Consolidated Financial Statements for the Six Months Ended June 30, 2017 (IFRS)

These financial statements have been prepared for reference only.

August 10, 2017

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Stock exchange listing: Tokyo, First Section
Code number: 2170

Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): August 10, 2017
Start of distribution of dividends (scheduled): September 25, 2017
Supplementary documents for quarterly results: No
Quarterly results briefing: Yes

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Six Months Ended June 30, 2017 (January 1, 2017 – June 30, 2017)

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

	Revenues (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Income before income taxes (¥ million)	Change (%)	Net income (¥ million)	Change (%)
Six months ended June 30, 2017	18,031	7.8	1,609	18.9	1,556	22.6	1,010	3.7
Six months ended June 30, 2016	16,721	—	1,353	—	1,269	—	975	—

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehensive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Six months ended June 30, 2017	1,016	4.2	2,057	20.0	9.62	—
Six months ended June 30, 2016	975	—	1,714	—	8.72	—

(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 June 30, 2017	24,177	6,548	6,536	27.0
As of December 31, 2016	18,532	4,780	4,780	25.8

2. Dividends

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

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

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

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

	Revenues		Operating income		Net income		Net income attributable to owners of the parent		Basic earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Full-year	36,600	9.8	3,300	33.7	2,100	16.4	2,100	16.4	19.88

Note: Revisions since the most recently announced forecast of results: Yes

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 shares)
Six months ended June 30, 2017: 113,068,000; Year ended December 31, 2016: 113,068,000
(b) Number of treasury shares at the end of the period:
Six months ended June 30, 2017: 7,445,700; Year ended December 31, 2016: 7,445,700
(c) Average number of shares outstanding (cumulative with earlier quarters):
Six months ended June 30, 2017: 105,622,300; Six months ended June 30, 2016: 111,838,580

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

These "Consolidated Financial Statements for the Six Months Ended June 30, 2017" are not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act although, as of the date of publication of these statements, the review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had been completed.

*** Explanation of the Proper Use of Performance Forecasts and Other Special Instructions**

Consolidated forecasts and other statements regarding the future contained in this document are based on information currently available to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

Contents of Attachments

1. Qualitative Information Regarding Results for the Six Months Ended June 30, 2017

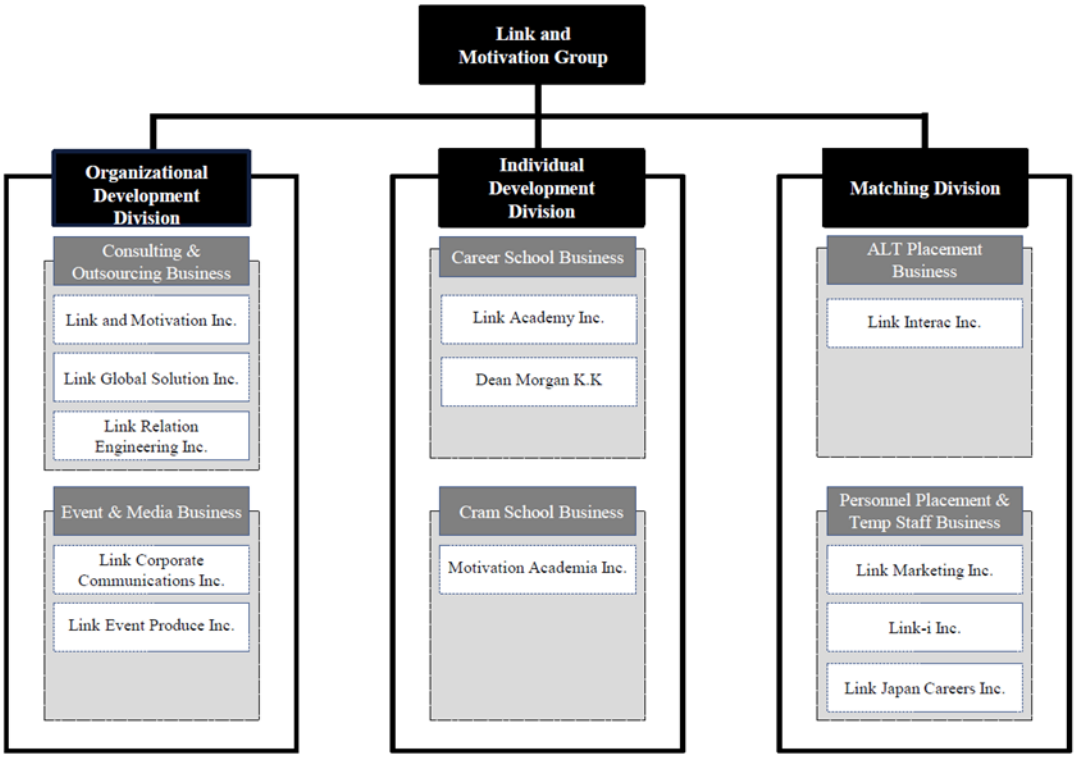
(1) Commentary on Results of Operations

In the Japanese economy during the first half of 2017 (January 1, 2017 – June 30, 2017), a moderate recovery trend continued in business conditions, with an underlying recovery in corporate production and earnings due to a rebound in capital investments and earnings from exports and other sources. Personal consumption, which had been in a persistent slump, recovered moderately as a result of growth associated with an increase in leisure time backed by factors including improvement in corporate work efficiency and the labor environment due to Japanese society's promotion of work style reform. In industries related to the Link and Motivation Group (the "Group"), demand increased in response to higher labor productivity and an improved labor and employment environment associated with the promotion of work style reform and women's active participation in the workplace. In addition, market demand is rising, with factors including growth in demand for human resources, as indicated by the increase in the effective ratio of job offers to applicants and the decrease in the total unemployment rate.

In this economic environment, revenues of the Group were ¥18,031 million (a 7.8% increase compared with the same period of the previous year). In addition, each level of income increased substantially due to a reduction of the cost ratio and more efficient use of selling, general and administrative (SG&A) expenses. Gross profit was ¥6,705 million (a 9.7% increase), operating income was ¥1,609 million (an 18.9% increase) and net income attributable to owners of the parent was ¥1,016 million (a 4.2% increase).

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

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



Organizational Development Division

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

In this segment, due to strong performance by each business, segment revenues for the first half of 2017 increased compared with the same period of the previous year to ¥5,900 million (a 16.2% increase). In addition, with the contribution of strong performance by the Consulting & Outsourcing business, which has a high profit margin, segment income increased to ¥3,808 million (a 13.2% increase). An overview of operating results by business for the first half of 2017 is as follows.

Consulting & Outsourcing Business

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

In this business, revenues in the first half of 2017 were ¥4,691 million (a 10.8% increase) and gross profit was ¥3,284 million (a 15.6% increase).

In the first half of 2017, backed by promotion of work style reform in the market, there was substantial growth in training programs for key personnel and management, and for strengthening sales capabilities, with the aim of raising productivity through employee education, as well as in consulting for purposes such as formulation and penetration of a corporate philosophy for organizational revitalization and integration of company-wide consciousness through internal and external rebranding and improvement of inner branding. In addition, as a result of strengthened sales promotion of Motivation Cloud, a new cloud-based service for organizational improvement, revenues and gross profit both increased compared with the same period of the previous year.

Substantially expanding the number of contact points that adopt Motivation Cloud while working to deepen customer relationships by developing linked solutions for innovation based on the results of its diagnosis will lead to further growth for the business.

Event & Media Business

The Event & Media business produces events and media for various types of communication associated with business activities to support the "creation of motivation companies" at corporations. In its event production, the business offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders' meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations sites and visual media such as videos that explain products and webcasts of shareholders' meetings.

In this business, revenues in the first half of 2017 were ¥2,044 million (a 24.1% increase) and gross profit was ¥676 million (a 0.5% increase).

In the first half of 2017, there was substantial growth in the outsourcing business for event management, which captured rising needs to conduct training and events to raise productivity associated with the promotion of work style reform. In media production, the IR-related production business also grew, and as a result, revenues increased compared with the same period of the previous year. On the other hand, gross profit increased slightly compared with the same period of the previous year as a result of curtailing subcontracting expenses in areas such as deployment of staff to conduct events in businesses with a high cost ratio such as event management.

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

Individual Development Division

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

In this segment, due to firm performance in the Career School business, segment revenues for the first half of 2017 were ¥3,362 million (a 2.6% increase) and segment income increased marginally to ¥1,079 million (a 0.1% increase). An overview of operating results by business for the first half of 2017 is as follows.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as "i-companies" and supports the production of numerous i-companies. As for specific services, the business operates career schools for university students and working adults, providing services under the three service brands of "Aviva" personal computer schools, "Daiei" qualification schools and "Aviva Pro" programming schools. In addition, during the first half of 2017, the business completed the acquisition of 59.98% of the issued shares of Dean Morgan K.K. on April 3, 2017 and made it a subsidiary, with the intention of further expanding the courses it offers as a total career school. As a result, the business provides one-stop support for individual career advancement under two new service brands: Rosetta Stone Learning Center, a Rosetta Stone brand foreign language school, and Hummingbird.

In this business, revenues in the first half of 2017 were ¥3,306 million (a 2.4% increase) and gross profit was ¥1,099 million (a 0.9% increase).

In the first half of 2017, an increase in revenues was expected from growth in personal consumption due to factors such as Japanese society's promotion of work style reform and improvement in the income and employment environment, but revenues did not increase significantly compared with the same period of the previous year. Specifically, during the first half of 2017, to improve the balance of the ratio among the services that make up revenues, the business strengthened sales promotion of courses for national and civil servant exams and the new service "Pro Series," a programming course for acquiring IT skills. As a result, revenues from Office courses, which were a mainstay service in the past, decreased and revenues from courses for national and civil servant exams and Pro Series grew. The business also rolled out its new Rosetta Stone Learning Center and Hummingbird service brands, but revenues did not increase significantly compared with the same period of the previous year.

Gross profit increased slightly compared with the same period of the previous year due to increased sales of the high-margin Proceed and communications course products.

The business will enhance its courses as a total career school and establish comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Personnel Placement & Temp Staff business. By doing so, it will promote career navigation with the aim of raising the loyalty of existing customers and attracting more new customers. Moreover, the business aims to improve profitability with a rollout in stages of Rosetta Stone Learning Centers to its existing business, which has 104 schools nationwide. Over the medium-to-long term, it aims to roll out foreign language learning services to corporate customers and to expand its foreign language business by making full use of the recruiting and labor management skills cultivated in the ALT Placement 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.

In this business, revenues in the first half of 2017 were ¥55 million (a 20.2% increase) and gross profit was negative ¥20 million (compared with a loss of ¥11 million in the same period of the previous year).

In the first half of 2017, revenues increased while gross profit decreased compared with the same period of the previous year due to an increase in one-time costs associated with the establishment of the new Shimokitazawa School, in addition to a slight decrease in the number of students. By further applying the know-how in training adults that has been cultivated in the Consulting & Outsourcing business, this business aims to achieve added value unattainable by conventional cram schools.

Matching Division

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

In this segment, segment revenues for the first half of 2017 were ¥9,549 million (a 7.2% increase) and segment income was ¥2,365 million (an 11.9% increase), both increasing compared with the same period of the previous year. An overview of operating results by business for the first half of 2017 is as follows.

ALT Placement Business

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

In this business, revenues in the first half of 2017 were ¥5,388 million (a 6.4% increase) and gross profit was ¥1,484 million (a 9.5% increase).

In the first half of 2017, the business capitalized on the trend toward strengthening English ability as outlined in educational guidelines for elementary and junior high schools, and revenues and gross profit both increased compared with the previous year.

The business will use the personnel training capabilities accumulated by the Consulting & Outsourcing business as a new advantage, in addition to the foreign employee recruiting and the labor management skills it has cultivated. It will also strive to improve profitability by developing new services beyond ALT placement.

Personnel Placement & Temp Staff Business

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

In this business, revenues in the first half of 2017 were ¥4,323 million (a 12.3% increase) and gross profit was ¥1,038 million (a 36.1% increase).

In the first half of 2017, the temp staff business grew compared with the same period of the previous year by capturing personnel procurement needs, backed by a shortage of human resources in the retail industry. The new graduate recruiting and introduction business grew compared with the same period of the previous year as the result of capturing corporate needs to hire new graduates, backed by the strengthening of the work force associated with the promotion of work style reform and a shortage of human resources, as indicated by the increase in the effective ratio of job offers to applicants and the decrease in the total unemployment rate. Moreover, the foreign temp staff business that began operations in the first half got off to a smooth start by capturing personnel procurement needs associated with an increase in foreign visitors to Japan, backed by a shortage of multilingual human resources. As a result, both revenues and gross profit increased compared with the same period of the previous year.

The business will further accelerate activities linked to corporate dispatch and introductions for individuals who have improved their skills through the Group's Career School business. In addition, it will work to increase profitability by making full use of recruiting and labor management skills cultivated in the ALT Placement business to expand the foreign human resources staffing business.

(2) Commentary on Financial Condition

A. Assets, Liabilities and Equity

Total assets as of June 30, 2017 were ¥24,177 million, an increase of ¥5,644 million from the end of the previous year. This was mainly due to factors including an increase in cash and cash equivalents of ¥1,848 million and an increase in other non-current financial assets of ¥2,329 million due to acquisition of other non-current financial assets and other factors.

Total liabilities were ¥17,628 million, an increase of ¥3,876 million from the end of the previous year. This was mainly due to an increase in interest-bearing and other financial liabilities of ¥3,308 million.

Total equity was ¥6,548 million, an increase of ¥1,767 million from the end of the previous year. This was mainly due to an increase in other components of equity resulting from recording net income attributable to owners of the parent and a ¥1,046 million increase in the fair value of other non-current financial assets.

B. Cash Flow

Cash and cash equivalents ("cash") as of June 30, 2017 were ¥2,931 million, an increase of ¥1,848 million during the period.

Cash flow during the first half was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities increased ¥412 million to ¥1,391 million. The principal factors were income from continuing operations before income taxes of ¥1,556 million, which was an increase of ¥286 million compared with the same period of the previous year, a decrease in trade and other receivables of ¥445 million, an increase in income tax refund of ¥336 million and a decrease in income taxes paid of ¥474 million compared with the same period of the previous year.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥2,499 million, an increase in cash used of ¥1,621 million in cash compared with the same period of the previous year. The principal factors were an increase in payments for acquisition of property, plant and equipment of ¥742 million, an increase in payments for acquisition of investment securities of ¥340 million and an increase in acquisition of subsidiary stock associated with a change in the scope of consolidation of ¥484 million compared with the same period of the previous year.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥2,956 million, a net increase of ¥3,083 million compared with the same period of the previous year. The principal factors were an increase of ¥3,182 million in proceeds from long-term financial liabilities, while repayment of repayment of long-term financial liabilities increased ¥991 million compared with the same period of the previous year.

(3) Qualitative Information Regarding the Forecast of Consolidated Results

Based on recent performance trends, the full-year forecast for 2017 (January 1, 2017 – December 31, 2017) has been revised from the announcement made in "Consolidated Financial Statements for the Fiscal Year Ended December 31, 2016," dated February 14, 2017.

For details, see "Revision of Forecast of Results," announced today (August 10, 2017).

2. Items Regarding Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

None applicable.

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

(Change in Classification for Recording Expenses)

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

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

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

(Change in Estimates of Asset Retirement Obligations)

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

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

3. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Balance Sheets

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

	Notes	(IFRS Transition Date) As of January 1, 2016	As of December 31, 2016	As of June 30, 2017
ASSETS				
Current assets				
Cash and cash equivalents	9	997	1,082	2,931
Trade and other receivables	9	3,694	4,001	4,423
Inventories		153	144	270
Other current financial assets		17	11	27
Current income tax assets		56	345	0
Other current assets		687	1,161	565
Total current assets		5,607	6,747	8,218
Non-current assets				
Property, plant and equipment		1,203	1,084	2,012
Goodwill		5,202	5,202	5,927
Intangible assets		542	484	535
Other non-current financial assets	9	3,484	4,279	6,609
Deferred tax assets		341	349	349
Other non-current assets		275	384	523
Total non-current assets		11,048	11,785	15,958
Total assets		16,655	18,532	24,177

(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 June 30, 2017
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Trade and other payables	9	3,630	3,566	3,913
Interest-bearing and other financial liabilities	9	3,732	3,337	4,408
Income tax payable		426	373	576
Provisions		—	35	—
Other current liabilities		1,611	2,354	1,790
Total current liabilities		9,401	9,668	10,688
Non-current liabilities				
Interest-bearing and other financial liabilities	9	2,287	3,438	5,675
Provisions		299	278	437
Deferred tax liabilities		143	199	663
Other non-current liabilities		178	167	163
Total non-current liabilities		2,908	4,084	6,940
Total liabilities		12,309	13,752	17,628
EQUITY				
Equity attributable to owners of the parent				
Share capital	8	1,380	1,380	1,380
Capital surplus		2,137	2,137	2,137
Treasury shares		(0)	(1,373)	(1,373)
Retained earnings		408	1,952	2,662
Other components of equity		418	683	1,729
Total equity attributable to owners of the parent		4,345	4,780	6,536
Non-controlling interests		—	—	11
Total equity		4,345	4,780	6,548
Total liabilities and equity		16,655	18,532	24,177

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

Condensed Quarterly Consolidated Statements of Operations

Six Months Ended June 30

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

	Notes	Six months ended June 30, 2016	Six months ended June 30, 2017
Continuous operations			
Revenues		16,721	18,031
Cost of sales		10,606	11,325
Gross profit		6,115	6,705
Selling, general and administrative expenses		4,792	5,126
Other income		98	86
Other expenses		68	56
Operating income		1,353	1,609
Financial income		5	4
Financial expenses		89	57
Income before income taxes		1,269	1,556
Income taxes		337	545
Income from continuing operations		931	1,010
Discontinued operations			
Income from discontinued operations	11	43	—
Net income		975	1,010
(Attributable to)			
Owners of the parent		975	1,016
Non-controlling interests		—	(5)
Total		975	1,010
			(Yen)
Earnings per share attributable to owners of the parent			
Basic earnings per share	12		
Continuing operations		8.33	9.62
Discontinued operations		0.39	—
Total basic earnings per share		8.72	9.62
Diluted earnings per share			
Continuing operations		—	—
Discontinued operations		—	—
Total diluted earnings per share		—	—

Three Months Ended June 30

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

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2017
Continuous operations			
Revenues		8,474	9,275
Cost of sales		5,279	5,691
Gross profit		3,195	3,583
Selling, general and administrative expenses		2,399	2,652
Other income		7	18
Other expenses		63	38
Operating income		739	911
Financial income		0	1
Financial expenses		22	26
Income before income taxes		717	886
Income taxes		154	288
Income from continuing operations		562	597
Discontinued operations			
Income from discontinued operations	11	43	—
Net income		606	597
(Attributable to)			
Owners of the parent		606	602
Non-controlling interests		—	(5)
Total		606	597
			(Yen)
Earnings per share attributable to owners of the parent			
Basic earnings per share	12		
Continuing operations		5.08	5.71
Discontinued operations		0.39	—
Total basic earnings per share		5.47	5.71
Diluted earnings per share			
Continuing operations		—	—
Discontinued operations		—	—
Total diluted earnings per share		—	—

Condensed Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended June 30

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

	Notes	Six months ended June 30, 2016	Six months ended June 30, 2017
Net income		975	1,010
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		744	1,046
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(5)	(0)
Total other comprehensive income		739	1,046
Total comprehensive income		1,714	2,057
(Attributable to)			
Owners of the parent		1,714	2,062
Non-controlling interests		—	(5)
Comprehensive income		1,714	2,057

Three Months Ended June 30

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

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2017
Net income		606	597
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		6	685
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(2)	(0)
Total other comprehensive income		4	685
Total comprehensive income		610	1,283
(Attributable to)			
Owners of the parent		610	1,288
Non-controlling interests		—	(5)
Comprehensive income		610	1,283

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Six months ended June 30, 2016

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

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2016		1,380	2,137	(0)	408	418	4,345	—	4,345
Net income					975	—	975	—	975
Other comprehensive income						739	739	—	739
Total comprehensive income		—	—	—	975	739	1,714	—	1,714
Purchase of treasury shares				(873)		—	(873)		(873)
Dividends from surplus	10				(263)	—	(263)		(263)
Total transactions with the owners		—	—	(873)	(263)	—	(1,137)	—	(1,137)
June 30, 2016		1,380	2,137	(873)	1,119	1,158	4,922	—	4,922

Six months ended June 30, 2017

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

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2017		1,380	2,137	(1,373)	1,952	683	4,780	—	4,780
Net income					1,016	—	1,016	(5)	1,010
Other comprehensive income						1,046	1,046	—	1,046
Total comprehensive income		—	—	—	1,016	1,046	2,062	(5)	2,057
Dividends from surplus	10				(306)	—	(306)		(306)
Change due to business combination								16	16
Total transactions with the owners		—	—	—	(306)	—	(306)	16	(289)
June 30, 2017		1,380	2,137	(1,373)	2,662	1,729	6,536	11	6,548

(4) Condensed Quarterly Consolidated Statements of Cash Flow

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

	Notes	Six months ended June 30, 2016	Six months ended June 30, 2017
Cash flow from operating activities			
Income from continuing operations before income taxes		1,269	1,556
Income from discontinued operations before income taxes		67	—
Depreciation and amortization		286	336
Loss on impairment		0	3
Interest and dividends income		(5)	(2)
Interest expense		34	57
Compensation received		(88)	—
Loss (gain) on sale of subsidiary stock		(51)	—
Loss on disposal of non-current assets		30	2
Decrease (increase) in trade and other receivables		22	(422)
Decrease (increase) in inventories		(21)	(122)
Increase (decrease) in trade and other payables		6	33
Other		187	19
Subtotal		1,739	1,460
Interest and dividends received		1	0
Interest paid		(22)	(48)
Proceeds from compensation		88	—
Income tax refund		56	393
Income taxes paid		(884)	(410)
Proceeds from cancellation of insurance		—	(3)
Net cash provided by operating activities		979	1,391
Cash flow from investing activities			
Payments for acquisition of property, plant and equipment		(114)	(857)
Payments for acquisition of intangible assets		(147)	(122)
Payments for acquisition of investment securities		(150)	(490)
Payments for acquisition of subsidiary stock due to change in the scope of consolidation	13	—	(484)
Payments for sale of subsidiary stock due to change in the scope of consolidation	13	(22)	—
Payments for loans		(54)	—
Proceeds from recovery of short-term loans		37	—
Payments for security deposits and guarantees		(455)	(484)
Proceeds from recovery of security deposits and guarantees		33	—
Payments for fulfillment of asset retirement obligations		—	(48)
Other		(4)	(11)
Net cash provided by (used in) investing activities		(877)	(2,499)
Cash flow from financing activities			
Increase (decrease) in short-term financial liabilities		768	785
Proceeds from long-term financial liabilities		647	3,830
Repayment of long-term financial liabilities		(343)	(1,334)
Payments for purchase of treasury shares		(873)	—
Payments of cash dividends		(263)	(269)
Other		(62)	(54)
Net cash provided by (used in) financing activities		(126)	2,956
Cash and cash equivalents translation adjustment		(5)	(0)
Net increase (decrease) in cash and cash equivalents		(31)	1,848
Cash and cash equivalents at beginning of year		997	1,082
Cash and cash equivalents at end of the quarter		965	2,931

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes Regarding Assumption of Going Concern)

None applicable

(First-Time Adoption)

(1) Transition to Reporting Based on IFRS

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

Exemption Provisions for Retrospective Application

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

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

Mandatory Exceptional Provision for Retrospective Application

IFRS 1 prohibits retrospective application of IFRS to "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting" and "classification and measurement of financial assets." The consolidated companies apply 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	3	Trade and other receivables
Products	75	78		153	4, 19	Inventories
Work in progress	63	(63)				
Raw materials and supplies	37	(14)	(22)			
Prepaid expenses	340	(340)				
Short-term loans receivable	17			17	5	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	6	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	21, 24	Property, plant and equipment
Intangible assets						
Goodwill	7,070		(1,868)	5,202	22	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	7, 20	Other non-current financial assets
Claims in bankruptcy	18	221	100	341		
Deferred tax assets	10	(10)			2, 25	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 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	8	Trade and other payables
Short-term borrowings	3,008	724		3,732	9	Interest-bearing and other financial liabilities
Long-term debt due within one year	621	(621)				
Accounts payable	1,580	(1,580)				
Lease obligations	102	(102)				
Expenses payable	155	(155)				
Accrued income taxes	426			426		Income tax payable
Accrued consumption taxes	433	(433)				
Advances received	1,727	(1,727)				
Accrued bonuses to employees	194	(194)				
Accrued bonuses to officers	29	(29)				
Other	263	813	534	1,611	10, 23, 26	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	12	Interest-bearing and other financial liabilities
Lease obligations	156	(156)				
Deferred tax liability	21		122	143	2, 25	Deferred tax liabilities
Asset retirement obligations	88		210	299	11, 24	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	27	Capital surplus
Retained earnings	2,482		(2,073)	408	29	Retained earnings
Treasury stock	(0)			(0)		Treasury shares
Unrealized gain (loss) on securities	15		403	418	13, 20, 28	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 first half of 2016 (June 30, 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	965			965		Cash and cash equivalents
Notes and accounts receivable	3,718	(42)		3,675	3	Trade and other receivables
Products	74	(74)				
Work in progress	64	92		157	4, 19	Inventories
Raw materials and supplies	38	(18)	(20)			
Short-term loans receivable	296	(296)				
Prepaid expenses	33			33	5	Other current financial assets
Accrued corporate tax refund	491			491		Current income tax assets
Accrued consumption tax	195	(195)				
Deferred tax assets	223	(223)				
Other	175	491		667	6	Other current assets
Allowance for doubtful accounts	(42)	42	(0)			
Total current assets	6,235	(223)	(20)	5,990		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	1,004		211	1,216	21, 24	Property, plant and equipment
Intangible assets						
Goodwill	6,703		(1,501)	5,202	22	Goodwill
Software	433	66		499		Tangible assets
Other	66	(66)				
Investments and other assets						
Investment securities	2,744	1,607	720	5,072	7, 20	Other non-current financial assets
Securities and deposits	1,670	(1,706)	35			
Deferred tax assets	17	223	100	341	2, 25	Deferred tax assets
Claims in bankruptcy	11	(11)				
Other	274		81	355		Other non-current assets
Allowance for doubtful accounts	(109)	109				
Total fixed assets	12,816	223	(352)	12,687		Total non-current assets
Deferred assets						
Stock issuance expenses	4		(4)			
Total assets	19,056	—	(377)	18,678		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	262	3,334		3,596	8	Trade and other payables
Short-term borrowings	3,700	950		4,650	9	Interest-bearing and other financial liabilities
Long-term debt due within one year	835	(835)				
Accounts payable	1,594	(1,594)				
Lease obligations	114	(114)				
Expenses payable	102	(102)				
Accrued income taxes	406			406		Income tax payable
Accrued consumption taxes	612	(612)				
Advances received	1,730	(1,730)				
Accrued bonuses to employees	252	(252)				
Accrued bonuses to officers	26	(26)				
Allowance for shareholder benefit program	24	(24)				
Other	262	1,008	541	1,812	10, 23, 26	Other current liabilities
Total current liabilities	9,923	—	541	10,464		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term debt	2,173	179		2,352	12	Interest-bearing and other financial liabilities
Lease obligations	179	(179)				
Asset retirement obligations	333		127	460	2, 25	Provisions
Deferred tax liability	91		216	308	11, 24	Deferred tax liabilities
Other	169			169		Other non-current liabilities
Total long-term liabilities	2,947	—	343	3,290		Total non-current liabilities
Total liabilities	12,870	—	884	13,755		Total liabilities
Net assets						Equity
Common stock	1,380			1,380		Share capital
Additional paid-in capital	2,146		(9)	2,137	27	Capital surplus
Retained earnings	2,818		(1,698)	1,119	29	Retained earnings
Treasury stock	(873)			(873)		Treasury shares
Unrealized gain (loss) on securities	714	(5)	449	1,158	13, 20, 28	Other components of equity
Deferred gain (loss) on hedges	(3)		3			
Foreign currency translation adjustment	2	5	(7)			
Total net assets	6,185	—	(1,262)	4,922		Total equity
Total liabilities and net assets	19,056	—	(377)	18,678		Total liabilities and equity

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

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

Japanese GAAP	Japanese GAAP	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	3	Trade and other receivables
Products	70	74		144	4, 19	Inventories
Work in progress	54	(54)				
Raw materials and supplies	40	(19)	(20)			
Prepaid expenses	380	(380)				
Deferred tax assets	206	(206)				
Short-term loans receivable	11			11	5	Other current financial assets
Accrued corporate tax refund	345			345		Current income tax assets
Accrued consumption tax	519	(519)				
Other	261	900		1,161	6	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	21, 24	Property, plant and equipment
Intangible assets						
Goodwill	6,336		(1,134)	5,202	22	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	7, 20	Other non-current financial assets
Deferred tax assets	100	206	42	349	2, 25	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 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	8	Trade and other payables
Short-term borrowings	1,714	1,622		3,337	9	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	11, 24	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	10, 23, 26	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	12	Interest-bearing and other financial liabilities
Lease obligations	153	(153)				
Deferred tax liability	174		25	199	2, 25	Deferred tax liabilities
Asset retirement obligation	70		207	278	11, 24	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	27	Capital surplus
Retained earnings	3,289		(1,336)	1,952	29	Retained earnings
Treasury stock	(1,373)			(1,373)		Treasury shares
Unrealized gain (loss) on securities	345	(1)	339	683	13, 20, 28	Other components of equity
Foreign currency translation adjustments	5	1	(7)			
Total net assets	5,794	—	(1,013)	4,780		Total equity
Total liabilities and net assets	18,773	—	(240)	18,532		Total liabilities and equity

(5) Reconciliations of comprehensive income for the first half of 2016 (January 1, 2016 – June 30, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	17,098	(367)	(9)	16,721	14,26	Revenues
Cost of sales	10,887	(282)	1	10,606	14,26	Cost of sales
Gross profit	6,210	(84)	(10)	6,115		Gross profit
Selling, general and administrative expenses	5,209	(55)	(361)	4,792	14	Selling, general and administrative expenses
		98		98	14,17	Other income
		68		68	14,18	Other expenses
Operating income	1,001	1	350	1,353		Operating income
Non-operating income	14	(14)	4	5	15	Financial income
Non-operating expenses	83	(3)	9	89	14,16	Financial expenses
Extraordinary income	140	(139)	0			
Extraordinary loss	93	(65)	(27)			
Income before income taxes	979	(82)	372	1,269		Income before income taxes
Income taxes	379	(39)	(1)	337	14	Income taxes
	600	(43)	374	931		Income from continuing operations
		43		43	14	Income from discontinued operations
Net income	600	—	374	975		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	600		374	975		Net income
Other comprehensive income						Other comprehensive income
Unrealized gain (loss) on securities	699		45	744		Financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustment	(5)			(5)		Exchange differences on translation of foreign operations
Deferred gain (loss) on hedges	(3)		3			
Total other comprehensive income	689	—	49	739		Total other comprehensive income
Comprehensive income	1,290	—	424	1,714		Total comprehensive income
(Attributable to)						
Owners of the parent	1,290		424	1,714		Owners of the parent
Non-controlling interests	—			—		Non-controlling interests

(6) Reconciliations of comprehensive income for the second quarter of fiscal 2016 (April 1, 2016 – June 30, 2016)

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	8,788	(307)	(6)	8,474	14,26	Revenues
Cost of sales	5,501	(223)	0	5,279	14,26	Cost of sales
Gross profit	3,287	(84)	(7)	3,195		Gross profit
Selling, general and administrative expenses	2,642	(63)	(179)	2,399	14	Selling, general and administrative expenses
		7		7	14,17	Other income
		63		63	14,18	Other expenses
Operating income	644	(77)	171	739		Operating income
Non-operating income	9	(10)	1	0	15	Financial income
Non-operating expenses	18	(1)	5	22	14,16	Financial expenses
Extraordinary income	51	(51)	0			
Extraordinary loss	62	(62)				
Income before income taxes	625	(74)	167	717		Income before income taxes
Income taxes	188	(31)	(1)	154	14	Income taxes
	437	(43)	169	562		Income from continuing operations
		43		43	14	Income from discontinued operations
Net income	437	—	169	606		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	437		169	606		Net income
Other comprehensive income						Other comprehensive income
Unrealized gain (loss) on securities	(6)		13	6		Financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustment	(2)			(2)		Exchange differences on translation of foreign operations
Deferred gain (loss) on hedges	(1)		1			
Total other comprehensive income	(10)	—	14	4		Total other comprehensive income
Comprehensive income	426	—	184	610		Total comprehensive income
(Attributable to)						
Owners of the parent	426		184	610		Owners of the parent
Non-controlling interests	—			—		Non-controlling interests

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

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

Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	IFRS
Net sales	33,917	(176)	(420)	33,321	14,26	Revenues
Cost of sales	21,642	(91)	(406)	21,144	14,26	Cost of sales
Gross profit	12,275	(84)	(13)	12,177		Gross profit
Selling, general and administrative expenses	10,350	(40)	(732)	9,577	14	Selling, general and administrative expenses
		113		113	14,17	Other income
		244		244	14,18	Other expenses
Operating income	1,924	(174)	718	2,468		Operating income
Non-operating income	30	(28)	10	13	15	Financial income
Non-operating expenses	128	(6)	14	136	14,16	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	14	Income taxes
Deferred income taxes	(63)	198	(136)			
	1,353	(43)	450	1,760		Net income from continuing operations
		43		43	14	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

(8) Notes Regarding Reclassifications

The main details of differences in classification are as follows.

1. Non-current assets or disposal groups held for sale are presented as assets held for sale in current assets and liabilities directly related to assets held for sale in current liabilities under IFRS.

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

3. 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.

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

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

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

7. 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.

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

9. 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.

10. 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.

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

12. 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.

13. 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.

14. 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.

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

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

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

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

(9) Notes Regarding Adjustments to Recognition and Measurement

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

19. 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.

20. 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.

21. 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.

22. 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 June 30, 2016	As of December 31, 2016
Adjusted balance as of the transition date	(1,868)	(1,868)	(1,868)
(Japanese GAAP) Reversal of fixed-term amortization	—	366	733
Total	(1,868)	(1,501)	(1,134)

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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 June 30, 2016	As of December 31, 2016
Adjustment to inventory	(22)	(20)	(20)
Adjustment to non-marketable financial instruments	46	73	73
Adjustment to depreciation	124	116	103
Adjustment to goodwill	(1,868)	(1,501)	(1,134)
Adjustment to unused paid leave	(532)	(532)	(540)
Adjustment to asset retirement obligations	1	(3)	0
Others	7	(1)	15
Subtotal	(2,244)	(1,869)	(1,502)
Adjustment due to tax-effect accounting	170	170	165
Total	(2,073)	(1,698)	(1,336)

(10) Adjustment to Cash Flow for the Previous Interim Period (January 1, 2016 – June 30, 2016) and the Previous Fiscal Year (January 1, 2016 – December 31, 2016)

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

(Significant Subsequent Event)

(Business Acquisition)

Motivation Academia Inc., a wholly owned subsidiary of the Company, resolved to take over the "SS-1" individualized instruction school business for students preparing for entrance exams at elite junior high schools, which is operated by Superweb Co., Ltd., from said company, entered into a business transfer agreement, and took over the business on July 1, 2017.

1. Purpose of Business Acquisition

The Group aims to produce more "i-company managers" who blaze a trail into the future independently and autonomously by not only studying for exams, but also by cultivating skills that are accepted in society. It concluded the contract for the business acquisition because greater synergy is expected from taking over the customers of SS-1 in Tokyo, Osaka and Hyogo, who are enthusiastic about education, and utilizing its know-how in guidance based on "Motivation Engineering," the Company's core technology.

Going forward, the Group aims to expand business by strengthening the linkage between Motivation Academia and SS-1 by sharing the assets of both brands. Over the medium to long term, the Group aims to provide a place for developing skills that are useful in society for students from elementary school through to high school by utilizing the "programming education" and "English conversation education" assets of the Group's Career School business.

2. Overview of the Business Acquisition

(1) Name of Company Transferring the Business
Superweb Co., Ltd.

(2) Content of the Transferred Business
"SS-1" individualized instruction school business

(3) Execution Date of Business Transfer
July 1, 2017

(4) Legal Form of Business Transfer
Business succession by absorption and separation with cash consideration

(5) Business Name after Combination
Motivation Academia Inc.

(6) Main Grounds for Decision by Acquiring Company
Due to the Company's decision that Motivation Academia Inc. succeed the SS-1 business of Superweb Co., Ltd. for cash consideration.

3. Content and Amount of Main Acquisition-Related Expenses

Not determined at this time.

4. Fair Value of Assets and Liabilities and Goodwill of Transferred Business

Evaluation procedures necessary for calculating the fair value of the assets and liabilities of the business transferred at the date of execution of this business transfer have not been completed at this time.