

# Consolidated Financial Results

## for the First Half of the Fiscal Year ending March 31, 2020

### (IFRS)

October 31, 2019

Listed Company Name: ITOCHU Techno-Solutions Corporation      Listing Exchanges: Tokyo Stock Exchange  
 Securities Code: 4739      URL <https://www.ctc-g.co.jp/>  
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Scheduled date to submit the annual securities report (*Shihanki Hokokusho*): November 8, 2019  
 Scheduled date of dividend payment: December 6, 2019  
 Supplementary documents for financial results: Yes  
 Financial results briefing: Yes (for institutional investors and analysts)

(Figures less than one million yen are omitted)

## 1. Consolidated Business Results for the six months ended September 30, 2019

(April 1, 2019 – September 30, 2019)

(1) Consolidated operating results (Percentages represent year-on-year changes)

|                       | Revenue         |     | Operating income |      | Profit before tax |       | Net Profit      |       | Net profit attributable to CTC's shareholders |       | Total comprehensive income |        |
|-----------------------|-----------------|-----|------------------|------|-------------------|-------|-----------------|-------|---|-------|----------------------------|--------|
|                       | Millions of yen | %   | Millions of yen  | %    | Millions of yen   | %     | Millions of yen | %     | Millions of yen                               | %     | Millions of yen            | %      |
| Six months ended 9/19 | 210,385         | 9.5 | 14,668           | 38.7 | 14,649            | 35.4  | 10,023          | 35.9  | 9,893   | 34.8  | 9,792                      | 24.7   |
| Six months ended 9/18 | 192,150         | 1.0 | 10,573           | 0.9  | 10,817            | (9.6) | 7,376           | (8.9) | 7,338   | (9.4) | 7,851                      | (10.6) |

  

|                       | Basic earnings per share attributable to CTC's shareholders |  | Diluted earnings per share attributable to CTC's shareholders |  |
|-----------------------|---|--|---|--|
|                       | Yen   |  | Yen   |  |
| Six months ended 9/19 | 42.83   |  | —   |  |
| Six months ended 9/18 | 31.76   |  | —   |  |

## (2) Consolidated financial position

|                    | Total assets    | Total equity    | Total shareholders' equity | Ratio of shareholders' equity to total assets |
|--------------------|-----------------|-----------------|----------------------------|---|
|                    | Millions of yen | Millions of yen | Millions of yen            | %   |
| September 30, 2019 | 399,026         | 229,840         | 222,383                    | 55.7  |
| March 31, 2019     | 378,936         | 225,105         | 220,701                    | 58.2  |

## 2. Dividends

|                             | Dividend per share   |                       |                      |          |        |
|-----------------------------|----------------------|-----------------------|----------------------|----------|--------|
|                             | End of first quarter | End of second quarter | End of third quarter | Year end | Annual |
|                             | Yen                  | Yen                   | Yen                  | Yen      | Yen    |
| Year ended 3/19             | —                    | 24.00                 | —                    | 26.00    | 50.00  |
| Year ending 3/20            | —                    | 27.50                 |                      |          |        |
| Year ending 3/20 (forecast) |                      |                       | —                    | 27.50    | 55.00  |

(Note) Revision of the dividend forecast in the latest announcement: None

## 3. Forecast for Consolidated Business Results for the Fiscal Year ending March 31, 2020

(April 1, 2019 – March 31, 2020)

(Percentages represent changes from the same period of previous fiscal year)

|           | Revenue         |     | Operating income |     | Profit before tax |     | Net Profit      |     | Net profit attributable to CTC's shareholders |     | Basic earnings per share attributable to CTC's shareholders |
|-----------|-----------------|-----|------------------|-----|-------------------|-----|-----------------|-----|---|-----|---|
|           | Millions of yen | %   | Millions of yen  | %   | Millions of yen   | %   | Millions of yen | %   | Millions of yen                               | %   | Yen   |
| Full year | 480,000         | 6.2 | 39,000           | 8.6 | 39,500            | 8.9 | 27,300          | 9.7 | 27,000  | 9.7 | 116.87  |

(Notes) Revision of earnings forecast in the latest announcement: None

\* Notes

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

(2) Changes in accounting policies and changes of accounting estimates

- |  |                |
|--|----------------|
| (i) Changes in accounting principles required by IFRS: | Applicable     |
| (ii) Changes in accounting principles other than (i):  | Not applicable |
| (iii) Changes in accounting estimates:                 | Not applicable |

(Note) For further details, please refer to the section “Notes to the summary of consolidated Financial Statement” of this Consolidated Financial Results in the Accompanying Materials section on page 13.

(3) Number of outstanding shares (common shares)

- |  |                    |                        |                    |
|--|--------------------|------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares):                                 |                    |                        |                    |
| Six months ended 9/19:   | 240,000,000 shares | Year ended 3/19:       | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period:   |                    |                        |                    |
| Six months ended 9/19:   | 8,966,282 shares   | Year ended 3/19:       | 8,970,749 shares   |
| (iii) Average number of shares during the period (cumulative figure for consolidated quarterly accounting period): |                    |                        |                    |
| Six months ended 9/19:   | 231,030,918 shares | Six months ended 9/18: | 231,029,282 shares |

\* This document is an English translation of a statement written initially in Japanese as a guide for non-Japanese investors. The Japanese original document should be considered as the primary version.

\* Disclosure regarding audit procedures

- This quarterly financial results report is not subject to quarterly review procedures by independent auditors under the Financial Institutions and Exchange Act. At the time of disclosure of this report, review procedures for quarterly financial statements had not been completed.

\* Cautionary statement with respect to forward-looking statements

- These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to the Company as of the announcement date of the summary. These statements are not promises by the Company regarding future performance. Actual results may differ materially from forecasts due to a variety of factors.

\* “CTC” is the abbreviation for ITOCHU Techno-Solutions Corporation.

## ○Accompanying Materials – Contents

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# 1. Qualitative Information Regarding the Results for the First Half

## (1) Qualitative information on consolidated operating results

In the first half of the fiscal year ending March 2020, the Japanese economy continued to stage a modest recovery overall against the background of strong corporate earnings and an improvement in employment conditions, even though weaknesses were seen in the manufacturing and other industries due to growing concerns over trade issues between the United States and China.

In the information service industry, business conditions remained firm with IT investments showing a trend toward recovery in fields such as manufacturing and distribution.

In this environment, ITOCHU Techno-Solutions Corporation (“CTC”) and its consolidated subsidiaries (collectively the “CTC Group”) focused on the following four “Horizons” to achieve a Medium-Term Management Plan subtitled “Opening New Horizons” for a period of three years from the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2021: “Go upward: Challenge business transformation,” “Go forward: Sharpening our advantages,” “Go out: New coverage, new region in globe” and “Consolidate foothold: Stabilize management infrastructure”. Specific initiatives are as follows.

### <Initiatives related to “Go upwards: Challenge business transformation”>

- The CTC Group established a specialized organization in charge of the cultivation and supply of IT architects with seasoned knowledge of standardization in the overall design and development of system architecture, the resolution of technical issues, and processes including test design. The CTC Group will promote the cultivation of IT architects well-versed on both IT infrastructure and application development.
- ITOCHU Techno-Solutions Corporation (hereinafter “CTC”) and FPT Japan Holdings Co., Ltd. (hereinafter “FPT Japan”), a subsidiary of FPT Corporation, Vietnam’s largest ICT company, formed a business alliance to promote agile development. CTC will provide a low-code development platform “OutSystems,” and FPT Japan will build a remote agile development system that combines offshore development resources in Vietnam, in order to respond to the demand for application development and engineer shortage in Japan.

### <Initiatives related to “Go forwards: Sharpening our advantages”>

- The CTC Group provided open networking\*1 solutions for the data analysis infrastructure of Yahoo Japan Corporation. The CTC Group achieved the effective use and improved scalability of network bandwidth by adopting a data center network design introduced by leading OTT service providers\*2, in addition to the improved efficiency and automation of operation using operating tools based on open source software. The CTC Group also provided development support to improve the efficiency of verification process of changes in network configuration, as well as integrated maintenance services.

\*1: Open networking: Technology to build a network flexibly without relying on unique technologies of certain manufacturers, by combining hardware and operating systems according to the situation like a server.

\*2 : OTT (Over The Top) service providers: Business operators that provide websites and contents such as images and sounds on the Internet as represented by Google and Facebook.

- CTC concluded a business tie-up with ired, inc. (hereinafter “ired”) and ITOCHU Corporation in order to build systems and develop new services using cloud services such as Amazon Web Services (hereinafter “AWS”). Ired has an extensive track record in providing AWS and other cloud services, and in particular it has the advantage of building advanced business platforms utilizing the cloud services in the Line of Business (LOB) department. By combining their technical capabilities and business development capabilities, we will support customers who work on DX (digital transformation) using cloud services.

<Initiatives related to “Go outwards: New coverage, new region in globe”>

- CTC invested in Intumit Inc. (“Intumit”), a venture company in Taiwan engaging in the AI and robot business, to begin cooperating in introducing AI chat robots of Intumit in Japan. To that end, CTC will take a role of coordinating the AI chat robots with existing chat systems and intra-company systems, in addition to the sale and maintenance of “SmartRobot,” an AI platform using an AI engine developed by Intumit on its own.
- CTC acquired 70% of the outstanding shares in two Indonesian IT companies, PT. Nusantara Compnet Integrator and PT. Pro Sistimatika Automasi, from existing shareholders and made them its subsidiaries. They are system integrators that jointly provide total IT services including infrastructure, cloud, and applications. They are developing business not only for local companies but also for Japanese, U.S., and European capital companies, and thus have a high affinity with CTC and are expected to have a strong complementary relationship. We are aiming to expand our business further in the ASEAN region through the mutual utilization of customer bases, expertise, technologies, and so forth.

<Initiatives related to “Consolidate footholds: Stabilize management infrastructure”>

- The CTC Group sought to contribute to action against global warming and the achievement of the Sustainable Development Goals (SDGs) and adopted the 2050 CTC Environmental Declaration, a medium-to long-term environmental goal. The CTC Group will aim to reduce CO2 emissions associated with its businesses by 30% in comparison with the level in 2015 by 2030, and to zero by 2050, through the promotion of energy saving with leading-edge technologies such as IoT and AI, the creation of innovations using IT, the use of renewable energy, and the use of Non-Fossil Certificates and Tradable Green Certificates.
- CTC was selected as one of the Competitive IT Strategy Companies for 2019 for the third consecutive year. Under this program, the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange (TSE) select companies that are working on the active use and application of IT to improve management innovations, earnings and productivity. CTC’s efforts to improve productivity with new development methods (agile software development, etc.), its cultivation of advanced IT human resources including those for big data, IoT and AI, and the establishment of AI LAB, which gathers advanced AI systems for the verification and learning of extensive use of AI, were recognized.

In its sales activities, the Group focused primarily on development projects for distribution, and infrastructure development projects for the manufacturing and public interest sectors, and those at its overseas operating companies.

During the first half of the fiscal year ending March 2020, revenue amounted to 210,385 million yen (up 9.5% year on year) thanks to higher sales in the Services business, the Development business, and the Products business. Operating income came to 14,668 million yen (up 38.7% year on year) due to increased revenue and improved gross profit margin. Profit before tax was 14,649 million yen (up 35.4% year on year) due to an increase in operating income. Net profit was 10,023 million yen (up 35.9% year on year), and net profit attributable to CTC’s shareholders totaled 9,893 million yen (up 34.8% year on year).

## (2) Qualitative information on consolidated financial position

Starting from the first quarter of the current consolidated fiscal year, CTC applies IFRS 16 Leases. Its details are stated in “2. Summary of Quarterly Consolidated Financial Statements and Notes, (4) Notes to the summary of quarterly consolidated financial statements (Changes in the accounting policies).”

Total assets amounted to 399,026 million yen as of September 30, 2019, an increase of 20,089 million yen from March 31, 2019. The asset increase was mainly attributable to increases of 14,527 million yen in inventories, 15,101 million yen in other current assets, 20,541 million yen in property, plant and equipment and

8,889 million yen in goodwill, which offset mainly a decrease of 37,121 million yen in trade and other receivables.

Total liabilities stood at 169,185 million yen as of September 30, 2019, an increase of 15,355 million yen from March 31, 2019. Primary factors for the increase included rises of 8,343 million yen in other financial liabilities (current liabilities), 13,785 million yen in other current liabilities and 15,326 million yen in long-term financial liabilities, which offset falls of 12,874 million yen in trade and other payables, 6,532 million yen in income taxes payable and 3,113 million yen in liabilities for employee benefits (current liabilities).

Total equity was 229,840 million yen as of September 30, 2019, an increase of 4,734 million yen from March 31, 2019. The equity growth was mainly attributable to increases of 10,023 million yen in net profit and 3,154 million yen in an increase in non-controlling interests due to the new acquisition of subsidiaries, which offset decreases of 6,094 million yen in the payment of dividends and -2,155 million yen in opening adjustments due to the application of IFRS 16.

(3) Qualitative information on consolidated earnings forecasts

At present, the Company has not revised its financial forecasts announced on April 26, 2019.

## 2. Summary Quarterly Consolidated Financial Statements and Notes

### (1) Summary quarterly consolidated statement of financial position

|   | Previous consolidated fiscal year<br>(As of March 31, 2019) | Consolidated fiscal year<br>under review<br>(As of September 30, 2019) |
|---|---|--|
| Items   | Amount (millions of yen)                                    | Amount (millions of yen)   |
| (Assets)  |   |  |
| Current assets                                    |   |  |
| Cash and cash equivalents                         | 58,878  | 58,260   |
| Trade and other receivables                       | 132,348   | 95,227   |
| Inventories                                       | 28,907  | 43,435   |
| Current tax assets                                | 78  | 698  |
| Other current financial assets                    | 20,089  | 18,322   |
| Other current assets                              | 58,021  | 73,123   |
| Total current assets                              | 298,325   | 289,067  |
| Non-current assets                                |   |  |
| Property, plant and equipment                     | 34,488  | 55,030   |
| Goodwill  | 4,233   | 13,122   |
| Intangible assets                                 | 8,937   | 8,023  |
| Investments accounted for using the equity method | 1,568   | 1,328  |
| Other non-current financial assets                | 16,233  | 17,591   |
| Deferred tax assets                               | 12,467  | 12,351   |
| Other non-current assets                          | 2,681   | 2,510  |
| Total non-current assets                          | 80,611  | 109,958  |
| Total assets                                      | 378,936   | 399,026  |

|                                     | Previous consolidated fiscal year<br>(As of March 31, 2019) | Consolidated fiscal year<br>under review<br>(As of September 30, 2019) |
|-------------------------------------|---|--|
| Items                               | Amount (millions of yen)                                    | Amount (millions of yen)   |
| (Liabilities and Equity)            |   |  |
| Current liabilities                 |   |  |
| Trade and other payables            | 53,901  | 41,026   |
| Other current financial liabilities | 5,479   | 13,823   |
| Income taxes payable                | 9,964   | 3,431  |
| Liabilities for employee benefits   | 19,047  | 15,934   |
| Provisions                          | 1,333   | 1,484  |
| Other current liabilities           | 45,677  | 59,462   |
| Total current liabilities           | 135,403   | 135,163  |
| Non-current liabilities             |   |  |
| Non-current financial liabilities   | 12,243  | 27,569   |
| Liabilities for employee benefits   | 4,016   | 4,276  |
| Provisions                          | 1,825   | 1,883  |
| Deferred tax liabilities            | 341   | 292  |
| Total non-current liabilities       | 18,427  | 34,022   |
| Total liabilities                   | 153,830   | 169,185  |
| Equity                              |   |  |
| Common stock                        | 21,763  | 21,763   |
| Capital surplus                     | 33,193  | 33,215   |
| Treasury stock                      | (9,622)   | (9,605)  |
| Retained earnings                   | 174,460   | 176,191  |
| Other components of equity          | 906   | 818  |
| Total shareholders' equity          | 220,701   | 222,383  |
| Non-controlling interests           | 4,404   | 7,456  |
| Total equity                        | 225,105   | 229,840  |
| Total liabilities and equity        | 378,936   | 399,026  |



(2) Summary quarterly consolidated income statement and summary quarterly consolidated comprehensive income statement

Summary quarterly consolidated income statement

|   | Previous consolidated fiscal year<br>(From April 1, 2018<br>to September 30, 2018) | Consolidated fiscal year<br>under review<br>(From April 1, 2019<br>to September 30, 2019) |
|---|--|---|
| Items   | Amount (millions of yen)   | Amount (millions of yen)  |
| Revenue   | 192,150  | 210,385   |
| Cost of sales   | (146,465)  | (160,185)   |
| Gross profit  | 45,684   | 50,199  |
| Other income and expenses   |  |   |
| Selling, general and administrative expenses                        | (35,157)   | (35,841)  |
| Other income  | 153  | 350   |
| Other expenses  | (106)  | (39)  |
| Total other income and expenses                                     | (35,110)   | (35,530)  |
| Operating income  | 10,573   | 14,668  |
| Financial income  | 151  | 158   |
| Financial costs   | (124)  | (272)   |
| Share of profit of associates accounted for using the equity method | 216  | 95  |
| Profit before tax   | 10,817   | 14,649  |
| Income tax expense  | (3,441)  | (4,626)   |
| Net profit  | 7,376  | 10,023  |
| Profit attributable to:   |  |   |
| CTC's shareholders  | 7,338  | 9,893   |
| Non-controlling interests   | 37   | 129   |

  

|  |       |       |
|--|-------|-------|
| Earnings per share<br>(Attribution to CTC's shareholders): | (Yen) | (Yen) |
| Basic earnings per share                                   | 31.76 | 42.83 |
| Diluted earnings per share                                 | —     | —     |

Summary quarterly consolidated comprehensive income statement

|  | Previous consolidated fiscal year<br>(From April 1, 2018<br>to September 30, 2018) | Consolidated fiscal year<br>under review<br>(From April 1, 2019<br>to September 30, 2019) |
|--|--|---|
| Items  | Amount (millions of yen)   | Amount (millions of yen)  |
| Profit   | 7,376  | 10,023  |
| Other comprehensive income, net of tax effect  |  |   |
| Items that will not be reclassified to profit or loss:                                       |  |   |
| Changes in net fair value of financial assets measured<br>through other comprehensive income | 244  | 214   |
| Share of other comprehensive income of associates<br>accounted for using the equity method   | 24   | (0)   |
| Items that may be reclassified to profit or loss:  |  |   |
| Exchange differences on translating foreign operations                                       | 127  | (432)   |
| Cash flow hedges   | 77   | 1   |
| Share of other comprehensive income of associates<br>accounted for using the equity method   | 2  | (14)  |
| Total other comprehensive income, net of tax effect  | 475  | (230)   |
| Total comprehensive income   | 7,851  | 9,792   |
| Total comprehensive income attributable to:  |  |   |
| Owners of the Company  | 7,760  | 9,806   |
| Non-controlling interests  | 91   | (14)  |

## (3) Summary quarterly consolidated statement of changes in equity

(Millions of yen)

| Items   | Attributable to the owners of the Company |                 |                |                   |  |   |                  |
|---|---|-----------------|----------------|-------------------|--|---|------------------|
|   | Common stock                              | Capital surplus | Treasury stock | Retained earnings | Other components of equity                             |   |                  |
|   |   |                 |                |                   | Exchange differences on translating foreign operations | Changes in net fair value of financial assets measured through other comprehensive income | Cash flow hedges |
| April 1, 2018 (as previously reported)        | 21,763                                    | 33,152          | (9,621)        | 160,544           | (270)  | 1,053   | (52)             |
| Effect of accounting change                   | —   | —               | —              | 46                | —  | —   | —                |
| April 1, 2018 (as restated)                   | 21,763                                    | 33,152          | (9,621)        | 160,591           | (270)  | 1,053   | (52)             |
| Profit  | —   | —               | —              | 7,338             | —  | —   | —                |
| Other comprehensive income                    | —   | —               | —              | —                 | 76   | 268   | 77               |
| Total comprehensive income                    | —   | —               | —              | 7,338             | 76   | 268   | 77               |
| Payment of dividends                          | —   | —               | —              | (5,491)           | —  | —   | —                |
| Purchase of treasury stock                    | —   | —               | (0)            | —                 | —  | —   | —                |
| Sale of treasury stock                        | —   | 0               | 0              | —                 | —  | —   | —                |
| Share-based payment transactions              | —   | 28              | —              | —                 | —  | —   | —                |
| Changes in purchase of shares of subsidiaries | —   | —               | —              | —                 | —  | —   | —                |
| Total transactions with owners                | —   | 28              | (0)            | (5,491)           | —  | —   | —                |
| September 30, 2018                            | 21,763                                    | 33,181          | (9,622)        | 162,437           | (194)  | 1,322   | 25               |

| Items   | Shareholders' equity       | Non-controlling interests | Total equity |
|---|----------------------------|---------------------------|--------------|
|   | Total shareholders' equity |                           |              |
| April 1, 2018 (as previously reported)        | 206,569                    | 4,281                     | 210,850      |
| Effect of accounting change                   | 46                         | —                         | 46           |
| April 1, 2018 (as restated)                   | 206,616                    | 4,281                     | 210,897      |
| Profit  | 7,338                      | 37                        | 7,376        |
| Other comprehensive income                    | 421                        | 53                        | 475          |
| Total comprehensive income                    | 7,760                      | 91                        | 7,851        |
| Payment of dividends                          | (5,491)                    | (158)                     | (5,649)      |
| Purchase of treasury stock                    | (0)                        | —                         | (0)          |
| Sale of treasury stock                        | 0                          | —                         | 0            |
| Share-based payment transactions              | 28                         | —                         | 28           |
| Changes in purchase of shares of subsidiaries | —                          | —                         | —            |
| Total transactions with owners                | (5,463)                    | (158)                     | (5,621)      |
| September 30, 2018                            | 208,912                    | 4,214                     | 213,126      |

(Millions of yen)

| Items   | Attributable to the owners of the Company |                 |                |                   |  |   |                  |
|---|---|-----------------|----------------|-------------------|--|---|------------------|
|   | Common stock                              | Capital surplus | Treasury stock | Retained earnings | Other components of equity                             |   |                  |
|   |   |                 |                |                   | Exchange differences on translating foreign operations | Changes in net fair value of financial assets measured through other comprehensive income | Cash flow hedges |
| April 1, 2019 (as previously reported)        | 21,763                                    | 33,193          | (9,622)        | 174,460           | (256)  | 1,160   | 1                |
| Effect of accounting change                   | —   | —               | —              | (2,151)           | —  | —   | —                |
| April 1, 2019 (as restated)                   | 21,763                                    | 33,193          | (9,622)        | 172,309           | (256)  | 1,160   | 1                |
| Profit  | —   | —               | —              | 9,893             | —  | —   | —                |
| Other comprehensive income                    | —   | —               | —              | —                 | (303)  | 214   | 1                |
| Total comprehensive income                    | —   | —               | —              | 9,893             | (303)  | 214   | 1                |
| Payment of dividends                          | —   | —               | —              | (6,011)           | —  | —   | —                |
| Purchase of treasury stock                    | —   | —               | (0)            | —                 | —  | —   | —                |
| Sale of treasury stock                        | —   | —               | 17             | —                 | —  | —   | —                |
| Share-based payment transactions              | —   | 21              | —              | —                 | —  | —   | —                |
| Changes in purchase of shares of subsidiaries | —   | —               | —              | —                 | —  | —   | —                |
| Total transactions with owners                | —   | 21              | 16             | (6,011)           | —  | —   | —                |
| September 30, 2019                            | 21,763                                    | 33,215          | (9,605)        | 176,191           | (559)  | 1,375   | 3                |

| Items   | Shareholders' equity       | Non-controlling interests | Total equity |
|---|----------------------------|---------------------------|--------------|
|   | Total shareholders' equity |                           |              |
| April 1, 2019 (as previously reported)        | 220,701                    | 4,404                     | 225,105      |
| Effect of accounting change                   | (2,151)                    | (4)                       | (2,155)      |
| April 1, 2019 (as restated)                   | 218,550                    | 4,399                     | 222,949      |
| Profit  | 9,893                      | 129                       | 10,023       |
| Other comprehensive income                    | (87)                       | (143)                     | (230)        |
| Total comprehensive income                    | 9,806                      | (14)                      | 9,792        |
| Payment of dividends                          | (6,011)                    | (82)                      | (6,094)      |
| Purchase of treasury stock                    | (0)                        | —                         | (0)          |
| Sale of treasury stock                        | 17                         | —                         | 17           |
| Share-based payment transactions              | 21                         | —                         | 21           |
| Changes in purchase of shares of subsidiaries | —                          | 3,154                     | 3,154        |
| Total transactions with owners                | (5,973)                    | 3,071                     | (2,901)      |
| September 30, 2019                            | 222,383                    | 7,456                     | 229,840      |

(4) Notes to the summary of quarterly consolidated financial statement

(Notes on going concern assumptions)

None

(Change in the accounting policies)

Application of IFRS 16 Leases

Starting from the first quarter of the consolidated fiscal year ending March 2020, the Group applies IFRS 16 Leases (published in January 2016) (“IFRS 16”). In applying IFRS 16, the Group adopted a method with which the accumulated impact of the application of IFRS 16 is recognized on the day when it began to be applied, which is permitted as a transitional measure.

In association with the application of IFRS 16, the Group assesses whether a contract contains a lease at the inception of the contract. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the Group assesses that the contract contains a lease.

If the Group assesses that the contract contains a lease, the Group recognizes a right-of-use asset and a lease liability on the lease commencement date. The Group measures the lease liability at the present value of the total amount of lease payments that are not paid on the lease commencement date. The Group measures the right-of-use asset by making an adjustment for the amount of the initial measurement of the lease liability, lease payments made on or before the commencement date, and initial direct costs, etc.

After the commencement of the lease, the Group recognizes an amount obtained by multiplying the lease liability by a discount rate on the lease commencement date as interest paid and reduces the difference between the lease payments made and the interest paid from the lease liability. If the ownership of the underlying asset is transferred to the lessee by the end of the lease term or if the future exercise of a purchase option is reasonably certain, the Group depreciates the right-of-use asset for the estimated useful life of the underlying asset, or otherwise, from the lease commencement date to the earlier of the end of the estimated useful life of the right-of-use asset or the end of the lease term, using a straight-line method.

For short-term leases the lease term of which will end within 12 months and leases of low-value assets, the Group does not recognize a right-of-use asset and a lease liability but recognizes them as expenses over the lease term using a straight-line method, etc.

As an impact of applying IFRS 16 on the summary of quarterly consolidated financial statements of the Group, the Group additionally recognizes right-of-use assets of 19,114 million yen in property, plant and equipment and intangible assets and lease liabilities of 22,220 million yen in other current financial assets and non-current financial liabilities in the summary of quarterly consolidated statement of financial position on the date of initial application. As a result, retained earnings declined 2,151 million yen.

The weighted average of the lessee’s incremental borrowing rate applied to lease liabilities as of the date of initial application is 1.1%.

The reconciliation of non-cancellable operating lease contracts to which IAS 17 Leases was applied at the end of the previous consolidated fiscal year and lease liabilities recognized on the date of initial application is as follows.

(Millions of yen)

|   |        |
|---|--------|
| Non-cancellable operating lease contracts at the end of the previous consolidated fiscal year | 5,264  |
| Amount discounted by using an incremental borrowing rate on the date of initial application   | 5,196  |
| Finance lease obligations recognized at the end of the previous consolidated fiscal year      | 16,210 |
| Discounted present value of non-cancellable operating lease contracts                         | 17,023 |
| Lease liabilities recognized on the date of initial application                               | 38,430 |

In applying IFRS 16, the Group uses the following practical expedients:

- Use the previous judgment as to whether a lease is included in the contract existing as of the date of initial application.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Account for leases whose term ends within 12 months from the date of initial application by the same method as short-term leases.
- Exclude initial direct costs from the measurement of right-of-use assets as of the date of initial application.
- Use ex-post judgment when calculating the lease term if the contract includes an option to extend or cancel the lease.