Consolidated Financial Statements for
the Nine Months Ended September 30, 2019

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

November 14, 2019

Link and Motivation Inc.
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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): November 14, 2019
Start of distribution of dividends (scheduled): December 25, 2019
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, 2019 (January 1, 2019 – September 30, 2019)

(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, 2019	28,566	(4.4)	1,936	(36.4)	1,865	(38.1)	1,151	(40.7)
Nine months ended September 30, 2018	29,875	10.3	3,042	30.0	3,014	33.8	1,939	28.8

	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, 2019	1,154	(41.5)	969	(61.1)	10.94	10.91
Nine months ended September 30, 2018	1,971	30.2	2,493	2.9	18.67	—

(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, 2019	41,599	7,212	7,230	17.4
As of December 31, 2018	27,664	7,681	7,696	27.8

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2018	1.70	1.70	1.70	1.70	6.80
2019	1.80	1.80	1.80		
2019 (est.)				1.80	7.20

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

3. Forecast of Consolidated Results for 2019 (January 1, 2019 – December 31, 2019)

(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	38,500	(3.6)	1,880	(50.9)	1,050	(45.3)	1,030	(47.1)	9.75

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 shares)
Nine months ended September 30, 2019: 113,068,000; Year ended December 31, 2018: 113,068,000
(b) Number of treasury shares at the end of the period:
Nine months ended September 30, 2019: 7,935,700; Year ended December 31, 2018: 7,445,757
(c) Average number of shares outstanding (cumulative with earlier quarters):
Nine months ended September 30, 2019: 105,552,043; Nine months ended September 30, 2018: 105,622,300

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

- These “Consolidated Financial Statements for the Nine Months Ended September 30, 2019” 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

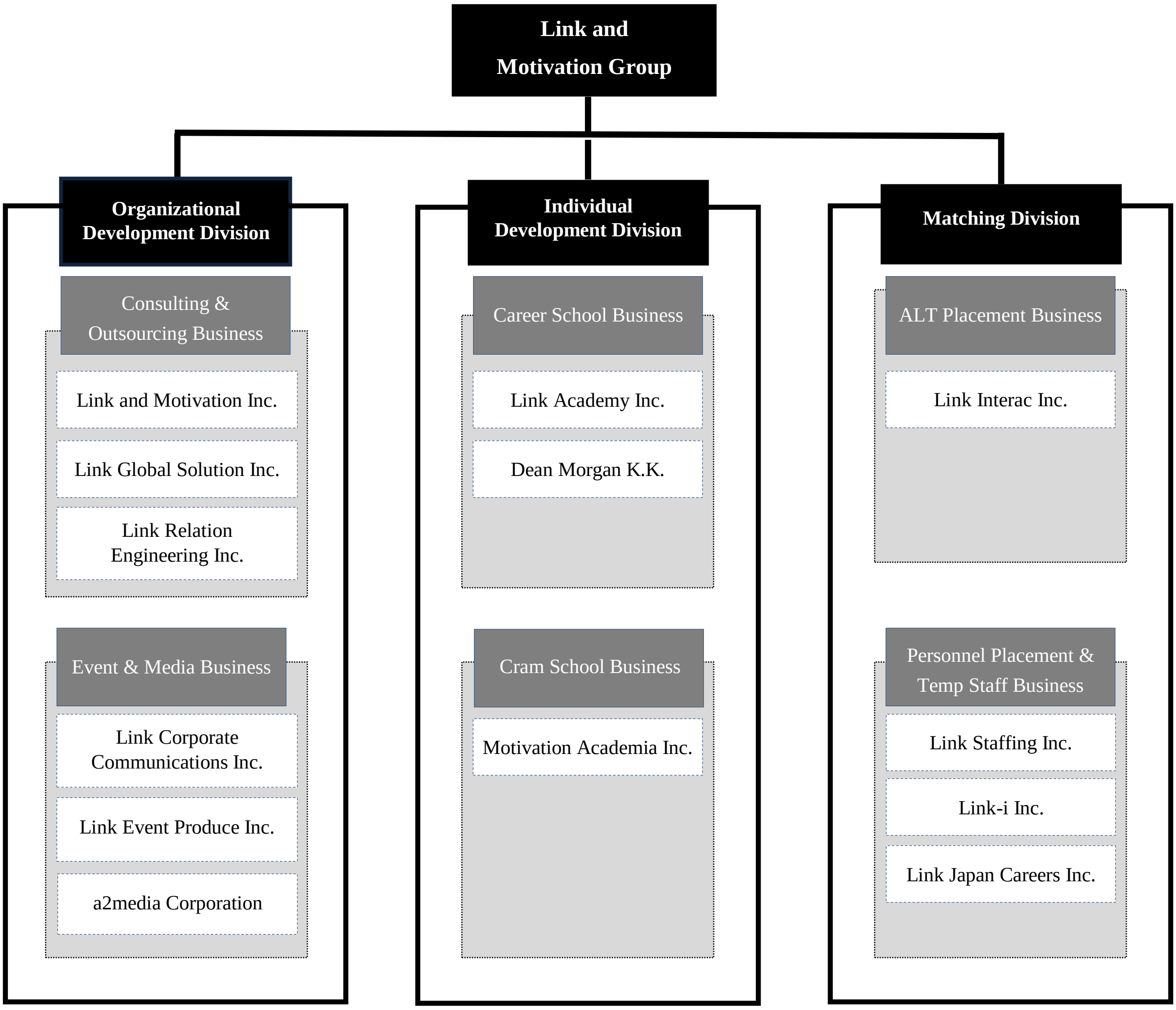
1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations for the Nine Months Ended September 30, 2019

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 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 of the Group were ¥28,566 million (a 4.4% decrease compared with the same period of the previous year), gross profit was ¥10,955 million (a 6.4% decrease), operating income was ¥1,936 million (a 36.4% decrease) and net income attributable to owners of the parent was ¥1,154 million (a 41.5% decrease).

The segment and business classifications of the Group are as shown below, and an overview of the first nine months of 2019 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 and shareholders) using "Motivation Engineering," which is the core technology of the Group.

In this segment, segment revenues for the first nine months of 2019 were ¥8,837 million (a 12.2% decrease) and segment income was ¥5,825 million (a 12.6% decrease), both decreasing substantially compared with the same period of the previous year. An overview of operating results by business for the first nine months of 2019 is as follows.

Consulting & Outsourcing Business

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

In this business, revenues for the first nine months of 2019 were ¥6,628 million (a 12.4% decrease) and gross profit was ¥5,271 million (a 13.5% decrease). 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, 2018	Nine months ended September 30, 2019	YoY change (%)
Consulting & Outsourcing Business	7,563 [6,093]	6,628 [5,271]	-12.4 -13.5
Consulting	1,949	1,762	-9.6
Package	3,611	2,435	-32.6
Member/database services	1,388	1,948	+40.3
Outsourcing	614	480	-21.8

In the first nine months of 2019, revenues from Package and Consulting did not grow due to the impact of investment of employees and other resources in Member/database services in the first half. However, Package and Consulting results for the third quarter alone appear to be on a recovery track in comparison with the first half due to the impact of the increase in employees and other measures.

Revenues grew steadily for the Motivation Cloud series of cloud-based organizational improvement services, which are part of the Member/database services category and are priority services for the Group. Progress in the number of deliveries and monthly fee revenue was as follows.

Table 2. Number of Deliveries and Monthly Fee Revenue for the Motivation Cloud Series at Quarter-End

	2018				2019		
	March	June	September	December	March	June	September
Number of deliveries	435	527	563	662	688	718	749
Monthly fee revenue (¥ thousand)	72,086	92,998	103,410	130,663	140,201	153,064	167,497

The Motivation Cloud series is a group of cloud-based services in the field of HR Tech (human resources combined with technology) for managing employee engagement (mutual understanding, empathy and commitment between companies and employees). We began providing this series of monthly pay-as-you-go products in July 2016. The number of deliveries reached 749 as of the end of September 2019.

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 growth in the number of deliveries of the Motivation Cloud series of services. The Motivation Cloud series is generating stable revenue, with total monthly fee revenue of ¥167,497 thousand for September 2019. The Company expects further growth in revenue from the Motivation Cloud series due to the launch of a new optional service on July 8, 2019.

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 assists 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 2019 were ¥2,661 million (a 15.7% decrease) and gross profit was ¥879 million (a 3.6% 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, 2018	Nine months ended September 30, 2019	YoY change (%)
Event & Media Business	3,158 [911]	2,661 [879]	-15.7 -3.6
Event Production	1,358	832	-38.7
Media Production	1,799	1,828	+1.6

In the first nine months of 2019, the Event & Media business focused on IR-related media with low sensitivity to economic swings and intentionally cut back substantially on event-related orders, which have a high cost ratio, in order to stabilize operations. As a result, revenues decreased substantially and gross profit decreased slightly.

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 solid performance in each business, segment revenues for the first nine months of 2019 were ¥6,001 million (a 0.9% increase) and segment income was ¥2,204 million (a 1.8% decrease). An overview of operating results by business for the first nine months of 2019 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 2019 were ¥5,502 million (a 1.6% increase) and gross profit was ¥2,008 million (a 0.2% 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, 2018	Nine months ended September 30, 2019	YoY change (%)
Career School Business	5,417 [2,004]	5,502 [2,008]	+1.6 +0.2
Office	2,299	2,227	-3.1
Pro Series	739	724	-1.9
Accounting courses	423	452	+6.8
National exam courses	506	529	+4.7
Civil servant courses	1,012	954	-5.8
Education materials/other	133	132	-0.4
English conversation courses	303	482	+58.9

During the first nine months of 2019, revenues and gross profit both increased slightly compared with the same period of the previous year due to steady sales of Accounting, National exam and English conversation courses.

The business will provide greater support for individual career planning by focusing on expanding sales of i-Company Club, a subscription model service launched in November 2019 to support habits of self-improvement.

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 Cram School business will utilize the assets of the Group’s Career School business 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 2019 were ¥502 million (a 5.6% decrease) and gross profit was ¥197 million (a 18.0% decrease).

During the first nine months of 2019, revenues decreased and gross profit decreased substantially compared with the same period of the previous year because new enrollment fell below the forecast beyond expectations in the first half. 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 2019 were ¥14,412 million (a 3.5% decrease) and segment income was ¥3,543 million (a 3.5% decrease), both decreasing compared with the same period of the previous year. An overview of operating results by business for the first nine months of 2019 is as follows.

ALT Placement Business

The ALT Placement business dispatches assistant language teachers (ALTs) of foreign languages 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 predominant number-one share among private companies. Japan’s English education market continues to expand due to the impact of the upcoming Tokyo Olympics and other factors.

In this business, revenues for the first nine months of 2019 were ¥9,274 million (a 4.7% increase) and gross profit was ¥2,500 million (a 3.4% increase).

During the first nine months of 2019, revenues and gross profit both increased compared with the same period of the previous year due to stable growth from precisely capitalizing on the expansion of English education promoted by the Ministry of Education, Culture, Sports, Science and Technology (MEXT). This business has only one product.

The business will work to raise the quality of its 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 2019 were ¥5,715 million (a 12.9% decrease) and gross profit was ¥1,481 million (an 8.0% decrease). 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, 2018	Nine months ended September 30, 2019	YoY change (%)
Personnel Placement& Temp Staff Business	6,564 [1,610]	5,715 [1,481]	-12.9 -8.0
Store sales temp staff	5,163	4,272	-17.3
Office temp staff	468	438	-6.3
Foreign worker support	459	510	+11.0
Recruiting/introductions	472	493	+4.4

During the first nine months of 2018, revenues decreased substantially and gross profit decreased compared with the same period of the previous year due to slow growth by Store sales temp staff, which accounts for the majority of revenues, resulting from a trend toward regular employment.

The business will 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 other components of equity on the balance sheet.

(2) Overview of Financial Condition for the Nine Months Ended September 30, 2019

Total assets as of September 30, 2019 were ¥41,599 million, an increase of ¥13,934 million from the end of the previous year. This was mainly due to factors including a ¥15,970 million increase in property, plant and equipment due to an increase in right-of-use assets and other items in connection with the application of IFRS 16.

Total liabilities as of September 30, 2019 were ¥34,386 million, an increase of ¥14,404 million from the end of the previous year. This was mainly due to factors including a ¥16,213 million increase in interest-bearing and other financial liabilities due to an increase in lease liabilities and other items in connection with the application of IFRS 16.

Total equity as of September 30, 2019 was ¥7,212 million, a decrease of ¥469 million from the end of the previous year. This was mainly due to factors including a ¥640 million decrease in retained earnings at the beginning of the period in connection with the application of IFRS 16.

(3) Overview of Cash Flow for the Nine Months Ended September 30, 2019

Cash and cash equivalents (“cash”) as of September 30, 2019 were ¥1,444 million, a decrease of ¥535 million during the period.

Cash flow during the nine months ended September 30, 2019 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥1,984 million, a decrease of ¥360 million compared with the same period of the previous year. Principal factors included an increase of ¥1,391 million in depreciation and amortization to ¥1,882 million, while income before income taxes decreased ¥1,149 million to ¥1,865 million.

Cash Flow from Investing Activities

Net cash provided by investing activities was ¥210 million. In the same period of the previous year, investing activities used net cash of ¥684 million. Principal factors included a ¥960 million increase in proceeds from sale of investment securities.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥2,729 million, an increase of ¥1,166 million compared with the same period of the previous year. Principal factors included a ¥1,374 million increase in repayment of lease liabilities.

(4) Forecast

For details, please refer to “Revision of Forecast of Consolidated Results for 2019,” announced on August 9, 2019.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Balance Sheets

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

	As of December 31, 2018	As of September 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	1,979	1,444
Trade and other receivables	4,533	4,179
Inventories	278	297
Other current financial assets	9	32
Other current assets	1,015	730
Total current assets	7,817	6,683
Non-current assets		
Property, plant and equipment	1,851	17,821
Goodwill	6,551	6,551
Intangible assets	1,841	2,082
Investments in associates	3,080	3,121
Other non-current financial assets	5,821	4,439
Deferred tax assets	440	648
Other non-current assets	260	251
Total non-current assets	19,847	34,915
Total assets	27,664	41,599

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

	As of December 31, 2018	As of September 30, 2019
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	2,394	2,119
Contract liabilities	1,573	1,708
Interest-bearing and other financial liabilities	4,749	5,676
Income tax payable	1,077	273
Provisions	18	20
Other current liabilities	2,287	1,738
Total current liabilities	12,101	11,537
Non-current liabilities		
Interest-bearing and other financial liabilities	6,458	21,745
Provisions	435	460
Deferred tax liabilities	724	385
Other non-current liabilities	261	257
Total non-current liabilities	7,881	22,849
Total liabilities	19,982	34,386
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	1,989	1,988
Treasury shares	(1,373)	(1,612)
Retained earnings	4,763	5,305
Other components of equity	936	167
Total equity attributable to owners of the parent	7,696	7,230
Non-controlling interests	(15)	(18)
Total equity	7,681	7,212
Total liabilities and equity	27,664	41,599

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

Condensed Consolidated Statements of Operations

Nine Months Ended September 30

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Revenues	29,875	28,566
Cost of sales	18,168	17,610
Gross profit	11,706	10,955
Selling, general and administrative expenses	8,623	8,990
Other income	6	12
Other expenses	46	41
Operating income	3,042	1,936
Financial revenue	21	22
Financial expenses	84	133
Equity in earnings of associates	34	40
Income before income taxes	3,014	1,865
Income taxes	1,074	714
Net income	1,939	1,151
(Attributable to)		
Owners of the parent	1,971	1,154
Non-controlling interests	(32)	(3)
Total	1,939	1,151
	(Yen)	(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	18.67	10.94
Diluted earnings per share	—	10.91

Three months Ended September 30

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

	Three months ended September 30, 2018	Three months ended September 30, 2019
Revenues	9,889	9,431
Cost of sales	6,112	6,018
Gross profit	3,777	3,413
Selling, general and administrative expenses	2,819	2,940
Other income	0	1
Other expenses	31	9
Operating income	927	464
Financial revenue	16	10
Financial expenses	35	50
Equity in earnings of associates	7	13
Income before income taxes	915	438
Income taxes	322	167
Net income	593	271
(Attributable to)		
Owners of the parent	597	271
Non-controlling interests	(3)	0
Total	593	271
	(Yen)	(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	5.65	2.57
Diluted earnings per share	—	2.57

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, 2018	Nine months ended September 30, 2019
Net income	1,939	1,151
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	553	(180)
Total items that will not be reclassified to profit or loss	553	(180)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	1	(0)
Total items that may be reclassified subsequently to profit or loss	1	(0)
Total other comprehensive income	554	(181)
Total comprehensive income	2,493	969
(Attributable to)		
Owners of the parent	2,525	972
Non-controlling interests	(32)	(3)
Comprehensive income	2,493	969

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, 2018	Three months ended September 30, 2019
Net income	593	271
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	167	(87)
Total items that will not be reclassified to profit or loss	167	(87)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	1	0
Total items that may be reclassified subsequently to profit or loss	1	0
Total other comprehensive income	168	(86)
Total comprehensive income	762	184
(Attributable to)		
Owners of the parent	766	184
Non-controlling interests	(3)	0
Comprehensive income	762	184

(3) Condensed Consolidated Statements of Changes in Equity

Nine months ended September 30, 2018

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

	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
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 shares			(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

Nine months ended September 30, 2019

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

	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
January 1, 2019	1,380	1,989	(1,373)	4,763	936	7,696	(15)	7,681
Impact of change in accounting policy				(640)		(640)		(640)
Balance at beginning of period after reflecting change in accounting policy	1,380	1,989	(1,373)	4,122	936	7,055	(15)	7,040
Net income				1,154	—	1,154	(3)	1,151
Other comprehensive income					(181)	(181)	—	(181)
Total comprehensive income	—	—	—	1,154	(181)	972	(3)	969
Acquisition of treasury shares		(1)	(238)			(239)		(239)
Dividends from surplus				(559)	—	(559)		(559)
Transfer from other components of equity to retained earnings				587	(587)	—		—
Total transactions with the owners	—	(1)	(238)	28	(587)	(798)	—	(798)
September 30, 2019	1,380	1,988	(1,612)	5,305	167	7,230	(18)	7,212

(4) Condensed Consolidated Statements of Cash Flow

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Cash flow from operating activities		
Income before income taxes	3,014	1,865
Depreciation and amortization	491	1,882
Loss on impairment	20	12
Financial revenues and financial expenses	63	111
Equity in (earnings) losses of associates	(34)	(40)
Decrease (increase) in trade and other receivables	345	355
Decrease (increase) in inventories	(129)	(19)
Increase (decrease) in trade and other payables	4	(282)
Other	(43)	(168)
Subtotal	3,731	3,715
Interest and dividends received	8	8
Interest paid	(65)	(107)
Income tax refund	17	62
Income taxes paid	(1,346)	(1,695)
Net cash provided by operating activities	2,344	1,984
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(146)	(289)
Payments for acquisition of intangible assets	(566)	(600)
Payments for acquisition of investment securities	(120)	(99)
Proceeds from sale of investment securities	267	1,227
Payments for security deposits and guarantees	(156)	(85)
Proceeds from recovery of security deposits and guarantees	58	113
Other	(21)	(55)
Net cash provided by (used in) investing activities	(684)	210
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	606	(1,400)
Proceeds from long-term financial liabilities	600	2,285
Repayment of long-term financial liabilities	(2,016)	(1,442)
Payments of cash dividends	(530)	(557)
Repayment of lease liabilities	—	(1,374)
Payments for acquisition of interest in subsidiary from non-controlling interests	(140)	—
Payments for acquisition of treasury shares	—	(239)
Other	(83)	—
Net cash provided by (used in) financing activities	(1,563)	(2,729)
Cash and cash equivalents translation adjustment	(0)	(0)
Net increase (decrease) in cash and cash equivalents	97	(535)
Cash and cash equivalents at beginning of period	1,654	1,979
Cash and cash equivalents at end of period	1,751	1,444

(5) Notes to Condensed Consolidated Financial Statements

(Changes in Accounting Policies)

Significant accounting policies applied in these condensed consolidated financial statements are the same as those applied to the consolidated financial statements for the previous fiscal year, except for the following.

Income taxes for the nine months ended September 30, 2019 are calculated using the estimated average annual effective tax rate.

The Group has applied IFRS 16 “Leases” (issued in January 2016) (hereafter, “IFRS 16”) from the three months ended March 31, 2019.

(1) Policies applied from the date of initial application

At the commencement of a contract, the Group determines whether the contract contains a lease. The lease liabilities for lease transactions are measured at the present value of the remaining total lease payments at the commencement date of the lease, discounted using the lessee’s incremental borrowing rate. The cost of right-of-use assets is initially measured at the amount of the initial measurement of lease liabilities, adjusted by any initial direct costs and any lease incentives received plus costs such as restoration obligation required under the contract, and depreciated over the term of the lease on a straight-line basis.

The Group presents right-of-use assets in “property, plant and equipment” and “intangible assets,” and lease liabilities in “interest-bearing and other financial liabilities” on the condensed consolidated statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities in accordance with the recognition exemption provisions in IFRS 16 for short-term leases for which the lease term ends within 12 months and leases in which the underlying asset is of low value. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(2) Impact of application of IFRS 16

As a transitional measure upon the adoption of IFRS 16, the Group applies this standard retrospectively without restating comparative information, with the cumulative effect of initially applying this standard at the date of initial application recognized in the balance of retained earnings at the beginning of the period.

In transitioning to IFRS 16, the Group has chosen the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts contain leases based on IAS 17 “Leases” (hereafter, “IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease.” From the date of application, this assessment is determined based on the provisions of IFRS 16.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application. These lease liabilities have been measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates is 0.44%. Right-of-use assets are initially measured at the initial measurement amount of the lease liability adjusted for the prepaid lease payments and other factors.

For leases that the Group as lessee previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are the carrying amounts of lease assets and lease liabilities, respectively, immediately before that date measured applying IAS 17.

The difference in amount between non-cancellable operating lease contracts applying IAS 17 as of December 31, 2018 and lease liabilities recognized in the condensed consolidated statement of financial position at the date of initial application is mainly due to the difference in estimates for periods exceeding the non-cancellable period of the real estate.

Due to the application of IFRS 16, right-of-use assets increased ¥16,109 million and lease liabilities increased ¥16,934 million at the beginning of the first quarter ended March 31, 2019, compared with the application of the previous accounting standard. In addition, retained earnings decreased ¥640 million.

The Group uses the following practical expedient in the application of IFRS 16.

- For contracts that include an option to extend or cancel a lease, the Group uses ex post facto judgment in calculating the lease term.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Event)

(Acquisition of Additional Shares of OpenWork Inc.)

At a Board of Directors meeting held on November 14, 2019, the Company resolved to acquire additional shares of OpenWork Inc. (former name: Vorkers Inc.), an equity-method associate, and to make it a subsidiary, as detailed below.

1. Purpose of the Share Acquisition

In cooperation with the Company, OpenWork Inc. has been operating OpenWork Recruiting, which matches individuals seeking jobs with companies that have high scores for their organizational conditions on OpenWork, a platform operated by OpenWork Inc. that uses online employee reviews to provide information to job seekers.

The purpose of this share acquisition is to support corporate adaptation to the labor market to help realize a society with many companies with high employee engagement together with OpenWork Inc.

With a rapid increase in the number of registrants for OpenWork, which is operated by OpenWork Inc., and an increase in the number of online reviews of organizational conditions, corporate organizational conditions will become more open. This is expected to accelerate polarization between companies with good organizational conditions, which job seekers will choose to work for, and companies with poor organizational conditions, which job seekers will choose not to work for. As a result, the Company intends to use its Motivation Cloud series and consulting to support companies in their efforts to further raise employee engagement in order to become companies that jobs seekers choose to work for.

The trend described above will overturn the previous ground rules in the labor market, in which companies that conduct large-volume advertising attract applicants, and create new ground rules, in which companies with a high level of employee engagement attract applicants. The Company also intends to support this course of events through OpenWork Recruiting, which OpenWork Inc. operates in cooperation with the Company. The Company will accelerate this trend by making OpenWork Inc. its subsidiary through this additional share acquisition, with the aim of helping to realize a society with many companies with high employee engagement.

2. Overview of the Company Subject to the Share Acquisition (OpenWork Inc.)

(1) Company Name	OpenWork Inc.
(2) Location	Shibuya, Shibuya-ku, Tokyo
(3) Business Description	Operation of information service and fee-based introduction business for job seekers using the Internet and other media
(3) Paid-in Capital	¥645 million

3. Number of Shares to Be Acquired, Acquisition Price and Equity Ownership after the Acquisition

(1) Number of Shares to Be Acquired	163,000 shares
(2) Equity Position before the Acquisition	20%
(3) Equity Position after the Acquisition	56.22%
(3) Business Combination	January 1, 2020

4. Funding and Payment Method

Allocated from funds on hand and borrowings from financial institutions

5. Impact on Business Results

This matter will have no impact on the Company’s consolidated business results for the fiscal year ending December 31, 2019.