Consolidated Financial Statements for the Year Ended December 31, 2019 (IFRS)
These financial statements have been prepared for reference only.

February 13, 2020

Link and Motivation Inc. Stock exchange listing: Tokyo, First Section
http://www.lmi.ne.jp/english Code number: 2170
Representative: Ozasa Yoshihisa, Chairman and Representative Director
Contact: Ohno Shunichi, Director and
General Manager of Group Design Office Phone: +81-3-6779-9494

Ordinary General Meeting of Shareholders (scheduled): March 27, 2020
Start of distribution of dividends (scheduled): March 25, 2020
Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled): March 30, 2020
Supplementary documents for results: No
Results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)

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

	Revenues		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent	
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)
Year ended December 31, 2019	38,191	(4.4)	2,007	(47.5)	1,904	(43.8)	1,090	(43.2)	1,086	(44.2)
Year ended December 31, 2018	39,941	8.3	3,825	13.7	3,387	3.7	1,918	(8.5)	1,945	(7.7)

	Comprehensive income		Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	(¥ million)	(%)	(¥)	(¥)	(%)	(%)	(%)
Year ended December 31, 2019	1,103	(39.8)	10.30	10.28	14.7	5.3	5.3
Year ended December 31, 2018	1,832	(27.7)	18.42	18.36	27.1	12.2	9.6

(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 (%)	Equity per share attributable to owners of the parent (¥)
As of December 31, 2019	44,787	7,033	7,043	15.7	67.13
As of December 31, 2018	27,664	7,681	7,696	27.8	72.87

(3) Cash Flow

	Cash flow from operating activities (¥ million)	Cash flow from investing activities (¥ million)	Cash flow from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Year ended December 31, 2019	3,827	(2,990)	(655)	2,160
Year ended December 31, 2018	3,611	(3,121)	(164)	1,979

2. Dividends

	Dividends per share					Total dividends paid (full year) (¥ million)	Payout ratio (%)	Dividends/ Net assets (Consolidated) (%)
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full year			
2018	1.70	1.70	1.70	1.70	6.80	707	36.9	10.0
2019	1.80	1.80	1.80	1.80	7.20	758	69.6	10.3
2020 (est.)	1.80	1.80	1.80	1.80	7.20		—	

3. Forecast of Consolidated Results for 2020 (January 1, 2020 – December 31, 2020)

(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	41,000	7.4	2,870	42.9	1,570	44.0	1,430	31.7	13.57

Notes

(1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries Associated with a Change in the Scope of Consolidation): No

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

(3) Number of Shares Issued and Outstanding (Common Stock)
(a) Number of shares at the end of the period (including treasury stock)
Year ended December 31, 2019: 113,068,000; Year ended December 31, 2018: 113,068,000
(b) Number of treasury shares at the end of the period:
Year ended December 31, 2019: 8,145,796; Year ended December 31, 2018: 7,445,757
(c) Average number of shares outstanding (cumulative with earlier quarters):
Year ended December 31, 2019: 105,406,071; Year ended December 31, 2018: 105,622,293

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for 2019 (January 1, 2019 – December 31, 2019)

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

	Net sales		Operating income		Ordinary income		Net income	
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)
Year ended December 31, 2019	8,394	(10.5)	977	(61.7)	797	(67.0)	625	(48.2)
Year ended December 31, 2018	9,375	18.1	2,549	52.1	2,416	58.8	1,207	64.5

	Basic earnings per share	Diluted earnings per share
	(¥)	(¥)
Year ended December 31, 2019	5.94	5.93
Year ended December 31, 2018	11.43	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets/ Total assets (%)	Net assets per share (¥)
As of December 31, 2019	26,866	5,171	19.3	49.29
As of December 31, 2018	24,106	6,037	25.0	57.16

(Reference) Net worth: As of December 31, 2019: ¥5,171 million; As of December 31, 2018: ¥6,037 million

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

*** 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

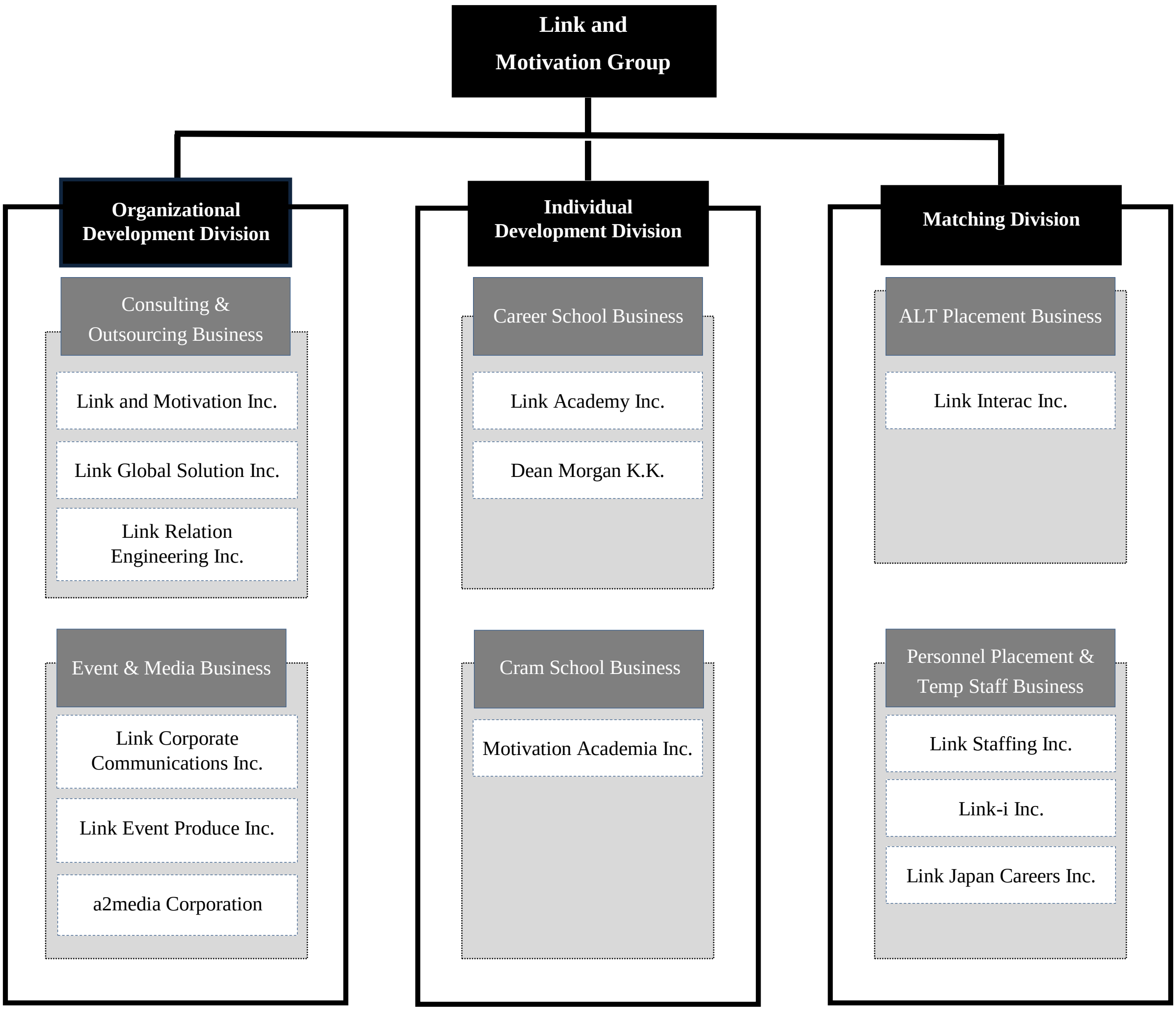
1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations for 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." In industries related to the Group, the market grew moderately as demand increased for facilitation of higher labor productivity and personnel recruiting associated with the promotion of work style reform.

In this economic environment, the Group's revenues were ¥38,191 million (a 4.4% decrease compared with the previous year), gross profit was ¥14,602 million (a 6.7% decrease), operating income was ¥2,007 million (a 47.5% decrease) and net income attributable to owners of the parent was ¥1,086 million (a 44.2% decrease).

The segment and business classifications of the Group are as shown below, and an overview of 2019 by segment and business follows.



<u>Organizational Development Division</u>

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, segment revenues for 2019 were ¥11,729 million (an 11.7% decrease), and segment income was ¥7,696 million (a 12.4% decrease), both decreasing substantially compared with the previous year. An overview of operating results by business for 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, framework and corporate culture.

In this business, revenues in 2019 were ¥8,883 million (an 11.8% decrease) and gross profit was ¥6,977 million (a 13.3% decrease). Results by product in the Consulting & Outsourcing business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2018	Year ended December 31, 2019	YoY change (%)
Consulting & Outsourcing Business	10,071 [8,051]	8,883 [6,977]	(11.8) (13.3)
Package	2,503	2,298	(8.2)
Consulting	4,879	3,302	(32.3)
Member/database services	1,951	2,660	36.4
Outsourcing	736	621	(15.5)

In 2019, as a result of deploying personnel and other resources in the first half to focus on Member/database services, primarily the Motivation Cloud series of cloud-based organizational improvement services, full-year revenues from Consulting decreased substantially compared with the previous year.

Revenues grew steadily for the Motivation Cloud series of cloud-based organizational improvement services, which are part of the Member/database 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	December
Number of deliveries	435	527	563	662	688	718	749	783
Monthly fee revenue (¥ thousand)	72,086	92,998	103,410	130,663	140,201	153,064	167,497	192,961

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 these monthly pay-as-you-go services in July 2016.

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. Total monthly fee revenue for the Motivation Cloud series in December 2019 was ¥192,961 thousand.

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 in 2019 were ¥3,430 million (a 17.6% decrease) and gross profit was ¥1,131 million (a 3.5% decrease). Results by product in the Event & Media business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2018	Year ended December 31, 2019	YoY change (%)
Event & Media Business	4,163 [1,172]	3,430 [1,131]	(17.6) (3.5)
Event production	1,829	1,076	(41.1)
Media production	2,334	2,353	0.8

In 2019, revenues decreased substantially and gross profit decreased slightly compared with the previous year due to an effort to stabilize the business by focusing on IR-related media, which has low sensitivity to economic conditions, rather than Event production, in addition to the impact of weak revenues from Consulting.

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, segment revenues for 2019 were ¥7,838 million (a 0.5% decrease) and segment income was ¥2,822 million (a 5.4% decrease). An overview of operating results by business for 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 in 2019 were ¥7,139 million (a 0.2% increase) and gross profit was ¥2,536 million (a 3.5% decrease). Results by product in the Career School business were as follows.

Table 4. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2018	Year ended December 31, 2019	YoY change (%)
Career School Business	7,122 [2,629]	7,139 [2,536]	0.2 (3.5)
Office	3,030	2,883	(4.9)
Pro Series	984	947	(3.7)
Accounting courses	568	582	2.5
National exam courses	676	693	2.6
Civil servant courses	1,252	1,179	(5.8)
Educational materials/other	169	186	9.8
English conversation	444	667	50.3

During 2019, gross profit decreased slightly compared with the previous year due to investment in new schools, among other factors. As a result of steady performance by Accounting, National exam and English conversation courses, revenues grew steadily, increasing slightly compared with the previous year.

The business will provide greater support for individual career planning by focusing on 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 school for students preparing for junior high school entrance exams. The 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 2019 were ¥704 million (a 7.1% decrease) and gross profit was ¥288 million (an 18.7% decrease).

During 2019, revenues decreased and gross profit decreased substantially compared with the previous year due to the impact of lower-than-expected growth in enrollment 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 2019 were ¥19,487 million (a 3.1% decrease) and segment income was ¥4,845 million (a 2.3% decrease), both decreasing slightly compared with the previous year. An overview of operating results by business for 2019 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign 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 in 2019 were ¥12,617 million (a 3.5% increase) and gross profit was ¥3,421 million (a 2.1% increase).

During 2019, revenues and gross profit both increased compared with 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 referrals and temp staffing of the human resources an organization needs to grow. The main businesses include a new graduate recruiting and referral business that connects university students looking for employment with company orientation meetings and interviews, a mid-career referral 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 in 2019 were ¥7,635 million (a 10.8% decrease) and gross profit was ¥1,938 million (a 7.2% 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]	Year ended December 31, 2018	Year ended December 31, 2019	YoY change (%)
Personnel Placement & Temp Staff Business	8,558 [2,089]	7,635 [1,938]	(10.8) (7.2)
Store sales temp staff	6,742	5,759	(14.6)
Office temp staff	624	573	(8.1)
Foreign worker support	619	687	10.9
Recruiting/introductions	572	616	7.7

During 2019, revenues decreased substantially and gross profit decreased compared with the previous year due to weak growth in revenues from Store sales temp staff and Office temp staff, which account for the majority of sales, caused by the trend toward promoting regular employment.

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

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 support for 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 statement of financial position.

(2) Overview of Financial Position for 2019

Total assets as of December 31, 2019 were ¥44,787 million, an increase of ¥17,122 million from the end of the previous year. This was mainly due to factors including a ¥15,549 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 were ¥37,754 million, an increase of ¥17,771 million from the end of the previous year. This was mainly due to an ¥18,828 million increase in interest-bearing and other financial liabilities as a result of an increase in lease liabilities and other items in connection with the application of IFRS 16, among other factors.

Total equity was ¥7,033 million, a decrease of ¥648 million from the end of the previous year. This was mainly due to factors including a decrease of ¥640 million in retained earnings in connection with the application of IFRS 16.

(3) Overview of Cash Flow for 2019

Cash and cash equivalents ("cash") as of December 31, 2019 were ¥2,160 million, an increase of ¥180 million during the period.

Cash flow during 2019 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥3,827 million, an increase of ¥215 million compared with the previous year. The principal factor decreasing net cash was income before income taxes of ¥1,904 million, a decrease of ¥1,483 million compared with the previous year, while the principal factor increasing net cash was depreciation and amortization totaling ¥2,480 million (compared with ¥751 million in the previous year).

Cash Flow from Investing Activities

Net cash used in investing activities was ¥2,990 million, a decrease in cash used of ¥130 million compared with the previous year. The principal factor increasing net cash was a ¥1,673 million increase in proceeds from sale of investment securities, while the principal factor decreasing net cash was ¥4,075 million in advance payments.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥655 million. In the previous year, net cash used in financing activities was ¥164 million. The principal factor increasing net cash was a ¥2,434 million increase in proceeds from long-term financial liabilities, while the principal factor decreasing net cash was a ¥1,827 million increase in repayment of lease liabilities.

(4) Forecast

The Group will work to increase revenues from taking advantage of companies' rising expectations for HR Tech, a return to form in the Organizational Development Division and steady growth of the Motivation Cloud series. Furthermore, with the addition of OpenWork Inc. as a new consolidated subsidiary, the Group aims for greater synergy with the Organizational Development Division and forecasts increases in revenues and income.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Basic Policy Regarding Selection of Accounting Standards

The Group has applied International Financial Reporting Standards (IFRS) since the first quarter of the year ended December 31, 2017 to improve the international comparability of its financial information in capital markets. The Group formerly applied generally accepted accounting principles in Japan (Japanese GAAP).

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

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

	As of December 31, 2018	As of December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	1,979	2,160
Trade and other receivables	4,533	4,114
Inventories	278	256
Other current financial assets	9	17
Other current assets	1,015	4,905
Total current assets	7,817	11,454
Non-current assets		
Property, plant and equipment	1,851	17,400
Goodwill	6,551	5,927
Intangible assets	1,841	2,095
Investments in associates	3,080	2,788
Other non-current financial assets	5,821	4,033
Deferred tax assets	440	839
Other non-current assets	260	248
Total non-current assets	19,847	33,333
Total assets	27,664	44,787

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

	As of December 31, 2018	As of December 31, 2019
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	2,394	2,397
Contract liabilities	1,573	1,760
Interest-bearing and other financial liabilities	4,749	5,943
Income tax payable	1,077	865
Provisions	18	21
Other current liabilities	2,287	1,843
Total current liabilities	12,101	12,831
Non-current liabilities		
Interest-bearing and other financial liabilities	6,458	24,092
Provisions	435	462
Deferred tax liabilities	724	218
Other non-current liabilities	261	148
Total non-current liabilities	7,881	24,922
Total liabilities	19,982	37,754
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	1,989	1,987
Treasury shares	(1,373)	(1,733)
Retained earnings	4,763	5,440
Other components of equity	936	(31)
Total equity attributable to owners of the parent	7,696	7,043
Non-controlling interests	(15)	(10)
Total equity	7,681	7,033
Total liabilities and equity	27,664	44,787

(2) Consolidated Statements of Operations and Comprehensive Income

Consolidated Statements of Operations

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

	Year ended December 31, 2018	Year ended December 31, 2019
Revenues	39,941	38,191
Cost of sales	24,290	23,589
Gross profit	15,651	14,602
Selling, general and administrative expenses	11,592	11,773
Other income	24	171
Other expenses	258	992
Operating income	3,825	2,007
Financial revenue	29	24
Financial expenses	132	170
Equity in earnings of associates	(335)	43
Income before income taxes	3,387	1,904
Income taxes	1,468	814
Net income	1,918	1,090
(Attributable to)		
Owners of the parent	1,945	1,086
Non-controlling interests	(27)	4
Total	1,918	1,090
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	18.42	10.30
Diluted earnings per share	18.36	10.28

Consolidated Statements of Comprehensive Income

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

	Year ended December 31, 2018	Year ended December 31, 2019
Net income	1,918	1,090
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	(85)	13
Total of items that will not be reclassified to profit or loss	(85)	13
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(0)	(0)
Total of items that may be reclassified to profit or loss	(0)	(0)
Total other comprehensive income	(86)	13
Total comprehensive income	1,832	1,103
(Attributable to)		
Owners of the parent	1,859	1,099
Non-controlling interests	(27)	4
Comprehensive income	1,832	1,103

(3) Consolidated Statements of Changes in Equity

Year ended December 31, 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				1,945	—	1,945	(27)	1,918
Other comprehensive income					(86)	(86)	—	(86)
Total comprehensive income	—	—	—	1,945	(86)	1,859	(27)	1,832
Acquisition of treasury stock			(0)			(0)		(0)
Changes in ownership interest in subsidiaries		(147)				(147)	7	(140)
Dividends from surplus				(707)	—	(707)		(707)
Transfer from other components of equity to retained earnings				98	(98)	—		—
Total transactions with the owners	—	(147)	(0)	(608)	(98)	(855)	7	(848)
December 31, 2018	1,380	1,989	(1,373)	4,763	936	7,696	(15)	7,681

Year ended December 31, 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				1,086	—	1,086	4	1,090
Other comprehensive income					13	13	—	13
Total comprehensive income	—	—	—	1,086	13	1,099	4	1,103
Acquisition of treasury stock		(1)	(360)			(362)		(362)
Dividends from surplus				(749)	—	(749)		(749)
Transfer from other components of equity to retained earnings				980	(980)	—		—
Total transactions with the owners	—	(1)	(360)	231	(980)	(1,111)	—	(1,111)
December 31, 2019	1,380	1,987	(1,733)	5,440	(31)	7,043	(10)	7,033

(4) Consolidated Statements of Cash Flow

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

	Year ended December 31, 2018	Year ended December 31, 2019
Cash flow from operating activities		
Income before income taxes	3,387	1,904
Depreciation and amortization	751	2,480
Loss on impairment	207	959
Financial revenues and financial expenses	102	146
Equity in (earnings) losses of associates	335	(43)
Loss (gain) on sales of investments accounted for using the equity method	—	(160)
Decrease (increase) in trade and other receivables	395	418
Decrease (increase) in inventories	(91)	22
Increase (decrease) in trade and other payables	6	8
Other	(102)	(43)
Subtotal	4,992	5,693
Interest and dividends received	14	9
Interest paid	(108)	(155)
Income tax refund	17	62
Income taxes paid	(1,304)	(1,783)
Net cash provided by operating activities	3,611	3,827
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(275)	(337)
Payments for acquisition of intangible assets	(731)	(772)
Payments for acquisition of investment securities	(135)	(204)
Proceeds from sale of investment securities	293	1,966
Payments for acquisition of investments accounted for using the equity method	(2,252)	—
Proceeds from sales of investments accounted for using the equity method	—	498
Payments for security deposits and guarantees	(163)	(122)
Proceeds from recovery of security deposits and guarantees	155	120
Advance payments	—	(4,075)
Other	(12)	(63)
Net cash used in investing activities	(3,121)	(2,990)
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	506	(1,000)
Proceeds from long-term financial liabilities	2,821	5,255
Repayment of long-term financial liabilities	(2,531)	(1,972)
Payments of cash dividends	(710)	(747)
Repayments of lease liabilities	—	(1,827)
Payments for acquisition of interest in subsidiary from non-controlling interests	(140)	—
Payments for acquisition of treasury shares	—	(362)
Other	(110)	—
Net cash used in financing activities	(164)	(655)
Cash and cash equivalents translation adjustment	(0)	(0)
Net increase (decrease) in cash and cash equivalents	325	180
Cash and cash equivalents at beginning of year	1,654	1,979
Cash and cash equivalents at end of year	1,979	2,160

(5) Notes to Consolidated Financial Statements

(Notes Regarding Assumption of Going Concern)

None Applicable

(Changes in Accounting Policies)

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

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 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 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.

(Changes in Accounting Estimates)

None applicable

(Segment Information, Etc.)

(Segment Information)

1. Overview of Reportable Segments

The reportable segments of the Group are based on available financial information divided among the constituent units of the Group and are subject to periodic analysis by the Board of Directors to determine allocation of management resources and to evaluate operating results.

The Group draws up comprehensive strategies and conducts business activities for the services it handles.

The Group is composed of divisional segments based on the form in which services are provided, with four reportable segments: the “Organizational Development Division,” the “Individual Development Division,” the “Matching Division ALT Placement Business,” and the “Matching Division Personnel Placement & Temp Staff Business.”

2. Revenues, Income or Loss, and Other Items in Reportable Segments

The accounting policies for reportable segments are the same as the Group’s accounting policies presented in Note 3.

Income of reportable segments is based on gross profit on the Consolidated Statement of Operations.

Figures for intersegment transactions are decided using the same method as for sales to outside customers.

Revenues, income or loss, and other items for each reportable segment of the Group are as follows.

Year ended December 31, 2018

(Millions of yen)

	Reportable Segment					Other (Note 1)	Adjustment (Note 2)	Consolidated
	Organizational Development Division	Individual Development Division	Matching Division		Total			
			ALT Placement Business	Personnel Placement & Temp Staff Business				
Segment revenues								
Revenue to outside customers	12,449	7,851	12,072	7,538	39,911	30	—	39,941
Intersegment revenues and transfers	828	28	118	1,020	1,996	91	(2,087)	—
Total	13,277	7,879	12,191	8,558	41,907	121	(2,087)	39,941
Segment income	8,786	2,983	3,352	2,089	17,211	—	(1,560)	15,651
Selling, general and administrative expenses								11,592
Other revenue/expenses (net)								(233)
Financial revenue/expenses (net)								(102)
Equity in earnings of associates								(335)
Income before income taxes								3,387
Other items								
Depreciation	400	245	33	70	750	0	—	751
Impairment loss	16	179	—	11	207	—	—	207

Notes: 1. The Other segment consists of the restaurant business and other operations not included in the other reportable segments.

2. Adjustment is the elimination of intersegment transactions.

Year ended December 31, 2019

(Millions of yen)

	Reportable Segment					Other (Note 1)	Adjustment (Note 2)	Consolidated
			Matching Division					
	Organizational Development Division	Individual Development Division	ALT Placement Business	Personnel Placement & Temp Staff Business	Total			
Segment revenues								
Revenue to outside customers	11,288	7,824	12,472	6,575	38,160	30	—	38,191
Intersegment revenues and transfers	441	14	144	1,060	1,661	65	(1,726)	—
Total	11,729	7,838	12,617	7,635	39,822	95	(1,726)	38,191
Segment income	7,696	2,822	3,421	1,938	15,878	(15)	(1,261)	14,602
Selling, general and administrative expenses								11,773
Other revenue/expenses (net)								(820)
Financial revenue/expenses (net)								(146)
Equity in earnings of associates								43
Income before income taxes								1,904
Other items								
Depreciation	1,585	719	57	116	2,479	0	—	2,480
Impairment loss	54	802	—	102	959	—	—	959

Notes: 1. The Other segment consists of the restaurant business and other operations not included in the other reportable segments.

2. Adjustment is the elimination of intersegment transactions.

(Per Share Information)

1. Basic earnings per share and diluted earnings per share

	Year ended December 31, 2018	Year ended December 31, 2019
Basic earnings per share (Yen)	18.42	10.30
Diluted earnings per share (Yen)	18.36	10.28

2. Basis for calculating basic earnings per share and diluted earnings per share

	Year ended December 31, 2018	Year ended December 31, 2019
Profit used to calculate basic and diluted earnings per share		
Net income attributable to owners of the parent (Millions of yen)	1,945	1,086
Amount not attributable to ordinary shareholders of the parent (Millions of yen)	—	—
Profit used to calculated basic earnings per share (Millions of yen)	1,945	1,086
Profit adjustment amount		
Adjustment for share options to be issued by associates (Millions of yen)	(6)	(2)
Profit used to calculated diluted earnings per share (Millions of yen)	1,939	1,084
Weighted average number of ordinary shares used to calculate basic and diluted earnings per share (Shares)		
Weighted average number of ordinary shares used to calculate basic earnings per share (Shares)	105,622,293	105,406,071
Effect of dilutive shares: stock options	—	—
Weighted average number of ordinary shares used to calculate diluted earnings per share (Shares)	105,622,293	105,406,071

(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, and entered into a share transfer agreement on the same date. Pursuant to said agreement, the Company paid the share transfer price on December 30, 2019, and accepted the share transfer and made OpenWork Inc. a consolidated subsidiary on January 1, 2020. The amount of the share transfer price is included in “Other current assets” on the Consolidated Balance Sheets.

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
(4) Paid-in Capital	¥645 million

3. Acquisition Cost of Company Acquired and Breakdown

Consideration for Acquisition (Cash)	¥4,075 million
Acquisition Cost	¥4,075 million

4. Funding and Payment Method

Allocated from funds on hand and borrowings from financial institutions

5. Impact on Business Results

This matter had no impact on the Company’s consolidated business results for the fiscal year ended December 31, 2019. In addition, because accounting treatment of this share acquisition has not been completed, detailed information on accounting treatment of business combination is not presented.

6. Fair Value of Assets Acquired and Liabilities Assumed at the Date of Business Combination

Not determined at this time.

7. Amount of Goodwill Generated, Etc.

Because allocation of acquisition cost has not been completed, undetermined at this time.