Non-Audited

Consolidated Financial Results for the Fiscal Year Ended December 31, 2016
(January 1, 2016 – December 31, 2016)

February 6, 2017

Company name:	Funai Soken Holdings, Inc.	Stock Exchange listing: Tokyo Stock Exchange	
Stock code:	9757	URL: http://hd.funaisoken.co.jp	
President & Group CEO:	Sakae Takashima		
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General meeting of shareholders: March 25, 2017
Scheduled date of payment of dividend: March 27, 2017
Scheduled date of filing Annual Securities Report: March 27, 2017
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, 2016 – December 31, 2016)

(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, 2016	16,433	11.7	3,859	10.4	3,866	4.8	2,558	5.5
Year ended Dec. 31, 2015	14,717	17.9	3,497	16.9	3,691	21.9	2,426	37.3

NB: Comprehensive income was 2,553 million yen (up 1.6%) in the year ended December 31, 2016, and 2,512 million yen (up 44.0%) in the year ended December 31, 2015.

	Net income per share	Net income 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, 2016	75.61	74.65	13.8	17.1	23.5
Year ended Dec. 31, 2015	71.75	70.81	14.0	17.3	23.8

NB: Equity in earnings of affiliates (Million yen) Dec. 31, 2016: - Dec. 31, 2015: -
NB: Common shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016.
For the purposes hereof, net income per share and net income per share (diluted) for FY2015 are shown based on post-split assumptions.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ended Dec. 31, 2016	22,862	19,272	83.5	567.66
Year ended Dec. 31, 2015	22,260	18,217	81.3	534.08

NB: Shareholders' equity: 19,091 million yen in the year ended December 31, 2016, and 18,107 million yen in the year ended December 31, 2015.
NB: Common shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016.
For the purposes hereof, net assets per share for FY2015 are shown based on post-split assumptions.

(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, 2016	2,813	412	(1,689)	8,663
Year ended Dec. 31, 2015	2,008	671	(1,181)	7,125

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, 2015	-	15.00	-	21.00	36.00	1,015	41.8	5.9
Year ended Dec. 31, 2016	-	15.00	-	21.00	36.00	1,215	47.6	6.5
Forecast for year ending Dec. 31, 2017	-	15.00	-	24.00	39.00		50.4	

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016.
The annual dividend for FY2015 shown herein is the pre-split figure.
When the share split is taken into account, annual dividend per share was 30.00 in FY2015.

3. Forecast Consolidated Financial Results for the Year (January 1, 2017 – December 31, 2017)

(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		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	8,000	4.4	1,950	2.2	1,950	1.4	1,350	1.7	40.14
Full year	18,000	9.5	3,900	1.0	3,900	0.9	2,600	1.6	77.31

Remarks

(1) Changes in consolidated subsidiaries during the fiscal year (changes in scope of consolidation): None
(2) Changes in accounting policies; changes in estimates; re-statement of amendments
 1) Changes caused by revision to accounting standards: Some changes made
 2) Other changes: None
 3) Changes in accounting estimates: None
 4) Re-statement of amendments: None
(3) Number of outstanding shares (common stock)

1) Number of shares outstanding at end of year (including treasury stock)	FY2016	36,000,572	FY2015	36,000,572
2) Number of treasury shares at end of year	FY2016	2,369,101	FY2015	2,097,277
3) Average number of shares during year	FY2016	33,842,318	FY2015	33,819,462

* Statement Regarding Auditing Procedures

These financial results are exempt from auditing under the Financial Instruments and Exchange Act.

The company's financial statements are currently being audited at the time of publication of these results.

* Statement Regarding the Use of Forward-Looking Statements

Forecasts in these materials regarding future performance are based on reasonable judgments made in accordance with information currently available. Actual results may differ greatly from these forecasts for a number of factors. Please refer to "Analysis of Results of Operations" on page 2 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.

Appendix Contents

1. Results of Operations and Analysis of Financial Position
(1) Analysis of Results of Operations
This Fiscal Year's Results

(Million yen)

	FY2015	FY2016	Change	Rate of change (%)
Net sales	14,717	16,433	1,715	11.7
Operating income	3,497	3,859	362	10.4
Ordinary income	3,691	3,866	175	4.8
Net income attributable to owners of the parent company	2,426	2,558	132	5.5

In 2016, the Japanese economy showed signs of a gentle recovery, such as improved corporate earnings, on the back of improved employment figures and the resulting rise in incomes. On the other hand, uncertainty in the Chinese and other overseas economies, combined with fluctuating financial and capital markets, mean Japan is not out of the woods yet. Against this backdrop, the steady performance of our core consulting business contributed to robust performance overall throughout the Funai Soken Consulting Group, and resulted once again in our highest ever consolidated sales and income.

Sales increased steadily, spurred by our core consulting business, where orders were up on the back of increased renewals for monthly support plans, and where growth in membership of industry-specific and solution-specific management workshops translated to more consulting orders. Similarly, sales in our logistics business also rose, buoyed by some large orders. Consequently, sales increased 11.7% year-on-year to 16,433 million yen.

Despite increased cost of sales (10,689 million yen in 2016; 9,625 million yen in 2015) and SG&A expenses (1,883 million yen in 2016; 1,595 million yen in 2015), the aforementioned increase in sales pushed operating income 10.4% over the preceding year to 3,859 million yen.

Ordinary income rose 4.8% year-on-year to 3,866 million yen despite a drop in non-operating income, which had reached 263 million yen in 2015 thanks to consumption tax refunds that arose in conjunction with corporate reorganization, but which finished on 70 million yen in 2016.

Net income attributable to owners of the parent company rose 5.5% year-on-year to 2,558 million yen, including 111 million yen in gain on sales of investment securities (listed as extraordinary income) and a total of 1,386 million yen in income taxes (up from 1,190 million yen in 2015).

Segment-specific Performance

Consolidated performance for each business segment is outlined below.

I. Consulting

Consulting performance was once again much stronger than the preceding year, and resulted in record net sales.

Sales of consulting services for clients in core segments such as housing, real estate, healthcare, nursing care, and welfare continued to rise steadily, contributing significantly to the overall increase in sales for the consulting business.

By service category, monthly-support-based consulting solutions, which account for at least 70 percent of overall consulting sales, enjoyed robust growth in contract renewals, thereby adding to the expansion of revenues. Meanwhile, income from membership fees for our industry-specific and solution-category-specific workshops (of which we are the most prolific provider in Japan) continued their trend of year-on-year increases, boosted by an 18% increase in membership over the previous year. Similarly, aggressive expansion into new services, including workforce consulting and support for clients wanting to run online ads, also added to the increase in sales.

Consequently, sales rose 12.0% year-on-year to 14,104 million yen, and operating income rose 12.0% year-on-year to 3,737 million yen.

II. Logistics

Our main service in this sector is providing a centralized warehouse in Osaka for clients' shipping needs. So far, we have acquired new clients and achieved sales at the planned rates.

We sustained logistics consulting sales at a stable level through regular study workshops and successful renewal of existing clients' contracts, as well as highly popular seminars, which led to an increase in orders from new clients. Moreover, given the highly profitable nature of logistics consulting, the increase in sales of those services naturally led to growth in operating income.

Consequently, sales rose 3.9% year-on-year to 1,729 million yen, and operating income rose 18.2% year-on-year to 93 million yen.

III. Other Businesses

Here, contact center consulting sales exceeded planned figures thanks to an increase in orders, mainly for COPC certification support, and further growth in training for certified clients to maintain their qualifications.

Conversely, our IT services failed to reach planned targets, and we continued to struggle in this area.

Consequently, sales in other businesses rose 36.6% year-on-year to 574 million yen, and operating income in other businesses was 5 million yen, up from a 28-million-yen loss last year.

Moreover, starting in 2016, we have initiated a review of the Board of Directors' methods of managing consolidated business, beginning with the sale of major rental properties. As such, income from real estate rentals, which were previously listed under "others," will henceforth be listed under "adjustments," which do not belong to any segment subject to reporting requirements. See the Segment Information portion of the notes on consolidated financial statements under section 5 for more details.

Outlook for FY2017

We hope that the Japanese economy will continue to recover gradually amid ongoing improvements in employment and incomes, but disconcerting political trends in the United States and Europe, combined with concerns about an economic slowdown in China and the emerging Asian economies, mean that the outlook is as opaque as ever.

At the Funai Soken Consulting Group, we continue to harness the hard-won strength of our core consulting business—namely our ability to help clients improve their performance and develop better human resources—into a solid foundation to underpin industry-specific consulting services offered by our four Consulting Divisional Headquarters and the highly specialized, solution-category-specific consulting services offered by our Innovation Consulting Divisional Headquarters. By combining those services, we seek to offer an ever higher level of consulting quality.

The Innovation Consulting Divisional Headquarters focuses on helping clients with their needs in highly specialized areas such as staff hiring and development, mergers and acquisitions, and online marketing. By offering and expanding services in those niches, we seek to cement our position of trust as a comprehensive provider of management consulting solutions by helping SME clients raise corporate value.

Our logistics business is focused on solidifying relations with existing clients and broadening opportunities to attract new orders, for instance by holding regular workshops and seminars, through which we can communicate with potential clients more regularly and increase the chance of converting them. We are also investing significant effort into developing our workforce with an eye to further expansions of sales channels and a ready ability to ensure that new clients become regulars.

Elsewhere, our IT business is focused on securing stable revenues through IT consulting solutions and new services such as digital marketing, in which we set up and run systems to help clients promote their businesses via websites and e-mail. Similarly, our contact center consulting business will continue to seek performance improvements by strengthening existing operations. For instance, in addition to in-person training sessions for COPC certification, we will also offer e-learning options that will open our services up to clients outside the main urban centers. Moreover, we will continue with our efforts to pool the knowledge and information held by our group companies to improve marketing operations and encourage interaction among employees from different units of the group.

In sum, based on the aforementioned policies, we forecast consolidated net sales of 18,000 million yen, operating income of 3,900 million yen, ordinary income of 3,900 million yen, and net income of 2,600 million yen for FY2017.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

Assets

Total assets increased 602 million year-on-year to 22,862 million yen at the end of FY2016.

Current assets increased 1,036 million yen year-on-year to 12,249 million yen. This was mainly due to an increase in cash and deposits, and decreases in securities, and other accounts receivable (listed under "other current assets").

Noncurrent assets decreased 433 million yen year-on-year to 10,613 million yen. This was mainly due to decreases in investment securities, software, and goodwill.

Liabilities

Total liabilities decreased 452 million yen year-on-year to 3,590 million yen at the end of FY2016.

Current liabilities decreased 582 million yen year-on-year to 2,663 million yen. This was mainly due to a decrease in income taxes payable.

Noncurrent liabilities increased 130 million yen year-on-year to 927 million yen. This was mainly due to an increase in long-term loans payable.

Net Assets

Total net assets increased 1,055 million year-on-year to 19,272 million yen at the end of FY2016. This was mainly due to an increase in retained earnings.

As a result, the shareholders' equity ratio increased 2.2 points to 83.5% at the end of FY2016.

2) Cash Flow

Cash and cash equivalents increased 1,537 million year-on-year to 8,663 million yen at the end of FY2016. Trends in cash flow by activity are described below.

Net Cash Provided by Operations

Net cash provided by operations totaled 2,813 million yen compared to 2,008 million yen in the previous fiscal year. This was mainly due to an income before income taxes of 3,945 million yen; depreciation costs of 242 million yen, a 172 million yen increase in trade notes and accounts receivable, 1,658 million yen in income taxes paid, and 395 million yen in income tax refunds.

Net Cash Provided by Investments

Net cash provided by investments totaled 412 million yen compared to 671 million yen in the previous fiscal year. This was mainly due to 640 million yen provided, on balance, by the purchase and sale of securities and investment securities and 227 million yen used, on balance, in the purchase and sale of property, plant, equipment, and intangible assets.

Net Cash Provided by Financing

Net cash used in financing increased totaled 1,689 million yen compared to 1,181 million yen in the previous fiscal year. This was mainly due to 473 million yen spent on sale and purchase of treasury stock and 1,099 million yen distributed as dividends.

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

	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
Equity ratio	83.2	85.3	81.1	81.3	83.5
Shareholders' equity ratio based on market price	86.9	127.5	137.0	263.2	270.2
Interest-bearing debt to cash flow ratio	0.4	0.4	0.2	0.3	0.2
Interest coverage ratio (x)	170.1	221.9	250.7	326.3	355.8

Notes: 1. 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
2. Market capitalization: Closing stock price at FY-end multiplied by the number of outstanding shares at period-end (after deducting treasury stock).
3. Interest-bearing debt: All short-term loans payable, bonds payable, and the current portion of bonds listed under liabilities on the consolidated balance sheet.
4. 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.

(3) Basic Policy Regarding Distribution of Earnings, Dividends for the Current and Next Fiscal Years

Returning adequate earnings to shareholders is as important to us as strengthening our financial condition and management fundamentals. As such, we are determined to give back to shareholders through distribution of earnings and by buying treasury stock to an appropriate level in light of business performance. Our basic policy is to strive for a sustainable level of dividend increases and aim for a return-to-shareholders ratio of no less than 50%.

Retained earnings will be used to enhance capital through a balance of investments for the long-term growth of corporate value, and in strengthening the company's financial condition to facilitate flexible capital policies.

Based on that policy, we plan to pay 21 yen per share as a year-end dividend for FY2016 (scheduled date of payment: March 27, 2017). When the interim dividend of 15 yen per share is taken into account, the annual dividend for FY2016 will be 36 yen per share.

In FY2017, we plan to pay an interim dividend of 15 yen per share and a year-end dividend of 24 yen per share, making a total annual dividend of 39 yen per share.

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 buying.

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

Other Businesses

Elsewhere, Funai Soken IT Solutions provides services related to 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. Management Policies

(1) Fundamental Management Policy

The group's fundamental management policy is to contribute broadly to society by providing steadfast support to the diverse needs of a wide variety of corporations through our comprehensive, high-quality management consulting services.

To underscore our dedication to enhancing our operational capacity, we have a group-wide philosophy and vision.

I. Group Philosophy

"We help to build a better future for people, businesses, and society"

We at the Funai Consulting Group will offer solutions for a better future to all the people and businesses we are involved with – and to society as a whole – and will do our best to turn those ideas into reality.

II. Group Vision

"Trusted and respected by society for bringing joy to people and businesses through our work"

We are determined to work together as a corporate group to bring joy to the people and businesses we are involved with. By earning the trust and respect of the people and businesses we seek to please, we can also earn the trust and respect of society as a whole.

(2) Targets and Performance Indicators

At the Funai Soken Consulting Group, our goal is to practice the philosophy and pursue the vision stated above through constant growth and improvement. To that end, we instituted core performance indicators as part of our Mid-range Business Plan for 2014 to 2016 and strove to meet those targets consistently over the mid-to-long term. Those targets were as follows.

I. Sales growth of at least 10%

We will continue to develop new business operations and pursue group-based business management to enhance our range of consulting services and, through this, aim to grow our sales by at least ten percent per year while expanding our business activities further.

II. Return on equity of at least 10%

We will seek stable profits, growth over the mid-to-long term, and a fine balance of optimal capital and appropriate returns to shareholders. Our aim is to maintain a return on equity of at least ten percent and to further improve capital efficiency.

For details on the Mid-range Business Plan covering 2017 through 2019, please see "(3) Medium-to-Long-Term Management Strategies."

(3) Medium-to-long-term Management Strategies

We unveiled the Funai Soken Consulting Group Mid-Range Business Plan for 2017 through 2019 on November 4, 2016. The main theme of the next three years is “Great Value 2020,” which speaks of our determination to cement our position as a comprehensive provider of management consulting solutions by leveraging the strengths of our industry-specific management workshops and continuing our efforts to establish a business model that provides for sustainable growth by building and maintaining a “stock” of clients.

1) FY2017-2019 Mid-range business plan

(Million yen)

	FY2017	FY2018	FY2019
Consolidated net sales	18,000	20,000	22,000
Consolidated operating income	3,900	4,200	4,500

2) Consulting Strategy

Our strategy is to harness our hard-won core strength—namely our ability to help clients improve their performance and develop better human resources—into a solid foundation to underpin our industry-specific consulting services and our highly specialized, and solution-category-specific consulting services. By combining those services, we seek to offer an ever higher level of consulting quality. Solution-category-specific consulting services include helping clients with their needs in highly specialized areas such as staff hiring and development, mergers and acquisitions, and online marketing. By offering and expanding services in those niches, we seek to assist SME clients in raising corporate value.

3) Logistics strategy

In this sector, our strategy is to grow our existing logistics consulting, operations, and trading services by building and improving the kind of platform functionality that will establish us as a comprehensive provider of logistics engineering solutions.

4) HR strategy

Steady hiring of recent graduates and a high retention rate are the foundations of our HR strategy. Based on these, we will strive to build up a pool of young consultants, which we will augment by hiring the talented professionals needed to maintain our status as a comprehensive provider of management consulting solutions.

5) Basic approach to capital policy

- **Basic policy**
  Fully aware of the need for a strong capital policy in order to raise the value we provide to shareholders steadily over the mid-to-long term, we have formulated such a policy that seeks to improve the efficiency of our capital through a combination of actions. These include establishing shareholders' equity targets at an appropriate level, improving shareholder returns, and proactive investment aimed at expanding revenues.
- **Efficiency policy**
  We will strive to improve margins by maintaining a consolidated ROE of 10% and keeping a close eye on capital costs.
- **Shareholder returns policy**
  Returning adequate earnings to shareholders is an integral pillar of our business administration. Therefore, we will aim to maintain a return-to-shareholders ratio of at least 50% through a combination of dividends commensurate with business performance and treasury share buy-backs as appropriate in light of the financial situation at the time.

6) Enhancing corporate governance

We have undertaken a number of efforts to enhance corporate governance, including:

- Switching from a board of auditors to an audit and supervisory committee;
- Increasing the number of independent directors on the board to ensure the right mix of knowledge, skill, and experience;
- Establishing a risk management committee as a means of boosting compliance and internal oversight;
- Establishing advisory committees—including a new governance committee in addition to the existing nominating committee and compensation committee designed to promote robust exchange of views between independent and non-independent directors; and
- Ensuring greater effectiveness of the board of directors by providing more information to independent directors.

(4) Challenges

While the Japanese economy is showing signs of a gentle recovery, such as improved corporate earnings, on the back of the government's policies aimed at economic revitalization, the deceleration of the Chinese and other overseas economies combined with political turmoil in the United States and Europe mean Japan is not out of the woods yet. Companies need to make more efficient use of their resources to survive the current circumstances and, to that end, accurate investment and management decisions are vital.

We view all of these circumstances as opportunities to expand our core management consulting business, and are determined to advance to a new stage of growth and expansion. To that end, we are determined to continue anticipating clients' needs and providing timely, industry-specific consulting services that fulfill them. This is, of course, in keeping with our vision for the future, namely that the Funai Soken Consulting Group will continue to be trusted and respected by society for bringing joy to people and businesses through our work. Indeed, it is this thought that keeps us by our clients' sides working together, not only to help them grow but also to make a genuine difference in the broader community.

1) Expanding management workshops

At the heart of our consulting services are the industry-specific, solution-category-specific management workshops aimed at business owners. These are ideal opportunities for executives to pick up on industry trends, learn from case studies, and exchange information, not to mention research the latest solutions to drive business performance. The swelling of workshop membership numbers generates synergies with our monthly support consulting services, which make up some 70% of sales in this segment, and their importance as a driver of the group's overall performance ensures that bolstering workshop membership is a perennial priority. We seek to bring in new members through seminars for business owners, and of course through referrals from existing clients. Our aim is to boost membership from 6,115 companies (as of December 2016) to 10,000 by the end of 2020.

2) Recruit, train, and retain talented people

Given the weight we place on improving the performance of our core consulting business, it is essential that we recruit talented people and constantly work on their consulting skills. Heightened brand recognition of the Funai Soken Consulting Group has enabled us to recruit many high-potential new graduates and experienced professionals. Our recruiting drives are not limited to Japan—we seek high-quality talent wherever it may be.

But just as attracting talented people is important, so is retaining them. Retention of quality employees helps maintain continuity of client relations and improves the rate of repeat contracts, thus contributing to stable performance. Therefore, we believe that the ability to nurture these new, highly talented employees and retain them in the Funai Consulting Group is critical to our future. For instance, we are revamping our work environment and working hours. Initiatives also include frameworks that make it easier for women to balance work with needs such as childcare, and proactive efforts to enhance the working opportunities available to women. To that end, we will strive to ensure the Funai workplace is employee-friendly and conducive to long-term retention of consultants.

3) Improving group-wide management

If the Funai Soken Consulting Group is to become a comprehensive provider of management consulting solutions for SMEs, it is imperative that we establish a framework for augmenting our existing services—industry-specific consulting aimed at helping clients achieve growth and develop better human resources—with solutions aimed at helping clients improve their corporate value. We will work on creating just such a structure, which will enable us to provide a better quality of service when assisting in mergers, acquisitions, and tie-ups, and will lead to expansion of the areas we work in and even encourage interaction between group companies. By bolstering our set-up in that way, we will be able to offer client business owners the top-class consulting services they require.

4) Expand into Overseas Markets

In an age when clients are increasingly looking to expand overseas, we seek to help them by focusing on Asian markets as likely expansion destinations. Consulting for Japanese clients active in foreign markets is nothing new to Funai Consulting, but now is the time for us to expand those operations. This includes setting up our own marketing capacity and recruiting staff in local markets, and holding workshops as a forum for clients to interact and learn from each other as a means of invigorating markets. In this way, we endeavor to improve the performance of industries as a whole. For now, our Japanese sales far outweigh our overseas sales, but we are convinced that there is potential for huge growth in overseas markets.

5) Corporate social responsibility, the bedrock of our management

We believe that Corporate Social Responsibility (CSR) is vital to group management in order to ensure sound growth and boost corporate value. As part of this, we have identified risk management and compliance as two areas requiring particularly thorough effort. As such, we are driven to use our comprehensive management consulting services as a vehicle for seeking a better future for all the people and businesses we are involved with – and to society as a whole – and will do our best to turn those ideas into reality. Indeed, it is that philosophy which informs our desire to run the Funai Consulting Group in a way that is conducive to the betterment of society.

6) Enhance internal controls and corporate governance

We realize that solid corporate governance is key to ensuring sustainable growth and raising corporate value over the mid-to-long term, and that proper implementation of a "code of corporate governance" and internal controls are critical elements in any foundation for effective corporate governance. To that end, we have established a governance committee composed entirely of independent directors, which conducts regular inspections of our corporate governance. In addition, we have introduced and implemented in-house rules that meet internal control reporting requirements and ensure the transparency and soundness of management. Moreover, we replaced our board of auditors with an audit and supervisory committee in March 2016 as a means of bolstering corporate governance by increasing the board of directors' auditing and oversight capacity, thus ensuring our business is administered properly and efficiently. With these rules in place, we will further strengthen our business fundamentals by achieving the group's strategies and business objectives on a systematic basis and implementing appropriate and efficient management procedures.

4. Reasons for Decision on Selection of Accounting Standards

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

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

5. Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Thousand yen)

	FY12/15 (As of Dec. 31, 2015)	FY12/16 (As of Dec. 31, 2016)
Assets		
Current assets		
Cash and deposits	7,125,584	8,663,050
Trade notes and accounts receivable	1,707,206	1,878,748
Short-term investment securities	1,301,406	901,349
Work in process	96,300	70,155
Raw materials and supplies	6,428	8,279
Other current assets	1,007,522	758,936
Allowance for doubtful accounts	(31,276)	(31,140)
Total current assets	11,213,172	12,249,380
Noncurrent assets		
Property, plant, and equipment		
Buildings and structures, net	1,355,614	1,366,162
Land	4,610,713	4,610,713
Lease assets, net	21,228	55,609
Other property, plant, and equipment, net	58,476	67,866
Total property, plant, and equipment	*1 6,046,034	*1 6,100,352
Intangible assets		
Leasehold rights	322,400	322,400
Software	333,371	261,899
Goodwill	247,142	161,020
Other intangible assets	15,762	9,122
Total intangible assets	918,676	754,442
Investments and other assets		
Short-term investment securities	3,181,564	2,919,921
Assets related to retirement benefits	511,859	523,931
Other investments and other assets	399,418	323,465
Allowance for doubtful accounts	(10,665)	(8,814)
Total investments and other assets	4,082,176	3,758,502
Total noncurrent assets	11,046,887	10,613,298
Total assets	22,260,059	22,862,678

(Thousand yen)

	FY12/15 (As of Dec. 31, 2015)	FY12/16 (As of Dec. 31, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	264,728	256,350
Short-term loans payable	*2 100,000	-
Current portion of bonds	100,000	-
Lease obligations	9,181	14,225
Income taxes payable	1,072,787	758,828
Other current liabilities	1,699,328	1,633,782
Total current liabilities	3,246,026	2,663,188
Noncurrent liabilities		
Bonds payable	500,000	500,000
Long-term loans payable	-	100,000
Lease obligations	13,408	45,638
Deferred tax liabilities	185,778	228,488
Other noncurrent liabilities	97,749	52,885
Total noncurrent liabilities	796,937	927,012
Total liabilities	4,042,963	3,590,201
Net assets		
Shareholders' equity		
Capital stock	3,125,231	3,125,231
Capital surplus	2,946,634	2,946,634
Retained earnings	13,021,753	14,478,158
Treasury stock	(1,061,044)	(1,527,811)
Total shareholders' equity	18,032,575	19,022,212
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	181,173	152,982
Foreign currency translation adjustments	14,864	16,256
Accumulated adjustments for retirement benefits	(121,553)	(100,141)
Total accumulated other comprehensive income	74,483	69,097
Subscription rights for shares	110,037	181,166
Total net assets	18,217,095	19,272,477
Total liabilities and net assets	22,260,059	22,862,678

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

(Thousand yen)

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net sales	14,717,741	16,433,399
Cost of sales	9,625,278	10,689,662
Gross profit	5,092,462	5,743,736
SG&A expenses	*1 1,595,451	*1 1,883,925
Operating income	3,497,010	3,859,810
Non-operating income		
Interest income	8,969	8,237
Dividend income	13,122	12,921
Gain on sales of investment securities	42,043	3,724
Insurance bonus income	23,164	26,485
Refunded consumption taxes	141,511	1,121
Other non-operating income	34,209	17,570
Total non-operating income	263,021	70,060
Non-operating expenses		
Interest expenses	7,269	6,164
Bond issue expenses	10,141	-
Investment partnership management expenses	8,470	7,195
Contributions	30,000	32,000
Other non-operating expenses	12,859	17,615
Total non-operating expenses	68,741	62,975
Ordinary income	3,691,290	3,866,895
Extraordinary income		
Gain on sales of noncurrent assets	*2 799	-
Gain on sales of investment securities	66	111,080
Gain on reversal of subscription rights to shares	117	175
Total extraordinary income	982	111,255
Extraordinary losses		
Loss on sales of noncurrent assets	*3 29,525	*3 134
Loss on retirement of noncurrent assets	*4 32,740	*4 4,400
Loss on sales of investment securities	-	4,272
Loss on valuation of investment securities	1,093	171
Impairment losses	*5 12,203	*5 24,004
Total extraordinary losses	75,563	32,983
Net income before income taxes and other adjustments	3,616,710	3,945,167
Current income taxes	1,314,678	1,315,809
Deferred income taxes	(124,409)	70,459
Total income taxes	1,190,269	1,386,268
Net income	2,426,440	2,558,898
Net income attributable to owners of the parent company	2,426,440	2,558,898

Consolidated Statement of Comprehensive Income

(Thousand yen)

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net income	2,426,440	2,558,898
Other comprehensive income		
Valuation difference on available-for-sale securities	81,522	(28,191)
Foreign currency translation adjustments	(583)	1,392
Adjustments for retirement benefits	5,277	21,412
Total other comprehensive income	*1,*2 86,216	*1,*2 (5,385)
Comprehensive income	2,512,657	2,553,512
Details		
Comprehensive income attributable to owners of the parent company	2,512,657	2,553,512

(3) Consolidated Statement of Changes in Net Assets
FY12/15 (Jan. 1 – Dec. 31, 2015)

(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	11,578,698	(1,070,362)	16,580,202
Cumulative effect of changes in accounting policies			62,151		62,151
Restated balance	3,125,231	2,946,634	11,640,850	(1,070,362)	16,642,354
Change					
Dividends from surplus			(903,363)		(903,363)
Net income attributable to owners of the parent company			2,426,440		2,426,440
Purchase of treasury stock				(266,624)	(266,624)
Disposal of treasury stock		10,102		123,665	133,767
Retirement of treasury stock		(10,102)	(142,174)	152,276	-
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	1,380,903	9,317	1,390,220
Balance at end of current fiscal year	3,125,231	2,946,634	13,021,753	(1,061,044)	18,032,575

	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	99,650	15,447	(126,831)	(11,732)	85,325	16,653,794
Cumulative effect of changes in accounting policies						62,151
Restated balance	99,650	15,447	(126,831)	(11,732)	85,325	16,715,946
Change						
Dividends from surplus						(903,363)
Net income attributable to owners of the parent company						2,426,440
Purchase of treasury stock						(266,624)
Disposal of treasury stock						133,767
Retirement of treasury stock						-
Net changes of items other than shareholders' equity	81,522	(583)	5,277	86,216	24,712	110,928
Total changes of items during the fiscal year	81,522	(583)	5,277	86,216	24,712	1,501,149
Balance at end of current fiscal year	181,173	14,864	(121,553)	74,483	110,037	18,217,095

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
Cumulative effect of changes in accounting policies			-		-
Restated balance	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
Cumulative effect of changes in accounting policies						-
Restated balance	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

(4) Consolidated Cash Flow Statement

(Thousand yen)

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net cash provided by (used in) operations		
Net income before income taxes and other adjustments	3,616,710	3,945,167
Depreciation	175,327	242,097
Amortization of goodwill	51,269	62,118
Share-based compensation expenses	45,554	77,928
Impairment losses	12,203	24,004
Increase (decrease) in allowance for doubtful accounts	1,461	(1,987)
Decrease (increase) in assets related to retirement benefits	(51,995)	9,340
Loss (gain) on valuation of investment securities	1,093	171
Loss (gain) on sales of investment securities	(41,722)	(108,906)
Interest and dividend income	(22,091)	(21,158)
Interest expenses	7,269	6,164
Bond issue expenses	10,141	-
Loss (gain) on exchange	(673)	514
Contributions	30,000	32,000
Loss (gain) on sales of property, plant, and equipment	28,750	134
Loss on retirement of property, plant, and equipment	18,476	4,141
Loss on retirement of intangible assets	14,264	259
Decrease (increase) in trade notes and accounts receivable	(298,845)	(172,540)
Decrease (increase) in other assets	(15,489)	(6,570)
Increase (decrease) in other liabilities	8,088	(23,905)
Other cash provided by (used in) operations	(15,386)	10,072
Subtotal	3,574,407	4,079,046
Interest and dividends received	39,436	36,903
Interest paid	(6,156)	(7,906)
Income taxes paid	(1,568,784)	(1,658,121)
Income tax refunds	-	395,286
Contributions paid	(30,000)	(32,000)
Net cash provided by (used in) operations	2,008,903	2,813,208

(Thousand yen)

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net cash provided by (used in) investments		
Income from time deposits	250,000	-
Purchase of short-term investment securities	(600,232)	(1,199,993)
Proceeds from sale of short-term investment securities	2,100,000	1,900,000
Purchase of investment securities	(1,108,847)	(1,278,173)
Proceeds from sale of investment securities	125,854	1,218,230
Purchase of property, plant, and equipment	(32,595)	(216,328)
Proceeds from sale of property, plant, and equipment	245,369	7
Purchase of intangible assets	(220,540)	(11,540)
Purchase of investments in subsidiaries	*1 (143,833)	-
Proceeds from cancellation of insurance funds	85,925	-
Payments for guarantee deposits	(29,282)	-
Other cash provided by (used in) investments	-	100
Net cash provided by (used in) investments	671,817	412,301
Net cash provided by (used in) financing		
Decrease in short-term loans payable	-	(100,000)
Proceeds from long-term loans payable	-	100,000
Repayment of long-term loans payable	(103,959)	-
Income from issue of bonds	489,858	-
Redemption of bonds	(500,000)	(100,000)
Repayment of lease obligations	(11,969)	(17,346)
Purchase of treasury stock	(266,624)	(509,630)
Proceeds from sale of treasury stock	112,925	36,182
Dividends paid	(901,465)	(1,099,051)
Net cash provided by (used in) financing	(1,181,234)	(1,689,846)
Effect of exchange rate changes on cash and cash equivalents	(341)	1,803
Increase (decrease) in cash and cash equivalents	1,499,144	1,537,466
Cash and cash equivalents at start of fiscal year	5,626,439	7,125,584
Cash and cash equivalents at end of fiscal year	*2 7,125,584	*2 8,663,050

(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 before April 1, 1998 is calculated using the straight-line method, as is depreciation of building fixtures and structures acquired on or after April 1, 2016.
   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.
   The development costs of software intended for internal use are 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 prepare against credit losses on accounts receivable, amounts equivalent to the estimated

amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio and bad 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 arise.

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 an appropriate 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) Change in major accounting policies in the preparation of consolidated financial statements

Accounting for consumption taxes

Consumption taxes are accounted by the tax-exclusion method.

Changes in Accounting Policies

Application of Accounting Standards for Corporate Integration

Starting in FY2016, the Funai Soken Consulting Group has adopted the Accounting Standards for Business Combinations (ASBJ Statement no. 21; September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement no. 22; September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No.7; September 13, 2013). Specifically, differences arising from changes in equity in subsidiaries over which the group has ongoing control are to be listed in accounts as capital surpluses, and expenses incurred in making acquisitions are to be listed as expenses in the fiscal year in which they arise. If a corporate integration ("business combination") is undertaken at or after the beginning of the fiscal year, any revision of the apportionment of acquisition costs undertaken by finalizing provisional accounting procedures taken at the time are to be reflected in the consolidated financial statements for the year in which the integration of businesses takes effect. Furthermore, changes have been made to the statement of net income, and the previous fiscal year's consolidated financial statements have been revised to reflect this reclassification.

In applying the aforementioned standards, the standards take effect starting at the beginning of the fiscal year pursuant to the transition measures stipulated in Clause 58-2 Item (4) of the Accounting Standards for Business Combinations, Clause 44-5 Item (4) of the Accounting Standard for Consolidated Financial Statements, and Clause 57-4 Item (4) of the Accounting Standard for Business Divestitures.

This has no effect on the Consolidated Financial Statements for the year.

Adoption of ASBJ PITF No. 18

The group has adopted Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ PITF No. 18; March 26, 2015) starting in FY2016.

This has no effect on the Consolidated Financial Statements for the year.

Adoption of ASBJ PITF No. 32

In response to the amendment of the Corporation Tax Act, the group has adopted the Practical Solution on a Change in Depreciation Method Due to Tax Reform (ASBJ PITF No. 32; June 17, 2016) starting in FY2016. Depreciation of buildings, accompanying facilities, and structures purchased on or after April 1, 2016, has been changed from the declining-balance method to the straight-line method.

The effects of this change on earnings in FY2016 are minor.

Reclassifications

Footnotes to Consolidated Statement of Income

Loss on valuation of investment securities, which was listed as a separate entry under non-operating expenses in FY2015, is included in other non-operating expenses in FY2016 because the amount thereof was less than 10% of total non-operating expenses. The previous fiscal year's consolidated financial statements have been revised to reflect this reclassification.

Footnotes to Consolidated Balance Sheet

***1 Accumulated depreciation on property, plant, and equipment**

	FY12/15 (As of Dec. 31, 2015)	FY12/16 (As of Dec. 31, 2016)
Accumulated depreciation on property, plant, and equipment	1,915,234,000 yen	2,026,652,000 yen

***2 Credit lines and unused portions thereof**

The Company had commitment line agreements with major financial institutions in order to facilitate the efficient raising of funds. The unused portion of those current account overdraft facilities are as follows.

	FY12/15 (As of Dec. 31, 2015)	FY12/16 (As of Dec. 31, 2016)
Current account overdraft and commitment line	150,000,000 yen	-
Credit used	100,000,000 yen	-
Credit available	50,000,000 yen	-

Footnotes to Consolidated Statement of Income

***1 Major SG&A expenses**

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Directors' salaries and bonuses	344,846,000 yen	406,419,000 yen
Employees' salaries	588,080,000 yen	612,969,000 yen
Retirement benefit expenses	21,054,000 yen	15,512,000 yen

***2 Major gains on sale of noncurrent assets**

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Buildings and structures	760,000 yen	-
Property, plant, and equipment, others	39,000 yen	-
Total	799,000 yen	-

***3 Major losses on sale of noncurrent assets**

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Land	29,511,000 yen	-
Property, plant, and equipment, others	14,000 yen	134,000 yen
Total	29,525 yen	134,000 yen

***4 Major losses on retirement of noncurrent assets**

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Buildings and structures	17,557,000 yen	3,870,000 yen
Property, plant, and equipment, others	919,000 yen	270,000 yen
Software	14,264,000 yen	259,000 yen
Total	32,740,000 yen	4,400,000 yen

***5 Impairment losses**

FY12/15 (Jan. 1 – Dec. 31, 2015)

Impairment losses on the group's assets in FY2015 were as follows.

Location	Purpose	Category
Shinjuku-ku, Tokyo	Rental property	Land (property, plant, and equipment)

In keeping with the division of the group's business into segments (consulting, logistics, and others), individual rental properties are also grouped under the pertinent segment.

In conjunction with a board of directors resolution to sell the land in Shinjuku-ku, Tokyo, the book value of the land was marked down to an amount deemed recoverable, and the amount of that mark-down, 12,203,000 yen was listed as an impairment loss under extraordinary losses.

The recoverable amount was calculated based on the net sale price, which was determined in accordance with the scheduled sale price.

FY12/16 (Jan. 1 – Dec. 31, 2016)

Impairment losses on the group's assets in FY2016 were as follows.

Location	Purpose	Category
Funai Soken IT Solutions (Shinagawa-ku, Tokyo)	Other	Goodwill (intangible assets)

We consider goodwill to be an asset of the pertinent business segment, and goodwill is therefore grouped within the assets of each discrete business.

The goodwill of Land Future K.K., a company absorbed into our group subsidiary Funai Soken IT Solutions as part of a merger, has been listed under extraordinary losses as an impairment loss of 24,004,000 yen because the revenues initially forecast under the deal are now deemed to be impossible. Because the recoverable amount is zero, the book value has been written down to that amount.

Footnotes to Consolidated Statement of Comprehensive Income

FY12/15 (Jan. 1 – Dec. 31, 2015)

*1 Adjustments for revisions in other comprehensive income

Valuation difference on available-for-sale securities		
Valuation difference on available-for-sale securities in FY2015	149,650,000 yen	
Adjustments for revisions	(35,721,000 yen)	113,929,000 yen
Foreign currency translation adjustments		
Foreign currency translation adjustments in FY2015		(583,000 yen)
Adjustments for retirement benefits		
Adjustments for retirement benefits in 2015	(50,278,000 yen)	
Adjustments for revisions	66,333,000 yen	16,054,000 yen
Before tax		129,400,000 yen
Taxes		(43,184,000 yen)
Total other comprehensive income		86,216,000 yen

*2 Income tax relating to other comprehensive income

	Before tax	Taxes	After tax
Valuation difference on available-for-sale securities	113,929,000 yen	(32,407,000 yen)	81,522,000 yen
Foreign currency translation adjustments	(583,000 yen)	-	(583,000 yen)
Adjustments for retirement benefits	16,054,000 yen	(10,777,000 yen)	5,277,000 yen
Total other comprehensive income	129,400,000 yen	(43,184,000 yen)	86,216,000 yen

FY12/16 (Jan. 1 – Dec. 31, 2016)

*1 Adjustments for revisions in other comprehensive income

Valuation difference on available-for-sale securities		
Valuation difference on available-for-sale securities in FY2016	(36,872,000 yen)	
Adjustments for revisions	(9,903,000 yen)	(46,775,000 yen)
Foreign currency translation adjustments		
Foreign currency translation adjustments in FY2016		1,392,000 yen
Adjustments for retirement benefits		
Adjustments for retirement benefits in 2016	(2,856,000 yen)	
Adjustments for revisions	37,859,000 yen	35,003,000 yen
Before tax		(10,379,000 yen)
Taxes		4,993,000 yen
Total other comprehensive income		(5,385,000 yen)

*2 Income tax relating to other comprehensive income

	Before tax	Taxes	After tax
Valuation difference on available-for-sale securities	(46,775,000 yen)	18,584,000 yen	(28,191,000 yen)
Foreign currency translation adjustments	1,392,000 yen	-	1,392,000 yen
Adjustments for retirement benefits	35,003,000 yen	(13,590,000 yen)	21,412,000 yen
Total other comprehensive income	(10,379,000 yen)	4,993,000 yen	(5,385,000 yen)

Footnotes to Consolidated Statement of Changes in Net Assets

FY12/15 (Jan. 1 – Dec. 31, 2015)

1. Outstanding shares

Class of shares	Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common shares	30,251,477	-	251,000	30,000,477

Changes

- **Decreases:**
  Decrease due to retirement of treasury stock: 251,000

2. Treasury stock

Class of shares	Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common shares	1,951,465	252,266	456,000	1,747,731

Changes

- **Increases:**
  Increase due to acquisition of odd-lot shares: 1,266
  Increase due to board-approved purchase: 251,000
- **Decreases:**
  Decrease due to retirement of treasury stock: 251,000
  Decrease due to exercising of stock options: 205,000

3. Subscription rights for shares

Company	Details	Class of share	Number of shares				Balance at end of fiscal year
			Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year	
Issuing company	Subscription rights issued as stock options	-					110,037,000 yen

4. Dividends

(1) Dividend payments

Resolution date	Class of shares	Total amount of dividend	Dividend per share	Record date	Effective date
General meeting of shareholders on Mar. 28, 2015	Common shares	481,100,000 yen	17 yen	Dec. 31, 2014	Mar. 30, 2015
Board meeting on Jul. 30, 2015	Common shares	422,262,000 yen	15 yen	Jun. 30, 2015	Aug. 25, 2015

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution date	Class of shares	Source of funds	Total amount of dividend	Dividend per share	Record date	Effective date
General meeting of shareholders on Mar. 26, 2016	Common shares	Retained earnings	593,307,000 yen	21 yen	Dec. 31, 2015	Mar. 28, 2016

FY12/16 (Jan. 1 – Dec. 31, 2016)

1. Outstanding shares

Class of shares	Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common shares	36,000,572	-	-	36,000,572

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016.

2. Treasury stock

Class of shares	Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year
Common shares	2,097,277	348,984	77,160	2,369,101

NB: Common shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016.

Changes

- **Increases:**
  Increase due to acquisition of odd-lot shares: 6,084
  Increase due to board-approved purchase: 342,900
- **Decreases:**
  Decrease due to exercising of stock options: 77,040
  Decrease due to requests for top-up purchases to bring odd-lot shares up to round lot: 120

3. Subscription rights for shares

Company	Details	Class of shares	Number of shares				Balance at end of fiscal year
			Number of shares at start of fiscal year	Increase	Decrease	Number of shares at end of fiscal year	
Issuing company	Subscription rights issued as stock options	-					181,166,000 yen

4. Dividends

(1) Dividend payments

Resolution date	Class of shares	Total amount of dividend	Dividend per share	Record date	Effective date
General meeting of shareholders on Mar. 26, 2016	Common shares	593,307,000 yen	21 yen	Dec. 31, 2015	Mar. 28, 2016
Board meeting on Aug. 5, 2016	Common shares	509,128,000 yen	15 yen	Jun. 30, 2016	Aug. 29, 2016

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Resolution date	Class of shares	Source of funds	Total amount of dividend	Dividend per share	Record date	Effective date
General meeting of shareholders on Mar. 25, 2017	Common shares	Retained earnings	706,260,000 yen	21 yen	Dec. 31, 2016	Mar. 27, 2017

Footnotes to Consolidated Cash Flow Statement

***1 Major assets and liabilities of companies made subsidiaries through acquisition of shares**
FY12/15 (Jan. 1 – Dec. 31, 2015)

The following is a list of assets and liabilities held by Proseed at the time it became a consolidated subsidiary through the group's acquisition of shares in that company, and the difference between the price paid and the balance of assets and liabilities acquired (i.e. net expense).

Current assets	150,133,000 yen
Noncurrent assets	11,901,000 yen
Goodwill	216,965,000 yen
Current liabilities	(134,580,000 yen)
Price of share acquisition	244,419,000 yen
Cash and cash equivalents	(100,585,000 yen)
Balance: Net expense on acquisition of shares	143,833,000 yen

FY12/16 (Jan. 1 – Dec. 31, 2016)

None to report.

***2 Balance of cash and cash equivalents and pertinent listings in the consolidated balance sheet**

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Cash and deposits	7,125,584,000 yen	8,663,050,000 yen
Short-term investment securities	1,301,406,000 yen	901,349,000 yen
Time deposits with original maturities of longer than three months	-	-
Debt securities with original maturities of longer than three months	(1,301,406,000 yen)	(901,349,000 yen)
Cash and cash equivalents	7,125,584,000 yen	8,663,050,000 yen

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 business 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 and other accounts for each segment

Accounting methods for the reported segments are largely the same as those listed in the Major Accounting Policies in 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. Changes in Report Segments

Starting in 2016, we have initiated a review of the Board of Directors' methods of managing consolidated business, beginning with the sale of major rental properties. As such, income from real estate rentals, which were previously listed under "others," will henceforth be listed under "adjustments," which do not belong to any segment subject to reporting requirements.

Furthermore, segment information for the previous fiscal year has been recompiled using the new segments for reference purposes.

4. Other information about net sales, income/losses, assets and other accounts for each segment

FY12/15 (Jan. 1 – Dec. 31, 2015)

(Thousand yen)

	Consulting	Logistics	Others(1)	Total	Adjustment(2)	Amount listed in consolidated financial statements(3)
Net sales						
Sales to external customers	12,593,803	1,664,108	420,714	14,678,626	39,114	14,717,741
Inter-segment sales and transfers	78,922	226,263	29,123	334,309	(334,309)	-
Total	12,672,726	1,890,371	449,838	15,012,936	(295,194)	14,717,741
Segment income (loss)	3,335,760	78,853	(28,713)	3,385,900	111,110	3,497,010
Segment assets	11,503,827	530,036	426,851	12,460,714	9,799,344	22,260,059
Others						
Depreciation	106,131	2,702	932	109,766	65,561	175,327
Amortization of goodwill	-	9,996	41,273	51,269	-	51,269
Impairment losses	-	-	-	-	12,203	12,203
Change in property, plant, equipment, and intangible assets	322,237	2,422	217,130	541,790	32,843	574,634

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 or losses include elimination of inter-segment transactions and whole-group revenues and expenses that are not attributable to any segment. Whole-group income is 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 or losses are adjusted against operating income in the consolidated financial statements.

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 income is 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

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net assets per share	534.08 yen	567.66 yen
Net income per share (basic)	71.75 yen	75.61 yen
Net income per share (diluted)	70.81 yen	74.65 yen

NB: 1. Shares in Funai Soken Holdings were split at a ratio of 1.2-for-1 on January 1, 2016. For the purposes hereof, net assets per share, net income per share, and net income per share (diluted) for FY2015 are shown based on post-split assumptions. The basis for calculation of basic and diluted net income per share is as follows.

	FY12/15 (Jan. 1 – Dec. 31, 2015)	FY12/16 (Jan. 1 – Dec. 31, 2016)
Net income per share (basic)		
Net income attributable to owners of the parent company	2,426,440,000 yen	2,558,898,000 yen
Amount not attributable to common shareholders	-	-
Net income attributable to holders of common shareholders in the parent company	2,426,440,000 yen	2,558,898,000 yen
Average number of common shares outstanding during the fiscal year	33,819,462	33,842,318
Net income per share (diluted)		
Amount to be adjusted in considering dilutive effect attributable to owners of the parent company	-	-
Increase in common shares	449,501	437,802
(Portion of increase made up of subscription rights)	(449,501)	(437,802)
Summary of non-dilutive stock equivalents not used in calculation of net income per share (diluted)	-	

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

	FY12/15 (As of Dec. 31, 2015)	FY12/16 (As of Dec. 31, 2016)
Total net assets on consolidated balance sheets	18,217,095,000 yen	19,272,477,000 yen
Deductions from total net assets	110,037,000 yen	181,166,000 yen
(Portion of deductions made up of subscription rights)	(110,037,000 yen)	(181,166,000yen)
Net assets attributable to common shareholders	18,107,058,000 yen	19,091,310,000 yen
Number of common shares used in calculation of net assets per share	33,903,295	33,631,471

6. Other Information

(1) Orders and Sales

1) Orders

Orders won by each operating segment in the current fiscal year are as follows.

(Thousand yen)

Segment	FY12/15 (Jan. 1 – Dec. 31, 2015)		FY12/16 (Jan. 1 – Dec. 31, 2016)	
	Orders received	Orders outstanding	Orders received	Orders outstanding
Consulting	11,125,236	5,211,119	11,609,519	5,295,974
Logistics	138,525	47,984	137,573	40,866
Other businesses	448,497	76,526	495,456	68,139

Notes

1. Consulting orders above include only consulting income; membership fees and seminar fees are excluded as they are ongoing income.
2. Logistics income includes only that earned from logistics consulting activities.
3. Other income includes only that earned from IT and contact center consulting.
4. The above amounts are based on sale 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	FY12/15 (Jan. 1 – Dec. 31, 2015)		FY12/16 (Jan. 1 – Dec. 31, 2016)	
	Amount	% of total	Amount	% of total
Consulting	12,593,803	85.8%	14,104,365	86.0%
Logistics	1,664,108	11.3%	1,729,472	10.5%
Other businesses	420,714	2.9%	574,697	3.5%
Total	14,678,626	100.0%	16,408,536	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 25, 2017)

1) Legal representatives

None to report.

2) Other directors and officers

Scheduled promotions

Name	New title	Previous title
Takahisa Okumura	Director and senior vice president	Director and executive officer

Scheduled resignations

Name	New title	Previous title
Kiyoshi Ohno	N/A	Director and executive vice president

List of Directors, Auditors, and Executive Officers

Funai Soken Holdings, Inc. (scheduled to take effect on March 25, 2017)

Name	Title	Position
Sakae Takashima	President	Group CEO
Takeshi Isozumi	Director and senior vice president	Head of Business Development Office
Tatsuro Ono	Director and senior vice president	Head of Human Resources Development 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
Noriaki Ishiguro	Executive officer	Head of Corporate Planning Office

Funai Consulting, Inc. (scheduled to take effect on March 24, 2017)

Name	Title	Position
Takayuki Nakatani	President & CEO	
Shinichiro Karatsuchi	Director and executive vice president	Head of Consulting Operations Divisional Headquarters
Masaru Sumitomo	Director and executive officer	Deputy head of Consulting Operations Divisional Headquarters & head of Consulting Divisional Headquarters IV
Masahiro Hyakumura	Auditor	
Takahisa Okumura	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
Kyohei Deguchi	Executive officer	Head of Consulting Divisional Headquarters II
Daisuke Shingai	Executive officer	Deputy head of Consulting Divisional Headquarters III
Noboru Sugiura	Executive officer (new)	Head of Consulting Divisional Headquarters I
Katsuya Kohira	Executive officer (new)	Deputy head of Consulting Divisional Headquarters IV
Akiyo Koike	Executive officer (new)	Deputy head of Consulting Divisional Headquarters II