

Consolidated Financial Statements for the Nine Months Ended September 30, 2017 (IFRS)

These financial statements have been prepared for reference only.

November 14, 2017

Link and Motivation Inc.

http://www.lmi.ne.jp

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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled):

Start of distribution of dividends (scheduled):

Supplementary documents for quarterly results:

Quarterly results briefing:

Stock exchange listing: Tokyo, First Section

Code number: 2170

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November 14, 2017

December 25, 2017

No

No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Nine Months Ended September 30, 2017 (January 1, 2017 – September 30, 2017)

(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, 2017	27,081	8.9	2,341	28.1	2,253	29.9	1,505	3.5
Nine months ended September 30, 2016	24,860	—	1,828	—	1,735	—	1,454	—

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehen- sive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Nine months ended September 30, 2017	1,514	4.1	2,423	21.8	14.34	—
Nine months ended September 30, 2016	1,454	—	1,990	—	13.24	—

(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, 2017	23,669	6,756	6,749	28.5
As of December 31, 2016	18,532	4,780	4,780	25.8

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2016	1.25	1.25	1.40	1.40	5.30
2017	1.50	1.50	1.60		
2017 (est.)				1.60	6.20

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

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

(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	36,600	9.8	3,300	33.7	2,100	16.4	2,100	16.4	19.88

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: No
 - (b) Changes in accounting policies other than (a) above: Yes
 - (c) Changes in accounting estimates: Yes
- (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, 2017: 113,068,000; Year ended December 31, 2016: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Nine months ended September 30, 2017: 7,445,700; Year ended December 31, 2016: 7,445,700
 - (c) Average number of shares outstanding (cumulative with earlier quarters):
Nine months ended September 30, 2017: 105,622,300; Nine months ended September 30, 2016: 109,854,096

* **Presentation of Implementation Status of Quarterly Review Procedures**

- These “Consolidated Financial Statements for the Nine Months Ended September 30, 2017” 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.

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1. Qualitative Information Regarding Results for the Nine Months Ended September 30, 2017

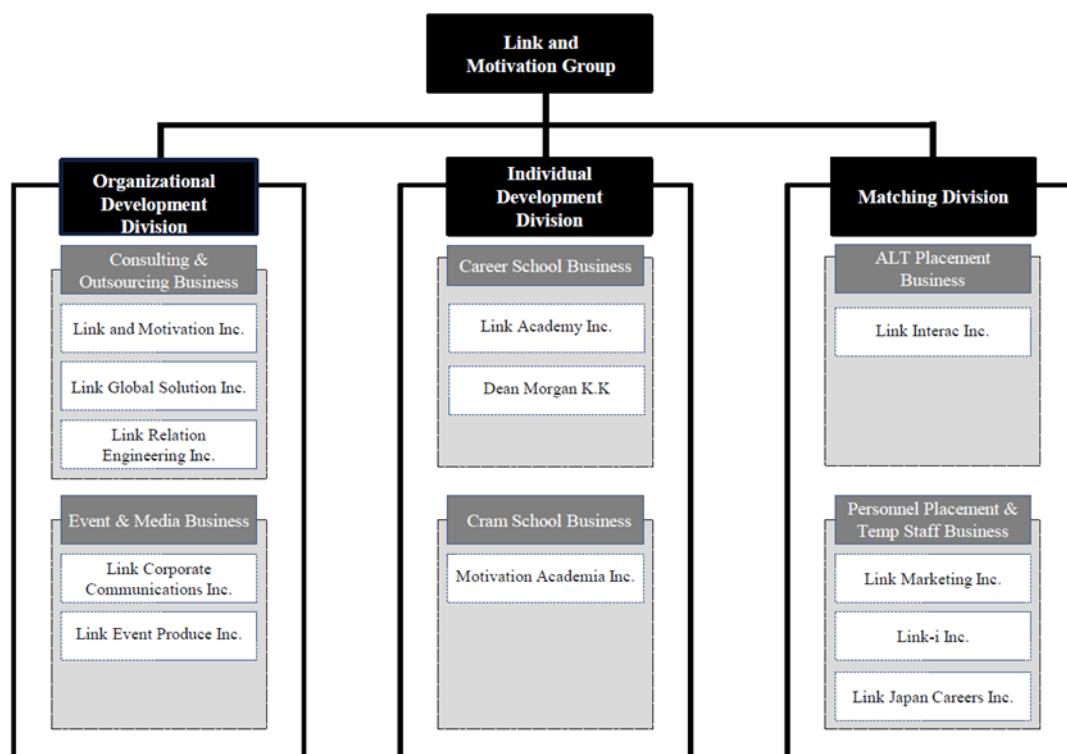
(1) Commentary on Results of Operations

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.” In the Japanese economy during the first nine months of 2017 (January 1, 2017 – September 30, 2017), corporate production 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. The market also grew moderately in industries related to the Group, with increased demand for facilitation of higher labor productivity and personnel recruiting associated with the promotion of work style reform.

In this economic environment, revenues of the Group were ¥27,081 million (an 8.9% increase compared with the same period of the previous year). In addition, each level of income increased steadily due to a reduction of the cost ratio and more efficient use of selling, general and administrative (SG&A) expenses. Gross profit was ¥9,982 million (a 9.7% increase), operating income was ¥2,341 million (a 28.1% increase) and net income attributable to owners of the parent was ¥1,514 million (a 4.1% increase).

The segment and business classifications of the Group are as shown below, and an overview of the first nine months of 2017 by segment and business follows.

Please note that in the first quarter of 2017 the Group changed the business segments presented as its reportable segments, and comparisons and analysis for the first nine months are based on the classifications after the change.



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 2017 increased substantially compared with the same period of the previous year to ¥8,719 million (a 16.7% 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 ¥5,536 million (a 12.0% increase). An overview of operating results by business for the first nine months of 2017 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 in the first nine months of 2017 were ¥6,762 million (a 9.8% increase) and gross profit was ¥4,817 million (a 16.0% increase). Results by product in the Consulting & Outsourcing business were as follows.

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2016	Nine months ended September 30, 2017	YOY change (%)
Consulting & Outsourcing Business	6,156 [4,151]	6,762 [4,817]	9.8 16.0
Package	1,878	2,103	12.0
Consulting	2,706	3,073	13.6
Outsourcing	1,039	789	(24.1)
Member/database services	532	796	49.4

In the first nine months of 2017, revenues increased and gross profit increased substantially compared with the same period of the previous year. Specifically, Package and Consulting sales grew, including training programs to strengthen management and sales capabilities, backed by work style reform, and sales of Member/database services grew substantially, including Motivation Cloud, a highly profitable cumulative-type cloud-based service for organizational improvement with ongoing fees.

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.

	First quarter of 2017			Second quarter of 2017			Third quarter of 2017		
	January	February	March	April	May	June	July	August	September
Number of contact points	128	138	155	168	180	234	257	283	343

The Consulting & Outsourcing business began offering Motivation Cloud in July 2016 as Japan's first cloud-based service for improving engagement between companies and employees. As of the end of July 2017, the cumulative number of contact points that have adopted Motivation Cloud exceeded 250, which was the initial target for 2017, and is steadily rising toward the revised target for 2017 of 380 contact points.

During the first nine months of 2017, there was substantial progress in the number of contact points that have adopted Motivation Cloud. That is because improving employee engagement is a key management theme in achieving increases in labor productivity, which is the true purpose of work style reform, and the Consulting & Outsourcing business has captured rising needs for organizational transformation spurred by this factor. The average monthly fee for Motivation Cloud during the first nine months of 2017 was ¥162 thousand. In addition, on October 13, 2017 the business entered into a business alliance with four companies in the human resources industry in Japan to promote sales of Motivation Cloud. It will proceed with the aim of adoption by 2,000 contact points by the end of 2020.

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 sites and visual media such as videos that explain products and webcasts of shareholders’ meetings.

In this business, revenues in the first nine months of 2017 were ¥3,113 million (a 25.9% increase) and gross profit was ¥958 million (a 6.6% decrease). Results by product in the Event & Media business were as follows.

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2016	Nine months ended September 30, 2017	YOY change (%)
Event & Media Business	2,472 [1,025]	3,113 [958]	25.9 (6.6)
Event production	1,531	2,062	34.7
Media production	941	1,050	11.6

During the first nine months of 2017, Event production sales grew as a result of capturing needs for operation of events derived from the Consulting & Outsourcing business and sales of Media production grew due to an increase in IR-related media production. On the other hand, gross profit declined compared with the same period of the previous year because events are a business with a high cost ratio.

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 the Career School business, segment revenues for the first nine months of 2017 were ¥5,299 million (a 5.8% increase) and segment income increased marginally to ¥1,808 million (a 5.2% increase). An overview of operating results by business for the first nine months of 2017 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 five service brands of “Aviva” personal computer schools, “Daiei” qualification schools, “Aviva Pro” programming schools, and “Rosetta Stone Learning Center” and “Hummingbird” foreign language schools. Since October 14, 2017, the business has been working to raise brand value by operating the “Rosetta Stone Premium Club” foreign language school targeting high-end customers at GINZA SIX, the largest mixed-use facility in the Ginza area, where the Company is located.

In this business, revenues in the first nine months of 2017 were ¥5,036 million (a 2.2% increase) and gross profit was ¥1,759 million (a 2.1% increase). Results by product in the Career School business were as follows.

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2016		Nine months ended September 30, 2017		YOY change (%)
	Results	% of total	Results	% of total	
Career School Business	4,926 [1,722]	—	5,036 [1,759]	—	2.2 2.1
Office	2,466	50.1	2,235	44.4	(9.4)
Pro Series	549	11.1	674	13.4	22.9
Accounting courses	445	9.1	425	8.4	(4.6)
National exam courses	436	8.9	450	8.9	3.2
Civil servant courses	892	18.1	1,000	19.9	12.2
Educational materials/other	137	2.8	101	2.0	(25.7)
English conversation	—	—	148	3.0	—

During the first nine months of 2017, revenues and gross profit both increased slightly compared with the same period of the previous fiscal year as a result of capturing needs for individual career advancement as the employment environment improved due to the promotion of work style reform, among other factors. Specifically, sales of Pro Series, which includes IT human resource training courses, grew substantially from capturing needs for cultivation of IT human resources backed by insufficient IT personnel in Japanese companies.

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. During the first nine months of 2017, the business completed a takeover on July 3 of “SS-1,” an individualized instruction school for students preparing for junior high school entrance exams, which is one of the businesses of Superweb Co., Ltd., to expand its operations. The Group’s Cram School business will utilize its assets in programming education and English conversation education to provide a place for students from elementary school straight through to high school to develop skills that will be of use in society.

In this business, revenues in the first nine months of 2017 were ¥262 million (a 221.3% increase) and gross profit was ¥49 million (compared with a loss of ¥3 million in the same period of the previous year).

During the first nine months of 2017, revenues and gross profit both increased substantially compared with the same period of the previous year due to an increase in the number of classrooms as a result of M&A. 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 2017 were ¥14,169 million (a 7.5% increase) and segment income was ¥3,340 million (a 9.0% increase), both increasing compared with the same period of the previous year. An overview of operating results by business for the first nine months of 2017 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 Ministry of Education, Culture, Sports, Science and Technology’s creation of a “Reform Plan for Cultivating Global Human Resources” looking ahead to the Tokyo Olympics to be held in 2020.

In this business, revenues in the first nine months of 2017 were ¥8,035 million (an 8.3% increase) and gross profit was ¥2,170 million (an 11.7% increase).

During the first nine months of 2017, revenues and gross profit both increased compared with the same period of the previous year as a result of capturing the expansion of English language study in Japanese public education. In addition, the business is strengthening hiring of foreign teachers in anticipation of further growth in demand for ALTs in Japan. This business has only one product.

The business will use the foreign employee recruiting skills it has cultivated to expand its operations. Moreover, it will go beyond the boundaries of the Organizational Development Division and the Individual Development Division as it strives to improve profitability by developing new services beyond ALT placement.

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, Link Japan Careers Inc., which was newly established in October 2016 to capitalize on rising needs for employment of foreigners by providing one-stop foreigner recruiting, training and labor support for companies that want to hire them, started operations during the first nine months.

In this business, revenues in the first nine months of 2017 were ¥6,417 million (an 11.1% increase) and gross profit was ¥1,419 million (a 25.7% increase). Results by product in the Personnel Placement & Temp Staff business were as follows.

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2016	Nine months ended September 30, 2017	YOY change (%)
Personnel Placement & Temp Staff Business	5,775 [1,129]	6,417 [1,419]	11.1 25.7
Store sales temp staff	4,914	5,322	8.3
Office temp staff	473	472	(0.1)
Foreign worker support	—	84	—
Recruiting/introductions	387	537	38.7

During the first nine months of 2017, revenues increased and gross profit increased substantially. Temp staff revenues increased due to capturing corporate needs for procurement of human resources. Recruiting/introductions revenues also grew compared with the same period of the previous year with rising corporate needs for recruitment of new graduates. In Foreign worker support, which started in the first half of 2017, business is steadily expanding due to its

integrated services providing support for foreign human resources from recruiting to reception and acclimation that other companies cannot provide.

In addition, Link Marketing Inc., a Group company involved in the temp staff business, will change its corporate name to Link Staffing Inc. as of January 1, 2018. Until now, Link Marketing has operated a temp staff business centered on the area of store and office sales support, and it will use this name change as an opportunity to expand operations as a comprehensive personnel company.

The business will raise matching efficiency and increase the number of staff placements 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) Commentary on Financial Condition

Total assets as of September 30, 2017 were ¥23,669 million, an increase of ¥5,136 million from the end of the previous year. This was mainly due to factors including an increase in other non-current financial assets of ¥2,187 million due to acquisition of other non-current financial assets and other factors.

Total liabilities were ¥16,913 million, an increase of ¥3,161 million from the end of the previous year. This was mainly due to an increase in interest-bearing and other financial liabilities of ¥2,400 million, among other factors.

Total equity was ¥6,756 million, an increase of ¥1,975 million from the end of the previous year. This was mainly due to an increase in other components of equity resulting from recording net income attributable to owners of the parent and a ¥918 million increase in the fair value of other non-current financial assets.

(3) Analysis of Cash Flow

Cash and cash equivalents (“cash”) as of September 30, 2017 were ¥1,129 million, an increase of ¥47 million during the period.

Cash flow during the first nine months of 2017 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities increased ¥753 million to ¥1,990 million. The principal factors were income from continuing operations before income taxes of ¥2,253 million, an increase in trade and other receivables of ¥639 million and a decrease in income taxes paid of ¥512 million compared with the same period of the previous year.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥3,783 million, an increase in cash used of ¥3,543 million compared with the same period of the previous year. The principal factors were the absence of ¥780 million in proceeds from sale of investment securities on the one hand, and a ¥752 million increase in payments for acquisition of property, plant and equipment and ¥1,000 million in payments for business transfer on the other.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥1,840 million, a net increase of ¥2,549 million compared with the same period of the previous year. The principal factors were a ¥1,516 million increase in short-term financial liabilities, an ¥870 million increase in proceeds from long-term financial liabilities and the absence of ¥1,373 million in payments for purchase of treasury shares, while repayment of long-term financial liabilities increased ¥1,157 million compared with the same period of the previous year.

2. Items Regarding Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

None applicable.

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

(Change in Classification for Recording Expenses)

Certain expenses previously recorded as selling, general and administrative expenses have been changed to a method of recording as cost of sales from the first quarter ended March 31, 2017.

This change is due to a clearer understanding of costs and other items in relation to revenues because it has become possible to calculate cost of sales in more detail with the introduction of a new attendance management system.

Since it is impossible in part to obtain past data corresponding to the data of the new attendance management system and it is impossible in practice to retroactively apply the accounting policy after the change, the accounting policy after the change is applied only from the current fiscal year.

(Change in Estimates of Asset Retirement Obligations)

Estimates of asset retirement obligations for the Company and certain consolidated subsidiaries that were recorded as an obligation to restore a site to its original condition associated with the real estate rental agreement for the head office have changed due to obtaining new information regarding site restoration expenses that were deemed necessary in the past.

Due to this change, operating income and income before income taxes for the first nine months of the fiscal year have each decreased by ¥15 million.

3. Condensed Quarterly Consolidated Financial Statements and Main Notes

(1) Condensed Quarterly Consolidated Balance Sheets

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

	Notes	(IFRS Transition Date) As of January 1, 2016	As of December 31, 2016	As of September 30, 2017
ASSETS				
Current assets				
Cash and cash equivalents	9	997	1,082	1,129
Trade and other receivables	9	3,694	4,001	4,651
Inventories		153	144	224
Other current financial assets		17	11	28
Current income tax assets		56	345	—
Other current assets		687	1,161	693
Total current assets		5,607	6,747	6,728
Non-current assets				
Property, plant and equipment		1,203	1,084	1,998
Goodwill		5,202	5,202	6,192
Intangible assets		542	484	1,422
Other non-current financial assets	9	3,484	4,279	6,467
Deferred tax assets		341	349	489
Other non-current assets		275	384	372
Total non-current assets		11,048	11,785	16,941
Total assets		16,655	18,532	23,669

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

	Notes	(IFRS Transition Date) As of January 1, 2016	As of December 31, 2016	As of September 30, 2017
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Trade and other payables	9	3,630	3,566	4,138
Interest-bearing and other financial liabilities	9	3,732	3,337	4,582
Income tax payable		426	373	483
Provisions		—	35	—
Other current liabilities		1,611	2,354	1,901
Total current liabilities		9,401	9,668	11,104
Non-current liabilities				
Interest-bearing and other financial liabilities	9	2,287	3,438	4,594
Provisions		299	278	443
Deferred tax liabilities		143	199	607
Other non-current liabilities		178	167	163
Total non-current liabilities		2,908	4,084	5,808
Total liabilities		12,309	13,752	16,913
EQUITY				
Equity attributable to owners of the parent				
Share capital	8	1,380	1,380	1,380
Capital surplus		2,137	2,137	2,137
Treasury shares		(0)	(1,373)	(1,373)
Retained earnings		408	1,952	3,002
Other components of equity		418	683	1,601
Total equity attributable to owners of the parent		4,345	4,780	6,749
Non-controlling interests		—	—	7
Total equity		4,345	4,780	6,756
Total liabilities and equity		16,655	18,532	23,669

(2) Condensed Quarterly Consolidated Statements of Operations and Comprehensive Income
Condensed Quarterly Consolidated Statements of Operations
Nine Months Ended September 30

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

	Notes	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Continuous operations			
Revenues		24,860	27,081
Cost of sales		15,760	17,098
Gross profit		9,100	9,982
Selling, general and administrative expenses		7,128	7,675
Other income		106	91
Other expenses		249	57
Operating income		1,828	2,341
Financial income		9	4
Financial expenses		102	92
Income before income taxes		1,735	2,253
Income taxes		324	748
Income from continuing operations		1,411	1,505
Discontinued operations			
Income from discontinued operations	11	43	—
Net income		1,454	1,505
(Attributable to)			
Owners of the parent		1,454	1,514
Non-controlling interests		—	(9)
Total		1,454	1,505
Earnings per share attributable to owners of the parent			(Yen)
Basic earnings per share	12		
Continuing operations		12.85	14.34
Discontinued operations		0.39	—
Total basic earnings per share		13.24	14.34
Diluted earnings per share			
Continuing operations		—	—
Discontinued operations		—	—
Total diluted earnings per share		—	—

Three Months Ended September 30

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

	Notes	Three months ended September 30, 2016	Three months ended September 30, 2017
Continuous operations			
Revenues		8,139	9,050
Cost of sales		5,154	5,773
Gross profit		2,984	3,276
Selling, general and administrative expenses		2,336	2,548
Other income		7	4
Other expenses		180	1
Operating income		475	732
Financial income		4	0
Financial expenses		13	35
Income before income taxes		465	697
Income taxes		(13)	202
Income from continuing operations		479	494
Discontinued operations			
Income from discontinued operations		—	—
Net income		479	494
(Attributable to)			
Owners of the parent		479	498
Non-controlling interests		—	(4)
Total		479	494
Earnings per share attributable to owners of the parent			(Yen)
Basic earnings per share	12		
Continuing operations		4.53	4.72
Discontinued operations		—	—
Total basic earnings per share		4.53	4.72
Diluted earnings per share			
Continuing operations		—	—
Discontinued operations		—	—
Total diluted earnings per share		—	—

Condensed Quarterly Consolidated Statements of Comprehensive Income
Nine Months Ended September 30

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

	Notes	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Net income		1,454	1,505
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		541	918
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(5)	(0)
Total other comprehensive income		535	918
Total comprehensive income		1,990	2,423
(Attributable to)			
Owners of the parent		1,990	2,432
Non-controlling interests		—	(9)
Comprehensive income		1,990	2,423

Three Months Ended September 30

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

	Notes	Three months ended September 30, 2016	Three months ended September 30, 2017
Net income		479	494
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		(203)	(128)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(0)	0
Total other comprehensive income		(203)	(128)
Total comprehensive income		275	366
(Attributable to)			
Owners of the parent		275	370
Non-controlling interests		—	(4)
Comprehensive income		275	366

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Nine months ended September 30, 2016

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

	Notes	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, 2016		1,380	2,137	(0)	408	418	4,345	—	4,345
Net income					1,454	—	1,454	—	1,454
Other comprehensive income						535	535	—	535
Total comprehensive income		—	—	—	1,454	535	1,990	—	1,990
Purchase of treasury shares				(1,373)		—	(1,373)		(1,373)
Dividends from surplus	10				(398)	—	(398)		(398)
Transfer from other components of equity to retained earnings					286	(286)	—		—
Total transactions with the owners		—	—	(1,373)	(112)	(286)	(1,772)	—	(1,772)
September 30, 2016		1,380	2,137	(1,373)	1,750	667	4,563	—	4,563

Nine months ended September 30, 2017

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

	Notes	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	10				(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

(4) Condensed Quarterly Consolidated Statements of Cash Flow

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

	Notes	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Cash flow from operating activities			
Income from continuing operations before income taxes		1,735	2,253
Income from discontinued operations before income taxes	11	67	—
Depreciation and amortization		363	468
Loss on impairment		8	3
Interest and dividends income		(9)	(4)
Interest expense		34	92
Loss (gain) on sale of subsidiary stock		(51)	—
Loss on disposal of non-current assets		30	0
Decrease (increase) in trade and other receivables		(57)	(697)
Decrease (increase) in inventories		(9)	(76)
Increase (decrease) in trade and other payables		46	268
Other		284	96
Subtotal		2,444	2,404
Interest and dividends received		3	2
Interest paid		(27)	(81)
Income tax refund		56	393
Income taxes paid		(1,237)	(725)
Proceeds from cancellation of insurance		(2)	(2)
Net cash provided by operating activities		1,236	1,990
Cash flow from investing activities			
Payments for acquisition of property, plant and equipment		(148)	(900)
Payments for acquisition of intangible assets		(192)	(335)
Payments for acquisition of investment securities		(190)	(781)
Proceeds from sale of investment securities		780	—
Payments for business transfer	13	—	(1,000)
Payments for acquisition of subsidiary stock due to change in the scope of consolidation	13	—	(484)
Payments for sale of subsidiary stock due to change in the scope of consolidation	13	(22)	—
Payments for security deposits and guarantees		(461)	(484)
Proceeds from recovery of security deposits and guarantees		55	322
Payments for fulfillment of asset retirement obligations		(6)	(101)
Other		(53)	(17)
Net cash used in investing activities		(240)	(3,783)
Cash flow from financing activities			
Increase (decrease) in short-term financial liabilities		(1,231)	285
Proceeds from long-term financial liabilities		2,992	3,863
Repayment of long-term financial liabilities		(602)	(1,759)
Payments for purchase of treasury shares		(1,373)	—
Payments of cash dividends		(402)	(465)
Other		(92)	(82)
Net cash provided by (used in) financing activities		(709)	1,840
Cash and cash equivalents translation adjustment		(5)	(0)
Net increase (decrease) in cash and cash equivalents		282	47
Cash and cash equivalents at beginning of year		997	1,082
Cash and cash equivalents at end of the quarter		1,279	1,129

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes Regarding Assumption of Going Concern)

None applicable

(First-Time Adoption)

(1) Transition to Reporting Based on IFRS

The Group has disclosed its quarterly consolidated financial statements in accordance with IFRS from the first quarter ended March 31, 2017. The most recent consolidated financial statements prepared in conformity with generally accepted accounting principles in Japan (Japanese GAAP) are for the fiscal year ended December 31, 2016, and the date of transition to IFRS is January 1, 2016.

Exemption Provisions for Retrospective Application

IFRS 1 requires retrospective application of IFRS by companies adopting IFRS for the first time. However, exceptions are allowed in certain parts, and the Group has applied the exemption provisions to the following.

- The Group has elected to apply IFRS 3 from the IFRS transition date into the future and has not applied it retroactively to business combinations that occurred prior to the IFRS transition date.
- The cumulative foreign currency translation difference on the IFRS transition date related to investment in overseas marketing has been set to zero, and has no effect on subsequent profit and loss on disposal.
- Designation based on IFRS 9 “Financial instruments” for financial instruments recognized before the IFRS transition date is made based on the facts and circumstances existing at the IFRS transition date.

Mandatory Exceptional Provision for Retrospective Application

IFRS 1 prohibits retrospective application of IFRS to “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting” and “classification and measurement of financial assets.” The Group has applied these items from the IFRS transition date onward.

An overview of the effects of adoption of IFRS is shown in the following reconciliation tables. Items that do not affect retained earnings or comprehensive income are included in “Reclassification” in the adjustment table, and items that affect retained earnings and comprehensive income are included in “Recognition and measurement differences.”

(2) Reconciliations of equity as of the IFRS transition date (January 1, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
ASSETS						ASSETS
Current assets						Current assets
Cash and deposits	997			997		Cash and cash equivalents
Notes and accounts receivable	3,724	(30)		3,694	2	Trade and other receivables
Products	75	78		153	3, 18	Inventories
Work in progress	63	(63)				
Raw materials and supplies	37	(14)	(22)			
Prepaid expenses	340	(340)				
Short-term loans receivable	17			17	4	Other current financial assets
Accrued corporate tax refund	56			56		Current income tax assets
Accrued consumption tax	23	(23)				
Deferred tax assets	221	(221)				
Other	323	364		687	5	Other current assets
Allowance for doubtful accounts	(29)	30	(0)			
Total current assets	5,851	(221)	(22)	5,607		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	978		224	1,203	20, 23	Property, plant and equipment
Intangible assets						
Goodwill	7,070		(1,868)	5,202	21	Goodwill
Software	536	6		542		Intangible assets
Other	6	(6)				
Investments and other assets						
Investment securities	1,606	(2,248)	641			
Securities and deposits	1,258	2,198	27	3,484	6, 19	Other non-current financial assets
Claims in bankruptcy	18	221	100	341	1, 24	
Deferred tax assets	10	(10)				Deferred tax assets
Other	190		84	275		Other non-current assets
Allowance for doubtful accounts	(60)	60				
Total fixed assets	11,616	221	(789)	11,048		Total non-current assets
Deferred assets						
Stock issuance expenses	6		(6)			
Total deferred assets	6	—	(6)	—		
Total assets	17,474	—	(819)	16,655		Total assets

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
LIABILITIES						LIABILITIES AND EQUITY
Current liabilities						LIABILITIES
Accounts	322	3,308		3,630	7	Current liabilities
Short-term borrowings	3,008	724		3,732	8	Trade and other payables
						Interest-bearing and other financial liabilities
Long-term debt due within one year	621	(621)				
Accounts payable	1,580	(1,580)				
Lease obligations	102	(102)				
Expenses payable	155	(155)				
Accrued income taxes	426			426		Income tax payable
Accrued consumption taxes	433	(433)				
Advances received	1,727	(1,727)				
Accrued bonuses to employees	194	(194)				
Accrued bonuses to officers	29	(29)				
Other	263	813	534	1,611	9, 22, 25	Other current liabilities
Total current liabilities	8,866	—	534	9,401		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term debt	2,130	156		2,287	11	Interest-bearing and other financial liabilities
Lease obligations	156	(156)				
Deferred tax liability	21		122	143	1, 24	Deferred tax liabilities
Asset retirement obligations	88		210	299	10, 23	Provisions
Other	178			178		Other non-current liabilities
Total long-term liabilities	2,575	—	333	2,908		Total non-current liabilities
Total liabilities	11,441	—	867	12,309		Total liabilities
NET ASSETS						EQUITY
Common stock	1,380			1,380		Share capital
Additional paid-in capital	2,146		(9)	2,137	26	Capital surplus
Retained earnings	2,482		(2,073)	408	28	Retained earnings
Treasury stock	(0)			(0)		Treasury shares
Unrealized gain (loss) on securities	15		403	418	12, 19, 27	Other components of equity
Deferred gain (loss) on hedges	0		(0)			
Foreign currency translation adjustment	7		(7)			
Total net assets	6,032	—	(1,686)	4,345		Total equity
Total liabilities and net assets	17,474	—	(819)	16,655		Total liabilities and equity

(3) Reconciliations of equity as of the end of the third quarter of 2016 (September 30, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
ASSETS						ASSETS
Current assets						Current assets
Cash and deposits	1,279			1,279		Cash and cash equivalents
Notes and accounts receivable	3,787	(18)		3,769	2	Trade and other receivables
Products	76	(76)				
Work in progress	47	97		144	3, 18	Inventories
Raw materials and supplies	40	(21)	(19)			
Short-term loans receivable	419	(419)				
Prepaid expenses	30			30	4	Other current financial assets
Accrued corporate tax refund	607			607		Current income tax assets
Accrued consumption tax	354	(354)				
Deferred tax assets	276	(276)				
Other	189	773		963	5	Other current assets
Allowance for doubtful accounts	(12)	18	(6)			
Total current assets	7,097	(276)	(26)	6,794		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	986		209	1,196	20, 23	Property, plant and equipment
Intangible assets						
Goodwill	6,520		(1,318)	5,202	21	Goodwill
Software	439	54		494		Tangible assets
Other	54	(54)				
Investments and other assets						
Investment securities	1,598	(2,444)	846			Other non-current financial assets
Securities and deposits	1,651	2,535	40	4,227	6, 19	assets
Deferred tax assets	72	276	100	449	1, 24	Deferred tax assets
Claims in bankruptcy	17	(17)				
Other	298	(195)	79	181		Other non-current assets
Allowance for doubtful accounts	(122)	122				
Total fixed assets	11,516	276	(41)	11,751		Total non-current assets
Deferred assets						
Stock issuance expenses	3		(3)			
Total deferred assets	3	—	(3)	—		
Total assets	18,616	—	(70)	18,546		Total assets

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
LIABILITIES						LIABILITIES AND EQUITY
Current liabilities						LIABILITIES
Accounts	315	3,293		3,608	7	Current liabilities
Short-term borrowings	1,700	1,670		3,370	8	Trade and other payables
						Interest-bearing and other financial liabilities
Long-term debt due within one year	1,557	(1,557)				
Accounts payable	1,614	(1,614)				
Lease obligations	112	(112)				
Expenses payable	303	1,870		2,173		
Accrued income taxes	408			408		Income tax payable
Accrued consumption taxes	785	(785)				
Advances received	1,679	(1,679)				
Accrued bonuses to employees	272	(272)				
Accrued bonuses to officers	15	(15)				
Allowance for shareholder benefit program	23			23	10,23	
Other	251	(796)	544		9, 22, 25	Other current liabilities
Total current liabilities	9,040	—	544	9,584		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term debt	3,537	173	(8)	3,701	11	Interest-bearing and other financial liabilities
Lease obligations	173	(173)				
Asset retirement obligations	75		165	241	1, 24	Provisions
Deferred tax liability	69		216	285	10, 23	Deferred tax liabilities
Other	169			169		Other non-current liabilities
Total long-term liabilities	4,024	—	373	4,398		Total non-current liabilities
Total liabilities	13,064	—	918	13,982		Total liabilities
NET ASSETS						EQUITY
Common stock	1,380			1,380		Share capital
Additional paid-in capital	2,146		(9)	2,137	26	Capital surplus
Retained earnings	3,261		(1,510)	1,750	28	Retained earnings
Treasury stock	(1,373)			(1,373)		Treasury shares
Unrealized gain (loss) on securities	136	(5)	536	667	12, 19, 27	Other components of equity
Deferred gain (loss) on hedges	(2)		2			
Foreign currency translation adjustment	2	5	(7)			
Total net assets	5,552	—	(988)	4,563		Total equity
Total liabilities and net assets	18,616	—	(70)	18,546		Total liabilities and equity

(4) Reconciliations of equity as of the end of the previous year (December 31, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
ASSETS						ASSETS
Current assets						Current assets
Cash and deposits	1,082			1,082		Cash and cash equivalents
Notes and accounts receivable	4,010	(8)		4,001	2	Trade and other receivables
Products	70	74		144	3, 18	Inventories
Work in progress	54	(54)				
Raw materials and supplies	40	(19)	(20)			
Prepaid expenses	380	(380)				
Deferred tax assets	206	(206)				
Short-term loans receivable	11			11	4	Other current financial assets
Accrued corporate tax refund	345			345		Current income tax assets
Accrued consumption tax	519	(519)				
Other	261	900		1,161	5	Other current assets
Allowance for doubtful accounts	(8)	8				
Total current assets	6,974	(206)	(20)	6,747		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	896		188	1,084	20, 23	Property, plant and equipment
Intangible assets						
Goodwill	6,336		(1,134)	5,202	21	Goodwill
Software	434	(434)				
Other	50	434		484		Intangible assets
Investments and other assets						
Investments in securities	2,153	(2,715)	562			
Securities and deposits	1,634	2,611	34	4,279	6, 19	Other non-current financial assets
Deferred tax assets	100	206	42	349	1, 24	Deferred tax assets
Claims in bankruptcy	18	(18)				
Other	295		88	384		Other non-current assets
Allowance for doubtful accounts	(122)	122				
Total fixed assets	11,797	206	(218)	11,785		Total non-current assets
Deferred assets						
Stock issuance expenses	1		(1)			
Total deferred assets	1	—	(1)	—		
Total assets	18,773	—	(240)	18,532		Total assets

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
LIABILITIES						LIABILITIES AND EQUITY
Current liabilities						LIABILITIES
Accounts	273	3,292		3,566	7	Current liabilities
Short-term borrowings	1,714	1,622		3,337	8	Trade and other payables
Long-term debt due within one year	1,509	(1,509)				Interest-bearing and other financial liabilities
Accounts payable	1,782	(1,782)				
Lease obligations	112	(112)				
Expenses payable	235	(235)				
Accrued income taxes	373			373		Income taxes payable
Accrued consumption taxes	1,017	(1,017)				
Advances received	1,510	(1,510)				
Asset retirement obligation	35			35	10, 23	Provisions
Accrued bonuses to employees	272	(272)				
Accrued bonuses to officers	29	(29)				
Allowance for shareholder benefit program	26	(26)				
Other	226	1,581	547	2,354	9, 22, 25	Other current liabilities
Total current liabilities	9,120	—	547	9,668		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term debt	3,293	153	(7)	3,438	11	Interest-bearing and other financial liabilities
Lease obligations	153	(153)				
Deferred tax liability	174		25	199	1, 24	Deferred tax liabilities
Asset retirement obligation	70		207	278	10, 23	Provisions
Other	167			167		Other non-current liabilities
Total long-term liabilities	3,858	—	225	4,084		Total non-current liabilities
Total liabilities	12,979	—	772	13,752		Total liabilities
NET ASSETS						EQUITY
Common stock	1,380			1,380		Share capital
Additional paid-in capital	2,146		(9)	2,137	26	Capital surplus
Retained earnings	3,289		(1,336)	1,952	28	Retained earnings
Treasury stock	(1,373)			(1,373)		Treasury shares
Unrealized gain (loss) on securities	345	(1)	339	683	12, 19, 27	Other components of equity
Foreign currency translation adjustments	5	1	(7)			
Total net assets	5,794	—	(1,013)	4,780		Total equity
Total liabilities and net assets	18,773	—	(240)	18,532		Total liabilities and equity

(5) Reconciliations of comprehensive income for the nine months of 2016 (January 1, 2016 – September 30, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	25,336	(176)	(299)	24,860	13, 25	Revenues
Cost of sales	16,143	(91)	(291)	15,760	13, 25	Cost of sales
Gross profit	9,192	(84)	(7)	9,100		Gross profit
Selling, general and administrative expenses	7,722	(71)	(522)	7,128	13	Selling, general and administrative expenses
		106		106	13, 16	Other income
		249		249	13, 17	Other expenses
Operating income	1,470	(156)	514	1,828		Operating income
Non-operating income	24	(21)	7	9	14	Financial income
Non-operating expenses	98	(6)	9	102	13, 15	Financial expenses
Extraordinary income	568	(139)	(429)			
Extraordinary loss	271	(244)	(27)			
Income before income taxes	1,692	(67)	110	1,735		Income before income taxes
Income taxes	513	(24)	(165)	324	13	Income taxes
	1,178	(43)	276	1,411		Income from continuing operations
		43		43	13	Income from discontinued operations
Net income	1,178	—	276	1,454		Net income

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net income	1,178		276	1,454		Net income
Other comprehensive income						Other comprehensive income
Unrealized gain (loss) on securities	121		419	541		Financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustment	(5)			(5)		Exchange differences on translation of foreign operations
Deferred gain (loss) on hedges	(2)		2			
Total other comprehensive income	113	—	421	535		Total other comprehensive income
Comprehensive income (Attributable to)	1,292	—	698	1,990		Total comprehensive income
Owners of the parent	1,292		698	1,990		Owners of the parent
Non-controlling interests	—			—		Non-controlling interests

(6) Reconciliations of comprehensive income for the third quarter of fiscal 2016 (July 1, 2016 – September 30, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	8,237		(98)	8,139	25	Revenues
Cost of sales	5,255		(101)	5,154	25	Cost of sales
Gross profit	2,982	—	2	2,984		Gross profit
Selling, general and administrative expenses	2,513	(15)	(161)	2,336		Selling, general and administrative expenses
		7	7	7	16	Other income
		180	180	180	17	Other expenses
Operating income	468	(158)	164	475		Operating income
Non-operating income	9	(7)	2	4	14	Financial income
Non-operating expenses	15	(2)		13	15	Financial expenses
Extraordinary income	428		(428)			
Extraordinary loss	178	(178)				
Income before income taxes	712	15	(262)	465		Income before income taxes
Income taxes	134	15	(163)	(13)		Income taxes
	578		(98)	479		Income from continuing operations
	—			—		Income from discontinued operations
Net income	578	—	(98)	479		Net income

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net income	578		(98)	479		Net income
Other comprehensive income						Other comprehensive income
Unrealized gain (loss) on securities	(577)		374	(203)		Financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustment	(0)			(0)		Exchange differences on translation of foreign operations
Deferred gain (loss) on hedges	1		(1)			
Total other comprehensive income	(576)	—	372	(203)		Total other comprehensive income
Comprehensive income (Attributable to)	1	—	273	275		Total comprehensive income
Owners of the parent	1		273	275		Owners of the parent
Non-controlling interests	—			—		Non-controlling interests

(7) Reconciliations of comprehensive income for fiscal 2016 (January 1, 2016 – December 31, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	33,917	(176)	(420)	33,321	13, 25	Revenues
Cost of sales	21,642	(91)	(406)	21,144	13, 25	Cost of sales
Gross profit	12,275	(84)	(13)	12,177		Gross profit
Selling, general and administrative expenses	10,350	(40)	(732)	9,577	13	Selling, general and administrative expenses
		113		113	13, 16	Other income
		244		244	13, 17	Other expenses
Operating income	1,924	(174)	718	2,468		Operating income
Non-operating income	30	(28)	10	13	14	Financial income
Non-operating expenses	128	(6)	14	136	13, 15	Financial expenses
Extraordinary income	568	(139)	(429)			
Extraordinary loss	265	(237)	(27)			
Income before income taxes	2,129	(97)	313	2,345		Income before income taxes
Current income taxes	839	(254)		584	13	Income taxes
Deferred income taxes	(63)	198	(136)			
	1,353	(43)	450	1,760		Net income from continuing operations
		43		43	13	Income from discontinued operations
Net income	1,353	—	450	1,804		Net income

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net income	1,353		450	1,804		Net income
Other comprehensive income						Other comprehensive income
Unrealized gain (loss) on securities	330		222	553		Financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustment	(1)			(1)		Exchange differences on translation of foreign operations
Deferred gain (loss) on hedges	(0)		0			
Total other comprehensive income	328	—	222	551		Total other comprehensive income
Comprehensive income (Attributable to)	1,682	—	673	2,355		Total comprehensive income
Owners of the parent	1,682		673	2,355		Owners of the parent
Non-controlling interests	—			—		Non-controlling interests

(8) Notes Regarding Reclassifications

The main details of differences in classification are as follows.

1. Deferred tax assets, which had been presented separately under Japanese GAAP, are all presented in the category of non-current assets under IFRS.
2. Trade accounts receivable, notes receivable and allowance for doubtful accounts in current assets, which had been stated separately under Japanese GAAP, are presented as trade and other receivables under IFRS.
3. Work in progress, products, and raw materials and supplies, which had been stated separately under Japanese GAAP, are presented as inventories under IFRS.
4. Short-term loans receivable, which had been stated separately under Japanese GAAP, are presented as other current financial assets under IFRS.
5. Prepaid expenses and accrued consumption tax, which had been stated separately under Japanese GAAP, are presented as other current assets under IFRS.
6. Investment securities, securities and deposits, claims in bankruptcy, and allowance for doubtful accounts in non-current assets, which had been stated separately under Japanese GAAP, are presented as other non-current financial assets under IFRS.
7. Accounts, accounts payable and advances received, which had been stated separately under Japanese GAAP, are presented as trade and other payables under IFRS.
8. Short-term borrowings, long-term debt due within one year and lease obligations, which had been stated separately under Japanese GAAP, are presented as interest-bearing and other financial liabilities in current liabilities under IFRS.
9. Expenses payable, accrued consumption taxes, accrued bonuses to employees, accrued bonuses to officers and allowance for shareholder benefit program, which had been stated separately under Japanese GAAP, are presented as other current liabilities under IFRS.
10. Asset retirement obligations, which had been stated separately under Japanese GAAP, are stated as provisions under IFRS.
11. Long-term debt and lease obligations, which had been stated separately under Japanese GAAP, are stated as interest-bearing and other financial liabilities in non-current liabilities under IFRS.
12. Unrealized gain on securities and foreign currency translation adjustment, which had been stated separately under Japanese GAAP, are presented as other components of equity under IFRS.
13. Gains and losses on discontinued operations, which had been stated as included in each line item such as net sales and cost of sales under Japanese GAAP, are all collectively stated in income from discontinued operations under IFRS, together with gain on sale of subsidiary stock, which had been stated as included in extraordinary income under Japanese GAAP.
14. Interest income and dividends received, which had been stated separately under Japanese GAAP, are presented as financial income under IFRS.

15. Interest expense, which had been stated separately under Japanese GAAP, is presented as financial expenses under IFRS.

16. Compensation received, which had been stated separately under Japanese GAAP, is presented as other income under IFRS.

17. Impairment loss and loss on disposal of fixed assets, which had been stated separately under Japanese GAAP, are presented as other expenses under IFRS.

(9) Notes Regarding Adjustments to Recognition and Measurement

The main details of recognition and measurement differences are as follows.

18. Adjustment to Inventories

Goods and other items for sales promotion that had been recognized as supplies under Japanese GAAP are not recognized as assets under IFRS because they do not meet the definition of assets. As a result, inventories and retained earnings have changed.

19. Adjustment to Non-Marketable Financial Instruments

Non-marketable financial instruments that had been recorded at the acquisition cost under Japanese GAAP, when classified as financial assets measured at fair value through other comprehensive income (hereafter, "FVTOCI financial instruments") based on IFRS 9, are measured at fair value after initial recognition, and the change in fair value is included in "Financial assets measured at fair value through other comprehensive income" for items not reclassified into net income or loss. As a result, other non-current financial assets, retained earnings and other components of equity have changed.

20. Adjustment to Depreciation

Under Japanese GAAP, the depreciation method adopted for property, plant and equipment (excluding lease assets) was mainly the declining-balance method. However, under IFRS the straight-line method has been adopted. As a result, property, plant and equipment and retained earnings have changed.

21. Adjustment to Goodwill

Under Japanese GAAP, the Group had decided to estimate the period of amortization of goodwill and amortize goodwill over such period. However, under IFRS goodwill is not amortized but, as required due to an impairment test, is recorded as an impairment loss and measured as the acquisition cost less the accumulated impairment loss. As a result, goodwill and retained earnings have changed.

Based on the business plan as of the IFRS transition date, the Company conducted impairment tests on each cash generating unit group, and the recoverable amount, which is discounted cash flow, was less than the carrying amount including goodwill. As a result, impairment losses were recognized for Link Corporate Communications Inc. (¥109 million) and Link Interac Inc. (¥1,758 million).

Recoverable value is measured based on use value. Use value is created by reflecting past experience and external information, and applying a discount to the current value of estimated cash flow based on a 5-year business plan approved by the management. The growth rate (0% to 1%) is determined with reference to the inflation rate in the market to which the cash generating unit belongs, among other factors, and the discount rate is calculated based on the pre-tax weighted average capital cost of the cash generating unit (Link Corporate Communications Inc.: capital cost 10.1%; Link Interac Inc.: capital cost 9.0%).

The impact of these adjustments on the consolidated balance sheets was as follows.

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

	(Transition Date) As of January 1, 2016	As of September 30, 2016	As of December 31, 2016
Adjusted balance as of the transition date	(1,868)	(1,868)	(1,868)
(Japanese GAAP) Reversal of fixed-term amortization	—	550	733
Total	(1,868)	(1,318)	(1,134)

22. Adjustment to Unused Paid Leave

Unused paid leave, which had not been required to be accounted for under Japanese GAAP, is recorded as a liability under IFRS. As a result, other current liabilities and retained earnings have changed.

23. Adjustment to Asset Retirement Obligations

Asset retirement obligations, which had been deducted from security deposits under Japanese GAAP, are recorded in liabilities as provisions based on the results of remeasurement under IFRS. As a result, property, plant and equipment, provisions and retained earnings have changed.

24. Adjustment to Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities have changed due to temporary differences incurred in connection with adjustments including fair value valuation of unlisted capitalized financial instruments, recognition of liability for unused paid leave, changes in the depreciation method for property, plant and equipment, and asset retirement obligations.

25. Adjustment to Revenues

When the Group falls under the designation of a “main contractor” for a transaction, the total amount of consideration received from a customer is presented, and when it falls under the designation of an “agent, etc.,” the net amount after deducting fees and other payments to third parties from the total amount of consideration received from a customer is presented.

In addition, admission fees in the schools business had been recognized as earnings collectively at the time of receipt under Japanese GAAP. However, under IFRS, the amount of the portion that is expected to be returned is estimated and deducted from that portion of revenues. As a result, other current liabilities and revenues have changed.

26. Adjustment to Capital Surplus

“Stock issuance expenses,” which are included in “non-operating expenses” under Japanese GAAP, are deducted from “capital surplus” under IFRS. As a result, capital surplus and retained earnings have changed.

27. Adjustment to Other Components of Equity

The Company selected the exemption provision set forth in IFRS 1 and the balance of cumulative foreign currency translation adjustments related to overseas subsidiaries has been transferred to retained earnings in its entirety on the transition date. As a result, retained earnings and other components of equity have changed.

28. Adjustment to Retained Earnings

The main items of difference in recognition and measurement of retained earnings are as follows.

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

	(Transition Date) As of January 1, 2016	As of September 30, 2016	As of December 31, 2016
Adjustment to inventory	(22)	(19)	(20)
Adjustment to non-marketable financial instruments	46	73	73
Adjustment to depreciation	124	117	103
Adjustment to goodwill	(1,868)	(1,318)	(1,134)
Adjustment to unused paid leave	(532)	(532)	(540)
Adjustment to asset retirement obligations	1	(4)	0
Others	7	1	15
Subtotal	(2,244)	(1,681)	(1,502)
Adjustment due to tax-effect accounting	170	170	165
Total	(2,073)	(1,510)	(1,336)

(10) Adjustment to Cash Flow for the Previous Nine-Month Period (January 1, 2016 – September 30, 2016) and the Previous Fiscal Year (January 1, 2016 – December 31, 2016)

There is no significant difference between the consolidated statement of cash flow based on Japanese GAAP and the consolidated statement of cash flow based on IFRS.

(Significant Subsequent Event)

(Acquisition of the Stock of a2media Corporation)

At a meeting held on October 30, 2017, the Board of Directors of the Company resolved to acquire all shares of stock of a2media Corporation and to make it a subsidiary. As a result, Inbound Tech Inc. and Japan REIT Inc., of which a2media Corporation holds a portion of the stock, will become affiliated companies.

1. Reasons for the Stock Acquisition

The Group will establish a greater competitive advantage in the field of IR support by promoting the evolution of a2media Corporation's know-how in the planning and production of IR tools for individual investors, mainly the shareholder reports and websites that are its specialty, with the addition of the perspective of Motivating Engineering that the Group has developed, and combining it with the annual reports and video solutions that are the specialty of Link Corporate Communications Inc., a Group company involved in IR support. In addition, the Group believes that creating a hybrid between a2media Corporation's organization of 18,000 shareholder monitors (e-Shareholder Research) and Motivation Engineering will enable the development of products and services without peer in the IR domain. As a result of the above, the Company acquired all the shares of stock of a2media Corporation to expand in the field of IR support with the aim of becoming a leading corporate communications support business, starting with this agreement.

2. Content of the Stock Acquisition

The Company acquired 100% of the issued and outstanding shares of a2media Corporation. Accordingly, a2media Corporation became a consolidated subsidiary of the Company. Details are as follows.

(1) Equity Position before the Transfer	0%
(2) Equity Position after the Transfer	100%
(3) Number of Shares Acquired	689 shares
(4) Date of Business Combination	October 31, 2017

3. Funding and Payment Methods

Allocated from the Company's own funds

4. Overview of a2media Corporation

(1) Company Name	a2media Corporation
(2) Location	Nishi-Shinbashi, Minato-ku, Tokyo
(3) Paid-in Capital	¥62 million

5. Impact on Business Results

Detailed information on the accounting treatment for the business combination is not presented because accounting for this stock acquisition has not been completed.

6. Fair Value of Assets Acquired and Liabilities Undertaken as of the Business Combination Date

Not determined at this time.

7. Amount of Goodwill Generated, Etc.

Pending at this time because allocation of acquisition cost has not been completed.