

Consolidated Financial Statements for the Nine Months Ended September 30, 2022 (IFRS)

These financial statements have been prepared for reference only.

November 11, 2022

Link and Motivation Inc.

Code number: 2170

Representative: Ozasa Yoshihisa, Chairman and Representative Director

Contact: Yokoyama Hiroaki, Corporate Officer and

Manager of System Design Office

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, Prime Market

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November 11, 2022

December 23, 2022

No

No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Nine Months Ended September 30, 2022

(January 1, 2022 – September 30, 2022)

(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, 2022	24,399	0.3	3,143	48.6	3,034	53.2	1,877	46.3
Nine months ended September 30, 2021	24,338	—	2,115	—	1,980	—	1,283	50.9

	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, 2022	1,745	47.2	1,930	56.9	15.64	15.64
Nine months ended September 30, 2021	1,185	53.3	1,230	—	11.30	11.30

Note: As of the fiscal year ended December 31, 2021, the domestic temp staff business of Link Agent Inc. (formerly Link Staffing Inc.) has been classified as discontinued operations. As a result, profits from discontinued operations are presented separately from continuing operations in the condensed consolidated statements of operations. Accordingly, revenues, operating income and income before taxes present the amounts for continuing operations. Because amounts for the nine months ended September 30, 2021 have been restated in the same manner for presentation, rates of increase or decrease from the same period of the previous fiscal year are not presented for these items.

(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, 2022	27,494	9,983	8,695	31.6
As of December 31, 2021	30,062	8,648	7,493	24.9

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2021	1.80	1.80	1.90	1.90	7.40
2022	1.90	1.90	1.90		
2022 (est.)				2.00	7.70

Note: Revisions since the most recently announced dividend forecast: Yes

3. Forecast of Consolidated Results for 2022 (January 1, 2022 – December 31, 2022)

(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	35,000	7.2	4,000	93.6	2,200	115.6	2,050	123.1	19.48

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

Notes

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries Due to Change in Scope of Consolidation): 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: No
 - (c) Changes in accounting estimates: No
- (3) Number of Shares Issued and Outstanding (Common Stock)
 - (a) Number of shares at the end of the period (including treasury stock)
Nine months ended September 30, 2022: 113,068,000; Year ended December 31, 2021: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Nine months ended September 30, 2022: 1,506,443; Year ended December 31, 2021: 1,506,443
 - (c) Average number of shares outstanding (cumulative with earlier quarters):
Nine months ended September 30, 2022: 111,561,557; Nine months ended September 31, 2021: 104,922,204

*** 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.

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1. Overview of Results of Operations and Other Information

Forward-looking statements in the following text are based on judgments as of September 30, 2022, the last day of the consolidated accounting period under review. Because the Link and Motivation Group (the “Group”) transferred the domestic temp staff business operated by its subsidiary Link Agent Inc. (formerly Link Staffing Inc.) to iDA K.K. as of January 1, 2022, these operations are classified as discontinued. Therefore, the amount from continuing operations is shown for revenues, gross profit and operating income, and the total from continuing and discontinued operations is shown for net income attributable to owners of the parent. In addition, for comparisons with the same period of the previous year, figures for the same period of the previous year have been restated according to the classification after the transfer.

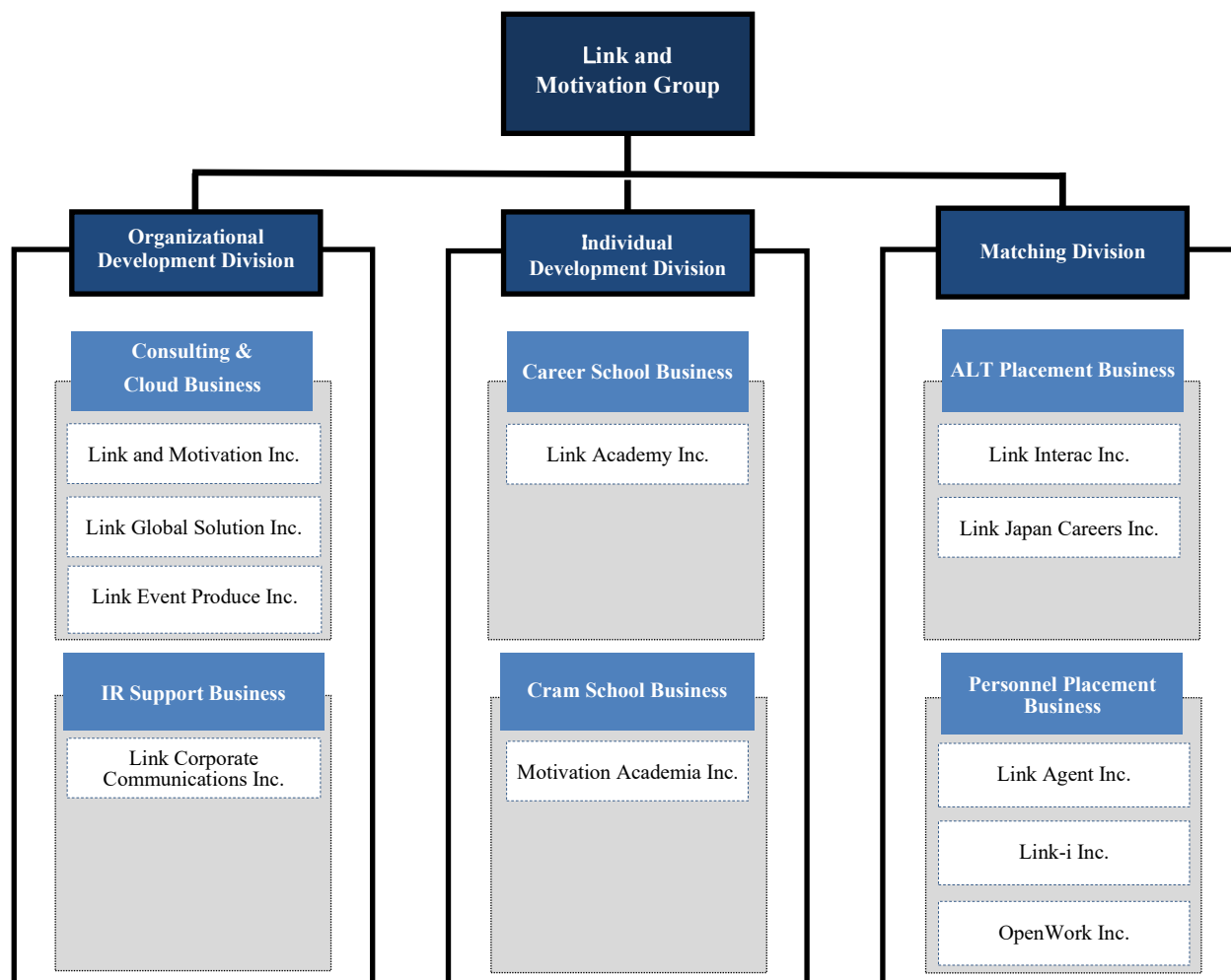
(1) Overview of Results of Operations for the Nine Months Ended September 30, 2022

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.” During the nine months ended September 30, 2022 (the “first nine months of 2022”), the Japanese economy continued on a gradual recovery track amid progress in shifting to a new stage of coexistence with COVID-19. However, the economic outlook remains unclear due to the worsening situation in Ukraine and the rapid depreciation on the yen, among other factors. Under these conditions, the Group perceives the importance for companies to secure and develop human resources capable of dealing with change—specifically, the rising needs for improving employee engagement (mutual understanding, empathy and commitment between companies and employees) and for enhancing the skills of individuals due to Digital Transformation (“DX”).

In this economic environment, the Group’s revenues for the first nine months of 2022 were ¥24,399 million (a 0.3% increase compared with the same period of the previous year), gross profit was ¥12,070 million (a 4.4% increase), operating income was ¥3,143 million (a 48.6% increase) and net income attributable to owners of the parent was ¥1,745 million (a 47.2% increase).

The segment and business classifications of the Group are as shown below, and an overview of the first nine months of 2022 by segment and business follows.

As of the first quarter of 2022, business classifications and business names have changed. Figures for the same period of the previous year have been restated for purposes of comparison.



Note: Link Staffing Inc. changed its corporate name to Link Agent Inc. on April 1, 2022.

Organizational Development Division

The Organizational Development Division defines companies that use employee motivation as the engine of corporate growth as “Motivation Companies,” and provides support for the creation of many such “Motivation Companies.” In concrete terms, it offers corporate customers services that provide support for increasing engagement 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 the first nine months of 2022 were ¥8,917 million (a 10.3% increase), and segment income was ¥6,128 million (a 7.2% increase). An overview of operating results by business for the first nine months of 2022 is as follows.

Consulting & Cloud Business

To turn corporations into “Motivation Companies,” the Consulting & Cloud business diagnoses employee engagement based on its original diagnostic framework and offers one-stop solutions for innovations related to organizations and personnel, including hiring, training, systems and culture. The business is also rolling out the Motivation Cloud series of cloud-based services that allow customer companies to manage employee engagement themselves.

In this business, revenues for the first nine months of 2022 were ¥7,729 million (a 12.6% increase) and gross profit was ¥5,553 million (a 7.1% increase). Results by product in the Consulting & Cloud business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2021	Nine months ended September 30, 2022	YoY change (%)
Consulting & Cloud Business	6,866 [5,185]	7,729 [5,553]	12.6 7.1
Consulting	4,746	5,125	8.0
Cloud	2,120	2,603	22.8

In the first nine months of 2022, revenues increased substantially and gross profit increased compared with the same period of the previous fiscal year as both the Consulting business and the Cloud business steadily captured the needs of major companies for improving employee engagement. Today, with greater demands for employee productivity, needs for improving employee engagement and developing human resources are rising. In addition, attention is increasingly being given to the practice of human capital management and related information disclosure due to factors including the May 2022 publication by the Ministry of Economy, Trade and Industry of the Ito Review 2.0 on Human Capital, which refers to the practice of human capital management, and the August 2022 publication by the Cabinet Office of Guidelines for Visualizing Human Capital. The Group, which has supported the organizational transformation of numerous companies since its establishment in 2000, is taking advantage of the major opportunity presented by these needs and the changing external environment. The business will continue to promote introduction of its products, particularly at major companies, to achieve increased sales per customer and further growth.

Monthly fee revenue increased substantially compared with the previous year for the Motivation Cloud series of products, which are part of the Cloud category and are priority services for the Group. The number of deliveries and monthly fee revenue were as follows.

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

	2021				2022		
	March	June	September	December	March	June	September
Number of deliveries	747	743	772	738	745	768	820
Monthly fee revenue (¥ thousand)	206,485	218,928	235,859	240,545	256,155	284,692	306,934

Since its founding in 2000, Link and Motivation has not only diagnosed the engagement status of companies and employees but has also supported their transformation. The Motivation Cloud series is a group of cloud-based services in the field of HR Tech (human resources combined with technology) for improving employee engagement. The Company

migrated the organization diagnosis service it has offered since its founding to the cloud and started providing the Motivation Cloud service in July 2016. The service is currently ranked number one in share of sales by vendor in the employee engagement market for the fifth consecutive year (fiscal 2017 to fiscal 2021 forecast) in *ITR Market View: Human Resources Management Market 2022*, a market research report published by ITR Corporation.

The Group has forecast ¥320,000 thousand in fee revenues from the Motivation Cloud series for the month of December 2022 (a year-on-year increase of 33.0%). During the first nine months of 2022, the business continued to promote the introduction of this product at major companies, and monthly fee revenue for September 2022 was ¥306,934 thousand, making steady progress toward the forecast.

In addition to ramping up introductions at major companies, where there is still substantial room for development, the business will promote introductions at Japanese subsidiaries of global corporations and local governments. In July 2022, the business launched Stretch Cloud, which is a cloud-based version of a human resource development service that already has a track record. By utilizing its knowhow from Motivation Cloud to support human resource development that contributes to business growth, the business plans to expand in the human resource development market, which exceeds ¥500 billion yen. Implementation of these growth strategies will accelerate further growth and drive the employee engagement market.

IR Support Business

The IR Support business provides one-stop support for corporate branding through various media and events centered on the field of investor relations for the “creation of Motivation Companies” at corporations. In addition to printed media such as integrated reports for shareholders and investors, web-based media such as investor relations (IR) sites, and visual media such as videos that explain products and webcasts of shareholders’ meetings, the business creates physical and virtual forums for shareholders’ meetings and other events.

In this business, revenues for the first nine months of 2022 were ¥1,357 million (a 4.3% decrease) and gross profit was ¥656 million (a 1.0% increase). This business has only one product.

In the first nine months of 2022, revenues decreased compared with the same period of the previous year as the greater complexity and difficulty of non-financial information disclosure led to delays in the publication of integrated reports. On the other hand, gross profit increased slightly compared with the same period of the previous year due to efforts to improve the gross profit margin of video production.

Going forward, the business will ramp up its response to needs for disclosure of information on non-financial capital, particularly human capital information, and generate synergies with the Consulting & Cloud business by disclosing the results of its diagnosis and transformation initiatives.

Individual Development Division

The Individual Development Division supports the creation of “i-Companies,” which it defines as individuals who independently and autonomously develop their own careers and lives. Specifically, it applies “Motivation Engineering,” which is the core technology of the Group, to businesses in areas including career schools and cram schools, to provide one-stop services to customers from elementary school students to working adults. These services range from helping to set goals to understanding individual issues and formulating and implementing study plans.

In this segment, segment revenues for the first nine months of 2022 were ¥5,360 million (a 5.3% decrease) and segment income was ¥2,180 million (a 0.3% decrease). An overview of operating results by business for the first nine months of 2022 is as follows.

Career School Business

The Career School 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, and “Rosetta Stone Learning Center,” “Rosetta Stone Premium Club” and “Hummingbird” foreign language schools. Previously, the business mainly conducted classroom lectures, but currently provides support of continuing learning by offering both in-school and online services.

In this business, revenues for the first nine months of 2022 were ¥4,857 million (a 6.7% decrease) and gross profit was ¥1,961 million (a 0.9% decrease). Results by product in the Career School business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Nine months ended September 30, 2021	Nine months ended September 30, 2022	YoY change (%)
Career School Business	5,206 [1,978]	4,857 [1,961]	(6.7) (0.9)
IT	2,887	2,699	(6.5)
Qualifications	1,856	1,765	(4.9)
English conversation	462	392	(15.1)

In the first nine months of 2022, the impact of COVID-19 on B2C services persisted, and revenues decreased compared with the same period of the previous year. On the other hand, revenue from DX support for individuals at companies (a B2B service), which has a high profit margin, grew a substantial 35.8%, and gross profit decreased slightly compared with the same period of the previous year.

Lifestyles have changed significantly due to COVID-19, and learning needs have shifted from in-person to online. As its policy going forward, the business intends to increase value for its customers by porting all courses and support for its B2C services online in response to these changing needs. It also intends to reduce fixed costs and improve business efficiency by reducing the number of its schools. Amid rapidly expanding corporate needs for DX and re-skilling, the business will achieve further growth in its DX support for individuals at companies (a B2B service) by utilizing the customer assets cultivated by the Organizational Development Division and the Matching Division, in addition to the IT skill support know-how it has cultivated.

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 utilizes 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. Like the Career School business, it now offers both in-school and online services in response to lifestyle changes caused by the COVID-19 pandemic.

In this business, revenues for the first nine months of 2022 were ¥502 million (a 9.4% increase) and gross profit was ¥218 million (a 4.4% increase). This business has only one product.

Both revenues and gross profit increased in the first nine months of 2022 due to recovery in the number of enrollees.

In addition to continuing to increase the number of new enrollees and provide stable services by further improving the quality of its online classes and one-on-one meetings, this business aims to achieve one-stop services for students from elementary to high school that conventional cram schools cannot provide.

Matching Division

The Matching Division provides opportunities to connect organizations and individuals under the concept of “engagement matching.” In concrete terms, it applies “Motivation Engineering,” the core technology of the Group, to the placement of non-Japanese assistant language teachers (ALTs) of foreign languages to schools and human resources to other businesses. It creates matches with a high retention rate by going beyond the skill requirements of companies and local governments for matching with the characteristics of each individual based on the Group’s proprietary data.

In this segment, segment revenues for the first nine months of 2022 were ¥10,783 million (a 3.3% decrease) and segment income was ¥4,341 million (a 3.9% increase). An overview of operating results by business for the first nine months of 2022 is as follows.

ALT Placement Business

The ALT Placement business dispatches non-Japanese 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. The business also provides one-stop foreigner recruiting, training and labor support to companies seeking to hire foreigners.

In this business, revenues for the first nine months of 2022 were ¥8,901 million (a 7.7% decrease) and gross profit was ¥2,494 million (a 7.8% decrease). This business has only one product.

In the first nine months of 2022, due to price adjustments by the business as a result of the expansion of social insurance coverage that will take effect in October 2022, some local governments withdrew their bids because the price exceeded their expectations. As a result, both revenues and gross profit decreased compared with the same period of the previous year.

On the other hand, there was a steady increase in the number of schools using "Teachers Cloud," a cloud-based service launched in June 2021 to improve the efficiency of teachers' preparation for English classes, their English ability and their teaching skills. As of September 30, 2022, 5,500 schools were using the product, and the business plans to provide it to 14,000 schools, or about 45% of all public elementary, junior high or high schools in Japan, by 2024. The Group will continue to roll out Teachers Cloud as a part of classroom infrastructure and expand the market share of the ALT Placement business.

Personnel Placement Business

The Personnel Placement business provides the human resources an organization needs to grow in the form of a referral service for human resources. Mainly, it conducts new graduate recruiting and referrals that connect university students looking for employment with company orientation meetings and interviews, and mid-career referrals that match working adults looking to change jobs with companies.

In this business, revenues for the first nine months of 2022 were ¥1,894 million (a 24.0% increase) and gross profit was ¥1,859 million (a 24.2% increase).

During the first nine months of 2022, OpenWork Inc., which has a particularly high growth rate, continued to steadily accumulate registered users and data on employee online reviews and evaluation scores despite the COVID-19 pandemic. Amid the increasing activity in the market for people changing jobs, revenues from OpenWork's direct hiring service have grown substantially, increasing about 82% compared with the same period of the previous year.

By continuing to utilize the customer base of the Organizational Development Division, to add to its stockpile of resumes of job seekers, and to improve its matching rate, this business will ramp up "engagement matching" that achieves true mutual understanding and affinity between organizations and individuals.

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 on an organizational level for growing venture companies that aim to list 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 in other components of equity on the condensed consolidated statements of financial position, or under other income or other expenses on the condensed consolidated statements of operations.

(2) Overview of Financial Position for the Nine Months Ended September 30, 2022

Total assets as of September 30, 2022 were ¥27,494 million, a decrease of ¥2,568 million from the end of the previous year. This was mainly due to factors including decreases of ¥883 million in right-of-use assets and ¥648 million in other non-current financial assets associated with the transfer of the domestic temp staff business and the relocation of the Tokyo integrated office, as well as decreases of ¥549 million in cash and cash equivalents and ¥480 million in trade and other receivables.

Total liabilities as of September 30, 2022 were ¥17,510 million, a decrease of ¥3,903 million from the end of the previous year. This was mainly due to factors including decreases of ¥718 million in trade and other payables, ¥877 million in interest-bearing and other financial liabilities and ¥1,391 million in lease liabilities.

Total equity as of September 30, 2022 was ¥9,983 million, an increase of ¥1,335 million from the end of the previous year. This was mainly due to factors including a ¥1,096 million increase in retained earnings associated with posting net income attributable to owners of the parent and other reasons, partially offset by the payment of dividends from surplus.

(3) Overview of Cash Flow for the Nine Months Ended September 30, 2022

Cash and cash equivalents (“cash”) as of September 30, 2022 were ¥4,368 million, a decrease of ¥549 million during the period.

Cash flow during the nine months ended September 30, 2022 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥1,655 million, a decrease of ¥753 million compared with the same period of the previous year. The principal factors increasing cash were a ¥1,053 million increase in income before income taxes and a ¥725 million decrease in trade and other receivables compared with the same period of the previous year, while the principal factors decreasing cash included a ¥971 million decrease in depreciation and amortization, a ¥330 million decrease in trade and other payables, a ¥473 million decrease in other, a ¥436 million decrease in income tax refund and a ¥377 million increase in income taxes paid compared with the same period of the previous year.

Cash Flow from Investing Activities

Net cash provided by investing activities was ¥212 million (in the same period of the previous year, net cash used in investing activities was ¥333 million). Principal factors decreasing cash included a ¥512 million decrease in proceeds from sale of investment securities compared with the same period of the previous year, while the principal factors increasing cash included ¥441 million in proceeds from business transfer and an increase of ¥639 million in proceeds from refund of security deposits and guarantees compared with the same period of the previous year.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥2,416 million, a decrease of ¥1,339 million compared with the same period of the previous year. The principal factor decreasing cash was a ¥500 million net decrease in short-term financial liabilities compared with the same period of the previous year, while the principal factors increasing cash included an increase of ¥894 million in proceeds from long-term financial liabilities, a decrease of ¥549 million in repayment of lease liabilities and the absence of payments for acquisition of interests in subsidiaries from non-controlling interests, which were incurred in the same period of the previous year.

(4) Forecast

Due to progress in the relocation or closure of schools in the Career School business, in addition to the impact of structural reforms that included the transfer of the domestic temp staff business and office relocations, the Group substantially increased operating income in the first nine months of 2022 compared with the same period of the previous year and has evolved into a robust management structure. For the fiscal year ending December 31, 2022, the Company has forecast ¥4,000 million in operating income (an increase of 93.6% year on year), which will be a record high.

Over the medium term, the Group’s policy will be to grow businesses that have synergies with the Organizational Development Division, which is the Group’s core division. Attention is increasingly being given to the practice of human capital management and related information disclosure due to factors including the May 2022 publication by the Ministry of Economy, Trade and Industry of the Ito Review 2.0 on Human Capital, which refers to the practice of human capital

management, and the August 2022 publication by the Cabinet Office of Guidelines for Visualizing Human Capital. In addition to greater demand for support in conducting human capital management, the Group anticipates growing needs for improving employee engagement so that companies can disclose more positive information in their human capital information disclosure, and the Group considers this an advantageous trend, particularly for the Consulting & Cloud business in the Organizational Development Division. The Group will continue to provide one-stop solutions for diagnosis and transformation, mainly for major companies with strong needs for human capital management, as it rolls out Stretch Cloud and other cloud-based services. By doing so, the Group aims for accelerated growth in fiscal 2023 and beyond.

2. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Statements of Financial Position

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

	As of December 31, 2021	As of September 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	4,917	4,368
Trade and other receivables	3,851	3,371
Inventories	200	272
Other current financial assets	9	15
Other current assets	753	945
Total current assets	9,732	8,972
Non-current assets		
Property, plant and equipment	637	593
Right-of-use assets	4,149	3,266
Goodwill	9,410	9,410
Intangible assets	2,234	2,364
Other non-current financial assets	2,744	2,096
Deferred tax assets	984	712
Other non-current assets	168	79
Total non-current assets	20,329	18,521
Total assets	30,062	27,494

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

	As of December 31, 2021	As of September 30, 2022
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	2,094	1,375
Contract liabilities	1,615	1,448
Interest-bearing and other financial liabilities	7,161	6,195
Lease liabilities	1,079	854
Income tax payable	716	493
Provisions	274	137
Other current liabilities	2,075	1,679
Total current liabilities	15,018	12,186
Non-current liabilities		
Interest-bearing and other financial liabilities	1,716	1,805
Lease liabilities	3,929	2,763
Provisions	359	319
Deferred tax liabilities	256	307
Other non-current liabilities	134	128
Total non-current liabilities	6,395	5,324
Total liabilities	21,413	17,510
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	3,879	3,879
Treasury shares	(320)	(320)
Retained earnings	4,406	5,503
Other components of equity	(1,853)	(1,747)
Total equity attributable to owners of the parent	7,493	8,695
Non-controlling interests	1,154	1,287
Total equity	8,648	9,983
Total liabilities and equity	30,062	27,494

(2) Condensed Consolidated Statements of Operations and 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, 2021	Nine months ended September 30, 2022
Continuing Operations		
Revenues	24,338	24,399
Cost of sales	12,781	12,329
Gross profit	11,557	12,070
Selling, general and administrative expenses	9,323	9,464
Other income	55	776
Other expenses	173	238
Operating income	2,115	3,143
Financial revenues	12	20
Financial expenses	147	129
Income before income taxes	1,980	3,034
Income taxes	690	1,062
Net income	1,290	1,971
Discontinued Operations		
Profit (loss) from discontinued operations	(6)	(93)
Net income	1,283	1,877
(Attributable to)		
Owners of the parent	1,185	1,745
Non-controlling interests	97	132
Total	1,283	1,877

(Yen)

Earnings per share attributable to owners of the parent		
Basic earnings (loss) per share		
Continuing operations	11.36	16.48
Discontinued operations	(0.07)	(0.84)
Basic earnings (loss) per share	11.30	15.64
Diluted earnings (loss) per share		
Continuing operations	11.36	16.48
Discontinued operations	(0.07)	(0.84)
Diluted earnings (loss) per share	11.30	15.64

Three Months Ended September 30

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

	Three months ended September 30, 2021	Three months ended September 30, 2022
Continuing Operations		
Revenues	7,939	7,633
Cost of sales	4,359	4,035
Gross profit	3,579	3,598
Selling, general and administrative expenses	2,956	3,037
Other income	26	647
Other expenses	37	34
Operating income	611	1,173
Financial revenues	10	11
Financial expenses	60	30
Income before income taxes	562	1,154
Income taxes	185	276
Net income	376	878
Discontinued Operations		
Profit (loss) from discontinued operations	1	(1)
Net income	377	877
(Attributable to)		
Owners of the parent	350	837
Non-controlling interests	27	40
Total	377	877

(Yen)

Earnings per share attributable to owners of the parent		
Basic earnings (loss) per share		
Continuing operations	3.33	7.51
Discontinued operations	0.01	(0.01)
Basic earnings (loss) per share	3.34	7.50
Diluted earnings (loss) per share		
Continuing operations	3.33	7.51
Discontinued operations	0.01	(0.01)
Diluted earnings (loss) per share	3.34	7.50

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, 2021	Nine months ended September 30, 2022
Net income	1,283	1,877
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	(56)	62
Total of items that will not be reclassified to profit or loss	(56)	62
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	3	(10)
Total of items that may be reclassified to profit or loss	3	(10)
Total other comprehensive income	(52)	52
Total comprehensive income	1,230	1,930
(Attributable to)		
Owners of the parent	1,132	1,797
Non-controlling interests	97	132
Comprehensive income	1,230	1,930

Three Months Ended September 30

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

	Three months ended September 30, 2021	Three months ended September 30, 2022
Net income	377	877
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	(89)	78
Total of items that will not be reclassified to profit or loss	(89)	78
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(0)	(3)
Total of items that may be reclassified to profit or loss	(0)	(3)
Total other comprehensive income	(89)	75
Total comprehensive income	288	952
(Attributable to)		
Owners of the parent	260	912
Non-controlling interests	27	40
Comprehensive income	288	952

(3) Condensed Consolidated Statements of Changes in Equity**Nine Months Ended September 30, 2021**

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

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2021	1,380	1,855	(1,773)	3,989	(1,731)	3,760	1,157	4,917
Net income	—	—	—	1,185	—	1,185	97	1,283
Other comprehensive income	—	—	—	—	(52)	(52)	—	(52)
Total comprehensive income	—	—	—	1,185	(52)	1,132	97	1,230
Change in ownership interest in subsidiaries	—	(649)	—	—	—	(649)	(103)	(753)
Dividends from surplus	—	—	—	(566)	—	(566)	—	(566)
Transfer from other components of equity to retained earnings	—	—	—	120	(120)	—	—	—
Total transactions with the owners	—	(649)	—	(446)	(120)	(1,216)	(103)	(1,320)
September 30, 2021	1,380	1,206	(1,773)	4,728	(1,904)	3,676	1,151	4,827

Nine Months Ended September 30, 2022

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

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2022	1,380	3,879	(320)	4,406	(1,853)	7,493	1,154	8,648
Net income	—	—	—	1,745	—	1,745	132	1,877
Other comprehensive income	—	—	—	—	52	52	—	52
Total comprehensive income	—	—	—	1,745	52	1,797	132	1,930
Dividends from surplus	—	—	—	(635)	—	(635)	—	(635)
Share-based payment transactions	—	—	—	—	40	40	—	40
Transfer from other components of equity to retained earnings	—	—	—	(12)	12	—	—	—
Total transactions with the owners	—	—	—	(648)	53	(594)	—	(594)
September 30, 2022	1,380	3,879	(320)	5,503	(1,747)	8,695	1,287	9,983

(4) Condensed Consolidated Statements of Cash Flow

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

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Cash flow from operating activities		
Income before income taxes	1,980	3,034
Profit (loss) before tax from discontinued operations	(18)	19
Depreciation and amortization	2,263	1,291
Loss on impairment	122	160
(Profit) loss from business transfer	—	(50)
Loss (gain) on sales of fixed assets	(0)	—
Loss (gain) on valuation of investment securities	—	20
Gain on cancellation of insurance	(8)	—
Financial revenues and financial expenses	135	109
Decrease (increase) in trade and other receivables	(244)	481
Decrease (increase) in inventories	(72)	(72)
Increase (decrease) in trade and other payables	(413)	(743)
Other	(802)	(1,276)
Subtotal	2,940	2,975
Interest and dividends received	0	5
Interest paid	(137)	(115)
Income tax refund	439	2
Income taxes paid	(835)	(1,212)
Net cash provided by operating activities	2,408	1,655
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(155)	(71)
Proceeds from sale of property, plant and equipment	0	—
Payments for acquisition of intangible assets	(655)	(693)
Proceeds from business transfer	—	441
Payments for acquisition of investment securities	—	(79)
Proceeds from sale of investment securities	513	1
Payments for security deposits and guarantees	(272)	(22)
Proceeds from recovery of security deposits and guarantees	284	924
Payments for fulfillment of asset retirement obligations	(137)	(282)
Proceeds from cancellation of insurance	85	—
Other	3	(4)
Net cash provided by (used in) investing activities	(333)	212
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	—	(500)
Proceeds from long-term financial liabilities	506	1,400
Repayment of long-term financial liabilities	(1,486)	(1,777)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(753)	—
Payments of cash dividends	(567)	(634)
Repayment of lease liabilities	(1,454)	(904)
Net cash used in financing activities	(3,755)	(2,416)
Cash and cash equivalents translation adjustment	3	(1)
Net increase (decrease) in cash and cash equivalents	(1,676)	(549)
Cash and cash equivalents at beginning of the quarter	6,449	4,917
Cash and cash equivalents at end of the quarter	4,773	4,368

(5) Notes to Condensed Consolidated Financial Statements

(Significant Accounting Policies)

The significant accounting policies applied in these condensed consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year.

Income taxes expense for the nine months ended September 30, 2022 was calculated using the estimated average annual effective tax rate.

(Notes Regarding Significant Accounting Estimates and Judgements)

In preparing the condensed consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The results of accounting estimates may differ from actual results.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of a review of accounting estimates are recognized in the accounting period in which the estimates are reviewed as well as in future periods.

Estimates and estimate-related judgments that have a significant impact on these condensed consolidated financial statements are the same as those in the condensed consolidated financial statements for the same period of the previous fiscal year.

In the nine months ended September 30, 2022, there was no change to the “Accounting Estimates Related to the COVID-19 Pandemic” presented in the Securities Report for the previous fiscal year.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

None applicable