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Consolidated Financial Results for the Three Months Ended March 31, 2023 (Under IFRS)

May 15, 2023

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Scheduled date to file quarterly securities report: May 15, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors)

(Yen amounts are rounded off to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended March 31, 2023 (From January 1, 2023 to March 31, 2023)

a. Consolidated operating results (Cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended												
March 31, 2023	175,881	13.2	5,276	(11.4)	4,701	19.6	3,201	79.7	3,135	98.0	6,150	(17.6)
March 31, 2022	155,313	25.5	5,955	15.4	3,932	(31.3)	1,781	—	1,583	—	7,467	—

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2023	24.89	24.89
March 31, 2022	12.57	12.57

(Note) 1. Since the provisional accounting treatments related to business combinations were finalized during the three months ended June 30, 2022, the condensed quarterly financial statements for the three months ended March 31, 2022, were retrospectively adjusted.
 2. Due to retroactive adjustments made with the adoption of IAS 12 "Income Taxes" (amended May 2021), year-on-year comparison in ratio of profit, profit attributable to owners of parent, and total comprehensive income for the three months ended March 31, 2022, is not available.

b. Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Million yen	Million yen	Million yen	%	Yen
March 31, 2023	416,326	86,512	82,233	19.8	653.02
December 31, 2022	400,043	83,565	79,301	19.8	629.73

(Note) Since the provisional accounting treatments related to business combinations were finally determined in the three months ended March 31, 2023, the consolidated financial statements for the fiscal year ended December 31, 2022, were retrospectively adjusted.

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended					
December 31, 2022	—	0.00	—	25.00	25.00
Fiscal year ending					
December 31, 2023	—				
Fiscal year ending					
December 31, 2023 (Forecast)		0.00	—	43.00	43.00

(Note) Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2023 (From January 1, 2023 to December 31, 2023)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Half-year	366,000	12.6	10,500	(3.5)	9,500	24.9	6,500	66.4	6,000	53.3	46.92
Full year	770,000	11.6	30,500	39.4	27,500	62.5	18,500	90.6	18,000	80.9	141.17

(Note) Revisions to the financial results forecast most recently announced: None

(Notes)

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies and accounting estimates

- | | |
|--|------|
| (a) Changes in accounting policies as required by IFRS: | Yes |
| (b) Changes in accounting policies due to other reasons: | None |
| (c) Changes in accounting estimates: | None |

(3) Number of issued shares (ordinary shares)

(a) Number of issued shares at the end of the period (including treasury shares)

As of March 31, 2023	125,951,200	As of December 31, 2022	125,951,200
As of March 31, 2023	23,490	As of December 31, 2022	23,490
Three months ended March 31, 2023	125,927,710	Three months ended March 31, 2022	125,908,421

(b) Number of treasury shares at the end of the period

(c) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

(Notes)

* This summary of quarterly financial statements is not subject to quarterly review by certified public accountants or an auditing firm.

* Statement regarding the proper use of financial forecasts and other special remarks:

(Cautions concerning forward-looking statements)

The forward-looking statements including financial forecasts in this summary are based on information currently available to OUTSOURCING Inc. (hereinafter, "the Company") and on assumptions believed to be reasonable by the Company. These statements do not guarantee future performance of the Company, and various factors may cause the actual results to differ significantly from the forecasts. For details on the specific assumptions on which the forecasts are based and cautionary statements regarding the use of financial forecasts, please see "1. QUALITATIVE INFORMATION ON QUARTERLY FINANCIAL RESULTS, (3) Explanation of Forecasts Including the Consolidated Financial Results Forecasts" on page 4 of the attached documents.

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1. QUALITATIVE INFORMATION ON QUARTERLY FINANCIAL RESULTS

(1) Overview of Consolidated Operating Results

The business environment during the three months ended March 31, 2023 (the “current period”), saw a slowdown of inflation in the beginning of the year. However, myriad events with significant repercussions on international affairs continued, such as the lingering geopolitical tension as the war drags on in Ukraine, the high-level inflation, and financial turmoil, which all put burden on economic activities.

The economy in Japan saw some political tailwinds, such as a pickup in personal consumption fueled by a decrease in the number of newly infected cases of COVID-19 and an easing of border control, against the backdrop of high raw material and fuel prices. However, business sentiments among major manufacturers, representing the Company’s main customers, worsened and remained unclear. Meanwhile, companies in a wide range of industries, including the information technology (IT) sector, continued to show a strong need for hiring engineers on the back of the tight labor market.

In response to such business environment in Japan, the OUTSOURCING Group (the “Group”) pursues to reinforce the growth domain by smoothing out earnings. In the manufacturing field, business conditions in the automotive industry are starting to improve, but isn’t completely recovered. In the administrative work outsourcing business for technical intern trainees, thanks to positive feedback from customers for the Group’s efficient and appropriate management service, the number of foreign workers under management marked 19,226 as of March 31, 2023, continuing to represent the top share in Japan. The Group also tackled on the issue of debt bondage to make the overall foreign workforce market much healthier. Debt bondage exists when laborers (sometimes with their families) are forced to work outside of their home countries in order to pay off their own debts or those they have inherited. In the engineering field, in response to the heightened demand for engineers, the Group has developed a business scheme utilizing KEN School, one of the Group companies specialized in offering training services. KEN School provides training to people with little experience to enable them to work not only in the engineering field but also in various industries, including IT, construction, and pharmaceuticals. By keeping recruitment costs at a low level while increasing the number of hires through this scheme, the Group has successfully grown the business. Furthermore, in April 2023, approximately 2,300 new hires joined the Group, making it one of the leading companies in Japan in hiring new graduates. This clearly demonstrates not only the high recruiting capability but also the Group’s excellence in marketing to find a new workplace suitable for people with little experience, on-boarding training for people, and the ability to build a trusted relationship with client companies. Besides the manufacturing field, which is more susceptible to macroeconomic dynamics, the Group aims to expand businesses that are less affected by economic fluctuation. In particular, the U.S. military facilities business continued to see steady growth in demand for renovation and maintenance services for buildings and facilities. However, a longer procurement lead time and escalating material prices weighed on the business growth during the current period.

Looking at the market overseas, uncertainties remained high as the economic growth was sluggish and financial risks heightened while inflation continued to elevate.

Under such business environment, the Group continues to make an all-out effort to reinforce the growth domain by smoothing out earnings for its overseas businesses. Specifically, in addition to expanding outsourcing businesses in the public sector, including government projects, which are less susceptible to economic fluctuations, the Group offers engineering outsourcing services where persistent demands are seen. Also, the Group is rolling out a scheme to mobilize human resources at a global level from countries that have plenty of workforce to those that face labor shortages. Owing to the Group’s diversified business and geographic portfolios, both revenue and profit reported double-digit growth in the current period, not just in the engineering business but also in the manufacturing and service businesses.

As a result, the Group recorded revenue of 175,881 million yen on a consolidated basis for the first quarter ended March 31, 2023, up 13.2% year-on-year, exceeding its previous high for the quarter for the 14th consecutive year. Operating profit marked 5,276 million yen, down 11.4% year-on-year, profit before tax of 4,701 million yen, up 19.6% year-on-year, and profit attributable to owners of parent of 3,135 million yen, up 98.0% year-on-year.

The Group places a high value on sustainable growth. As for the sustainability policy of the Group to promote Sustainable Development Goals (“SDGs”) management, the Group is committed to corporate activities that will create job opportunities and education opportunities for many people around the world, through which the Group will seek to tackle society’s challenges, develop businesses, and contribute to the benefit of stakeholders in a sustainable manner. The Group continues to pursue the goal of creating a system under which its business activities will widely benefit society.

Segment results are provided below.

[Domestic Engineering Outsourcing Business]

The Domestic Engineering Outsourcing Business experienced limited negative effects of the COVID-19 pandemic and continued to see an increase in both revenue and profit year-on-year. While focusing on hiring new graduates to address employee retention, the Group continued to constrain recruitment costs by leveraging KEN School, which provides training to people with little experience for dispatching purposes. Even though the labor market became more competitive as many companies across various industries restarted recruiting activities, the Group successfully hired as planned. As of March 31, 2023, the number of worksite employees totaled 24,779, up 2,694 from a year earlier, which remained the highest in the industry despite the Group being a latecomer. Mainstay fields also continued to grow, such as IT, construction, and pharmaceutical industries, positioned to make the business less vulnerable to economic fluctuations in the manufacturing industry.

Based on the above, segment revenue and operating profit for the Domestic Engineering Outsourcing Business during the current period were 39,155 million yen, up 14.4% year-on-year, and 3,007 million yen, up 2.9 year-on-year, respectively.

[Domestic Manufacturing Outsourcing Business]

The Domestic Manufacturing Outsourcing Business recorded an increase in revenue from a year earlier, as the production adjustment in the auto industry turned to an increase in line with a gradual improvement of semiconductor shortages. However, segment profit declined due to increased costs, as the Group hired more worksite employees in anticipation of further production increase. The number of worksite employees at the period-end was 25,903, up 4,397 year-on-year. In the administrative work outsourcing business, the demand for recruiting technical intern trainees continued to be robust among manufacturers. Thanks to positive feedback from customers for the Group's efficient and appropriate management service, the number of foreign workers under management marked 19,226 as of March 31, 2023, leading the Japanese market.

Based on the above, segment revenue and operating profit for the Domestic Manufacturing Outsourcing Business during the current period were 30,567 million yen, up 13.1% year-on-year, and 937 million yen, down 36.9% year-on-year, respectively.

[Domestic Service Operations Outsourcing Business]

The Domestic Service Operations Outsourcing Business mainly provides services to U.S. military facilities, which are less susceptible to macroeconomic dynamics, unlike businesses in the manufacturing field. Although the demand for renovation and maintenance services for U.S. military buildings and facilities remained high, a procurement lead time for construction materials, particularly those imported by sea freight, continued to become longer. Also, costs increased due to a surge in construction material prices and marine transport costs. As a result, the business saw a decrease in both revenue and profit from a year earlier. However, the Group is building up order backlog and believes the business profitability over the medium- to long-term is not impaired.

Based on the above, segment revenue and operating profit for the Domestic Service Operations Outsourcing Business during the current period were 7,669 million yen, down 8.7% year-on-year, and 475 million yen, down 56.3% year-on-year, respectively.

[Overseas Engineering Outsourcing Business]

The Overseas Engineering Outsourcing Business recorded double-digit growth in both revenue and profit year-on-year. In the UK, the profitable public debt collection business continued to show a recovery, while in Ireland, an economic uncertainty, including the layoff at a major global IT company, partly affected the recruiting and placing business. Despite increased costs driven by higher inflation, the dispatching business stayed brisk during the current period.

Based on the above, revenue and operating profit for the Overseas Engineering Outsourcing Business during the current period were 41,274 million yen, up 12.4% year-on-year, and 2,037 million yen, up 20.0% year-on-year, respectively.

[Overseas Manufacturing and Service Operations Outsourcing Business]

The Overseas Manufacturing and Service Operations Outsourcing Business marked double-digit growth in both revenue and profit year-on-year. The e-commerce related business centered around major supermarkets in the Netherlands leveled off because of the sluggish consumer sentiment. However, such negative impact was mitigated to a certain extent by reinforcing logistics-related business and by raising dispatch unit prices. In Germany, a

restructuring was conducted to reinforce the organization and the aviation field related business performed well, which both contributed to the business growth.

Meanwhile, segment profit significantly grew during the current period, mainly because one-off factors recorded last year faded, such as costs related to the rapid spread of covid variants. That said, costs generally continued to rise during the period driven by higher inflation, as seen in the Overseas Engineering Outsourcing Business.

Based on the above, revenue and operating profit for the Overseas Manufacturing and Service Operations Outsourcing Business were 57,200 million yen, up 17.0% year-on-year, and 1,379 million yen, up 92.9% year-on-year, respectively.

[Other Business]

Included in Other Business are shared services of administrative work and sign language classes provided by disabled employees who work for the Group's special subsidiary company, which performed relatively well during the current period.

Based on the above, segment revenue during the current period marked 17 million yen, up 8.7% year-on-year, and operating profit posted 23 million yen, down 78.6% year-on-year.

(2) Overview of Consolidated Financial Position

Total assets as of March 31, 2023, were 416,326 million yen, an increase of 16,283 million yen from December 31, 2022. This is primarily attributed to increases in cash and cash equivalents, trade and other receivables, right-of-use assets, and goodwill.

Total liabilities as of March 31, 2023, were 329,815 million yen, an increase of 13,337 million yen from December 31, 2022. This is primarily attributed to an increase in bonds and borrowings.

Equity as of March 31, 2023, was 86,512 million yen, an increase of 2,947 million yen from December 31, 2022. This is mainly due to an increase in equity by recording profit and exchange differences, offset by a decrease due to the payment of cash dividends.

(3) Explanation of Forecasts Including the Consolidated Financial Results Forecasts

The financial results forecasts for the six months ending June 30, 2023, and the fiscal year ending December 31, 2023, have not changed from those that were originally announced on February 14, 2023.

The forecasts represent forward-looking statements determined based on information available as of the time of the creation of this document and involve uncertainties to some degree. Actual financial results may differ from the forecasts due to changes in business situations or other reasons.

2. CONDENSED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and cash equivalents	53,231	56,581
Trade and other receivables	104,670	113,901
Inventories	2,205	2,699
Other financial assets	16,805	16,231
Other current assets	16,859	16,165
Total current assets	193,769	205,577
Non-current assets		
Property, plant, and equipment	12,476	12,790
Right-of-use assets	27,753	28,807
Goodwill	93,238	95,059
Intangible assets	41,183	40,743
Investments accounted for using equity method	322	381
Other financial assets	23,687	23,695
Other non-current assets	650	720
Deferred tax assets	6,965	8,555
Total non-current assets	206,274	210,749
Total assets	400,043	416,326

(Million yen)

	As of December 31, 2022	As of March 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	75,302	75,663
Bonds and borrowings	43,343	63,121
Lease liabilities	24,088	23,407
Other financial liabilities	1,111	1,443
Income taxes payable	2,615	2,951
Other current liabilities	32,035	28,727
Total current liabilities	178,495	195,312
Non-current liabilities		
Bonds and borrowings	87,255	82,064
Lease liabilities	34,150	35,584
Other financial liabilities	877	911
Retirement benefit liability	2,269	2,588
Provisions	1,335	1,386
Other non-current liabilities	748	755
Deferred tax liabilities	11,350	11,215
Total non-current liabilities	137,983	134,502
Total liabilities	316,478	329,815
Equity		
Share capital	25,245	25,245
Capital surplus	26,678	26,678
Treasury shares	(0)	(0)
Other capital surplus	(11,907)	(11,907)
Other components of equity	9,666	12,556
Retained earnings	29,620	29,662
Total equity attributable to owners of parent	79,301	82,233
Non-controlling interests	4,264	4,278
Total equity	83,565	86,512
Total liabilities and equity	400,043	416,326

(2) Condensed Quarterly Consolidated Statement of Profit or Loss

(Million yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Revenue	155,313	175,881
Cost of sales	<u>(126,806)</u>	<u>(144,090)</u>
Gross profit	28,508	31,792
Selling, general and administrative expenses	(24,037)	(28,466)
Other operating income	2,242	2,374
Other operating expenses	<u>(758)</u>	<u>(424)</u>
Operating profit	5,955	5,276
Finance income	924	236
Finance costs	(2,987)	(870)
Share of profit (loss) of investments accounted for using equity method	40	59
Profit before tax	<u>3,932</u>	<u>4,701</u>
Income tax expense	<u>(2,150)</u>	<u>(1,500)</u>
Profit for the period	<u><u>1,781</u></u>	<u><u>3,201</u></u>
Profit attributable to:		
Owners of parent	1,583	3,135
Non-controlling interests	<u>198</u>	<u>66</u>
Profit for the period	<u><u>1,781</u></u>	<u><u>3,201</u></u>
Earnings per share		
Basic earnings per share (Yen)	12.57	24.89
Diluted earnings per share (Yen)	12.57	24.89

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

(Million yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Profit for the period	1,781	3,201
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit retirement plans	319	32
Change in fair value of equity financial assets measured at fair value through other comprehensive income	(79)	(12)
Total of items that will not be reclassified subsequently to profit or loss	240	20
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	5,446	2,929
Total of items that may be reclassified subsequently to profit or loss	5,446	2,929
Other comprehensive income, net of tax	5,686	2,950
Total comprehensive income	7,467	6,150
Comprehensive income attributable to:		
Owners of parent	7,151	6,057
Non-controlling interests	317	93
Total comprehensive income	7,467	6,150

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

For the three months ended March 31, 2022 (From January 1, 2022, to March 31, 2022)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other capital surplus	Other components of equity	
					Exchange differences on translation of foreign operations	Change in fair value of debt financial assets measured at fair value through other comprehensive income
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen
Balance on January 1, 2022	25,230	26,663	(0)	(12,887)	3,574	1
Cumulative effects of changes in accounting policies	—	—	—	—	—	—
Restated balance on January 1, 2022	25,230	26,663	(0)	(12,887)	3,574	1
Profit for the period	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	5,325	—
Total comprehensive income	—	—	—	—	5,325	—
Dividends	—	—	—	—	—	—
Share-based remuneration transactions	—	—	—	(5)	—	—
Transfer to retained earnings	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	—
Total contributions by (distributions to) owners	—	—	—	(5)	—	—
Changes from business combination and others	—	—	—	627	—	—
Total changes in ownership interests in subsidiaries	—	—	—	627	—	—
Total transactions with owners	—	—	—	622	—	—
Balance on March 31, 2022	25,230	26,663	(0)	(12,265)	8,899	1

	Equity attributable to owners of parent							
	Other components of equity				Retained earnings	Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit retirement plans	Change in fair value of equity financial assets measured at fair value through other comprehensive income	Total	Total				
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	
Balance on January 1, 2022	—	477	4,052	22,767	65,824	6,634	72,458	
Cumulative effects of changes in accounting policies	—	—	—	0	0	—	0	
Restated balance on January 1, 2022	—	477	4,052	22,767	65,824	6,634	72,458	
Profit for the period	—	—	—	1,583	1,583	198	1,781	
Other comprehensive income	319	(77)	5,567	—	5,567	118	5,686	
Total comprehensive income	319	(77)	5,567	1,583	7,151	317	7,467	
Dividends	—	—	—	(3,904)	(3,904)	(1,124)	(5,028)	
Share-based remuneration transactions	—	—	—	—	(5)	—	(5)	
Transfer to retained earnings	(319)	—	(319)	319	—	—	—	
Other increase (decrease)	—	—	—	44	44	—	44	
Total contributions by (distributions to) owners	(319)	—	(319)	(3,541)	(3,865)	(1,124)	(4,989)	
Changes from business combination and others	—	—	—	—	627	(713)	(86)	
Total changes in ownership interests in subsidiaries	—	—	—	—	627	(713)	(86)	
Total transactions with owners	(319)	—	(319)	(3,541)	(3,238)	(1,837)	(5,075)	
Balance on March 31, 2022	—	400	9,300	20,809	69,736	5,114	74,850	

For the three months ended March 31, 2023 (From January 1, 2023, to March 31, 2023)

(Million yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Other capital surplus	Other components of equity	
					Exchange differences on translation of foreign operations	Change in fair value of debt financial assets measured at fair value through other comprehensive income
Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	
Balance on January 1, 2023	25,245	26,678	(0)	(11,907)	9,749	1
Profit for the period	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	2,904	—
Total comprehensive income	—	—	—	—	2,904	—
Dividends	—	—	—	—	—	—
Transfer to retained earnings	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	—
Total contributions by (distributions to) owners	—	—	—	—	—	—
Total transactions with owners	—	—	—	—	—	—
Balance on March 31, 2023	25,245	26,678	(0)	(11,907)	12,653	1

	Equity attributable to owners of parent						
	Other components of equity			Retained earnings	Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit retirement plans	Change in fair value of equity financial assets measured at fair value through other comprehensive income	Total				
Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	
Balance on January 1, 2023	—	(84)	9,666	29,620	79,301	4,264	83,565
Profit for the period	—	—	—	3,135	3,135	66	3,201
Other comprehensive income	32	(15)	2,922	—	2,922	27	2,950
Total comprehensive income	32	(15)	2,922	3,135	6,057	93	6,150
Dividends	—	—	—	(3,148)	(3,148)	(79)	(3,227)
Transfer to retained earnings	(32)	—	(32)	32	—	—	—
Other increase (decrease)	—	—	—	23	23	—	23
Total contributions by (distributions to) owners	(32)	—	(32)	(3,093)	(3,125)	(79)	(3,204)
Total transactions with owners	(32)	—	(32)	(3,093)	(3,125)	(79)	(3,204)
Balance on March 31, 2023	—	(99)	12,556	29,662	82,233	4,278	86,512

(5) Notes to Condensed Quarterly Consolidated Financial Statements

[Going Concern Assumption]

Not applicable.

[Changes in Significant Subsidiaries]

Not applicable.

[Changes in Accounting Policies]

Material accounting policies adopted for the condensed quarterly consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2022, with the exception of the item described below.

The Group calculated income tax expenses for the three months ended March 31, 2023, based on the estimated average annual effective tax rate. The Group adopted the following accounting standard from the quarter ended March 31, 2023.

IFRS		Details of new and amended accounting standards
IAS 12	Income taxes (amended May 2021)	Clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations

The Group adopted IAS 12 “Income taxes” (amended May 2021) starting from the quarter ended March 31, 2023.

The amendment clarifies that entities should recognize deferred tax liabilities and deferred tax assets on transactions such as leases and decommissioning obligations if such transactions create the same amount of taxable temporary difference and deductible temporary difference.

The amendment was applied retrospectively. Accordingly, the condensed quarterly consolidated financial statements for the three months ended March 31, 2022, and consolidated financial statements for the fiscal year ended December 31, 2022, are presented on a retrospective basis.

As a result of the adoption, the restated consolidated statement of financial position as of December 31, 2022, shows that deferred tax assets and deferred tax liabilities increased by 112 million yen and 71 million yen, respectively, and retained earnings increased by 41 million yen. The effect of restatements was minimal on the condensed quarterly consolidated statement of profit or loss for the quarter ended March 31, 2022, and 2023.

As cumulative effects of changes in accounting policies were reflected in equity at the beginning of the quarter ended March 31, 2022, the restated balance of retained earnings in the condensed quarterly consolidated statement of changes in equity increased by 0 million yen as of January 1, 2022.

[Segment Information]

(a) 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 of each segment are as follows:

Domestic Engineering Outsourcing Business:

Subsidiaries of the Company provide the following: 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, etc., as well as development of e-commerce websites; various solution services for and development of foundational IT systems, infrastructure, and networks; outsourcing services for research and development operations specializing in medical- and chemical-related areas; services to offer expertise and know-how for construction management/design as well as for the design, construction, management, and the like of various plants; and IT schools.

Domestic Manufacturing Outsourcing Business:

The Company and its subsidiaries offer services to realize better production efficiencies by providing technologies and management know-how in response to manufacturers' needs for outsourcing manufacturing processes. In addition, the Company and its subsidiaries offer comprehensive consignment services covering everything from outsourced recruitment of fixed-term employees to be directly employed by customers (fee-charging recruiting service), administrative work outsourcing including labor management and housing management for fixed-term employees, technical intern trainees, international students, etc., and job searching support for workers whose employment terms have expired.

Domestic Service Operations Outsourcing Business:

Subsidiaries of the Company offer services to government officials such as U.S. military facilities and services for logistics companies and call centers.

Overseas Engineering Outsourcing Business:

Overseas subsidiaries of the Company offer dispatch and recruiting services of specialists, mainly in Europe and Australia, in the following areas: IT, finance, pharmaceuticals, life science, medicine, and healthcare. Government debt collection service using artificial intelligence is also provided.

Overseas Manufacturing and Service Operations Outsourcing Business:

Overseas subsidiaries of the Company mainly 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, and other areas. In addition, they offer other services, including 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 Business:

Subsidiaries of the Company provide administrative outsourcing services and the like.

(b) Segment Revenues and Results

Revenues and results by reportable segment are as shown below. Segment profit figures are based on operating profit.

For the three months ended March 31, 2022 (From January 1, 2022 to March 31, 2022)

	Reportable Segment					Total	Other Business (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business					
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen
Revenue										
Revenue from external customers	34,225	27,033	8,402	36,731	48,907	155,298	15	155,313	—	155,313
Intersegment revenue (Note 3)	490	721	88	197	434	1,930	490	2,419	(2,419)	—
Total	34,715	27,754	8,490	36,928	49,340	157,228	505	157,733	(2,419)	155,313
Cost of sales and other income (expenses)	(31,793)	(26,269)	(7,403)	(35,231)	(48,626)	(149,322)	(396)	(149,718)	359	(149,358)
Segment profit (Operating profit)	2,922	1,485	1,086	1,697	715	7,905	109	8,015	(2,060)	5,955
(Reconciling items)										
Finance income	—	—	—	—	—	—	—	—	—	924
Finance costs	—	—	—	—	—	—	—	—	—	(2,987)
Share of profit (loss) of investments accounted for using equity method	—	—	—	—	—	—	—	—	—	40
Profit before tax	—	—	—	—	—	—	—	—	—	3,932

(Note 1) The category “Other Business” is an operating segment that is not included among the reportable segments, in which subsidiaries of the Company engage in administrative outsourcing services and the like.

(Note 2) The adjustment of segment profit of (2,060) million yen includes acquisition-related cost related to business combinations of (58) million yen, corporate expenses of (2,024) million yen, profits or losses not allocated to any specific operating segment, and elimination of intersegment transactions.

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

For the three months ended March 31, 2023 (From January 1, 2023 to March 31, 2023)

	Reportable Segment					Total	Other Business (Note 1)	Total	Adjustments (Note 2)	Consolidated
	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business					
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen
Revenue										
Revenue from external customers	39,155	30,567	7,669	41,274	57,200	175,865	17	175,881	—	175,881
Intersegment revenue (Note 3)	539	3,008	60	173	530	4,311	570	4,881	(4,881)	—
Total	39,694	33,575	7,729	41,447	57,730	180,176	587	180,762	(4,881)	175,881
Cost of sales and other income (expenses)	(36,688)	(32,637)	(7,255)	(39,410)	(56,352)	(172,341)	(563)	(172,905)	2,299	(170,605)
Segment profit (Operating profit)	3,007	937	475	2,037	1,379	7,834	23	7,858	(2,582)	5,276
(Reconciling items)										
Finance income	—	—	—	—	—	—	—	—	—	236
Finance costs	—	—	—	—	—	—	—	—	—	(870)
Share of profit (loss) of investments accounted for using equity method	—	—	—	—	—	—	—	—	—	59
Profit before tax	—	—	—	—	—	—	—	—	—	4,701

(Note 1) The category "Other Business" is an operating segment that is not included among the reportable segments, in which subsidiaries of the Company engage in administrative outsourcing services and the like.

(Note 2) The adjustment of segment profit of (2,582) million yen includes corporate expenses of (2,583) million yen, profits or losses not allocated to any specific operating segment and elimination of intersegment transactions.

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

3. SUPPLEMENTARY INFORMATION

Revenue by segment and by industry for the three months ended March 31, 2023, is as follows:

Name of Segment	For the three months ended March 31, 2023		
	Amount (Million yen)	Percentage of total (%)	Year-on-Year (%)
Domestic Engineering Outsourcing Business	39,155	22.3	14.4
Electrical & Electronics	6,313	3.6	14.9
Transport Equipment	6,786	3.9	4.0
Pharm. & Chemicals	3,330	1.9	14.5
IT-related	14,043	8.0	22.2
Construction & Plant-related	5,437	3.1	14.3
Others	3,247	1.8	6.5
Domestic Manufacturing Outsourcing Business	30,567	17.4	13.1
Electrical & Electronics	7,174	4.1	(7.3)
Transport Equipment	11,949	6.8	3.1
Pharm. & Chemicals	1,697	1.0	5.5
Metals & Construction Materials	1,667	0.9	9.6
Foods	973	0.6	9.5
Others	7,107	4.0	92.7
Domestic Service Operations Outsourcing Business	7,669	4.3	(8.7)
Retail	37	0.0	(1.5)
Public Works	6,690	3.8	(7.5)
Others	942	0.5	(16.6)
Overseas Engineering Outsourcing Business	41,274	23.5	12.4
Electrical & Electronics	178	0.1	39.3
Transport Equipment	920	0.5	23.3
Pharm. & Chemicals	7,191	4.1	5.6
IT-related	9,880	5.6	28.1
Metals & Construction Materials	77	0.1	236.6
Construction & Plant-related	494	0.3	(38.7)
Retail	1,560	0.9	32.1
Public Works	15,096	8.6	7.6
Finance	2,691	1.5	(3.4)
Others	3,186	1.8	27.0
Overseas Manufacturing and Service Operations Outsourcing Business	57,200	32.5	17.0
Electrical & Electronics	4,196	2.4	(21.9)
Transport Equipment	4,870	2.8	22.3
Pharm. & Chemicals	1,282	0.7	13.1
IT-related	1,115	0.6	17.7
Metals & Construction Materials	650	0.4	8.0
Construction & Plant-related	2,217	1.3	7.3
Foods	2,878	1.6	106.2
Retail	16,622	9.4	6.2
Public Works	7,707	4.4	3.6
Finance	593	0.3	(15.9)
Others	15,070	8.6	56.7
Other Business	17	0.0	8.7
Total	175,881	100.0	13.2

(Note 1) Intersegment transactions are offset and eliminated.

(Note 2) Segments are classified based on the similarity of types and nature of businesses.

Revenue by region is as follows:

Region	For the three months ended March 31, 2023		
	Amount (Million yen)	Percentage of total (%)	Year-on-Year (%)
Japan	77,408	44.0	11.1
Europe	73,242	41.7	16.4
Oceania	17,120	9.7	12.5
North America	873	0.5	(20.0)
South America	3,839	2.2	7.2
Asia (excl. Japan)	3,400	1.9	20.9
Total	175,881	100.0	13.2

(Note) Intersegment transactions are offset and eliminated.