

1. Results of Operations

(1) Overview on business performance

1) Fiscal year summary

During the fiscal year ended February 28, 2015, the Japanese economy was in a stage of modest recovery, as government economic policies, the Bank of Japan's monetary easing policy and improved corporate earnings helped the nudge the economy out of its torpor following the consumption tax hike.

Globally, the U.S. economy performed robustly, while European economic recovery was weak and Chinese economic growth continued to decelerate. Consequently, the overall global economic outlook remained opaque.

The environment surrounding the Japanese human resources industry was characterized by an uptick in demand, buoyed by the nation's gradual economic recovery, which engendered ongoing improvements in the employment climate. At the same time, recruiting employees is becoming increasingly difficult because of the severe shortage of workers in the construction, manufacturing, food, beverages and many other industries.

In this operating environment, robust orders led to a 20.3% year-on-year increase in sales due mainly to strong sales of the BPO Business segment, to 13,948,392 thousand yen.

The Company worked to improve its business processing efficiency on large-scale BPO projects. Success in this area caused profits to substantially outstrip sales growth: operating income surged 179.9%, to 831,972 thousand yen; ordinary income jumped 190.6%, to 822,200 thousand yen, and net income soared 201.2%, to 487,605 thousand yen.

2) Business Divisions

(a) Business Process Outsourcing

Sales in this segment expanded 35.9% year on year, to 8,410,415 thousand yen. The Company saw steady increases in large-scale private-sector BPO projects in the Tokyo metropolitan area, and new orders for private-sector BPO projects were favorable. In addition, orders for BPO projects for the public sector were stronger than expected, due to temporary benefit projects surrounding the consumption tax hike. Nevertheless, sales from large-scale public-sector BPO projects were down year on year, as many of these projects concluded in the preceding fiscal year.

(b) Customer Relationship Management

Sales in this segment declined 10.0% year on year, to 3,040,930 thousand yen. A weak demand recovery in the telemarketing sector curtailed the number of personnel dispatched to telemarketing companies. Furthermore, the Company failed to secure orders for large spot projects, staffing contract for large-scale contact centers as it had done in the previous fiscal year.

(c) Office Services

Office services sales amounted to 950,902 thousand yen, up 2.1% from the preceding fiscal year. Supporting this growth, demand for general office work recovered as the economic outlook began to brighten, and the Company was successful in its efforts to acquire new office services projects for financial institutions, among others.

(d) Manufacturing and Technology

Sales expanded 40.7%, to 1,546,144 thousand yen. Following a downturn in production compared with the demand rush preceding the consumption tax hike, the Company saw an increase in orders from meat processing companies, machine parts manufacturers and pharmaceutical manufacturers. In addition, this segment enjoyed a recovery in new business orders.

3) Outlook for the fiscal year ending in February 2016

Looking forward, in the BPO Business we anticipate steady demand for private-sector BPO projects in the Tokyo metropolitan area, where work volumes are increasing. We also expect to see an increase in orders for other private-sector BPO projects and new public-sector BPO projects. In the CRM business, we look forward to a steady rebound in orders for the dispatch of personnel to contact centers in the Tokyo metropolitan and other areas.

Meanwhile, the employment situation is expected to improve in Japan, as a rebounding economy prompts resurgence in domestic production. Furthermore, the amended Worker Dispatching Act is scheduled to go into effect in autumn of 2015. This event is likely to make companies more amenable to accepting dispatch workers, thereby boosting our General Administrative and Manufacturing Technology businesses.

Given these circumstances, for the fiscal year ending February 29, 2016, we forecast net sales of 16,368,898 thousand yen (up 17.4% year on year), operating income of 951,776 thousand yen (up 14.4%), ordinary income of 938,953 thousand yen (up 14.2%) and net income of 562,712 thousand yen (up 15.4%).

(2) Overview of financial condition

1) Assets, liability and net assets

(Assets)

Total assets as of fiscal year end totaled 5,314,834 thousand yen, up 1,924,949 thousand yen from a year earlier. This increase was due mainly to a 1,593,688 thousand yen increase in cash and deposits and a 523,153 thousand yen rise in trade accounts receivable. Conversely, consumption taxes receivable fell by 160,631 thousand yen, and income taxes receivable declined by 114,566 thousand yen.

(Liabilities)

Total liabilities at fiscal year-end totaled 3,119,933 thousand yen, up 1,516,450 thousand yen from a year earlier. This rise was attributable mainly to increases of 420,859 thousand yen in accounts payable, 362,133 thousand yen in income tax payable, 538,662 thousand yen in consumption tax payable, 98,410 thousand yen in deposits payable and 86,438 thousand yen in accrued expenses.

(Net assets)

Net assets at of fiscal year end stood at 2,194,901 thousand yen, up 408,498 thousand yen from February 28, 2014. Principal factors included net income of 487,605 thousand yen, which boosted retained earnings, while dividend payments reduced net assets by 86,460 thousand yen.

2) Cash flows

Cash and cash equivalents totaled 3,118,671 thousand yen on February 28, 2015, 1,538,688 thousand yen higher than a year earlier. Principal cash flow movements during the year are outlined below.

(Operating activities)

Net cash provided by operating activities totaled 1,724,908 thousand yen.

Income before income taxes provided 822,200 thousand yen, and increases in consumption tax payable 696,297 thousand yen, accounts payable 368,414 thousand yen and refund of income taxes 123,609 thousand yen. Increases in accrued expenses and deposits payable also contributed 221,703 thousand yen. Meanwhile, increase in notes and accounts receivable-trade of 523,153 thousand yen.

(Investing activities)

Net cash used in investing activities was 86,363 thousand yen. The primary uses of cash were 64,072 thousand yen in cash for the purchase of property, plant and equipment and intangible assets, 22,000 thousand yen for payments into time deposits and 11,256 thousand yen for payments for lease and guarantee deposits. At the same time, proceeds from withdrawal of time deposits provided 10,000 thousand yen.

(Financing activities)

Net cash used in financing activities came to 99,856 thousand yen. Major shifts in this category included 250,000 thousand yen provided through proceeds from long-term loans payable, 98,890 thousand yen in proceeds from issuance of bonds, and 36,000 thousand yen provided by net increase in short-term loans payable. The primary uses of cash were the repayment of long-term loans payable used 274,421 thousand yen, the redemption of bonds 129,000 thousand yen, and cash dividends paid 86,053 thousand yen.

(Reference) Cash flow indicators

| | FY 2/12 | FY 2/13 | FY 2/14 | FY 2/15 |
|---------------------------------|---------|---------|---------|---------|
| Equity ratio (%) | 20.5 | 39.8 | 52.7 | 41.3 |
| Market capital equity ratio (%) | - | 86.2 | 100.2 | 207.7 |
| Debt to cash flow ratio (years) | 0.7 | 1.8 | - | 0.4 |
| Interest coverage ratio (times) | 51.6 | 32.9 | - | 158.4 |

Equity ratio = Shareholders' equity/Total assets

Market capital equity ratio = Market capitalization/Total assets

Debt to cash flow ratio = Interest-bearing debt/Cash flows

Interest coverage ratio = Cash flows/Interest expenses

Notes:

1. Market capitalization is based on the number of shares issued after deducting treasury stock.
2. Cash flows are operating cash flows.
3. Interest-bearing debt is the sum of all debt on the balance sheet on which interest is paid.
4. The debt to cash flow ratio and interest coverage ratio for the fiscal year that ended in February 2014 are not shown because this ratio was negative in that year.

(3) Earnings Distribution Policy and Dividends

Career Link positions the distribution of earnings to shareholders as one of its highest priorities along with measures to build a sound foundation for business operations. The fundamental policy is to pay a dividend consistently at a suitable level that reflects results of operations and all other aspects of operations. At the same time, sufficient earnings will be retained to fund actions to achieve sustained growth and to strengthen operations.

In accordance with this policy, we plan to pay a year-end dividend of 16 yen per share (ordinary dividend 14 yen and commemorative dividend 2 yen) for the fiscal year that ended in February 2015. In the next fiscal year, we plan to pay an ordinary dividend of 18 yen per share.

(4) Business Risk

This section contains risk factors involving business operations that may have a significant effect on the decisions of investors. In addition, this section contains other items that, although not necessarily business risk factors, are included because we believe they are important with respect to investment decisions. Career Link is aware of these risks and is taking actions to prevent these problems and to respond to these problems if they occur. Forward-looking statements in this section reflect the judgments of Career Link as of the date of this earnings announcement.

1) Laws and regulations

To fulfill its obligation to society as a company, Career Link has prepared rules and operating manuals for compliance with laws and regulations, operates and upgrades employee training programs, and maintains and strengthens a system of internal controls. We will continue to operate and expand a proper system of internal controls that reflect the growth of our operations as well as internal and external changes affecting our operations. However, we may receive administrative guidance or an order to improve operations if there is serious negligence, fraud, illegal activity or other improper behavior by employees. Furthermore, these problems could result in litigation and the payment of damages. These events may have an effect on results of operations.

In addition, there may be amendments or other revisions to the Temporary Staffing Services Law, the primary law that regulates our operations, and other laws and regulations. These changes may be made due to changes in the temporary staffing market, to tighten restrictions concerning sectors where temporary staffing can be used and the length of temporary staffing assignments, or for other reasons. Depending on the nature of an amendment or revision, there may be an effect on results of operations.

(a) Temporary staffing

Temporary staffing requires the approval of the Minister of Health, Labour and Welfare as a “general temporary staffing business” in accordance with the Temporary Staffing Services Law. This approval must be renewed after five years.

Article 14 of the Temporary Staffing Services Law provides for the termination of approval and other actions in order to ensure the proper operation of the temporary staffing business. In the event that a temporary staffing services company (including individuals who operate a temporary staffing business and, for companies, the directors) violate any item listed in paragraph 1 of Article 14, the law provides for the termination of approval to operate the business.

At this time, Career Link has not violated any of these items. However, if business approval is terminated for some reason in the future, the resulting limitations on business activities may affect results of operations.

(b) Outsourcing

Minister of Labour Notice No. 37 of 1986 defined the categorization standards for the outsourcing and temporary staffing businesses. The provision of outsourcing services requires compliance with these standards.

Although we strictly comply with Notice No. 37, there is a possibility of a labor bureau of a prefecture of Japan reaching the decision that one or more of our outsourcing services are effectively a temporary staffing service. If this leads to a judgment that an outsourcing service of ours should be classified as a temporary staffing service instead, there may be a penalty that could include an order to suspend operations. If this happens, there may be an effect on results of operations.

(c) Recruiting services

Recruiting services require the approval of the Minister of Health, Labour and Welfare as a “fee-based job introduction business” in accordance with the Employment Security Law. This approval must be renewed after five years.

The law states that the role of recruiting and related services is to facilitate proper and efficient adjustments in the supply and demand for workers. To ensure that this business is operated in a suitable manner, Article 32-9 of the Employment Security Law provides for the termination of approval and other actions. In the event that a company providing recruiting or related services violates any item listed in paragraph 1 of Article 32, the law provides for the termination of approval to operate the business.

At this time, Career Link has not violated any of these items. However, if business approval is terminated for some reason in the future, the resulting limitations on business activities may affect results of operations.

(d) Temporary staffing for permanent employment

The provision of temporary employees with the intent that they will be hired by the companies where they work applies to both (a) temporary staffing and (c) recruiting services. As a result, this business requires approval as both a general temporary staffing business and a fee-based job introduction business.

Temporary staffing for permanent employment therefore includes the risk factors in the above sections (a) and (c). At this time, Career Link has not violated any of items that could result in the termination of the approval for either of these two businesses. However, if business approval is terminated for some reason in the future, the resulting limitations on business activities may affect results of operations.

2) Amendments to the social insurance system

Social insurance payment rates and the scope of these payments are revised as required based on a national debate that includes unified reforms of social security programs and taxes.

As required by the current social insurance system in Japan, Career Link ensures that all full-time employees belong to this system and that all other staff members on assignment that meet the requirements for social insurance are in this system. However, a revision to the social insurance system may affect results of operations. For example, a reduction in the social insurance membership requirements could increase the amount of premiums paid by employers. For Japan’s Welfare Pension Insurance, due to pension reform legislation enacted in 2004, the premium rate is increasing every year by 0.354% from October 2004 to September 2017. In the last year, this premium will be 18.3%. Due to these increases, the Welfare Pension Insurance premium paid by employers for standard monthly compensation is expected to increase by 0.177% every year until 2017. This increase is expected to have a negative effect on earnings.

The full-time employees and temporary staffing workforce of Career Link belong to the Temporary Staffing Health Insurance Association. The financial soundness of this association has declined for several reasons. One is payments due to a new contribution system (support payments for seniors older than 75 and payments for seniors age 65 to 74) associated with April 2008 reforms for senior citizen health care. The rising cost of health care and Japan’s economic downturn also contributed to the association’s financial problems. In response, the association has been raising the

employer health insurance premium rate almost every year. In fiscal 2015, this rate increased from 4.35% to 4.45%. To maintain financial soundness, the Temporary Staffing Health Insurance Association has been taking steps to hold down health care expenses, lower operating expenses and make other improvements. However, if the lack of progress results in more increases in the insurance premium rate, there will probably be a negative effect on earnings.

For employment insurance, revisions enacted in fiscal 2010 raised from 0.7% to 0.95% the premiums paid by companies in ordinary business sectors. The scope of this insurance was extended, too. If the employment insurance system is revised again and there is another increase in payments by employers and employees, there will probably be a negative effect on earnings.

3) Recruitment of temporary staffing workforce

Career Link is always seeking applicants to register for temporary staffing assignments. We use the Internet, newspapers, magazines and other media for recruiting activities. Maintaining a sufficient number of registered individuals and people on temporary staffing assignments is vital to our business operations. As a result, we keep in close touch with registered individuals not yet on an assignment by using periodic communications and we have activities designed to provide these individuals with job opportunities that match their wishes.

For individuals on a temporary staffing assignment, we provide training and other support, offer an opportunity to become a full-time employee and have other programs to upgrade their skills. However, due to changes in the job market or in the demand for workers, we may be unable to recruit a sufficient number of temporary staffing workers or to supply a client with a sufficient number of temporary workers. If this happens, there may be an effect on results of operations.

4) Mergers and acquisitions

Career Link may acquire companies with businesses associated with current operations or use other actions in order to achieve growth. In the event of an acquisition or similar action, we will ascertain risks in advance by performing thorough due diligence concerning the other company's finances and business operations.

However, there is a possibility that an acquisition may not produce the expected benefits due to changes in the business climate in Japan or other countries or for other reasons. For example, we may be unable to sufficiently control an acquired company's management, businesses or assets or an acquired company may lose personnel or customers. Consequently, if an acquisition or similar action does not produce the expected benefits, the inability to sufficiently recover the investment may affect results of operations.

5) Competition

There are many companies in Japan's human resources service sector. To differentiate our services, we use knowledge gained from BPO Business and on various other projects to provide human resources services that help client companies to make their operations more efficient and streamlined. However, if competition becomes even more heated, there may be an effect on results of operations.

6) Natural disasters and IT system problems

(a) System malfunctions and disruptions

Computer systems and networks are vital to business operations. The business administration data system stores an enormous volume of personal information of registered and on-assignment temporary workers, information about client companies, and any other items. This information allows us to match workers with assignments by selecting registered individuals who have the best skills for each customer's requirements. Moreover, we use this computer system to oversee amounts due to the temporary staff, the payment of salaries, invoices for temporary staffing services, credit management and other tasks.

If this system stops functioning because of damage exceeding our BCP plan to the server that stores data or because of any other problem caused by an earthquake or other major natural or other disaster, we could have difficulty conducting business operations and there may be an effect on results of operations.

(b) Information network security

We receive a large volume of personal information and other confidential information in the course of business operations. We are well aware of the importance of information security and the associated risks. We have established information security rules and received ISO/IEC27001 (see below) certification in April 2010. In addition, we have a well-organized and continuous employee training program and management system for information security. However, if there is an information security problem due to unforeseen circumstances, there could be a loss of confidence in Career Link and damage to the company's reputation. These events could have an effect on results of operations.

Note: ISO/IEC27001 is an international standard for information security management systems, which are a framework to enable an organization to maintain the effectiveness of information management. This standard includes information storage methods, anti-virus measures, guidelines for using e-mail, action plans in the event of a system malfunction, and other components.

7) Personal information

Career Link holds an enormous volume of personal information about the registered and on-assignment workforce, individuals seeking jobs, full-time employees and others. Furthermore, we must comply with the Personal Information Protection Law, which was enacted in April 2005, because Career Link is designated by this law as a company handling personal information.

We received Privacy Mark certification in April 2005, prepared a Personal Information Protection Handbook and Personal Information Protection Manual, and ensure strict compliance with personal information handling rules by following these procedures and educating employees. Despite these measures, there is a possibility of an information leak or other problem caused by improper activities or other events. If this happens, the resulting loss of public confidence, damage to the company's reputation, payment of damages or other problems may affect results of operations.

8) Handling of confidential information

As its orders for work involving the dispatch of human resources and the contracting of business services increase, the Company handles an increasing amount of highly confidential information from its business partners.

In January 2010, the Company formulated the ISMS Basic Policy as its fundamental policy on the construction of information security systems. Accordingly, the Company has introduced and established an information security management system, which it maintains, and makes ongoing improvements to this system. However, if the Company were to experience a leak in the important confidential information of its business partners, the resulting loss of public confidence, damage to the company's reputation, payment of damages or other problems may affect results of operations.

9) Recruiting and retention of employees

Career Link must hire high-quality individuals and train these people in order to provide customers with workers who can deliver even more added value. As a result, if we are unable to recruit talented individuals in a timely manner or if there are resignations of skilled core workers, we may have difficulty in sustaining our growth. This may have an effect on results of operations.