Consolidated Financial Statements for the Three Months Ended March 31, 2023 (IFRS)

These financial statements have been prepared for reference only.

May 12, 2023

Link and Motivation Inc. Stock exchange listing: Tokyo, Prime
Markethttp://www.lmi.ne.jp/english Code number: 2170
Representative: Ozasa Yoshihisa, Chairman and Representative Director
Contact: Yokoyama Hiroaki, Corporate Officer and Manager of Group Design Office
Phone: +81-3-6853-8111
Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): May 12, 2023
Start of distribution of dividends (scheduled): June 23, 2023
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Three Months Ended March 31, 2023 (January 1, 2023 - March 31, 2023)

(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 (%)
Three months ended March 31, 2023	8,008	0.8	865	8.1	848	17.4	507	(2.4)
Three months ended March 31, 2022	7,947	0.0	800	28.3	723	27.3	520	—

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehensive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Three months ended March 31, 2023	422	(11.4)	650	36.6	3.79	3.77
Three months ended March 31, 2022	476	—	476	—	4.27	4.27

Note: The Group has adopted IAS 12 *Income Taxes* (May 2021 amendment) as of the first quarter of the fiscal year ending December 31, 2023, and figures are retrospectively restated to reflect this change in accounting policy. The percentage change from the same period of the previous year in the amounts of net income, net income attributable to owners of the parent, and comprehensive income are not presented because retrospective adjustments were made in accordance with this change in accounting policy.

(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 March 31, 2023	30,053	12,140	9,563	31.8
As of December 31, 2022	28,908	11,243	9,057	31.3

Note: The Group has adopted IAS 12 *Income Taxes* (May 2021 amendment) as of the first quarter of the fiscal year ending December 31, 2023, and figures are retrospectively restated to reflect this change in accounting policy.

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2022	1.90	1.90	1.90	2.00	7.70
2023	2.80				
2023 (est.)		2.80	2.80	2.80	11.20

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

3. Forecast of Consolidated Results for 2023 (January 1, 2023 - December 31, 2023)

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

	Revenues		Operating income		Net income		Net income attributable to owners of the parent		Basic earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Full-year	35,300	7.7	4,670	28.7	2,900	37.7	2,630	35.4	23.57

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

Notes

(1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries Due to Change in Scope of Consolidation): No

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

* Please refer to "(5) Notes to Condensed Consolidated Financial Statements" on page 16 for details.

(3) Number of Shares Issued and Outstanding (Common Stock)
- (a) Number of shares at the end of the period (including treasury stock)
  Three months ended March 31, 2023: 113,068,000; Year ended December 31, 2022: 113,068,000
- (b) Number of treasury shares at the end of the period:
  Three months ended March 31, 2023: 1,506,468; Year ended December 31, 2022: 1,506,468
- (c) Average number of shares outstanding (cumulative with earlier quarters):
  Three months ended March 31, 2023: 111,561,532; Three months ended March 31, 2022: 111,561,557

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

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

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

Contents of Attachments

1. Overview of Results of Operations and Other Information

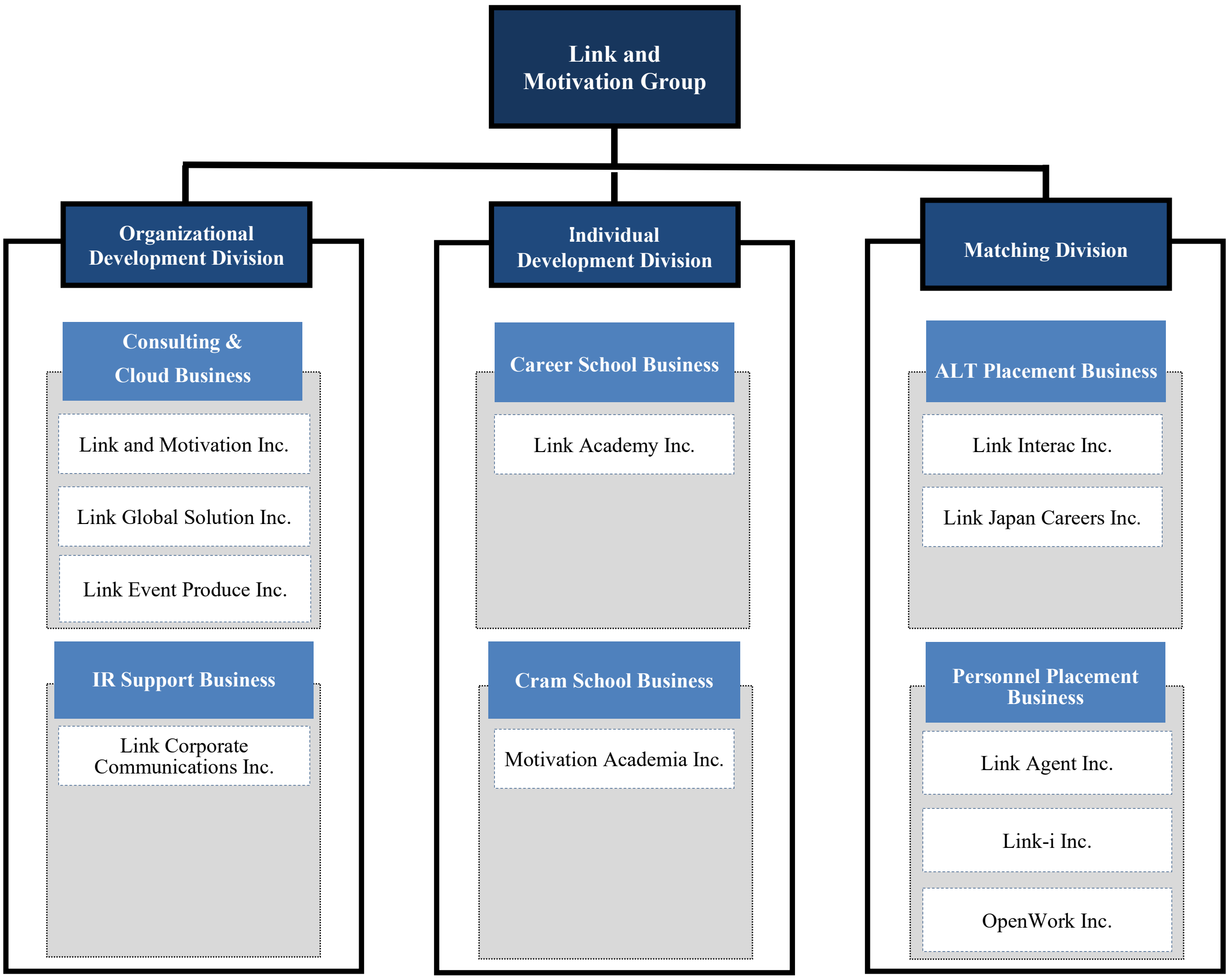
Forward-looking statements in the following text are based on judgments as of March 31, 2023, the last day of the consolidated accounting period under review. Because the Link and Motivation Group (the "Group") transferred the domestic temp staff business operated by its subsidiary Link Agent Inc. (formerly Link Staffing Inc.) to iDA K.K. as of January 1, 2022, these operations are classified as discontinued. Therefore, the amount from continuing operations is shown for revenues, gross profit and operating income, and the total from continuing and discontinued operations is shown for net income attributable to owners of the parent.

(1) Overview of Results of Operations for the Three Months Ended March 31, 2023

The Group supports the transformation of numerous organizations and individuals using "Motivation Engineering," which is the Group's core technology, incorporating academic results in business administration, social systems theory, behavioral economics, psychology and other disciplines, under its mission: "Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society." During the three months ended March 31, 2023, the Japanese economy showed a gradual recovery trend as movement restrictions imposed to prevent the spread of COVID-19 were eased. However, the economic outlook remains unclear due to price increases in Japan and the risk of stagnation in the global economy due to interest rate hikes in various countries. Under these economic conditions, the Group perceives a growing need for companies to promote human capital management in order to deal with change.

In this economic environment, the Group's revenues for the first quarter of 2023 were ¥8,008 million (a 0.8% increase compared with the same period of the previous year), gross profit was ¥4,153 million (a 3.3% increase), operating income was ¥865 million (an 8.1% increase) and net income attributable to owners of the parent was ¥422 million (an 11.4% decrease). The Group has adopted IAS 12 *Income Taxes* (May 2021 amendment) as of the first quarter of the fiscal year ending December 31, 2023. This amendment has been applied retrospectively. As a result, net income attributable to owners of the parent increased by ¥158 million in the first quarter of the previous fiscal year and by ¥2 million in the first quarter of 2023. Net income attributable to owners of the parent for the first quarter of 2023 would have been ¥419 million before the retrospective application (a 32.0% increase compared with the same period of the previous year before the retrospective application).

The segment and business classifications of the Group are as shown below, and an overview of the first quarter of 2023 by segment and business follows.



Organizational Development Division

The Organizational Development Division defines companies that use employee motivation as the engine of corporate growth as “Motivation Companies,” and provides support for the creation of many such “Motivation Companies.” In concrete terms, it offers corporate customers services that provide support for increasing engagement with a company’s stakeholders (employees, job applicants, customers, shareholders) using “Motivation Engineering,” which is the core technology of the Group.

In this segment, segment revenues for the first quarter of 2023 were ¥2,868 million (a 12.2% increase), and segment income was ¥2,002 million (a 9.2% increase). An overview of operating results by business for the first quarter of 2023 is as follows.

Consulting & Cloud Business

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

In this business, revenues for the first quarter of 2023 were ¥2,557 million (an 11.9% increase) and gross profit was ¥1,898 million (an 11.4% increase). Results by product in the Consulting & Cloud business were as follows.

Table 1. Revenues by Product

Product (¥ million) (Figures in brackets are gross profit)	Three months ended March 31, 2022	Three months ended March 31, 2023	YoY change (%)
Consulting & Cloud Business	2,284 [1,704]	2,557 [1,898]	11.9% 11.4%
Consulting	1,498	1,518	1.3%
Cloud	786	1,038	32.1%

In the first quarter of 2023, revenues and gross profit increased substantially compared with the same period of the previous year, driven by growth of the Motivation Cloud series.

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

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

	2022				2023
	March	June	September	December	March
Number of deliveries	745	768	820	831	846
Monthly fee revenue (¥ thousand)	256,155	284,692	306,934	328,505	339,179

Since its founding in 2000, the Group has not only diagnosed the engagement status of companies and employees but has also supported their transformation. The Motivation Cloud series is a group of cloud-based services in the field of HR Tech (human resources combined with technology) for improving employee engagement. The Group migrated the organization diagnosis service it has offered since its founding to the cloud and started providing the Motivation Cloud service in July 2016. Motivation Cloud is currently ranked number one in share of sales by vendor in the employee engagement market (the fifth consecutive year: fiscal 2017 to fiscal 2021 forecast) in *ITR Market View: Human Resources Management Market 2022*, a market research report published by ITR Corporation.

The Group is forecasting ¥430,000 thousand in fee revenue from the Motivation Cloud series for the month of December 2023 (a year-on-year increase of 30.9%). Monthly fee revenue for March 2023 was ¥339,179 thousand (a 32.4% increase).

The Group will promote introductions of Motivation Cloud at major companies and lateral deployment at their group companies. In addition, for Stretch Cloud, a human resource development cloud service, we plan to expand in the human resource development market, which exceeds ¥500 billion. By executing these growth strategies, the Group will achieve further growth.

IR Support Business

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

In this business, revenues for the first quarter of 2023 were ¥375 million (a 7.1% increase) and gross profit was ¥139 million (an 18.9% decrease).

In the first quarter, revenues increased compared with the same period of the previous year as production of integrated reports expanded. Gross profit decreased substantially compared with the same period of the previous year due to an increase in production-related personnel expenses.

Needs for disclosure of information on non-financial capital, particularly human capital information, are increasing further with the requirement to disclose human capital information in securities reports. The business will respond to these needs as well as generate synergies with the Consulting & Cloud business by disclosing the results of its diagnosis and transformation initiatives.

Individual Development Division

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

In this segment, segment revenues for the first quarter of 2023 were ¥1,573 million (a 14.2% decrease) and segment income was ¥670 million (a 17.6% decrease). An overview of operating results by business for the first quarter of 2023 is as follows.

Career School Business

The Career School business provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the five service brands of "Aviva" personal computer schools, "Daiei" qualification schools, and "Rosetta Stone Learning Center," "Rosetta Stone Premium Club" and "Hummingbird" foreign language schools.

In this business, revenues for the first quarter of 2023 were ¥1,402 million (a 16.5% decrease) and gross profit was ¥600 million (a 19.0% decrease). In the first quarter, revenues and gross profit decreased substantially compared with the same period of the previous year due to relocation and closure of schools in BtoC services, and because the repeat rate became an issue in BtoB services (reskilling support for employees).

In BtoC services, the business continued to carry out structural reforms. Specifically, in response to the significant changes in lifestyles due to COVID-19, and the shift of learning needs from in-person to online, the business is porting all courses and support for its BtoC services online. In addition, the repeat customer rate has become an issue for BtoB services as some solutions remain centered on one-off, on-site support. Going forward, we will provide programs that have a high level of continuation and that are not one-off solutions to the HR departments of companies rather than just as on-site support, while enhancing collaboration with the Organizational Development Division.

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous "i-Companies" in addition to improving the academic ability of its students. Its services consist of operating "Motivation Academia" cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society. The business also operates "SS-1," an individualized instruction school for students preparing for junior high school entrance exams. The Cram School business utilizes its assets in programming education and English conversation education to provide a place for students from elementary school straight through to high school to develop skills that will be of use in society. Like the Career School business, it now offers both in-school and online services in response to lifestyle changes caused by the COVID-19 pandemic.

In this business, revenues for the first quarter of 2023 were ¥170 million (a 10.5% increase) and gross profit was ¥69 million (a 2.5% decrease).

Revenues increased substantially in the first quarter due to improvement in the continuation rate after completion of junior high school entrance exams. Gross profit decreased slightly as an increase in personnel expenses was reflected in cost of sales.

This business will continue to increase the number of new enrollees by providing learning opportunities to a wide range of students through online classes.

Matching Division

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

In this segment, segment revenues for the first quarter of 2023 were ¥3,816 million (a 1.1% decrease) and segment income was ¥1,702 million (a 3.4% increase). An overview of operating results by business for the first quarter of 2023 is as follows.

ALT Placement Business

The ALT Placement business dispatches non-Japanese 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 predominant number-one share among private companies.

In this business, revenues for the first quarter of 2023 were ¥2,951 million (a 7.6% decrease) and gross profit was ¥856 million (a 13.2% decrease).

In the first quarter, due to price adjustments by the business as a result of the expansion of social insurance coverage for ALTs that took effect in October 2022, some local governments did not place bids because the price exceeded their expectations. As a result, both revenues and gross profit decreased compared with the same period of the previous year.

The Group will continue to aim for the stable growth of the ALT Placement business by meeting the increasingly diverse needs of local governments.

Personnel Placement Business

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

In this business, revenues for the first quarter of 2023 were ¥872 million (a 30.6% increase) and gross profit was ¥852 million (a 28.7% increase).

In the first quarter, OpenWork Inc., which has a particularly high growth rate, continued to steadily accumulate registered users and data on employee online reviews and evaluation scores. The direct recruiting service (OpenWork Recruiting) saw an increase in the number of website visits through natural searches, and stronger marketing efforts led to an increase in the number of new online resume registrations. The cumulative number of online resume registrations (working adults and students) has grown to approximately 820,000. In addition, as a result of efforts in the previous fiscal year to revitalize existing customers and increase the number of job listings, recruiting by employers and registered agencies increased, and revenues from this service were ¥396 million.

This business will continue to expand synergy with the Organizational Development Division, and will ramp up support for "matching with a high retention rate" by considering not only the skills of individuals but also the type of job seekers.

<u>Venture Incubation</u>

In addition to its divisions, the Group conducts venture incubation. In venture incubation, the Group provides its know-how in organizational and personnel consulting in addition to funding, as well as support on an organizational level for growing venture companies that aim to list their stock. The two main criteria for selection of investees are (1) sympathy with the idea of "creation of Motivation Companies" and (2) aim to list stock. Gains on sales and other results generated from venture incubation are recorded in other components of equity on the condensed consolidated statements of financial position, or under other income or other expenses on the consolidated statements of operations.

(2) Overview of Financial Position for the Three Months Ended March 31, 2023

Total assets as of March 31, 2023 were ¥30,053 million, an increase of ¥1,145 million from the end of the previous year. This was mainly due to a ¥949 million increase in cash and cash equivalents.

Total liabilities as of March 31, 2023 were ¥17,912 million, an increase of ¥247 million from the end of the previous year. This was mainly due to factors including decreases of ¥523 million in trade and other payables and ¥258 million in income tax payable, and an increase of ¥945 million in interest-bearing and other financial liabilities.

Total equity as of March 31, 2023 was ¥12,140 million, an increase of ¥897 million from the end of the previous year. This was mainly due to factors including a ¥169 million increase in capital surplus associated with a change in ownership interest in subsidiaries and a ¥391 million increase in non-controlling interests.

(3) Overview of Cash Flow for the Three Months Ended March 31, 2023

Cash and cash equivalents ("cash") as of March 31, 2023 were ¥7,061 million, an increase of ¥949 million during the period.

Cash flow during the three months ended March 31, 2023 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥70 million (compared with net cash used of ¥41 million in the same period of the previous year). The principal factors decreasing cash were a ¥420 million increase in trade and other receivables compared with the same period of the previous year, while the principal factors increasing cash included a ¥125 million increase in income before income taxes, a ¥114 million increase in loss on impairment, and a ¥200 million increase in trade and other payables.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥46 million (compared with net cash provided of ¥748 million in the same period of the previous year). Principal factors increasing cash included a ¥229 million decrease in payments for acquisition of intangible assets and an increase in cash due to the non-recurrence of payments for asset retirement obligations in the same period of the previous year, while the principal factors decreasing cash included the non-recurrence of proceeds from business transfer that occurred in the same period of the previous year and a decrease of ¥832 million in proceeds from refund of security deposits and guarantees compared with the same period of the previous year.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥924 million (compared with net cash used of ¥377 million in the same period of the previous year). The principal factor decreasing cash was the non-recurrence of proceeds from long-term financial liabilities that occurred in the same period of the previous year, while the principal factors increasing cash included a ¥1,500 million net increase in short-term financial liabilities, a decrease of ¥706 million in repayment of long-term financial liabilities, and an increase of ¥452 million in proceeds from payments from non-controlling interests.

(4) Forecast

Despite the continued decline in profit in the Career School business and the ALT Placement business compared with the same period of the previous fiscal year, operating income increased from the previous year with the growth of the highly profitable Consulting & Cloud business and Personnel Placement business. For the fiscal year ending December 31, 2023, the Group has forecast revenues of ¥35,300 million (a 7.7% year-on-year increase), operating income of ¥4,670 million (a 28.7% increase), and net income attributable to owners of the parent of ¥2,630 million (a 35.4% increase).

The Group will continue to advance a growth strategy centered on the Organizational Development Division while responding appropriately to changes in the external environment. Specifically, as human capital management and related information disclosure become more active, the Group will focus on stimulating needs for human capital management as well as disclosure, and will provide support through cross-selling of services for diagnosis, transformation and disclosure. In addition, the Group will achieve further growth in the Individual Development Division and Matching Division by expanding synergy with the Organizational Development Division.

2. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Statements of Financial Position

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

	As of December 31, 2022	As of March 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	6,112	7,061
Trade and other receivables	3,299	3,271
Inventories	183	204
Other current financial assets	12	0
Other current assets	1,025	1,060
Total current assets	10,633	11,598
Non-current assets		
Property, plant and equipment	599	633
Right-of-use assets	3,308	3,376
Goodwill	9,347	9,347
Intangible assets	2,417	2,295
Other non-current financial assets	1,947	2,137
Deferred tax assets	572	584
Other non-current assets	81	80
Total non-current assets	18,275	18,454
Total assets	28,908	30,053

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

	As of December 31, 2022	As of March 31, 2023
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	1,858	1,335
Contract liabilities	1,461	1,431
Interest-bearing and other financial liabilities	5,064	6,334
Lease liabilities	905	948
Income tax payable	712	454
Provisions	8	78
Other current liabilities	1,725	1,674
Total current liabilities	11,737	12,257
Non-current liabilities		
Interest-bearing and other financial liabilities	2,332	2,007
Lease liabilities	2,824	2,835
Provisions	318	331
Deferred tax liabilities	328	359
Other non-current liabilities	124	120
Total non-current liabilities	5,927	5,654
Total liabilities	17,664	17,912
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	4,464	4,633
Treasury shares	(320)	(320)
Retained earnings	5,385	5,378
Other components of equity	(1,851)	(1,508)
Total equity attributable to owners of the parent	9,057	9,563
Non-controlling interests	2,185	2,577
Total equity	11,243	12,140
Total liabilities and equity	28,908	30,053

(2) Condensed Consolidated Statements of Operations and Comprehensive Income

Condensed Consolidated Statements of Operations

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

	Three months ended March 31, 2022	Three months ended March 31, 2023
Continuing Operations		
Revenues	7,947	8,008
Cost of sales	3,928	3,854
Gross profit	4,019	4,153
Selling, general and administrative expenses	3,199	3,237
Other income	15	89
Other expenses	35	140
Operating income	800	865
Financial revenues	2	1
Financial expenses	79	17
Income before income taxes	723	848
Income taxes	253	341
Net income	469	507
Discontinued Operations		
Profit from discontinued operations	50	—
Net income	520	507
(Attributable to)		
Owners of the parent	476	422
Non-controlling interests	43	85
Total	520	507

(Yen)

Earnings per share attributable to owners of the parent		
Basic earnings per share		
Continuing operations	3.82	3.79
Discontinued operations	0.45	—
Basic earnings (per share	4.27	3.79
Diluted earnings per share		
Continuing operations	3.82	3.77
Discontinued operations	0.45	—
Diluted earnings per share	4.27	3.77

Condensed Consolidated Statements of Comprehensive Income

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

	Three months ended March 31, 2022	Three months ended March 31, 2023
Net income	520	507
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	(42)	142
Total of items that will not be reclassified to profit or loss	(42)	142
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(2)	(0)
Total of items that may be reclassified to profit or loss	(2)	(0)
Total other comprehensive income	(44)	142
Total comprehensive income	476	650
(Attributable to)		
Owners of the parent	432	564
Non-controlling interests	43	85
Comprehensive income	476	650

(3) Condensed Consolidated Statements of Changes in Equity

Three months ended March 31, 2022

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

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2022	1,380	3,879	(320)	4,406	(1,853)	7,493	1,154	8,648
Cumulative effect of change in accounting policy	—	—	—	(219)	—	(219)	—	(219)
Balance at beginning of period reflecting change in accounting policy	1,380	3,879	(320)	4,187	(1,853)	7,274	1,154	8,429
Net income	—	—	—	476	—	476	43	520
Other comprehensive income	—	—	—	—	(44)	(44)	—	(44)
Total comprehensive income	—	—	—	476	(44)	432	43	476
Dividends from surplus	—	—	—	(211)	—	(211)	—	(211)
Share-based payment transactions	—	—	—	—	14	14	—	14
Total transactions with the owners	—	—	—	(211)	14	(197)	—	(197)
March 31, 2022	1,380	3,879	(320)	4,452	(1,882)	7,509	1,198	8,707

Three months ended March 31, 2023

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

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent		
January 1, 2023	1,380	4,464	(320)	5,385	(1,851)	9,057	2,185	11,243
Net income	—	—	—	422	—	422	85	507
Other comprehensive income	—	—	—	—	142	142	—	142
Total comprehensive income	—	—	—	422	142	564	85	650
Change in ownership interest in subsidiaries	—	161	—	—	—	161	305	467
Dividends from surplus	—	—	—	(223)	—	(223)	—	(223)
Exercise of stock acquisition rights	—	8	—	—	(8)	—	—	—
Share-based payment transactions	—	—	—	—	2	2	—	2
Transfer from other components of equity to retained earning	—	—	—	(205)	205	—	—	—
Total transactions with the owners	—	169	—	(428)	200	(58)	305	247
March 31, 2023	1,380	4,633	(320)	5,378	(1,508)	9,563	2,577	12,140

(4) Condensed Consolidated Statements of Cash Flow

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

	Three months ended March 31, 2022	Three months ended March 31, 2023
Cash flow from operating activities		
Income before income taxes	723	848
Profit before tax from discontinued operations	24	—
Depreciation and amortization	445	403
Loss on impairment	21	136
(Profit) loss from business transfer	(50)	—
Financial revenues and financial expenses	77	16
Decrease (increase) in trade and other receivables	448	27
Decrease (increase) in inventories	(77)	(21)
Increase (decrease) in trade and other payables	(745)	(545)
Other	(141)	(89)
Subtotal	725	776
Interest and dividends received	0	0
Interest paid	(78)	(18)
Income tax refund	—	0
Income taxes paid	(687)	(687)
Net cash provided by (used in) operating activities	(41)	70
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(4)	(21)
Payments for acquisition of intangible assets	(342)	(112)
Proceeds from business transfer	441	—
Payments for acquisition of investment securities	—	(79)
Proceeds from sale of investment securities	—	112
Payments for security deposits and guarantees	(7)	(15)
Proceeds from refund of security deposits and guarantees	892	59
Payments for asset retirement obligations	(238)	—
Other	8	10
Net cash provided by (used in) investing activities	748	(46)
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	(200)	1,300
Proceeds from long-term financial liabilities	1,400	—
Repayment of long-term financial liabilities	(1,061)	(354)
Proceeds from exercise of stock acquisition rights	—	16
Payments of cash dividends	(210)	(223)
Repayment of lease liabilities	(305)	(266)
Proceeds from payments from non-controlling interests	—	452
Payments for acquisition of treasury shares	—	(0)
Net cash provided by (used in) financing activities	(377)	924
Cash and cash equivalents translation adjustment	(1)	0
Net increase (decrease) in cash and cash equivalents	329	949
Cash and cash equivalents at beginning of quarter	4,917	6,112
Cash and cash equivalents at end of quarter	5,247	7,061

(5) Notes to Condensed Consolidated Financial Statements

(Change in Accounting Policies)

The Group has adopted the following standard as of the first quarter of 2023.

IFRS		Summary of New Establishment or Amendment
IAS 12	Income Taxes (May 2021 amendment)	Clarifies deferred tax accounting for leases and decommissioning obligations

This amendment clarifies that entities should recognize deferred tax liabilities and deferred tax assets on certain transactions (e.g., leases and decommissioning obligations) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

This amendment is applied retrospectively to the condensed quarterly consolidated financial statements and the consolidated financial statements for the same quarter of the previous fiscal year and for the previous fiscal year.

As a result, in the consolidated statements of financial position for the previous fiscal year, deferred tax assets decreased by ¥44 million, deferred tax liabilities increased by ¥58 million and retained earnings decreased by ¥102 million compared with the amounts before the retrospective application. In the condensed quarterly consolidated financial statements for the three months ended March 31, 2023, deferred tax liabilities decreased by ¥2 million and retained earnings increased by ¥2 million. In the condensed consolidated statements of operations, income taxes decreased by ¥18 million and profit from continuing operations increased by ¥18 million. In addition, profit from discontinued operations increased by ¥140 million and net income increased by ¥158 million. In the condensed quarterly consolidated statements of operations for the three months ended March 31, 2023, income taxes decreased by ¥2 million and net income increased by ¥2 million.

Basic earnings per share from continuing operations and diluted earnings per share from continuing operations for the three months ended March 31, 2022 each increased by ¥0.16. Basic earnings per share from discontinued operations and diluted earnings per share from discontinued operations each increased by ¥1.26, and basic earnings per share and diluted earnings per share each increased by ¥1.42. Basic earnings per share and diluted earnings for the three months ended March 31, 2023 each increased by ¥0.02.

Because the cumulative effect was reflected in equity at the beginning of the three months ended March 31, 2022, the beginning balance of retained earnings in the condensed consolidated statements of changes in equity after retrospective application decreased by ¥219 million.

(Significant Accounting Policies)

The significant accounting policies applied in these condensed consolidated financial statements the same as those applied in the consolidated financial statements for the previous fiscal year except for those noted in “Change in Accounting Policies” above.

Income taxes expense for the three months ended March 31, 2023 was calculated using the estimated average annual effective tax rate.

(Notes Regarding Significant Accounting Estimates and Judgements)

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

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

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

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

None applicable