

## Summary of the Consolidated Third Quarter Statements (IFRS) for the Nine-Month Period Ended March 31, 2020

April 28, 2020

Listed Company Name TechnoPro Holdings, Inc. Listed Stock Exchange: Tokyo  
TSE Code 6028 URL <https://www.technoproholdings.com/>  
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In charge of inquiries (Title) Director & CFO (Name) Toshihiro Hagiwara TEL 03-6385-7998  
Quarterly report scheduled submission date May 14, 2020  
Scheduled commencement date for dividend payment —  
Supplementary materials for financial results: Yes  
Briefing session for financial results: Yes (For institutional investors and analysts)

(Amounts less than one million yen are omitted)

### 1. Consolidated Financial Results for the Nine Months Ended March 31, 2020 (July 1, 2019 – March 31, 2020)

#### (1) Consolidated Operating Results (Cumulative) (% represents the change from the same period of the previous fiscal year)

	Revenue		Operating profit		Profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
For the nine months ended March 31, 2020	119,491	12.2	13,070	17.4	13,088	18.1	9,096	21.6	8,979	22.3	8,219	13.4
For the nine months ended March 31, 2019	106,544	26.3	11,131	28.7	11,085	29.5	7,482	16.2	7,341	14.1	7,245	17.3

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
For the nine months ended March 31, 2020	248.42	—
For the nine months ended March 31, 2019	202.35	202.25

#### (2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to the owners of the parent company	Percentage of equity attributable to the owners of the parent company
	Million yen	Million yen	Million yen	%
For the nine months ended March 31, 2020	105,321	47,422	46,175	43.8
Fiscal year ended June 30, 2019	93,771	46,065	44,803	47.8

### 2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen
FY ended June 30, 2019	—	50.00	—	84.00	134.00
FY ending June 30, 2020	—	50.00	—	—	—
FY ending June 30, 2020 (forecast)	—	—	—	90.00	140.00

(Notes) Revisions to dividend forecasts published most recently: None

### 3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 – June 30, 2020)

(% represents the change from the same period of the previous year)

	Revenue		Operating profit		Profit before income taxes		Net profit attributable to owners of the parent company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	160,000	11.0	15,300	11.4	15,100	10.0	10,100	4.3	278.21

(Notes) Revisions to consolidated financial results forecasts published most recently: None

\* Notes

(1) Changes to important subsidiaries during the period (changes to “Specified Subsidiaries” that involve changes made to scope of consolidation): None

(2) Changes to accounting policies and accounting estimates  
 i. Changes to accounting policies as required by IFRS: Yes  
 ii. Changes to accounting policies other than i.: None  
 iii. Changes to accounting estimates: None

(3) Number of outstanding shares (ordinary shares)

i. Number of outstanding shares at the end of the period (including treasury shares)	As of March 31, 2020	36,140,388 shares	FY ended June 30, 2019	36,304,029 shares
ii. Number of treasury shares at the end of the period	As of March 31, 2020	231,334 shares	FY ended June 30, 2019	498 shares
iii. Average number of shares during the period (cumulative)	For the nine months ended March 31, 2020	36,147,600 shares	For the nine months ended March 31, 2019	36,282,102 shares

\* This Summary of Financial Statements is not subject to audit by certified public accountant or audit corporation.

\* Explanation regarding proper use of financial results forecasts, and other notes

(Cautionary Statement Regarding Forward-Looking Statements)

Forward-looking statements in this document about future performance are based on information currently available and certain assumptions that are considered reasonable. Due to unforeseen circumstances, actual results may differ from such estimates.

Please refer to page 4, “1. Qualitative Information on Financial Results for the Period Under Review; (3) Results forecasts and other forward-looking information”, for criteria for assumptions used in the earnings forecast.

(Obtaining supplementary materials for financial results)

On April 28, 2020, the Company plans to hold a conference call for institutional investors and analysts. The Company plans to post the Supplementary materials for financial results used during the call on the Company’s website at the same time that information is disclosed to the Tokyo Stock Exchange.

## Contents

1. Qualitative Information on Financial Results for the Period Under Review	2
(1) Summary of business performance	2
(2) Summary of financial position	3
(3) Results forecasts and other forward-looking information	4
2. Interim Consolidated Financial Statements (Summary) and notes	6
(1) Consolidated Statement of Financial Position (Summary)	6
(2) Consolidated Statement of Income (Summary) and Consolidated Statement of Comprehensive Income (Summary)	8
(3) Consolidated Statement of Changes in Equity (Summary)	12
(4) Consolidated Statement of Cash Flows (Summary)	13
(5) Notes to the consolidated financial results (Summary)	14
(Note on assumption about going concern)	14
(Note on changes to accounting policy)	14
(Note on segment information)	15

## 1. Qualitative Information on Financial Results for the Period Under Review

### (1) Summary of business performance

During the consolidated third quarter period under review (July 1, 2019 to March 31, 2020), uncertainty in the global economy continued due to the impact of the stagnation of business activities resulting from the spread of COVID-19 infections to a global level, in addition to the impact of trade problems between the US and China, the pro-democracy demonstrations in Hong Kong, and other factors. The Japanese economy, which had been on an upward trend, now faces severe challenges, including stagnation due to the consumption tax increase implemented in October 2019 and the spread of COVID-19 infections, among other factors.

In spite of this economic environment, business growth continued in the Group's core business areas (Engineer Dispatching and Contract Assignment) during the period under review, without significant impact by the economic slowdown.

The main initiatives implemented by the Group during the period under review were as follows:

#### Implementation of "Shift up" and "Charge up" initiatives

The Group continued to implement the "Shift up" (increase contract unit prices through changes in place of assignment), and "Charge up" (increase contract unit prices at the time of contract renewal at the same place of assignment) initiatives as a means of increasing the amount of sales per engineer. In addition to raising unit prices in line with engineer skills, these initiatives also continue to promote price revisions that support the realization of equal pay for equal work (equal or balanced treatment) in terms of the work style reform promoted by Japanese government.

#### Promoting added value

With the aim of increasing the value added by the Group, through engineer skilling and value-added services, TechnoPro Design Company began a partnership with Integration Technology Co., Ltd., a company proficient in Model Based Development for the automotive industry. Further, group company TechnoPro IT Company was certified as an SAP PartnerEdge Silver Partner, and group company TechnoPro Engineering Company was certified as an AWS Partner Network (APN) Select Consulting Partner; the Group will promote the transformation into value-added company, by leveraging the ecosystem with key players in the IT sector.

#### Securing engineers

The Group recruited steady number of engineers through its continuous initiatives for recruitment activities during the period under review. In addition, the Group strengthened the measures to retain engineers, with concern over increased number of resignations, as total number of engineers grew. Specifically, the Group trialed a system to predict resignations, monitored those employees likely to retire, and began new retention programs, for certain subsidiaries. The Group is also continuing to improve labor conditions, making efforts to provide stable, long-term employment.

As a result of the initiatives described above, the number of domestic engineers at the end of the consolidated third quarter period under review increased to 20,234 (up 2,174 compared to the end of the third quarter of the previous fiscal year) and the average utilization rate for the period under review remained high at 95.6% (down 0.7 pts). The Group continued implementation of the "Shift up" and "Charge up" initiatives and the sales unit price per engineer (average for engineers at TechnoPro, Inc. and TechnoPro Construction, Inc.) improved. While there was a negative impact from the work style reform that reduced overtime hours and working days, sales per engineer were 633 thousand yen per month (up 1.6 thousand yen) due to an increase in the average unit price for existing engineers.

In employment, the number of newly employed domestic engineers at the end of the consolidated third quarter period under review was 2,598 (down 55 compared to the end of the third quarter of the previous fiscal year), contributing to an increase in enrolled engineer numbers. It should be noted that the Group implemented certain employment restrictions during the third quarter period under review, in response to the uncertainty in domestic demand due to the spread of COVID-19 infections.

In terms of expenses, the gross profit margin was 25.9 % (up 0.7 pts compared to the end of the third quarter of the previous fiscal year) mainly due to increased costs such as increased labor costs for engineers associated with improved business performance. There was an increase in management costs accompanying the Group's expansion, and the SG&A ratio to revenue was 15.2% (up 0.4 pts).

As a result, the Group's revenues for the third quarter were 119,491 million yen (up 12.2% compared to the third quarter of the previous fiscal year), operating profit was 13,070 million yen (up 17.4%), profit before taxes was 13,088 million yen (up 18.1%), and net profit attributable to the owners of the parent company was 8,979 million yen (up 22.3%).

Earnings for the segments of the business during the consolidated third quarter period under review were as follows:

(R&D Outsourcing)

In order to expand its IT business, which has been performing well in R&D outsourcing, the Group pursued collaborations with other companies in possession of value-added technologies, leading to higher profitability via "Shift up" and "Charge up". As a result of these initiatives, revenue in this segment was 94,758 million yen (up 12.3%).

(Construction Management Outsourcing)

The Group, continuing its efforts from the previous fiscal period, increased the sales per engineer through the promotion of team assignments, and the recruitment and training of inexperienced personnel. Further, it continued to expand design business, in addition to construction management. As a result, revenue in this segment was 14,922 million yen (up 13.6%).

(Other Businesses in Japan)

Other Businesses in Japan comprises recruitment service and education and training services in engineering. The Group achieved sales growth at recruitment service in part due to the contribution from TECHNO BRAIN COMPANY, LTD., which the Group acquired in the third quarter of the previous fiscal year. As a result of these initiatives, revenue in this segment was 3,112 million yen (up 38.6%).

(Overseas Businesses)

The Group enhanced the management and sales structures of overseas offices, and promoted sales partnerships between overseas and domestic (Japan) offices. Looking ahead, the Group will further promote cross-group collaborative efforts to deliver engineers and solutions that meet the needs of global customers and to create more synergies. As a result of these initiatives, revenue in this segment was 7,853 million yen (up 3.1%).

(2) Summary of financial position

i. Analysis of financial position

Assets totaled 105,321 million yen as of the end of the consolidated third quarter period under review (up 11,550 million yen from the end of the previous fiscal year). The primary components were goodwill of 37,028 million yen, accounts receivables and other receivables of 21,203 million yen, and cash and cash equivalents of 18,958 million yen.

The status for each item was as follows.

(Current assets)

Current assets totaled 48,616 million yen as of the end of the consolidated third quarter period under review (up 4,054 million yen from the end of the previous fiscal year). The primary components were accounts receivables and other receivables of 21,203 million yen (up 1,438 million yen), and cash and cash equivalents of 18,958 million yen (down 2,272 million yen).

(Non-current assets)

Non-current assets totaled 56,704 million yen as of the end of the consolidated third quarter period under

review (up 7,495 million yen from the end of the previous fiscal year). The primary components were goodwill of 37,028 million yen (down 50 million yen), an increase in right-of-use assets of 7,010 million yen due to the application of IFRS 16 Leases (released January 2016; hereafter “IFRS 16”), and deferred tax assets of 3,846 million yen (down 110 million yen).

(Current liabilities)

Current liabilities totaled 41,852 million yen as of the end of the consolidated third quarter period under review (up 7,681 million yen from the end of the previous fiscal year). The primary components were accounts payable and other liabilities of 14,394 million yen (up 1,430 million yen), employee benefit liabilities of 6,194 million yen (up 347 million yen), an increase in lease liabilities of 5,014 million yen due to the application of IFRS 16, and corporate bonds and loans payable of 4,576 million yen (up 1,215 million yen).

(Non-current liabilities)

Non-current liabilities totaled 16,046 million yen as of the end of the consolidated third quarter period under review (up 2,512 million yen from the end of the previous fiscal year). The primary components were an increase in lease liabilities of 5,540 million yen due to the application of IFRS 16, other long-term financial liabilities of 5,459 million yen (down 1,235 million yen) and loans payable of 4,068 million yen (down 1,756 million yen).

(Equity attributable to the owners of the parent company)

Equity attributable to the owners of the parent company totaled 46,175 million yen as of the end of the consolidated third quarter period under review (up 1,372 million yen from the end of the previous fiscal year). The primary components were capital surplus of 7,312 million yen (up 7 million yen) and retained earnings of 34,294 million yen (up 3,164 million yen).

ii. Cash flow

Cash and cash equivalents (hereinafter “Cash”) totaled 18,958 million yen as of end of the consolidated third quarter period under review, representing a decline of 2,272 million yen compared to the end of the previous fiscal year.

Cash flow during the consolidated third quarter period under review as well as the main factors affecting changes are as follows.

(Cash flows from operating activities)

Cash inflows from operating activities were 11,000 million yen (consolidated third quarter period of previous fiscal year: inflows of 7,371 million yen). This was mainly due to profits before taxes (13,088 million yen), decrease of prepaid expenses (2,532 million yen), and depreciation and amortization (1,926 million yen), offset by payments of corporate income taxes (5,309 million yen) and a decrease in deposits received (1,931 million yen).

(Cash flows from investing activities)

Cash outflows from investing activities were 935 million yen (consolidated third quarter period of previous fiscal year: outflows of 4,186 million yen). This was mainly due to the acquisition of tangible fixed assets (560 million yen), the acquisition of securities (139 million yen), and purchases of other financial assets (255 million yen).

(Cash flows from financing activities)

Cash outflows from financing activities were 12,255 million yen (consolidated third quarter period of previous fiscal year: outflows of 6,139 million yen). This was mainly due to dividend payments (4,911 million yen), repayment of lease liabilities (4,678 million yen), repayment of long-term borrowings (2,434 million yen) and purchase of treasury shares (2,061 million yen).

(3) Results forecasts and other forward-looking information

There have been no changes to the consolidated results forecast for the fiscal year ending 2020 as announced in the “Summary of Consolidated Financial Statements (IFRS) for the Fiscal Year Ended June 30, 2019” on July

31, 2019.

The spread of COVID-19 had begun to cause more negative impact on the Group's customer demand and operating activities, which will generate greater uncertainty towards operating results than before. The Group will promptly revise and disclose consolidated results forecasts, if such an impact turns out to be more than the level that requires the revision.

## 2. Interim Consolidated Financial Statements (Summary) and notes

### (1) Consolidated Statement of Financial Position (Summary)

(Millions of yen)

	As of June 30, 2019	As of March 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	21,230	18,958
Accounts receivables and other receivables	19,765	21,203
Income taxes receivable	0	0
Other short-term financial assets	571	1,929
Other current assets	2,993	6,523
<b>Total current assets</b>	<b>44,562</b>	<b>48,616</b>
<b>Non-current assets</b>		
Property, plant and equipment	1,261	1,610
Right-of-use assets	—	7,010
Goodwill	37,079	37,028
Intangible assets	2,596	2,230
Investments accounted for using the equity method	94	91
Other long-term financial assets	4,167	4,264
Deferred tax assets	3,957	3,846
Other non-current assets	52	622
<b>Total non-current assets</b>	<b>49,208</b>	<b>56,704</b>
<b>Total assets</b>	<b>93,771</b>	<b>105,321</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable and other liabilities	12,964	14,394
Bond and loans payable	3,360	4,576
Lease liability	1	5,014
Income taxes payable	3,503	3,932
Other short-term financial liabilities	2,581	3,092
Employee benefits liabilities	5,846	6,194
Provisions	3	3
Other current liabilities	5,909	4,645
<b>Total current liabilities</b>	<b>34,171</b>	<b>41,852</b>



(Millions of yen)

	As of June 30, 2019	As of March 31, 2020
Non-current liabilities		
Loans payable	5,825	4,068
Lease liabilities	2	5,540
Other long-term financial liabilities	6,695	5,459
Deferred tax liabilities	499	395
Retirement benefit liabilities	28	32
Provisions	378	407
Other non-current liabilities	104	142
Total non-current liabilities	13,534	16,046
Total liabilities	47,705	57,899
Equity		
Share capital	6,903	6,929
Capital surplus	7,304	7,312
Retained earnings	31,129	34,294
Treasury shares	(2)	(1,000)
Other components of equity	(532)	(1,360)
Equity attributable to owners of the parent company	44,803	46,175
Non-controlling interests	1,262	1,246
Total equity	46,065	47,422
Total liabilities and equity	93,771	105,321

(2) Consolidated Statement of Income (Summary) and Consolidated Statement of Comprehensive Income (Summary)  
 Consolidated Statement of Income (Summary)  
 The consolidated nine-month period

(Millions of yen)

	Nine months ended March 31, 2019 (July 1, 2018 to March 31, 2019)	Nine months ended March 31, 2020 (July 1, 2019 to March 31, 2020)
Revenue	106,544	119,491
Cost of sales	79,728	88,538
Gross profit	26,816	30,952
Selling, general and administrative expenses	15,787	18,104
Other income	132	393
Other expenses	29	171
Operating profit	11,131	13,070
Financial income	38	124
Financial expenses	82	103
Investment profit (loss) under the equity method	(1)	(2)
Profit before income taxes	11,085	13,088
Income taxes	3,602	3,992
Net profit	7,482	9,096
Net profit attributable to:		
Owners of the parent company	7,341	8,979
Non-controlling interests	140	116
Total	7,482	9,096
(Yen)		
Earnings per share attributable to owners of the parent company		
Basic earnings per share	202.35	248.42
Diluted earnings per share	202.25	—

Consolidated Statement of Comprehensive Income (Summary)  
The consolidated three-month period

	Three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)	Three months ended March 31, 2020 (January 1, 2020 to March 31, 2020)
Revenue	36,430	40,453
Cost of sales	27,092	29,607
Gross profit	9,337	10,846
Selling, general and administrative expenses	5,528	6,109
Other income	35	254
Other expenses	99	142
Operating profit	3,745	4,848
Financial income	35	73
Financial expenses	25	33
Investment profit (loss) under the equity method	1	8
Profit before income taxes	3,757	4,897
Income taxes	1,228	1,526
Net profit	2,529	3,370
Net profit attributable to:		
Owners of the parent company	2,487	3,325
Non-controlling interests	42	45
Total	2,529	3,370
		(Yen)
Earnings per share attributable to owners of the parent company		
Basic and diluted earnings per share	68.51	92.09

Consolidated Statement of Comprehensive Income (Summary)  
The consolidated nine-month period

(Millions of yen)

	Nine months ended March 31, 2019 (July 1, 2018 to March 31, 2019)	Nine months ended March 31, 2020 (July 1, 2019 to March 31, 2020)
Net profit	7,482	9,096
Other comprehensive income		
Items that will not be classified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	(233)	(696)
Total items that will not be reclassified to profit or loss	(233)	(696)
Items that may be reclassified to profit or loss		
Foreign currency translation adjustments	(3)	(181)
Total items that may be reclassified to profit or loss	(3)	(181)
Total other comprehensive income	(237)	(877)
Comprehensive income for the period	7,245	8,219
Comprehensive income for the period attributable to:		
Owners of the parent company	7,096	8,154
Non-controlling interests	149	65
Total	7,245	8,219

The consolidated three-month period

(Millions of yen)

	Three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)	Three months ended March 31, 2019 (January 1, 2020 to March 31, 2020)
Net profit	2,529	3,370
Other comprehensive income		
Items that will not be classified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	(49)	(541)
Total items that will not be reclassified to profit or loss	(49)	(541)
Items that may be reclassified to profit or loss		
Foreign currency translation adjustments	108	(346)
Total items that may be reclassified to profit or loss	108	(346)
Total other comprehensive income	59	(888)
Comprehensive income for the period	2,588	2,482
Comprehensive income for the period attributable to:		
Owners of the parent company	2,530	2,519
Non-controlling interests	58	(36)
Total	2,588	2,482

(3) Consolidated Statement of Changes in Equity (Summary)  
 Nine months ended March 31, 2019 (July 1, 2018 to March 31, 2019)

(Millions of yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of July 1, 2018	6,785	9,003	25,824	(1)	82	41,694	1,272	42,967
Net profit			7,341			7,341	140	7,482
Other comprehensive income			(0)		(244)	(245)	8	(237)
Total comprehensive income	—	—	7,340	—	(244)	7,096	149	7,245
Issuance of new shares	118	(41)				77		77
Dividends of surplus			(4,353)			(4,353)		(4,353)
Share-based payment transaction		79				79		79
Purchase of treasury shares				(0)		(0)		(0)
Change of scope of consolidation						—	343	343
Put options granted to non-controlling interest		(1,693)				(1,693)		(1,693)
Other increases (decreases)		(78)				(78)		(78)
Total transactions with the owners	118	(1,733)	(4,353)	(0)	—	(5,969)	343	(5,625)
As of March 31, 2019	6,903	7,269	28,812	(2)	(162)	42,821	1,765	44,586

Nine months ended March 31, 2020 (July 1, 2019 to March 31, 2020)

(Millions of yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of July 1, 2019	6,903	7,304	31,129	(2)	(532)	44,803	1,262	46,065
Net profit			8,979			8,979	116	9,096
Other comprehensive income			2		(828)	(825)	(51)	(877)
Total comprehensive income	—	—	8,982	—	(828)	8,154	65	8,219
Issuance of new shares	25	(25)				—		—
Dividends of surplus			(4,856)			(4,856)	(55)	(4,911)
Share-based payment transaction		9				9		9
Purchase of treasury shares				(2,061)		(2,061)		(2,061)
Disposal of treasury shares		12		90		102		102
Cancellation of treasury shares		(12)	(961)	973		—		—
Changes in ownership interests in subsidiaries		25				25	(25)	—
Other increases (decreases)		(2)				(2)		(2)
Total transactions with the owners	25	7	(5,817)	(997)	—	(6,782)	(80)	(6,863)
As of March 31, 2020	6,929	7,312	34,294	(1,000)	(1,360)	46,175	1,246	47,422

## (4) Consolidated Statement of Cash Flows (Summary)

(Millions of yen)

	Nine months ended March 31, 2019 (July 1, 2018 to March 31, 2019)	Nine months ended March 31, 2020 (July 1, 2019 to March 31, 2020)
<b>Cash flows from operating activities</b>		
Profit before income taxes	11,085	13,088
Depreciation and amortization	570	1,926
Interest and dividend income	(2)	(2)
Interest expense	73	92
Investment loss (profit) under the equity method	1	2
Decrease (increase) in accounts receivables and other receivables	(1,678)	(1,438)
Increase (decrease) in accounts payable and other liabilities	2,372	1,430
Decrease (increase) in prepaid expense	(624)	2,532
Increase (decrease) in deposits received	(845)	(1,931)
Increase (decrease) in consumption tax payable	179	598
Increase (decrease) in retirement benefit liabilities	(799)	(691)
Other	470	726
Subtotal	<u>10,803</u>	<u>16,334</u>
Interest and dividends received	2	2
Interest paid	(37)	(65)
Income taxes paid	(3,418)	(5,309)
Income tax refund	21	39
Net cash flows from operating activities	<u>7,371</u>	<u>11,000</u>
<b>Cash flows from investing activities</b>		
Payments into time deposits	(163)	(33)
Proceeds from withdrawal of time deposits	230	31
Purchase of tangible fixed assets	(221)	(560)
Proceeds from sales of tangible fixed assets	38	0
Purchase of intangible assets	(69)	(25)
Payment for acquisition of securities	(131)	(139)
Payment for acquisition of other financial assets	(161)	(255)
Purchase of subsidiary	(3,703)	—
Other	(5)	47
Net cash flows from investing activities	<u>(4,186)</u>	<u>(935)</u>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	(103)	1,037
Repayment of lease liabilities	(1)	(4,678)
Proceeds from long-term borrowings	1,000	1,000
Repayments of long-term borrowings	(2,374)	(2,434)
Redemption of bonds	(304)	(138)
Purchase of treasury shares	(0)	(2,061)
Cash dividends paid	(4,352)	(4,911)
Payments for purchase of interests in subsidiaries from non-controlling interests	—	(67)
Other	(1)	(1)
Net cash flows from financing activities	<u>(6,139)</u>	<u>(12,255)</u>
Effect of change in exchange rates on cash and cash equivalents	(28)	(81)
Net increase (decrease) in cash and cash equivalents	<u>(2,983)</u>	<u>(2,272)</u>
Cash and cash equivalents at the beginning of the period	<u>21,652</u>	<u>21,230</u>
Cash and cash equivalents at the end of the period	<u>18,668</u>	<u>18,958</u>

(5) Notes to the consolidated financial results (Summary)

(Note on assumption about going concern)

Not applicable.

(Note on changes to accounting policy)

Adoption of IFRS 16: Leases

The Group has applied IFRS 16 Leases since the first three months of the consolidated fiscal year ending June 30, 2020.

In applying IFRS 16, the Group used a method permitted as a transition requirement which recognizes the cumulative effect of initially applying the standard at the date of initial application. With respect to the recognition of right-of-use assets, as these are recognized as an amount equal to the lease liability (with prepaid lease payments etc. adjusted), this had no impact on retained earnings at the beginning of the period.

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease based on the substance of the contract. The Group determines the lease term in consideration of whether options to extend or terminate are reasonably certain to be executed in the non-cancellable period, as well as using hindsight at the date of the initial application.

Right-of-use assets are measured at the initial measured value of the lease liabilities and adjusted for lease prepayments, etc. Right-of-use assets are depreciated using the straight-line method over the lease periods.

Lease liabilities are initially measured at the present value of the lease payments that are not paid the commencement date. The Group uses its additional borrowing rate as the discount rate when calculating lease liabilities. The weighted average of the additional borrowing interest rate applied to lease liabilities recognized at the date of the initial application is 0.4%.

The Group uses the following practical expedients methods for application of IFRS 16:

- A single discount rate to a portfolio of leases with reasonably similar characteristics
- Right-to-use assets and lease liabilities for short-term leases and low-value assets are not recognized
- Leases for which the lease term ends within 12 months of the date of initial application, account for those leases in the same way as short-term leases
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of the initial application

The difference between the future minimum lease payment of the non-cancelable operating lease disclosed under IAS 17 as at the previous fiscal year ended June 30, 2019, and the lease liabilities recognized in the Consolidated Statement of Financial Position (Summary) as at the current fiscal year beginning July 1, 2019, which was the initial application date of IFRS 16, was mainly due to the lease payments of the cancellable lease as well as the difference between the contractual non-cancellable lease term and the Group's estimated lease term of the buildings.

For leases where the Group acts as a lessor, the method of classifying a sublease has been changed so that classification is made with reference to right-of-use assets arising from the head lease. When transitioning to IFRS 16, the Group reevaluated the classification of the sublease contract. These were classified as operating leases under IAS 17, but are now classified as finance leases.

As a result, when applying IFRS 16, an additional 7.3 billion yen of right-to-use assets, 2.0 billion yen of lease receivables (other short-term financial assets and other long-term financial assets), 2.9 billion yen of prepaid expenses (other current assets and other non-current assets), and 12.1 billion yen of lease liabilities are recognized in the Consolidated Statement of Financial Position. There is no significant impact on the Consolidated Statement of Income (Summary). In the Consolidated Statement of Cash Flows (Summary), cash flows from operating activities increased, and cash flows from financing activities decreased. In addition, the impact of additional lease receivables



and prepaid expenses recognized are not included in the increase/decrease of lease receivables or prepaid expenses under cash flows from operating activities for the consolidated third quarter period under review.

(Note on segment information)

#### 1. Segment information overview

The Group's reportable segments are Group components for which separate financial information can be obtained. Each segment is subject to periodic examinations to allow the Board of Directors to decide how to allocate management resources and assess performance. Until the previous fiscal year, the Group operated with only one reportable segment – Engineer Dispatching and Contract Assignment. However, due to an expansion in profits from services outside of the domestic engineer dispatching business, starting from the consolidated first quarter period, the Group has established four reportable segments: R&D Outsourcing Business, Construction Management Outsourcing Business, Other Businesses in Japan, and Overseas Businesses. The Group will manage these segments – which are based on the fields previously managed by business units – on a segment basis, including reporting the performance of each reportable segment to the Board of Directors and managing performance. Furthermore, the segment information for the third quarter of the previous fiscal year – both the consolidated three-month period and the consolidated nine-month period – has been restated based on the segment classification after this change.

Overview of the reportable segments:

- In R&D Outsourcing Business, the Group provides engineer dispatch and contract assignment services in technological fields including machinery, electronics/electricals, embedded controllers, IT networks, business applications, system maintenance/management, and biochemistry; its customers are major businesses and other organizations in industries including automotive and automotive parts, industrial machinery and equipment, telecommunications equipment, electronic and electrical equipment, IT, semiconductors, energy, pharmaceuticals, and chemicals.
- In Construction Management Outsourcing Business, the Group provides contract assignment services for construction design and engineer dispatch services for construction management (safety administration, quality control, process administration, and cost management) in the construction industry in the fields of construction, civil engineering, facility machinery, and plant; its customers are mainly general contractors and subcontractors.
- In Other Businesses in Japan, the Group provides professional recruitment services and education and training services in engineering.
- In Overseas Business, the Group provides technical outsourcing and professional recruitment services in China, IT engineer dispatch services and contracted development in Southeast Asia and India, and engineer dispatch and professional recruitment services in the UK.

## 2. Information on reportable segments

Accounting principles for the reportable segments are the same as those used in the creation of the consolidated financial statements. Business between reportable segments is based on market prices, and segment profit is shown as operating profit.

Nine months ended March 31, 2019 (July 1, 2018 to March 31, 2019)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli- dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	84,239	13,131	1,788	7,351	106,511	33	106,544
Intersegment sales or transfers	163	0	457	267	889	(889)	—
Total revenue	84,403	13,131	2,245	7,619	107,400	(855)	106,544
Operating profit	8,605	1,576	212	684	11,079	52	11,131
Financial income	—	—	—	—	—	—	38
Financial expenses	—	—	—	—	—	—	82
Investment profit (loss) under equity method	—	—	—	—	—	—	(1)
Quarterly profit before income taxes	—	—	—	—	—	—	11,085
Other							
Depreciation and amortization	96	22	12	33	165	161	327
Amortization of customer-related assets	60	—	—	182	242	—	242
Profit on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss on currency exchange related to put option liabilities	—	—	—	—	—	0	0
Impairment loss	—	—	—	—	—	—	—

(Notes)

1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.

Nine months ended March 31, 2020 (July 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli- dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	94,546	14,922	2,509	7,474	119,452	38	119,491
Intersegment sales or transfers	211	—	603	379	1,194	(1,194)	—
Total revenue	94,758	14,922	3,112	7,853	120,646	(1,155)	119,491
Operating profit	10,221	1,884	306	563	12,976	94	13,070
Financial income	—	—	—	—	—	—	124
Financial expenses	—	—	—	—	—	—	103
Investment profit (loss) under equity method	—	—	—	—	—	—	(2)
Quarterly profit before income taxes	—	—	—	—	—	—	13,088
Other							
Depreciation and amortization	695	156	226	173	1,252	460	1,712
Amortization of customer-related assets	60	—	—	153	213	—	213
Profit on early exercise of put options	—	—	—	—	—	60	60
Profit on currency exchange related to put option liabilities	—	—	—	—	—	116	116
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss from fair value adjustments related to contingent consideration	—	—	—	—	—	110	110
Impairment loss	—	—	—	—	—	—	—

(Notes)

1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.

Three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli- dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	28,486	4,529	580	2,823	36,419	10	36,430
Intersegment sales or transfers	54	0	165	104	325	(325)	—
Total revenue	28,541	4,529	746	2,927	36,745	(314)	36,430
Operating profit	3,060	507	51	209	3,829	(83)	3,745
Financial income	—	—	—	—	—	—	35
Financial expenses	—	—	—	—	—	—	25
Investment profit (loss) under equity method	—	—	—	—	—	—	1
Quarterly profit before income taxes	—	—	—	—	—	—	3,757
Other							
Depreciation and amortization	33	7	3	10	56	53	109
Amortization of customer-related assets	20	—	—	93	113	—	113
Profit on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss on currency exchange related to put option liabilities	—	—	—	—	—	90	90
Impairment loss	—	—	—	—	—	—	—

(Notes)

1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.

Three months ended March 31, 2020 (January 1, 2020 to March 31, 2020)

(Millions of yen)

	Reportable segment					Eliminations/ Corporate	Consoli- dated
	R&D Outsourcing Business	Construction Management Outsourcing Business	Other Businesses in Japan	Overseas Businesses	Total		
Revenue							
Revenue from external customers	32,007	5,154	873	2,405	40,441	12	40,453
Intersegment sales or transfers	73	—	195	156	425	(425)	—
Total revenue	32,081	5,154	1,068	2,562	40,866	(412)	40,453
Operating profit	3,790	727	44	210	4,772	76	4,848
Financial income	—	—	—	—	—	—	73
Financial expenses	—	—	—	—	—	—	33
Investment profit (loss) under equity method	—	—	—	—	—	—	8
Quarterly profit before income taxes	—	—	—	—	—	—	4,897
Other							
Depreciation and amortization	235	50	75	54	416	164	580
Amortization of customer-related assets	20	—	—	51	71	—	71
Profit on currency exchange related to put option liabilities	—	—	—	—	—	178	178
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss from fair value adjustments related to contingent consideration	—	—	—	—	—	110	110
Impairment loss	—	—	—	—	—	—	—

(Notes)

1. Segment profit under Corporate/Eliminations includes corporate expenses not allocated to individual reportable segments.
2. Depreciation and amortization does not include amortization of customer-related assets.