Consolidated Financial Results for the Third Quarter Ended December 31, 2019

Asahi Holdings, Inc. [IFRS]

January 31, 2020

Stock code:	5857
Shares listed:	Tokyo Stock Exchange (First Section)
URL:	https://www.asahiholdings.com
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Filing date of Quarterly Report:	February 13, 2020
Start of dividend payment:	–
Supplementary materials for the financial results:	Yes
Investor conference for the financial results:	Yes (for institutional investors, analysts)

(Rounded down to the nearest million yen)

1. Results of the nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

(1) Results of operations (cumulative) (Percentage: Changes relative to corresponding previous period)

	Revenue		Operating income		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
The nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2019	99,108	26.3	13,894	44.8	12,070	36.0	6,402	2.1	6,402	2.1	5,683	(33.9)
December 31, 2018	78,445	–	9,595	–	8,876	–	6,273	(14.7)	6,273	(14.3)	8,593	15.6

	Basic earnings per share	Diluted earnings per share
The nine months ended	Yen	Yen
December 31, 2019	162.72	162.17
December 31, 2018	158.88	158.67

(Note) The Company has signed an agreement on the partial equity transfer of Fuji Medical Instruments MFG. Co., Ltd., which was a consolidated subsidiary of the Company, and thereby reclassified the business concerned as discontinued operations. Consequently, revenue, operating income and profit before tax for the third quarter of the current year and of the previous year indicate the figures for continuing operations that do not include discontinued operations.

(2) Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent ratio
As of	Millions of yen	Millions of yen	Millions of yen	%
December 31, 2019	226,554	68,818	68,818	30.4
March 31, 2019	160,272	67,804	67,804	42.3

2. Dividend payments

	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	–	60.00	–	60.00	120.00
Year ending March 31, 2020	–	60.00	–		
Year ending March 31, 2020 (Forecast)				70.00	130.00

(Note) Revisions in dividend forecast in the current quarter: Yes

For details, please refer to “Notice on the Revision of Financial Forecast and Revision of Dividend Forecast (Dividend Increase)” made public on January 31, 2020.

3. Forecast (From April 1, 2019 to March 31, 2020) (Percentage: Changes relative to corresponding previous period)

	Revenue		Operating income		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2020	135,000	22.3	19,000	41.3	16,700	35.2	9,400	4.4	238.89

(Note) Revisions in forecast in the current quarter: Yes

For details, please refer to "Notice on the Revision of Financial Forecast and Revision of Dividend Forecast (Dividend Increase)" made public on January 31, 2020.

Year-on-year change rate indicates the rate of change in continuing operations excluding discontinued operations.

* Notes

(1) Changes in significant subsidiaries during the current quarter: No

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies required by IFRS: Yes

(ii) Changes other than (i) above: No

(iii) Changes in accounting estimates: No

For details, please refer to page 12 "2. Condensed Consolidated Financial Statements (7) Notes on Condensed Consolidated Financial Statements (3.Changes in accounting policies)".

(3) Number of issued shares (common stock)

(i) Number of issued shares at the quarter end (including treasury shares)

As of December 31, 2019	39,854,344 shares
As of March 31, 2019	39,854,344 shares

(ii) Number of treasury shares at the quarter end

As of December 31, 2019	505,537 shares
As of March 31, 2019	505,487 shares

(iii) Averaged number of shares during the period (quarterly cumulative period)

Nine months ended December 31, 2019	39,348,848 shares
Nine months ended December 31, 2018	39,487,710 shares

*The quarterly financial statements are not subject to quarterly reviews by accounting auditors.

(Notes on forward looking statements, etc.)

These forecast performance figures are based on the information currently available to the company's management and certain assumptions judged rational. Accordingly, these might be cases in which actual results materially differ from forecasts of this report. Please refer to page 4 "1. Qualitative Information (3) Consolidated Performance Forecasts" for the assumptions used and other notes.

【Appendix】

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1. Qualitative Information

(1) Consolidated Business Performance

The Japanese economy registered moderate recovery during the current consolidated cumulative third quarter, backed by improvements in the employment situation and corporate income. Meanwhile, the prospects for the global economy remain opaque due, in part, to the impact of consumption tax hike on personal spending and concerns over global economic slowdown triggered by the US-China trade dispute.

Under these conditions, the Group's results in each business segment were as follows. During the third quarter consolidated accounting period, the Company decided to transfer its equity interest in Fuji Medical Instruments MFG. Co., Ltd., a consolidated subsidiary of the Company. Businesses of Fuji Medical Instruments and its subsidiary that were previously classified under "Life & Health business" have consequently been reclassified as discontinued operations. In addition, beginning in the third quarter consolidated accounting period, the Group reduced the number of reporting segments from three: "Precious Metals business," "Environmental Preservation business" and "Life & Health business" to two: "Precious Metals business" and "Environmental Preservation business."

<u>Precious Metals business</u>

Revenue and operating income in precious metal recycling business in Japan, South Korea and Malaysia increased from the same period in the previous year, thanks to the growing volume of precious metal collection and rise in precious metal prices. In North America, revenue and operating income in precious metal refining business expanded from the same period a year before due to an increase in refining transactions and financial transactions. Meanwhile, in order to further enhance the efficiency and profitability of business in North America, the Company decided to discard the gold and silver refining facilities of Asahi Refining Florida Inc. and posted an impairment loss on its fixed assets. However, revenue and operating income in Precious Metals business recorded a significant growth over the same period in the preceding year.

<u>Environmental Preservation business</u>

Revenue and operating income in Environmental Preservation business posted a year-on-year increase as the Company worked to develop new projects and strengthened its sales structure for offering services by capitalizing on the strengths of the respective group companies.

As a result of the above, revenue during the third quarter of the current fiscal year was 99,108 million yen, a year-on-year increase of 20,662 million yen (+26.3 percent). Operating income was 13,894 million yen, an increase of 4,299 million yen (+44.8 percent) year-on-year. Profit before tax was 12,070 million yen, a year-on-year increase of 3,194 million yen (+36.0 percent). Profit was 6,402 million yen, a year-on-year increase of 129 million yen (+2.1 percent). Profit attributable to owners of parent for the period was therefore 6,402 million yen, an increase of 129 million yen (+2.1 percent) year-on-year. By segment, revenue in the Precious Metal business was 82,755 million yen, a year-on-year increase of 20,403 million yen (+32.7 percent). In the Environmental Preservation business, revenue was 15,284 million yen, and increase of 1,139 million yen (+8.1 percent) year-on-year.

(2) Consolidated Financial Position and Cash Flows for the nine months ended December 31, 2019

As of December 31, 2019, total assets amounted to 226,554 million yen, up 66,281 million yen from the previous fiscal year end. This was due mainly to the decrease of 2,231 million yen in cash and cash equivalents, the decrease of 6,638 million yen in goodwill, the increase of 59,699 million yen in trade and other receivables and the increase of 3,953 million yen in inventories.

Total liabilities amounted to 157,735 million yen, up 65,266 million yen from the previous fiscal year end. This was due mainly to the decrease of 3,350 million yen in trade and other payables, the increase of 63,196 million yen in loans payable and the increase of 2,379 million yen in other financial liabilities.

Total equity amounted to 68,818 million yen, up 1,014 million yen from the previous fiscal year end. This was due mainly to comprehensive income of 5,683 million yen and dividends of 4,721 million yen.

As a result, the equity attributable to owners of parent ratio changed to 30.4%, from 42.3% at the end of the previous fiscal year.

Net cash used in operating activities amounted to 55,874 million yen due mainly to 12,070 million yen of profit before tax, 2,179 million yen of depreciation and amortization, 6,592 million yen of increase in inventories, 60,531 million yen of increase in trade and other receivables and 5,891 million yen of income taxes paid.

Net cash used in investing activities amounted to 1,981 million yen due mainly to 2,119 million yen of purchase of property, plant and equipment.

Net cash provided by financial activities amounted to 55,965 million yen due mainly to 61,039 million yen of net increase in short-term loans payable, 4,708 million yen of cash dividends paid.

As a result, cash and cash equivalents as of December 31, 2019 decreased 2,021 million yen from March 31, 2019, to 14,065 million yen, excluding 209 million yen of cash and cash equivalents included in assets held for sale.

(3) Consolidated Performance Forecasts

① Reasons for the revision of financial forecast

As described in the "Notice on the Impairment Loss Recorded on Fixed Assets at Consolidated Subsidiary," which was announced separately today, an impairment loss of 1 billion yen has been recorded on facilities related to gold and silver refining business in North America. As a result, profit before tax and profit attributable to owners of parent are expected to be lower than those in the previous forecast. However, as the performance of the precious metals recycling business and environmental preservation business remains solid, exceeding the levels in the previous forecast, operating income remains unchanged from the previous forecast.

Revision of consolidated financial forecast for the year ended March 2020 (April 1, 2019 to March 31, 2020)

(Unit: millions of yen, %)

	Revenue	Operating income	Profit before tax	Profit attributable to owners of parent	Basic earnings per share
					Yen Sen
Previous forecast (A) (Announced on October 29, 2019)	135,000	19,000	16,800	10,200	259 22
Revised forecast (B)	135,000	19,000	16,700	9,400	238 89
Change (B-A)	—	—	(100)	(800)	—
Change (%)	—	—	(0.6)	(7.8)	—
(Ref.) Results for the previous FY (FY ended March 31, 2019)	128,669	14,478	13,405	9,000	228 14

② Reasons for the revision of dividend forecast

The Company's basic policy is to improve corporate value by maintaining profitability and delivering sustainable growth, and to meet the expectations of shareholders by providing sustainable, stable dividends. The Company's guideline on dividend payments based on this basic policy is to target a consolidated payout ratio of 50% or more by considering such factors as the business results of each fiscal year, the need for enhancing the financial position, and the management strategy of the Group.

Even after the revision of its financial forecast, the Company expects to register record-high results for operating income and profit before tax. Based on this judgment, the Company plans to increase its dividend payment at the end of fiscal year by 10 yen from 60 yen in the previous forecast, and the total annual dividend of the year is planned to be 130 yen.

Revision of dividend forecast for the year ended March 2020

	Annual Dividend		
	End of second quarter	End of FY	Total
Previous forecast (Announced on May 8, 2019)	60 yen	60 yen	120 yen
Revised forecast		70 yen	130 yen
Results for the current FY	60 yen		
Results for the previous FY (FY ended March 31, 2019)	60 yen	60 yen	120 yen

2. Condensed Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

	As of March 31, 2019	As of December 31, 2019
	Millions of yen	Millions of yen
ASSETS		
Current assets		
Cash and cash equivalents	16,297	14,065
Trade and other receivables	66,489	126,188
Inventories	25,191	29,145
Income tax receivables	1,515	72
Other financial assets	389	90
Other current assets	3,906	5,248
Subtotal	113,790	174,810
Assets held for sale	—	13,684
Total current assets	113,790	188,494
Non-current assets		
Property, plant and equipment	36,083	34,348
Goodwill	8,243	1,604
Intangible assets	697	543
Deferred tax assets	873	1,069
Net defined benefit asset	47	32
Financial assets	498	421
Other non-current assets	39	39
Total non-current assets	46,482	38,059
Total assets	160,272	226,554

	As of March 31, 2019	As of December 31, 2019
	Millions of yen	Millions of yen
LIABILITIES and EQUITY		
Liabilities		
Current liabilities		
Trade and other payables	17,169	13,818
Loans payable	44,712	126,994
Income tax payable	2,405	2,300
Other financial liabilities	1,537	2,806
Provision	1,207	739
Other current liabilities	3,540	2,613
Subtotal	70,573	149,272
Liabilities directly associated with assets held for sale	－	3,896
Total current liabilities	70,573	153,169
Non-current liabilities		
Loans payable	19,085	－
Deferred tax liabilities	1,360	1,978
Net defined benefit liability	157	163
Other financial liabilities	1,291	2,401
Other non-current liabilities	－	22
Total non-current liabilities	21,895	4,566
Total liabilities	92,468	157,735
Equity		
Capital stock	7,790	7,790
Capital surplus	10,353	10,406
Treasury stock	(955)	(955)
Retained earnings	55,547	57,225
Other components of equity	(4,931)	(5,657)
Other comprehensive income related to assets held for sale	－	9
Total equity attributable to owners of parent	67,804	68,818
Total equity	67,804	68,818
Total liabilities and equity	160,272	226,554

(2) Condensed Consolidated Statements of Income for the nine months ended December 31, 2019

	The nine months ended December 31, 2018	The nine months ended December 31, 2019
	Millions of yen	Millions of yen
Continuing operations		
Revenue	78,445	99,108
Cost of sales	(63,849)	(79,256)
Gross profit	14,596	19,851
Selling, general and administrative expenses	(4,972)	(4,992)
Other operating income	88	161
Other operating expenses	(117)	(1,125)
Operating income	9,595	13,894
Finance income	15	18
Finance cost	(734)	(1,789)
Other non-operating income	—	87
Other non-operating expenses	—	(140)
Profit before tax	8,876	12,070
Income tax expenses	(2,859)	(4,527)
Profit from continuing operations	6,016	7,543
Discontinued operations		
Profit(Loss) from discontinued operations	257	(1,140)
Profit	6,273	6,402
Profit attributable to:		
Owners of parent	6,273	6,402
Non-controlling interests	—	—
Profit	6,273	6,402
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	152.36	191.71
Discontinued operations	6.52	(28.99)
Total	158.88	162.72
Diluted earnings (loss) per share (Yen)		
Continuing operations	152.16	191.06
Discontinued operations	6.51	(28.89)
Total	158.67	162.17

(3) Condensed Consolidated Statements of Comprehensive Income for the nine months ended December 31, 2019

	The nine months ended December 31, 2018	The nine months ended December 31, 2019
	Millions of yen	Millions of yen
Profit	6,273	6,402
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(19)	3
Remeasurements of defined benefit plans	(16)	(6)
Total items that will not be reclassified to profit or loss	(36)	(2)
Items that will be reclassified to profit or loss		
Cash flow hedges	2,421	(753)
Translation adjustments of foreign operations	(65)	37
Total items that will be reclassified to profit or loss	2,356	(716)
Other comprehensive income, net of tax	2,319	(719)
Comprehensive income	8,593	5,683
Comprehensive income attributable to:		
Owners of parent	8,593	5,683
Non-controlling interests	—	—
Comprehensive income	8,593	5,683

(4) Condensed Consolidated Statements of Changes in Equity

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital stock	Capital surplus	Treasury stock	Retained earnings	Translation adjustments of foreign operations	Cash flow hedges
Balance at April 1, 2018	7,790	10,381	(386)	50,282	(3,624)	(34)
Profit	–	–	–	6,273	–	–
Other comprehensive income	–	–	–	–	(65)	2,421
Total comprehensive income	–	–	–	6,273	(65)	2,421
Purchase of treasury stock	–	–	(744)	–	–	–
Disposal of treasury stock	–	24	70	–	–	–
Dividends	–	–	–	(3,667)	–	–
Reclassified from other components of equity to retained earnings	–	–	–	(11)	–	–
Share-based payment transactions	–	(52)	104	–	–	–
Total transactions with owners	–	(27)	(568)	(3,679)	–	–
Balance at December 31, 2018	7,790	10,353	(955)	52,876	(3,690)	2,386

(Millions of yen)

	Equity attributable to owners of parent				
	Other components of equity				
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total	Total equity
Balance at April 1, 2018	27	–	(3,632)	64,435	64,435
Profit	–	–	–	6,273	6,273
Other comprehensive income	(19)	(16)	2,319	2,319	2,319
Total comprehensive income	(19)	(16)	2,319	8,593	8,593
Purchase of treasury stock	–	–	–	(744)	(744)
Disposal of treasury stock	–	–	–	95	95
Dividends	–	–	–	(3,667)	(3,667)
Reclassified from other components of equity to retained earnings	(4)	16	11	–	–
Share-based payment transactions	–	–	–	52	52
Total transactions with owners	(4)	16	11	(4,264)	(4,264)
Balance at December 31, 2018	2	–	(1,300)	68,764	68,764

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Capital stock	Capital surplus	Treasury stock	Retained earnings	Translation adjustments of foreign operations	Cash flow hedges
Balance at April 1, 2019	7,790	10,353	(955)	55,547	(3,737)	(1,203)
Profit	—	—	—	6,402	—	—
Other comprehensive income	—	—	—	—	37	(753)
Total comprehensive income	—	—	—	6,402	37	(753)
Purchase of treasury stock	—	—	(0)	—	—	—
Dividends	—	—	—	(4,721)	—	—
Reclassified from other components of equity to retained earnings	—	—	—	(2)	—	—
Share-based payment transactions	—	53	—	—	—	—
Other comprehensive income related to assets held for sale	—	—	—	—	(0)	—
Total transactions with owners	—	53	(0)	(4,724)	(0)	—
Balance at December 31, 2019	7,790	10,406	(955)	57,225	(3,700)	(1,956)

(Millions of yen)

	Equity attributable to owners of parent					
	Other components of equity					
	Financial assets measured at fair value through other comprehen-sive income	Remeasure-ments of defined benefit plans	Total	Other comprehens-ive income related to assets held for sale	Total	Total equity
Balance at April 1, 2019	8	—	(4,931)	—	67,804	67,804
Profit	—	—	—	—	6,402	6,402
Other comprehensive income	3	(6)	(719)	—	(719)	(719)
Total comprehensive income	3	(6)	(719)	—	5,683	5,683
Purchase of treasury stock	—	—	—	—	(0)	(0)
Dividends	—	—	—	—	(4,721)	(4,721)
Reclassified from other components of equity to retained earnings	(3)	6	2	—	—	—
Share-based payment transactions	—	—	—	—	53	53
Other comprehensive income related to assets held for sale	(9)	—	(9)	9	—	—
Total transactions with owners	(12)	6	(6)	9	(4,668)	(4,668)
Balance at December 31, 2019	(0)	—	(5,657)	9	68,818	68,818

(5) Condensed Consolidated Statements of Cash Flows

	The nine months ended December 31, 2018	The nine months ended December 31, 2019
	Millions of yen	Millions of yen
Net cash provided by (used in) operating activities		
Profit before tax	8,876	12,070
Profit (loss) before tax from discontinued operations	345	(486)
Depreciation and amortization	1,743	2,179
Impairment loss	15	2,018
Finance income and finance cost	675	1,770
Other non-operating income and expenses	―	52
Decrease (increase) in inventories	(1,590)	(6,592)
Decrease (increase) in trade and other receivables	(26,723)	(60,531)
Increase (decrease) in trade and other payables	1,584	563
Other, net	(1,523)	(844)
Subtotal	(16,598)	(49,800)
Interest and dividends income received	15	19
Interest expenses paid	(661)	(1,596)
Income taxes paid	(6,265)	(5,891)
Income taxes refund	1,366	1,394
Net cash provided by (used in) operating activities	(22,142)	(55,874)
Net cash provided by (used in) investing activities		
Payments into time deposits	(100)	(93)
Purchase of property, plant and equipment	(1,725)	(2,119)
Proceeds from sales of property, plant and equipment	221	116
Purchase of intangible assets	(103)	(146)
Proceeds from sales and redemption of investments	12	216
Other, net	(43)	44
Net cash provided by (used in) investing activities	(1,739)	(1,981)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	24,727	61,039
Repayment of long-term loans payable	(1,010)	―
Proceeds from sales of treasury stock	95	―
Purchase of treasury stock	(744)	(0)
Cash dividends paid	(3,657)	(4,708)
Other, net	(55)	(365)
Net cash provided by (used in) financing activities	19,354	55,965
Effect of exchange rate change on cash and cash equivalents	202	(131)
Net increase (decrease) in cash and cash equivalents	(4,324)	(2,021)
Cash and cash equivalents at beginning of period	24,140	16,297
Cash and cash equivalents included in assets held for sale	―	(209)
Cash and cash equivalents at end of period	19,815	14,065

(6) Notes on Assumptions for Going Concern

Not applicable

(7) Notes on Condensed Consolidated Financial Statements

1. Reporting entity

Asahi Holdings, Inc.(hereinafter the "Company") is a company located in Japan. The Company's condensed consolidated financial statements for the nine months ended December 31, 2019 comprise the financial statements of the Company as well as its subsidiaries (hereinafter the "Group").

For the main activities of the Group, please refer to Note 5. "Segment information."

2. Basis of preparation

(1) Statement of compliance with IFRS

The condensed consolidated financial statements of the Group have been prepared based on IAS 34 "Interim Financial Reporting."

Having met the requirements for a Specified Company under the Designated International Accounting Standards, as prescribed in Article 1-2 of the Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007), the Group adopts the provisions of Article 93 of the aforementioned rules.

(2) Basis of measurement

The condensed consolidated financial statements of the Group have been prepared based on costs of acquisition, except for the specified financial instruments that have been measured at fair value.

(3) Functional currency and presentation currency

The condensed consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and figures less than one million yen are rounded down to the nearest million yen.

3. Changes in accounting policies

The significant accounting policies adopted for the condensed consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2019, with the exception of the items described below.

The income tax for the nine months ended December 31, 2019 was calculated based on the estimated average annual effective tax rate.

(1) Leases

The Group adopted the standards shown below in the first quarterly consolidated accounting period.

IFRS		Overview of new and revised items
IFRS 16	Leases	Revision of accounting procedures on leases

The Group adopted IFRS 16 "Leases" (announced in January 2016, hereinafter referred to as "IFRS 16") in the first quarterly consolidated period.

IFRS 16, which replaces the former IAS 17 for lease transactions of the lessee, prescribes the elimination of the classification between operating leases and finance leases and introduction of a single accounting model to record assets and liabilities in relation to all important lease transactions.

As of the lease commencement date, right-of-use assets are measured at acquisition cost, and lease liabilities are measured at the present value of remaining lease payments as of the lease commencement date. When the ownership of the underlying asset is transferred to the Group prior to the termination of the lease period, or when the exercise of a purchase option is reflected in the acquisition price of the right-of-use asset, the right-of-use asset is depreciated using the straight-line method based on its useful life. In other cases, right-of-use assets are depreciated using the straight-line method based on either the useful life or at the termination of the lease period, whichever is shorter. Lease payments are apportioned between finance costs and repayment of lease obligations based on the interest method, and financial costs are recognized in the consolidated statement of profit and loss.

The lease period is determined by adjusting the period subject to an option to extend or terminate the lease that can be exercised with reasonable certainty during the non-cancelable period as set forth in the lease contract. The rate used in calculating the present value of the lease payments is the interest rate implicit in the lease or the lessee's incremental borrowing rate.

Short-term leases with a lease term of 12 months or less and leases of low-value underlying assets are recognized as expenses on either a straight-line basis or another systematic basis over the lease term for the total lease payments.

The method adopted in the application of IFRS 16 is to recognize the cumulative effect of applying this standard at the date of initial application that is approved as an interim measure without retrospectively adjusting the balance in the earlier reporting periods.

In transitioning to IFRS 16, the Company chose to adopt the practical expedient of succeeding the previous assessment of which transactions constitute leases. IFRS 16 is applied only to contracts that were identified as leases under the previous IAS 17 and IFRIC 4 and a review on whether the contracts correspond to leases is not performed on contracts not previously identified as leases.

Consequently, the identification of leases based on IFRS 16 is applied solely to contracts that were signed or changed after the initial date of application.

For leases that were classified as operating leases under IAS 17, lease liabilities on transition are initially measured at the present value of the total remaining leases as of the date of transition, discounted at the incremental borrowing rate of the lessee. Right-of-use assets are recorded at the same value as lease liabilities. The weighted-average for incremental borrowing rate of the lessee applied to lease liabilities recognized in the summary quarterly consolidated financial statements as of the date of initial application is 0.4%.

Also, the Company has used the practical expedients in the past as shown below prior to the application of IFRS 16 to leases classified as operating leases with the application of IAS 17:

* Rely on an assessment of whether leases are onerous in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review.

* Apply a single discount rate to a portfolio of leases with reasonably similar characteristics

* Account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases

* Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application

* Use hindsight: e.g. in determining the lease term of the contract that contains options to extend or terminate the lease.

The differential between the lease liabilities recognized on the day of initial application and total future minimum lease payments on operating leases that cannot be terminated, disclosed by applying IAS 17, as of the end of the consolidated accounting year immediately before the date of initial application is 1,652 million yen. A major reason behind this differential is a review of the lease period performed upon the application of IFRS 16.

The carrying amount of right-of-use assets and lease liabilities as of April 1, 2019 for leases classified as finance leases under IAS 17 is calculated at the carrying amount of lease assets and lease liabilities according to IAS 17 as of the day immediately preceding the above date.

In transitioning to IFRS 16, the Company recorded 2,138 million yen, 507 million yen and 1,631 million yen as Property, plant and equipment, other financial liabilities (current) and other financial liabilities (non-current), respectively, at the beginning of the period.

The impact of the transition on the quarterly profits and cash flow during the current third quarter consolidated cumulative period remains minimal.

(2) Discontinued operations

The Group recognizes any component of a company that has already been disposed of or has been classified as held for sale and that falls under either one of the following categories as a discontinued operation:

・It represents a major independent business area or operating territory.

・It is a component of a consolidated plan to dispose of a major independent business area or operating territory.

・It is a subsidiary that has been acquired solely for the purpose of resale.

The after-tax gain or loss on discontinued operations and the after-tax gain or loss recognized after the disposal of the disposal group that constitutes the discontinued operations are reported separately from continued operations as profit from discontinued operations in the condensed consolidated income statement. The disclosed data on prior periods have also been restated accordingly.

Note 7 discloses additional information related to discontinued operations while notes to the summary of all other quarterly consolidated financial statements show the amounts relating to continuing operations, unless otherwise specified.

4. Significant accounting estimates and associated judgments

In preparing condensed consolidated financial statements, the management is required to make judgment, estimates and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in accounting estimates is recognized as the accounting period in which such change occurs as well as the accounting periods to be affected in the future.

The estimates and judgments made by the management that may have material impacts on the figures in the condensed consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2019.

5. Segment information

(1) Overview of reporting segments

The Group's reporting segments are those Group constituent units for which separate financial information is obtainable, and which the Board of Directors subjects to regular examination in order to decide the allocation of management resources and evaluate business results.

As a pure holding company, the Company is in charge of overall strategic function for the Group, whereas operating companies of the Group engage in the precious and rare metals recycling business and the refining and processing business, industrial waste management and other environmental preservation business.

Therefore, the Group is composed of product and service segments based on business sectors. The two reporting segments are the Precious Metal Business and the Environmental Preservation Business. Meanwhile, these reporting segments are not be aggregated.

The Precious Metals Business engages mainly in recycling and selling of precious and rare metals such as gold, silver, palladium, and platinum, as well as refining and processing of precious metals such as gold and silver. The main work of Environmental Preservation Business is the collection, transport and intermediate processing of industrial waste, the manufacture and sales of electric heaters.

On December 20, 2019, the Company signed an agreement on the partial equity transfer of Fuji Medical Instruments MFG. Co., Ltd. (hereinafter referred to as "Fuji") to Johnson Health Tech Co., Ltd., a company listed on the Taiwan Stock Exchange. Consequently, the Company classified the business of Fuji under discontinuing operations and eliminated the relevant data from the consolidated cumulative third quarter in the current year and in the previous year. Please refer to Note "7. Discontinued Operations" for details on discontinued operations.

Also, starting in the current consolidated cumulative third quarter, the number of reporting segments was reduced from 3 (three) in the past: "Precious Metals business", "Environmental Preservation business" and "Life & Health business" to 2 (two): "Precious Metals business" and "Environmental Preservation business." This step was taken in response to partial changes in the Group's business management structure following the classification of Fuji, which constituted a core section of the "Life & Health business", into discontinued operations. In line with this change, the Company transferred the business of INTER CENTRAL, INC. from "Life & Health business" to "Environmental Preservation business" category in the previous consolidated cumulative third quarter. Also, the business of KOEIKOGYO CO., LTD., transferred from "Life & Health business" to "Other" because it sold all shares and was excluded from consolidation.

(2) Segment revenue and performance

Accounting policies of the reporting segments are the same as those of the Group stated in "Note 3. Changes in accounting policies."

Revenue and other performance of each reportable segment of the Group are as follows.

For the nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

(Millions of yen)

	Reporting segment						
	Precious Metals Business	Environmental Preservation Business	Subtotal	Other	Total	Adjustment	Consolidated
Revenue							
External revenue	62,352	14,110	76,462	1,983	78,445	–	78,445
Intersegment revenue	–	34	34	0	34	(34)	–
Total	62,352	14,145	76,497	1,983	78,480	(34)	78,445
Operating income by business segment	8,720	2,628	11,349	79	11,429	(1,834)	9,595
Finance income							15
Finance costs							(734)
Profit before tax							8,876

(Note) 1. Intersegment transactions are based on prevailing market prices.
2. Adjustments of operating income by business segment are mainly corporate expenses that are not allocated to each reporting segment.

For the nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

(Millions of yen)

	Reporting segment						
	Precious Metals Business	Environmental Preservation Business	Subtotal	Other	Total	Adjustment	Consolidated
Revenue							
External revenue	82,755	15,280	98,036	1,072	99,108	–	99,108
Intersegment revenue	–	3	3	–	3	(3)	–
Total	82,755	15,284	98,039	1,072	99,112	(3)	99,108
Operating income by business segment	12,404	3,027	15,431	60	15,492	(1,597)	13,894
Finance income							18
Finance costs							(1,789)
Other non-operating income							87
Other non-operating expenses							(140)
Profit before tax							12,070

(Note) 1. Intersegment transactions are based on prevailing market prices.
2. Adjustments of operating income by business segment are mainly corporate expenses that are not allocated to each reporting segment.

6. Impairment loss

The impairment loss of 997 million yen on property, plant and equipment recognized during the nine months ended December 31, 2019 was due to the decision of disposal of gold and silver refining facilities (buildings and machinery) in Asahi Refining Florida Inc. belonging to the segment of Precious Metals Business to further enhance the efficiency and profitability of business in North American. And the book value of the property, plant and equipment has been reduced to the recoverable amount. The recoverable value is measured based on the fair value less costs of disposal, and the fair value less costs of disposal is evaluated using the reasonably calculated value based on the expected value of disposal. The fair value hierarchy level is 3. Impairment losses are recorded in "Other operating expenses" in the condensed consolidated statements of income.

7. Discontinued operations

(1) Outline of discontinued operations

We have entered into an agreement to transfer 60% of all Fuji Medical Instruments Mfg. Co., Ltd's shares to Johnson Health Tech. Co., Ltd., a listed company on the Taiwan Stock Exchange, on December 20, 2019.

For this reason, profit and loss as well as cash flows relating to Fuji in the current consolidated cumulative third quarter are classified as discontinued operations, while those for the previous consolidated cumulative third quarter are restated, with the discontinued operations concerned displayed in a separate category.

(2) Discontinued operations performance

(Millions of yen)

	The nine months ended December 31, 2018	The nine months ended December 31, 2019
Revenue and expense of discontinued operations		
Revenue	12,969	13,698
Expense (note)	(12,624)	(14,185)
Profit (loss) before tax from discontinued operations	345	(486)
Corporate income tax expense (note)	(88)	(653)
Profit (loss) from discontinued operations	257	(1,140)

(Note) This includes losses worth 1,020 million yen, which were recognized by the measurement in the current consolidated cumulative third quarter of the disposal group that constitutes discontinued operations at fair value less selling cost. Corporation income tax expenses pertaining to this change totaled 487 million yen.

(3) Cash flow from discontinued operations

(Millions of yen)

	The nine months ended December 31, 2018	The nine months ended December 31, 2019
Cash flow from discontinued operations		
Net cash provided by (used in) operating activities	(315)	1,388
Net cash provided by (used in) investing activities	(10)	(80)
Net cash provided by (used in) financing activities	285	(1,493)
Total	(40)	(184)

8. Subsequent events

Not applicable