Consolidated Financial Statements for the Year Ended December 31, 2017 (IFRS)
These financial statements have been prepared for reference only.

February 14, 2018

Link and Motivation Inc.
http://www.lmi.ne.jp
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Code number: 2170
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Ordinary General Meeting of Shareholders (scheduled): March 27, 2018
Start of distribution of dividends (scheduled): March 23, 2018
Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled): March 27, 2018
Supplementary documents for quarterly results: No
Quarterly results briefing: Yes

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

(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, 2017	36,894	10.7	3,365	36.3	3,265	39.2	2,096	16.2	2,107	16.8
Year ended December 31, 2016	33,321	—	2,468	—	2,345	—	1,804	—	1,804	—

	Comprehensive income		Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating margin
	(¥ million)	(%)	(¥)	(¥)	(%)	(%)	(%)
Year ended December 31, 2017	2,534	7.6	19.95	—	36.7	14.7	9.1
Year ended December 31, 2016	2,355	—	16.58	—	39.5	13.3	7.4

(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, 2017	25,770	6,697	6,692	26.0	63.37
As of December 31, 2016	18,532	4,780	4,780	25.8	45.26

(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, 2017	2,944	(5,232)	2,859	1,654
Year ended December 31, 2016	1,843	(581)	(1,174)	1,082

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			
2016	1.25	1.25	1.40	1.40	5.30	570	32.0	12.7
2017	1.50	1.50	1.60	1.60	6.20	654	31.1	11.4
2018 (est.)	1.70	1.70	1.70	1.70	6.80		—	

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

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

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

Notes

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

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

(3) Number of Shares Issued and Outstanding (Common Stock)
(a) Number of shares at the end of the period (including treasury stock)
Year ended December 31, 2017: 113,068,000; Year ended December 31, 2016: 113,068,000
(b) Number of treasury shares at the end of the period:
Year ended December 31, 2017: 7,445,700; Year ended December 31, 2016: 7,445,700
(c) Average number of shares outstanding (cumulative with earlier quarters):
Year ended December 31, 2017: 105,622,300; Year ended December 31, 2016: 108,793,264

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for 2017 (January 1, 2017 – December 31, 2017)

(1) Revenues and Income

(Percentages represent change compared with the previous year.)

	Revenues		Operating income		Income before income taxes		Net income	
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)
Year ended December 31, 2017	7,939	20.2	1,676	44.0	1,521	(54.0)	734	(78.3)
Year ended December 31, 2016	6,606	22.3	1,164	—	3,310	—	3,389	—

	Basic earnings per share	Diluted earnings per share
	(¥)	(¥)
Year ended December 31, 2017	6.95	—
Year ended December 31, 2016	31.15	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets/ Total assets (%)	Net assets per share (¥)
As of December 31, 2017	21,193	5,219	24.6	49.42
As of December 31, 2016	15,498	4,829	31.2	45.73

(Reference) Net worth: As of December 31, 2017: ¥5,219 million; As of December 31, 2016: ¥4,829 million

*** These Financial Statement Are Not Subject to Audit Procedures**

*** 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. Qualitative Information Regarding Results for the Year Ended December 31, 2017

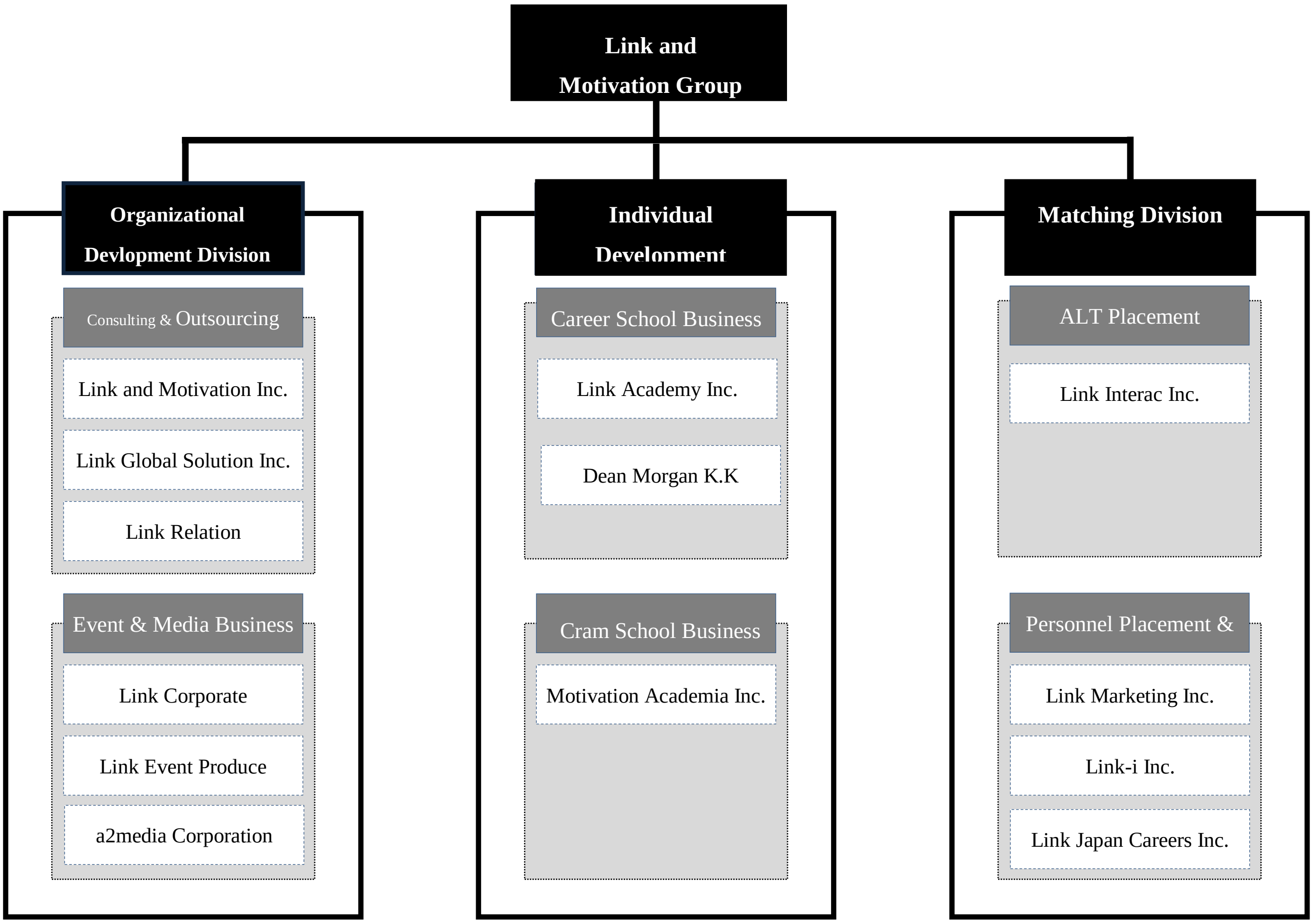
(1) Commentary on Results of Operations

The Link and Motivation Group (the "Group") supports the transformation of numerous companies and individuals using "Motivation Engineering," which is the Group's core technology, backed by psychology, behavioral economics, social systems theory and other disciplines, under its corporate philosophy: "Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society." In the Japanese economy during the 2017, corporate production and capital investment were on a recovery track and personal consumption, which had been in a persistent slump, also grew in tandem with an increase in leisure time due to Japanese society's promotion of work style reform. As a result, the economy was on an overall moderate recovery trend. The market also grew moderately in industries related to the Group, with increased demand for facilitation of higher labor productivity and personnel recruiting associated with the promotion of work style reform.

In this economic environment, revenues of the Group were ¥36,894 million (a 10.7% increase compared with previous year). In addition, each level of income increased steadily due to a reduction of the cost ratio and more efficient use of selling, general and administrative (SG&A) expenses. Gross profit was ¥13,362 million (a 9.7% increase), operating income was ¥3,365 million (a 36.3% increase) and net income attributable to owners of the parent was ¥2,107 million (a 16.8% increase).

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

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



Organizational Development Division

The Organizational Development Division offers corporate customers services that provide support for building and strengthening relationships with a company's stakeholders (employees, job applicants, customers, shareholders) using "Motivation Engineering," which is the core technology of the Group.

In this segment, due to strong performance by each business, segment revenues for 2017 increased substantially compared with the previous year to ¥11,695 million (a 19.0% increase). In addition, with the contribution of strong performance by the Consulting & Outsourcing business, which has a high profit margin, segment income increased substantially to ¥7,329 million (a 12.8% increase). An overview of operating results by business for 2017 is as follows.

Consulting & Outsourcing Business

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

In this business, revenues in 2017 were ¥8,959 million (an 11.5% increase) and gross profit was ¥6,328 million (a 15.7% increase). Results by product in the Consulting & Outsourcing business were as follows.

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2016	Year ended December 31, 2017	YoY change (%)
Consulting & Outsourcing Business	8,034 [5,468]	8,959 [6,328]	11.5 15.7
Package	2,424	2,664	9.9
Consulting	3,548	4,136	16.6
Outsourcing	1,323	972	(26.5)
Member/database services	738	1,187	60.7

In 2017, revenues increased and gross profit increased substantially compared with the previous year. Specifically, Package and Consulting sales grew, due to an increase in training needs targeting improving productivity, backed by work style reform. In addition, sales of Member/database services grew substantially, including Motivation Cloud.

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

	March	June	September	December
Number of contact points	155	234	343	430

Motivation Cloud is the first HR tech (people x technology) cloud service in Japan for managing employee engagement (mutual understanding, empathy, commitment and engagement between companies and employees). We began providing this monthly pay-as-you-go product in July 2016, and it has performed well. At the end of July 2017, the cumulative number of contact points that had adopted Motivation Cloud exceeded 250, which was the initial target for 2017, and passed the significantly higher revised target for 2017 of 380 contact points by the end of 2017.

During 2017, there was substantial progress in the number of contact points that have adopted Motivation Cloud. That is because improving employee engagement is a key management theme in achieving increases in labor productivity, which is the true purpose of work style reform, and the Consulting & Outsourcing business has captured rising needs for organizational transformation spurred by this factor. Motivation Cloud generates steady revenue, and total monthly fee revenue for Motivation Cloud for December 2017 was ¥60,716 thousand. The target for total monthly fee revenue for December 2018 is ¥130,000 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 offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders’ meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations sites and visual media such as videos that explain products and webcasts of shareholders’ meetings.

In this business, revenues in 2017 were ¥4,243 million (a 30.0% increase) and gross profit was ¥1,305 million (a 3.3% decrease). Results by product in the Event & Media business were as follows.

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2016	Year ended December 31, 2017	YoY change (%)
Event & Media Business	3,264 [1,349]	4,243 [1,305]	30.0 (3.3)
Event production	2,049	2,705	32.0
Media production	1,215	1,538	26.6

Revenues for 2017 increased substantially compared with the previous fiscal year due to growing need for operation of training and other events and for IR-related media production and other products. On the other hand, gross profit decreased slightly compared with the previous fiscal year because of the increase in event operation, which has a high cost ratio, and the impact of a change in the method for recognizing personnel expenses.

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

Individual Development Division

The Individual Development Division applies "Motivation Engineering," which is the core technology of the Group, to businesses in areas including career schools and cram schools, to offer individual customers "career navigation" services, which provide total support for independent and autonomous career creation.

In this segment, due to firm performance in each business, segment revenues for 2017 were ¥7,220 million (an 8.6% increase) and segment income increased marginally to ¥2,506 million (a 9.0% increase). An overview of operating results by business for 2017 is as follows.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as "i-companies" and supports the production of numerous i-companies. As for specific services, the business provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the six service brands of "Aviva" personal computer schools, "Daiei" qualification schools, "Aviva Pro" programming schools, "Rosetta Stone Learning Center," "Rosetta Stone Premium Club" and "Hummingbird" foreign language schools. In this business, revenues in 2017 were ¥6,730 million (a 2.8% increase) and gross profit was ¥2,404 million (a 3.8% increase). Results by product in the Career School business were as follows.

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2016		Year ended December 31, 2017		YoY change (%)
	Results	% of total	Results	% of total	
Career School Business	6,545 [2,315]	—	6,730 [2,404]	—	2.8 3.8
Office	3,235	49.4	2,970	44.1	(8.2)
Pro Series	744	11.4	888	13.2	19.4
Accounting courses	581	8.9	563	8.4	(3.0)
National exam courses	587	9.0	626	9.3	6.5
Civil servant courses	1,214	18.6	1,260	18.7	3.8
Educational materials/other	181	2.8	185	2.8	2.1
English conversation	—	—	234	3.5	—

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

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

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous "i-companies" in addition to improving the academic ability of its students. Its services consist of operating "Motivation Academia" cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society. During 2017, the business completed a takeover of "SS-1," an individualized instruction school for students preparing for junior high school entrance exams, which is one of the businesses of Superweb Co., Ltd. The Group's Cram School business will utilize its assets in programming education and English conversation education to provide a place for students from elementary school straight through to high school to develop skills that will be of use in society.

In this business, revenues in 2017 were ¥490 million (a 381.1% increase) and gross profit was ¥102 million (compared with a loss of ¥16 million in the previous year).

During 2017, revenues and gross profit both increased substantially compared with the previous year due to an increase in the number of classrooms as a result of M&A. This business has only one product.

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

Matching Division

The Matching Division provides services under the concept of matching organizations with hiring needs and individuals who want to advance their careers through “motivation matching,” which applies “Motivation Engineering,” the core technology of the Group, to personnel placement and temp staff dispatch.

In this segment, segment revenues for 2017 were ¥19,379 million (a 7.8% increase) and segment income was ¥4,477 million (a 6.5% increase), both increasing compared with the previous year. An overview of operating results by business for 2017 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and high schools throughout Japan and provides English-language instruction services on contract. In this business, where barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company’s track record, the Group has established the number-one share among private companies. In addition, Japan’s English education market is expanding with the Ministry of Education, Culture, Sports, Science and Technology’s creation of a “Reform Plan for Cultivating Global Human Resources” looking ahead to the Tokyo Olympics to be held in 2020.

In this business, revenues in 2017 were ¥11,096 million (a 9.2% increase) and gross profit was ¥2,991 million (a 9.1% increase).

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

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

Personnel Placement & Temp Staff Business

The Personnel Placement & Temp Staff business provides solutions in the form of introductions and temp staffing of the human resources an organization needs to grow. The main businesses include a new graduate recruiting and introduction business that connects university students looking for employment with company orientation meetings and interviews, a mid-career introduction business that matches working adults looking to change jobs with companies, and a temp staff business that dispatches personnel for sales, clerical work, and other fields. In addition, Link Japan Careers Inc., which was newly established in 2016 to capitalize on rising needs for employment of foreigners by providing one-stop foreigner recruiting, training and labor support for companies that want to hire them, started operations during the year.

In this business, revenues in 2017 were ¥8,692 million (an 11.2% increase) and gross profit was ¥1,836 million (a 25.1% increase). Results by product in the Personnel Placement & Temp Staff business were as follows.

Product (¥ million) [Gross profit in brackets]	Year ended December 31, 2016	Year ended December 31, 2017	YoY change (%)
Personnel Placement & Temp Staff Business	7,820 [1,468]	8,692 [1,836]	11.2 25.1
Store sales temp staff	6,712	7,222	7.6
Office temp staff	619	630	1.7
Foreign worker support	—	127	—
Recruiting/introductions	487	712	46.1

During 2017, revenues increased and gross profit increased substantially. Temp staff revenues increased due to capturing corporate needs for procurement of human resources. Recruiting/introductions revenues also grew compared with the previous year with rising corporate needs for recruitment of new graduates. In Foreign worker support, which started in 2017, business is steadily expanding due to its integrated services providing support for foreign human resources from recruiting to reception and acclimation that other companies cannot provide.

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

The business will raise matching efficiency and increase the number of staff placements through business synergy that links individuals who have improved their skills through the Group’s Career School business to corporate dispatch and introductions.

Venture Incubation

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

(2) Commentary on Financial Condition

Total assets as of December 31, 2017 were ¥25,770 million, an increase of ¥7,237 million from the end of the previous year. This was mainly due to factors including an increase in cash and cash equivalents of ¥571 million and an increase in other non-current financial assets of ¥1,737 million due to acquisition of other non-current financial assets and other factors.

Total liabilities were ¥19,072 million, an increase of ¥5,320 million from the end of the previous year. This was mainly due to an increase in interest-bearing and other financial liabilities of ¥1,670 million, among other factors.

Total equity was ¥6,697 million, an increase of ¥1,917 million from the end of the previous year. This was mainly due to an increase of ¥1,488 million in retained earnings and a ¥376 million increase in the fair value of other non-current financial assets.

(3) Analysis of Cash Flow

Cash and cash equivalents (“cash”) as of December 31, 2017 were ¥1,654 million, an increase of ¥571 million during the period.

Cash flow during 2017 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥2,944 million, an increase of ¥1,100 million compared with the previous year. The principal factors were an increase of ¥920 million in income before income taxes to ¥3,265 million and an increase of ¥430 million in trade and other receivables to ¥949 million.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥5,232 million, an increase in cash used of ¥4,650 million compared with the previous year. The principal factors were payments for business transfer of ¥1,000 million and payments for acquisition of subsidiary stock due to change in the scope of consolidation of ¥1,626 million.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥2,859 million. Net cash used in financing activities was ¥1,174 million, in the previous year. The principal factors were a ¥2,230 million increase in proceeds from long-term financial liabilities and an increase of ¥1,795 million in short-term financial liabilities.

(4) Forecast

The Group expects the Organizational Development Division to perform particularly well because of government efforts to promote work style reform and the favorable impact of the trend among companies to invest in human resources. We therefore forecast that revenues and operating income will both increase substantially.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Basic Policy Regarding Selection of Accounting Standards

The Group applied International Financial Reporting Standards (IFRS) from 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. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Balance Sheets

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

	Notes	(IFRS Transition Date) As of January 1, 2016	As of December 31, 2016	As of December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents		997	1,082	1,654
Trade and other receivables		3,694	4,001	4,929
Inventories		153	144	186
Other current financial assets		17	11	11
Current income tax assets		56	345	11
Other current assets		687	1,161	796
Total current assets		5,607	6,747	7,589
Non-current assets				
Property, plant and equipment		1,203	1,084	1,905
Goodwill		5,202	5,202	6,701
Intangible assets		542	484	1,534
Investments in associates		—	—	1,164
Other non-current financial assets		3,484	4,279	6,017
Other non-current assets		275	384	350
Deferred tax assets		341	349	506
Total non-current assets		11,048	11,785	18,180
Total assets		16,655	18,532	25,770

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

	Notes	(IFRS Transition Date) As of January 1, 2016	As of December 31, 2016	As of December 31, 2017
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Trade and other payables		3,630	3,566	4,023
Interest-bearing and other financial liabilities		3,732	3,337	5,007
Income tax payable		426	373	883
Provisions		—	35	2
Other current liabilities		1,611	2,354	2,212
Total current liabilities		9,401	9,668	12,129
Non-current liabilities				
Interest-bearing and other financial liabilities		2,287	3,438	5,418
Provisions		299	278	440
Deferred tax liabilities		143	199	813
Other non-current liabilities		178	167	270
Total non-current liabilities		2,908	4,084	6,942
Total liabilities		12,309	13,752	19,072
EQUITY				
Equity attributable to owners of the parent				
Share capital		1,380	1,380	1,380
Capital surplus		2,137	2,137	2,137
Treasury shares		(0)	(1,373)	(1,373)
Retained earnings		408	1,952	3,426
Other components of equity		418	683	1,121
Total equity attributable to owners of the parent		4,345	4,780	6,692
Non-controlling interests		—	—	4
Total equity		4,345	4,780	6,697
Total liabilities and equity		16,655	18,532	25,770

(2) Condensed Consolidated Statements of Operations and Comprehensive Income

Condensed Consolidated Statements of Operations

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

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Continuous operations			
Revenues		33,321	36,894
Cost of sales		21,144	23,531
Gross profit		12,177	13,362
Selling, general and administrative expenses		9,577	10,041
Other income		113	131
Other expenses		244	87
Operating income		2,468	3,365
Financial income		13	38
Financial expenses		136	141
Equity in earnings of affiliates		—	2
Income before income taxes		2,345	3,265
Income taxes		584	1,169
Income from continuing operations		1,760	2,096
Discontinued operations			
Income from discontinued operations		43	—
Net income		1,804	2,096
(Attributable to)			
Owners of the parent		1,804	2,107
Non-controlling interests		—	(11)
Total		1,804	2,096
			(Yen)
Earnings per share attributable to owners of the parent			
Basic earnings per share			
Continuing operations		16.18	19.95
Discontinued operations		0.40	—
Total basic earnings per share		16.58	19.95
Diluted earnings per share			
Continuing operations		—	—
Discontinued operations		—	—
Total diluted earnings per share		—	—

Condensed Consolidated Statements of Comprehensive Income

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

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Net income		1,804	2,096
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	438
Share of other comprehensive income of investments accounted for using the equity method		—	—
Total of items that will not be reclassified to profit or loss		553	438
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(1)	(0)
Share of other comprehensive income of investments accounted for using the equity method		—	—
Total of items that may be reclassified to profit or loss		(1)	(0)
Total other comprehensive income		551	438
Total comprehensive income		2,355	2,534
(Attributable to)			
Owners of the parent		2,355	2,545
Non-controlling interests		—	(11)
Comprehensive income		2,355	2,534

(3) Condensed Consolidated Statements of Changes in Equity

Year ended December 31, 2016

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

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2016		1,380	2,137	(0)	408	418	4,345	—	4,345
Net income					1,804	—	1,804	—	1,804
Other comprehensive income					286	264	551	—	551
Total comprehensive income		—	—	—	2,090	264	2,355	—	2,355
Purchase of treasury shares				(1,373)		—	(1,373)		(1,373)
Dividends from surplus					(546)	—	(546)		(546)
Transfer from other components of equity to retained earnings						—	—		—
Total transactions with the owners		—	—	(1,373)	(546)	—	(1,920)	—	(1,920)
December 31, 2016		1,380	2,137	(1,373)	1,952	683	4,780	—	4,780

Year ended December 31, 2017

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

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2017		1,380	2,137	(1,373)	1,952	683	4,780	—	4,780
Net income					2,107	—	2,107	(11)	2,096
Other comprehensive income						438	438	—	438
Total comprehensive income		—	—	—	2,107	438	2,545	(11)	2,534
Dividends from surplus					(633)	—	(633)		(633)
Change due to business combination								16	16
Total transactions with the owners		—	—	—	(633)	—	(633)	16	(617)
December 31, 2017		1,380	2,137	(1,373)	3,426	1,121	6,692	4	6,697

(4) Condensed Consolidated Statements of Cash Flow

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

	Notes	Year ended December 31, 2016	Year ended December 31, 2017
Cash flow from operating activities			
Income from continuing operations before income taxes		2,345	3,265
Income from discontinued operations before income taxes		67	—
Depreciation and amortization		558	626
Loss on impairment		24	34
Interest and dividends income		(13)	(38)
Interest expense		78	141
Equity in (earnings) losses of affiliates		—	(2)
Loss (gain) on sale of subsidiary stock		(51)	—
Loss on disposal of non-current assets		37	1
Decrease (increase) in trade and other receivables		(518)	(949)
Decrease (increase) in inventories		(9)	(26)
Increase (decrease) in trade and other payables		187	91
Other		392	235
Subtotal		3,098	3,379
Interest and dividends received		2	3
Interest paid		(53)	(105)
Income tax refund		56	393
Income taxes paid		(1,260)	(726)
Net cash provided by operating activities		1,843	2,944
Cash flow from investing activities			
Payments for acquisition of property, plant and equipment		(214)	(930)
Payments for acquisition of intangible assets		(196)	(545)
Payments for acquisition of investment securities		(443)	(861)
Proceeds from sale of investment securities		780	—
Payments for business transfer		—	(1,000)
Payments for acquisition of subsidiary stock due to change in the scope of consolidation		—	(1,626)
Payments for sale of subsidiary stock due to change in the scope of consolidation		(22)	—
Payments for security deposits and guarantees		(461)	(493)
Proceeds from recovery of security deposits and guarantees		43	334
Payments for fulfillment of asset retirement obligations		(6)	(106)
Other		(60)	(2)
Net cash used in investing activities		(581)	(5,232)
Cash flow from financing activities			
Increase (decrease) in short-term financial liabilities		(1,216)	578
Proceeds from long-term financial liabilities		2,983	5,213
Repayment of long-term financial liabilities		(894)	(2,188)
Payments for purchase of treasury shares		(1,373)	—
Payments of cash dividends		(550)	(632)
Other		(122)	(111)
Net cash provided by (used in) financing activities		(1,174)	2,859
Cash and cash equivalents translation adjustment		(1)	(0)
Net increase (decrease) in cash and cash equivalents		85	571
Cash and cash equivalents at beginning of year		997	1,082
Cash and cash equivalents at end of year		1,082	1,654

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes Regarding Assumption of Going Concern)

None applicable

(Changes in Accounting Policies)

(Change in Classification for Recording Expenses)

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

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

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

(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."

As of the fiscal year ended December 31, 2017, the segment classification method was revised to exclude the reportable segment previously presented as "Other" from the reportable segments due to a lack of materiality, and to change it to the separate classification "Other."

Segment information for the previous fiscal year has been prepared based on the classifications after the change.

2. Sales, 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.

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

Year ended December 31, 2016

(Millions of yen)

	Reportable Segment					Other (Note 2)	Adjustment (Note 3)	Consolidated
	Organizational Development Division	Individual Development Division	Matching Division		Total			
			ALT Placement Business	Personnel Placement & Temp Staff Business				
Segment sales								
Sales to outside customers	9,142	6,517	10,157	7,357	33,174	146	—	33,321
Intersegment sales and transfers	682	129	5	463	1,281	105	(1,387)	—
Total	9,825	6,647	10,162	7,820	34,456	252	(1,387)	33,321
Segment income (profit) (Note 1)	6,497	2,298	2,742	1,468	13,007	14	(844)	12,177
Selling, general and administrative expenses								9,577
Other revenue/expenses (net)								(130)
Financial revenue/expenses (net)								(123)
Equity in earnings of affiliates								—
Income before income taxes								2,345
Other items								
Depreciation	250	217	65	20	553	5	—	558
Impairment loss	—	24	—	—	24	—	—	24

Notes: 1. Segment income is gross profit.

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

3. Adjustment is the elimination of intersegment transactions.

Year ended December 31, 2017

(Millions of yen)

	Reportable Segment					Other (Note 2)	Adjustment (Note 3)	Consolidated
	Organizational Development Division	Individual Development Division	Matching Division		Total			
			ALT Placement Business	Personnel Placement & Temp Staff Business				
Segment sales								
Sales to outside customers	10,936	7,160	11,056	7,706	36,858	35	—	36,894
Intersegment sales and transfers	758	60	40	986	1,845	105	(1,951)	—
Total	11,695	7,220	11,096	8,692	33,704	141	(1,951)	36,894
Segment income (profit) (Note 1)	7,329	2,506	2,991	1,836	14,664	4	(1,306)	13,362
Selling, general and administrative expenses								10,041
Other								43

revenue/expenses (net)								
Financial revenue/expenses (net)								(102)
Equity in earnings of affiliates								2
Income before income taxes								3,265
Other items								
Depreciation	311	223	31	59	626	0	—	626
Impairment loss	—	34	—	—	34	—	—	34

Notes: 1. Segment income is gross profit.

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

3. Adjustment is the elimination of intersegment transactions.

(Per Share Information)

The basis for calculation of earnings per share attributable to owners of the parent is as follows.

	Year ended December 31, 2016	Year ended December 31, 2017
Net income (loss) attributable to owners of the parent (Millions of yen)		
Continuous operations	1,760	2,107
Discontinued operations	43	—
Net income attributable to owners of the parent	1,804	2,107
Average number of shares of common stock outstanding during the fiscal year (Shares)	108,793,264	105,622,300
Effect of dilutive shares: stock options	—	—
Diluted outstanding shares	—	—
Per-share information (Yen)		
Basic earnings per share		
Continuous operations	16.18	19.95
Discontinued operations	0.40	—
Basic earnings per share	16.58	19.95
Diluted per-share information		
Continuous operations	—	
Discontinued operations	—	—
Diluted earnings per share	—	—
Shares not included in diluted per-share information because they are accretive	—	—

(Significant Subsequent Event)

None applicable

(First-Time Adoption)

(1) Transition to Reporting Based on IFRS

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

Exemption Provisions for Retrospective Application

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

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

Mandatory Exceptional Provision for Retrospective Application

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Notes Regarding Reclassifications

The main details of differences in classification are as follows.

1. Deferred tax assets, which had been presented separately under Japanese GAAP, are all presented in the category of non-current assets under IFRS.

2. Trade accounts receivable, notes receivable and allowance for doubtful accounts in current assets, which had been stated separately under Japanese GAAP, are presented as trade and other receivables under IFRS.

3. Work in progress, products, and raw materials and supplies, which had been stated separately under Japanese GAAP, are presented as inventories under IFRS.

4. Short-term loans receivable, which had been stated separately under Japanese GAAP, are presented as other current financial assets under IFRS.

5. Prepaid expenses and accrued consumption tax, which had been stated separately under Japanese GAAP, are presented as other current assets under IFRS.

6. Investment securities, securities and deposits, claims in bankruptcy, and allowance for doubtful accounts in non-current assets, which had been stated separately under Japanese GAAP, are presented as other non-current financial assets under IFRS.

7. Accounts, accounts payable and advances received, which had been stated separately under Japanese GAAP, are presented as trade and other payables under IFRS.

8. Short-term borrowings, long-term debt due within one year and lease obligations, which had been stated separately under Japanese GAAP, are presented as interest-bearing and other financial liabilities in current liabilities under IFRS.

9. Expenses payable, accrued consumption taxes, accrued bonuses to employees, accrued bonuses to officers and allowance for shareholder benefit program, which had been stated separately under Japanese GAAP, are presented as other current liabilities under IFRS.

10. Asset retirement obligations, which had been stated separately under Japanese GAAP, are stated as provisions under IFRS.

11. Long-term debt and lease obligations, which had been stated separately under Japanese GAAP, are stated as interest-bearing and other financial liabilities in non-current liabilities under IFRS.

12. Unrealized gain on securities and foreign currency translation adjustment, which had been stated separately under Japanese GAAP, are presented as other components of equity under IFRS.

13. Gains and losses on discontinued operations, which had been stated as included in each line item such as net sales and cost of sales under Japanese GAAP, are all collectively stated in income from discontinued operations under IFRS, together with gain on sale of subsidiary stock, which had been stated as included in extraordinary income under Japanese GAAP.

14. Interest income and dividends received, which had been stated separately under Japanese GAAP, are presented as financial income under IFRS.

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

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

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

(6) Notes Regarding Adjustments to Recognition and Measurement

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

18. Adjustment to Inventories

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

19. Adjustment to Non-Marketable Financial Instruments

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

20. Adjustment to Depreciation

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

21. Adjustment to Goodwill

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

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

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

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

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

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

22. Adjustment to Unused Paid Leave

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

23. Adjustment to Asset Retirement Obligations

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

24. Adjustment to Deferred Tax Assets and Deferred Tax Liabilities

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

25. Adjustment to Revenues

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

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

26. Adjustment to Capital Surplus

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

27. Adjustment to Other Components of Equity

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

28. Adjustment to Retained Earnings

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

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

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

(7) Adjustment to Cash Flow for the Previous Fiscal Year (January 1, 2016 – December 31, 2016)

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