Translation

TECHNOPRO

Summary of the Consolidated First Half Statements (IFRS) for the Six-Month Period Ended December 31, 2019

January 31, 2020

Listed Company Name TechnoPro Holdings, Inc. Listed Stock Exchange: Tokyo

TSE Code 6028 URL https://www.technoproholdings.com/

Representative (Title) President, Representative Director & CEO (Name) Yasuji Nishio

In charge of inquiries (Title) Director & CFO (Name) Toshihiro Hagiwara TEL 03-6385-7998

Quarterly report scheduled submission date February 7, 2020

Scheduled commencement date for dividend payment February 28, 2020

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 Six Months Ended December 31, 2019 (July 1, 2019 – December 31, 2019)

(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 six months ended December 31, 2019	79,037	12.7	8,221	11.3	8,191	11.8	5,725	15.6	5,654	16.5	5,736	23.1
For the six months ended December 31, 2018	70,114	26.6	7,386	33.0	7,327	33.1	4,953	19.7	4,854	17.3	4,656	15.3

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
For the six months ended December 31, 2019	156.35	–
For the six months ended December 31, 2018	133.85	133.78

(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 six months ended December 31, 2019	104,725	47,726	46,423	44.3
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 December 31, 2019	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 December 31, 2019	0 shares	FY ended June 30, 2019	498 shares
iii. Average number of shares during the period (cumulative)	For the six months ended December 31, 2019	36,167,516 shares	For the six months ended December 31, 2018	36,271,607 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 financial results briefing materials)

On January 31, 2020, the Company plans to hold a briefing for institutional investors and analysts. The Company plans to post the briefing materials used at the briefing on the Company’s website at the earliest possible time.

Contents

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

(1) Summary of business performance

During the consolidated first half period under review (July 1, 2019 to December 31, 2019), there was uncertainty in the global economy due to the impact of continued trade problems between the US and China, problems associated with Brexit, the pro-democracy demonstrations in Hong Kong, and other factors. In Japan, while the impact of the consumption tax increase implemented in October 2019 had limited impact on corporate activities, there was continued caution in the market due to uncertainty towards the future.

In this economic environment, growth in the Group's core business area of Engineer Dispatching and Contract Assignment continued during the period under review, despite decline in demand mainly for low-skilled engineers from some businesses. At the same time, demand for engineers in the IT and construction industries remained high.

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 unit prices through changes in place of assignment), and “Charge up” (increase 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 work style reform.

Promoting the adding of value

With the aim of adding value to its engineers, services, and the TechnoPro Group itself, TechnoPro, Inc. and Aidemy, Inc. began a business partnership to develop an AI platforms business (tools to support the introduction and application of AI) and human resources development in the field of AI engineering. TechnoPro will cooperate with Aidemy to maximize its services in the field of AI. Group company TechnoPro Design Company, in collaboration with Advanced Simulation Technology Of Mechanics R&D, Co., Ltd., began offering training for CAE (Computer Aided Engineering) analysis engineers and CAE analysis solutions to the two companies' customers. The Group, by creating an ecosystem to realize high added value technologies that it is unable to realize independently, and by raising the value of its engineers, will continue to add value.

Securing engineers

In the engineer recruitment market in Japan, supply continues to fail to meet demand. The Group made continued efforts with recruitment activities and employment numbers were strong in the consolidated first half period under review. However, there was concern over an increase in the number of employee resignations accompanying the increase in enrolled employees, and thus the Group strengthened measures to curtail resignations. Specifically, the Group trialed a system to predict resignations at certain subsidiaries, monitored those employees thought likely to retire, and began new measures for employee retention. 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 first half period under review increased to 20,012 (up 2,374 compared to the end of the first half of the previous fiscal year). The average utilization rate for the period under review was 95.7% (down 0.7 pts), but the high utilization rate was maintained and sales per engineer (average for engineers at TechnoPro, Inc. and TechnoPro Construction, Inc.) were 631 thousand yen per month (down 2.0 thousand yen) as a result of work style reforms that reduced overtime hours and working days, despite the continued implementation of the “Shift up” and “Charge up” initiatives.

In employment, the number of newly employed domestic engineers at the end of the consolidated first half period under review was 1,825 (up 81 compared to the end of the first half of the previous fiscal year), contributing to an increase in enrolled engineer numbers.

In terms of expenses, the gross profit margin was 25.4 % (up 0.5 pts compared to the end of the first half 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 0.5 pts).

As a result, the Group's revenues for the first half were 79,037 million yen (up 12.7% compared to the first half of the previous fiscal year), operating profit was 8,221 million yen (up 11.3%), profit before taxes was 8,191 million yen (up 11.8%), and net profit attributable to the owners of the parent company was 5,654 million yen (up 16.5%).

Earnings for the segments of the business during the consolidated first half 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 moved forward with initiatives such as the active recruitment of IT field engineers. It also pursued initiatives to add value, such as collaborations with other businesses, while advancing the "Shift up" and "Charge up" initiatives to raise profitability. As a result of these initiatives, revenues in this segment were 62,676 million yen (up 12.2%).

(Construction Management Outsourcing)
The Group, continuing from the previous fiscal period, increased the amount of sales per engineer through the promotion of team assignments and continued to expand the construction management and design business through the recruitment and training of inexperienced personnel. As a result, revenues in this segment were 9,768 million yen (up 13.6%).

(Other Businesses in Japan)
The Group achieved sales growth at recruitment companies in part due to the contribution from TECHNO BRAIN COMPANY, LTD., which the Group acquired in the third quarter of the previous fiscal period. TECHNO BRAIN COMPANY., LTD. is increasingly procuring overseas engineers in addition to domestic engineers and is aiming to enhance business performance in partnership with the Group's global offices. As a result of these initiatives, revenues in this segment was 2,044 million yen (up 36.3%).

(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 in order to create new synergies, such as the provision of engineers and solutions that meet the needs of customers developing business globally. As a result of these initiatives, revenue in this segment was 5,291 million yen (up 12.8%).

(2) Summary of financial position

i. Analysis of financial position

Assets totaled 104,725 million yen as of the end of the consolidated first half period under review (up 10,954 million yen from the end of the previous fiscal year). The primary components were goodwill of 37,142 million yen, accounts receivables and other receivables of 19,880 million yen, and cash and cash equivalents of 21,006 million yen.

The status for each item was as follows.

(Current assets)
Current assets totaled 47,314 million yen as of the end of the consolidated first half period under review (up 2,752 million yen from the end of the previous fiscal year). The primary components were accounts receivables and other receivables of 19,880 million yen (up 115 million yen), and cash and cash equivalents of 21,006 million yen (down 224 million yen).

(Non-current assets)
Non-current assets totaled 57,411 million yen as of the end of the consolidated first half period under

review (up 8,202 million yen from the end of the previous fiscal year). The primary components were goodwill of 37,142 million yen (up 62 million yen), an increase in right-of-use assets of 7,368 million yen due to the application of IFRS 16 Leases, and deferred tax assets of 3,612 million yen (down 345 million yen).

(Current liabilities)

Current liabilities totaled 38,866 million yen as of the end of the consolidated first half period under review (up 4,695 million yen from the end of the previous fiscal year). The primary components were accounts payable and other liabilities of 12,246 million yen (down 717 million yen), employee benefit liabilities of 6,049 million yen (up 203 million yen), an increase in lease liabilities of 5,006 million yen due to the application of IFRS 16 Leases, and corporate bonds and loans payable of 3,783 million yen (up 422 million yen).

(Non-current liabilities)

Non-current liabilities totaled 18,132 million yen as of the end of the consolidated first half period under review (up 4,598 million yen from the end of the previous fiscal year). The primary components were an increase in lease liabilities of 5,976 million yen due to the application of IFRS 16 Leases, other long-term financial liabilities of 6,267 million yen (down 427 million yen) and loans payable of 4,931 million yen (down 893 million yen).

(Equity attributable to the owners of the parent company)

Equity attributable to the owners of the parent company totaled 46,423 million yen as of the end of the consolidated first half period under review (up 1,619 million yen from the end of the previous fiscal year). The primary components were capital surplus of 7,272 million yen (down 32 million yen) and retained earnings of 32,776 million yen (up 1,646 million yen).

ii. Cash flow

Cash and cash equivalents (hereinafter “Cash”) totaled 21,006 million yen as of end of the consolidated first half period under review, representing a decline of 224 million yen compared to the end of the previous fiscal year.

Cash flow during the consolidated first half 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 8,115 million yen (consolidated first half period of previous fiscal year: inflows of 5,125 million yen). This was mainly due to profits before taxes (8,191 million yen), and depreciation and amortization (1,273 million yen), offset by payments of corporate income taxes (3,087 million yen) and a decrease in accounts payable and other liabilities (717 million yen).

(Cash flows from investing activities)

Cash outflows from investing activities were 629 million yen (consolidated first half period of previous fiscal year: outflows of 3,669 million yen). This was mainly due to the acquisition of tangible fixed assets (501 million yen), the acquisition of securities (99 million yen), and purchases of other financial assets (64 million yen).

(Cash flows from financing activities)

Cash outflows from financing activities were 7,779 million yen (consolidated first half period of previous fiscal year: outflows of 4,301 million yen). This was mainly due to dividend payments (3,084 million yen), repayment of lease liabilities (3,084 million yen), repayment of long-term borrowings (1,570 million yen) and purchase of own shares (1,061 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.

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 December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	21,230	21,006
Accounts receivables and other receivables	19,765	19,880
Income taxes receivable	0	0
Other short-term financial assets	571	1,712
Other current assets	2,993	4,715
Total current assets	44,562	47,314
Non-current assets		
Property, plant and equipment	1,261	1,650
Right-of-use assets	—	7,368
Goodwill	37,079	37,142
Intangible assets	2,596	2,416
Investments accounted for using the equity method	94	82
Other long-term financial assets	4,167	4,640
Deferred tax assets	3,957	3,612
Other non-current assets	52	497
Total non-current assets	49,208	57,411
Total assets	93,771	104,725
Liabilities and equity		
Current liabilities		
Accounts payable and other liabilities	12,964	12,246
Bond and loans payable	3,360	3,783
Lease liability	1	5,006
Income taxes payable	3,503	2,274
Other financial liabilities	2,581	2,828
Employee benefits liabilities	5,846	6,049
Provisions	3	2
Other current liabilities	5,909	6,675
Total current liabilities	34,171	38,866

(Millions of yen)

	As of June 30, 2019	As of December 31, 2019
Non-current liabilities		
Loans payable	5,825	4,931
Lease liabilities	2	5,976
Other long-term financial liabilities	6,695	6,267
Deferred tax liabilities	499	427
Retirement benefit liabilities	28	30
Provisions	378	401
Other non-current liabilities	104	96
Total non-current liabilities	13,534	18,132
Total liabilities	47,705	56,998
Equity		
Share capital	6,903	6,929
Capital surplus	7,304	7,272
Retained earnings	31,129	32,776
Treasury shares	(2)	—
Other components of equity	(532)	(555)
Equity attributable to owners of the parent company	44,803	46,423
Non-controlling interests	1,262	1,303
Total equity	46,065	47,726
Total liabilities and equity	93,771	104,725

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

Consolidated Statement of Income (Summary)

The consolidated six-month period

(Millions of yen)

	Six months ended December 31, 2018 (July 1, 2018 to December 31, 2018)	Six months ended December 31, 2019 (July 1, 2019 to December 31, 2019)
Revenue	70,114	79,037
Cost of sales	52,636	58,930
Gross profit	17,478	20,106
Selling, general and administrative expenses	10,258	11,994
Other income	191	191
Other expenses	24	82
Operating profit	7,386	8,221
Financial income	2	51
Financial expenses	57	69
Investment profit (loss) under the equity method	(3)	(11)
Profit before income taxes	7,327	8,191
Income taxes	2,374	2,465
Net profit	4,953	5,725
Net profit attributable to:		
Owners of the parent company	4,854	5,654
Non-controlling interests	98	71
Net profit	4,953	5,725

(Yen)

Earnings per share attributable to owners of the parent company		
Basic earnings per share	133.85	156.35
Diluted earnings per share	133.78	—

Consolidated Statement of Comprehensive Income (Summary)

The consolidated three-month period

(Millions of yen)

	Three months ended December 31, 2018 (October 1, 2018 to December 31, 2018)	Three months ended December 31, 2019 (October 1, 2019 to December 31, 2019)
Revenue	36,779	40,141
Cost of sales	27,364	29,581
Gross profit	9,415	10,559
Selling, general and administrative expenses	5,430	6,144
Other income	237	80
Other expenses	18	158
Operating profit	4,203	4,337
Financial income	(3)	19
Financial expenses	30	35
Investment profit (loss) under the equity method	(4)	(4)
Profit before income taxes	4,165	4,315
Income taxes	1,333	1,287
Net profit	2,831	3,028
Net profit attributable to:		
Owners of the parent company	2,772	2,996
Non-controlling interests	58	31
Net profit	2,831	3,028

(Yen)

Earnings per share attributable to owners of the parent company		
Basic earnings per share	76.41	82.94
Diluted earnings per share	76.39	—

Consolidated Statement of Comprehensive Income (Summary)

The consolidated six-month period

(Millions of yen)

	Six months ended December 31, 2018 (July 1, 2018 to December 31, 2018)	Six months ended December 31, 2019 (July 1, 2019 to December 31, 2019)
Net profit	4,953	5,725
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	(184)	(154)
Total items that will not be reclassified to profit or loss	(184)	(154)
Items that may be reclassified to profit or loss		
Foreign currency translation adjustments	(112)	165
Total items that may be reclassified to profit or loss	(112)	165
Total other comprehensive income	(296)	10
Comprehensive income for the period	4,656	5,736
Comprehensive income for the period attributable to:		
Owners of the parent company	4,565	5,634
Non-controlling interests	90	101
Comprehensive income for the period	4,656	5,736

The consolidated three-month period

(Millions of yen)

	Three months ended December 31, 2018 (October 1, 2018 to December 31, 2018)	Three months ended December 31, 2019 (October 1, 2019 to December 31, 2019)
Net profit	2,831	3,028
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	(257)	115
Total items that will not be reclassified to profit or loss	(257)	115
Items that may be reclassified to profit or loss		
Foreign currency translation adjustments	(209)	285
Total items that may be reclassified to profit or loss	(209)	285
Total other comprehensive income	(466)	400
Comprehensive income for the period	2,364	3,428
Comprehensive income for the period attributable to:		
Owners of the parent company	2,345	3,338
Non-controlling interests	19	90
Comprehensive income for the period	2,364	3,428

(3) Consolidated Statement of Changes in Equity (Summary)

Six months ended December 31, 2018 (July 1, 2018 to December 31, 2018)

(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			4,854			4,854	98	4,953
Other comprehensive income			(0)		(287)	(288)	(7)	(296)
Total comprehensive income	—	—	4,853	—	(287)	4,565	90	4,656
Issuance of new shares	118	(41)				77		77
Dividends of surplus			(2,537)			(2,537)		(2,537)
Share-based payment transaction		49				49		49
Purchase of treasury shares				(0)		(0)		(0)
Changes in ownership interests in subsidiaries						—	120	120
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	(1,763)	(2,537)	(0)	—	(4,183)	120	(4,062)
As of December 31, 2018	6,903	7,239	28,140	(2)	(205)	42,076	1,484	43,560

Six months ended December 31, 2019 (July 1, 2019 to December 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, 2019	6,903	7,304	31,129	(2)	(532)	44,803	1,262	46,065
Net profit			5,654			5,654	71	5,725
Other comprehensive income			2		(22)	(20)	30	10
Total comprehensive income	—	—	5,657	—	(22)	5,634	101	5,736
Issuance of new shares	25	(25)				—		—
Dividends of surplus			(3,049)			(3,049)	(35)	(3,084)
Share-based payment transaction		(30)				(30)		(30)
Purchase of treasury shares				(1,061)		(1,061)		(1,061)
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)		(1)				(1)		(1)
Total transactions with the owners	25	(32)	(4,010)	2	—	(4,014)	(60)	(4,075)
As of December 31, 2019	6,929	7,272	32,776	—	(555)	46,423	1,303	47,726

(4) Consolidated Statement of Cash Flows (Summary)

(Millions of yen)

	Six months ended December 31, 2018 (July 1, 2018 to December 31, 2018)	Six months ended December 31, 2019 (July 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Profit before income taxes	7,327	8,191
Depreciation and amortization	347	1,273
Interest and dividend income	(1)	(1)
Interest expense	48	62
Investment loss (profit) under the equity method	3	11
Decrease (increase) in accounts receivables and other receivables	(193)	(115)
Increase (decrease) in accounts payable and other liabilities	(332)	(717)
Increase (decrease) in deposits received	277	320
Increase (decrease) in consumption tax payable	(115)	340
Increase (decrease) in retirement benefit liabilities	(133)	(74)
Other	(56)	1,917
Subtotal	7,170	11,208
Dividends received	0	0
Interest received	1	1
Interest paid	(25)	(44)
Income taxes paid	(2,042)	(3,087)
Income tax refund	20	37
Net cash flows from operating activities	5,125	8,115
Cash flows from investing activities		
Payments into time deposits	(148)	(27)
Proceeds from withdrawal of time deposits	230	31
Purchase of tangible fixed assets	(180)	(501)
Proceeds from sales of tangible fixed assets	37	0
Purchase of intangible assets	(53)	(15)
Payment for acquisition of securities	(131)	(99)
Payment for acquisition of other financial assets	(161)	(64)
Purchase of subsidiary	(3,259)	—
Other	(4)	47
Net cash flows from investing activities	(3,669)	(629)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(30)	155
Repayment of lease liabilities	(1)	(3,084)
Proceeds from long-term borrowings	—	1,000
Repayments of long-term borrowings	(1,583)	(1,570)
Redemption of bonds	(147)	(65)
Purchase of treasury shares	(0)	(1,061)
Cash dividends paid	(2,538)	(3,084)
Payments for purchase of interests in subsidiaries from non-controlling interests	—	(67)
Other	(1)	(0)
Net cash flows from financing activities	(4,301)	(7,779)
Effect of change in exchange rates on cash and cash equivalents	(44)	68
Net increase (decrease) in cash and cash equivalents	(2,890)	(224)
Cash and cash equivalents at the beginning of the period	21,652	21,230
Cash and cash equivalents at the end of the period	18,761	21,006

(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 (released January 2016; hereafter “IFRS 16”) since the first three months of the consolidated fiscal year.

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 borrower’s 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 long-term financial 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.

(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 second quarter of the previous fiscal year – both the consolidated three-month period and the consolidated six-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.

Six months ended December 31, 2018 (July 1, 2018 to December 31, 2018)

(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	55,753	8,602	1,207	4,528	70,091	22	70,114
Intersegment sales or transfers	108	0	291	163	563	(563)	—
Total revenue	55,861	8,602	1,499	4,692	70,655	(541)	70,114
Operating profit	5,544	1,069	160	474	7,250	136	7,386
Financial income	—	—	—	—	—	—	2
Financial expenses	—	—	—	—	—	—	57
Investment profit (loss) under equity method	—	—	—	—	—	—	(3)
Quarterly profit before income taxes	—	—	—	—	—	—	7,327
Other							
Depreciation and amortization	62	14	9	23	109	107	217
Amortization of customer-related assets	40	—	—	89	129	—	129
Profit on currency exchange related to put option liabilities	—	—	—	—	—	89	89
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
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.

Six months ended December 31, 2019 (July 1, 2019 to December 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	62,538	9,768	1,635	5,068	79,010	26	79,037
Intersegment sales or transfers	138	—	408	223	769	(769)	—
Total revenue	62,676	9,768	2,044	5,291	79,780	(742)	79,037
Operating profit	6,431	1,157	262	353	8,203	17	8,221
Financial income	—	—	—	—	—	—	51
Financial expenses	—	—	—	—	—	—	69
Investment profit (loss) under equity method	—	—	—	—	—	—	(11)
Quarterly profit before income taxes	—	—	—	—	—	—	8,191
Other							
Depreciation and amortization	459	105	151	119	836	295	1,131
Amortization of customer-related assets	40	—	—	102	142	—	142
Profit on early exercise of put options	—	—	—	—	—	60	60
Profit on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss on currency exchange related to put option liabilities	—	—	—	—	—	61	61
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 December 31, 2018 (October 1, 2018 to December 31, 2018)

(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	28,841	4,453	583	2,890	36,768	11	36,779
Intersegment sales or transfers	54	0	172	92	320	(320)	—
Total revenue	28,896	4,453	756	2,982	37,088	(308)	36,779
Operating profit	3,053	567	85	298	4,004	198	4,203
Financial income	—	—	—	—	—	—	(3)
Financial expenses	—	—	—	—	—	—	30
Investment profit (loss) under equity method	—	—	—	—	—	—	(4)
Quarterly profit before income taxes	—	—	—	—	—	—	4,165
Other							
Depreciation and amortization	32	7	4	9	54	54	109
Amortization of customer-related assets	20	—	—	44	64	—	64
Profit on currency exchange related to put option liabilities	—	—	—	—	—	172	172
Loss on currency exchange related to put option liabilities	—	—	—	—	—	—	—
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 December 31, 2019 (October 1, 2019 to December 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	31,783	4,943	812	2,587	40,127	13	40,141
Intersegment sales or transfers	72	—	223	117	413	(413)	—
Total revenue	31,856	4,943	1,035	2,705	40,540	(399)	40,141
Operating profit	3,506	607	154	168	4,437	(100)	4,337
Financial income	—	—	—	—	—	—	19
Financial expenses	—	—	—	—	—	—	35
Investment profit (loss) under equity method	—	—	—	—	—	—	(4)
Quarterly profit before income taxes	—	—	—	—	—	—	4,315
Other							
Depreciation and amortization	232	52	75	65	426	147	573
Amortization of customer-related assets	20	—	—	51	72	—	72
Profit on currency exchange related to put option liabilities	—	—	—	—	—	—	—
Loss on currency exchange related to put option liabilities	—	—	—	—	—	138	138
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.