

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

February 5, 2018

Company name: Funai Soken Holdings, Inc. Stock Exchange listing: Tokyo Stock Exchange
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General meeting of shareholders: March 24, 2018

Scheduled date of payment of dividend: March 26, 2018

Scheduled date of filing of Annual Securities Report: March 26, 2018

Supplementary materials compiled to explain financial statements? Yes / No

Meeting to be held for institutional investors and analysts to explain financial results? Yes / No

(Figures are rounded to the nearest million yen; fractions of one million discarded rather than rounded up or down)

1. Consolidated Financial Results (January 1, 2017 – December 31, 2017)

(1) Consolidated results of operations (Percentages represent year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended Dec. 31, 2017	18,685	13.7	4,631	20.0	4,681	21.1	3,206	25.3
Year ended Dec. 31, 2016	16,433	11.7	3,859	10.4	3,866	4.8	2,558	5.5

NB: Comprehensive income was 3,399 million yen (up 33.1%) in the year ended December 31, 2017, and 2,553 million yen (up 1.6%) in the year ended December 31, 2016.

	Earnings per share (basic)	Earnings per share (diluted)	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended Dec. 31, 2017	63.37	62.62	15.9	19.3	24.8
Year ended Dec. 31, 2016	50.41	49.76	13.8	17.1	23.5

NB: Equity method investment income (Million yen)

Dec. 31, 2017: - Dec. 31, 2016: -

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, earnings per share (basic) and earnings per share (diluted) are shown based on the assumption that the stock split was made at the start of the previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended Dec. 31, 2017	25,650	21,624	83.3	421.29
Year ended Dec. 31, 2016	22,862	19,272	83.5	378.44

NB: Shareholders' equity: 21,355 million yen in the year ended December 31, 2017, and 19,091 million yen in the year ended December 31, 2016.

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, net assets per share are shown based on the assumption that the stock split was made at the start of the previous consolidated fiscal year.

(3) Consolidated cash flow position

	Net cash provided by (used in) operations	Net cash provided by (used in) investments	Net cash provided by (used in) financing	Cash and cash equivalents at end of fiscal year
	Million yen	Million yen	Million yen	Million yen
Year ended Dec. 31, 2017	3,950	(982)	(1,176)	10,455
Year ended Dec. 31, 2016	2,813	412	(1,689)	8,663

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended Dec. 31, 2016	-	15.00	-	21.00	36.00	1,215	47.6	6.5
Year ended Dec. 31, 2017	-	15.00	-	30.00	45.00	1,520	47.3	7.5
Forecast for year ending Dec. 31, 2018	-	15.00	-	18.00	33.00		49.9	

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. The annual dividends for FY2016 and FY2017 shown herein are pre-split figures. When the share split is taken into account, annual dividend per share was 24.00 yen in 2016 and 30.00 yen in 2017.

3. Forecast Consolidated Financial Results for the Year (January 1 – December 31, 2018)

(Percentages represent year-on-year change, full-year figures represent change compared with previous year; first-half figures represent change compared with same period in previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	10,000	10.3	2,700	(1.1)	2,700	(2.4)	1,800	(4.7)	35.51
Full year	21,000	12.4	4,900	5.8	4,900	4.7	3,350	4.5	66.09

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, the consolidated earnings per share forecast is calculated based on the post-split number of outstanding shares (excluding treasury stock).

Remarks

- (1) Changes in material subsidiaries during the fiscal year (changes in scope of consolidation): None
- (2) Changes in accounting policies; changes in accounting estimates; re-statement due to amendments
 - 1) Changes in accounting policies caused by revision of accounting standards: None
 - 2) Other changes in accounting policies: None
 - 3) Changes in accounting estimates: None
 - 4) Re-statement due to amendments: None

(3) Number of issued shares (common stock)

- 1) Number of shares outstanding at end of year (including treasury stock)
- 2) Number of treasury shares at end of year
- 3) Average number of shares during year

FY2017	53,250,000	FY2016	54,000,859
FY2017	2,558,760	FY2016	3,553,652
FY2017	50,601,054	FY2016	50,763,477

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, the number of issued common shares is shown based on the assumption that the stock split was made at the start of the previous consolidated fiscal year.

Statement Regarding Auditing Procedures

NB: This financial summary is exempt from auditing.

Statement Regarding the Use of Forward-Looking Statements

Forecasts provided in these materials regarding future performance are based on reasonable judgments made in accordance with information currently available and on certain premises. Actual results may differ greatly from these forecasts due to a number of factors. Please refer to “Outlook for FY2018” on page 5 of the appendix for further information concerning the conditions on which these forecasts are based and further cautions with respect to the use of forward-looking statements.

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1. Results of Operations

(1) This Fiscal Year's Results

(Million yen)

	FY2016	FY2017	Change	Rate of change (%)
Net sales	16,433	18,685	2,251	13.7
Operating income	3,859	4,631	771	20.0
Ordinary income	3,866	4,681	814	21.1
Net income attributable to owners of the parent company	2,558	3,206	647	25.3

In 2017, despite the effects of various government policies for hauling the country out of its deflationary mire, as well as mild improvements to corporate profits and employment figures, opacity still looms in the Japanese real economy, in light of rising military tensions over North Korea, US economic policy, Brexit at the focus of the European political landscape, and a string of terrorist acts worldwide. Against this backdrop, the successful performance of our core consulting business for the Funai Soken Consulting Group enabled once again the achievement of our highest-ever consolidated net sales and income. In doing so, we have achieved our operating income target for 2019 under our mid-range business plan (4.5 billion yen) two years early.

Consulting sales grew steadily in 2017, boosted by a sure increase in sign-ups for our members-only management workshops and in membership subscriptions, sparked by a range of additional services for members. The growth in sales was assisted by large expansion of our direct recruiting support services. We began these services, which mainly involve online “situations vacant” advertising, in earnest in 2016 as a solution to worker shortages. The combined effects of these efforts led to a solid increase in sales of monthly support contracts—our core stock in trade—and, consequently, net sales rose 13.7% year-on-year to 18,685 million yen.

Operating income was also up in 2017, buoyed by the aforementioned increase factors in sales, as well as a higher operating margin, which improved on the back of lower costs as a result of more efficient methods of attracting seminar attendees and travel and transportation cost reductions achieved by promoting the adoption of videoconferencing systems. At the same time, robust sales of large-scale contracts for highly profitable logistics consulting services pushed income far beyond initial forecasts. Consequently, operating income rose 20.0% year-on-year to 4,631 million yen.

This year, increased revenues from the investment of surpluses pushed non-operating income to 103 million yen, up from 70 million yen in 2016, while non-operating expenses were 54 million yen, down from 62 million yen in 2016. Consequently, ordinary income rose 21.1% year-on-year to 4,681 million yen.

Income taxes totaled 1,480 million yen in 2017, up from 1,386 million yen in 2016, and net income attributable to owners of the parent company rose 25.3% year-on-year to 3,206 million yen.

Segment-Specific Performance

Consolidated performance for each business segment is outlined below.

I. Consulting

Consulting net sales rose more than 20% over the previous year. Major factors include the establishment of solutions in the housing and real estate industries—an area of particular strength of our consulting business—to help SME clients boost performance and ongoing growth in projects with mid-size and larger corporate clients. Elsewhere, for the healthcare, nursing care, and welfare industries, as well as the certified professional services industry, an increase in the participating membership of management workshops led to steady growth in consulting contracts.

In terms of specific solution categories, we significantly expanded our workforce development consulting operations, and made major gains in recruiting solutions for clients in the logistics and food service industries and the like, where staff shortages are chronic, as well as in entry solutions for the nursery school business, whose mandate is elimination of waiting lists—also a government policy.

Our industry-specific and solution-category-specific management workshops continue to be a source of real-world success cases and solutions to today's challenges with a high likelihood of success. By collecting a range of industry-specific management data, we have devised improved quality in our workshops. Moreover, starting in 2017, we have begun expanding the range of services we offer, including high-income management workshops focusing on helping SMEs enhance corporate value, as well as workshops for clients in a new field for us: finance. Consequently, net sales rose 14.7% year-on-year to 16,181 million yen, and operating income rose 14.9% year-on-year to 4,292 million yen.

II. Logistics

In the logistics segment, our base of contract renewals among existing users of our core logistics services was further strengthened by an increase in orders from new clients and proactive marketing to unearth new client needs, particularly among courier agencies and warehousing (storage and retrieval operations). These efforts to invigorate clients' sales helped sustain our solid sales figures.

Logistics consulting sales increased, too, as a result of a continued increase in orders from new clients, and operating income grew as a result of a year-on-year increase in orders for services with a higher operating margin. Consequently, net sales rose 8.8% year-on-year to 1,882 million yen, and operating income rose 54.8% year-on-year to 144 million yen.

III. Other Businesses

Here, contact center consulting sales exceeded planned figures thanks to continued business from existing clients mainly for COPC certification support and diagnostic consulting, as well as limited-time training sessions, and large-scale orders from new clients for training.

Sales were solid in IT-related sectors, too, buoyed by large-scale orders that we began pursuing in 2016. Consequently, sales rose 3.9% year-on-year to 597 million yen, and operating income rose 890.9% year-on-year to 53 million yen.

(2) This Fiscal Year's Financial Position

Assets

Total assets increased 2,787 million yen year-on-year to 25,650 million yen at the end of FY2017.

Current assets increased 1,554 million yen year-on-year to 13,804 million yen. This was mainly due to increases in cash and deposits and a decrease in short-term investment securities.

Noncurrent assets increased 1,232 million yen year-on-year to 11,846 million yen. This was mainly due to decreases in property, plant, and equipment, and intangible assets as a result of depreciation, and an increase through acquisitions of investment securities.

Liabilities

Total liabilities increased 435 million yen year-on-year to 4,025 million yen at the end of FY2017.

Current liabilities increased 409 million yen year-on-year to 3,072 million yen. This was mainly due to increases in income taxes payable and other accounts payable (listed under "other current liabilities").

Noncurrent liabilities increased 26 million yen year-on-year to 953 million yen. This was mainly due to an increase in deferred tax liabilities.

Net Assets

Total net assets increased 2,352 million yen year-on-year to 21,624 million yen at the end of FY2017. This was mainly due to an increase in retained earnings.

As a result, the shareholders' equity ratio decreased 0.2% to 83.3%.

(3) This Fiscal Year's Cashflow Position

Cash and cash equivalents increased 1,792 million yen year-on-year to 10,455 million yen at the end of FY2017.

Trends in cash flow by activity are described below.

Net Cash Provided by Operations

Net cash provided by operations totaled 3,950 million yen compared to 2,813 million yen in the previous fiscal year. This was mainly due to income before income taxes and other adjustments of 4,686 million yen; depreciation of 239 million yen, 1,385 million yen in income taxes paid, and 342 million yen in income tax refunds.

Net Cash Provided by Investments

Net cash provided by investments finished on a negative this year; net cash used in investments totaled 982 million yen compared to 412 million yen provided by investments in the previous fiscal year. This was mainly due to net expenditures of 739 million yen on the acquisition and sale of short-term investment securities and investment securities and net expenditures of 188 million yen on the acquisition and sale of property, plant, and equipment, and intangible assets.

Net Cash Provided by Financing

Net cash provided by financing finished on a negative this year; net cash used in financing totaled 1,176 million yen compared to 1,689 million yen used in the previous fiscal year. This was mainly due to a net gain of 47 million yen on the sale and acquisition of treasury shares and 1,209 million yen distributed as dividends.

The following table presents the historical movements of certain cash flow indices.

	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
Shareholder's equity ratio	85.3	81.1	81.3	83.5	83.3
Shareholders' equity ratio based on market price	127.5	137.0	263.2	270.2	498.8
Interest-bearing debt to cash flow ratio	0.4	0.2	0.3	0.2	0.2
Interest coverage ratio (x)	221.9	250.7	326.3	355.8	717.7

- Notes:
- Indices are calculated on a consolidated basis as follows:
Shareholders' equity ratio: Shareholders' equity divided by total assets
Shareholders' equity ratio based on market price: Market capitalization divided by total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt divided by operating cash flow
Interest coverage ratio: Operating cash flow divided by interest payments
 - Market capitalization: Closing stock price at FY-end multiplied by the number of outstanding shares at period-end (after deducting treasury stock).
 - Interest-bearing debt: All short-term and long-term loans payable, bonds payable, and the current portion of bonds listed under liabilities on the consolidated balance sheet.
 - Operating cash flow and interest payments are taken from net cash provided by operations and interest paid, respectively, as listed in consolidated cash flow statements.

(4) Outlook for FY2018

The coming year is the second of our three-year mid-range business plan, and we will continue with the various measures already in place as we seek to cement our place as a trusted comprehensive provider of management consulting solutions.

In our core consulting business, we have three main objectives for the middle year of the mid-range business plan. The first is, “IT-based solutions, digital solutions, cloud-based solutions.” In 2018, we plan to:

- Establish an IT Solutions Office to promote the use of IT in consulting activities;
- Strengthen our online marketing by revamping our official website and category-specific sites; and
- Establish new tools and members-only sites, including video-based consulting content and cloud-based sharing of case studies.

Our second objective is to turn business model ideas into actual businesses. For instance, the Direct Recruiting Group has begun offering services that harness the strengths of online advertising and, given the high level of growth forecast for this area, a new company, HR Force, was incorporated on February 1, 2018 to handle these operations. HR Force will concentrate on providing solutions such as direct recruiting to help clients fix their workforce shortages.

Our third objective is to restructure the group’s organization, workforce, assets, and physical locations. In order to provide total management support for SMEs and mid-size businesses, we will reorganize our human resources into three “headquarters”:

- The Consulting Divisional Headquarters, which will concentrate on industry-specific consulting;
- The HRD Consulting Divisional Headquarters, which will concentrate on the recruiting, training, and assessment of workers, and invigorating organizations; and
- The Innovation Consulting Divisional Headquarters, which will concentrate on helping clients raise value and digitalize their operations through mergers and acquisitions, business ownership succession, corporate revitalization, productivity improvements, and IT-based solutions.

These headquarters will work in close cooperation to achieve their purposes.

In addition, we will endeavor to stay abreast of demand for more diverse working styles by an increasingly diverse workforce by considering and adopting a range of initiatives, starting with employee exchanges among group companies, flex time, and remote working arrangements. We are also keen to optimize our offices, particularly those in Tokyo.

Meanwhile, in our logistics business, we seek to build on our existing services—logistics consulting, logistics operations, and logistics trading—with new platform functions for both shippers and transporters so as to become a comprehensive provider of logistics engineering solutions.

Finally, our full-year forecast for 2018 has been revised upward from the original figures. Our forecasts for the year are now as follows.

Sales:	21,000 million yen
Operating income:	4,900 million yen
Ordinary income:	4,900 million yen
Net income attributable to owners of the parent company:	3.350 million yen

For further details, please see our announcement released on February 5, 2018: *Notice of Revised Mid-Range Business Plan*.

FY2017-2019 Mid-range Business Plan

(Million yen)

	FY2017		FY2018		FY2019	
	Initial plan	Actual	Initial plan	Revised plan	Initial plan	Revised plan
Net sales	18,000	18,685	20,000	21,000	22,000	23,500
Operating income	3,900	4,631	4,200	4,900	4,500	5,400

2. The Funai Consulting Group

The group is comprised of Funai Soken Holdings and six subsidiaries. Our core business is management consulting, and we also offer logistics and other services relating to those operations.

The roles of the various group companies in each segment are outlined below.

Consulting

The group is fully equipped to offer a comprehensive range of consulting services, and we focus mainly on management consulting. In addition to core management consulting solutions, we also provide industry-specific and solution-specific workshops and seminars.

Group companies involved in this segment: Funai Consulting, Inc., Funai Soken Corporate Relations, Inc., Funai Consulting Shanghai, Inc.

Logistics

Our logistics services cover three main areas: consulting, designed to help clients reduce their logistics costs; operations, in which we design, build, and operate clients' logistics frameworks; and trading, which helps clients reduce their purchasing costs through initiatives like joint purchasing.

Group companies involved in this segment: Funai Soken Logistics, Inc.

Other Businesses

Elsewhere, Funai Soken IT Solutions provides services associated with the IT sector and Proseed Corporation offers contact center consulting services.

Group companies involved in this segment: Funai Soken IT Solutions, Inc., Proseed Corporation

3. Basic Approach to Selection of Financial Accounting Standards

The Funai Soken Consulting Group's consolidated financial statements are prepared in accordance with Japanese financial reporting standards to provide for easier comparison of performance from year to year and company to company.

Regarding whether or not to apply international financial reporting standards, we will continue to monitor the situation and act in accordance with Japanese trends regarding such accounting standards.

4. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheet

(Thousand yen)

	FY12/16 (As of Dec. 31, 2016)	FY12/17 (As of Dec. 31, 2017)
Assets		
Current assets		
Cash and deposits	8,663,050	10,555,676
Trade notes and accounts receivable	1,878,748	1,917,843
Short-term investment securities	901,349	501,314
Work in process	70,155	81,827
Raw materials and supplies	8,279	9,482
Other current assets	758,936	775,440
Allowance for doubtful accounts	(31,140)	(37,318)
Total current assets	12,249,380	13,804,266
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,366,162	1,318,306
Land	4,610,713	4,602,643
Lease assets, net	55,609	42,362
Other property, plant, and equipment, net	67,866	103,875
Total property, plant, and equipment	6,100,352	6,067,188
Intangible assets		
Leasehold rights	322,400	322,400
Software	261,899	239,792
Other intangible assets	170,142	130,702
Total intangible assets	754,442	692,895
Investments and other assets		
Investment securities	2,919,921	4,254,659
Assets related to retirement benefits	523,931	532,414
Other investments and other assets	323,465	310,121
Allowance for doubtful accounts	(8,814)	(10,985)
Total investments and other assets	3,758,502	5,086,210
Total noncurrent assets	10,613,298	11,846,294
Total assets	22,862,678	25,650,560

(Thousand yen)

	FY12/16 (As of Dec. 31, 2016)	FY12/17 (As of Dec. 31, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	256,350	285,619
Lease obligations	14,225	14,225
Income taxes payable	758,828	945,076
Other current liabilities	1,633,782	1,827,724
Total current liabilities	2,663,188	3,072,646
Noncurrent liabilities		
Bonds payable	500,000	500,000
Long-term loans payable	100,000	100,000
Lease obligations	45,638	31,412
Deferred tax liabilities	228,488	277,086
Other noncurrent liabilities	52,885	44,635
Total noncurrent liabilities	927,012	953,134
Total liabilities	3,590,201	4,025,781
Net assets		
Shareholders' equity		
Capital stock	3,125,231	3,125,231
Capital surplus	2,946,634	2,946,634
Retained earnings	14,478,158	16,130,738
Treasury stock	(1,527,811)	(1,109,323)
Total shareholders' equity	19,022,212	21,093,281
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	152,982	325,172
Foreign currency translation adjustments	16,256	17,861
Accumulated adjustments for retirement benefits	(100,141)	(80,499)
Total accumulated other comprehensive income	69,097	262,533
Subscription rights for shares	181,166	268,964
Total net assets	19,272,477	21,624,779
Total liabilities and net assets	22,862,678	25,650,560

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statement of Income

(Thousand yen)

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Net sales	16,433,399	18,685,358
Cost of sales	10,689,662	11,796,817
Gross profit	5,743,736	6,888,540
SG&A expenses	1,883,925	2,256,827
Operating income	3,859,810	4,631,712
Non-operating income		
Interest income	8,237	7,451
Dividend income	12,921	11,143
Gain on sales of investment securities	3,724	24,777
Gain on valuation of investment securities	-	6,639
Surrender value of insurance	-	11,140
Insurance bonus income	26,485	27,964
Other non-operating income	18,692	14,525
Total non-operating income	70,060	103,643
Non-operating expenses		
Interest expenses	6,164	5,515
Investment partnership management expenses	7,195	6,064
Contributions	32,000	36,000
Other non-operating expenses	17,615	6,648
Total non-operating expenses	62,975	54,229
Ordinary income	3,866,895	4,681,125
Extraordinary income		
Gain on sales of noncurrent assets	-	388
Gain on sales of investment securities	111,080	4,440
Gain on reversal of subscription rights for shares	175	1,432
Total extraordinary income	111,255	6,261
Extraordinary losses		
Loss on sales of noncurrent assets	134	-
Loss on retirement of noncurrent assets	4,400	419
Loss on sales of investment securities	4,272	-
Loss on valuation of investment securities	171	-
Impairment losses	24,004	-
Loss on cancellation of lease contracts	-	112
Total extraordinary losses	32,983	531
Net income before income taxes and other adjustments	3,945,167	4,686,856
Current income taxes	1,315,809	1,498,469
Deferred income taxes	70,459	(18,170)
Total income taxes	1,386,268	1,480,299
Net income	2,558,898	3,206,556
Net income attributable to owners of the parent company	2,558,898	3,206,556

Consolidated Statement of Comprehensive Income

(Thousand yen)

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Net income	2,558,898	3,206,556
Other comprehensive income		
Valuation difference on available-for-sale securities	(28,191)	172,190
Foreign currency translation adjustments	1,392	1,604
Adjustments for retirement benefits	21,412	19,641
Total other comprehensive income	(5,385)	193,436
Comprehensive income	2,553,512	3,399,993
Details		
Comprehensive income attributable to owners of the parent company	2,553,512	3,399,993

(3) Consolidated Statement of Changes in Net Assets
FY12/16 (Jan. 1 – Dec. 31, 2016)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at start of fiscal year	3,125,231	2,946,634	13,021,753	(1,061,044)	18,032,575
Change					
Dividends from surplus			(1,102,435)		(1,102,435)
Net income attributable to owners of the parent company			2,558,898		2,558,898
Purchase of treasury stock				(509,630)	(509,630)
Disposal of treasury stock			(58)	42,863	42,805
Retirement of treasury stock			-	-	-
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	1,456,404	(466,766)	989,637
Balance at end of current fiscal year	3,125,231	2,946,634	14,478,158	(1,527,811)	19,022,212

	Accumulated other comprehensive income				Subscription rights for shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance at start of fiscal year	181,173	14,864	(121,553)	74,483	110,037	18,217,095
Change						
Dividends from surplus						(1,102,435)
Net income attributable to owners of the parent company						2,558,898
Purchase of treasury stock						(509,630)
Disposal of treasury stock						42,805
Retirement of treasury stock						-
Net changes of items other than shareholders' equity	(28,191)	1,392	21,412	(5,385)	71,129	65,743
Total changes of items during the fiscal year	(28,191)	1,392	21,412	(5,385)	71,129	1,055,381
Balance at end of current fiscal year	152,982	16,256	(100,141)	69,097	181,166	19,272,477

FY12/17 (Jan. 1 – Dec. 31, 2017)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at start of fiscal year	3,125,231	2,946,634	14,478,158	(1,527,811)	19,022,212
Change					
Dividends from surplus			(1,212,800)		(1,212,800)
Net income attributable to owners of the parent company			3,206,556		3,206,556
Purchase of treasury stock				(12,745)	(12,745)
Disposal of treasury stock			(18,091)	108,149	90,057
Retirement of treasury stock			(323,084)	323,084	-
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	1,652,580	418,488	2,071,068
Balance at end of current fiscal year	3,125,231	2,946,634	16,130,738	(1,109,323)	21,093,281

	Accumulated other comprehensive income				Subscription rights for shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income		
Balance at start of fiscal year	152,982	16,256	(100,141)	69,097	181,166	19,272,477
Change						
Dividends from surplus						(1,212,800)
Net income attributable to owners of the parent company						3,206,556
Purchase of treasury stock						(12,745)
Disposal of treasury stock						90,057
Retirement of treasury stock						-
Net changes of items other than shareholders' equity	172,190	1,604	19,641	193,436	87,797	281,233
Total changes of items during the fiscal year	172,190	1,604	19,641	193,436	87,797	2,352,302
Balance at end of current fiscal year	325,172	17,861	(80,499)	262,533	268,964	21,624,779

(4) Consolidated Cash Flow Statement

(Thousand yen)

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Net cash provided by (used in) operations		
Net income before income taxes and other adjustments	3,945,167	4,686,856
Depreciation	242,097	239,262
Amortization of goodwill	62,118	53,389
Share-based compensation expenses	77,928	119,307
Impairment losses	24,004	-
Increase (decrease) in allowance for doubtful accounts	(1,987)	8,349
Decrease (increase) in assets related to retirement benefits	9,340	11,157
Loss (gain) on valuation of investment securities	171	(4,676)
Loss (gain) on sales of investment securities	(108,906)	(28,814)
Interest and dividend income	(21,158)	(18,594)
Surrender value of insurance	-	(11,140)
Interest expenses	6,164	5,515
Loss (gain) on exchange	514	(557)
Contributions	32,000	36,000
Loss (gain) on sales of property, plant, and equipment	134	(388)
Loss on retirement of property, plant, and equipment	4,141	419
Loss on retirement of intangible assets	259	-
Decrease (increase) in trade notes and accounts receivable	(172,540)	(38,638)
Decrease (increase) in other assets	(6,570)	(344,359)
Increase (decrease) in other liabilities	(23,905)	277,116
Other cash provided by (used in) operations	10,072	10,072
Subtotal	4,079,046	5,000,274
Interest and dividends received	36,903	34,145
Interest paid	(7,906)	(5,503)
Income taxes paid	(1,658,121)	(1,385,078)
Income tax refunds	395,286	342,524
Contributions paid	(32,000)	(36,000)
Net cash provided by (used in) operations	2,813,208	3,950,361

(Thousand yen)

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Net cash provided by (used in) investments		
Payments into time deposits	-	(100,000)
Purchase of short-term investment securities	(1,199,993)	(1,799,979)
Proceeds from sale of short-term investment securities	1,900,000	2,499,973
Purchase of investment securities	(1,278,173)	(1,448,680)
Proceeds from sale of investment securities	1,218,230	8,893
Purchase of property, plant, and equipment	(216,328)	(122,411)
Proceeds from sale of property, plant, and equipment	7	11,155
Purchase of intangible assets	(11,540)	(76,852)
Proceeds from cancellation of insurance funds	-	45,543
Other cash provided by (used in) investments	100	-
Net cash provided by (used in) investments	412,301	(982,359)
Net cash provided by (used in) financing		
Repayment of short-term loans payable	(100,000)	-
Proceeds from long-term loans payable	100,000	-
Redemption of bonds	(100,000)	-
Repayment of lease obligations	(17,346)	(14,225)
Purchase of treasury stock	(509,630)	(12,745)
Proceeds from sale of treasury stock	36,182	59,980
Dividends paid	(1,099,051)	(1,209,799)
Net cash provided by (used in) financing	(1,689,846)	(1,176,791)
Effect of exchange rate changes on cash and cash equivalents	1,803	1,415
Increase (decrease) in cash and cash equivalents	1,537,466	1,792,625
Cash and cash equivalents at start of fiscal year	7,125,584	8,663,050
Cash and cash equivalents at end of fiscal year	8,663,050	10,455,676

(5) Notes on Consolidated Financial Statements
Notes on Going Concern Assumptions
None to report.

Important Matters Pertaining to the Preparation of Consolidated Financial Statements

1. Scope of consolidation
Number of consolidated subsidiaries: 6
 - Funai Consulting, Inc.
 - Funai Soken Logistics, Inc.
 - Funai Soken Corporate Relations, Inc.
 - Funai Soken IT Solutions, Inc.
 - Proseed Corp.
 - Funai Consulting Shanghai, Inc.All subsidiaries are included in the scope of consolidation.
2. Application of the equity method
Number of equity-method affiliates: None
3. Business years of consolidated subsidiaries
The business years of consolidated subsidiaries end on the same closing date as that of the consolidated financial statements.
4. Accounting policies
 - (1) Valuation criteria and methods for major assets
 - 1) Short-term investment securities
 - Held-to-maturity debt securities
Valued using the amortized cost method (straight-line method.)
 - Other securities
Securities with market quotations
 - Securities with market quotations are stated at market value on the fiscal year balance sheet date. (Valuation difference is included in net assets. Cost of securities sold is determined by the moving-average method.)
 - Securities without market quotations
Securities without market quotations are stated at cost, cost being determined by the moving-average method.
 - 2) Derivatives
Derivatives are, in principle, stated at market value.
 - 3) Inventories
Inventories are stated at cost, cost determined by the specific-identification method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins).
 - (2) Depreciation of major depreciable assets
 - 1) Property, plant, and equipment (excluding lease assets)
Depreciation of these is calculated using the declining balance method. However, depreciation of buildings (excluding fixtures) acquired on or after April 1, 1998, and building fixtures and structures acquired on or after April 1, 2016, is calculated using the straight-line method.
The useful life of principal assets is as follows.
 - Buildings and structures: 10-50 years
 - 2) Intangible assets (excluding lease assets)
Depreciation of these is calculated using the straight-line method.
Software intended for internal use is amortized over an expected useful life of five years by the straight-line method.
 - 3) Lease assets
Lease assets associated with finance lease transactions where there is no transfer of ownership.
Depreciation of lease assets is calculated using the straight-line method with no residual value, assuming the lease period to be the useful life of the asset.
 - (3) Recognition of major allowances
 - Allowance for doubtful accounts
To reserve against credit losses on accounts receivable, amounts equivalent to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio and doubtful receivables based on a case-by-case determination of collectability.

- (4) Accounting for retirement benefits
 - 1) Method of assigning recognized accrued benefits to particular periods
In calculating retirement benefit obligations, accrued benefits are assigned to the period up to the current consolidated fiscal year by provisionally calculating the amount of benefit obligations due to accrue.
 - 2) Actuarial gains or losses
Actuarial gains or losses are amortized from the following year in which the gain or loss is recognized primarily by the straight-line method over a period of seven years, which falls within the average years of service of the employees remaining in each particular fiscal year.
- (5) Method and period of goodwill amortization
Goodwill is amortized using the straight-line method over a rational period no longer than twenty years.
- (6) Scope of cash and cash equivalents on consolidated cash flow statement
For the purpose of consolidated cash flow statement, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.
- (7) Important item in the preparation of consolidated financial statements
 - Accounting for consumption taxes
Consumption taxes are accounted for by the tax-exclusion method.

Reclassifications

Footnotes to Consolidated Balance Sheet

Goodwill, which was listed as a separate entry under intangible assets in FY2016, is included in other intangible assets in FY2017 because the amount has decreased in importance. The previous fiscal year's consolidated financial statements have been revised to reflect this reclassification.

Consequently, the 161,020,000 yen in goodwill listed under intangible assets and the 9,122,000 yen in other intangible assets have been reclassified, resulting in other intangible assets totaling 170,142,000 yen.

Footnotes to Consolidated Statement of Income

Refunded consumption taxes, which were listed as a separate entry under non-operating income in FY2016, are included in other non-operating income this year because the amount was less than 10% of total non-operating income. The previous fiscal year's consolidated financial statements have been revised to reflect this reclassification.

Consequently, the 1,121,000 yen in refunded consumption taxes and 17,570,000 yen in other non-operating income listed under non-operating income in the FY2016 consolidated statement of income have been reclassified, resulting in other non-operating income totaling 18,692,000 yen.

Additional Information

The group has adopted the ASBJ Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26; March 28, 2016) starting in FY2017.

Segment Information

1. Overview of segments included in reports

The segments for which reports are compiled are those components of the group for which financial information can be obtained separate from other component units. Segments are reviewed periodically by the board of directors in order to make more informed decisions on how management resources can best be allocated, and in order to evaluate performance.

We employ two main segments in for these reports. They are, in keeping with the categories of work performed by the companies within the group, consulting and logistics. Their activities can be defined as follows:

- Consulting: Consulting services such as guidance, research, and diagnosis pertaining to company management; members-only workshops and seminars.
- Logistics: Logistics services cover two main areas: consulting, designed to help clients reduce their logistics costs; and operations, in which we design, build, and operate clients' logistics frameworks.

2. Calculation of net sales, income/losses, assets, liabilities, and other accounts for each segment

Accounting methods for the reported segments are largely the same as those listed in the Important Matters Pertaining to the Preparation of Consolidated Financial Statements.

Segment-specific income or losses are calculated based on operating income figures. Inter-segment sales and transfers are calculated based on current market prices.

3. Other information about net sales, income/losses, assets, liabilities, and other accounts for each segment
FY12/16 (Jan. 1 – Dec. 31, 2016)

(Thousand yen)

	Consulting	Logistics	Others ⁽¹⁾	Total	Adjustment ⁽²⁾	Amount listed in consolidated financial statements ⁽³⁾
Net sales						
Sales to external customers	14,104,365	1,729,472	574,697	16,408,536	24,862	16,433,399
Inter-segment sales and transfers	94,499	199,849	9,707	304,056	(304,056)	-
Total	14,198,865	1,929,321	584,405	16,712,593	(279,194)	16,433,399
Segment income	3,737,392	93,170	5,397	3,835,959	23,851	3,859,810
Segment assets	12,748,340	536,403	399,466	13,684,210	9,178,468	22,862,678
Others						
Depreciation	158,920	1,267	689	160,877	81,219	242,097
Amortization of goodwill	-	9,996	52,121	62,118	-	62,118
Impairment losses	-	-	24,004	24,004	-	24,004
Change in property, plant, equipment, and intangible assets	92,310	-	-	92,310	144,839	237,150

Notes

1. The “others” category includes income from IT and contact center consulting businesses.
2. Details of adjustments are as follows.
 - (1) Adjustments of segment income include elimination of inter-segment transactions and whole-group revenues and expenses that are not attributable to any segment. Whole-group revenues are comprised of outsourcing and consulting fees from group companies, property rental income and whole-group expenses are comprised of those incurred in group operations.
 - (2) Adjustments of segment assets include elimination of inter-segment transactions and assets held throughout the Group that are not attributable to any segment. Whole-group assets are comprised of assets relating to the operation of the group.
 - (3) Change in property, plant, equipment, and intangible assets includes elimination of inter-segment transactions and assets held throughout the Group that are not attributable to any segment.
3. Segment income is adjusted against operating income in the consolidated financial statements.

FY12/17 (Jan. 1 – Dec. 31, 2017)

(Thousand yen)

	Consulting	Logistics	Others ⁽¹⁾	Total	Adjustment ⁽²⁾	Amount listed in consolidated financial statements ⁽³⁾
Net sales						
Sales to external customers	16,181,762	1,882,423	597,363	18,661,550	23,807	18,685,358
Inter-segment sales and transfers	48,326	165,121	12,014	225,463	(225,463)	-
Total	16,230,089	2,047,545	609,378	18,887,013	(201,655)	18,685,358
Segment income	4,292,831	144,181	53,479	4,490,492	141,219	4,631,712
Segment assets	13,072,908	674,100	381,520	14,128,530	11,522,030	25,650,560
Others						
Depreciation	70,044	1,558	506	72,109	167,152	239,262
Amortization of goodwill	-	9,996	43,393	53,389	-	53,389
Impairment losses	-	-	-	-	-	-
Change in property, plant, equipment, and intangible assets	48,107	1,380	275	49,763	208,353	258,117

Notes

1. The “others” category includes income from IT and contact center consulting businesses.
2. Details of adjustments are as follows.
 - (1) Adjustments of segment income include elimination of inter-segment transactions and whole-group revenues and expenses that are not attributable to any segment. Whole-group revenues are comprised of outsourcing and consulting fees from group companies, property rental income and whole-group expenses are comprised of those incurred in group operations.
 - (2) Adjustments of segment assets include elimination of inter-segment transactions and assets held throughout the Group that are not attributable to any segment. Whole-group assets are comprised of assets relating to the operation of the group.
 - (3) Change in property, plant, equipment, and intangible assets includes elimination of inter-segment transactions and assets held throughout the Group that are not attributable to any segment.
3. Segment income is adjusted against operating income in the consolidated financial statements.

Per-share Information

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Net assets per share	378.44 yen	421.29 yen
Earnings per share (basic)	50.41 yen	63.37 yen
Earnings per share (diluted)	49.76 yen	62.62 yen

Notes:

- Common shares in Funai Soken Holdings were split at a ratio of 1.5-for-1 on January 1, 2018. For the purposes hereof, net assets per share, earnings per share (basic), and earnings per share (diluted) are shown based on the assumption that the stock split was made at the start of the previous consolidated fiscal year. The basis for calculation of basic and diluted earnings per share is as follows.

	FY12/16 (Jan. 1 – Dec. 31, 2016)	FY12/17 (Jan. 1 – Dec. 31, 2017)
Earnings per share (basic)		
Net income attributable to owners of the parent company	2,558,898,000 yen	3,206,556,000 yen
Amount not attributable to common shareholders	-	-
Net income attributable to common shareholders	2,558,898,000 yen	3,206,556,000 yen
Average number of common shares outstanding during the fiscal year	50,763,477	50,601,054
Earnings per share (diluted)		
Amount to be adjusted in considering dilutive effect	-	-
Increase in common shares	656,703	601,536
(Portion of increase made up of subscription rights)	(656,703)	(601,536)
Summary of non-dilutive stock equivalents not used in calculation of earnings per share (diluted)	-	-

- Basis for calculation of net assets per share is as follows.

	FY12/16 (As of Dec. 31, 2016)	FY12/17 (As of Dec. 31, 2017)
Total net assets on consolidated balance sheets	19,272,477,000 yen	21,624,779,000 yen
Deductions from total net assets	181,166,000 yen	268,964,000 yen
(Portion of increase made up of subscription rights)	(181,166,000 yen)	(268,964,000 yen)
Net assets attributable to common shareholders	19,091,310,000 yen	21,355,815,000 yen
Number of common shares used in calculation of net assets per share at end of year	50,447,207	50,691,240

Subsequent Events

Share Split

Following a resolution of the board of directors on November 6, 2017, common shares in Funai Soken Holdings were split at a ratio of 1.5-for-one on January 1, 2018.

1. Purpose of share split
To boost the liquidity of the company's shares and create an investment-friendly environment, thereby expanding the range of people investing in the company.
2. Overview of share split
 - (1) Method
Each common share held by shareholders listed in the final Shareholders' Register of December 31, 2017, (in effect, the date was December 29 because December 31 was a holiday) was split at a ratio of 1.5-for-one.
 - (2) Number of shares added as a result of split

Total number of shares issued before split:	35,500,000
Number of shares added as a result of split:	17,750,000
Total number of shares issued after split:	53,250,000
Total number of shares issuable after split:	130,000,000

NB: The number of shares authorized for issuance has not changed as a result of the share split.
 - (3) Schedule

Public notice:	December 13, 2017
Record date:	December 31, 2017
Effective date:	January 1, 2018
 - (4) Change to capital stock
The stock split did not result in any change to the amount of capital stock.
 - (5) Adjustments to exercise price of subscription rights for shares
The per-share exercise price of subscription rights for shares has been adjusted as set forth below starting on January 1, 2018, as a result of the share split.

Board resolution	Pre-adjustment exercise price	Adjusted exercise price
Apr. 16, 2013	518 yen	346 yen

Incorporation of New Subsidiary

Following a resolution of the board of directors on November 22, 2017, a new subsidiary was incorporated on February 1, 2018, as set forth below.

(1) Purpose

The Funai Soken Consulting Group's core business has always been consulting services to help small and medium-sized enterprises improve performance. Amidst a nationwide shortage of workers, the group began in earnest to offer direct recruiting services in 2016, making use of online advertising. In light of the new service's expected steady growth the group has spun the service off into a new, separate company, HR Force, Inc., which will concentrate on providing solutions such as direct recruiting to help clients alleviate workforce shortages.

(2) Overview of the subsidiary

Name:	HR Force, Inc.
Address:	1-6-6 Marunouchi, Chiyoda-ku, Tokyo
Business:	Services relating to direct recruiting
Capital:	64 million yen
Incorporation:	February 1, 2018
Number of shares acquired:	1,600
Acquisition value:	80 million yen
Ownership equity:	Wholly owned (100%) by Funai Soken Holdings

Omission of Disclosure

Matters other than those listed above are deemed to be immaterial for disclosure in the financial summary, and accordingly, omitted from disclosure here.

5. Other Information

(1) Orders and Sales

1) Orders

Orders won by each operating segment in this consolidated fiscal year are as follows.

(Thousand yen)

Segment	FY12/16 (Jan. 1 – Dec. 31, 2016)		FY12/17 (Jan. 1 – Dec. 31, 2017)	
	Orders received	Orders outstanding	Orders received	Orders outstanding
Consulting	11,609,519	5,295,974	13,032,489	5,503,345
Logistics	137,573	40,866	242,077	52,025
Other businesses	495,456	68,139	540,071	65,448

Notes

1. Consulting orders above include only consulting revenues; membership fees and seminar fees are excluded as they are recurring revenues.
2. Logistics revenues include only that earned from logistics consulting activities.
3. Other revenues include only that earned from IT and contact center consulting.
4. The above amounts are based on listed prices.
5. The above amounts do not include consumption tax.

2) Sales

Sales made by each operating segment in the current fiscal year are as follows.

(Thousand yen)

Segment	FY12/16 (Jan. 1 – Dec. 31, 2016)		FY12/17 (Jan. 1 – Dec. 31, 2017)	
	Amount	% of total	Amount	% of total
Consulting	14,104,365	86.0%	16,181,762	86.7%
Logistics	1,729,472	10.5%	1,882,423	10.1%
Other businesses	574,697	3.5%	597,363	3.2%
Total	16,408,536	100.0%	18,661,550	100.0%

Notes

1. Sales amounts indicate sales to external customers.
2. The above amounts do not include consumption tax.
3. No single customer accounted for 10% or more of aggregate net sales.

(2) Changes in Directors and Officers
(scheduled to take effect on March 24, 2018)

1) Legal representatives
None to report.

2) Other directors and officers
Scheduled resignations

Name	New title	Previous title
Takeshi Isozumi	N/A	Director, senior vice president, and head of Business Development Office

3) Executive officers
Candidates for new appointments

Name	New title	Previous title
Masaru Sumitomo	Executive officer and head of Human Resources Development Department	Director, executive officer, and deputy head of Consulting Operations Divisional Headquarters of Funai Consulting Inc.
Tomoaki Mizoue	Executive officer and head of Information Systems Department	Head of Information Systems Department

Scheduled resignations

Name	New title	Previous title
Noriaki Ishiguro	N/A	Executive officer and head of Corporate Planning Office

List of Directors, Auditors, and Executive Officers
Funai Soken Holdings, Inc. (scheduled to take effect on March 24, 2018)

Name	Title	Position
Sakae Takashima	President	Group CEO
Tatsuro Ono	Director and senior vice president	Head of Business Management Divisional Headquarters
Takahisa Okumura	Director and senior vice president	Head of Management Administration Divisional Headquarters
Nobuyuki Isagawa	Independent director	
Masahiro Hyakumura	Director and standing member of the Audit and Supervisory Committee	
Atsushi Nakao	Independent director and member of the Audit and Supervisory Committee	
Akihiro Kobayashi	Independent director and member of the Audit and Supervisory Committee	
Akira Hamaguchi	Executive officer	Head of General Affairs Department
Masaru Sumitomo	Executive officer (new)	Head of Human Resources Development Department
Tomoaki Mizoue	Executive officer (new)	Head of Information Systems Department

Funai Consulting, Inc. (scheduled to take effect on March 23, 2018)

Name	Title	Position
Takayuki Nakatani	President & CEO	
Shinichiro Karatsuchi	Director and executive vice president	Head of Consulting Operations Divisional Headquarters
Kyohei Deguchi	Director and executive officer (promoted)	Head of Consulting Divisional Headquarters II
Daisuke Shingai	Director and executive officer (promoted)	Head of Consulting Divisional Headquarters V
Masahiro Hyakumura	Auditor	
Isao Kikuchi	Executive officer	Head of Consulting Divisional Headquarters III
Yoshihito Sugahara	Executive officer	Head of Innovation Consulting Divisional Headquarters
Akira Hamaguchi	Executive officer	Head of Administration Department
Satoshi Oka	Executive officer	Second deputy head of Consulting Operations Divisional Headquarters
Noboru Sugiura	Executive officer	Head of Consulting Divisional Headquarters I
Katsuya Kohira	Executive officer	Head of Consulting Divisional Headquarters IV
Akiyo Koike	Executive officer	Head of HRD Consulting Divisional Headquarters