V [Financial Information]

1. Basis for Preparation of Consolidated and Non-consolidated Financial Statements

(1) The consolidated financial statements of OUTSOURCING Inc. (hereinafter referred to as the “Company”) are prepared under Article 93 of the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance Order No. 28 of 1976) in compliance with International Financial Reporting Standards (hereinafter referred to as “IFRS”).

The amounts in the consolidated financial statements are presented in Japanese yen and are rounded to the nearest million yen, and for other items, amounts less than one million yen are rounded down.

(2) The Company’s financial statements are prepared under the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ministry of Finance Order No. 59 of 1963; hereinafter referred to as “Regulation on Financial Statements”).

The amounts in the financial statements and other items less than one million yen are rounded down.

The Company fulfills requirements for a company allowed to file the specified financial statements and prepares the financial statements in compliance with the provision of Article 127 of the Regulation on Financial Statements.

2. Audit Certificates

For the Company’s consolidated and non-consolidated financial statements for the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019), Deloitte Touche Tohmatsu LLC conducted audits in compliance with the provision of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act.

3. Special Efforts to Ensure Appropriateness of Consolidated Financial Statements and Development of Systems to Ensure Appropriately Preparing Consolidated Financial Statements in Compliance with IFRS

The Company is making special efforts to ensure appropriateness of consolidated financial statements and developing systems to ensure its consolidated financial statements are prepared in compliance with IFRS. Details are as follows:

(1) In order to grasp details of accounting standards, as well as to develop systems to appropriately respond to changes in accounting standards, the Company has joined the Financial Accounting Standards Foundation, a public interest incorporated foundation, to obtain information regarding accounting standards and participates in seminars for updates.

(2) With regards to adoption of IFRS, the Company obtains press releases and official pronouncements published by the International Accounting Standards Board as needed to grasp the latest standards. In addition, the Company develops the Group accounting policies in compliance with IFRS and conducts accounting treatments based on these in order to prepare appropriate consolidated financial statements based on IFRS.

1 [Consolidated Financial Statements]

(1) [Consolidated Financial Statements]

(I) [Consolidated Statement of Financial Position]

(Millions of yen)

	Notes	As of December 31, 2018	As of December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	8	29,451	40,246
Trade and other receivables	9	50,165	51,722
Inventories	10	1,509	1,608
Other financial assets	11	4,508	9,974
Other current assets	12	8,003	8,891
Total current assets		93,636	112,441
Non-current assets			
Property, plant and equipment	13	10,249	9,421
Right-of-use assets	14	—	18,246
Goodwill	15	52,621	58,073
Intangible assets	15	20,156	18,023
Investments accounted for using the equity method	16	—	2,178
Other financial assets	11	5,518	15,891
Other non-current assets	12	760	1,076
Deferred tax assets	17	3,201	3,830
Total non-current assets		92,505	126,738
Total assets		186,141	239,179

(Millions of yen)

	Notes	As of December 31, 2018	As of December 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	20	32,038	35,033
Bonds and borrowings	18	14,822	20,146
Lease liabilities	33	—	15,577
Other financial liabilities	18	4,271	2,978
Income taxes payable		4,635	3,922
Other current liabilities	23	11,480	12,536
Total current liabilities		67,246	90,192
Non-current liabilities			
Bonds and borrowings	18	39,265	47,664
Lease liabilities	33	—	20,120
Other financial liabilities	18	11,125	6,806
Retirement benefit liabilities	21	1,914	2,097
Provisions	22	881	1,093
Other non-current liabilities		140	272
Deferred tax liabilities	17	4,913	5,942
Total non-current liabilities		58,238	83,994
Total liabilities		125,484	174,186
Equity			
Share capital	24	25,123	25,187
Capital surplus	24	26,587	26,620
Treasury shares	24	(0)	(0)
Other capital surplus	24	(14,178)	(14,056)
Other components of equity	24	(2,096)	(2,607)
Retained earnings		19,774	25,667
Total equity attributable to owners of the parent		55,210	60,811
Non-controlling interests		5,447	4,182
Total equity		60,657	64,993
Total liabilities and equity		186,141	239,179

(II) [Consolidated Statement of Profit or Loss]

(Millions of yen)

	Notes	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Revenue	6, 26	311,311	361,249
Cost of sales		(248,911)	(290,465)
Gross profit		62,400	70,784
Selling, general and administrative expenses	27	(47,751)	(58,707)
Other operating income	28	1,032	4,587
Other operating expenses	29	(1,090)	(1,163)
Operating profit		14,591	15,501
Finance income	30	66	697
Finance costs	30	(2,102)	(2,780)
Investment gain on equity method		—	60
Profit before tax		12,555	13,478
Income tax expense	17	(4,253)	(4,383)
Profit for the year		8,302	9,095
Profit attributable to:			
Owners of the parent		7,480	8,336
Non-controlling interests		822	759
Profit for the year		8,302	9,095
Earnings per share	32		
Basic earnings per share (Yen)		69.42	66.35
Diluted earnings per share (Yen)		69.10	66.26

(III) [Consolidated Statement of Comprehensive Income]

(Millions of yen)

	Notes	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Profit for the year		8,302	9,095
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit retirement plans	21, 31	206	240
Change in fair value of equity financial assets measured at fair value through other comprehensive income	31, 35	(78)	28
Total of items that will not be reclassified subsequently to profit or loss		128	268
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	31	(3,032)	(607)
Change in fair value of debt financial assets measured at fair value through other comprehensive income	31, 35	0	1
Total of items that may be reclassified subsequently to profit or loss		(3,032)	(606)
Other comprehensive income (loss), net of tax		(2,904)	(338)
Total comprehensive income		5,398	8,757
Comprehensive income attributable to:			
Owners of the parent		4,849	8,065
Non-controlling interests		549	692
Total comprehensive income		5,398	8,757

(IV) [Consolidated Statement of Changes in Equity]

	Notes	Equity attributable to owners of the parent						
						Other components of equity		
		Share capital	Capital surplus	Treasury shares	Other capital surplus	Exchange differences on translating foreign operations	Net change in fair values of available-for-sale financial assets	Change in fair value of debt financial assets measured at fair value through other comprehensive income
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018		7,131	8,843	(0)	(5,814)	458	283	–
Effect of changes in accounting policies		–	–	–	–	0	(283)	0
Restated balance at January 1, 2018		7,131	8,843	(0)	(5,814)	458	–	0
Profit for the year		–	–	–	–	–	–	–
Other comprehensive income (loss)		–	–	–	–	(2,759)	–	1
Total comprehensive income (loss)		–	–	–	–	(2,759)	–	1
Issuance of new shares	24	17,992	17,992	–	(35)	–	–	–
Share issuance cost	24	–	(248)	–	–	–	–	–
Dividends	25	–	–	–	–	–	–	–
Transfer to retained earnings	31	–	–	–	–	–	–	–
Other decrease		–	–	–	(2)	–	–	–
Total contributions by and distributions to owners		17,992	17,744	–	(37)	–	–	–
Changes from business combination and others	24	–	–	–	(8,327)	–	–	–
Total changes in ownership interests in subsidiaries		–	–	–	(8,327)	–	–	–
Total transactions with owners		17,992	17,744	–	(8,364)	–	–	–
Balance at December 31, 2018		25,123	26,587	(0)	(14,178)	(2,301)	–	1
Profit for the year		–	–	–	–	–	–	–
Other comprehensive income (loss)		–	–	–	–	(539)	–	0
Total comprehensive income (loss)		–	–	–	–	(539)	–	0
Issuance of new shares	24	64	64	–	(29)	–	–	–
Dividends	25	–	–	–	–	–	–	–
Share-based payment transactions	34	–	–	–	15	–	–	–
Transfer to retained earnings	31	–	–	–	–	–	–	–
Other decrease		–	(31)	–	–	–	–	–
Total contributions by and distributions to owners		64	33	–	(14)	–	–	–
Changes from business combination and others	24	–	–	–	136	–	–	–
Total changes in ownership interests in subsidiaries		–	–	–	136	–	–	–
Total transactions with owners		64	33	–	122	–	–	–
Balance at December 31, 2019		25,187	26,620	(0)	(14,056)	(2,840)	–	1

	Notes	Equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity			Retained earnings	Total		
		Remeasurements of defined benefit plans	Change in fair value of equity financial assets measured at fair value through other comprehensive income	Total				
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018		–	–	741	14,057	24,958	1,799	26,757
Effect of changes in accounting policies		–	283	0	(28)	(28)	(6)	(34)
Restated balance at January 1, 2018		–	283	741	14,029	24,930	1,793	26,723
Profit for the year		–	–	–	7,480	7,480	822	8,302
Other comprehensive income (loss)		206	(79)	(2,631)	–	(2,631)	(273)	(2,904)
Total comprehensive income (loss)		206	(79)	(2,631)	7,480	4,849	549	5,398
Issuance of new shares	24	–	–	–	–	35,949	–	35,949
Share issuance cost	24	–	–	–	–	(248)	–	(248)
Dividends	25	–	–	–	(1,937)	(1,937)	(573)	(2,510)
Transfer to retained earnings	31	(206)	–	(206)	206	–	–	–
Other decrease		–	–	–	(4)	(6)	–	(6)
Total contributions by and distributions to owners		(206)	–	(206)	(1,735)	33,758	(573)	33,185
Changes from business combination and others	24	–	–	–	–	(8,327)	3,678	(4,649)
Total changes in ownership interests in subsidiaries		–	–	–	–	(8,327)	3,678	(4,649)
Total transactions with owners		(206)	–	(206)	(1,735)	25,431	3,105	28,536
Balance at December 31, 2018		–	204	(2,096)	19,774	55,210	5,447	60,657
Profit for the year		–	–	–	8,336	8,336	759	9,095
Other comprehensive income (loss)		240	28	(271)	–	(271)	(67)	(338)
Total comprehensive income (loss)		240	28	(271)	8,336	8,065	692	8,757
Issuance of new shares	24	–	–	–	–	99	–	99
Dividends	25	–	–	–	(2,636)	(2,636)	(744)	(3,380)
Share-based payment transactions	34	–	–	–	–	15	–	15
Transfer to retained earnings	31	(240)	–	(240)	240	–	–	–
Other decrease		–	–	–	(4)	(35)	–	(35)
Total contributions by and distributions to owners		(240)	–	(240)	(2,400)	(2,557)	(744)	(3,301)
Changes from business combination and others	24	–	–	–	(43)	93	(1,213)	(1,120)
Total changes in ownership interests in subsidiaries		–	–	–	(43)	93	(1,213)	(1,120)
Total transactions with owners		(240)	–	(240)	(2,443)	(2,464)	(1,957)	(4,421)
Balance at December 31, 2019		–	232	(2,607)	25,667	60,811	4,182	64,993

(V) [Consolidated Statement of Cash Flows]

(Millions of yen)

	Notes	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Cash flows from operating activities			
Profit before tax		12,555	13,478
Depreciation and amortization		3,672	10,762
Impairment losses		721	381
Increase (decrease) in provisions and retirement benefit liabilities		(46)	174
Finance income		(66)	(697)
Finance costs		2,102	2,780
Investment gain (increase) on equity method		–	(60)
Decrease (increase) in inventories		(142)	(83)
Decrease (increase) in trade and other receivables		(7,226)	(1,410)
Increase in trade and other payables		2,657	2,601
Increase in accrued consumption taxes		1,799	1,328
Other		(1,120)	(1,309)
Subtotal		14,906	27,945
Interest and dividends received		66	180
Interest paid		(1,090)	(1,527)
Income taxes paid		(5,539)	(5,409)
Income tax refunded		153	1,371
Net cash provided by operating activities		8,496	22,560
Cash flows from investing activities			
Payments into time deposits		(790)	(3,125)
Proceeds from withdrawal of time deposits		610	4,115
Purchase of other financial assets		(9,044)	(2,507)
Proceeds from redemption upon maturity of other financial assets		6,482	5,068
Purchase of property, plant and equipment		(1,844)	(2,131)
Purchase of intangible assets		(714)	(885)
Proceeds from sale of property, plant and equipment		108	4
Purchase of investments		(1,153)	(488)
Proceeds from sale of investments		23	59
Payments for acquisition of businesses	7, 33	(22,739)	(6,344)
Proceeds from acquisition of businesses	33	–	240
Purchase of investments accounted for using the equity method		–	(2,118)
Payments for loans receivable		(37)	(393)
Collection of loans receivable		76	35
Payments for leasehold deposits and guarantees		(1,149)	(1,149)
Proceeds from collection of leasehold deposits and guarantees		204	709
Purchase of insurance funds		(28)	(1)
Proceeds from cancellation of insurance funds		40	338
Other		(63)	1
Net cash used in investing activities		(30,018)	(8,572)

(Millions of yen)

	Notes	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		(3,616)	1,648
Proceeds from long-term borrowings		8,797	30,084
Repayments of long-term borrowings		(8,850)	(19,008)
Issuance of bonds		6,186	–
Repayments of lease liabilities	33	–	(8,170)
Proceeds from issuance of shares		35,733	128
Dividends paid	25	(1,937)	(2,636)
Transactions with non-controlling interests		(1,938)	(4,461)
Dividends paid to non-controlling interests		(573)	(744)
Other		(1,360)	(48)
Net cash provided by (used in) financing activities		32,442	(3,207)
Effect of exchange rate changes on cash and cash equivalents		(577)	14
Net increase in cash and cash equivalents		10,343	10,795
Cash and cash equivalents at beginning of year		19,108	29,451
Cash and cash equivalents at end of year	8	29,451	40,246

[Notes to Consolidated Financial Statements]

1. Reporting Entity

OUTSOURCING Inc. (hereinafter referred to as the "Company") is a company located in Japan. The registered address of its headquarters is in Chiyoda-ku, Tokyo. Addresses of the major offices are disclosed on the Company's website (https://www.outsourcing.co.jp/en/). The Company's consolidated financial statements are prepared with a fiscal year end date of December 31 and consist of the Company and its subsidiaries (hereinafter referred to as the "Group"), and interests in associates and jointly controlled entities of the Group.

The Group responds to outsourcing needs of manufacturers for operations related to design, development, experimentation, evaluation, and manufacturing, and offers technologies and know-how, and provides production outsourcing services which contribute to the achievement of improved productivity and technological innovations for manufacturers.

For details of the Group's major activities, please refer to Note "6. Segment Information."

For conditions of major subsidiaries at the end of the current fiscal year, please refer to "Part 1. Company Overview, 4. Status of Subsidiaries and Associates."

2. Basis of Preparation

(1) Statement of Compliance

The Group's consolidated financial statements fulfill all the requirements of the "Specified Companies Complying with Designated International Accounting Standards" as stipulated in Article 1, Paragraph 2 of the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976) and pursuant to the provisions of Article 93 of the same Regulation, the consolidated financial statements are prepared in accordance with IFRS.

These consolidated financial statements were approved by the Board of Directors on March 25, 2020.

(2) Measurement Basis

The Group's consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value at the end of each reporting period, as described in Note "4. Significant Accounting Policies."

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and amounts are rounded to the nearest million yen.

(4) Early Adoption of New Standards

Not applicable.

(5) Changes in Accounting Policies

The Group has adopted the following standards for the year ended December 31, 2019.

IFRS	Summary of New and Revised Standards
IFRS 16 Leases	Revision of criteria for recognition, measurement, presentation, and disclosure of leases
IFRIC 23 Uncertainty over Income Tax Treatments	Clarification of a way to reflect the effects of uncertainty in accounting for income taxes

(Adoption of IFRS 16 Leases)

The Group has adopted IFRS 16 "Leases" (as issued in January 2016; hereinafter referred to as "IFRS 16") effective January 1, 2019.

In adopting IFRS 16, the Group adopted the method of recognizing the cumulative effect of the adoption of this standard on the date of initial adoption, which is permitted as a transition provision. In transition to IFRS 16, as to whether a contract contains a lease, a practical expedient pursuant to IFRS 16 C3 was adopted to continue the assessment made under IAS 17 "Leases" (hereinafter referred to as "IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a Lease."

The Group recognized leases classified as operating leases under IAS 17 as lease liabilities on the date of the initial adoption of IFRS 16. Said lease liabilities were measured at the present value of remaining lease payments discounted by using the lessee's incremental borrowing rate as of the date of initial adoption. 2.4% is the weighted average of the lessee's incremental borrowing rates adopted to recognize lease liabilities in the consolidated statement of financial position as of the date of initial adoption.

The following is a table showing a reconciliation between operating lease contracts disclosed under IAS 17 as of the end of the year ended December 31, 2018 and lease liabilities recognized in the consolidated statement of financial position as of the date of initial adoption.

(Millions of yen)

	Amount
Non-cancelable operating lease contracts disclosed as of December 31, 2018	1,240
Non-cancelable operating lease contracts disclosed as of December 31, 2018 (discounted by the incremental borrowing rate)	1,196
Finance lease liabilities (as of December 31, 2018)	2,869
Cancelable operating leases	30,468
Other	(541)
Lease liabilities as of January 1, 2019	33,992

The right-of-use asset and lease receivables recognized in the consolidated statement of financial position as of the date of initial adoption are ¥19,331 million and ¥15,057 million, respectively. Lease receivables are included in "other financial assets" under current assets and non-current assets. The impacts on the consolidated statement of profit or loss are minimal.

Cash flows related to leases reported as operating leases in the consolidated statement of cash flows, which were presented under cash flows from operating activities, are presented as "repayments of lease liabilities" under cash flows from financing activities as a result of the adoption of IFRS 16, except for short-term lease payments not included in the measurement of lease liabilities, payments for leases of low-value assets, and variable lease payments. Lease liabilities recognized on the said date of initial adoption are recognized as non-cash transactions.

It should be noted that, in adopting IFRS 16, the Group elected practical expedients to:

・account for leases for which the lease term ends within 12 months of the date of initial adoption in the same way as short-term leases,

・exclude initial direct costs from the measurement of the right-of-use asset as of the date of initial adoption, and

・use-of-hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(Adoption of IFRIC 23 "Uncertainty over Income Tax Treatments")

The Group has adopted IFRIC 23 "Uncertainty over Income Tax Treatments" (issued in June 2017) as of the year ended December 31, 2019.

The impacts on the Group's operating results and financial position due to the adoption of this standard were minimal.

3. Significant Accounting Estimates and Judgments Involving Estimations

When preparing consolidated financial statements in accordance with IFRS and its accounting policies, management records estimates based on a certain degree of judgment and assumptions, which may affect assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the accounting period during which the estimate is revised and future accounting periods thereafter.

Judgments and estimates made by the management, which may have significant impacts on the amounts in the consolidated financial statements, are as follows:

・Impairment of property, plant and equipment, as well as goodwill and intangible assets (Notes “13. Property, Plant and Equipment” and “15. Goodwill and Intangible Assets”)
・Fair values of assets acquired and liabilities assumed from business combinations (Note “15. Goodwill and Intangible Assets”)
・Useful lives and residual values of customer-related assets and others (Notes “15. Goodwill and Intangible Assets”)
・Estimate of extension and/or termination options for lease contracts (Notes “14. Right-of-use Asset”)
・Recoverability of deferred tax assets (Note “17. Income Taxes”)
・Measurement of retirement benefit liabilities and accrued paid absences cost (Note “21. Employee Benefits”)
・Recognition and measurement of revenue (Notes “26. Revenue”)
・Measurement of fair values of financial instruments and the present value of the redemption amount of written put option liabilities on non-controlling interests (Note “35. Financial Instruments”)

4. Significant Accounting Policies

(1) Basis of Consolidation

(I) Subsidiaries

A subsidiary is an entity controlled by the Group. When the Group is exposed, or has rights, to variable returns from its involvement with a company, and has the ability to affect returns through its power over the company, the Group is considered to have control over said company.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when it loses the control.

When accounting policies adopted by a subsidiary are different from those adopted by the Group, adjustments are made to financial statements of said subsidiary as necessary. Outstanding balance of receivables and payables, transactions among Group companies, and unrealized profits and losses generated from transactions among Group companies are eliminated when preparing consolidated financial statements. Financial statements of a subsidiary with fiscal year end that differs from that of the Group are prepared with provisional settlement of accounts conducted as of the consolidated balance sheet date because of the short period of time after the acquisition or for other reasons.

Changes in the Group’s ownership in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. Any difference between the adjusted amount of non-controlling interests and the fair value of the consideration is directly recognized in equity and attributed to owners of the parent.

Non-controlling interests of subsidiaries are recognized separately from the interests of the Group. Comprehensive income of subsidiaries is attributed to owners of the parent and non-controlling interests even when the balance of non-controlling interests is negative.

(II) Associates and Jointly Controlled Entities

An associate refers to an entity over which the Group has significant influence regarding financial and business policies, but no controlling financial interest. When the Group owns over 20% and below 50% of voting rights of the investee, it is presumed to have significant influence.

A jointly controlled company refers to an entity which multiple parties including the Group share contractually agreed control over the entity’s business activities and which requires an agreement by all control sharing parties to make a strategic financial or operational decision related to its activities.

In investing in a jointly controlled company, the Group enters into an agreement with multiple contractual parties that requires a unanimous consent of all contractual parties regarding decisions to be made on activities having a significant impact on the return of such an investment.

Investments in associates and jointly controlled companies are recognized at acquisition cost at the time of acquisition, and are thereafter accounted for using the equity method. Investments in associates include goodwill recognized on the acquisition (net of accumulated impairment losses).

When accounting policies adopted by an associate or jointly controlled company are different from those adopted by the Group, adjustments are made to the financial statements of the associate as necessary.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. Consideration for acquisitions are measured at fair value, which is calculated as the sum of fair values at the acquisition date of the assets transferred in exchange for control of the acquiree, the liabilities assumed, and interests in equity instruments issued by the Company. When the consideration for acquisition exceeds the net fair value of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated statement of financial position. Conversely, when the consideration falls below the net fair value of identifiable assets and liabilities, the difference is immediately recognized as a gain in the consolidated statement of profit or loss.

The Group measures non-controlling interests as the non-controlling interests' proportionate share of the identifiable net assets recognized by the Group. Additional acquisition of non-controlling interests is accounted for as an equity transaction, and therefore, goodwill is not recognized on such transactions.

When the allocation of the purchase price of the business combination is not completed by the end of the fiscal year, the Group reports provisional amounts for those items not yet completed. Thereafter, when it is judged that newly-obtained information regarding facts and circumstances that existed at the date of acquisition of control would have affected the amounts recognized in treatment of the business combination if obtained at the date of acquisition of control, the provisional amounts recognized on the date of acquisition of control are adjusted retrospectively during the measurement period. The measurement period is set to a maximum of one year from the date of acquisition of control.

Transaction costs incurred in connection with the business combination, including financial due diligence expenses, are recognized as expenses as incurred.

Identifiable assets and liabilities of acquirees are measured at fair values as of the acquisition date with the following exceptions:

・Deferred tax assets and liabilities;
・Assets and liabilities related to employee benefit arrangements;
・Assets or disposal groups classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
・Right-of-use asset and lease liabilities recognized in accordance with IFRS 16 "Leases"

(3) Foreign Currency Transactions and Translations

(I) Foreign Currency Transactions

Each company in the Group defines its own functional currency as the currency to be used in the major economic environment in which it operates, and transactions of each company are measured in that functional currency.

For foreign currency transactions recorded at each of the individual financial statements, the daily exchange rate between the foreign currency and the functional currency as of the respective transaction date is used.

Regarding revenues and expenses, average exchange rates are used for translation into Japanese yen as long as changes in rates are not significant.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates as of the end of the fiscal year. Non-monetary assets and liabilities carried at fair values that are denominated in foreign currencies are translated using the rates prevailing at the dates such fair values are determined.

Exchange differences arising in these transactions or settlements are recognized as profits or losses. However, exchange differences derived from financial assets that are measured through other comprehensive income are recognized as other comprehensive income.

(II) Financial Statements of Foreign Operations Translations

Assets and liabilities of foreign operations are translated into Japanese yen at the rates as of the end of the fiscal year, and revenues and expenses are translated at the average exchange rates as long as fluctuations of rates are not significant. Exchange differences arising from the translation of financial statements of foreign operations are recognized as other comprehensive income. Exchange differences on translation of foreign operations are recognized as profit or loss when the foreign operation is disposed of.

(4) Financial Instruments

(I) Financial Assets

(i) Initial Recognition and Measurement

The Group classifies financial assets as financial assets measured at fair value through profit or loss or other comprehensive income, or financial assets measured at amortized cost. This classification is determined at the time of initial recognition.

The Group recognizes a financial asset on the day on which it becomes a party to a contract pertaining to the financial asset.

Except for financial assets classified as measured at fair value through profit or loss, all financial assets are measured at fair value plus transaction costs.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

・The financial assets are held within a business model whose objective is to hold the asset in order to collect contractual cash flows; and
・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

As for equity financial assets measured at fair value, except for equity financial assets held for trading that have to be measured at fair value through profit or loss, the Group designates each equity financial asset as measured at fair value through profit or loss or measured at fair value through other comprehensive income, and continues to apply that designation.

As for debt financial assets measured at fair value, they are classified as debt financial assets measured at fair value through other comprehensive income if the following conditions are met.

- The financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Subsequent Measurement

A financial asset measured after initial recognition is measured as follows in accordance with its classification.

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial Assets Measured at Fair Value

A change in the fair value of a financial asset measured at fair value is recognized as profit or loss with the following exception:

With regard to equity financial assets designated to be measured at fair value through other comprehensive income, changes in their fair values are recognized as other comprehensive income. Dividends from such financial assets are recognized as profit or loss for the year as a part of finance income.

With regard to debt financial assets measured at fair value through other comprehensive income, a change in their fair value, except for impairment gain or loss and foreign exchange gain or loss, is recognized as other comprehensive income until the relevant financial assets are derecognized or reclassified. In derecognizing the said financial assets, other comprehensive income that was previously recognized is reclassified to profit or loss.

(iii) Impairment of Financial Assets

For financial assets measured at amortized cost and debt financial assets measured at fair value through other comprehensive income, a loss allowance for expected credit losses is recognized.

At each fiscal year-end, the Group assesses whether or not the credit risk on each financial asset has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group recognizes a loss allowance at an amount equal to 12-month expected credit losses. On the other hand, if the credit risk has increased significantly since initial recognition, the Group recognizes a loss allowance at an amount equal to the lifetime expected credit losses.

In principle, the credit risk is deemed to have increased significantly if contractual payments are more than 30 days past due. In evaluating whether the credit risk has increased significantly or not, reasonably available and supportable information for the Group (internal rating, external rating, etc.) is taken into account in addition to the past due information.

If, however, the credit risk on a financial asset is judged to be low as of the end of a given period, the credit risk on the financial asset is so evaluated that it has not increased significantly since initial recognition.

For trade receivables that do not contain a significant financing component, however, the Group always recognizes a loss allowance at an amount equal to the lifetime expected credit losses regardless of whether or not the credit risk has increased significantly since initial recognition.

The expected credit losses are measured as the present value of the difference between all contractual cash flows due to an entity under contracts and all cash flows that the entity expects to receive.

The Group estimates the expected credit losses on a financial asset in a way that reflects:

- an unbiased and probability-weighted amount calculated by evaluating a range of possible outcomes
- time value of money
- reasonable and supportable information that is available on the reporting date without undue cost or effort about past events, current conditions and forecasts of future conditions.

Necessary adjustments will be made to the expected credit losses measured as above if the Group is affected by significant economic fluctuations.

If the Group does not have a reasonable expectation of recovering a financial asset in whole or in part, the Group directly reduces the gross carrying amount of financial assets.

The provision of a loss allowance on financial assets is recognized as profit or loss. If an event occurs whereby a loss allowance is reduced, the reversal of a loss allowance is recognized as profit or loss.

(iv) Derecognition of Financial Assets

Financial assets are derecognized only when contractual rights for cash flows generated from a financial asset expire, or when the financial asset is transferred and substantially all the risks and rewards are transferred to another company.

(II) Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are initially recognized when the Group becomes a contractual party and are categorized at the time of initial recognition as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities designated to be measured at fair value through profit or loss

(b) Financial liabilities measured at amortized cost

Those other than financial liabilities measured at fair value through profit or loss

(ii) Subsequent Measurement

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and gains or losses arising from remeasurement are recognized as profit or loss.

(b) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method, and interest expenses are recognized using the effective interest method.

(iii) Derecognition of Financial Liabilities

The Group derecognizes a financial liability only when the financial liability is extinguished, that is, when the liability defined in the contract is discharged, canceled, or expired. When financial liabilities are derecognized, the difference between the book value of the financial liabilities and the consideration paid or to be paid is recognized as profit or loss.

(III) Presentation of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset in the consolidated statement of financial position and presented as a net amount only when the Group is legally entitled to offset the balances and it has an intention to settle in a net basis or to realize the asset and settle the liability simultaneously.

(IV) Derivatives

The Group enters into cross-currency and interest rate swap contracts in order to reduce fluctuation risks of foreign exchange rates and interest rates for long-term borrowings. Derivatives are initially recognized at fair value as of the date when the derivative contract is entered into and is remeasured at fair value as of the end of each fiscal year after initial recognition.

Hedge accounting is not adopted for the derivatives described above.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, deposits, and short-term investments that are readily convertible into cash, are subject to an insignificant risk of changes in value, and have maturities not exceeding three months from the acquisition date.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated selling expenses. Acquisition costs are calculated mainly based on the weighted average cost method and include purchase costs, processing expenses, and all expenses required to bring the inventory to its present location and condition.

(7) Property, Plant and Equipment

Property, plant and equipment are measured at acquisition cost less accumulated depreciation and impairment losses.

Acquisition cost includes the expenses directly associated with acquisition of assets: expenses for dismantlement, removal, and land restoration, and borrowing costs that should be recorded as assets.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over each estimated useful life. Estimated useful lives for major asset items are as follows:

・Buildings and structures 2 to 60 years

・Machinery and vehicles 2 to 17 years

・Tools, furniture and fixtures 1 to 20 years

Estimated useful lives, residual values, and depreciation methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as changes in accounting estimates.

(8) Goodwill and Intangible Assets

(I) Goodwill

The Group measures goodwill at the fair value of consideration, which includes the recognized amount of non-controlling interests in the acquiree measured at the acquisition date, less the net recognized difference between identifiable assets acquired and assumed liabilities at the acquisition date.

Goodwill is not amortized and is tested for impairment at least annually, or more frequently if there is an indication of impairment.

Impairment losses to goodwill are recognized in the consolidated statement of profit or loss and are not reversed thereafter.

Goodwill is recorded at the book value of the acquisition cost less its accumulated impairment losses in the consolidated statement of financial position.

(II) Intangible Assets

Intangible assets acquired separately are measured at acquisition cost at initial recognition.

Customer-related assets acquired in a business combination and recognized separately from goodwill are recorded as intangible assets at fair value at the date of acquisition.

Intangible assets, except for intangible assets with indefinite useful lives, are amortized using the straight-line method over each estimated useful life after initial recognition, and are recorded at the book value less accumulated depreciation and accumulated impairment losses. Useful lives for customer-related assets are estimated on the basis of the transition of past sales by customers, future business plans, etc. Estimated useful lives for major intangible assets are as follows. There are no intangible assets with indefinite useful lives.

・Software 2 to 10 years

・Customer-related assets 2 to 15 years

The estimated useful lives, residual values, and amortization methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as changes in accounting estimates.

(9) Leases

Prior to January 1, 2019, leases with risks and rewards incidental to ownership of the assets that are substantially all transferred to the Group are classified as finance leases, and other leases are classified as operating leases.

Lease assets in finance lease transactions are initially recognized at the lower of the fair value of the leased property calculated on the commencement date of the lease and the present value of the total minimum lease payments. After initial recognition, depreciation is carried out over the shorter number of years of the estimated useful life and the lease term based on the accounting policy applied to the asset.

Lease payments are allocated to finance costs and repayment of lease liabilities based on the interest method, and finance costs are recognized in the consolidated statement of profit or loss.

For operating lease transactions, lease payments are recognized as costs in the consolidated statement of profit or loss using the straight-line method over the term of the lease. In addition, variable lease payments are recognized as expenses during the period in which they occurred.

Effective January 1, 2019, upon obtaining each contract, the Group determines whether the contract is a lease or contains a lease. A contract is determined to be or contain a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If a contract is determined to be or contain a lease, a right-of-use asset and lease liabilities are recognized on the commencement date of the lease. Lease liabilities are measured at the present value of remaining lease payments, and a right-of-use asset is measured at cost consisting of the amount of the initial measurement of the lease liabilities adjusted by lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and the costs to be incurred by the lessee in restoring the underlying asset to the condition required by the terms and conditions of the lease or performing other required actions.

After initial recognition, the right-of-use asset is depreciated using the straight-line method over the shorter number of years of the useful life and the lease term.

Lease payments are allocated to finance costs and repayment of lease liabilities based on the interest method, and finance costs are recognized in the consolidated statement of profit or loss.

For short-term leases with a lease term of 12 months or less and leases of low-value underlying assets, however, right-of-use assets and lease liabilities are not recognized, and lease payments are recognized as an expense on either a straight-line basis or another systematic basis over the lease term.

(10) Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets excluding inventories and deferred tax assets are determined by whether there is an indication of impairment at the end of each period. If there is an indication of impairment, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives or intangible assets not yet available for use is estimated at the same time every year.

The recoverable amount of an asset or cash-generating unit is the greater of the value in use and fair value less cost to sell. In calculating the value in use, estimated future cash flows are discounted to present value using the time value of money and the pre-tax discount rate that reflects the risks specific to the asset. Assets that are not individually tested for impairment are consolidated into the smallest cash-generating unit that generates largely independent cash inflows from cash inflows of other assets or asset groups by continued use. In testing goodwill for impairment, cash-generating units to which goodwill is allocated are integrated so that testing for impairment reflects the smallest unit to which goodwill is allocated. Goodwill acquired in business combinations is allocated to the cash-generating units expected to obtain synergies from the combination.

The Group's corporate assets do not generate independent cash inflows. If there is an indication of impairment in a corporate asset, the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

Impairment losses are recognized in profit or loss when the book value of the asset or the cash-generating unit exceeds the estimated recoverable amount. Impairment losses recognized in relation to the cash-generating unit are allocated so that the book value of goodwill that was allocated to the unit is reduced first, and then the book values of other assets within the cash-generating unit are reduced proportionally.

Impairment losses associated with goodwill are not reversed. Regarding other assets, impairment losses recognized in the past are assessed for whether there is an indication of reduction or expiration of loss at the end of each period. In the event that the estimate used to determine the recoverable amount changes, the impairment losses are reversed. Impairment losses are reversed up to the amount not exceeding the book value without recognition of the impairment losses after the deduction of the necessary depreciation and amortization.

(11) Employee Benefits

(I) Post-employment Benefits

The Group operates a defined benefit plan and a defined contribution plan as retirement benefit plans for employees.

The Group calculates the present value of the defined benefit obligation and the associated current and past service costs using the projected unit credit method.

The discount rate is calculated by setting the discount period based on the period until the prospective benefit payment dates in each future fiscal year, and based on the market yield for high-grade bonds at the end of the period corresponding to the discount period.

Liabilities for the defined benefit plan are calculated by deducting the fair value of plan assets (with the effect of asset ceilings taken into account where necessary) from the present value of the defined benefit obligation and adjusting the remeasurements of the defined benefit retirement plans. Furthermore, interest expenses and interest income are booked as cost of sales and selling, general and administrative expenses.

Remeasurements of defined benefit plans are recognized initially as other comprehensive income in the period in which they occurred, and are reclassified to retained earnings from other capital components when they occur.

Prior service cost is treated as profits or losses in the period of occurrence when such benefits have already vested upon introduction of the defined benefit plan or immediately after the change.
Costs related to defined contribution retirement benefits are recognized as costs over the duration in which employees provide services.

(II) Short-term Employee Benefits
Short-term employee benefits are recorded as expenses when employees provide relevant services.
Bonuses and paid absences cost are processed by treating the future benefit amounts to be paid under respective plans as liabilities, provided that legal or constructive obligations to be paid for services provided by employees in prior and the current fiscal years are assumed, and the amounts can be reliably estimated.

(12) Share-based Payments
The Company has adopted a share option plan as an equity-settled share-based payment plan. Share options are recognized in the consolidated statement of profit or loss as expenses over the vesting period, taking into account the estimated fair value at the grant date and the number of share options expected to ultimately vest, and the same amount is recognized as an increase in equity in the consolidated statement of financial position. Fair value of the options granted is calculated using the Black-Scholes Model, taking into consideration the condition of the options. Conditions are reviewed periodically, and the estimated number of options to vest is amended as required.

(13) Provisions
Provisions are recognized if the Group assumes legal or constructive obligations in the present as the result of past events, it is probable that outflows of economic resources will be required to settle said obligations, and the amount of the obligations can be reliably estimated. Provisions discount estimated future cash flows to present value using the time value of money and pretax interest rate that reflects risks specific to the liability. Unwinding of the discount amount associated with the passage of time is recognized as finance costs.
・Asset retirement obligations
Asset retirement obligations are recorded for the estimated restoration cost for a rental office that requires restoration to its original condition at the end of the lease contract.

(14) Revenue
The Group has recognized revenue by applying the following steps to contracts with customers, except for interest, dividends income, etc., to which IFRS 9 "Financial Instruments" applies.
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
In addition, such a portion of incremental costs of obtaining a contract with a customer and directly related costs to fulfill a contract that is expected to be recoverable have been recognized as assets (hereinafter referred to as "assets recognized from contract costs"). The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer and that it would not have incurred if the contract had not been obtained. Assets recognized from contract costs are amortized using the straight-line method over the expected period of contracts with customers.
In the business model of dispatching, the performance obligation is to supply workers over the contract term, and this performance obligation is satisfied with the lapse of working hours over the contract term. Revenue is recorded monthly on the basis of the amount specified in the temporary worker dispatching contract during the period in which the performance obligation is satisfied.
The consideration for the transactions is paid mostly within 2 months from the end of each month.
Since, in the business model of contracting, the performance obligation is basically to complete the work outsourced by a customer by the end of the contract term, it is determined to be at the time the outsourced work is completed and inspected upon receipt by the customer that the performance obligation is satisfied. Revenue is thus recorded at that point on the basis of the amount specified in the outsourcing contract.
In addition, whereas, construction contracts are offered for some services in the Domestic Service Operations Outsourcing Business, which are based on the contracting business model, such as services to U.S. military facilities and other governmental agencies, the performance obligation in such a transaction is judged to be satisfied with the achievement of milestones in construction during the contract term.
Under the relevant contract, the Group is contractually restricted to transfer construction items to another customer and has an enforceable right to receive payment for the work completed. For this reason, revenues from construction items are recognized by using the cost-to-cost method over a certain period of time (namely, based on the proportion of the contract cost incurred for the work completed to date to the total estimated contract cost). At the point of time at which a specific milestone is achieved, the statement of work signed by a third party assessor and the invoice for the payment for the milestone will be sent to the customer.
The Group recognizes contract assets for the work performed in advance. The amount recognized in advance as contract assets is reclassified to trade receivables at the time the customer is billed.
If the milestone payment exceeds revenues recognized to date by the cost-to-cost method, the Group recognizes contract liabilities for the difference. Since the period from the recognition of revenues by the cost-to-cost method to the milestone payment is less than 1 year, a significant financing component is not considered to exist in a construction contract with a customer.
The consideration for the transactions is paid mostly within 2 months from the inspection upon receipt by the customer.
Since, in the business model of recruiting service, the performance obligation is recruiting outsourcing for human resources to be directly employed by the customer, it is determined to be at the time when the introduced person starts working as

an employee of the entity to which he/she is placed that the performance obligation is satisfied. Revenue is thus recorded at that point of time. Since it is provided that a part of consideration be refunded to the customer if the introduced person leaves his/her job within a certain guarantee period specified in the contract, the amount equivalent to the refund is recognized as refund liabilities. Revenue is recorded on the basis of the consideration specified in the contract less refund liabilities. Liabilities pertaining to refund are estimated on the basis of the refund rate based on the past track record and other information, and revenue is recognized only within the range in which it is highly likely that no significant reversal occurs.
The consideration for the transactions is paid mostly within 2 months from the time when the introduced person starts working, at such point the performance obligation had been satisfied.

(15) Income Taxes
Income tax expenses consist of current and deferred tax. These are recognized as profits or losses, excluding items related to business combination and items recognized directly in equity or other comprehensive income.
Current tax is measured as the amount expected to be paid to or refunded from the taxation authorities. Calculation of tax amounts is made in compliance with tax rates and tax laws that have been enacted or substantially enacted at the end of the fiscal year in countries where the Group conducts business activities and achieves taxable profits and losses.
Deferred taxes are recognized in relation to temporary differences between accounting book values of assets and liabilities on the account closing date and amounts for tax purposes, and unused tax losses and tax credit carryforwards.
Deferred tax assets and liabilities are not booked for the following temporary differences:

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from initial recognition of assets and liabilities arising from transactions that affect neither accounting profit nor taxable profit, excluding business combination transactions; and
- Taxable temporary differences related to investments in subsidiaries and associates and interests in arrangements that are controlled jointly of which the timing of reversal can be controlled and for which it is unlikely that the temporary differences will reverse in the foreseeable future.

In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.
The book value of deferred tax assets is reviewed every fiscal year, and if it is probable that taxable profits will not be available against the entire amount or partial amount of deferred tax assets, the book value is reduced accordingly. Unrecognized deferred tax assets are reviewed every fiscal year, and are recognized to the extent that it becomes probable that deferred tax assets will be recovered by future taxable profit.
Deferred tax assets and liabilities are measured under tax rates and tax laws that are expected to apply to periods when the assets are realized or liabilities are settled based on statutory tax rates and tax laws that have been enacted or substantially enacted at the end of the fiscal year.
Deferred tax assets and liabilities are offset if legally enforceable rights to offset current tax assets and current tax liabilities are held, and they are levied by the same taxation authority on the same taxable entity.

(16) Earnings per Share
Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share are calculated by adjusting the impact of all potential shares that have dilutive effect.

(17) Operating Segments
An operating segment is a component of business activities which earns income and incurs expenses, including transactions with other operating segments. Business results of all operating segments are those for which financial information is separately available, and the Company’s Board of Directors periodically conducts reviews for allocation of management resources and performance evaluation.

(18) Non-current Assets Held for Sale
Among assets and asset groups for which recovery is expected to arise from sale rather than continuing use, if it is very highly probable that such an asset will be sold within one year and it is available for immediate sale in its present condition, and the Group’s management is committed to sell, it is classified in the non-current assets held for sale and disposal group, it is not depreciated or amortized, and it is measured at the lower of book value or fair value less selling expenses.

(19) Treasury Shares
Treasury shares are valued at acquisition cost and deducted from equity. The Company does not recognize any gain or loss on the purchase, sale, or cancellation of its treasury shares. The difference between book value and consideration at the time of sale is recognized as other capital surplus.

(20) Measurement of Fair Value
Certain assets and liabilities are required to be recorded at fair value. Fair value of these assets and liabilities is determined based on market information including market prices, and calculation methods including the market approach, the income approach, and the cost approach.
Inputs used in measuring fair value are classified into the following three levels:

Level 1: Market prices of identical assets or liabilities in active markets
Level 2: Fair value calculated directly or indirectly using observable prices other than Level 1
Level 3: Fair value calculated from valuation techniques including unobservable inputs

5. New Standards Not Yet Adopted

There are no standards and interpretation guidelines having material impacts whose issuance or revision had been disclosed by the approval date of the consolidated financial statements which the Group has not adopted early.

6. Segment Information

(1) Overview of Reportable Segments

The reportable segments of the Group are its components for which discrete financial information is available and which are subject to periodical assessments by the Board of Directors to determine allocation of management resources and evaluate performance.

The Group consists of segments categorized by description of business, with five reportable segments, namely “Domestic Engineering Outsourcing Business,” “Domestic Manufacturing Outsourcing Business,” “Domestic Service Operations Outsourcing Business,” “Overseas Engineering Outsourcing Business,” and “Overseas Manufacturing and Service Operations Outsourcing Business.”

Major operations in each segment are as follows:

Domestic Engineering Outsourcing Business:

Subsidiaries of the Company provide services to offer sophisticated technologies and know-how to assist manufacturers in their design/development and experiment/evaluation processes; development of telecommunication-related applications for websites, smartphones and the like, and e-commerce websites; various solution services for and development of foundational IT systems and infrastructure networks; outsourcing services for research and development operations specializing in medical and chemical-related areas; services to offer expertise and know-how to management, as well as operation of construction plans and design planning, construction, management, and the like for various plants; and operates IT schools.

Domestic Manufacturing Outsourcing Business:

The Company and its subsidiaries offer services to realize better production efficiencies through provision of production technologies and management know-how in response to manufacturers’ needs for outsourcing manufacturing operations. In addition, the Company and its subsidiaries offer comprehensive consignment services covering everything from outsourcing for the recruiting of fixed-term employees to be directly employed by customers (recruiting service), administrative work outsourcing, including labor management and housing management for fixed-term employees, foreign technical interns, international students, etc., and job hunting support for employees whose employment terms have expired.

Domestic Service Operations Outsourcing Business:

Subsidiaries of the Company offer services to government offices, such as U.S. military facilities, and services to convenience stores, call centers, etc.

Overseas Engineering Outsourcing Business:

Overseas subsidiaries of the Company offer dispatch services for IT engineers and finance-related experts mainly in Europe and Australia.

Overseas Manufacturing and Service Operations Outsourcing Business:

Overseas subsidiaries of the Company offer human resource services for manufacturing-related production outsourcing, dispatching and recruiting of personnel for administrative and service-related work, and payroll services in Asia, South America, Europe, etc. In addition, they offer BPO services and temporary worker dispatching for public institutions in Europe and Australia as well as cross-border employment services in Europe and Asia.

Other Businesses:

Subsidiaries of the Company undertake the development, manufacturing, and marketing of products, as well as outsourcing service operations, etc.

(2) Segment Revenues and Results

Revenues and results by reportable segment are as follows:

Methods of accounting processes for reported operating segments are largely the same as those stated in “4. Significant Accounting Policies,” and prices applied to internal transactions among segments are based on prevailing market prices.

Segment profit figures are based on operating profits.

For the Year ended December 31, 2018

	Reportable segment					
	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Revenue						
Revenue from external customers	72,434	62,302	18,003	36,570	121,564	310,873
Intersegment revenue (Note 3)	1,204	1,509	229	162	1,094	4,198
Total	73,638	63,811	18,232	36,732	122,658	315,071
Cost of sales and other income (expenses)	(66,390)	(56,517)	(16,861)	(35,049)	(120,435)	(295,252)
Segment profit (Operating profit)	7,248	7,294	1,371	1,683	2,223	19,819
(Reconciling items)						
Finance income	–	–	–	–	–	–
Finance costs	–	–	–	–	–	–
Profit before tax	–	–	–	–	–	–
Income tax expense	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	–
Segment assets	34,764	121,334	11,879	22,453	74,846	265,276
Capital expenditures	1,069	410	28	319	718	2,544
Depreciation and amortization	431	848	261	417	1,713	3,670
Impairment Losses	–	–	–	–	721	721

	Other Businesses (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Revenue				
Revenue from external customers	438	311,311	–	311,311
Intersegment revenue (Note 3)	479	4,677	(4,677)	–
Total	917	315,988	(4,677)	311,311
Cost of sales and other income (expenses)	(864)	(296,116)	(604)	(296,720)
Segment profit (Operating profit)	53	19,872	(5,281)	14,591
(Reconciling items)				
Finance income	–	–	–	66
Finance costs	–	–	–	(2,102)
Profit before tax	–	–	–	12,555
Income tax expense	–	–	–	(4,253)
Profit for the year	–	–	–	8,302
Segment assets	619	265,895	(79,754)	186,141
Capital expenditures	14	2,558	–	2,558
Depreciation and amortization	2	3,672	–	3,672
Impairment losses	–	721	–	721

(Note 1) The category “other businesses” is an operating segment not included in reportable segments and is engaged in development, manufacture and sale of products, and administrative outsourcing service business and the like at subsidiaries of the Company.

(Note 2) The adjustment of segment profit of ¥(5,281) million includes acquisition-related cost related to business combinations of ¥(782) million, corporate expenses of ¥(4,707) million, profits or losses not allocated to any specific operating segment, and elimination of intersegment transactions.
The adjustment of segment assets of ¥(79,754) million is mainly related to shares of subsidiaries and associates held by the Group.

(Note 3) Intersegment revenues are based on prevailing market prices.

For the Year ended December 31, 2019

	Reportable segment					
	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Revenue						
Revenue from external customers	91,367	70,530	20,569	43,866	134,208	360,540
Intersegment revenue (Note 3)	1,823	1,296	89	147	1,619	4,974
Total	93,190	71,826	20,658	44,013	135,827	365,514
Cost of sales and other income (expenses)	(86,197)	(64,472)	(18,502)	(41,549)	(133,274)	(343,994)
Segment profit (Operating profit)	6,993	7,354	2,156	2,464	2,553	21,520
(Reconciling items)						
Finance income	–	–	–	–	–	–
Finance costs	–	–	–	–	–	–
Investment gain on equity method	–	–	–	–	–	–
Profit before tax	–	–	–	–	–	–
Income tax expense	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	–
Segment assets (Note 4)	61,356	143,755	14,053	31,598	82,897	333,659
Capital expenditures	701	1,039	64	174	1,009	2,987
Depreciation and amortization (Note 5)	2,008	2,049	483	886	5,160	10,586
Impairment Losses	–	–	–	162	219	381

	Other Businesses (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Revenue				
Revenue from external customers	709	361,249	–	361,249
Intersegment revenue (Note 3)	892	5,866	(5,866)	–
Total	1,601	367,115	(5,866)	361,249
Cost of sales and other income (expenses)	(1,513)	(345,507)	(241)	(345,748)
Segment profit (Operating profit)	88	21,608	(6,107)	15,501
(Reconciling items)				
Finance income	–	–	–	697
Finance costs	–	–	–	(2,780)
Investment gain on equity method	–	–	–	60
Profit before tax	–	–	–	13,478
Income tax expense	–	–	–	(4,383)
Profit for the year	–	–	–	9,095
Segment assets (Note 4)	842	334,501	(95,322)	239,179
Capital expenditures	29	3,016	–	3,016
Depreciation and amortization (Note 5)	176	10,762	–	10,762
Impairment Losses	–	381	–	381

(Note 1) The category “other businesses” is an operating segment not included in reportable segments and is engaged in development, manufacture and sale of products, and administrative outsourcing service business and the like at subsidiaries of the Company.

(Note 2) The adjustment of segment profit of ¥(6,107) million includes acquisition-related cost related to business combinations of ¥(295) million, corporate expenses of ¥(5,929) million, profits or losses not allocated to any specific operating segment, and elimination of intersegment transactions.
The adjustment of segment assets of ¥(95,322) million is mainly related to shares of subsidiaries and associates held by the Group.

(Note 3) Intersegment revenues are based on prevailing market prices.

(Note 4) Segment assets include right-of-use assets and lease receivables recognized as a result of the initial adoption of IFRS 16, which respectively amounted to ¥12,024 million in domestic engineering outsourcing business, ¥13,015 million in domestic manufacturing outsourcing business, ¥905 million in domestic service operations outsourcing business, ¥1,997 million in overseas engineering outsourcing business, ¥8,152 million in overseas manufacturing and service operations outsourcing business, and ¥3 million in other businesses.

(Note 5) Depreciation and amortization include depreciation recognized as a result of the initial adoption of IFRS 16, which respectively amounted to ¥1,411 million in domestic engineering outsourcing business, ¥1,377 million in domestic manufacturing outsourcing business, ¥301 million in domestic service operations outsourcing business, ¥295 million in overseas engineering outsourcing business, ¥3,506 million in overseas manufacturing and service operations outsourcing business, and ¥171 million in other businesses.

(3) Information about Products and Services

Descriptions are omitted because the categories of products and services are identical to reportable segments.

(4) Geographical Information

The breakdown of revenues and non-current assets by region are as follows.
Asia (excluding Japan) mainly consists of Thailand, India, and Malaysia.
Oceania mainly consists of the Commonwealth of Australia.
Europe mainly consists of the United Kingdom, Germany, and the Netherlands.
South America mainly consists of the Republic of Chile.

Revenue from External Customers

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Japan	153,177	183,175
Asia (excluding Japan)	16,876	13,397
Oceania	44,450	49,238
Europe (Note 3)	89,655	106,650
South America	7,153	8,789
Total	311,311	361,249

(Note 1) Intersegment transactions are offset.
(Note 2) Amounts given above do not include consumption taxes.
(Note 3) Of revenue from Europe for the previous fiscal year, revenues from the United Kingdom, Germany and the Netherlands account for ¥18,918 million, ¥40,573 million and ¥24,570 million, respectively, and for the current fiscal year, revenues from the United Kingdom, Germany and the Netherlands account for ¥26,387 million, ¥36,144 million and ¥34,705 million, respectively.

Non-current assets

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Japan	25,266	33,120
Asia (excluding Japan)	1,974	2,939
Oceania	10,195	13,003
Europe (Note 2)	43,296	51,539
South America	2,617	3,442
Total	83,348	104,043

(Note 1) Non-current assets are presented by location of the assets and do not include financial assets, deferred tax assets, retirement benefit assets and rights from insurance contracts.
(Note 2) Of non-current assets in Europe for the previous fiscal year, non-current assets in the United Kingdom, Germany and the Netherlands account for ¥22,109 million, ¥8,899 million and ¥12,288 million, respectively, and for the current fiscal year, non-current assets in the United Kingdom, Germany and the Netherlands account for ¥27,965 million, ¥9,943 million and ¥13,631 million, respectively.

(5) Information about Major Customers

Descriptions are omitted because there are no customers which account for 10% or more of revenue presented in the consolidated statement of profit or loss.

7. Business Combinations

For the Year ended December 31, 2018

(Acquisition of Companies through Acquisition of Shares)

On January 4, 2018, OUTSOURCING TECHNOLOGY Inc., a consolidated subsidiary, acquired 90.0% of shares of GLocal Co., Ltd. and converted the company to a subsidiary.

On May 2, 2018, OSI Netherlands Holdings B.V., a consolidated subsidiary, acquired 56.0% of shares of OTTO Holding B.V. and converted the company to a subsidiary.

On August 3, 2018, the Company acquired 100.0% of shares of Advantec Co., Ltd. and converted the company to a subsidiary.

On August 31, 2018, the Company acquired 82.5% of shares of ALLEN LANE TOPCO LIMITED and converted the company to a subsidiary.

On September 3, 2018, OUTSOURCING OCEANIA HOLDINGS PTY LIMITED, a consolidated subsidiary, acquired 100.0% of shares of PROJECT MANAGEMENT PARTNERS PTY LIMITED and converted the company to a subsidiary.

1 Acquisition of GLocal Co., Ltd.

(1) Outline of Business Combination

(i) Name, Description of Business, and Location of the Acquiree

Name of acquiree	GLocal Co., Ltd.
Description of business	Temporary worker dispatching business, operation contracting, design, and commissioned development / recruitment consulting business
Location	Yokohama-shi, Kanagawa

(ii) Major Reason for the Business Combination

To expand the Engineering Outsourcing Business by leveraging the infrastructure of the company.

(iii) Date of Business Combination

January 4, 2018

(iv) Legal Form of Business Combination

Acquisition of shares

(v) Name of Company After Combination

Name of the company was not changed after the combination.

(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	90.0%
Voting right ratio after the acquisition	90.0%

(vii) Main Basis for Determination of Acquirer

OUTSOURCING TECHNOLOGY Inc., a consolidated subsidiary of the Company, owns 90.0% of the voting rights of GLocal Co., Ltd., as a result of share acquisition for consideration in cash. Therefore, according to the business combination accounting rules, OUTSOURCING TECHNOLOGY Inc. is the acquirer and GLocal Co., Ltd. is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	1,152
Total	1,152

Acquisition-related costs of ¥70 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥856 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of GLocal Co., Ltd. as of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note 1)	445
Non-current assets	79
Customer-related assets	207
Total assets	731
Current liabilities	339
Non-current liabilities (Note 2)	63
Total liabilities	402
Non-controlling interests (Note 3)	33
Parent’s equity	296

(Note 1) The main component of current assets is trade and other receivables of ¥235 million.
(Note 2) Non-current liabilities include deferred tax liabilities of ¥63 million.
(Note 3) Non-controlling interests are measured by multiplying identifiable net assets by the non-controlling interests ratio.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	236
Best estimate of contractual cash flows not expected to be collected	(1)
Fair value of trade receivables	235

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥2,159 million and profit for the year of ¥107 million accrued after the acquisition date.

2 Acquisition of OTTO GROUP

(1) Outline of Business Combination

(i) Names, Descriptions of Businesses, and Locations of the Acquiree and Its Subsidiary

Name of acquiree	OTTO Holding B.V.
Description of business	Holding company
Location	Keizersveld 51, 5803 AP, Venray, the Netherlands
Name of acquiree’s subsidiary	OTTO Work Force B.V.
Description of business	Staffing solution
Location	Keizersveld 51, 5803 AP, Venray, the Netherlands

In addition to the above, the acquiree has 37 other subsidiaries.

(ii) Major Reason for the Business Combination

To establish a human resource network in Europe, and through promoting cross-border mobility of human resources, accelerate business expansion not only in Europe but on a global scale.

(iii) Date of Business Combination

May 2, 2018

(iv) Legal Form of Business Combination

Acquisition of shares

(v) Name of Company After Combination

Name of the company was not changed after the combination.

(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	56.0%
Voting right ratio after the acquisition	56.0%

(vii) Main Basis for Determination of Acquirer

OSI Netherlands Holdings B.V., a consolidated subsidiary of the Company, owns 56.0% of the voting rights of OTTO Holding B.V., as a result of share acquisition for consideration in cash. Therefore, according to the business combination accounting rules, OSI Netherlands Holdings B.V. is the acquirer and OTTO Holding B.V. is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	8,795
Total	8,795

Acquisition-related costs of ¥207 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥5,198 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of OTTO GROUP as of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note 2)	9,782
Non-current assets	1,462
Customer-related assets and others	6,234
Total assets	17,478
Current liabilities	8,977
Non-current liabilities (Note 3)	2,077
Total liabilities	11,054
Non-controlling interests (Note 4)	2,827
Parent's equity	3,597

(Note 1) Revision to provisional acquisition cost
The consideration of the acquisition is allocated to acquired assets and assumed liabilities based on the fair value on the date of acquisition of control. The allocation of the consideration of the acquisition was completed in the second quarter ended June 30, 2019. The main revisions to initial provisional amounts were an increase of ¥6,234 million in intangible assets, ¥1,559 million in deferred tax liabilities and ¥2,057 million in non-controlling interests.

(Note 2) The main component of current assets is trade and other receivables of ¥8,683 million.

(Note 3) Non-current liabilities include deferred tax liabilities of ¥1,591 million.

(Note 4) Non-controlling interests are measured by multiplying identifiable net assets by the non-controlling interests ratio.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	8,795
Best estimate of contractual cash flows not expected to be collected	(112)
Fair value of trade receivables	8,683

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥31,382 million and profit for the year of ¥507 million accrued after the acquisition date. Furthermore, assuming the business combination had been completed on January 1, 2018, the beginning of the previous fiscal year, OTTO GROUP's revenue and profit for the previous fiscal year would be ¥43,644 million (unaudited) and ¥706 million (unaudited), respectively.

3 Acquisition of Advantec Group

(1) Outline of Business Combination

(i) Names, Descriptions of Businesses, and Locations of the Acquiree and Its Subsidiary

Name of acquiree	Advantec. Co., Ltd.
Description of business	Temporary worker dispatching business, recruiting and placing businesses, and human resources training business
Location	Osaka-shi, Osaka
Name of acquiree's subsidiary	Advantec Kensyu Center Co., Ltd.
Description of business	Human resources training business
Location	Osaka-shi, Osaka

(ii) Major Reason for the Business Combination

To enhance the foundation of the Group's businesses in the pharmaceutical area.

(iii) Date of Business Combination

August 3, 2018

(iv) Legal Form of Business Combination

Acquisition of shares

(v) Name of Company After Combination

Name of the company was not changed after the combination.

(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	100.0%
Voting right ratio after the acquisition	100.0%

(vii) Main Basis for Determination of Acquirer

The Company owns 100.0% of the voting rights of Advantec Co., Ltd. through share acquisition for consideration in cash. Therefore, according to the business combination accounting rules, the Company is the acquirer and Advantec Co., Ltd. is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	1,984
Total	1,984

Acquisition-related costs of ¥18 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥1,420 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of Advantec Group of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note 2)	748
Non-current assets	197
Customer-related assets	461
Total assets	1,406
Current liabilities	663
Non-current liabilities (Note 3)	179
Total liabilities	842
Parent's equity	564

(Note 1) Revision to provisional acquisition cost

The consideration of the acquisition is allocated to acquired assets and assumed liabilities based on the fair value on the date of acquisition of control. The allocation of the consideration of the acquisition was completed in the third quarter ended September 30, 2019. The main revisions to initial provisional amounts were an increase of ¥461 million in intangible assets and ¥141 million in deferred tax liabilities, respectively.

(Note 2) The main component of current assets is trade and other receivables of ¥406 million.

(Note 3) Non-current liabilities include deferred tax liabilities of ¥153 million.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	406
Fair value of trade receivables	406

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥1,461 million and profit for the year of ¥79 million accrued after the acquisition date. Furthermore, assuming the business combination had been completed on January 1, 2018, the beginning of the previous fiscal year, the Advantec Group's revenue and profit for the previous fiscal year would be ¥3,513 million (unaudited) and ¥124 million (unaudited), respectively.

4 Acquisition of ALLEN LANE GROUP

(1) Outline of Business Combination

(i) Names, Descriptions of Businesses, and Locations of the Acquiree and Its Subsidiary

Name of acquiree	ALLEN LANE TOPCO LIMITED
Description of business	Holding company
Location	Acre House, 11–15 William Road, London, NW1 3ER, United Kingdom
Name of acquiree's subsidiary	ALLEN LANE LIMITED
Description of business	Temporary worker dispatching business, etc.
Location	Acre House, 11–15 William Road, London, NW1 3ER, United Kingdom

(ii) Major Reason for the Business Combination

To accelerate both stabilization and expansion of the Group's businesses.

(iii) Date of Business Combination

August 31, 2018

(iv) Legal Form of Business Combination

Acquisition of shares

(v) Name of Company After Combination

Name of the company was not changed after the combination.

(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	82.5%
Voting right ratio after the acquisition	82.5%

(vii) Main Basis for Determination of Acquirer

The Company owns 82.5% of the voting rights of ALLEN LANE TOPCO LIMITED through share acquisition for consideration in cash. Therefore, according to the business combination accounting rules, the Company is the acquirer and ALLEN LANE TOPCO LIMITED is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	3,010
Total	3,010

Acquisition-related costs of ¥102 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥2,481 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of ALLEN LANE GROUP as of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note 2)	609
Non-current assets	51
Customer-related assets	456
Total assets	1,116
Current liabilities	397
Non-current liabilities (Note 3)	78
Total liabilities	475
Non-controlling interests (Note 4)	112
Parent's equity	529

(Note 1) Revision to provisional acquisition cost
The consideration of the acquisition is allocated to acquired assets and assumed liabilities based on the fair value on the date of acquisition of control. The allocation of the consideration of the acquisition was completed in the third quarter ended September 30, 2019. The main revisions to initial provisional amounts were an increase of ¥456 million in intangible assets and ¥78 million in deferred tax liabilities, respectively.

(Note 2) The main component of current assets is trade and other receivables of ¥361 million.

(Note 3) Non-current liabilities include deferred tax liabilities of ¥78 million.

(Note 4) Non-controlling interests are measured by multiplying identifiable net assets by the non-controlling interests ratio.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	361
Fair value of trade receivables	361

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥2,802 million and profit for the year of ¥73 million accrued after the acquisition date. Furthermore, assuming the business combination had been completed on January 1, 2018, the beginning of the previous fiscal year, ALLEN LANE GROUP's revenue and profit for the previous fiscal year would be ¥8,285 million (unaudited) and ¥225 million (unaudited), respectively.

5 Acquisition of PM-P GROUP

(1) Outline of Business Combination

(i) Names, Descriptions of Businesses, and Locations of the Acquiree and Its Subsidiary

Name of acquiree	PROJECT MANAGEMENT PARTNERS PTY LIMITED
Description of business	Provision of business improvement consulting, corporate training services, etc.
Location	Level2 228 Pitt Street SYDNEY NSW 2000 AUSTRALIA
Name of acquiree's subsidiary	PM–PARTNERS SINGAPORE PTE. LTD.
Description of business	Provision of business improvement consulting, corporate training services, etc.
Location	20 BENDEMEER ROAD #03–12 BS BENDEMEER CENTRE SINGAPORE

(ii) Major Reason for the Business Combination

To collaborate with existing Group companies in Oceania providing IT human resources service in that area, including mutual customer referral, utilize human resources effectively and enhance recruiting capacity through branding, as well as to start operations in consultancy and advisory service areas in Australia.

(iii) Date of Business Combination

September 3, 2018

(iv) Legal Form of Business Combination

Acquisition of shares

(v) Name of Company After Combination

Name of the company was not changed after the combination.

(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	100.0%
Voting right ratio after the acquisition	100.0%

(vii) Main Basis for Determination of Acquirer

OUTSOURCING OCEANIA HOLDINGS PTY LIMITED, a consolidated subsidiary of the Company, owns 100.0% of the voting rights of PROJECT MANAGEMENT PARTNERS PTY LIMITED, as a result of share acquisition for consideration in cash and accounts payable. Therefore, according to the business combination accounting rules, OUTSOURCING OCEANIA HOLDINGS PTY LIMITED is the acquirer and PROJECT MANAGEMENT PARTNERS PTY LIMITED is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	2,245
Accounts payable (Note)	840
Total	3,085

(Note) Accounts payable are contingent considerations. Per contract, contingent considerations will be paid in accordance with results achieved by the acquiree in 2019, with no upper limit set for their payment. Contingent considerations are calculated by taking into account the estimated future results and the time value of money.

Acquisition-related costs of ¥37 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥2,395 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of PM-P GROUP as of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note 1)	1,280
Non-current assets	21
Customer-related assets and others	832
Total assets	2,133
Current liabilities	1,192
Non-current liabilities (Note 2)	251
Total liabilities	1,443
Parent's equity	690

(Note 1) The main component of current assets is trade and other receivables of ¥1,154 million.
(Note 2) Non-current liabilities include deferred tax liabilities of ¥251 million.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	1,170
Best estimate of contractual cash flows not expected to be collected	(16)
Fair value of trade receivables	1,154

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥2,083 million and profit for the year of ¥94 million accrued after the acquisition date. Furthermore, assuming the business combination had been completed on January 1, 2018, the beginning of the previous fiscal year, PM-P GROUP's revenue and profit for the previous fiscal year would be ¥6,461 million (unaudited) and ¥337 million (unaudited), respectively.

For the Year ended December 31, 2019
(Acquisition of Companies through Acquisition of Shares)
On May 1, 2019, J.B.W. GROUP LIMITED, a consolidated subsidiary, acquired 100.0% of shares of RUNDLE & CO. LIMITED and converted the company into a subsidiary.

1 Acquisition of RUNDLE & CO. LIMITED
(1) Outline of Business Combination
(i) Name, Description of Business, and Location of the Acquiree

Name of acquiree	RUNDLE & CO. LIMITED
Business description	Collection and enforcement of local taxes, road user taxes, etc. for local governments in the U.K.
Location	53 Northampton Road, Market Harborough, Leicestershire, LE16 9HB

(ii) Major Reason for the Business Combination
To accelerate both stabilization and expansion of the Group's businesses.
(iii) Date of Business Combination
May 1, 2019
(iv) Legal Form of Business Combination
Acquisition of shares
(v) Name of Company After Combination
Name of the company was not changed after the combination.
(vi) Acquired Voting Right Ratio

Voting right ratio the Company owned immediately before the share acquisition	0%
Voting right ratio the Company acquired on the date of business combination	100.0%
Voting right ratio after the acquisition	100.0%

(vii) Main Basis for Determination of Acquirer
J.B.W. GROUP LIMITED, a consolidated subsidiary of the Company, owns 100.0% of the voting rights of RUNDLE & CO. LIMITED, as a result of share acquisition for consideration in cash and accounts payable. Therefore, according to the business combination accounting rules, J.B.W. GROUP LIMITED is the acquirer and RUNDLE & CO. LIMITED is the acquiree.

(2) Consideration Transferred

	Amount
	Millions of yen
Cash and cash equivalents	3,043
Accounts payable (Note)	145
Total	3,188

(Note) Accounts payable are contingent considerations. Per contract, contingent considerations will be paid in accordance with the number of claims determined within 12 months from the acquisition of shares, up to £1,000 thousand. Contingent considerations are calculated by taking into account the estimated future results and the time value of money.

Acquisition-related costs of ¥32 million for this business combination were recorded as "selling, general and administrative expenses."

(3) Goodwill Arising on Acquisition

Amount of goodwill	¥3,042 million
Factors that make up goodwill	Mainly excess earnings capability expected through future development. The relevant goodwill is not deductible for tax purposes.

The amount of goodwill is provisionally calculated because the allocation of acquisition cost is not completed, requiring time to calculate customer-related assets and others.

(4) Acquired Assets and Assumed Liabilities

The fair values of identifiable acquired assets and assumed liabilities of RUNDLE & CO. LIMITED as of the acquisition date are as follows:

	Amount
	Millions of yen
Current assets (Note)	367
Non-current assets	72
Total assets	439
Current liabilities	275
Non-current liabilities	18
Total liabilities	293
Parent's equity	146

(Note) The main component of current assets is cash and cash equivalents of ¥278 million.

(5) Fair Value of Receivables

The fair value of acquired trade receivables is as follows:

	Amount
	Millions of yen
Total contractual receivables	41
Fair value of trade receivables	41

(6) Impact of Acquisition on the Results of the Group

The consolidated statement of profit or loss for the Group includes revenue of ¥822 million and profit for the year of ¥195 million accrued after the acquisition date. Furthermore, assuming the business combination had been completed on January 1, 2019, the beginning of the current fiscal year, RUNDLE & CO. LIMITED's revenue and profit for the current fiscal year would be ¥1,323 million (unaudited) and ¥374 million (unaudited), respectively.

8. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Cash and cash equivalents		
Cash and bank deposits with maturities three months or less	29,451	40,246
Total	29,451	40,246

9. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Notes receivable	878	806
Accounts receivable - trade	48,184	50,165
Accounts receivable - other	1,029	913
Other	328	349
Loss allowance	(254)	(511)
Total	50,165	51,722

10. Inventories

The breakdown of inventories is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Merchandise	130	129
Finished goods	38	15
Work in progress	191	206
Raw materials and supplies	1,150	1,258
Total	1,509	1,608

The cost of inventories recognized as an expense were ¥21,854 million for the previous fiscal year and ¥21,496 million for the current fiscal year.

The write-down amount of inventories recognized as an expense is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Amount of write-down	30	4

11. Other financial assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Financial assets measured at fair value through profit or loss		
Derivative financial assets	2,647	179
Investments in capital	670	1,475
Other	79	19
Financial assets measured at amortized cost		
Leasehold deposits and guarantees	3,002	3,550
Loans receivable	304	439
Time deposits with maturities over three months	1,938	951
Installment savings (with maturities over three months)	3	8
Deposits paid	18	336
Lease receivables	–	17,850
Other	0	4
Loss allowance	(1)	(4)
Debt financial assets measured at fair value through other comprehensive income		
Debt securities, etc.	386	58
Equity financial assets measured at fair value through other comprehensive income		
Shares	980	1,000
Total	10,026	25,865
Current assets	4,508	9,974
Non-current assets	5,518	15,891
Total	10,026	25,865

(2) Equity financial assets measured at fair value through other comprehensive income

The breakdown of equity financial assets measured at fair value through other comprehensive income is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Marketable shares	130	367
Non-marketable shares	850	633
Total	980	1,000

12. Other assets

The breakdown of other assets is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Other current assets		
Prepaid expenses	2,574	2,385
Advance payments to suppliers	603	647
Income taxes receivable	2,354	2,030
Contract assets	2,094	3,225
Other	378	604
Total	8,003	8,891
Other non-current assets		
Long-term prepaid expenses (Note)	760	1,076
Total	760	1,076

(Note) The main component of long-term prepaid expenses for the previous fiscal year relates to rights to reimbursement of ¥438 million. The main component of long-term prepaid expenses for the current fiscal year relates to rights to reimbursement of ¥796 million. For changes in rights to reimbursement, please refer to Note “21. Employee Benefits.”

13. Property, plant and equipment

(1) Table of Changes

Changes in the carrying amounts of property, plant and equipment are as follows:

Carrying amount	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	1,655	3,860	386	599	422	6,922
Additions	–	361	768	449	531	2,109
Depreciation expense	–	(463)	(216)	(344)	–	(1,023)
Impairment losses	–	–	–	–	–	–
Acquisitions through business combinations	340	878	1,139	257	–	2,614
Transfer from construction in progress	4	444	465	17	(930)	–
Sale or disposal	(107)	(79)	(3)	(2)	–	(191)
Exchange differences on translating foreign operations	(1)	(71)	(53)	(40)	–	(165)
Other	(4)	(9)	(6)	2	–	(17)
Balance at December 31, 2018	1,887	4,921	2,480	938	23	10,249
Additions	–	654	143	997	337	2,131
Depreciation expense	–	(320)	(224)	(358)	–	(902)
Impairment losses	–	–	–	–	–	–
Acquisitions through business combinations	87	87	103	42	4	323
Transfer from construction in progress	–	238	65	29	(332)	–
Sale or disposal	–	(35)	(48)	(27)	–	(110)
Exchange differences on translating foreign operations	1	(28)	(12)	(11)	–	(50)
Other	–	(920)	(1,152)	(148)	–	(2,220)
Balance at December 31, 2019	1,975	4,597	1,355	1,462	32	9,421

Cost

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	1,655	9,371	2,874	1,905	422	16,227
Balance at December 31, 2018	1,887	10,836	4,887	2,207	23	19,840
Balance at December 31, 2019	1,975	6,980	4,099	2,949	32	16,035

Accumulated depreciation expense and impairment losses

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	–	5,511	2,488	1,306	–	9,305
Balance at December 31, 2018	–	5,915	2,407	1,269	–	9,591
Balance at December 31, 2019	–	2,383	2,744	1,487	–	6,614

(2) Lease Assets

Carrying amounts of lease assets under finance leases included in property, plant and equipment are as follows:

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	1,447	75	104	1,626
Balance at December 31, 2018	1,142	1,191	112	2,445

The Group’s obligations under finance leases (Note “19 Leases”) are secured by the lessor’s title to the lease assets.

(3) Impairment Losses

Property, plant and equipment are grouped on the basis of the smallest units of asset groups that are identified as generating largely independent cash inflows.
Impairment losses are recorded in “other operating expenses” in the consolidated statement of profit or loss.
During the previous and current fiscal years, no impairment loss was recognized.

14. Right-of-use assets

The Group rents offices mainly for head office functions and business offices.

(1) Lessee

The breakdown of gain or loss on right-of-use assets is as follows:

	For the Year ended December 31, 2019
	Millions of yen
Depreciation of right-of-use assets	
Land	29
Buildings and structures	5,716
Machinery and vehicles	792
Tools, furniture and fixtures	524
Total	7,061
Interest costs on lease liabilities	475
Costs on short-term lease	2,642
Costs on leases of low-value assets	463
Revenue from subleases	212

The breakdown of an increase in right-of-use assets and the carrying amount thereof is as follows:

	For the Year ended December 31, 2019
	Millions of yen
Increase in right-of-use assets	7,272
Right-of-use assets	
Land	108
Buildings and structures	13,996
Machinery and vehicles	2,227
Tools, furniture and fixtures	1,915
Total	18,246

As some lease contracts contain extension and termination options, optional periods are included in the lease term if it is reasonably certain to exercise said options in light of the past record of the extension of lease contracts or the future business plan of the head office and business offices.

The total amount of cash outflow for leases for the current fiscal year was ¥14,982 million.

A maturity analysis of lease liabilities is described in Note “35. Financial Instruments, (3) Financial Risk Management, (II) Liquidity Risk Management.”

(2) Lessor

Company housing for employees is leased by finance lease or operating lease.

(I) Finance Leases

A maturity analysis of the total minimum lease payments arising from finance lease is as follow.

	For the Year ended December 31, 2019
	Millions of yen
1 year or less	9,045
Over 1 year but within 2 years	9,045
Over 2 years but within 3 years	–
Over 3 years but within 4 years	–
Over 4 years but within 5 years	–
Over 5 years	–
Total (aggregate minimum lease payments receivable)	18,090
Less: unearned finance income	240
Unrecovered amount of net lease investment	17,850

(II) Operating Leases

A maturity analysis of revenue and lease payments on operating lease is as follow.

Note that assets leased are all rented and recorded in “right-of-use assets” in the consolidated statement of financial position.

	For the Year ended December 31, 2019
	Millions of yen
Lease revenue (except variable lease payments)	212
Lease payments	
1 year or less	212
Over 1 year but within 2 years	211
Over 2 years but within 3 years	190
Over 3 years but within 4 years	98
Over 4 years but within 5 years	–
Over 5 years	–
Total	711

15. Goodwill and Intangible Assets

(1) Table of Changes

Changes in the carrying amounts of goodwill and intangible assets are as follows:

Carrying amount

	Goodwill	Intangible assets				
		Software	Software in progress	Customer-related assets	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	39,239	1,440	100	9,375	21	10,936
Additions	–	463	251	–	–	714
Amortization expense (Note 1)	–	(696)	–	(1,790)	(156)	(2,642)
Impairment losses	(721)	–	–	–	–	–
Acquisitions through business combinations (Note 2)	16,786	372	–	9,670	2,200	12,242
Foreign currency translation	(2,683)	(78)	(2)	(872)	(85)	(1,037)
Transfer from software in progress	–	92	(92)	–	–	–
Sale or disposal	–	(24)	–	–	–	(24)
Other	–	(16)	(12)	–	(5)	(33)
Balance at December 31, 2018	52,621	1,553	245	16,383	1,975	20,156
Additions	–	368	503	–	–	871
Amortization expense (Note 1)	–	(499)	–	(2,076)	(221)	(2,796)
Impairment losses	(381)	–	–	–	–	–
Acquisitions through business combinations (Note 2)	6,143	13	–	292	0	305
Foreign currency translation	(310)	(113)	(2)	(339)	(60)	(514)
Transfer from software in progress	–	575	(575)	–	–	–
Sale or disposal	–	–	–	–	–	–
Other	–	9	(8)	–	–	1
Balance at December 31, 2019	58,073	1,906	163	14,260	1,694	18,023

Cost

	Goodwill	Intangible assets				
		Software	Software in progress	Customer-related assets	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	40,006	3,729	103	11,279	39	15,150
Balance at December 31, 2018	54,110	5,334	249	20,077	2,149	27,809
Balance at December 31, 2019	59,942	5,974	167	20,028	2,090	28,259

Accumulated depreciation expense and impairment losses

	Goodwill	Intangible assets				
		Software	Software in progress	Customer-related assets	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at January 1, 2018	767	2,289	3	1,904	18	4,214
Balance at December 31, 2018	1,489	3,781	4	3,694	174	7,653
Balance at December 31, 2019	1,869	4,068	4	5,768	396	10,236

(Note 1) Amortization expense of intangible assets is included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of profit or loss.

(Note 2) The breakdown of acquisition of goodwill through business combinations in the current fiscal year is as follows:

	Goodwill arising on acquisition
	Millions of yen
RUNDLE & CO. LIMITED	3,042

(2) Lease Assets

The carrying amount of lease assets under finance leases included in intangible assets is as follows:

	Software
	Millions of yen
Balance at January 1, 2018	4
Balance at December 31, 2018	3

The Group's obligations under finance leases (Note "19 Leases") are secured by the lessor's title to the lease assets.

(3) Impairment Losses of Intangible Assets

Intangible assets are grouped on the basis of the smallest units of asset groups that are identified as generating largely independent cash inflows.

Impairment losses are recorded in "other operating expenses" in the consolidated statement of profit or loss.

During the previous and current fiscal years, no impairment loss was recognized.

(4) Goodwill Impairment Test

The Group tests goodwill for impairment every fiscal year, or whenever there is an indication of impairment. The recoverable amount of the impairment test is calculated based on value in use.

Value in use reflects past experience and external information, and is calculated by discounting estimated cash flows from the five-year forward business plan approved by management to present value using pre-tax weighted average cost of capital for the relevant cash-generating unit of 9.61% to 22.68% (8.54% to 20.30% for one year ended December 31, 2018).

In estimating cash flows, the amount of cash flows after the fifth year is assumed to be the same as that of the fifth year with the assumption of a zero growth rate in principle, taking into account future uncertainties.

Fair value less cost of disposal is calculated based on quoted prices in active markets.

Goodwill acquired through business combinations is allocated to groups of cash-generating units that will benefit from the business combination on the acquisition date. The allocation amount of goodwill to groups of cash-generating units is as follows:

Reportable segment	Group of cash-generating units	December 31, 2018	December 31, 2019
		Millions of yen	Millions of yen
Domestic Engineering Outsourcing Business	KDE GROUP (Note 1)	1,117	1,117
	GLocal Co., Ltd.	832	832
	Advantec Group (Note 2)	1,421	1,421
	Other	2,100	2,087
Domestic Manufacturing Outsourcing Business	OS Partners CO., LTD.	2,330	2,330
	Planner Co., Ltd.	669	669
	Other	1,431	1,283
Domestic Service Operations Outsourcing Business	AMERICAN ENGINEERING CORPORATION (OKINAWA)	2,978	2,978
	Other	430	505
Overseas Engineering Outsourcing Business	BLUEFIN GROUP (Note 3)	1,213	1,188
	BEDDISON GROUP (Note 4)	3,290	3,220
	J.B.W. GROUP (Note 5)	2,258	2,307
	PM-P GROUP (Note 6)	2,350	2,136
	COURT GROUP (Note 7)	968	989
	PHOENIX GROUP (Note 8)	1,038	1,060
	RUNDLE & CO. LIMITED	–	3,007
	Other	696	2,395
Overseas Manufacturing and Service Operations Outsourcing Business	HRS GROUP (Note 9)	943	944
	VERACITY GROUP (Note 10)	5,545	5,538
	LIBERATA UK LIMITED	4,708	4,809
	Orizon GROUP (Note 11)	7,184	6,932
	OTTO GROUP (Note 12)	5,010	4,834
	ALLEN LANE GROUP (Note 13)	2,410	2,462
	SL GROUP (Note 14)	569	427
	Other	1,104	2,576
Other Business		27	27
Total		52,621	58,073

(Note 1) This group of cash-generating units consists of KDE Holdings and Kyodo Engineering Corporation.
(Note 2) This group of cash-generating units consists of Advantec Co., Ltd. and Advantec Kensyu Center Co., Ltd.
(Note 3) This group of cash-generating units consists of BLUEFIN RESOURCES GROUP PTY LIMITED and BLUEFIN RESOURCES PTY. LIMITED.
(Note 4) This group of cash-generating units consists of HOBAN RECRUITMENT PTY LTD, THE BEDDISON GROUP PTY LTD, CLICKS RECRUIT (AUSTRALIA) PTY LTD, INDEX CONSULTANTS PTY LTD, HOBAN RECRUITMENT UNIT TRUST, CLICKS RECRUIT (AUSTRALIA) UNIT TRUST, and INDEX CONSULTANTS UNIT TRUST.
(Note 5) This group of cash-generating units consists of J.B.W. TOPCO LIMITED, J.B.W. GROUP LIMITED, and HITO LIMITED.
(Note 6) This group of cash-generating units consists of PROJECT MANAGEMENT PARTNERS PTY LIMITED and PM-PARTNERS SINGAPORE PTE. LTD.
(Note 7) This group of cash-generating units consists of COURT ENFORCEMENT SERVICES LTD and ELLIOTTDAVIES (SHERIFF'S) LIMITED.
(Note 8) This group of cash-generating units consists of PHOENIX COMMERCIAL (ENFORCEMENT) HOLDINGS LIMITED, PHOENIX COMMERCIAL HOLDINGS LIMITED, and 4 subsidiaries.
(Note 9) This group of cash-generating units consists of OS HRS SDN. BHD., OS HRS JAPAN Inc., OS HRS INDIA PRIVATE LIMITED, and OS HRS EUROPE LIMITED.
(Note 10) This group of cash-generating units consists of VERACITY OSI UK LIMITED and ALL HOLDCO 2016 LIMITED.
(Note 11) This group of cash-generating units consists of Orizon Holding GmbH, Orizon GmbH, jobs in time medical GmbH, Orizon Hamburg GmbH, Orizon Projekt GmbH, and Foodstaffing GmbH.
(Note 12) This group of cash-generating units consists of OTTO Holding B.V., OTTO Work Force B.V., and 40 subsidiaries.
(Note 13) This group of cash-generating units consists of ALLEN LANE TOPCO LIMITED and ALLEN LANE LIMITED.
(Note 14) This group of cash-generating units consists of INVERSIONES SL GROUP SpA, SOCIEDAD DE SEGURIDAD AEREA S.A., and 14 subsidiaries.

Regarding goodwill allocated to the HRS GROUP, the value in use of the cash-generating unit to which goodwill has been allocated exceeds the carrying amount; however, should the pre-tax weighted-average cost of capital used to determine the value in use increase by about 0.5%, an impairment loss may be recognized.
Regarding goodwill allocated to the OTTO GROUP, the value in use of the cash-generating unit to which goodwill has been allocated exceeds the carrying amount; however, should the pre-tax weighted-average cost of capital used to determine the value in use increase by about 1.5%, an impairment loss may be recognized.
It is judged to be unlikely that the recoverable amount will fall below the book value even if the principal assumptions used in the impairment tests change within a reasonably predictable range for each cash-generating unit or group of cash-generating units to which intangible assets with indefinite useful lives and goodwill other than the above and one for which impairment losses were recorded in the current period are allocated.

(5) Impairment Losses for Goodwill

For the previous fiscal year, an impairment loss of ¥721 million was recognized for goodwill allocated to groups of cash-generating units in the "Overseas Manufacturing and Service Operations Outsourcing Business." The relevant impairment loss pertains to goodwill arising from the business combination involving VERACITY GROUP, and the discount rate is 10.5% which is used in calculating the value in use pertaining to the said cash-generating unit. Impairment losses are recorded in "other operating expenses" in the consolidated statement of profit or loss.

For the current fiscal year, an impairment loss of ¥162 million was recognized for goodwill arising from the business combination involving PM-P GROUP in the "Overseas Engineering Outsourcing Business." This is mainly due to the fact that a revision was made to the business plan in the wake of the incompletion of the plan resulting from a partial failure to receive orders in consulting services for Australian governmental organizations.

For the current fiscal year also, impairment losses of ¥122 million and ¥97 million were respectively recognized for goodwill arising from the business combination involving VERACITY GROUP and SL GROUP in the "Overseas Manufacturing and Service Operations Outsourcing Business." As for VERACITY GROUP, the impairment loss arose because a growth rate projection was revised for consulting business for the U.K. government as the uncertain situation regarding the Brexit policy was prolonged more than expected. With regard to SL GROUP, it was due to the incompletion of the plan caused by events such as fires at its major customers' stores in the Republic of Chile resulting from political unrest in the country.

Value in use is calculated for PM-P GROUP, VERACITY GROUP, and SL GROUP by discounting estimated cash flows from the five-year forward business plan approved by the management to present value. The discount rate used in calculating the value in use pertaining to each cash-generating unit is 9.74% for PM-P GROUP, 14.50% for VERACITY GROUP, and 13.87% for SL GROUP. Impairment losses are recorded in "other operating expenses" in the consolidated statement of profit or loss.

16. Investments accounted for using the equity method

(1) Investments in Associates

The carrying amount of investment in individually immaterial associates is as follows.

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Total carrying amount	–	101

The amount of equity in comprehensive income of individually immaterial associates is as follows:

(Millions of yen)

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Amount of equity in profit for the year	–	59
Amount of equity in other comprehensive income	–	–
Amount of equity in comprehensive income	–	59

(2) Investment in jointly controlled entities

Material Jointly Controlled Entities

In investing in a jointly controlled company, the Group enters into an agreement with other contractual parties that requires a unanimous consent of all contractual parties regarding decisions to be made pertaining to activities having a significant impact on the return of such an investment. Since the Group controls such entities jointly with other contractual parties and has a right to their net assets, such entities are classified as jointly controlled entities, and investment therein is accounted for by the equity method.

Material jointly controlled entities are as follows.

Name	Description of main businesses	Location	Interest	
			As of December 31, 2018	As of December 31, 2019
PEO Construction Machinery Operators Training Center Co., Ltd.	Administration of skill training courses for construction machinery operation and other educational programs	Japan	–	51.0%

What follows is the summary financial statement of PEO Construction Machinery Operators Training Center Co., Ltd. and a table showing a reconciliation with the carrying amount of interest in this jointly controlled entity.

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Current assets	–	624
Cash and cash equivalents	–	588
Non-current assets	–	1,018
Total assets	–	1,642
Current liabilities	–	265
Financial liabilities (excluding trade and other payables as well as provisions)	–	24
Non-current liabilities	–	53
Financial liabilities (excluding trade and other payables as well as provisions)	–	18
Total liabilities	–	318
Total equity	–	1,324
The Group’s interest in total equity	–	675
Goodwill equivalent and consolidation adjustment	–	1,402
Carrying amount of investment	–	2,077

(Millions of yen)

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Revenue	–	758
Depreciation and amortization	–	54
Finance income	–	0
Finance costs	–	–
Income tax expense	–	(1)
Profit for the year	–	3
Other comprehensive income (loss)	–	–
Total comprehensive income (loss)	–	3
Dividends received by the Group	–	–

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major cause of occurrence and changes thereof are as follows:

For the Year ended December 31, 2018

	January 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	Increase due to business combinations	Other	December 31, 2018
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets						
Accrued enterprise tax	145	21	–	–	–	166
Retirement benefit liabilities	454	27	(49)	6	–	438
Expenses related to share acquisition	351	85	–	–	–	436
Property, plant and equipment	572	(41)	–	–	(27)	504
Asset retirement obligations	68	(1)	–	16	–	83
Accrued paid absences cost	1,161	195	–	88	(5)	1,439
Other	596	(82)	–	87	71	672
Total	3,347	204	(49)	197	39	3,738
Deferred tax liabilities						
Internal reserves of overseas subsidiaries	(132)	(76)	–	–	–	(208)
Unrealized gain of financial assets measured at fair value through other comprehensive income	(188)	36	32	(68)	–	(188)
Customer-related assets	(2,548)	512	–	(2,890)	253	(4,673)
Other	(211)	(161)	–	(9)	–	(381)
Total	(3,079)	311	32	(2,967)	253	(5,450)

For the Year ended December 31, 2019

	January 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	Increase due to business combinations	Other	December 31, 2019
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets						
Accrued enterprise tax	166	102	–	0	–	268
Retirement benefit liabilities	438	18	(53)	–	–	403
Expenses related to share acquisition	436	81	–	–	–	517
Property, plant and equipment	504	9	–	–	7	520
Asset retirement obligations	83	21	–	0	–	104
Accrued paid absences cost	1,439	280	–	8	(7)	1,720
Other	672	(51)	–	48	22	691
Total	3,738	460	(53)	56	22	4,223
Deferred tax liabilities						
Internal reserves of overseas subsidiaries	(208)	80	–	–	–	(128)
Unrealized gain of financial assets measured at fair value through other comprehensive income	(188)	106	(13)	0	–	(95)
Customer-related assets	(4,673)	762	–	(90)	100	(3,901)
Gain on forgiveness of debt	–	–	–	–	(1,919)	(1,919)
Other	(381)	89	–	–	–	(292)
Total	(5,450)	1,037	(13)	(90)	(1,819)	(6,335)

The net amounts of deferred tax assets and deferred tax liabilities are included in the following items of the consolidated statement of financial position:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Deferred tax assets	3,201	3,830
Deferred tax liabilities	4,913	5,942
Net amount	(1,712)	(2,112)

Unused tax losses carryforwards, deductible temporary differences and others for which no deferred tax assets are recognized are as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Deductible temporary differences and others	1,111	1,074
Unused tax losses carryforwards	3,266	4,753
Total	4,377	5,827

Tax credit carryforwards for which no deferred tax assets are recognized are expected to expire within 3 years.
The expiration schedule for unused tax losses for which no deferred tax assets are recognized is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Year 1	75	36
Year 2	113	75
Year 3	143	40
Year 4	102	78
Year 5 or later	2,833	4,524
Total	3,266	4,753

(2) Income Tax Expense
The breakdown of income tax expense is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Current tax expense		
Current fiscal year	4,741	5,802
Previous fiscal years	27	78
Total current tax expense	4,768	5,880
Deferred tax expense		
Origination and reversal of temporary differences	(560)	(1,017)
Changes in tax rates	45	(480)
Total deferred tax expenses	(515)	(1,497)
Total income taxes	4,253	4,383

Current tax expense includes the amount of the benefit arising from tax losses, tax credits, or temporary differences of prior periods in which tax effects were not recognized previously. The subsequent decrease in current tax expense for the previous fiscal year and current fiscal year were ¥307 million and ¥191 million, respectively.
Deferred tax expense includes the amount of benefits arising from tax losses, tax credits, or temporary differences from prior periods in which tax effects were not recognized, and write-downs of deferred tax assets and expense arising from reversal of previous write-downs. The subsequent decrease in deferred tax expense for the previous fiscal year and current fiscal year were ¥75 million and ¥170 million, respectively.

(3) Reconciliation of Effective Tax Rates

The breakdown of major items causing the difference between statutory tax rate and average effective tax rate for each fiscal year is as follows.

The Company is mainly charged corporate tax, inhabitants tax, and enterprise tax, and the statutory tax rate calculated based on these was 30.6%. However, overseas subsidiaries are charged corporate and other taxes in the locations in which they operate.

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	%	%
Statutory tax rate	30.9	30.6
Items not deductible perpetually such as entertainment expenses	0.6	0.6
Items not taxable perpetually such as dividend income	(0.2)	(0.0)
Creditable amounts of foreign corporate tax	1.7	2.1
Difference in tax rates to consolidated subsidiaries	(2.5)	(6.1)
Change in unrecognized deferred tax assets	3.7	3.0
Tax credits	(0.4)	(2.3)
Income taxes for previous fiscal years	0.2	0.6
Other	(0.1)	4.0
Average effective tax rate	33.9	32.5

18. Bonds and Borrowings (Including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of “bonds and borrowings” and “other financial liabilities” is as follows:

	As of December 31, 2018	As of December 31, 2019	Average interest rate (Note 1)	Repayment deadline (Note 2)
	Millions of yen	Millions of yen	%	
Financial liabilities measured at amortized cost				
Short-term loans payable	6,541	8,540	1.25	–
Current portion of long-term borrowings	8,281	11,606	0.67	–
Current portion of lease liabilities (Note 3)	741	–	–	–
Long-term borrowings	33,128	41,499	0.67	2021 to 2027
Bonds payable	6,137	6,165	0.75	2021
Lease liabilities (Note 3)	2,128	–	–	–
Long-Term Accounts Payable	21	19		–
Other	153	149		–
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	46	57		
Contingent considerations (including the current portion)	1,397	1,366		–
Written put option liabilities on non-controlling interests (Note 4)	10,910	8,193		
Total	69,483	77,594		
Current liabilities	19,093	23,124		
Non-current liabilities	50,390	54,470		
Total	69,483	77,594		

(Note 1) The average interest rate is listed as the weighted-average interest rate for the balance as of December 31, 2019.

(Note 2) Repayment deadline is listed as the repayment deadline for the balance as of December 31, 2019.

(Note 3) Total lease liabilities for the previous fiscal year was ¥2,869 million. For the breakdown of lease liabilities by payment date, please refer to Note “19. Leases.”

(Note 4) These are financial liabilities related to written put options granted to non-controlling interests of the Group. For details, please refer to Note “24. Equity and Other Equity Items.”

A summary of the conditions for bond issuance is as follows:

Company name	Issue	Date of issuance	As of December 31, 2018	As of December 31, 2019	Interest rate	Collateral	Date of maturity
			Millions of yen	Millions of yen	%		
OUTSOURCING Inc.	No. 1 Unsecured Bonds (restricted to qualified institutional investors)	March 29, 2018	6,137	6,165	0.75	Bank guarantee	March 29, 2021
Total			6,137	6,165			

(2) Assets Pledged as Collateral

Assets pledged as collateral for bonds and borrowings are as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Buildings and structures	34	796
Land	1,190	1,623
Total	1,224	2,419

Corresponding liabilities are as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Long-term loans payable (including the current portion)	1,314	2,121
Short-term loans payable	600	110
Total	1,914	2,231

In addition to the above, ¥569 million of time deposits with maturities over three months (other current financial assets) is pledged as collateral for insurance to guarantee construction completion in the previous fiscal year.

(3) Financial Covenants

Of the current and other portions of long-term borrowings, ¥46,464 million is subject to financial covenants, which the Group complies with. Major financial covenants are as follows.

(I) The amount of total equity presented in the consolidated statement of financial position as of the end of each fiscal year shall be maintained at the higher of the amount equivalent to 75% of total equity presented in the consolidated statement of financial position as of December 31, 2017, or the amount equivalent to 75% of total equity presented in the consolidated statement of financial position as of the end of the most recent fiscal year.

(II) Net asset ratio (total equity/total assets) in the consolidated statement of financial position as of the end of each fiscal year shall be maintained at 20% or more.

(III) Operating profit (loss) in the consolidated statement of profit or loss as of the end of each fiscal year shall not be negative.

(IV) The ratio of total interest-bearing debt minus cash and cash equivalents in the consolidated statement of financial position as of the end of each fiscal year to the sum of operating profit and financial income (excluding gains on valuation of swaps and on sales of investment securities) in the consolidated statement of profit or loss and depreciation and amortization in the consolidated statement of cash flows shall not exceed four. Interest-bearing debt refers to the total of borrowings and bonds listed under current liabilities and borrowings and bonds listed under non-current liabilities.

19. Leases

For the year ended December 31, 2018

(1) Finance Lease Liabilities

Total future minimum lease payments under finance lease agreements and their present value are as follows:

	As of December 31, 2018
	Millions of yen
1 year or less	
Total future minimum lease payments	894
Present value	741
Over 1 year but within 5 years	
Total future minimum lease payments	2,345
Present value	2,128
More than 5 years	
Total future minimum lease payments	0
Present value	0
Total	
Total future minimum lease payments	3,239
Present value	2,869

For some lease agreements, renewal options and purchase options are attached. Further, there are no restrictions imposed by lease agreements (restrictions on additional borrowings, additional leases, and others).

(2) Non-cancellable Operating Leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31, 2018
	Millions of yen
1 year or less	479
Over 1 year but within 5 years	749
More than 5 years	12
Total	1,240

Total future minimum lease payments for operating lease agreements recognized as expenses are as follows:

	For the Year ended December 31, 2018
	Millions of yen
Total minimum lease payments	438

For some lease agreements, renewal options and purchase options are attached. Further, there are no restrictions imposed by lease agreements (restrictions on additional borrowings, additional leases, and others).

(3) Operating Leases as Lessor

The Company leases part of company housing for employees; however, there are no non-cancellable operating leases.

For the Year ended December 31, 2019

As IFRS 16 was adopted in the year ended December 31, 2019, operating leases as lessor are described in “14. Right-of-use asset.”

20. Trade and other payables

The breakdown of trade and other payables is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Notes payable	34	80
Accounts payable - trade	2,476	3,027
Accounts payable - other	6,448	6,083
Accrued salaries	14,597	14,296
Accrued paid absences cost	5,375	6,903
Accrued bonuses	591	486
Other	2,517	4,158
Total	32,038	35,033

21. Employee Benefits

The Company and certain consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans to cover employee retirement benefits. The amount of benefits of the defined benefit plan is determined by payout ratio on retirement, years of service, final salary prior to retirement, and other conditions.

In addition, certain consolidated subsidiaries adopted defined contribution pension plans.

(1) Defined Benefit Plans

(I) Status of Liabilities and Assets Related to Defined Benefit Plans

The status of liabilities and assets related to the defined benefit plans is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Present value of defined benefit obligations	12,034	14,128
Fair value of plan assets	(12,570)	(12,574)
Subtotal	(536)	1,554
Effect of asset ceiling	2,450	543
Net defined benefit liabilities (assets)	1,914	2,097
Amount in the consolidated statement of financial position		
Retirement benefit liabilities	1,914	2,097

(II) Changes in Present Value of Defined Benefit Obligations

The changes in the present value of defined benefit obligations are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Defined benefit obligations at beginning of year	14,245	12,034
Service cost	929	658
Interest cost	327	315
Remeasurement gains (losses)		
Actuarial gains (losses) arising from changes in demographic assumptions	(401)	(186)
Actuarial gains (losses) arising from changes in financial assumptions	(1,500)	1,519
Other	35	65
Past service cost and gains and losses on settlement	12	1
Exchange differences on translating foreign operations	(1,001)	281
Increase due to acquisition of subsidiaries	124	6
Benefits paid	(811)	(632)
Contribution from plan participants	75	67
Defined benefit obligations at end of year	12,034	14,128

(Note 1) The weighted-average duration of the Group's defined benefit obligation was 17.3 years for the previous fiscal year, and 18.3 years for the current fiscal year.

(Note 2) Service cost and interest cost are included in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

(III) Changes in the Fair Value of Plan Assets

The changes in the fair value of plan assets are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Fair value of plan assets at beginning of year	13,338	12,570
Interest income	277	301
Remeasurement gains (losses)		
Return on plan assets (excluding amounts included in interest income)	(96)	(559)
Exchange differences on translating foreign operations	(1,025)	262
Benefits paid	(194)	(242)
Contributions from the employer	200	180
Contribution from plan participants	75	67
Other	(5)	(5)
Fair value of plan assets at end of year	12,570	12,574

(IV) Changes in the Effect of Asset Ceiling

The changes in the effect of asset ceiling are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Effect of asset ceiling at beginning of year	2,382	2,450
Remeasurement		
Change in the effect of asset ceiling	248	(1,902)
Exchange differences on translating foreign operations	(180)	(5)
Effect of asset ceiling at end of year	2,450	543

(V) Changes in Rights to Reimbursement

The changes in rights to reimbursement are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Rights to reimbursement at beginning of year	1,868	438
Remeasurement		
Change in rights to reimbursement	(1,289)	349
Exchange differences on translating foreign operations	(141)	9
Rights to reimbursement at end of year	438	796

(Note) LIBERATA UK LIMITED, a consolidated subsidiary, has contributed to multiple local government plans in the United Kingdom, and has rights to receive reimbursement for certain assets and liabilities related to them. Rights to reimbursement is booked as “other non-current assets” in the consolidated statement of financial position. For a breakdown of other non-current assets, please refer to Note “12. Other Assets.”

(VI) Breakdown of the Fair Value of Plan Assets

The breakdown of fair value of plan assets is as follows:

As of December 31, 2018

	Quoted market prices in active markets are available	Quoted market prices in active markets are not available	Total
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents	907	52	959
Equity instruments (overseas)	5,040	769	5,809
Debt instruments (overseas)	765	–	765
Real estate	530	439	969
Investment funds (Note)	615	3,453	4,068
Total	7,857	4,713	12,570

(Note) Investment funds include equity funds, credit funds, infrastructure funds, and others.

As of December 31, 2019

	Quoted market prices in active markets are available	Quoted market prices in active markets are not available	Total
	Millions of yen	Millions of yen	Millions of yen
Cash and cash equivalents	440	239	679
Equity instruments (overseas)	4,495	799	5,294
Debt instruments (overseas)	720	–	720
Real estate	218	418	636
Investment funds (Note)	838	4,407	5,245
Total	6,711	5,863	12,574

(Note) Investment funds include equity funds, credit funds, infrastructure funds, and others.

The principal actuarial assumptions are as follows:

	As of December 31, 2018	As of December 31, 2019
	%	%
Discount rate	2.8	2.0

(Note) Valuation of the defined benefit obligations includes judgments on uncertain future events. Sensitivities of the changes in the base rate to defined benefit obligations at the end of the current fiscal year is as follows. Each of these sensitivities assumes that other variables are held constant, but it does not necessarily change independently in reality. In addition, a negative value represents a decrease, and a positive value represents an increase in defined benefit obligations.

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Discount rate: increase by 0.1%	(223)	(248)
Discount rate: decrease by 0.1%	226	252

(2) Defined Contribution Plans

The amounts recognized as expenses for the defined contribution plan for the previous fiscal year and the current fiscal year were ¥679 million and ¥1,267 million, respectively.

(3) Employee benefit expenses

Expenses related to employee benefits included in the consolidated statement of profit or loss for each fiscal year are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Compensation and salaries	196,493	220,354
Employee bonuses	7,051	9,307
Paid absences cost	2,597	4,153
Retirement benefit expenses	1,432	1,765
Legal welfare cost	26,894	31,629
Welfare expenses	4,414	8,756

(Note) Expenses related to employee benefits are included in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

22. Provisions

The breakdown and changes in provisions are as follows:

	Asset retirement obligations
	Millions of yen
Balance at January 1, 2018	705
Increase during year	208
Interest cost in the discount calculation period	15
Decrease during year (payment)	(29)
Decrease during year (reversal)	–
Change in discount rate	–
Other	(18)
Balance at December 31, 2018	881
Increase during year	253
Interest cost in the discount calculation period	20
Decrease during year (payment)	(9)
Decrease during year (reversal)	–
Change in discount rate	–
Other	(52)
Balance at December 31, 2019	1,093

Asset retirement obligations represent obligations to remove harmful substances used in some buildings of the Group. Asset retirement obligations are also booked for obligations for restoration to the original state associated with lease agreements on real estate. These expenses are expected to be paid mainly after one year or more has elapsed; however, this is subject to the impact of future business plans and the like.

23. Other Liabilities

The breakdown of other liabilities is as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Other current liabilities		
Accrued expenses	2,913	2,153
Accrued enterprise tax, etc.	379	622
Accrued consumption taxes	6,354	7,836
Contract liabilities	1,566	1,590
Other	268	335
Total	11,480	12,536

24. Equity and Other Equity Items

(1) Issued Capital and Capital Surplus

Changes in the number of authorized shares, the number of issued shares, balances of issued capital, and other items are as follows:

	Number of authorized shares	Number of issued shares	Share capital	Capital surplus
	Shares	Shares	Millions of yen	Millions of yen
Balance at January 1, 2018	160,000,000	101,968,000	7,131	8,843
Changes during the period (Notes 2, 3, 4 and 5)	–	23,562,700	17,992	17,744
Balance at December 31, 2018	160,000,000	125,530,700	25,123	26,587
Changes during the period (Notes 6, and 7)	–	262,500	64	33
Balance at December 31, 2019	160,000,000	125,793,200	25,187	26,620

(Note 1) All the shares issued by the Company are ordinary shares with no par value and which do not limit any rights of shareholders. The issued shares are fully paid up.

(Note 2) Due to the exercise of the 9th share acquisition rights, the total number of issued shares increased by 3,000 shares, and share capital and capital surplus rose ¥0 million each.

(Note 3) Due to the exercise of the 14th share acquisition rights, the total number of issued shares increased by 116,000 shares, and share capital and capital surplus rose ¥18 million each.

(Note 4) Due to the exercise of the 15th share acquisition rights, the total number of issued shares increased by 238,500 shares, and share capital and capital surplus rose ¥62 million each.

(Note 5) Due to the capital increase by public offering (domestic and international public offering) with the payment date of October 3, 2018 and capital increase by third-party allotment with the payment date of October 26, 2018, the total number of issued shares increased by 23,205,200 shares and share capital and capital surplus rose ¥17,912 million each.

(Note 6) Due to the exercise of the 14th share acquisition rights, the total number of issued shares increased by 39,000 shares, and share capital and capital surplus rose ¥6 million each.

(Note 7) Due to the exercise of the 15th share acquisition rights, the total number of issued shares increased by 223,500 shares, and share capital and capital surplus rose ¥58 million each.

(2) Treasury Shares

The number of treasury shares and the changes in the balance are as follows:

	Number of shares	Amount
	Shares	Millions of yen
Balance at January 1, 2018	490	0
Changes during the period	–	–
Balance at December 31, 2018	490	0
Changes during the period	–	–
Balance at December 31, 2019	490	0

(3) Details and Purpose of Other Capital Surplus

Share acquisition rights

The Company has adopted the share option plans and issues share acquisition rights in accordance with the Companies Act. Terms and conditions, amounts, and other information are described in Note “34. Share-based Payments.”

Put option granted to non-controlling interests

For written put options of subsidiary shares which the Group granted to owners of non-controlling interests, the present value of the redemption amount is recognized as financial liabilities while deducted from other capital surplus, and changes after the initial recognition are recognized in profit or loss. Present value of the redemption amount of put options is described in Note “35. Financial Instruments.”

(4) Details and Purpose of Other Components of Equity

Exchange differences on translating foreign operations

Exchange differences on translating foreign operations are those incurred in the process of consolidating the financial statements of overseas subsidiaries prepared in foreign currencies.

Change in fair value of debt financial assets measured at fair value through other comprehensive income

These are amounts of changes in fair value of debt financial assets measured at fair value through other comprehensive income.

Remeasurements of defined benefit retirement plans

These are the differences between actuarial assumptions at the beginning of the fiscal year and actual results for defined benefit plans and their impacts, as well as impacts caused by the changes in actuarial assumptions. These are recognized in other comprehensive income at the time of occurrence and are immediately transferred from other components of equity to retained earnings.

Change in fair value of equity financial assets measured at fair value through other comprehensive income

These are amounts of changes in fair value of equity financial assets measured at fair value through other comprehensive income.

Amounts arising in the current fiscal year, amounts of reclassification adjustments to profit or loss, and impacts of tax effects for each item of comprehensive income that are included in "other comprehensive income" for each fiscal year, are described in Note "31. Other Comprehensive Income (Loss)."

25. Dividends

Dividends paid are as follows:

For the Year ended December 31, 2018

Date of resolution	Total dividends	Dividends per share	Reference date	Effective date
	Millions of yen	Yen		
Resolution at ordinary general meeting of shareholders held on March 28, 2018	1,937	19.00	December 31, 2017	March 29, 2018

For the Year ended December 31, 2019

Date of resolution	Total dividends	Dividends per share	Reference date	Effective date
	Millions of yen	Yen		
Resolution at ordinary general meeting of shareholders held on March 27, 2019	2,636	21.00	December 31, 2018	March 28, 2019

Dividends whose effective date belongs to the next fiscal year are as follows:

For the Year ended December 31, 2019

Date of resolution	Total dividends	Dividends per share	Reference date	Effective date
	Millions of yen	Yen		
Resolution at ordinary general meeting of shareholders held on March 25, 2020	3,019	24.00	December 31, 2019	March 26, 2020

26. Revenue

(1) Disaggregation of Revenue

The Group consists of segments categorized by description of business, with five reportable segments, namely "Domestic Engineering Outsourcing Business," "Domestic Manufacturing Outsourcing Business," "Domestic Service Operations Outsourcing Business," "Overseas Engineering Outsourcing Business," and "Overseas Manufacturing and Service Operations Outsourcing Business." The Group disaggregates revenue from contracts with customers into categories classified according to the industry type of customers. Relationship between the disaggregated revenue and segment revenues is as follows:

For the Year ended December 31, 2018

(Millions of yen)

		Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business	Other Business	Total
Type of customer	Electrical & Electronics	14,596	18,657	–	325	22,422	–	56,000
	Transport Equipment	18,212	26,162	–	689	16,454	–	61,517
	Pharmaceuticals & Chemicals	4,642	5,189	–	535	4,720	–	15,086
	IT-related	20,224	–	–	3,786	3,435	–	27,445
	Metals & Construction Materials	–	4,419	–	311	1,484	–	6,214
	Construction- & Plant-related	9,552	–	–	170	1,752	–	11,474
	Foods	–	1,932	–	66	5,364	–	7,362
	Retail	–	–	1,428	1,201	20,851	–	23,480
	Public works	–	–	13,876	20,326	27,165	–	61,367
	Finance	–	–	–	6,678	1,967	–	8,645
	Others	5,208	5,943	2,699	2,483	15,950	438	32,721
	Total revenue	72,434	62,302	18,003	36,570	121,564	438	311,311
	Total revenue from contracts with customers	72,434	62,302	18,003	36,570	121,564	438	311,311

For the Year ended December 31, 2019

(Millions of yen)

		Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business	Other Business	Total
Type of customer	Electrical & Electronics	15,599	17,422	–	347	18,091	–	51,459
	Transport Equipment	20,600	32,563	–	1,331	13,909	–	68,403
	Pharmaceuticals & Chemicals	7,127	5,460	–	525	3,784	–	16,896
	IT-related	27,822	–	–	4,445	3,368	–	35,635
	Metals & Construction Materials	–	4,824	–	209	1,160	–	6,193
	Construction- & Plant-related	14,031	–	–	1,535	2,014	–	17,580
	Foods	–	2,643	–	157	4,529	–	7,329
	Retail	–	–	812	1,152	33,171	–	35,135
	Public works	–	–	17,030	24,134	29,673	–	70,837
	Finance	–	–	–	7,716	1,715	–	9,431
	Others	6,188	7,618	2,727	2,315	22,794	709	42,351
	Total revenue	91,367	70,530	20,569	43,866	134,208	709	361,249
	Total revenue from contracts with customers	91,367	70,530	20,569	43,866	134,208	709	361,249

In each of the above segments, services are provided based on business models of dispatching, contracting, recruiting service, etc.
In the business model of dispatching, the performance obligation is to supply workers over the contract term, and this performance obligation is satisfied with the lapse of working hours over the contract term. Revenue is recorded monthly on the basis of the amount specified in the temporary worker dispatching contract during the period in which the performance obligation is satisfied.
The consideration for the transactions is paid mostly within 2 months from the end of each month (i.e., from the period the performance obligation is satisfied).
Since, in the business model of contracting, the performance obligation is basically to complete the work outsourced by a customer by the end of the contract term, it is judged to be at the time the outsourced work is completed and inspected upon receipt by the customer that the performance obligation is satisfied. Revenue is thus recorded at that point on the basis of the amount specified in the outsourcing contract.
In addition, whereas, construction contracts are offered for some services in the Domestic Service Operations Outsourcing Business, which are based on the contracting business model, such as services to U.S. military facilities and other governmental agencies, the performance obligation in such a transaction is judged to be satisfied with the achievement of milestones in construction during the contract term.
Under the relevant contract, the Group is contractually restricted to transfer construction items to another customer and has an enforceable right to receive payment for the work completed. For this reason, revenues from construction items are recognized by using the cost-to-cost method over a certain period of time (namely, based on the proportion of the contract cost incurred for the work completed to date to the total estimated contract cost). At the point of time at which a specific milestone is achieved, the statement of work signed by a third party assessor and the invoice for the payment for the milestone will be sent to the customer.
The Group recognizes contract assets for the work performed in advance. The amount recognized in advance as contract assets is reclassified to trade receivables at the time the customer is charged.
If the milestone payment exceeds revenues recognized to date by the cost-to-cost method, the Group recognizes contract liabilities for the difference. Since the period from the recognition of revenues by the cost-to-cost method to the milestone payment is less than 1 year, a significant financing component is not considered to exist in a construction contract with a customer.
The consideration for the transactions is paid mostly within 2 months from the inspection upon receipt by the customer (i.e., from the point the performance obligation is satisfied).
Since, in the business model of recruiting service, the performance obligation is recruiting outsourcing for human resources to be directly employed by the customer, it is judged to be at the time when the introduced person starts working as an employee of the entity to which he/she is placed that the performance obligation is satisfied. Revenue is thus recorded at that point of time. Since it is provided that a part of consideration be refunded to the customer if the introduced person leaves his/her job within a certain guarantee period specified in the contract, the amount equivalent to the refund is recognized as refund liabilities. Revenue is recorded on the basis of the consideration specified in the

contract less refund liabilities. Liabilities pertaining to refund are estimated on the basis of the refund rate based on the past track record and other information, and revenue is recognized only within the range in which it is highly likely that no significant reversal occurs.
The consideration for the transactions is paid mostly within 2 months from the time when the introduced person starts working (i.e., from the point the performance obligation is satisfied).

(2) Contract Balance

The balances of receivables, contract assets, and contract liabilities arising from contracts with customers are as follows at the beginning and end of the current period.

For the Year ended December 31, 2018

(Millions of yen)

	As of January 1, 2018	As of December 31, 2018
Receivables from Contracts with Customers	31,847	49,062
Contract assets	2,205	2,094
Contract liabilities	771	1,566

For the Year ended December 31, 2019

(Millions of yen)

	As of January 1, 2019	As of December 31, 2019
Receivables from Contracts with Customers	49,062	50,971
Contract assets	2,094	3,225
Contract liabilities	1,566	1,590

Of revenue recognized in the previous and current fiscal years, the amounts included in the balance of contract liabilities as of the beginning of the year were ¥745 million and ¥1,172 million, respectively.
In addition, in the previous and current fiscal years, there was an immaterial amount of revenue recognized from performance obligations satisfied (or partially satisfied) in the past periods.
Contract assets, usually recognized in relation to construction contracts, are the amount pertaining to the right to payment from a customer in cases where the Group’s receipt of payment from the customer is dependent on the fulfilment of a series of obligations. These contract assets of ¥2,094 million and ¥3,225 million are booked in “other current assets” in the consolidated statement of financial position in the previous and current fiscal years, respectively.
The Group recognizes, in advance, contract assets for the work completed, which are then reclassified to trade receivables at the time when the work is inspected upon receipt by the customer and when the customer is charged.
Contract liabilities are mainly related to advances from customers.
These are contract liabilities relevant to the business model of contracting and arise if any payment is received from a customer before the work completed is inspected upon receipt by the customer.
Notably, contract liabilities related to a construction contract are the balance of obligations to the customer in the construction contract. These arise when the payment for a specific milestone exceeds revenue recognized to date by the cost-to-cost method.
The increase in contract liabilities in the previous fiscal year consists mainly of an increase of ¥1,397 million due to the receipt of cash in accordance with construction contracts, etc. and an increase of ¥267 million due to business combination.
The increase in contract assets in the current fiscal year consists mainly of an increase of ¥20,643 million owing to the recognition of revenue in accordance with construction contracts, etc. and a decrease of ¥19,944 million due to reclassification to receivables.

(3) Transaction Prices Allocated to the Remaining Performance Obligations

The total amount of transaction prices allocated to the remaining performance obligations and the period in which the recognition of revenue is expected are as follows. They pertain mainly to construction contracts.

For the Year ended December 31, 2018

(Millions of yen)

	1 year or less	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years	Total
Revenue expected to be recognized with regard to contracts as of December 31, 2018	19,179	2,923	437	45	22,584

For the Year ended December 31, 2019

(Millions of yen)

	1 year or less	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years	Total
Revenue expected to be recognized with regard to contracts as of December 31, 2019	18,689	4,060	912	25	23,686

Notably, the Group applies a practical expedient to transactions which are a part of any contract whose initial expected term is 1 year or less.

There is an immaterial amount of considerations arising from contracts with customers which is not included in transaction prices.

(4) Assets Recognized from Contract Cost

The Group recognizes as assets such a portion of incremental fees paid to intermediaries mainly in order to obtain sales contracts that is expected to be recoverable.

The breakdown of assets recognized from contract cost is as follows.

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Assets recognized from cost to obtain contracts	59	47
Assets recognized from cost to fulfill contracts	83	62
Total	142	109

The amortized amounts of assets recognized from contract cost in the previous and current fiscal years are ¥45 million and ¥42 million, respectively, and no impairment loss has arisen.

27. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Employee benefit expenses	25,244	31,528
Depreciation and amortization	2,902	7,356
Offering expenses	3,917	4,507
Rent expenses on land and buildings	3,312	914
Traveling and transportation expenses	1,459	1,669
Commission fee	2,671	2,022
Other	8,246	10,711
Total	47,751	58,707

28. Other operating income

The breakdown of other operating income is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Gain on sales of non-current assets	14	10
Foreign exchange gains	147	–
Rent fee of real estate	217	3,685
Gain on bargain purchase	390	–
Other	264	892
Total	1,032	4,587

29. Other Operating Expenses

The breakdown of other operating expenses is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Loss on sales of fixed assets	70	8
Loss on disposal of fixed assets	32	48
Foreign exchange losses	–	98
Impairment losses (Note)	721	381
Rent cost of real estate	190	232
Settlement	–	100
Other	77	296
Total	1,090	1,163

(Note) Details on impairment losses are described in Notes “13. Property, Plant and Equipment” and “15. Goodwill and Intangible Assets.”

30. Finance Income and Finance Costs

The breakdown of finance income is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Interest income		
Financial assets measured at amortized cost	58	161
Dividend income		
Equity financial assets measured at fair value through other comprehensive income	8	19
Gains or losses on securities		
Financial assets measured at fair value through profit or loss	–	299
Gain on valuation of derivatives	–	77
Foreign exchange gains	–	141
Total	66	697

The breakdown of finance costs is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	918	1,052
Lease liabilities (under IAS17)	172	–
Lease liabilities	–	475
Provisions		
Asset retirement obligations	15	20
Commissions paid to financial institutions	43	23
Changes in the fair values of contingent considerations	192	142
Losses on valuation		
Derivative assets	166	56
Written put option liabilities on non-controlling interests	19	1,012
Equity financial assets measured at fair value through profit or loss	70	–
Foreign exchange losses	507	–
Total	2,102	2,780

31. Other Comprehensive Income (Loss)

Amounts accrued in the current fiscal year, amounts of reclassification adjustments to profit or loss, and impacts from tax effects for each item of comprehensive income that are included in “other comprehensive income (loss)” for each fiscal year are as follows:

For the Year ended December 31, 2018

	Amount accrued in the current fiscal year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit retirement plans	255	–	255	(49)	206
Change in fair value of equity financial assets measured at fair value through other comprehensive income	(110)	–	(110)	32	(78)
Total of items that will not be reclassified subsequently to profit or loss	145	–	145	(17)	128
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(3,032)	–	(3,032)	–	(3,032)
Change in fair value of debt financial assets measured at fair value through other comprehensive income	20	(20)	0	(0)	0
Total of items that may be reclassified subsequently to profit or loss	(3,012)	(20)	(3,032)	(0)	(3,032)
Total	(2,867)	(20)	(2,887)	(17)	(2,904)

For the Year ended December 31, 2019

	Amount accrued in the current fiscal year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of defined benefit retirement plans	293	–	293	(53)	240
Change in fair value of equity financial assets measured at fair value through other comprehensive income	41	–	41	(13)	28
Total of items that will not be reclassified subsequently to profit or loss	334	–	334	(66)	268
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(607)	0	(607)	–	(607)
Change in fair value of debt financial assets measured at fair value through other comprehensive income	216	(215)	1	0	1
Total of items that may be reclassified subsequently to profit or loss	(391)	(215)	(606)	0	(606)
Total	(57)	(215)	(272)	(66)	(338)

32. Earnings per Share

(1) Basis for Calculation of Basic Earnings per Share

(I) Profit Attributable to Owners of the Parent

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Profit attributable to owners of the parent	7,480	8,336
Profit not attributable to owners of the parent	–	–
Earnings used in the calculation of basic earnings per share	7,480	8,336

(II) Average Number of Ordinary Shares Outstanding for the Period

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Shares	Shares
Average number of ordinary shares outstanding for the period	107,752,596	125,633,377

(2) Basis for Calculation of Diluted Earnings per Share

(I) Diluted Profit Attributable to Owners of the Parent

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Earnings used in the calculation of basic earnings per share	7,480	8,336
Adjustment for profit	–	–
Earnings used in the calculation of diluted earnings per share	7,480	8,336

(II) Diluted Average Number of Ordinary Shares Outstanding for the Period

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Shares	Shares
Average number of ordinary shares outstanding for the period	107,752,596	125,633,377
Ordinary shares deemed to be issued for no consideration due to share acquisition rights	491,188	158,983
Diluted average number of ordinary shares outstanding for the period	108,243,784	125,792,360

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Yen	Yen
Basic earnings per share	69.42	66.35
Diluted earnings per share	69.10	66.26

33. Cash Flow Information

(1) Significant Non-cash Transactions

Significant non-cash transactions (investing and financing transactions that do not require the use of cash or cash equivalents) are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Property, plant and equipment acquired under finance leases	544	–
Acquisition of lease receivables by means of leases	–	15,607
Acquisition of right-of-use assets by means of leases	–	7,272

Note that impacts of non-cash transactions (right-of-use assets, lease receivables, and lease liabilities) recognized on the date of initial adoption as a result of the adoption of IFRS 16 are described in Note “2. Basis of Preparation, (5) Changes in Accounting Policies.”

(2) Payments for Acquisition of Businesses

The major breakdown of assets and liabilities increased by the acquisition of businesses and the relationships between considerations paid and expenses arisen from the acquisition are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Current assets	16,975	1,914
Non-current assets	15,071	653
Goodwill	17,603	5,869
Current liabilities	(15,006)	(1,037)
Non-current liabilities	(4,243)	(307)
Non-controlling interests	(4,131)	(101)
Considerations paid	26,269	6,991
Cash and cash equivalents	(3,530)	(647)
(Net) Payments for acquisition of businesses	22,739	6,344

(3) Proceeds from Acquisition of Businesses

The major breakdown of assets and liabilities increased by the acquisition of businesses and the relationships between considerations paid and revenue from the acquisition are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Current assets	–	700
Non-current assets	–	157
Goodwill	–	388
Current liabilities	–	(724)
Non-current liabilities	–	(604)
Non-controlling interests	–	237
Considerations paid	–	154
Cash and cash equivalents	–	(394)
(Net) Proceeds from acquisition of businesses	–	(240)

(4) Reconciliations of Liabilities Arising from Financing Activities

For the Year ended December 31, 2018

	January 1, 2018	Cash flows	Non-cash changes: Underwriting through business combinations	Non-cash changes: Exchange rate change	Non-cash changes: Change in fair value	Non-cash changes: Other (Note)	Total	December 31, 2018
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Short-term borrowings	14,354	(11,094)	4,575	(383)	–	7,370	468	14,822
Long-term borrowings	33,728	7,425	140	(300)	–	(7,865)	(600)	33,128
Lease liabilities	437	(90)	158	(9)	–	245	304	741
Long-term lease liabilities	1,827	(482)	488	(23)	–	318	301	2,128
Bonds payable	–	6,186	–	–	–	(49)	6,137	6,137
Contingent consideration	158	(248)	–	(135)	438	–	55	213
Written put option liabilities on non-controlling interests	4,564	(1,567)	8,327	(602)	188	–	6,346	10,910
Total	55,068	130	13,688	(1,452)	626	19	13,011	68,079

(Note) Under non-cash changes, “other” includes the reclassification of current portion of long-term borrowings to short-term borrowings and the reclassification of long-term lease liabilities to lease liabilities.

For the Year ended December 31, 2019

	January 1, 2019	Cash flows	Non-cash changes: Underwriting through business combinations	Non-cash changes: Exchange rate change	Non-cash changes: Change in fair value	Non-cash changes: Other	Total	December 31, 2019
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Short-term loans payable (Note 1)	14,822	(13,868)	561	(180)	–	18,811	5,324	20,146
Long-term borrowings (Note 1)	33,128	26,593	595	12	–	(18,829)	8,371	41,499
Lease liabilities (Notes 2 and 3)	33,992	(8,170)	625	(245)	–	9,495	1,705	35,697
Bonds payable	6,137	–	–	–	–	28	28	6,165
Contingent consideration	213	(10)	–	(204)	123	–	(91)	122
Written put option liabilities on non-controlling interests	10,910	(1,285)	222	(293)	1,004	(2,365)	(2,717)	8,193
Total	99,202	3,260	2,003	(910)	1,127	7,140	12,620	111,822

(Note 1) Under non-cash changes for short-term loans payable and long-term loans payable, “other” includes the reclassification of the current portion of long-term borrowings as short-term borrowings.

(Note 2) Under non-cash changes for lease liabilities, “other” mainly includes right-of-use assets and lease receivables acquired under lease in the current fiscal year.

(Note 3) Lease liabilities include the amount of their current portion.
Note that balance at January 1, 2019 is based on the initial adoption of IFRS 16. For the amount, please refer to Note “2. Basis of Preparation, (5) Changes in Accounting Policies.”

34. Share-based Payments

(1) Details on the Share-based Payment Plan

The Company has adopted a share option plan. Share options are granted by a resolution of the Board of Directors, based on the plan approved at the general meeting of shareholders of the Company. All share options issued by the Company are those of equity-settled share-based payments.

In addition, OUTSOURCING TECHNOLOGY Inc., which is a subsidiary, newly adopted a share option plan by the resolution of the general meeting of shareholders on April 19, 2019. At OUTSOURCING TECHNOLOGY Inc. also, share options are granted by the resolution of the Board of Directors of the company on April 26, 2019, based on the plan approved at the general meeting of shareholders of the company.

All share options issued by OUTSOURCING TECHNOLOGY Inc. are also those of equity-settled share-based payments.

(I) The Company

	The 14th Share Acquisition Rights of OUTSOURCING Inc.	The 15th Share Acquisition Rights of OUTSOURCING Inc.
Grantees	Employees, etc.: 45	Directors: 5 Employees, etc.: 45
Number of share options (Notes 1 and 2)	Ordinary shares: 700,000	Ordinary shares: 1,050,000
Grant date	February 28, 2014	February 24, 2015
Vesting conditions	Holders of share acquisition rights must be either directors, auditors, or employees of the Company or its subsidiaries at the time of exercise of the rights.	Holders of share acquisition rights must be either directors, auditors, or employees of the Company or its subsidiaries at the time of exercise of the rights.
Exercise period	From March 1, 2016 to February 28, 2019	From March 1, 2017 to February 29, 2020
Exercise price (Notes 2 and 3)	¥251	¥399

(Note 1) The number of share options is translated to and presented as the number of shares.

(Note 2) Because a 5-1 share split of ordinary shares was conducted on October 1, 2017, “exercise price” and “the number of share options” were adjusted.

(Note 3) The “exercise price” was adjusted as a result of the issuance of new shares through public offering resolved at the meeting of the Board of Directors on September 6, 2018.

(II) OUTSOURCING TECHNOLOGY Inc.

	The 1st Share Acquisition Rights of OUTSOURCING TECHNOLOGY Inc.	The 2nd Share Acquisition Rights of OUTSOURCING TECHNOLOGY Inc.
Grantees	Directors: 4 Employees, etc.: 42	Directors: 4 Employees, etc.: 166
Number of share options (Note 1)	Ordinary shares: 345,000	Ordinary shares: 163,000
Grant date	May 10, 2019	May 10, 2019
Vesting conditions	(Notes 2, 3, and 4)	(Notes 2, 3, and 4)
Exercise period	From May 13, 2019 to April 19, 2024	From April 20, 2021 to April 19, 2024
Exercise price	¥2,780	¥2,780

(Note 1) The number of share options is translated to and presented as the number of shares.

(Note 2) Holders of share acquisition rights must be at the positions of either directors, auditors, or employees of OUTSOURCING TECHNOLOGY Inc. or its subsidiaries or associates at the time of exercise of the rights also. However, this does not apply if the Board of Directors finds that there is a justifiable reason including resignation upon expiration of term of office and mandatory retirement.

(Note 3) Holders of share acquisition rights may exercise them only if ordinary shares of OUTSOURCING TECHNOLOGY Inc. are listed on any financial instruments exchange in Japan, the largest shareholder of the company sells the whole or a part of ordinary shares of the company which that shareholder possesses to a third party (except where ordinary shares of the company are sold upon or after their being listed on a financial instruments exchange in Japan), or if the largest shareholder of the company have other assets delivered to them in exchange for the whole or a part of ordinary shares of the company which the shareholder possesses as a result of merger or other reorganization. This does not apply, however, if the Board of Directors finds that there is a justifiable reason such as where it is necessary to exercise share acquisition rights antecedently, immediately before any of the said events occur from a procedural point of view.

(Note 4) Holders of share acquisition rights may not exercise any share acquisition rights remaining if any of the following state of affairs obtains during the period from the grant date to the expiration date of the exercise period (with certain reasons for exception).

(a) Ordinary shares of OUTSOURCING TECHNOLOGY Inc. are issued for consideration at a price below the above exercise price or share acquisition rights are issued with an exercise price below the above exercise price.

(b) Where ordinary shares of OUTSOURCING TECHNOLOGY Inc. are not listed in any financial instruments exchange in Japan, a trade or other transactions of such shares were carried out for consideration at a price below the above exercise price.

(c) Where ordinary shares of OUTSOURCING TECHNOLOGY Inc. are listed at a financial instruments exchange in Japan, the closing price of ordinary transactions of ordinary shares of the company at the said financial instruments exchange falls below the above exercise price.

(Note 5) If, as a result of the exercise of share acquisition rights, the total number of issued shares of OUTSOURCING TECHNOLOGY Inc. exceeds the total number of authorized shares of the company as of the time of the said exercise, said share acquisition rights may not be exercised.

(2) Number of Share Options and Weighted Average Exercise Price

(I) The Company

	For the Year ended December 31, 2018		For the Year ended December 31, 2019	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning outstanding balance	723,000	365	345,000	373
Granted	–	–	–	–
Exercised	357,500	351	262,500	377
Forfeiture	20,500	404	–	–
Expired	–	–	22,500	251
Ending outstanding balance	345,000	373	60,000	399
Exercisable at end of period	345,000	373	60,000	399

(Note 1) The number of share options is translated to and presented as the number of shares.

(Note 2) The weighted average share price as of the date of exercise for share options exercised during the period was ¥1,701 for the previous fiscal year and ¥1,239 for the current fiscal year.

(Note 3) The weighted average remaining contractual life for unexercised share options was 1.0 years at the end of the previous fiscal year and 0.2 years as at the end of the current fiscal year.

(Note 4) Because a 5-1 share split of ordinary shares was conducted on October 1, 2017, "the number of shares" and "weighted average exercise price" are calculated using the number of shares after the share split.

(II) OUTSOURCING TECHNOLOGY Inc.

	For the Year ended December 31, 2018		For the Year ended December 31, 2019	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Beginning outstanding balance	–	–	–	–
Granted	–	–	508,000	2,780
Exercised	–	–	–	–
Forfeiture	–	–	1,200	2,780
Expired	–	–	–	–
Ending outstanding balance	–	–	506,800	2,780
Exercisable at end of period	–	–	–	–

(Note 1) There were no share options exercised during the period.
(Note 2) The weighted average remaining contractual life for unexercised share options was 4.3 years as at the end of the current fiscal year.

(3) Fair Values and Assumptions of Share Options Granted During the Period
(I) The Company
There is no applicable information for the previous fiscal year and the current fiscal year.

(II) OUTSOURCING TECHNOLOGY Inc.
The weighted average fair value of share options granted during the period was ¥47 for the current fiscal year. The weighted average fair value was estimated using Monte Carlo simulation based on the following assumptions.

	The 1st Share Acquisition Rights of OUTSOURCING TECHNOLOGY Inc.	The 2nd Share Acquisition Rights of OUTSOURCING TECHNOLOGY Inc.
Share price at the grant date (Yen)	2,780	2,780
Exercise price (Yen)	2,780	2,780
Expected volatility (%)	36.7	36.7
Expected life (years)	5.0	5.0
Expected dividend (%)	0.0	0.0
Risk-free interest rate (%)	(0.2)	(0.2)

(4) Expenses Recognized from Share-based Payments
There is no applicable information for the previous and current fiscal years regarding share-based payments expenses included in selling, general and administration expenses in the consolidated statement of profit or loss.

35. Financial Instruments

(1) Capital Management

The Group manages its capital with the goal of maximizing its corporate value through sustainable growth.
The Group's net liabilities and equity in comparison are as follows:

	As of December 31, 2018	As of December 31, 2019
	Millions of yen	Millions of yen
Interest-bearing liabilities	56,956	103,507
Cash and cash equivalents	29,451	40,246
Net liabilities	27,505	63,261
Equity (attributable to owners of the parent)	55,210	60,811

In order to maximize corporate value, the Group's management focuses on cash flows, and, taking the balance between healthy finance and cost of capital into consideration, has a basic principle for capital management to build a stable financial platform and maintain proper capital structure.
The Group is not subject to any material capital requirements imposed by external parties.

(2) Categories of Financial Instruments

The breakdown of financial instruments (excluding cash and cash equivalents) by category is as follows:

As of December 31, 2018

	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Equity financial assets measured at fair value through other comprehensive income	Debt financial assets measured at fair value through other comprehensive income	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Current assets					
Trade and other receivables	–	50,165	–	–	50,165
Contract assets	–	2,094	–	–	2,094
Other financial assets	2,507	2,001	–	–	4,508
Non-current assets					
Other financial assets	890	3,262	980	386	5,518
Total	3,397	57,522	980	386	62,285

	Financial liabilities measured at amortized cost	Financial liabilities measured at fair value through profit or loss	Total
	Millions of yen	Millions of yen	Millions of yen
Current liabilities			
Trade and other payables	11,475	–	11,475
Bonds and borrowings	14,822	–	14,822
Other financial liabilities	741	3,530	4,271
Non-current liabilities			
Bonds and borrowings	39,265	–	39,265
Other financial liabilities	2,302	8,823	11,125
Total	68,605	12,353	80,958

As of December 31, 2019

	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Equity financial assets measured at fair value through other comprehensive income	Debt financial assets measured at fair value through other comprehensive income	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Current assets					
Trade and other receivables	–	51,722	–	–	51,722
Contract assets	–	3,225	–	–	3,225
Other financial assets	–	9,974	–	–	9,974
Non-current assets					
Other financial assets	1,673	13,160	1,000	58	15,891
Total	1,673	78,081	1,000	58	80,812

	Financial liabilities measured at amortized cost	Financial liabilities measured at fair value through profit or loss	Total
	Millions of yen	Millions of yen	Millions of yen
Current liabilities			
Trade and other payables	13,348	–	13,348
Bonds and borrowings	20,146	–	20,146
Other financial liabilities	–	2,978	2,978
Non-current liabilities			
Bonds and borrowings	47,664	–	47,664
Other financial liabilities	168	6,638	6,806
Total	81,326	9,616	90,942

(3) Financial Risk Management

The Group is exposed to financial risks (risks related to credit, liquidity, currency, interest rates and market price fluctuation) during the course of management activities and it conducts risk management in order to mitigate these financial risks, accordingly.

(I) Credit Risk Management

Credit risk is the risk that a customer defaults on its contractual obligations, causing financial loss for the Group.

The Group manages this risk by setting credit limits on counterparties based on the Credit Management Regulations and other rules.

The Group's claims encompass numerous counterparties in a broad range of industries and regions.

The Group does not hold excessively concentrated credit risk on any single counterparty or any group to which the counterparty belongs.

The carrying amounts of financial assets after impairment losses presented in the consolidated financial statements are the maximum exposures to credit risks of the Group's financial assets without taking estimated values of collaterals obtained into consideration.

The maximum exposures to credit risks of financial assets to which the impairment requirements of IFRS 9 are not applicable are the carrying amounts of financial assets presented in the consolidated financial statements.

An age analysis of financial assets that are past due but not impaired as at the end of the reporting period is as follows:

As of December 31, 2018

	Total	Overdue amounts			
		Within 30 days	31 to 60 days	61 to 90 days	Over 90 days
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Trade and other receivables	4,864	3,543	498	305	518
Contract assets	5	5	–	–	–
Other financial assets	–	–	–	–	–

As of December 31, 2019

	Total	Overdue amounts			
		Within 30 days	31 to 60 days	61 to 90 days	Over 90 days
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Trade and other receivables	4,879	3,262	777	440	400
Contract assets	–	–	–	–	–
Other financial assets	–	–	–	–	–

For trade receivables as well as contract assets and other financial assets, a loss allowance is recorded by measuring the future expected credit losses in light of recoverability, significant increases in credit risks, etc. It is assessed by changes in default risk whether or not credit risks have increased significantly. For this purpose, the financial status, the past track record of bad debt losses recorded, and the past due information of counterparties are considered in making a judgment.
A loss allowance on trade receivables and contract assets is always measured at an amount equal to the lifetime expected credit losses on an individual basis or on a collective basis, in accordance with the details and/or scale of transactions. Even if the lifetime expected credit losses are measured on a collective basis, if one or more of the following events have occurred which adversely affect the expected future cash flow of trade receivables and contract assets, expected credit losses are measured for individual receivables as credit-impaired trade receivables and contract assets.

・significant financial difficulty of the borrower
・a breach of contract such as a default or past due event
・the probability that the borrower will enter bankruptcy or other financial reorganization

If a financial asset is impaired, the Group accounts for it not by directly reducing the carrying amount of the asset but by presenting it as loss allowance. The changes in loss allowance in the current fiscal year are as follows:

Trade receivables and contract assets
For the Year ended December 31, 2018

Loss allowance	Financial assets for which a loss allowance is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of year	178	24	202
Increase during year	254	11	265
Decrease during year (payment)	–	(24)	(24)
Decrease during year (reversal)	(178)	–	(178)
Transfer to credit-impaired financial assets	–	–	–
Direct amortization	–	–	–
Others (interest cost in the discount calculation period and foreign exchange translation differences)	(11)	0	(11)
Balance at end of year	243	11	254

For the Year ended December 31, 2019

Loss allowance	Financial assets for which a loss allowance is always measured at an amount equal to the lifetime expected credit losses	Credit-impaired financial assets	Total
	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of year	243	11	254
Increase during year	415	105	520
Decrease during year (payment)	–	(11)	(11)
Decrease during year (reversal)	(243)	–	(243)
Transfer to credit-impaired financial assets	–	–	–
Direct amortization	–	–	–
Others (interest cost in the discount calculation period and foreign exchange translation differences)	(8)	(1)	(9)
Balance at end of year	407	104	511

Other financial assets
For the Year ended December 31, 2018

Loss allowance	Financial assets for which a loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which a loss allowance is measured at an amount equal to the lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of year	12	–	4	16
Increase during year	1	–	–	1
Decrease during year (payment)	–	–	–	–
Decrease during year (reversal)	(12)	–	(4)	(16)
Transfer to the lifetime expected credit loss	–	–	–	–
Transfer to credit-impaired financial assets	–	–	–	–
Transfer to 12-month expected credit loss	–	–	–	–
Direct amortization	–	–	–	–
Others (interest cost in the discount calculation period and foreign exchange translation differences)	(0)	–	–	(0)
Balance at end of year	1	–	–	1

For the Year ended December 31, 2019

Loss allowance	Financial assets for which a loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which a loss allowance is measured at an amount equal to the lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at beginning of year	1	–	–	1
Increase during year	4	–	–	4
Decrease during year (payment)	–	–	–	–
Decrease during year (reversal)	(1)	–	–	(1)
Transfer to the lifetime expected credit loss	–	–	–	–
Transfer to credit-impaired financial assets	–	–	–	–
Transfer to 12-month expected credit loss	–	–	–	–
Direct amortization	–	–	–	–
Others (interest cost in the discount calculation period and foreign exchange translation differences)	–	–	–	–
Balance at end of year	4	–	–	4

(II) Liquidity Risk Management

Liquidity risk is the risk that the Group becomes unable to meet its repayment obligations on financial liabilities that are due.

The Group manages liquidity risk by preparing appropriate repayment funds, securing credit facilities that are available to use at any time from financial institutions, and by continuously monitoring projected and actual cash flows.

The balances of financial liabilities by due date are as follows:

As of December 31, 2018

	Carrying amount	Contractual amounts	1 year or less	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	11,475	11,475	11,475	–	–	–	–	–
Other financial liabilities	12,481	12,862	4,055	1,264	2,727	1,732	2,921	163
Short-term borrowings	6,541	6,670	6,670	–	–	–	–	–
Long-term borrowings (including the current portion)	41,409	42,809	8,777	8,370	8,640	8,502	6,257	2,263
Bonds (including the current portion)	6,137	6,316	47	47	6,222	–	–	–
Lease liabilities (including the current portion)	2,869	3,609	1,047	977	824	592	169	0
Total	80,912	83,741	32,071	10,658	18,413	10,826	9,347	2,426

As of December 31, 2019

	Carrying amount	Contractual amounts	1 year or less	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	13,348	13,348	13,348	–	–	–	–	–
Other financial liabilities	9,727	9,927	2,931	1,847	2,041	2,949	2	157
Short-term borrowings	8,540	8,665	8,665	–	–	–	–	–
Long-term borrowings (including the current portion)	53,105	54,421	12,146	12,061	12,938	9,626	5,551	2,099
Bonds (including the current portion)	6,165	6,270	47	6,223	–	–	–	–
Lease liabilities (including the current portion)	35,697	37,433	16,271	13,729	2,835	1,529	945	2,124
Total	126,582	130,064	53,408	33,860	17,814	14,104	6,498	4,380

(III) Foreign Currency Risk Management

Since the Group conducts business globally, it is exposed to currency fluctuation risks mainly related to foreign-currency-denominated trade receivables and payables.

For the purpose of managing such risk, the Group continuously monitors foreign exchange rates.

The Group's major currency risk exposures are as follows:

As of December 31, 2018

	USD	EUR
	Millions of yen	Millions of yen
Monetary financial instruments denominated in foreign currencies		
Assets	2,408	3,480
Liabilities	300	4,079

As of December 31, 2019

	USD	EUR
	Millions of yen	Millions of yen
Monetary financial instruments denominated in foreign currencies		
Assets	1,259	2,497
Liabilities	156	3,459

Foreign Currency Sensitivity Analysis

In the financial instruments held by the Group at the end of each fiscal year, the impact on the profit before tax in the consolidated statement of profit or loss, assuming 5% appreciation of major non-functional currencies against the functional currency, is as follows:

The analysis does not include the financial instruments denominated in the functional currency or the impact of Japanese yen conversion of assets, liabilities, revenues, and expenses of overseas operations. In addition, it assumes that the currencies other than those used in the calculation do not change against each other.

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Profit before tax		
USD	105	55
EUR	(30)	(48)

Derivative transactions to which hedge accounting is not applied

	As of December 31, 2018		As of December 31, 2019	
	Contractual amounts, etc. (over 1 year)	Fair value	Contractual amounts, etc. (over 1 year)	Fair value
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Cross-currency interest rate swaps	3,010 (2,723)	(46)	2,723 (2,317)	(57)

(IV) Interest Rate Risk Management

The Group is exposed to various interest rate fluctuation risks in its business activities, and fluctuations in interest rates, in particular, have significant impacts on borrowing costs.

To mitigate interest rate fluctuation risks, the Group manages such risks by maintaining an appropriate mix of variable and fixed-rate borrowings depending on the financial environment.

Interest Rate Sensitivity Analysis

The impact on profit before tax in the consolidated statement of profit or loss, assuming 1% fluctuation of interest rates for each reporting period, is as follows:

This analysis assumes that other fluctuation factors (such as balances and exchange rates) are held constant.

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Profit before tax	(182)	(246)

(V) Management of Market Price Fluctuation Risks

The Group is exposed to share price fluctuation risks caused by equity financial instruments (equity securities).

The equity financial instruments owned by the Group are held for strategic purposes, not for short-term trading purposes. It includes listed and non-listed shares, and the holding status is reviewed periodically considering the market prices, the financial status of the issuers, and other factors.

For marketable securities traded in active markets, assuming that all other variables are held constant, the impact of 10% decline of the market price on other comprehensive income in the consolidated statement of comprehensive income (loss) (before tax effect) is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Impact (a decrease) on other comprehensive income (before tax effect)	(21)	(40)

(4) Fair Values of Financial Instruments

The carrying amounts and fair values of financial instruments are as follows:

	As of December 31, 2018		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:				
Financial assets measured at amortized cost				
Loans receivable (including the current portion)	244	242	408	405
Leasehold deposits and guarantees	3,002	2,986	3,550	3,518
Deposits paid	18	18	336	336
Lease receivables (including the portion expected to be collected within 1 year)	–	–	17,850	17,838
Debt financial assets measured at fair value through other comprehensive income				
Debt securities, etc.	386	386	58	58
Equity financial assets measured at fair value through other comprehensive income				
Shares	980	980	1,000	1,000
Financial assets measured at fair value through profit or loss				
Derivative financial assets				
Time Deposits with special provisions	2,507	2,507	–	–
Other	140	140	179	179
Investments in capital	670	670	1,475	1,475
Other financial assets	79	79	19	19
Total	8,026	8,008	24,875	24,828
Financial liabilities:				
Financial liabilities measured at amortized cost				
Long-term borrowings (including the current portion)	41,409	41,342	53,105	53,079
Bonds (including the current portion)	6,137	6,137	6,165	6,165
Lease liabilities (including the current portion)	2,869	2,712	–	–
Long-term accounts payable (including the current portion)	21	21	19	18
Other	153	153	149	149
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities				
Cross-currency interest rate swaps	46	46	57	57
Contingent considerations (including the current portion)	1,397	1,397	1,366	1,366
Written put option liabilities on non-controlling interests	10,910	10,910	8,193	8,193
Total	62,942	62,718	69,054	69,027

Calculation Methods for Fair Value

a. Equity Securities, Investments in Capital, Debt Securities, etc.

For financial assets measured at fair value, fair values of marketable financial instruments are estimated using market prices and categorized as Level 1. If the market price does not exist, fair value is estimated using methods such as using the latest transaction prices of independent third-party transactions, the comparable peer-company analysis method, the method based on the interest in the equity in light of the latest available information, and the method based on the discounted present value of future cash flows, and is categorized as either Level 2 or Level 3, depending on the method of evaluation.

For securities without quoted market prices, those with fair values evaluated at the value calculated using observable market data are categorized as Level 2, and those with fair values evaluated at the value calculated mainly by the income approach using unobservable inputs are categorized as Level 3.

For financial instruments categorized as Level 3, significant changes in fair values are not anticipated when the unobservable inputs are replaced with reasonably possible alternative assumptions.

b. Cross-currency interest rate swaps

It is evaluated at the value calculated using estimated prices obtained from financial institutions and observable market data.

c. Loans Receivable, Leasehold Deposits and Guarantees, and Lease receivables

Fair values of applicable receivables and payables are classified by certain period, and calculated at the present value discounted by the risk-free rate.

d. Long-Term Borrowings and Bonds

Fair values of borrowings and bonds are classified by certain period, and calculated at the present value of payables discounted by the interest rate, taking the remaining period to maturity and credit risk into consideration.

e. Lease Liabilities

Fair values of lease liabilities are classified by certain period, and calculated at the present value of payables discounted by the interest rate, taking the remaining period to maturity and credit risk into consideration.

f. Long-Term Accounts Payable

Fair values of long-term accounts payable are classified by certain period, and calculated at the present value of payables discounted by the interest rate, taking the remaining period to maturity and credit risk into consideration.

g. Contingent consideration

Contingent considerations associated with business combinations are measured quarterly at fair value in accordance with the Group's accounting policy, reported to and approved by persons of higher-rank.

Significant changes in fair values are not anticipated when the unobservable inputs are replaced with reasonably possible alternative assumptions.

h. Written Put Options on Non-Controlling Interests

Written put options of subsidiary shares are calculated based on the present value of the price that could be required to be paid to the counterparty.

i. Time Deposits with special provisions

Fair values of time deposits with special provisions are calculated based on the present value using contractual future cash flows, interest rate and observable market data.

Evaluation process

For financial instruments categorized as Level 3, external evaluation experts or appropriate evaluators conduct the evaluation and the analysis of its result in accordance with the evaluation policies and procedures approved by the responsible member of the General Accounting Department. The result of evaluation is reviewed and approved by the responsible member of the General Accounting Department.

(I) Fair Value Measurements by Fair Value Hierarchy

For financial instruments measured at fair value, inputs used for their measurements are categorized from Level 1 to Level 3 based on their observability and significance.

Level 1: Market prices of identical assets or liabilities in active markets
Level 2: Fair value calculated directly or indirectly using observable prices other than Level 1
Level 3: Fair value calculated from valuation techniques including unobservable inputs

Financial instruments measured at fair value on a recurring basis are as follows:

As of December 31, 2018

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:				
Debt financial assets measured at fair value through other comprehensive income				
Debt securities, etc.	–	–	386	386
Equity financial assets measured at fair value through other comprehensive income				
Shares	130	–	850	980
Financial assets measured at fair value through profit or loss				
Derivative financial assets				
Time Deposits with special provisions	–	2,507	–	2,507
Other	–	–	140	140
Investments in capital	–	–	670	670
Other financial assets	–	–	79	79
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities				
Cross-currency interest rate swaps	–	46	–	46
Contingent considerations (including the current portion)	–	–	1,397	1,397
Written put option liabilities on non-controlling interests	–	–	10,910	10,910

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:				
Debt financial assets measured at fair value through other comprehensive income				
Debt securities, etc.	–	–	58	58
Equity financial assets measured at fair value through other comprehensive income				
Shares	367	–	633	1,000
Financial assets measured at fair value through profit or loss				
Derivative financial assets				
Other	–	–	179	179
Investments in capital	–	–	1,475	1,475
Other financial assets	–	–	19	19
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities				
Cross-currency interest rate swaps	–	57	–	57
Contingent considerations (including the current portion)	–	–	1,366	1,366
Written put option liabilities on non-controlling interests	–	–	8,193	8,193

Financial instruments measured at amortized cost are as follows:

As of December 31, 2018

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:					
Financial assets measured at amortized cost					
Loans receivable (including the current portion)	–	–	242	242	244
Leasehold deposits and guarantees	–	–	2,986	2,986	3,002
Deposits paid	–	–	18	18	18
Financial liabilities:					
Financial liabilities measured at amortized cost					
Long-term borrowings (including the current portion)	–	–	41,342	41,342	41,409
Bonds (including the current portion)	–	–	6,137	6,137	6,137
Lease liabilities (including the current portion)	–	–	2,712	2,712	2,869
Long-term accounts payable (including the current portion)	–	–	21	21	21
Other	–	–	153	153	153

As of December 31, 2019

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:					
Financial assets measured at amortized cost					
Loans receivable (including the current portion)	–	–	405	405	408
Leasehold deposits and guarantees	–	–	3,518	3,518	3,550
Deposits paid	–	–	336	336	336
Lease receivables (including the portion expected to be collected within 1 year)	–	–	17,838	17,838	17,850
Financial liabilities:					
Financial liabilities measured at amortized cost					
Long-term borrowings (including the current portion)	–	–	53,079	53,079	53,105
Bonds (including the current portion)	–	–	6,165	6,165	6,165
Long-term accounts payable (including the current portion)	–	–	18	18	19
Other	–	–	149	149	149

(II) Changes of Financial Instruments Categorized as Level 3

Changes in financial instruments categorized as Level 3 between the beginning and end of each fiscal year are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Balance at beginning of year	691	2,125
Increase due to business combinations	499	13
Total gains and losses for the year:	(109)	221
Included in profit or loss (Note 1)	(70)	338
Included in other comprehensive income (Note 2)	(39)	(117)
Purchases	1,125	514
Sales	(81)	(407)
Other	–	(102)
Balance at end of year	2,125	2,364

(Note 1) Gains and losses included in profit or loss pertain to financial assets measured through profit or loss at the end of the reporting period. Those gains and losses are included in “finance income” and “finance costs.”

(Note 2) Gains and losses included in other comprehensive income are primarily related to equity securities, held as at the end of the reporting period that were not traded in the market. Those gains and losses are included in “change in fair value of financial assets measured at fair value through other comprehensive income.”

Changes in the contingent considerations associated with business combinations categorized as Level 3 between the beginning and end of each fiscal year are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Balance at beginning of year	483	1,397
Acquisition (Notes 1 and 2)	1,183	1,294
Changes in fair value	438	(219)
Exchange differences on translation	(92)	(65)
Settlement (Notes 3 and 4)	(615)	(1,041)
Balance at end of year	1,397	1,366

(Note 1) Acquisitions in the previous fiscal year are contingent considerations associated with the acquisition of JIGSAW GROUP, COLLECT SERVICES GROUP, KINETIC EMPLOYMENT LIMITED, PM-P GROUP, and PHOENIX GROUP.

(Note 2) Major acquisitions during the current fiscal year are contingent considerations associated with the acquisition of MARBLE GROUP and ORION CONSTRUCTION CORPORATION (GUAM).

(Note 3) Settlements in the previous fiscal year are contingent considerations regarding BLUEFIN GROUP and JIGSAW GROUP.

(Note 4) Major settlements in the current fiscal year are contingent considerations regarding PM–P GROUP, PHOENIX GROUP, and ORION CONSTRUCTION CORPORATION (GUAM).

Changes in written put option liabilities on non-controlling interests categorized as Level 3 between the beginning and end of each fiscal year are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Balance at beginning of year	4,563	10,910
Acquisition (Notes 1 and 2)	8,328	222
Changes in fair value	188	1,004
Exchange differences on translation	(602)	(293)
Settlement (Notes 3 and 4)	(1,567)	(1,285)
Forfeiture (Note 5)	–	(2,365)
Balance at end of year	10,910	8,193

(Note 1) Acquisitions in the previous fiscal year are written put option liabilities on non-controlling interests in OTTO GROUP, ALLEN LANE GROUP, and CES GROUP.

(Note 2) Acquisition in the current fiscal year is written put option liabilities on non-controlling interests in HELPNET GROUP.

(Note 3) Settlements in the previous fiscal year are written put option liabilities on non-controlling interests related to HRS GROUP and BEDDISON GROUP.

(Note 4) Settlements in the current fiscal year are written put option liabilities on non-controlling interests in VERACITY GROUP and OTTO GROUP.

(Note 5) Forfeitures in the current fiscal year are written put option liabilities on non-controlling interests in GE GROUP, VERACITY GROUP, ALLEN LANE GROUP, and BEDDISON GROUP.

(5) Offsetting Financial Assets and Financial Liabilities

Since the Group has legally enforceable rights to offset recognized amounts of a part of financial assets and financial liabilities, and has the intention to settle on a net basis or realize the assets and settle the liabilities simultaneously, those financial assets and financial liabilities are offset for presentation in the consolidated statement of financial position at a net amount.

For financial assets and financial liabilities recognized against the same counterparty, the breakdown of the amounts offset by type of financial instrument in the consolidated statement of financial position as at the end of the previous fiscal year and the current fiscal year are as follows:
There is no such related amount that is not offset in the consolidated statement of financial position.

As of December 31, 2018

Breakdown	Financial assets		
	Total financial assets	Total financial liabilities offset in consolidated statement of financial position	Net financial assets presented in consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Trade and other receivables	37	14	22
Total	37	14	22

Breakdown	Financial liabilities		
	Total financial liabilities	Total financial assets offset in consolidated statement of financial position	Net financial liabilities presented in consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	14	14	–
Total	14	14	–

As of December 31, 2019

Breakdown	Financial assets		
	Total financial assets	Total financial liabilities offset in consolidated statement of financial position	Net financial assets presented in consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Trade and other receivables	30	13	16
Total	30	13	16

Breakdown	Financial liabilities		
	Total financial liabilities	Total financial assets offset in consolidated statement of financial position	Net financial liabilities presented in consolidated statement of financial position
	Millions of yen	Millions of yen	Millions of yen
Trade and other payables	13	13	–
Total	13	13	–

Rights to set off recognized financial assets and recognized financial liabilities that are included in an enforceable master netting agreement or a similar agreement have enforceability and impacts on realization or settlement of each financial asset or liability only if debt default or other specific circumstances, which are not expected to arise in the normal course of business activities, occur.

36. Subsidiaries

Descriptions of major subsidiaries and affiliates are omitted because similar contents are included in "Part 1. Company Overview, Item 4. Status of Subsidiaries and Associates."

There is no subsidiary that has material non-controlling interests individually in the previous and current fiscal years.

37. Related Parties

(1) Transactions with related parties

Transactions with related parties are as follows.

For the Year ended December 31, 2018

Type	Name	Occupation	Details of transactions with related parties	Transaction amount	Outstanding amount
				Millions of yen	Millions of yen
Officer	Masaki Motegi	Senior Managing Director	Exercise of share acquisition rights	11	–
Officer	Hidekazu Koga (Note 2)	Director	Exercise of share acquisition rights	11	–

(Note 1) Terms and conditions of transactions, the policy on determining terms and conditions of transactions, etc.
These are the exercises of share acquisition rights, granted by the resolution of the Board of Directors on February 2, 2015, in the current fiscal year. The "Transaction amount" column shows the paid-in amount on exercise of share acquisition rights in the previous fiscal year.

(Note 2) Hidekazu Koga, a former director of the Company no longer qualifies as a related party since he retired as a director at the 21st ordinary general meeting of shareholders held on March 28, 2018. For this reason, the transaction amount indicated represents his transaction during the period in which he was a related party.

For the Year ended December 31, 2019

Not applicable.

(2) Compensation for key management executives

Compensation for key management executives is as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
	Millions of yen	Millions of yen
Short-term compensation	316	333
Share-based Payments	–	–
Total	316	333

(Note) Compensation for key management executives means for directors of OUTSOURCING Inc.

38. Contingencies

Not applicable.

39. Subsequent Events

At the meeting of the Board of Directors of the Company on December 16, 2019, it was resolved to acquire 100% of outstanding shares of ADVANTIS CREDIT LIMITED via J.B.W. GROUP LIMITED, a consolidated subsidiary, and convert it into a subsidiary, and the Company concluded a share transfer agreement on December 18, 2019. The acquisition of shares was subsequently completed on January 13, 2020.

(1) Purpose of Share Acquisition

To accelerate both stabilization and expansion of the Group’s businesses.

(2) Name of the Other Party to the Share Acquisition

Hilary Jane Jackson and one other person

(3) Name, Line of Business, Size of Business, and Location of the Company whose Shares were Acquired

(I) Name ADVANTIS CREDIT LIMITED

(II) Main line of business Debt collection for the central government and the private sector

(III) Size of business (fiscal year ended September 30, 2019)

Issued capital £100

Sales £9,764 thousand

(IV) Location Minton Hollins Building, Shelton Old Road, Stoke on Trent, Staffordshire, ST4 7RY

(4) Period of share acquisition

January 13, 2020

(5) Number of Shares Acquired, Consideration for Acquisition, and Voting Right Ratio after Acquisition

(I) Number of shares acquired 10,418

(II) Consideration for acquisition £18,083 thousand in cash

Besides the above, contingent consideration up to £2,000 thousand to be paid is expected to arise in 2020 in accordance with the debt collection rate and the status of results achieved in the last 12 months.

(III) Voting right ratio after acquisition 100.0%

(6) Acquisition Financing

The acquisition was financed by borrowing from financial institutions.

(2) [Others]

Quarterly Information in the Current Fiscal Year, Etc.

(Cumulative period)	First quarter	Second quarter	Third quarter	Current fiscal year
Revenue (Millions of yen)	86,404	177,585	267,494	361,249
Profit before tax (Millions of yen)	1,337	3,401	6,998	13,478
Profit attributable to owners of the parent (Millions of yen)	456	1,400	3,392	8,336
Basic earnings per share (Yen)	3.62	11.15	27.00	66.35

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	3.62	7.52	15.84	39.32

(Note) Provisional accounting related to business combination was finalized in the second and third quarter ended June 30, 2019 and September 30, 2019, respectively. For quarterly information items related to the first and second quarters, numbers indicated reflect the material revision of the initial allocation of acquisition cost as a result of the finalization of provisional accounting.

2 [Non-consolidated Financial Statements]
(1) [Non-consolidated Financial Statements]
(I) [Non-consolidated Balance Sheet]

(Millions of yen)

		As of December 31, 2018		As of December 31, 2019
Assets				
Current assets				
Cash and deposits		7,579		5,004
Notes receivable		542		517
Accounts receivable - trade	*3	4,722	*3	4,778
Supplies		26		28
Prepaid expenses		718		788
Short-term loans receivable from subsidiaries and associates		7,738		9,078
Advances paid to subsidiaries and associates		1,352		1,473
Other	*3	847	*3	1,909
Allowance for doubtful debts		(141)		(245)
Total current assets		23,386		23,333
Non-current assets				
Property, plant and equipment				
Buildings		696		897
Structures		12		11
Vehicles		18		27
Tools, furniture and fixtures		67		301
Land		112		112
Lease assets		9		6
Total property, plant and equipment		917		1,357
Intangible assets				
Goodwill		215		1,957
Software		604		853
Software in progress		129		98
Other		13		801
Total intangible assets		962		3,710
Investments and other assets				
Investment securities		580		583
Shares of subsidiaries and associates	*2	54,422	*2	51,512
Investments in capital		755		1,235
Long-term loans receivable from subsidiaries and associates		23,597		32,641
Long-term prepaid expenses		86		66
Leasehold deposits and guarantees		2,008		1,985
Other		126		110
Allowance for doubtful debts		(14)		–
Total investments and other assets		81,562		88,135
Total non-current assets		83,442		93,204
Total assets		106,828		116,537

(Millions of yen)

		As of December 31, 2018		As of December 31, 2019
Liabilities				
Current liabilities				
Short-term loans payable		–		3,600
Short-term loans payable to subsidiaries and associates		3,080		1,960
Current portion of long-term loans payable	*2	7,004		8,881
Lease liabilities		3		3
Accounts payable - other	*3	3,358	*3	3,698
Accrued expenses		52		41
Income taxes payable		126		255
Accrued consumption taxes		870		631
Deposits received		101		706
Other		64		23
Total current liabilities		14,661		19,802
Non-current liabilities				
Bonds payable		6,200		6,200
Long-term loans payable	*2	29,309		31,922
Lease liabilities		6		3
Provision for retirement benefits		285		703
Deferred tax liabilities		369		358
Other		330		445
Total non-current liabilities		36,502		39,634
Total liabilities		51,164		59,437
Net assets				
Shareholders' equity				
Capital stock		25,123		25,187
Capital surplus				
Legal capital surplus		25,233		25,297
Other capital surplus		1,589		1,589
Total capital surplus		26,823		26,887
Retained earnings				
Other retained earnings				
General reserve		105		105
Retained earnings brought forward		3,568		4,907
Total retained earnings		3,673		5,012
Treasury shares		(0)		(0)
Total shareholders' equity		55,619		57,087
Valuation and translation adjustments				
Valuation difference on available-for-sale securities		7		5
Total valuation and translation adjustments		7		5
Share acquisition rights		37		7
Total net assets		55,664		57,100
Total liabilities and net assets		106,828		116,537

(II) [Non-consolidated Statement of Income]

(Millions of yen)

		For the Year ended December 31, 2018		For the Year ended December 31, 2019
Net sales	*1	41,411	*1	44,719
Cost of sales	*1	29,904	*1	33,019
Gross profit		11,507		11,699
Selling, general and administrative expenses	*1, *2	9,842	*1, *2	12,090
Operating profit (loss)		1,664		(390)
Non-operating income				
Interest income	*1	302	*1	558
Dividend income	*1	814	*1	5,361
Rent fee of real estate		360		505
Reversal of allowance for doubtful debts		525		–
Other	*1	12	*1	13
Total non-operating income		2,015		6,439
Non-operating expenses				
Interest expenses	*1	373	*1	349
Rent cost of real estate		327		456
Foreign exchange loss		1,493		406
Commission fee		459		226
Share issuance cost		353		–
Other		67		112
Total non-operating expenses		3,074		1,551
Ordinary profit		605		4,497
Extraordinary income				
Gain on sales of non-current assets	*3	2	*3	1
Gain on extinguishment of tie-in shares		–		80
Total extraordinary income		2		81
Extraordinary losses				
Loss on sales and disposal of non-current assets	*4	66	*4	11
Loss on valuation of shares of subsidiaries and associates		13		81
Provision of allowance for doubtful debts		–		110
Settlement		–		100
Other		–		23
Total extraordinary losses		80		325
Profit before income taxes		528		4,253
Income taxes - current		318		406
Income taxes - deferred		(40)		(128)
Total income taxes		277		277
Profit for the year		250		3,975

[Detailed Schedule of Cost of Sales]

		For the Year ended December 31, 2018		For the Year ended December 31, 2019	
Category	Notes	Amount (millions of yen)	Percentage (%)	Amount (millions of yen)	Percentage (%)
I Labor costs		28,484	95.3	30,738	93.1
II Expenses		1,419	4.7	2,281	6.9
Cost of sales		29,904	100.0	33,019	100.0

(III) [Non-consolidated Statement of Changes in Equity]
For the Year ended December 31, 2018

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at beginning of current period	7,130	7,241	1,589	8,830	105	5,255	5,360
Changes of items during period							
Issuance of new shares	17,992	17,992		17,992			
Dividends of surplus						(1,937)	(1,937)
Profit for the year						250	250
Net changes of items other than shareholders' equity							
Total changes of items during period	17,992	17,992	–	17,992	–	(1,687)	(1,687)
Balance at end of current period	25,123	25,233	1,589	26,823	105	3,568	3,673

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(0)	21,321	8	8	74	21,405
Changes of items during period						
Issuance of new shares		35,985				35,985
Dividends of surplus		(1,937)				(1,937)
Profit for the year		250				250
Net changes of items other than shareholders' equity			(1)	(1)	(37)	(38)
Total changes of items during period	–	34,298	(1)	(1)	(37)	34,259
Balance at end of current period	(0)	55,619	7	7	37	55,664

For the Year ended December 31, 2019

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
					Other retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus	General reserve	Retained earnings brought forward	
Balance at beginning of current period	25,123	25,233	1,589	26,823	105	3,568	3,673
Changes of items during period							
Issuance of new shares	63	63		63			
Dividends of surplus						(2,636)	(2,636)
Profit for the year						3,975	3,975
Net changes of items other than shareholders' equity							
Total changes of items during period	63	63	–	63	–	1,339	1,339
Balance at end of current period	25,187	25,297	1,589	26,887	105	4,907	5,012

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(0)	55,619	7	7	37	55,664
Changes of items during period						
Issuance of new shares		127				127
Dividends of surplus		(2,636)				(2,636)
Profit for the year		3,975				3,975
Net changes of items other than shareholders' equity			(1)	(1)	(30)	(31)
Total changes of items during period	–	1,467	(1)	(1)	(30)	1,435
Balance at end of current period	(0)	57,087	5	5	7	57,100

[Notes to Non-consolidated Financial Statements]

(Significant Accounting Policies)

1. Evaluation Criteria and Methods of Assets

(1) Shares of Subsidiaries and Associates

Moving-average cost method

(2) Other Securities

Securities with market value

Market price method using the market price, etc., at the end of the period (valuation differences are included directly in equity, and cost of securities sold are calculated using the moving-average method)

Securities without market value

Moving-average cost method

Investments in investment business limited partnership and similar partnerships (those deemed as securities based on Article 2, Paragraph 2, of the Financial Instruments and Exchange Act) are stated at the net equity value based on the most recently available financial statements depending on the financial reporting date stipulated in the partnership agreements.

(3) Inventories

Supplies

Last purchase price method

2. Depreciation Method for Non-current Assets

(1) Property, Plant and Equipment (Excluding Lease Assets)

Declining-balance method

However, the straight-line method is applied for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

Major useful lives are as follows:

Buildings	3 to 39 years
Structures	10 to 50 years
Vehicles	2 to 6 years
Tools, furniture and fixtures	2 to 20 years

(2) Intangible Assets (Excluding Lease Assets)

Straight-line method

Software (portion used by the Company) is amortized over the estimated useful life within the company (five years).

(3) Lease Assets

Lease assets arising from finance lease transactions which do not transfer ownership are depreciated using the straight-line method with the lease term as the useful life and residual value of zero.

Finance lease transactions which do not transfer ownership and the lease commencement date is before the first year that "Accounting Standards for Lease Transactions" (ASBJ Statement No. 13) is adopted, are accounted for using the method for ordinary lease transactions.

(4) Long-term Prepaid Expenses

Straight-line method

3. Standards Related to Provisions

(1) Allowance for Doubtful Debts

To prepare for losses from bad debt, an estimated uncollectible amount is recorded based on historical loss experience for general receivables, and based on individual consideration of the recoverability for specific receivables such as doubtful accounts.

(2) Provision for Retirement Benefits

To prepare for employee retirement benefits, an amount based on the expected retirement benefit liabilities at the end of the current fiscal year is recorded.

(I) Method for Attributing Estimated Retirement Benefits to Periods

When calculating retirement benefit liabilities, the benefit-formula method is used to attribute estimated retirement benefits to period through the end of the current fiscal year.

(II) Amortization Method of Actuarial Gains and Losses

Actuarial differences are amortized using the straight-line method over a certain period (six years) within the average remaining service years of employees at the time of recognition and allocated proportionally from the fiscal year following the fiscal year recognized.

4. Material Hedge Accounting Methods

(1) Hedge Accounting Methods

Hedging transactions for currency fluctuation risks that satisfy requirements for furiate-shori (designated exceptional hedge accounting under the Japanese GAAP) are accounted for under this method.

(2) Hedging Instruments and Hedged Items

Hedging instrument:	Currency swap
Hedged items:	Long-term loans payable

(3) Hedging Policy

Currency fluctuation risks of hedged items are hedged in a certain scope.

(4) Method for Evaluating Hedge Effectiveness

Evaluation of the effectiveness of currency swaps accounted for by furiate-shori has been omitted.

5. Criteria for Translating Material Assets and Liabilities Denominated in Foreign Currencies into Yen

Translations into yen are based on the spot rate on the closing date, and translation differences are recorded as profit or loss.

6. Method and Period for Amortizing Goodwill

Goodwill is amortized using the straight-line method over five years.

7. Other Material Matters Regarding Preparing Financial Statements

Accounting for consumption tax, etc.

Consumption tax and local consumption tax are accounted for using the exclusion method.

(Changes in Presentation)

(Changes resulting from the adoption of “Partial Amendment to Accounting Standard for Tax-Effect Accounting”)

Partial Amendment to Accounting Standard for Tax-Effect Accounting (ASBJ Statement No.28, February 16, 2018) was adopted at the beginning of the fiscal year ended December 31, 2019, and the presentation method was changed to present deferred tax assets under the category of investments and other assets and deferred tax liabilities under the category of non-current liabilities. As a result, ¥65 million stated in “deferred tax assets” under “current assets” in the non-consolidated balance sheet for the previous fiscal year was offset with ¥435 million in “deferred tax liabilities” under “non-current liabilities” to be presented as ¥369 million in “deferred tax liabilities” under “non-current liabilities,” resulting in a decrease of ¥65 million in the total asset due to this change.

(Non-consolidated Balance Sheet)

1. Guarantee Obligations

The Group provides guarantees for lease liabilities of associates

As of December 31, 2018		As of December 31, 2019	
enable Inc.	¥1,798 million	enable Inc.	¥– million
CELCO (THAILAND) CO., LTD.	26	CELCO (THAILAND) CO., LTD.	–

The Group provides guarantees for associates' borrowings from financial institutions.

As of December 31, 2018		As of December 31, 2019	
OUTSOURCING UK LIMITED	¥4,424 million	OUTSOURCING UK LIMITED	¥3,228 million
ALP CONSULTING LIMITED	96	ALP CONSULTING LIMITED	117

The Group provides guarantees for all obligations resulting from failure to fulfill some payroll service outsourcing contracts by associates.

As of December 31, 2018		As of December 31, 2019	
OS HRS SDN. BHD.	Maximum guarantee: €1,000,000	OS HRS SDN. BHD.	Maximum guarantee: €1,000,000

The Group provides guarantees for some pension obligations by associates.

As of December 31, 2018		As of December 31, 2019	
LIBERATA UK LIMITED	¥223 million	LIBERATA UK LIMITED	¥372 million

The Group provides guarantees for all obligations resulting from failure to fulfill some operation contracts by associates. If the amount of real damage exceeds the amount indicated below, it is possible that a guarantee will be sought up to 125% of each contract amount.

As of December 31, 2018		As of December 31, 2019	
LIBERATA UK LIMITED	¥– million	LIBERATA UK LIMITED	¥286 million

The Group provides guarantees for some lease contracts by associates.

As of December 31, 2018		As of December 31, 2019	
PROJECT MANAGEMENT PARTNERS PTY LIMITED	¥– million	PROJECT MANAGEMENT PARTNERS PTY LIMITED	¥72 million

Besides the above, the Group provides guarantees to the insurance company for any and all obligations resulting from failure to fulfill some construction contracts with the U.S. armed forces entered into by AMERICAN ENGINEERING CORPORATION (OKINAWA), the Group's subsidiary. The total contract amounts for uncompleted relevant construction work at the end of the previous and current fiscal years were ¥14,553 million and ¥24,112 million, respectively. The Group also provides guarantees to the insurance company for any and all obligations resulting from failure to fulfill some construction contracts entered into by ORION CONSTRUCTION CORPORATION (GUAM), the Group's subsidiary in the current fiscal year. The total amount of the contract amount for uncompleted relevant construction work and other expenses at the end of the current fiscal year is US$7,628 thousand.

*2 The breakdown of assets pledged as collateral and corresponding obligations are as follows:

Assets pledged as collateral

	As of December 31, 2018	As of December 31, 2019
Shares of subsidiaries and associates (Note)	¥11,661 million	¥6,158 million

(Note) Shares of subsidiaries and associates are assets pledged as collateral for borrowings from financial institutions of OUTSOURCING UK LIMITED, a consolidated subsidiary.

Obligations corresponding to pledged assets

	As of December 31, 2018	As of December 31, 2019
Long-term loans payable (including the current portion)	¥10,425 million	¥– million

*3 Monetary claims and debts related to associates (excluding those specifically classified)

	As of December 31, 2018	As of December 31, 2019
Short-term monetary claim	¥712 million	¥1,171 million
Short-term monetary debt	275	488

(Non-consolidated Statement of Income)

*1 Transactions with associates

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Operating revenue	¥3,499 million	¥3,012 million
Operating expenses	992	1,635
Transactions other than operating transactions	1,161	6,002

*2 The approximate percentage of expense that are selling expenses is 55.0% for the previous fiscal year and 44.8% for the current fiscal year, and that for expenses that are general and administrative expenses are 45.0% for the previous fiscal year and 55.2% for the current fiscal year.

The main expense items and amounts of selling, general and administrative expenses are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Directors' compensations	¥315 million	¥335 million
Salaries and allowances	2,503	2,898
Retirement benefit expenses	24	27
Welfare expenses	519	527
Correspondence and transportation expenses	531	547
Depreciation expense	298	522
Offering expenses	1,211	1,063
Rent expenses	877	1,148

*3 The contents of gain on sales of non-current assets are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Vehicles	¥2 million	¥1 million

*4 The contents of loss on sales and disposal of non-current assets are as follows:

	For the Year ended December 31, 2018	For the Year ended December 31, 2019
Buildings	¥29 million	¥9 million
Land	34	–
Other	2	1
Total	66	11

(Securities)

Balance sheet amounts for shares of subsidiaries and investments in capital deemed extremely difficult to determine the market value of

(Millions of yen)

Category	As of December 31, 2018	As of December 31, 2019
Shares of subsidiaries and investments in capital	54,527	51,605

Above items do not have quoted market prices. Therefore, they are deemed as being extremely difficult to determine the market value of.

(Tax Effect Accounting)

1. The Breakdown of Deferred Tax Assets and Deferred Tax Liabilities by Major Cause of Occurrence

	As of December 31, 2018	As of December 31, 2019
Deferred tax assets		
Accrued enterprise tax	¥39 million	¥46 million
Loss on valuation of shares of subsidiaries	109	135
Provision for Retirement Benefits	87	215
Asset retirement obligations	57	92
Foreign tax in excess of the limit on the amount of tax credits carryforwards	175	323
Allowance for doubtful debts	46	74
Other	61	224
Subtotal deferred tax assets	575	1,113
Unrecognized deferred tax assets on total deductible temporary differences and others	(419)	(678)
Subtotal unrecognized deferred tax assets	(419)	(678)
Total deferred tax assets	156	434
Deferred tax liabilities		
Gain on sales of shares of subsidiaries	(486)	(486)
Customer-related assets	–	(241)
Expenses corresponding to asset retirement obligations	(36)	(62)
Other	(3)	(2)
Total deferred tax liabilities	(526)	(792)
Net deferred tax assets	(369)	(358)

2. Breakdown of the Main Items That Are Causes for Material Differences Between the Statuary Tax Rate and the Actual Effective Tax Rate of Income Taxes after Application of Tax Effect Accounting

	As of December 31, 2018	As of December 31, 2019
Statutory tax rate	30.9%	30.6%
(Adjustments for:)		
Items not deductible perpetually such as entertainment expenses	18.7	1.6
Items not taxable perpetually such as dividend income	(7.3)	(33.8)
Inhabitant tax on per capita basis	16.8	2.3
Impact due to restatement	(2.1)	–
Transfer profit and loss adjustment account	(1.4)	–
Difference in tax rates	(3.6)	–
Impact due to changes in tax rates	(0.9)	0.0
Change in unrecognized deferred tax assets	(28.3)	2.6
Creditable amount of foreign corporate tax	40.7	6.6
Tax credit	(10.4)	(3.8)
Other	(0.5)	0.4
Actual effective tax rate of income taxes after application of tax effect accounting	52.6	6.5

(Business Combinations, Etc.)

This note is omitted since it is given in consolidated financial statements “Notes to Consolidated Financial Statements 7. Business Combinations.”

(Significant Subsequent Events)

Not applicable.

(IV) [Annexed Detailed Schedules]

[Detailed Schedule of Property, Plant and Equipment, Etc.]

Category	Classes of assets	Balance at beginning of current period (millions of yen)	Increase during current period (millions of yen)	Decrease during current period (millions of yen)	Depreciation during current period (millions of yen)	Balance at end of current period (millions of yen)	Accumulated depreciation (millions of yen)
Property, plant and equipment	Buildings	1,101	461	196	90	1,365	468
	Structures	48	0	–	1	49	37
	Vehicles	60	18	16	8	62	34
	Tools, furniture and fixtures	472	348	11	103	808	507
	Land	112	–	–	–	112	–
	Lease assets	105	–	88	3	17	11
	Total	1,902	828	313	207	2,416	1,059
Intangible assets	Goodwill	917	2,002	0	260	2,920	962
	Software	1,281	525	5	261	1,802	948
	Software in progress	129	375	407	–	98	–
	Lease assets	151	–	151	–	–	–
	Other	16	862	–	74	878	77
	Total	2,496	3,766	563	596	5,699	1,988

(Notes)1. The balance at beginning of current period and balance at end of current period are indicated by the acquisition cost.

2. Increase during current period includes an increase owing to the absorption merger of OS Partners CO. LTD., which mainly consists of:

Goodwill ¥1,515 million, and
Others ¥862 million.

[Annexed Detailed Schedule of Provisions]

Category	Balance at beginning of current period (millions of yen)	Increase during current period (millions of yen)	Decrease during current period (millions of yen)	Balance at end of current period (millions of yen)
Allowance for doubtful debts	155	245	155	245

(2) [Components of Major Assets and Liabilities]
Descriptions are omitted because the consolidated financial statements are prepared.

(3) [Others]
Not applicable.