Consolidated Financial Statements for the Three Months Ended March 31, 2019 (IFRS)

These financial statements have been prepared for reference only.

May 14, 2019

Link and Motivation Inc.
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Start of distribution of dividends (scheduled): June 25, 2019
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Three Months Ended March 31, 2019 (January 1, 2019 - March 31, 2019)

(1) Revenues and Income (Percentages represent change compared with the same quarter of the previous year.)

	Revenues (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Income before income taxes (¥ million)	Change (%)	Net income (¥ million)	Change (%)
Three months ended March 31, 2019	9,189	(4.7)	424	(50.7)	403	(52.7)	197	(63.0)
Three months ended March 31, 2018	9,642	10.1	862	23.5	853	27.3	533	29.1

	Net income attributable to owners of the parent (¥ million)	Change (%)	Comprehensive income (¥ million)	Change (%)	Basic earnings per share (¥)	Diluted earnings per share (¥)
Three months ended March 31, 2019	200	(63.5)	433	15.9	1.90	1.88
Three months ended March 31, 2018	550	33.2	374	(51.6)	5.21	—

(2) Financial Position

	Total assets (¥ million)	Total equity (¥ million)	Equity attributable to owners of the parent (¥ million)	Ratio of equity attributable to owners of the parent to total assets (%)
As of March 31, 2019	43,794	7,295	7,313	16.7
As of December 31, 2018	27,664	7,681	7,696	27.8

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2018	1.70	1.70	1.70	1.70	6.80
2019	1.80				
2019 (est.)		1.80	1.80	1.80	7.20

Note: Revisions since the most recently announced dividend forecast: No

3. Forecast of Consolidated Results for 2019 (January 1, 2019 - December 31, 2019)

(Percentages represent change compared with the previous fiscal year.)

	Revenues (¥ million)	(%)	Operating income (¥ million)	(%)	Net income (¥ million)	(%)	Net income attributable to owners of the parent (¥ million)	(%)	Basic earnings per share (¥)
Full-year	42,500	6.4	4,500	17.6	2,570	33.9	2,550	31.0	24.14

Note: Revisions since the most recently announced forecast of results: No

Notes

(1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to a Change in the Scope of Consolidation): No

(2) Changes in Accounting Policies and Changes in Accounting Estimates
- (a) Changes in accounting policies required by IFRS: Yes
- (b) Changes in accounting policies other than (a) above: No
- (c) Changes in accounting estimates: No

(3) Number of Shares Issued and Outstanding (Common Stock)
- (a) Number of shares at the end of the period (including treasury stock)
  Three months ended March 31, 2019: 113,068,000; Year ended December 31, 2018: 113,068,000
- (b) Number of treasury shares at the end of the period:
  Three months ended March 31, 2019: 7,445,757; Year ended December 31, 2018: 7,445,757
- (c) Average number of shares outstanding (cumulative with earlier quarters):
  Three months ended March 31, 2019: 105,622,243; Three months ended March 31, 2018: 105,622,300

* **These Quarterly Financial Statements Are Not Subject to Quarterly Review by a Certified Public Accountant or Auditing Firm**

* **Explanation of the Proper Use of Performance Forecasts and Other Special Instructions**

Consolidated forecasts and other statements regarding the future contained in this document are based on information currently available to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

Contents of Attachments

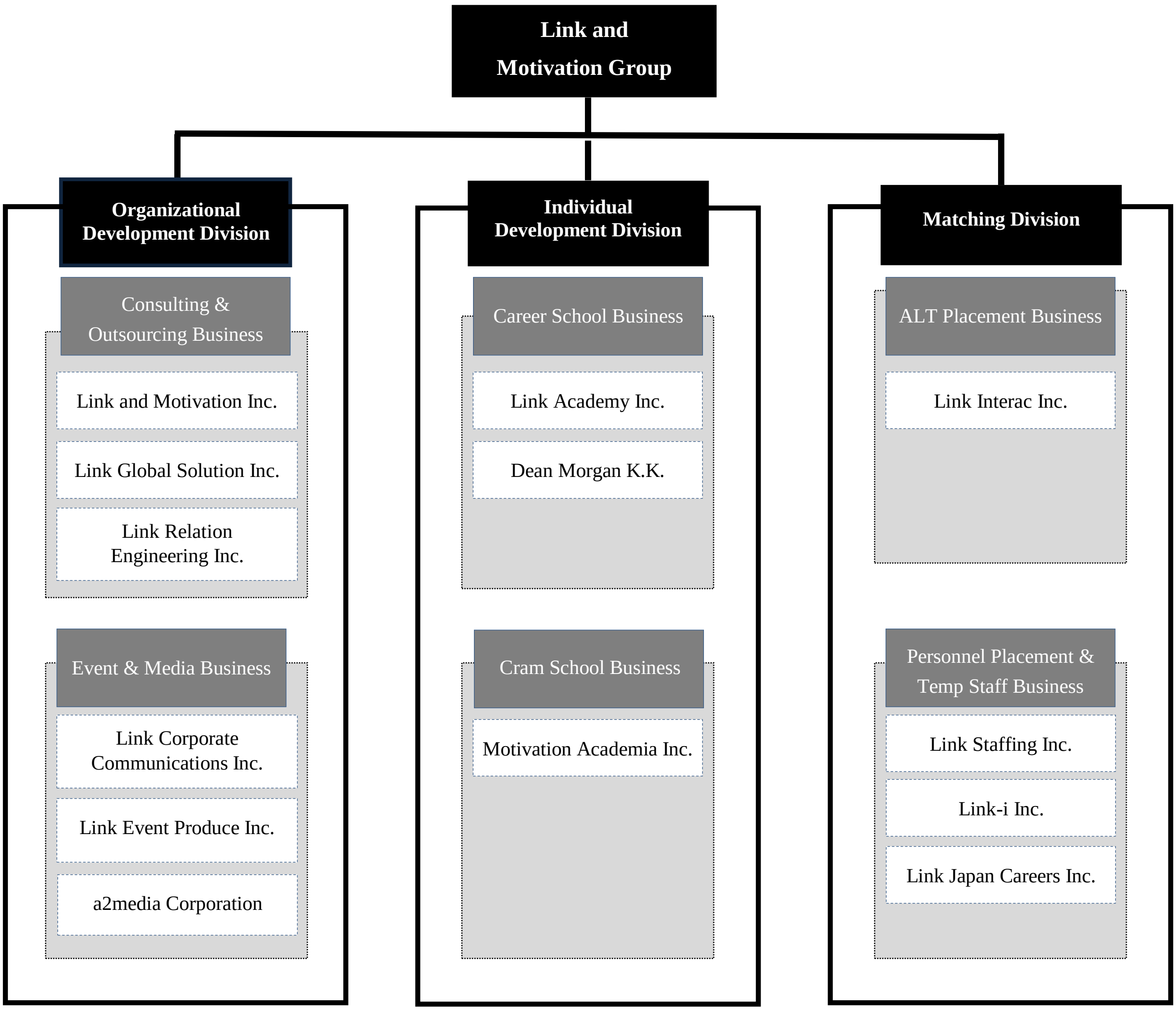
1. Overview of Results of Operations and Other Information

(1) Overview of Results of Operations for the Three Months Ended March 31, 2019

In the Japanese economy during the first quarter of 2019 (January 1, 2019 – March 31, 2019), corporate production activities and capital investment were on a recovery track and personal consumption, which had been in a persistent slump, also grew in tandem with an increase in leisure time due to Japanese society's promotion of work style reform. As a result, the economy was on an overall moderate recovery trend. Moreover, the Link and Motivation Group (the "Group") supports the transformation of numerous companies and individuals using "Motivation Engineering," which is the Group's core technology, backed by psychology, behavioral economics, social systems theory and other disciplines, under its corporate philosophy: "Through Motivation Engineering, we provide opportunities to transform organizations and individuals and create a more meaningful society." The market also grew moderately in industries related to the Group, with increased demand for higher labor productivity and facilitation of personnel recruiting associated with the promotion of work style reform.

In this economic environment, revenues of the Group were ¥9,189 million (a 4.7% decrease compared with the same period of the previous year), gross profit was ¥3,513 million (a 6.3% decrease), operating income was ¥424 million (a 50.7% decrease) and net income attributable to owners of the parent was ¥200 million (a 63.5% decrease).

The segment and business classifications of the Group are as shown below, and an overview of the first quarter of 2019 by segment and business follows.



Organizational Development Division

The Organizational Development Division offers corporate customers services that provide support for building and strengthening relationships with a company's stakeholders (employees, job applicants, customers, shareholders) using "Motivation Engineering," which is the core technology of the Group.

In this segment, due to slower growth in the Consulting & Outsourcing Business, segment revenues for the first quarter of 2019 were ¥2,555 million (a 17.5% decrease) and segment income was ¥1,772 million (a 15.8% decrease), decreasing substantially compared with the same period of the previous year. An overview of operating results by business for the first quarter of 2019 is as follows.

Consulting & Outsourcing Business

The Consulting & Outsourcing business acts under the concept of creating numerous "Motivation Companies" in which employee motivation is the growth engine of an organization. As its method of providing services, the business diagnoses the state of a company's motivation based on its original diagnostic framework and offers various one-stop solutions for innovations related to organizations and personnel, including recruiting, training, framework and corporate culture.

In this business, revenues for the first quarter of 2019 were ¥2,019 million (a 19.4% decrease) and gross profit was ¥1,608 million (a 17.5% decrease). Results by product in the Consulting & Outsourcing business were as follows.

Table 1. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Three months ended March 31, 2018	Three months ended March 31, 2019	YoY change (%)
Consulting & Outsourcing Business	2,505 [1,949]	2,019 [1,608]	(19.4) (17.5)
Package	595	434	(26.9)
Consulting	1,238	847	(31.6)
Member/database services	437	578	32.3
Outsourcing	234	157	(32.6)

In the first quarter of 2019, revenues and gross profit from Package and Consulting both decreased substantially compared with the same period a year earlier. At the end of the previous fiscal year, the staff of the Consulting & Outsourcing Business concentrated on sales of Member/database services (Motivation Cloud) and as a result, Package and Consulting sales did not grow in first quarter of 2019. As a recovery measure, the business has been divided into one organization specializing in Member/database services (Motivation Cloud) and another specializing in Package and Consulting sales, and their respective roles were clearly delineated.

Progress in the number of contact points that have adopted the cloud-based service for organizational improvement Motivation Cloud, which is a key indicator for the Group, was as follows.

Table 2. Number of Contact Points and Monthly Fee Revenue for Motivation Cloud at Quarter-End

	2018				2019
	March	June	September	December	March
Number of contact points	505	576	641	718	803
Monthly fee revenue (¥ thousand)	72,086	92,998	103,410	130,663	140,201

Motivation Cloud is a cloud-based service in the field of HR Tech (human resources technology) for managing employee engagement (mutual understanding, empathy and commitment between companies and employees). We began providing this monthly pay-as-you-go product in July 2016. The cumulative number of contact points that have adopted Motivation Cloud has grown steadily to 803 as of March 31, 2019.

During the first quarter of 2019, there was steady progress in the number of contact points that have adopted Motivation Cloud. The recent environmental change of shifting to adapt to the labor market to target human resources, both employees and job applicants, is a management issue for many companies. Amid these circumstances, improving employee engagement through corporate organizational activities is a key management theme. However, the absence of a "yardstick" for visualizing the state of the organization and of a PDCA cycle for truly achieving organizational improvements has been an issue for many organizational activities. Against this backdrop, capturing companies’ rising needs for organizational transformation has led to a substantial increase in the number of contact points for Motivation Cloud. Motivation Cloud is smoothly generating stable revenue, and total monthly fee revenue for March 2019 was ¥140,201 thousand. Inquiries from major companies are currently increasing and the average fee is expected to rise. Consequently, by enhancing its response to major companies, centered on product development, the Company believes that matters will proceed smoothly in the future, including meeting annual targets.

Event & Media Business

The Event & Media business produces events and media for various types of communication associated with business activities to support the “creation of Motivation Companies” at corporations. In its event production, the business offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders’ meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations (IR) sites and visual media such as videos that explain products and webcasts of shareholders’ meetings.

In this business, revenues for the first quarter of 2019 were ¥733 million (a 13.0% decrease) and gross profit was ¥255 million (a 4.6% decrease). Results by product in the Event & Media business were as follows.

Table 3. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Three months ended March 31, 2018	Three months ended March 31, 2019	YoY change (%)
Event & Media Business	842 [268]	733 [255]	(13.0) (4.6)
Event production	324	306	(5.5)
Media production	517	426	(17.7)

In the first quarter of 2019, with the intention of stabilizing operations, the Event & Media business focused on IR-related media with low sensitivity to economic swings and cut back on other products, as well as on intentionally reducing orders with a high cost ratio for the business overall. As a result, revenues decreased substantially and gross profit decreased slightly compared with the same period of the previous year.

The business will work for growth by developing products with greater advantages using “Motivation Engineering,” the Group’s core technology.

Individual Development Division

The Individual Development Division applies “Motivation Engineering,” which is the core technology of the Group, to businesses in areas including career schools and cram schools, to offer individual customers “career navigation” services, which provide total support for independent and autonomous career creation.

In this segment, growth slowed in the Cram School business but was firm in the Career School business. As a result, segment revenues for the first quarter of 2019 were ¥1,893 million (a 1.0% increase) and segment income was ¥633 million (a 4.6% decrease). An overview of operating results by business for the first quarter of 2019 is as follows.

Career School Business

The Career School business defines human resources who act independently and autonomously, without depending on an organization, as “i-Companies” and supports the production of numerous i-Companies. As for specific services, the business provides one-stop services for individual career advancement, targeting mainly university students and working adults, under the six service brands of “Aviva” personal computer schools, “Daiei” qualification schools, “Aviva Pro” programming schools, and “Rosetta Stone Learning Center,” “Rosetta Stone Premium Club” and “Hummingbird” foreign language schools.

In this business, revenues for the first quarter of 2019 were ¥1,731 million (a 1.8% increase) and gross profit was ¥573 million (a 2.8% decrease). Results by product in the Career School business were as follows.

Table 4. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Three months ended March 31, 2018	Three months ended March 31, 2019	YoY change (%)
Career School Business	1,700 [589]	1,731 [573]	1.8 (2.8)
Office	735	717	(2.4)
Pro Series	230	229	(0.5)
Accounting courses	141	159	12.4
National exam courses	156	156	0.0
Civil servant courses	309	278	(9.9)
Educational materials/other	43	48	12.5
English conversation	83	140	68.1

During the first quarter of 2019, revenues increased as a result of a focus on sales of Accounting and English conversation courses. On the other hand, school relocations to raise efficiency temporarily increased expenses at those schools, and gross profit decreased slightly.

In addition to working to enhance its lineup of courses and to improve their quality in order to raise its value as a total career school, the business will promote career navigation by focusing on comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Personnel Placement & Temp Staff business.

Cram School Business

Unlike typical cram schools, the Cram School business operates under the business concept of producing numerous “i-Companies” in addition to improving the academic ability of its students. Its services consist of operating “Motivation Academia” cram schools for junior high and high school students to provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society. The business also operates “SS-1,” an individualized instruction cram school for students preparing for junior high school entrance exams. The Group’s Cram School business will utilize its assets in programming education and English conversation education to provide places for students from elementary school straight through to high school to develop skills that will be of use in society.

In this business, revenues for the first quarter of 2019 were ¥163 million (a 5.9% decrease) and gross profit was ¥60 million (an 18.6% decrease).

During the first quarter of 2019, revenues decreased and gross profit decreased substantially compared with the same period of the previous year because enrollment did not proceed as in most years. This business has only one product.

By further applying the know-how in training adults that has been cultivated in the Consulting & Outsourcing business, this business aims to achieve one-stop services unattainable by conventional cram schools, ranging from elementary to high school students and adults.

Matching Division

The Matching Division provides services under the concept of matching organizations with hiring needs and individuals who want to advance their careers through “motivation matching,” which applies “Motivation Engineering,” the core technology of the Group, to personnel placement and temp staff dispatch.

In this segment, segment revenues for the first quarter of 2019 were ¥5,029 million (a 1.0% decrease) and segment income was ¥1,369 million (a 5.6% increase), a slight decrease in segment revenues and an increase in segment income compared with the same period of the previous year. An overview of operating results by business for the first quarter of 2019 is as follows.

ALT Placement Business

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and high schools throughout Japan and provides English-language instruction services on contract. In this business, where barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company’s track record, the Group has established the number-one share among private companies. In addition, Japan’s English education market is expanding with the creation of a “Reform Plan for Cultivating Global Human Resources” by the Ministry of Education, Culture, Sports, Science and Technology (MEXT), looking ahead to the Tokyo Olympics to be held in 2020.

In this business, revenues for the first quarter of 2019 were ¥3,144 million (an 8.2% increase) and gross profit was ¥911 million (a 13.1% increase).

During the first quarter of 2019, revenues increased and gross profit increased substantially compared with the same period of the previous year due to firm performance from precisely capitalizing on the expansion of English education promoted by MEXT. This business has only one product.

The business will work to strengthen hiring of foreign teachers with a view toward further growth in demand for ALTs in Japan.

Personnel Placement & Temp Staff Business

The Personnel Placement & Temp Staff business provides solutions in the form of introductions and temp staffing of the human resources an organization needs to grow. The main businesses include a new graduate recruiting and introduction business that connects university students looking for employment with company orientation meetings and interviews, a mid-career introduction business that matches working adults looking to change jobs with companies, and a temp staff business that dispatches personnel for sales, clerical work, and other fields. In addition, to capitalize on rising needs for employment of foreigners, the Personnel Placement & Temp Staff business also conducts a business that provides one-stop foreigner recruiting, training and labor support for companies that want to hire them.

In this business, revenues for the first quarter of 2019 were ¥2,067 million (an 11.4% decrease) and gross profit was ¥592 million (a 4.0% decrease). Results by product in the Personnel Placement & Temp Staff business were as follows.

Table 5. Revenues by Product

Product (¥ million) [Gross profit in brackets]	Three months ended March 31, 2018	Three months ended March 31, 2019	YoY change (%)
Personnel Placement & Temp Staff Business	2,332 [617]	2,067 [592]	(11.4) (4.0)
Store sales temp staff	1,834	1,488	(18.9)
Office temp staff	160	156	(2.6)
Foreign worker support	141	165	16.8
Recruiting/introductions	196	258	31.5

During the first quarter of 2019, revenues decreased substantially and gross profit decreased slightly compared with the same period of the previous year due to slow growth by Store sales temp staff, which accounts for the majority of revenues, resulting from a trend toward regular employment.

The business will raise matching efficiency and improve profitability through business synergy that links individuals who have improved their skills through the Group’s Career School business to corporate dispatch and introductions.

Venture Incubation

In addition to its divisions, the Group conducts venture incubation. In venture incubation, the Group provides its know-how in organizational and personnel consulting in addition to funding, as well as supporting growing venture companies on an organizational level with the aim of listing their stock. The two main criteria for selection of investees are (1) sympathy with creating a “Motivation Company” and (2) aim to list stock. Gains on sales and other results generated from venture incubation are recorded as equity on the balance sheet.

(2) Overview of Financial Condition for the Three Months Ended March 31, 2019

Total assets as of March 31, 2019 were ¥43,794 million, an increase of ¥16,130 million from the end of the previous year. This was mainly due to factors including a ¥16,797 million increase in property, plant and equipment due to an increase in right-of-use assets and other items in connection with the application of IFRS 16.

Total liabilities as of March 31, 2019 were ¥36,499 million, an increase of ¥16,516 million from the end of the previous year. This was mainly due to factors including a ¥17,627 million increase in interest-bearing and other financial liabilities due to an increase in lease liabilities and other items in connection with the application of IFRS 16.

Total equity as of March 31, 2019 was ¥7,295 million, a decrease of ¥386 million from the end of the previous year. This was mainly due to factors including a ¥640 million decrease in retained earnings at the beginning of the period in connection with the application of IFRS 16.

(3) Overview of Cash Flow for the Three Months Ended March 31, 2019

Cash and cash equivalents (“cash”) as of March 31, 2019 were ¥1,349 million, a decrease of ¥630 million during the period.

Cash flow during the three months ended March 31, 2019 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥397 million, a decrease of ¥177 million compared with the same period of the previous year. The principal factors included a ¥449 million decrease in income before income taxes.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥342 million, an increase in cash used of ¥14 million compared with the same period of the previous year. The principal factors included a ¥52 million increase in payments for acquisition of property, plant and equipment.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥685 million, an increase in cash used of ¥333 million compared with the same period of the previous year. The principal factors included a ¥516 million increase in repayment of lease liabilities.

(4) Forecast

There is no change from the forecast of consolidated results for 2019 announced in “Consolidated Financial Statements for the Year Ended December 31, 2018” dated February 14, 2019.

(5) Important Information Regarding Assumption of Going Concern

None applicable

2. Condensed Quarterly Consolidated Financial Statements and Main Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2018	As of March 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	1,979	1,349
Trade and other receivables	4,533	4,063
Inventories	278	330
Other current financial assets	9	0
Other current assets	1,015	939
Total current assets	7,817	6,683
Non-current assets		
Property, plant and equipment	1,851	18,648
Goodwill	6,551	6,551
Intangible assets	1,841	1,879
Investments in associates	3,080	3,100
Other non-current financial assets	5,821	6,094
Deferred tax assets	440	576
Other non-current assets	260	261
Total non-current assets	19,847	37,111
Total assets	27,664	43,794

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2018	As of March 31, 2019
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities		
Trade and other payables	2,394	2,456
Contract liabilities	1,573	1,700
Interest-bearing and other financial liabilities	4,749	6,898
Income tax payable	1,077	201
Provisions	18	6
Other current liabilities	2,287	1,804
Total current liabilities	12,101	13,067
Non-current liabilities		
Interest-bearing and other financial liabilities	6,458	21,937
Provisions	435	476
Deferred tax liabilities	724	758
Other non-current liabilities	261	259
Total non-current liabilities	7,881	23,432
Total liabilities	19,982	36,499
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,380	1,380
Capital surplus	1,989	1,989
Treasury shares	(1,373)	(1,373)
Retained earnings	4,763	4,087
Other components of equity	936	1,229
Total equity attributable to owners of the parent	7,696	7,313
Non-controlling interests	(15)	(18)
Total equity	7,681	7,295
Total liabilities and equity	27,664	43,794

(2) Condensed Quarterly Consolidated Statements of Operations and Comprehensive Income

Condensed Quarterly Consolidated Statement of Operations

(Millions of yen, rounded down to the nearest million)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Revenues	9,642	9,189
Cost of sales	5,893	5,675
Gross profit	3,749	3,513
Selling, general and administrative expenses	2,889	3,066
Other income	3	3
Other expenses	1	24
Operating income	862	424
Financial revenue	3	2
Financial expenses	34	43
Equity in earnings of associates	22	19
Income before income taxes	853	403
Income taxes	320	206
Net income	533	197
(Attributable to)		
Owners of the parent	550	200
Non-controlling interests	(16)	(3)
Total	533	197
		(Yen)
Earnings per share attributable to owners of the parent		
Basic earnings per share	5.21	1.90
Diluted earnings per share	—	1.88

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen, rounded down to the nearest million)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Net income	533	197
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(156)	235
Total of items that will not be reclassified to profit or loss	(156)	235
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(2)	0
Total of items that may be reclassified to profit or loss	(2)	0
Total other comprehensive income	(158)	236
Total comprehensive income	374	433
(Attributable to)		
Owners of the parent	391	437
Non-controlling interests	(16)	(3)
Comprehensive income	374	433

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

Three months ended March 31, 2018

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
January 1, 2018	1,380	2,137	(1,373)	3,426	1,121	6,692	4	6,697
Net income				550		550	(16)	533
Other comprehensive income					(158)	(158)	—	(158)
Total comprehensive income	—	—	—	550	(158)	391	(16)	374
Dividends from surplus				(168)		(168)		(168)
Transfer from other components of equity to retained earnings				0	(0)	—		—
Total transactions with the owners	—	—	—	(168)	(0)	(168)	—	(168)
March 31, 2018	1,380	2,137	(1,373)	3,807	962	6,914	(12)	6,902

Three months ended March 31, 2019

(Millions of yen, rounded down to the nearest million)

	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
January 1, 2019	1,380	1,989	(1,373)	4,763	936	7,696	(15)	7,681
Impact of change in accounting policy				(640)		(640)		(640)
Balance at beginning of period after reflecting change in accounting policy	1,380	1,989	(1,373)	4,122	936	7,055	(15)	7,040
Net income				200	—	200	(3)	197
Other comprehensive income					236	236	—	236
Total comprehensive income	—	—	—	200	236	437	(3)	433
Dividends from surplus				(179)		(179)		(179)
Transfer from other components of equity to retained earnings				(56)	56	—		—
Total transactions with the owners	—	—	—	(235)	56	(179)	—	(179)
March 31, 2019	1,380	1,989	(1,373)	4,087	1,229	7,313	(18)	7,295

(4) Condensed Quarterly Consolidated Statement of Cash Flow

(Millions of yen, rounded down to the nearest million)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Cash flow from operating activities		
Income before income taxes	853	403
Depreciation and amortization	148	639
Loss on impairment	—	1
Financial revenues and financial expenses	31	40
Equity in (earnings) losses of associates	(22)	(19)
Decrease (increase) in trade and other receivables	282	469
Decrease (increase) in inventories	(121)	(51)
Increase (decrease) in trade and other payables	75	(65)
Other	127	(12)
Subtotal	1,374	1,405
Interest and dividends received	0	0
Interest paid	(29)	(36)
Income tax refund	11	—
Income taxes paid	(779)	(971)
Net cash provided by operating activities	575	397
Cash flow from investing activities		
Payments for acquisition of property, plant and equipment	(60)	(113)
Payments for acquisition of intangible assets	(175)	(176)
Payments for acquisition of investment securities	(120)	—
Proceeds from sale of investment securities	11	—
Payments for security deposits and guarantees	(28)	(66)
Proceeds from refund of security deposits and guarantees	45	29
Other	0	(15)
Net cash used in investing activities	(328)	(342)
Cash flow from financing activities		
Net increase (decrease) in short-term financial liabilities	306	200
Proceeds from long-term financial liabilities	—	300
Repayment of long-term financial liabilities	(460)	(489)
Payments of cash dividends	(171)	(179)
Repayment of lease liabilities	—	(516)
Other	(26)	—
Net cash used in financing activities	(352)	(685)
Cash and cash equivalents translation adjustment	(2)	0
Net increase (decrease) in cash and cash equivalents	(107)	(630)
Cash and cash equivalents at beginning of quarter	1,654	1,979
Cash and cash equivalents at end of quarter	1,546	1,349

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Changes in Accounting Policies)

Significant accounting policies applied in these condensed quarterly consolidated financial statements are the same as those applied to the consolidated financial statements for the previous fiscal year, except for the following.

Income taxes for the three months ended March 31, 2019 are calculated using the estimated average annual effective tax rate.

The Group has applied IFRS 16 “Leases” (issued in January 2016) (hereafter, “IFRS 16”) from the three months ended March 31, 2019.

(1) Policies applied from the date of initial application

At the commencement of a contract, the Group determines whether the contract contains a lease. The lease liabilities for lease transactions are measured at the present value of the remaining total lease payments at the commencement date of the lease, discounted using the lessee’s incremental borrowing rate. The cost of right-of-use assets is initially measured at the amount of the initial measurement of lease liabilities, adjusted by any initial direct costs and any lease incentives received plus costs such as restoration obligation required under the contract, and depreciated over the term of the lease on a straight-line basis.

The Group presents right-of-use assets in “property, plant and equipment” and “intangible assets,” and lease liabilities in “interest-bearing and other financial liabilities” on the condensed quarterly consolidated statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities in accordance with the recognition exemption provisions in IFRS 16 for short-term leases for which the lease term ends within 12 months and leases in which the underlying asset is of low value. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(2) Impact of application of IFRS 16

As a transitional measure upon the adoption of IFRS 16, the Group applies this standard retrospectively without restating comparative information, with the cumulative effect of initially applying this standard at the date of initial application recognized in the balance of retained earnings at the beginning of the period.

In transitioning to IFRS 16, the Group has chosen the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts contain leases based on IAS 17 “Leases” (hereafter, “IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease.” From the date of application, this assessment is determined based on the provisions of IFRS 16.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application. These lease liabilities have been measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates is 0.44%. Right-of-use assets are initially measured at the initial measurement amount of the lease liability adjusted for the prepaid lease payments and other factors.

For leases that the Group as lessee previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are the carrying amounts of lease assets and lease liabilities, respectively, immediately before that date measured applying IAS 17.

The difference in amount between non-cancellable operating lease contracts applying IAS 17 as of December 31, 2018 and lease liabilities recognized in the condensed quarterly consolidated statement of financial position at the date of initial application is mainly due to the difference in estimates for periods exceeding the non-cancellable period of the real estate.

Due to the application of IFRS 16, right-of-use assets increased ¥16,109 million and lease liabilities increased ¥16,934 million at the beginning of the first quarter ended March 31, 2019, compared with the application of the previous accounting standard. In addition, retained earnings decreased ¥640 million.

The Group uses the following practical expedient in the application of IFRS 16.

- For contracts that include an option to extend or cancel a lease, the Group uses ex post facto judgment in calculating the lease term.

(Notes Regarding Assumption of Going Concern)

None applicable

(Significant Subsequent Events)

None applicable