

Consolidated Financial Results

for the Third Quarter of the Fiscal Year ending March 31, 2020

(IFRS)

February 4, 2020

Listed Company Name: ITOCHU Techno-Solutions Corporation Listing Exchanges: Tokyo Stock Exchange
 Securities Code: 4739 URL <http://www.ctc-g.co.jp/>
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Scheduled date to submit the annual securities report (*Shihanki Hokokusho*): February 13, 2020
 Scheduled date of dividend payment: -
 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 nine months ended December 31, 2019

(April 1, 2019 – December 31, 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	%
Nine months ended 12/19	327,364	9.1	24,170	35.3	24,070	31.9	16,481	32.4	16,166	31.1	17,845	39.6
Nine months ended 12/18	300,009	1.8	17,866	7.6	18,252	(0.5)	12,450	0.4	12,333	0.0	12,787	(5.8)

	Basic earnings per share attributable to CTC's shareholders		Diluted earnings per share attributable to CTC's shareholders	
	Yen		Yen	
Nine months ended 12/19	69.97		—	
Nine months ended 12/18	53.38		—	

(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	%
December 31, 2019	401,824	231,546	223,656	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 9.

(3) Number of outstanding shares (common shares)

- | | | | |
|--|--------------------|--------------------------|--------------------|
| (i) Number of shares outstanding at the end of period (including treasury shares): | | | |
| Nine months ended 12/19: | 240,000,000 shares | Year ended 3/19: | 240,000,000 shares |
| (ii) Number of treasury shares at the end of period: | | | |
| Nine months ended 12/19: | 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): | | | |
| Nine months ended 12/19: | 231,031,855 shares | Nine months ended 12/18: | 231,029,278 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 Third Quarter

(1) Qualitative information on consolidated operating results

In the first nine months of the fiscal year ending March 2020, the Japanese economy continued to stage a modest recovery overall against the background of corporate earnings which still remained high and an improvement in employment conditions, even though the business performance deviated below the projected outlook mainly in the manufacturing industry 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”>

- CTC officially started receiving orders for OMNIedge, an IoT service for the manufacturing industry, jointly with THK Co., Ltd. (“THK”), NTT DOCOMO, INC. (“DOCOMO”) and Cisco Systems G.K. (“Cisco”). This is a subscription service that is able to detect signs of failure in machines and equipment on the manufacturing premises by acquiring the status data of their components using the THK SENSING SYSTEM of THK, and by quantifying and analyzing them through the edge computing router of Cisco and the LTE line of DOCOMO. In this service, which has been achieved with the strengths of the four companies working together, CTC will undertake a consultation for the introduction of an IoT platform, build it and support its operation.
- CTC has begun providing CTC DX Solution for Retail, which provides comprehensive support for the realization of a smart store that utilizes new technologies such as AI and IoT jointly with ITOCHU Corporation (“ITOCHU”). This service is a retail solution that provides a comprehensive service for building a smart store ranging from the introduction of sensors and cameras to be positioned in the store to marketing utilizing data and data linkage between manufacturers and retailers or distributors. The CTC Group will contribute to the digital transformation (“DX”) of customers in the distribution industry by utilizing the network of ITOCHU.
- 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”>

- CTC received orders for projects to build a network for 5G services from a telecom carrier, as in FY2018. CTC has been cultivating human resources for network virtualization technology and conducting joint verification with customers for the past few years, and these efforts have resulted in the acquisition of the orders for the project. CTC will continue to support the 5G development of telecom carriers for their commercialization of 5G services scheduled in spring 2020 and the subsequent expansion thereof.
- CTC has begun handling an edge cloud service “Volterra Edge Cloud” provided by Volterra Inc., an edge computing venture company in the United States, and invested in the company. Given that the processing of an enormous volume of data without delay is required because the dissemination of IoT is expected associated

with the full-scale introduction of 5G, there are strong expectations for the edge computing that processes data near the terminal. The CTC Group will promote the development of IoT services in Japan and the expansion of Volterra Edge Cloud in North America and Southeast Asia by strengthening its partnership with the company.

- CTC has begun handling BitSight Security Ratings, a rating service for cyber security measures provided by BitSight Technologies in the United States. This is a SaaS service that evaluates the status of companies' cyber security measures by examining the systems to be covered by the service on the Internet and realizes the understanding and management of security risks including their group companies and business partners based on the latest security information.
- 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.

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

- ITOCHU and CTC acquired 24.5% of the outstanding shares of WingArc1st Inc. (“WingArc”), which provides software services to support the data utilization of companies through IW.DX Partners Inc., a co-founded company of ITOCHU and CTC. By combining ITOCHU's business expertise from a range of industries, the data utilization technologies of WingArc and the expertise that CTC has gained through building big data, AI and other data analysis-related systems, CTC will work on the DX business together with ITOCHU and WingArc.
- 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”>

- CTC established the ITOCHU Techno-Solutions Future Foundation for the purpose of fostering the next generation of young people with a focus on its IT-related scholarships and education. The CTC Group will support IT education for children and the young, study for young people who aspire to work in IT, and study and job opportunity creation for young people with disabilities, promoting proactive social contribution activities with a view toward becoming a public interest incorporated foundation.

- 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 nine months under review, revenue amounted to 327,364 million yen (up 9.1% year on year) thanks to stronger sales in the Services business, the Development business, and the Products business. Operating income came to 24,170 million yen (up 35.3% year on year) due to increased revenue and improved gross margin. Profit before tax was 24,070 million yen (up 31.9% year on year) due to an increase in operating income. Net profit was 16,481 million yen (up 32.4% year on year), and net profit attributable to CTC's shareholders totaled 16,166 million yen (up 31.1% 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 401,824 million yen as of December 31, 2019, an increase of 22,888 million yen from March 31, 2019. The asset increase was mainly attributable to increases of 16,762 million yen in inventories, 15,239 million yen in other current assets, 20,626 million yen in property, plant and equipment and 9,419 million yen in goodwill, which mainly offset a decrease of 40,765 million yen in trade and other receivables.

Total liabilities stood at 170,278 million yen as of December 31, 2019, an increase of 16,447 million yen from March 31, 2019. Primary factors for the increase included rises of 11,341 million yen in other financial liabilities (current liabilities), 14,766 million yen in other current liabilities and 15,985 million yen in long-term financial liabilities, which offset falls of 13,681 million yen in trade and other payables, 7,272 million yen in income taxes payable and 4,660 million yen in liabilities for employee benefits (current liabilities).

Total equity was 231,546 million yen as of December 31, 2019, an increase of 6,440 million yen from March 31, 2019. The equity growth was mainly attributable to an increase of 16,481 million yen due to net profit and an increase of 3,154 million yen in non-controlling interests due to the new acquisition of subsidiaries, which offset a decrease of 12,453 million yen due to the payment of dividends and the posting of -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.

4. Summary of Quarterly Consolidated Financial Statements

(1) Summary of quarterly consolidated statement of financial position

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of December 31, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
(Assets)		
Current assets		
Cash and cash equivalents	58,878	59,032
Trade and other receivables	132,348	91,582
Inventories	28,907	45,669
Current tax assets	78	73
Other current financial assets	20,089	18,447
Other current assets	58,021	73,261
Total current assets	298,325	288,066
Non-current assets		
Property, plant and equipment	34,488	55,115
Goodwill	4,233	13,652
Intangible assets	8,937	7,904
Investments accounted for using the equity method	1,568	4,998
Other non-current financial assets	16,233	18,530
Deferred tax assets	12,467	11,124
Other non-current assets	2,681	2,413
Total non-current assets	80,611	113,757
Total assets	378,936	401,824

	Previous consolidated fiscal year (As of March 31, 2019)	Consolidated fiscal year under review (As of December 31, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
(Liabilities and Equity)		
Current liabilities		
Trade and other payables	53,901	40,219
Other current financial liabilities	5,479	16,821
Income taxes payable	9,964	2,691
Liabilities for employee benefits	19,047	14,386
Provisions	1,333	1,408
Other current liabilities	45,677	60,443
Total current liabilities	135,403	135,971
Non-current liabilities		
Non-current financial liabilities	12,243	28,229
Liabilities for employee benefits	4,016	3,890
Provisions	1,825	1,902
Deferred tax liabilities	341	284
Total non-current liabilities	18,427	34,306
Total liabilities	153,830	170,278
Equity		
Common stock	21,763	21,763
Capital surplus	33,193	33,234
Treasury stock	(9,622)	(9,613)
Retained earnings	174,460	176,105
Other components of equity	906	2,167
Total shareholders' equity	220,701	223,656
Non-controlling interests	4,404	7,889
Total equity	225,105	231,546
Total liabilities and equity	378,936	401,824

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

Summary of quarterly consolidated income statement

	Previous consolidated fiscal year (From April 1, 2018 to December 31, 2018)	Consolidated fiscal year under review (From April 1, 2019 to December 31, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
Revenue	300,009	327,364
Cost of sales	(228,933)	(248,688)
Gross profit	71,076	78,676
Other income and expenses		
Selling, general and administrative expenses	(53,350)	(54,867)
Other income	262	499
Other expenses	(120)	(136)
Total other income and expenses	(53,209)	(54,505)
Operating income	17,866	24,170
Financial income	240	276
Financial costs	(194)	(465)
Share of profit of associates accounted for using the equity method	339	89
Profit before tax	18,252	24,070
Income tax expense	(5,801)	(7,589)
Net profit	12,450	16,481
Profit attributable to:		
CTC's shareholders	12,333	16,166
Non-controlling interests	117	314

Earnings per share (Attribution to CTC's shareholders):	(Yen)	(Yen)
Basic earnings per share	53.38	69.97
Diluted earnings per share	—	—

Summary of quarterly consolidated comprehensive income statement

	Previous consolidated fiscal year (From April 1, 2018 to December 31, 2018)	Consolidated fiscal year under review (From April 1, 2019 to December 31, 2019)
Items	Amount (millions of yen)	Amount (millions of yen)
Profit	12,450	16,481
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 through other comprehensive income	434	939
Share of other comprehensive income of associates accounted for using the equity method	19	(0)
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(126)	389
Cash flow hedges	7	41
Share of other comprehensive income of associates accounted for using the equity method	1	(6)
Total other comprehensive income, net of tax effect	336	1,364
Total comprehensive income	12,787	17,845
Total comprehensive income attributable to:		
Owners of the Company	12,712	17,427
Non-controlling interests	75	418

(3) Summary of 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	—	—	—	12,333	—	—	—
Other comprehensive income	—	—	—	—	(82)	454	7
Total comprehensive income	—	—	—	12,333	(82)	454	7
Payment of dividends	—	—	—	(11,041)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Sale of treasury stock	—	0	0	—	—	—	—
Share-based payment transactions	—	36	—	—	—	—	—
Changes in purchase of shares of subsidiaries	—	—	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	(1)	—	1	—
Total transactions with owners	—	36	(0)	(11,042)	—	1	—
December 31, 2018	21,763	33,189	(9,622)	161,882	(353)	1,509	(44)

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	12,333	117	12,450
Other comprehensive income	379	(42)	336
Total comprehensive income	12,712	75	12,787
Payment of dividends	(11,041)	(158)	(11,199)
Purchase of treasury stock	(0)	—	(0)
Sale of treasury stock	0	—	0
Share-based payment transactions	36	—	36
Changes in purchase of shares of subsidiaries	—	—	—
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(11,004)	(158)	(11,162)
December 31, 2018	208,323	4,197	212,521

(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	—	—	—	16,166	—	—	—
Other comprehensive income	—	—	—	—	280	939	41
Total comprehensive income	—	—	—	16,166	280	939	41
Payment of dividends	—	—	—	(12,370)	—	—	—
Purchase of treasury stock	—	—	(0)	—	—	—	—
Sale of treasury stock	—	—	8	—	—	—	—
Share-based payment transactions	—	40	—	—	—	—	—
Changes in purchase of shares of subsidiaries	—	—	—	—	—	—	—
Transfer to retained earnings from other components of equity	—	—	—	—	—	—	—
Total transactions with owners	—	40	8	(12,370)	—	—	—
December 31, 2019	21,763	33,234	(9,613)	176,105	24	2,100	43

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	16,166	314	16,481
Other comprehensive income	1,261	103	1,364
Total comprehensive income	17,427	418	17,845
Payment of dividends	(12,370)	(82)	(12,453)
Purchase of treasury stock	(0)	—	(0)
Sale of treasury stock	8	—	8
Share-based payment transactions	40	—	40
Changes in purchase of shares of subsidiaries	—	3,154	3,154
Transfer to retained earnings from other components of equity	—	—	—
Total transactions with owners	(12,321)	3,071	(9,249)
December 31, 2019	223,656	7,889	231,546

(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.