	10.3	3,042	30.0	3,014	33.8	1,939	28.8
Nine months ended September 30, 2017	27,081	8.9	2,341	28.1	2,253	29.9	1,505	3.5

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehensive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Nine months ended September 30, 2018	1,971	30.2	2,493	2.9	18.67	—
Nine months ended September 30, 2017	1,514	4.1	2,423	21.8	14.34	—

(2) Financial Position

	Total assets (¥ million)	Total equity (¥ million)	Equity attributable to owners of the parent (¥ million)	Ratio of equity attributable to owners of the parent to total assets (%)
As of September 30, 2018	26,789	8,522	8,542	31.9
As of December 31, 2017	25,770	6,697	6,692	26.0

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2017	1.50	1.50	1.60	1.60	6.20
2018	1.70	1.70	1.70		
2018 (est.)				1.70	6.80

Note: Revisions since the most recently announced dividend forecast: No

3. Forecast of Consolidated Results for 2018 (January 1, 2018 – December 31, 2018)

(Percentages represent change compared with the previous fiscal year.)

	Revenues		Operating income		Net income		Net income attributable to owners of the parent		Basic earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Full-year	40,700	10.3	4,120	22.4	2,530	20.7	2,530	20.0	23.95

Note: Revisions since the most recently announced forecast of results: No

Notes

(1) Changes in Significant Subsidiaries during the Period: No

(2) Changes in Accounting Policies and Changes in Accounting Estimates
(a) Changes in accounting policies required by IFRS: Yes
(b) Changes in accounting policies other than (a) above: No
(c) Changes in accounting estimates: No

(3) Number of Shares Issued and Outstanding (Common Stock)
(a) Number of shares at the end of the period (including treasury stock)
Nine months ended September 30, 2018: 113,068,000; Year ended December 31, 2017: 113,068,000
(b) Number of treasury shares at the end of the period:
Nine months ended September 30, 2018: 7,445,700; Year ended December 31, 2017: 7,445,700
(c) Average number of shares outstanding (cumulative with earlier quarters):
Nine months ended September 30, 2018: 105,622,300; Nine months ended September 30, 2017: 105,622,300

*** These Quarterly Financial Statements Are Not Subject to Quarterly Review by a Certified Public Accountant or an Auditing Corporation**

- These “Consolidated Financial Statements for the Nine Months Ended September 30, 2018” are not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act although, as of the date of publication of these statements, the review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had been completed.

*** Explanation of the Proper Use of Performance Forecasts and Other Special Instructions**

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

Contents of Attachments

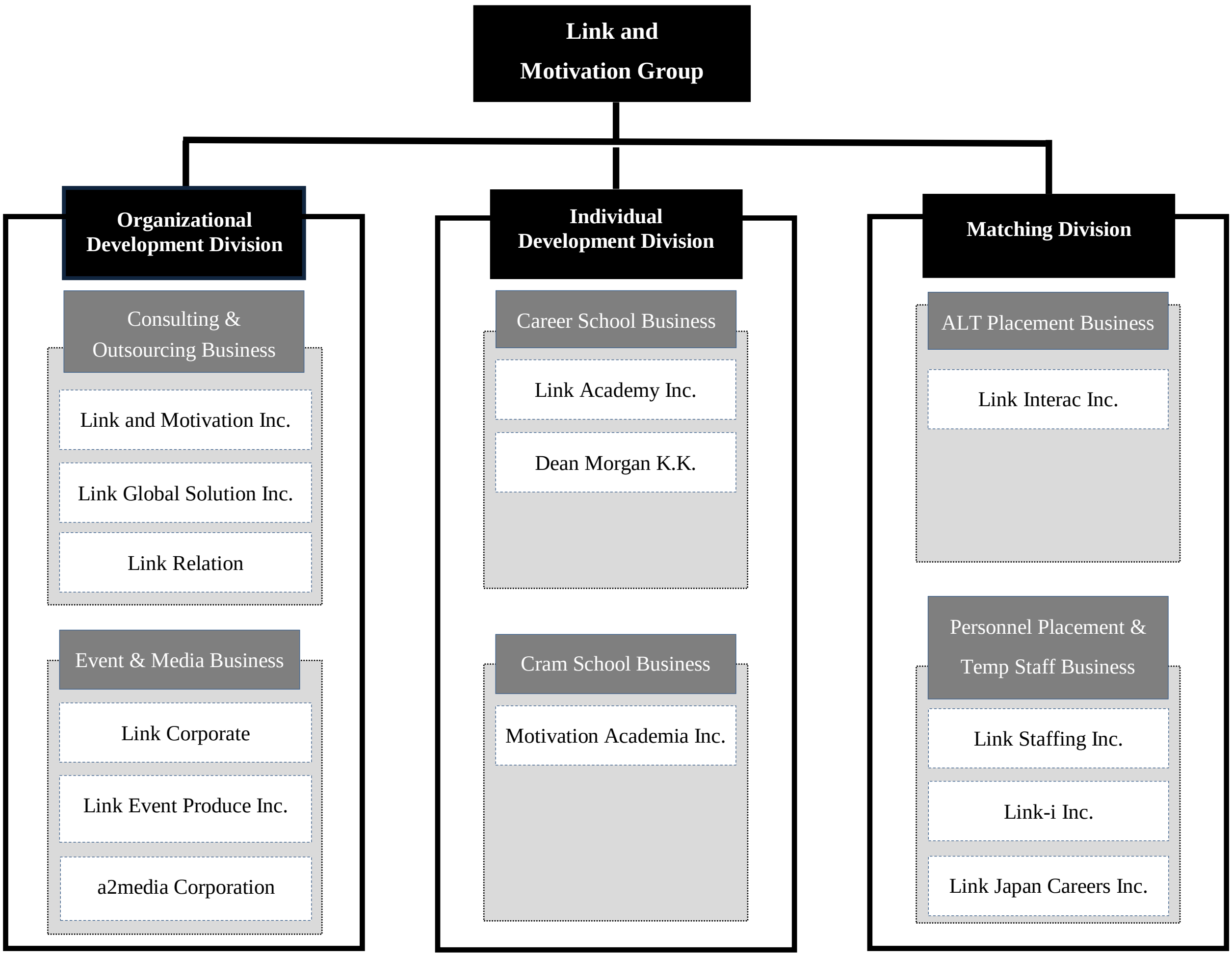
1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations for the Nine Months Ended September 30, 2018

In the Japanese economy during the first nine months of 2018 (January 1, 2018 – September 30, 2018), corporate production activities and capital investment were on a recovery track and personal consumption, which had been in a persistent slump, also grew in tandem with an increase in leisure time due to Japanese society's promotion of work style reform. As a result, the economy was on an overall moderate recovery trend. Moreover, the Link and Motivation Group (the "Group") supports the transformation of numerous companies and individuals using "Motivation Engineering," which is the Group's core technology, backed by psychology, behavioral economics, social systems theory and other disciplines, under its corporate philosophy: "Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society." The market also grew moderately in industries related to the Group, with increased demand for higher labor productivity and facilitation of personnel recruiting associated with the promotion of work style reform.

In this economic environment, revenues and each level of income increased substantially. Revenues of the Group were ¥29,875 million (a 10.3% increase compared with the same period of the previous year), gross profit was ¥11,706 million (a 17.3% increase), operating income was ¥3,042 million (a 30.0% increase) and net income attributable to owners of the parent was ¥1,971 million (a 30.2% increase).

The segment and business classifications of the Group are as shown below, and an overview of the first nine months of 2018 by segment and business follows.



Organizational Development Division

The Organizational Development Division offers corporate customers services 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 Group.

In this segment, due to strong performance by each business, segment revenues for the first nine months of 2018 increased substantially compared with the same period of the previous year to ¥10,064 million (a 15.4% 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 ¥6,663 million (a 20.4% increase). An overview of operating results by business for the first nine months of 2018 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, revenues for the first nine months of 2018 were ¥7,563 million (an 11.8% increase) and gross profit was ¥6,093 million (a 26.5% increase). Results by product in the Consulting & Outsourcing business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2017	Nine months ended September 30, 2018	YoY change (%)
Consulting & Outsourcing Business	6,762 [4,817]	7,563 [6,093]	+11.8 +26.5
Consulting	3,073	3,611	+17.5
Package	2,103	1,949	-7.4
Member/database services	796	1,388	+74.5
Outsourcing	789	614	-22.1

In the first nine months of 2018, revenues and gross profit both increased substantially compared with the same period of the previous year due to significant growth in sales of highly profitable Consulting and Member/database services including Motivation Cloud.

Progress in the number of contact points that have adopted the cloud-based service for organizational improvement Motivation Cloud, which is a key indicator for the Group, was as follows.

Table 2. Number of Contact Points and Monthly Fee Revenue for Motivation Cloud at Quarter-End

	2017				2018		
	March	June	September	December	March	June	September
Number of contact points	155	234	343	430	505	576	641
Monthly fee revenue (¥ thousand)	20,804	32,108	45,043	60,716	72,086	92,998	103,410

Motivation Cloud is the first HR Tech (people x technology) cloud service in Japan for managing employee engagement (mutual understanding, empathy and commitment between companies and employees). We began providing this monthly pay-as-you-go product in July 2016. The cumulative number of contact points that have adopted Motivation Cloud steadily grew to 641 as of the end of September 2018.

During the first nine months of 2018, there was steady progress in the number of contact points that have adopted Motivation Cloud. The recent environmental change of shifting to adapt to the labor market to target human resources, both employees and job applicants, is a management issue for many companies. Amid these circumstances, improving employee engagement through corporate organizational activities is a key management theme. However, the absence of a "yardstick" for visualizing the state of the organization and of a PDCA cycle for truly achieving organizational improvements has been an issue for many organizational activities. Against this backdrop, capturing companies' rising needs for organizational transformation has led to a substantial increase in the number of contact points for Motivation Cloud. Motivation Cloud is smoothly generating stable revenue, and total monthly fee revenue for September 2018 was ¥103,410 thousand. Although inquiries from major companies are currently increasing considerably and the average fee is expected to rise, the period from introduction to final delivery takes time. However, by enhancing its response to major companies, centered on product development, the Company believes that matters will proceed smoothly in the future, including meeting its annual target.

In addition, the Company has been broadcasting a television commercial in the Fukuoka area since October 26. In addition to the above items, the Company will also invest in marketing to contribute to medium-to-long-term growth.

Event & Media Business

The Event & Media business produces events and media for various types of communication 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 (IR) sites and visual media such as videos that explain products and webcasts of shareholders' meetings.

In this business, revenues for the first nine months of 2018 were ¥3,158 million (a 1.4% increase) and gross profit was ¥911 million (a 4.9% decrease). Results by product in the Event & Media business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2017	Nine months ended September 30, 2018	YoY change (%)
Event & Media Business	3,113 [958]	3,158 [911]	+1.4 -4.9
Event Production	2,062	1,358	-34.1
Media Production	1,050	1,799	+71.2

In the first nine months of 2018, revenues increased slightly and gross profit decreased compared with the same period of the previous year as the business made an intentional substantial reduction in event production, which had previously been ordered by the Consulting & Outsourcing business, while on the other hand revenues from IR-related media production grew with the addition of a new company to the Group.

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

Individual Development Division

The Individual Development Division applies "Motivation Engineering," which is the core technology of the 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 firm performance in each business, segment revenues for the first nine months of 2018 were ¥5,949 million (a 12.3% increase) and segment income increased substantially to ¥2,245 million (a 24.2% increase). An overview of operating results by business for the first nine months of 2018 is as follows.

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 provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the six service brands of "Aviva" personal computer schools, "Daiei" qualification schools, "Aviva Pro" programming schools, and "Rosetta Stone Learning Center," "Rosetta Stone Premium Club" and "Hummingbird" foreign language schools.

In this business, revenues for the first nine months of 2018 were ¥5,417 million (a 7.6% increase) and gross profit was ¥2,004 million (a 13.9% increase). Results by product in the Career School business were as follows.

Table 4. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2017	Nine months ended September 30, 2018	YoY change (%)
Career School Business	5,036 [1,759]	5,417 [2,004]	+7.6 +13.9
Office	2,235	2,299	+2.9
Pro Series	674	739	+9.5
Accounting courses	425	423	-0.4
National exam courses	450	506	+12.5
Civil servant courses	1,000	1,012	+1.2
Education materials/other	101	133	+30.5
English conversation	148	303	+104.2

During the first nine months of 2018, revenues increased compared with the same period of the previous year due to steady sales of Pro Series, National exam courses and English conversation, and gross profit increased substantially due to significant improvement in school profitability with success in the rapid development and placement of new graduates in the workforce. Particularly for National exam courses, there was an increase in needs for acquisition of certifications such as certified social insurance and labor consultant and registered real-estate broker, backed by an increase in leisure time for individual workers due to work style reform. For English conversation, classes of a one-on-one English conversation school that joined the Group in April 2017 went on-line, and sales grew substantially with a rollout to more than 75 existing career schools.

In addition to working to enhance its lineup of courses and to improve their quality in order to raise its value as a total career school, the business will promote career navigation by focusing on comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Personnel Placement & Temp Staff business.

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. The business also operates "SS-1," an individualized instruction cram school for students preparing for junior high school entrance exams. The Group's Cram School business will utilize its assets in programming education and English conversation education to provide places for students from elementary school straight through to high school to develop skills that will be of use in society.

In this business, revenues for the first nine months of 2018 were ¥531 million (a 102.4% increase) and gross profit was ¥241 million (a 391.8% increase).

During the first nine months of 2018, revenues and gross profit both increased substantially compared with the same period of the previous year because of the accelerated expansion of the number of classrooms in the Cram School business due to the addition to the Group in July 2017 of SS-1, an individualized instruction cram school for junior high school entrance exam takers. This business has only one product.

By further applying the know-how in training adults that has been cultivated in the Consulting & Outsourcing business, this business aims to achieve one-stop services unattainable by conventional cram schools, ranging from elementary to high school students and adults.

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 Group, to personnel placement and temp staff dispatch.

In this segment, segment revenues for the first nine months of 2018 increased to ¥14,938 million (a 5.4% increase) and segment income increased substantially to ¥3,673 million (a 10.0% increase). An overview of operating results by business for the first nine months of 2018 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and high 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 Group has established the number-one share among private companies. In addition, Japan's English education market is expanding with the creation of a "Reform Plan for Cultivating Global Human Resources" by the Ministry of Education, Culture, Sports, Science and Technology (MEXT), looking ahead to the Tokyo Olympics to be held in 2020.

In this business, revenues for the first nine months of 2018 were ¥8,856 million (a 10.2% increase) and gross profit was ¥2,418 million (an 11.4% increase).

During the first nine months of 2018, revenues and gross profit both increased substantially compared with the same period of the previous year due to firm performance from precisely capitalizing on the expansion of English education promoted by MEXT. This business has only one product.

The business will work to strengthen hiring of foreign teachers with a view toward further growth in demand for ALTs in Japan.

Personnel Placement & Temp Staff Business

The Personnel Placement & Temp Staff business provides solutions in the form of introductions and temp staffing of the human resources an organization needs to grow. The main businesses include a new graduate recruiting and introduction business that connects university students looking for employment with company orientation meetings and interviews, a mid-career introduction business that matches working adults looking to change jobs with companies, and a temp staff business that dispatches personnel for sales, clerical work, and other fields. In addition, to capitalize on rising needs for employment of foreigners, the Personnel Placement & Temp Staff business also conducts a business that provides one-stop foreigner recruiting, training and labor support for companies that want to hire them.

In this business, revenues for the first nine months of 2018 were ¥6,564 million (a 2.3% increase) and gross profit was ¥1,610 million (a 13.5% increase). Results by product in the Personnel Placement & Temp Staff business were as follows.

Table 5. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2017	Nine months ended September 30, 2018	YoY change (%)
Personnel Placement& Temp Staff Business	6,417 [1,419]	6,564 [1,610]	+2.3 +13.5
Store sales temp staff	5,322	5,163	-3.0
Office temp staff	472	468	-0.9
Foreign worker support	230	459	+99.7
Recruiting/introductions	392	472	+20.4

During the first nine months of 2018, revenues increased and gross profit increased substantially compared with the same period of the previous year due to a focus on highly profitable Foreign worker support and Recruiting/introductions.

The business intends to raise matching efficiency and improve profitability through business synergy that links individuals who have improved their skills through the Group’s Career School business to corporate dispatch and introductions.

Venture Incubation

In addition to its divisions, the Group conducts venture incubation. In venture incubation, the Group provides its know-how in organizational and personnel consulting in addition to funding, as well as supporting growing venture companies on an organizational level with the aim of listing their stock. The two main criteria for selection of investees are (1) sympathy with creating a “Motivation Company” and (2) aim to list stock. Gains on sales and other results generated from venture incubation are recorded as equity on the balance sheet.

(2) Overview of Financial Condition for the Nine Months Ended September 30, 2018

Total assets as of September 30, 2018 were ¥26,789 million, an increase of ¥1,019 million from the end of the previous year. This was mainly due to factors including a ¥262 million increase in intangible assets and an ¥823 million increase in other non-current financial assets resulting from acquisition of other non-current financial assets, among other reasons.

Total liabilities as of September 30, 2018 were ¥18,266 million, a decrease of ¥805 million from the end of the previous year. This was mainly due to factors including an ¥810 million decrease in interest-bearing and other financial liabilities.

Total equity as of September 30, 2018 was ¥8,522 million, an increase of ¥1,824 million from the end of the previous year. This was mainly due to recording net income attributable to owners of the parent.

(3) Overview of Cash Flow for the Nine Months Ended September 30, 2018

Cash and cash equivalents (“cash”) as of September 30, 2018 were ¥1,751 million, an increase of ¥97 million during the period.

Cash flow during the nine months ended September 30, 2018 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥2,344 million, an increase of ¥354 million compared with the same period of the previous year. Principal factors included an increase of ¥760 million in income before income taxes to ¥3,014 million.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥684 million, a net decrease of ¥3,099 million compared with the same period of the previous year. Principal factors included a decrease of ¥754 million in payments for acquisition of property, plant and equipment, a decrease of ¥1,000 million in payments for business transfer and a decrease of ¥484 million in payments for acquisition of subsidiary compared with the same period of the previous year.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥1,563 million. In the same period of the previous year, financing activities provided net cash of ¥1,840 million. Principal factors included a ¥3,263 million decrease in proceeds from long-term financial liabilities and a ¥256 million increase in repayment of long-term financial liabilities.

(4) Forecast

There is no change from the forecast of consolidated results for 2018 announced in “Consolidated Financial Statements for the Year Ended December 31, 2017” dated February 14, 2018.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2017	As of September 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	1,654	1,751
Trade and other receivables	4,929	4,583
Inventories	186	315
Other current financial assets	11	31
Current income tax assets	11	—
Other current assets	796	852
Total current assets	7,589	7,534
Non-current assets		
Property, plant and equipment	1,905	1,945
Goodwill	6,701	6,701
Intangible assets	1,534	1,796
Investments in associates	1,164	1,198
Other non-current financial assets	6,017	6,838
Deferred tax assets	506	511
Other non-current assets	350	262
Total non-current assets	18,180	19,254
Total assets	25,770	26,789

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2017	As of September 30, 2018
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	4,023	4,065
Interest-bearing and other financial liabilities	5,007	4,645
Income tax payable	883	644
Provisions	2	17
Other current liabilities	2,212	2,192
Total current liabilities	12,129	11,564
Non-current liabilities		
Interest-bearing and other financial liabilities	5,418	4,970
Provisions	440	438
Deferred tax liabilities	813	1,030
Other non-current liabilities	270	262
Total non-current liabilities	6,942	6,702
Total liabilities	19,072	18,266
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	2,137	1,989
Treasury shares	(1,373)	(1,373)
Retained earnings	3,426	4,950
Other components of equity	1,121	1,595
Total equity attributable to owners of the parent	6,692	8,542
Non-controlling interests	4	(20)
Total equity	6,697	8,522
Total liabilities and equity	25,770	26,789

(2) Condensed Quarterly Consolidated Statements of Operations and Condensed Quarterly Consolidated Statements of Comprehensive Income

Condensed Quarterly Consolidated Statements of Operations

Nine Months Ended September 30

(Millions of yen, rounded down to the nearest million)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Revenues	27,081	29,875
Cost of sales	17,098	18,168
Gross profit	9,982	11,706
Selling, general and administrative expenses	7,675	8,623
Other income	91	6
Other expenses	57	46
Operating income	2,341	3,042
Financial income	4	21
Financial expenses	92	84
Equity in earnings of associates	—	34
Income before income taxes	2,253	3,014
Income taxes	748	1,074
Net income	1,505	1,939
(Attributable to)		
Owners of the parent	1,514	1,971
Non-controlling interests	(9)	(32)
Total	1,505	1,939
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	14.34	18.67
Diluted earnings per share	—	—

Three months Ended September 30

(Millions of yen, rounded down to the nearest million)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Revenues	9,050	9,889
Cost of sales	5,773	6,112
Gross profit	3,276	3,777
Selling, general and administrative expenses	2,548	2,819
Other income	4	0
Other expenses	1	31
Operating income	732	927
Financial income	0	16
Financial expenses	35	35
Equity in earnings of associates	—	7
Income before income taxes	697	915
Income taxes	202	322
Net income	494	593
(Attributable to)		
Owners of the parent	498	597
Non-controlling interests	(4)	(3)
Total	494	593
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	4.72	5.65
Diluted earnings per share	—	—

Condensed Consolidated Statements of Comprehensive Income

Nine Months Ended September 30

(Millions of yen, rounded down to the nearest million)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net income	1,505	1,939
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	918	553
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(0)	1
Total other comprehensive income	918	554
Total comprehensive income	2,423	2,493
(Attributable to)		
Owners of the parent	2,432	2,525
Non-controlling interests	(9)	(32)
Comprehensive income	2,423	2,493

Condensed Consolidated Statements of Comprehensive Income

Three Months Ended September 30

(Millions of yen, rounded down to the nearest million)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Net income	494	593
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(128)	167
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	0	1
Total other comprehensive income	(128)	168
Total comprehensive income	366	762
(Attributable to)		
Owners of the parent	370	766
Non-controlling interests	(4)	(3)
Comprehensive income	366	762

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Nine months ended September 30, 2017

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2017	1,380	2,137	(1,373)	1,952	683	4,780	—	4,780
Net income				1,514	—	1,514	(9)	1,505
Other comprehensive income					918	918	—	918
Total comprehensive income	—	—	—	1,514	918	2,432	(9)	2,423
Dividends from surplus				(464)	—	(464)		(464)
Change due to business combination							16	16
Total transactions with the owners	—	—	—	(464)	—	(464)	16	(448)
September 30, 2017	1,380	2,137	(1,373)	3,002	1,601	6,749	7	6,756

Nine months ended September 30, 2018

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2018	1,380	2,137	(1,373)	3,426	1,121	6,692	4	6,697
Net income				1,971	—	1,971	(32)	1,939
Other comprehensive income					554	554	—	554
Total comprehensive income	—	—	—	1,971	554	2,525	(32)	2,493
Acquisition of treasury stock			(0)		—	(0)		(0)
Changes in ownership interest in subsidiaries		(147)				(147)	7	(140)
Dividends from surplus				(528)	—	(528)		(528)
Transfer from other components of equity to retained earnings				80	(80)	—		—
Total transactions with the owners	—	(147)	(0)	(447)	(80)	(676)	7	(668)
September 30, 2018	1,380	1,989	(1,373)	4,950	1,595	8,542	(20)	8,522

(4) Condensed Quarterly Consolidated Statements of Cash Flow

(Millions of yen, rounded down to the nearest million)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Cash flow from operating activities		
Income before income taxes	2,253	3,014
Depreciation and amortization	468	491
Loss on impairment	3	20
Financial income and financial expenses	87	63
Equity in (earnings) losses of associates	—	(34)
Decrease (increase) in trade and other receivables	(687)	345
Decrease (increase) in inventories	(76)	(129)
Increase (decrease) in trade and other payables	258	4
Other	94	(43)
Subtotal	2,402	3,731
Interest and dividends received	2	8
Interest paid	(81)	(65)
Income tax refund	393	17
Income taxes paid	(725)	(1,346)
Net cash provided by operating activities	1,990	2,344
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(900)	(146)
Payments for acquisition of intangible assets	(335)	(566)
Payments for acquisition of investment securities	(781)	(120)
Proceeds from sale of investment securities	—	267
Payments for business transfer	(1,000)	—
Payments for acquisition of subsidiary	(484)	—
Payments for security deposits and guarantees	(484)	(156)
Proceeds from recovery of security deposits and guarantees	322	58
Payments for fulfillment of asset retirement obligations	(101)	—
Other	(17)	(21)
Net cash provided by (used in) investing activities	(3,783)	(684)
Cash flow from financing activities		
Increase (decrease) in short-term financial liabilities	285	606
Proceeds from long-term financial liabilities	3,863	600
Repayment of long-term financial liabilities	(1,759)	(2,016)
Payments of cash dividends	(465)	(530)
Payments for acquisition of interest in subsidiary from non-controlling interests	—	(140)
Other	(82)	(83)
Net cash provided by (used in) financing activities	1,840	(1,563)
Cash and cash equivalents translation adjustment	(0)	(0)
Net increase (decrease) in cash and cash equivalents	47	97
Cash and cash equivalents at beginning of period	1,082	1,654
Cash and cash equivalents at end of period	1,129	1,751

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Changes in Accounting Policies)

The accounting policies applied by the Group to these condensed quarterly consolidated financial statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year, except for the following.

Income taxes for the nine months ended September 30, 2018 are calculated using the estimated average annual effective tax rate.

As of the three months ended March 31, 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (together, hereinafter "IFRS 15"). In accordance with the adoption of IFRS 15, revenue generated from contracts with customers is recognized based on the following five-step model.

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

The Group identifies the performance obligations based on the contract with the customer for each of the services to be provided and recognizes revenue upon satisfaction of the performance obligation or over a certain period of time according to the degree of progress of satisfaction of the performance obligation. Revenues are reduced for refunds expected in the future.

The adoption of IFRS 15 has no material impact on the Group's business results and financial condition.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Event)

(Capital and Business Alliance with Vorkers Inc.)

At a meeting held on September 20, 2018, the Board of Directors of the Company resolved to enter into a capital and business alliance with Vorkers Inc. through the receipt of a private placement of new shares of Vorkers Inc. and the transfer of its shares from existing shareholders as described below, and the Company entered into such agreement on the same day. The Company acquired the shares of Vorkers Inc. through the receipt of a private placement of new shares of Vorkers Inc. and the transfer of its shares from existing shareholders on October 1, 2018. As a result, Vorkers Inc. will become an equity-method associate of the Company.

1. Purpose of the Capital and Business Alliance

The Company aims to expand Vorkers Recruiting, which is a new service of Vorkers Inc. Vorkers Recruiting is a service that directly matches people who are considering a job search or a change of jobs with companies that are hiring, from among the approximately 2.45 million registered users of Vorkers, a job search information platform with one of Japan's largest sections for online reviews by employees. Through the effective utilization of the Company's customer base, sales know-how and other assets in the marketing and operation of Vorkers Recruiting, it will expedite the startup of the service, thus contributing to improvement in corporate value over the medium to long term and sustainable growth for both companies.

2. Details of the Business Alliance

(1) Establishment of a business structure for Vorkers Recruiting following dispatch of officers from the Company

(2) Execution of sales and delivery of Vorkers Recruiting by the Company on behalf of Vorkers Inc.

3. Details of the Receipt of Share Transfer and Private Placement of New Shares

The Company acquired 20% of the issued and outstanding shares of Vorkers Inc. through the acquisition of its shares from existing shareholders and receipt of a private placement of shares. Details are as follows.

(1) Equity Position before the Transfer	0%
(2) Equity Position after the Transfer	20%
(3) Acquisition Cost of Shares	¥2,250 million

4. Funding and Payment Method

Allocated from borrowings

5. Overview of the Business Alliance Partner

(1) Company Name	Vorkers Inc.
(2) Location	Shibuya, Shibuya-ku, Tokyo
(3) Paid-in Capital after Capital Increase	¥645 million

6. Impact on Business Results

Detailed information on the accounting treatment for this matter has not been disclosed based on the Company's judgement that its impact on the Company's consolidated business results for the fiscal year ending December 31, 2018 will be immaterial.

(Borrowing of Funds)

Based on a resolution of the Board of Directors at a meeting held on September 20, 2018, the Company has borrowed funds as follows.

(1) Purpose of Borrowing	Funds for acquisition of shares of Vorkers Inc.	
(2) Name of Lender	MUFG Bank, Ltd.	Mizuho Bank, Ltd.
(3) Amount Borrowed	¥1,800 million	¥450 million
(4) Borrowing Rate	Base rate plus spread	Base rate plus spread

(5) Borrowing Date	October 1, 2018	October 1, 2018
(6) Repayment Term	March 31, 2022	March 31, 2022
(7) Assets Subject to Lien	None	None