Consolidated Financial Statements

For the year ended March 31, 2018

ITOCHU Techno-Solutions Corporation

Consolidated Statement of Financial Position

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2017 and 2018

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	March 31, 2017	March 31, 2018	March 31, 2018
Assets				
Current assets				
Cash and cash equivalents	7	48,213	51,003	479,942
Trade and other receivables	8, 30	115,473	130,370	1,226,784
Inventories	9	24,045	25,577	240,687
Current tax assets		22	79	749
Other current financial assets	13, 30	25,017	23,333	219,565
Other current assets		37,421	42,427	399,245
Total current assets		250,194	272,792	2,566,974
Non-current assets				
Property, plant and equipment	10, 17	36,365	34,857	328,006
Goodwill	11	3,899	4,470	42,066
Intangible assets	11, 17	12,560	10,538	99,164
Investments accounted for using the equity method	5, 12	664	724	6,820
Other non-current financial assets	13, 30	13,989	14,888	140,104
Deferred tax assets	14	12,679	12,817	120,614
Other non-current assets		2,769	2,793	26,282
Total non-current assets		82,929	81,090	763,059
Total assets	5	333,123	353,882	3,330,034

	Notes	(Millions of Yen) March 31, 2017	(Millions of Yen) March 31, 2018	(Thousands of U.S. Dollars) March 31, 2018
Liabilities and equity				
Current liabilities				
Trade and other payables	15, 30	48,222	48,572	457,065
Other current financial liabilities	16, 29, 30	5,658	5,992	56,384
Income taxes payable		9,064	8,089	76,121
Liabilities for employee benefits		17,079	17,633	165,930
Provisions	19	689	707	6,658
Other current liabilities		40,909	44,934	422,831
Total current liabilities		121,624	125,929	1,184,991
Non-current liabilities				
Non-current financial liabilities	16, 29, 30	10,016	10,912	102,687
Liabilities for employee benefits	18	3,720	4,149	39,051
Provisions	19	1,732	1,716	16,153
Deferred tax liabilities	14	327	324	3,049
Total non-current liabilities		15,797	17,103	160,941
Total liabilities		137,422	143,032	1,345,933
Equity				
Common stock	21	21,763	21,763	204,794
Capital surplus	21	33,076	33,152	311,964
Treasury stock	21	(9,231)	(9,621)	(90,542)
Retained earnings	21	146,537	160,544	1,510,724
Other components of equity		29	730	6,875
Total shareholders' equity		192,175	206,569	1,943,816
Non-controlling interests		3,525	4,281	40,284
Total equity		195,701	210,850	1,984,100
Total liabilities and equity		333,123	353,882	3,330,034

See notes to the consolidated financial statements.

Consolidated Statement of Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2017 and 2018

	Notes	(Millions of Yen) Year ended March 31, 2017	(Millions of Yen) Year ended March 31, 2018	(Thousands of U.S. Dollars) Year ended March 31, 2018
Revenue	5, 23	407,849	429,625	4,042,775
Cost of sales		(311,133)	(328,024)	(3,086,710)
Gross profit		96,716	101,601	956,064
Other income and expenses				
Selling, general and administrative expenses	24	(65,512)	(69,165)	(650,845)
Other income	24	348	371	3,500
Other expenses	24	(423)	(185)	(1,741)
Total other income and expenses		(65,586)	(68,978)	(649,085)
Operating income		31,129	32,622	306,978
Financial income	5, 26	263	574	5,408
Financial costs	5, 26	(158)	(811)	(7,640)
Share of profit of associates accounted for using the equity method	5, 12	66	6	64
Gains on sales and remeasurement of investments in subsidiaries and associates	5, 6	-	1,337	12,584
Profit before tax	5	31,300	33,729	317,395
Income tax expense	14	(9,304)	(9,954)	(93,673)
Net profit		21,996	23,774	223,722
Net profit attributable to:				
CTC's shareholders		21,861	23,581	221,906
Non-controlling interests		134	192	1,815

Earnings per share attributable to CTC's shareholders		(Yen)	(Yen)	(U.S. Dollars)
Basic earnings per share for the year	27	94.55	102.04	0.96
Diluted earnings per share for the year	27	-	-	-

See notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2017 and 2018

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Net profit		21,996	23,774	223,722
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	28	(332)	430	4,049
Remeasurement of defined benefit plans	28	671	252	2,374
Share of other comprehensive income of associates accounted for using the equity method	12, 28	0	1	16
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	28	(918)	465	4,375
Cash flow hedges	28	6	(42)	(400)
Share of other comprehensive income of associates accounted for using the equity method	12, 28	(5)	(26)	(245)
Total other comprehensive income for the year, net of tax effect		(576)	1,080	10,171
Total comprehensive income		21,419	24,855	233,893
Total comprehensive income attributable to:				
CTC's shareholders		21,561	24,535	230,877
Non-controlling interests		(141)	320	3,015

See notes to the consolidated financial statements.

Consolidated Statement of Changes In Equity

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2017 and 2018

(Millions of Yen)

	Notes	Shareholders' equity					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2016		21,763	33,076	(9,231)	132,677	64	950
Net profit		-	-	-	21,861	-	-
Other comprehensive income, net of tax effect		-	-	-	-	(647)	(331)
Total comprehensive income		-	-	-	21,861	(647)	(331)
Payment of dividends	22	-	-	-	(8,671)	-	-
Purchase of treasury stock		-	-	(0)	-	-	-
Share-based payment transactions	20	-	-	-	-	-	-
Changes in interests in subsidiaries		-	-	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	668	-	2
Total transactions with owners		-	-	(0)	(8,002)	-	2
March 31, 2017		21,763	33,076	(9,231)	146,537	(582)	621

(Millions of Yen)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity		Total shareholders' equity		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2016	(16)	-	179,285	3,758	183,043
Net profit	-	-	21,861	134	21,996
Other comprehensive income, net of tax effect	6	671	(300)	(276)	(576)
Total comprehensive income	6	671	21,561	(141)	21,419
Payment of dividends	-	-	(8,671)	(90)	(8,761)
Purchase of treasury stock	-	-	(0)	-	(0)
Share-based payment transactions	-	-	-	-	-
Changes in interests in subsidiaries	-	-	-	-	-
Transfer to retained earnings from other components of equity	-	(671)	-	-	-
Total transactions with owners	-	(671)	(8,671)	(90)	(8,762)
March 31, 2017	(9)	-	192,175	3,525	195,701

(Millions of Yen)

	Notes	Shareholders' equity					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2017		21,763	33,076	(9,231)	146,537	(582)	621
Net profit		-	-	-	23,581	-	-
Other comprehensive income, net of tax effect		-	-	-	-	311	432
Total comprehensive income		-	-	-	23,581	311	432
Payment of dividends	22	-	-	-	(9,827)	-	-
Purchase of treasury stock		-	-	(390)	-	-	-
Share-based payment transactions	20	-	36	-	-	-	-
Changes in interests in subsidiaries		-	40	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	252	-	-
Total transactions with owners		-	76	(390)	(9,574)	-	-
March 31, 2018		21,763	33,152	(9,621)	160,544	(270)	1,053

(Millions of Yen)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity				
	Cash flow hedges	Remeasurement of defined benefit plans	Total shareholders' equity		
April 1, 2017	(9)	-	192,175	3,525	195,701
Net profit	-	-	23,581	192	23,774
Other comprehensive income, net of tax effect	(42)	252	953	127	1,080
Total comprehensive income	(42)	252	24,535	320	24,855
Payment of dividends	-	-	(9,827)	(87)	(9,914)
Purchase of treasury stock	-	-	(390)	-	(390)
Share-based payment transactions	-	-	36	-	36
Changes in interests in subsidiaries	-	-	40	521	562
Transfer to retained earnings from other components of equity	-	(252)	-	-	-
Total transactions with owners	-	(252)	(10,141)	434	(9,706)
March 31, 2018	(52)	-	206,569	4,281	210,850

(Thousands of U.S. Dollars)

	Notes	Shareholders' equity					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2017		204,794	311,245	(86,868)	1,378,917	(5,480)	5,850
Net profit		-	-	-	221,906	-	-
Other comprehensive income, net of tax effect		-	-	-	-	2,930	4,066
Total comprehensive income		-	-	-	221,906	2,930	4,066
Payment of dividends	22	-	-	-	(92,473)	-	-
Purchase of treasury stock		-	-	(3,674)	-	-	-
Share-based payment transactions	20	-	340	-	-	-	-
Changes in interests in subsidiaries		-	379	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	2,374	-	-
Total transactions with owners		-	719	(3,674)	(90,099)	-	-
March 31, 2018		204,794	311,964	(90,542)	1,510,724	(2,549)	9,916

(Thousands of U.S. Dollars)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity				
	Cash flow hedges	Remeasurement of defined benefit plans	Total shareholders' equity		
April 1, 2017	(90)	-	1,808,367	33,178	1,841,546
Net profit	-	-	221,906	1,815	223,722
Other comprehensive income, net of tax effect	(400)	2,374	8,971	1,199	10,171
Total comprehensive income	(400)	2,374	230,877	3,015	233,893
Payment of dividends	-	-	(92,473)	(819)	(93,293)
Purchase of treasury stock	-	-	(3,674)	-	(3,674)
Share-based payment transactions	-	-	340	-	340
Changes in interests in subsidiaries	-	-	379	4,909	5,288
Transfer to retained earnings from other components of equity	-	(2,374)	-	-	-
Total transactions with owners	-	(2,374)	(95,429)	4,089	(91,339)
March 31, 2018	(491)	-	1,943,816	40,284	1,984,100

Consolidated Statement of Cash Flows

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2017 and 2018

	Notes	(Millions of Yen) Year ended March 31, 2017	(Millions of Yen) Year ended March 31, 2018	(Thousands of U.S. Dollars) Year ended March 31, 2018
Cash flows from operating activities				
Profit before tax		31,300	33,729	317,395
Adjustments for:				
Depreciation and amortization expense		8,438	8,820	83,000
Impairment losses		69	10	100
Interest and dividend income		(227)	(253)	(2,389)
Interest expenses		112	794	7,474
Share of profit of associates accounted for using the equity method		(66)	(6)	(64)
Gains on sales and remeasurement of investments in subsidiaries and associates		-	(1,337)	(12,584)
Increase in trade and other receivables		(8,382)	(20,778)	(195,525)
Increase in inventories		(5,704)	(1,432)	(13,479)
Increase in trade and other payables		1,452	249	2,345
Other-net		7,322	2,282	21,475
Subtotal		34,314	22,077	207,748
Interest and dividends received		248	289	2,727
Interest paid		(85)	(57)	(538)
Income taxes paid		(9,274)	(11,295)	(106,292)
Net cash provided by operating activities		25,203	11,014	103,645
Cash flows from investing activities				
Purchases of property, plant and equipment		(4,892)	(3,419)	(32,179)
Payments for retirement of property, plant and equipment		(1)	(36)	(342)
Proceeds from sales of property, plant and equipment		21	7	70
Purchases of intangible assets		(4,297)	(1,078)	(10,149)
Purchases of investment securities		(201)	(398)	(3,752)
Purchase of shares of subsidiaries	6	-	(464)	(4,374)
Proceeds from sale of investment securities		0	10	94
Proceeds from sale of shares of subsidiaries and associates	6	-	751	7,067
Proceeds from dividends of investment partnerships		164	445	4,196
Proceeds from government grants	25	42	42	403
Increase in deposits other than cash equivalents		(5,000)	2,000	18,819
Other-net		6	(165)	(1,554)
Net cash used in investing activities		(14,158)	(2,306)	(21,702)
Cash flows from financing activities				
Repayments of short-term borrowings		(110)	-	-
Purchases of treasury stock		(0)	(390)	(3,674)
Proceeds from share issuance to non-controlling interests		-	562	5,288
Proceeds from sale and leaseback		3,570	6,218	58,515
Repayments of finance lease obligations	29	(2,530)	(2,473)	(23,273)
Dividends paid to CTC's shareholders	22	(8,671)	(9,824)	(92,446)
Dividends paid to non-controlling interests		(90)	(87)	(819)
Net cash used in financing activities		(7,833)	(5,994)	(56,409)
Effects of exchange rate changes on cash and cash equivalents		121	76	722
Net increase in cash and cash equivalents		3,333	2,790	26,256
Cash and cash equivalents at the beginning of the year		44,880	48,213	453,686
Cash and cash equivalents at the end of the year	7	48,213	51,003	479,942

See notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting entity

ITOCHU Techno-Solutions Corporation (the “Company” or “CTC”) is a company incorporated and located in Japan. The addresses of its registered office and principal place of business are disclosed on the Company’s website (http://www.ctc-g.co.jp/). The consolidated reporting period of the Company and its subsidiaries (the “Group”) is the year ended March 31, 2018. The Company’s parent company is ITOCHU Corporation (the “Parent Company”).

The principal activities of the Group are sales and maintenance of computers and network systems, commissioned software development, data center services and support.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance with IFRSs

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”).

To conform to IFRSs, the accompanying consolidated financial statements have been prepared by making certain adjustments to the financial statements of the Company, subsidiaries, and associates, which have been prepared in accordance with the accounting principles generally accepted in their respective countries of incorporation.

The consolidated financial statements were approved at the Board of Directors’ meeting held on June 14, 2018.

(2) Basis of measurement

The Company prepares its consolidated financial statements based on historical cost, except for the cases stated separately in “Note 3. Significant accounting policies.”

(3) Presentation currency

The Company presents its consolidated financial statements in Japanese yen, which is the functional currency of the Company.

Further, in its consolidated financial statements, amounts of less than one million yen have been rounded down to the nearest million.

The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2018, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106.27 = US$1 (the official exchange rate at March 31, 2018, announced by Mizuho Bank, Ltd.).

(4) Changes in the accounting policy

The Group has adopted the following standard. The impacts of the application of this standard are not material.

Standard	Title	Summary of new or amended standard
IAS 7	Statement of Cash Flows	Addition of disclosure about changes in liabilities arising from financing activities

(5) Change in the presentation method

In the Group’s consolidated financial statements, “Profit for the year attributable to owners of the Company” and “Total equity attributable to owners of the Company,” which were items presented previously, have been changed to “Net profit attributable to CTC's shareholders” and “Total shareholders' equity” respectively, from the year ended March 31, 2018.

Because the Company has a parent company ,ITOCHU Corporation, this change has been made in order to make the presentation method easier to understand so that such profit and total equity are not confused with the profit and total equity attributable to owners of the Company’s parent company.

Due to this change, the presentation of other related items in the consolidated financial statements has also been changed in the same manner.

In addition, the relevant presentation has also been changed in the consolidated financial statements for the year ended March 31, 2017 to conform to the presentation for the year ended March 31, 2018.

(6) Early adoption of new or amended IFRSs or Interpretations

For the preparation of the consolidated financial statements for the year ended March 31, 2018 , the Company has early adopted IFRS 9 “Financial Instruments” (published in November 2009, and amended in October 2010 and December 2011).

(7) New or amended IFRSs or Interpretations not yet adopted

Of the new or amended IFRSs or Interpretations published by the date of approval of the consolidated financial statements, the Company has not adopted the following IFRSs as of March 31, 2018, as adoption is not mandatory.
The potential impacts on the consolidated financial statement that the applications of IFRS 9 and IFRS 15 will have are not material. The Company is currently evaluating the potential impacts that the application of IFRS 16 will have on the consolidated financial statements, which cannot be reliably estimated at this time.

Standard	Title	Mandatory adoption (from the year beginning)	To be adopted by the Group (from the year ending)	Summary of new or amended standard
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Limited changes to classification and measurement of financial instruments New requirements for impairment losses of financial assets Amendment to hedge accounting for general hedges
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Establishment of standard for “Revenue from Contracts with Customers” (Replacement of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31)
IFRS 16	Leases	January 1, 2019	March 31, 2020	Adoption of concept of control for definition of leases (Abolition of IAS 17, IFRIC 4, SIC 15, SIC 27)

3. Significant accounting policies

Unless otherwise stated, accounting policies described below have been applied to the consolidated financial statements consistently throughout all of the presented periods.

(1) Basis of consolidation

1) Business combinations

The Group elected to apply the exemption for business combinations in IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), so that business combinations that occurred prior to the date of transition to IFRSs of the Parent Company (April 1, 2012) are accounted for in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are the generally accepted accounting principles (“GAAP”) that have been previously used by the Group, without retrospective application of IFRS 3, “Business Combinations” (“IFRS 3”).
Business combinations that occur after the date of transition to IFRSs of the Parent Company are accounted for using the acquisition method in accordance with IFRS 3. That is, one of the parties to the business combination, as the acquirer, recognizes the acquisition-date fair value of the identifiable assets acquired, liabilities assumed from the acquiree, and any non-controlling interest in the acquiree. (However, assets and liabilities that need to be measured at other than fair value in accordance with IFRS 3 are recognized at the amount stipulated in IFRS 3.) Any previously held equity interest or non-controlling interest is remeasured at the acquisition-date fair value. Goodwill is then recognized as of the acquisition date, measured as the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. In addition, for business combinations resulting in a bargain purchase, that is, for transactions where the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured in accordance with IFRS 3, exceeds the aggregate of the consideration transferred, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree, and the fair value of any non-controlling interest in the acquiree, the excess amount is recognized in profit or loss at the acquisition date.

Costs that are incurred by the acquirer in relation to the completion of a business combination are expensed when they are incurred, except for costs related to the issuance of debt instruments or equity instruments.

In the event that the initial accounting treatment for a business combination is not completed by the end of the fiscal year in which the business combination occurs, the items for which the accounting treatment is incomplete are measured at provisional amounts based on best estimates. The period during which these provisional amounts can be revised is the one-year period from the date of acquisition (the "measurement period"). If new information is obtained during the measurement period and that information would have had an effect on the measurement of amounts recognized as of the date of acquisition, then the provisional amounts recognized as of the date of acquisition are revised retrospectively.

2) Subsidiaries

Subsidiaries are entities that are controlled by the Company. Decisions as to whether or not the Company and its subsidiaries have control over an entity are based on comprehensive consideration of various elements that indicate the possibility of control, including not only the holding of voting rights, but also the existence of potential voting rights that are actually exercisable and whether employees dispatched from the Company or its subsidiaries account for a majority of the directors.

The financial statements of subsidiaries are consolidated into the consolidated financial statements of the Company from the date of acquisition of control to the date of loss of control.

Changes in the ownership interest in a subsidiary, such as through an increase in or disposal of an interest, are accounted for as equity transactions if control over the subsidiary is maintained.

3) Loss of control

If control over a subsidiary is lost, the Company derecognizes the subsidiary's assets and liabilities and the non-controlling interests related to the subsidiary. Interest retained after the loss of control is remeasured at fair value as of the date of the loss of control, and any gain or loss related to the loss of control is recognized in profit or loss.

4) Business combination under common control

For business combinations in which all of the parties to the business combination are under the control of the Group, both prior to the combination and after the combination, the carrying amount of the acquiree's assets and liabilities is transferred to the acquirer.

5) Associates

Associates are companies over which the Group exercises influence, on such matters as management strategies and financial policies, that is significant, but does not reach the level of control. Decisions as to whether or not the Group has significant influence over an entity are based on a comprehensive consideration of various elements. These elements include the holding of voting rights (if 20% to 50% of the voting rights of the investee company are held directly or indirectly, then there is a presumption of significant influence over the investee company), as well as the existence of potential voting rights that are actually exercisable and the percentage of directors who have been dispatched from the Group.

The equity method is applied to investments in associates. Subsequent to acquisition, the Group recognizes in profit or loss and other comprehensive income, their share of the investee's profit or loss and other comprehensive income, and the carrying amount of the investment is increased or decreased accordingly. The balance of goodwill recognized on acquisition is included in the carrying amount of the investment. Also, dividends received from associates reduce the carrying amount of the related investments. If the accounting policies of such investees differ from the Group, adjustments are made as necessary to bring them in conformity with the accounting policies of the Group.

The consolidated financial statements include an investment in an associate with a reporting period end that differs from that of the Company because it is impracticable to unify the reporting period end. The reasons why it is impracticable include the existence of relationships with other shareholders. The reporting period for the associate subject to the equity method is February 28. Adjustments are made to reflect significant transactions or events that result from the difference in the reporting period end.

If significant influence over an associate is lost and the application of the equity method is discontinued, then the remaining interest is remeasured at fair value, and any gain or loss related to the discontinuance of use of the equity method is recognized in profit or loss.

6) Transactions eliminated on consolidation

Receivable and payable balances and transactions between the entities of the Group and unrealized gains and losses resulting from transactions between the entities of the Group are eliminated in preparing the consolidated financial statements.

Unrealized gains and losses arising from transactions between the Group and its associates are eliminated to the extent of the interest in the investee held by the Group.

(2) Foreign currency translation

1) Foreign currency transactions

Foreign currency transactions are translated into functional currencies using the spot foreign exchange rate at the date of the transaction.

At the end of the reporting period, foreign currency monetary assets and liabilities are translated into functional currencies using the spot foreign exchange rate at the end of the reporting period. Foreign currency non-monetary items measured at fair value are translated into functional currencies using the spot foreign exchange rate at the date on which the fair value was determined.

Exchange differences resulting from translation are recognized in profit or loss. However, exchange differences resulting from translation of FVTOCI financial assets (refer to "(3) Financial instruments") and cash flow hedges are recognized in other comprehensive income.

2) Translation of foreign currency denominated financial statements of foreign subsidiaries and foreign associates

In translating the foreign currency denominated financial statements of foreign subsidiaries and foreign associates ("foreign operations") into the reporting currency, the spot foreign exchange rate at the end of the reporting period is used to translate assets and liabilities and the periodic average foreign exchange rate for the accounting period is used to translate revenues and expenses.

Differences resulting from the translation of the foreign currency denominated financial statements of foreign operations into the reporting currency are recognized in other comprehensive income ("exchange differences on translating foreign operations").

The Group elected to apply the exemption in IFRS 1, and at the date of transition, reclassified to retained earnings all cumulative translation adjustments that had been recognized under the previous GAAP.

On the disposal of a foreign operation, the cumulative amount of the exchange differences related to the foreign operation is reclassified to profit or loss when the gain or loss on disposal is recognized. However, the portion of the cumulative amount of the exchange differences attributed to non-controlling interest reduces non-controlling interests.

(3) Financial instruments

1) Financial assets other than derivatives

In accordance with IFRS 9, "Financial Instruments" ("IFRS 9"), financial assets other than derivatives are classified in the following manner at the point of initial recognition. Those assets are classified as financial assets measured at amortized cost if both of the following conditions are met, and others are classified as financial assets measured at fair value.

- The policy regarding the holding of these assets is that they are held with the objective of collecting contractual cash flows; and
- The contractual cash flows associated with these financial assets comprise only payments of principal and interest on the outstanding principal balance, and the dates of those cash flows are specified.

At the point of recognition, financial assets measured at amortized cost are measured at fair value plus costs directly related to the acquisition. At the end of each reporting period, they are measured at amortized cost using the effective interest method and changes in amortized cost are recognized in profit or loss.

Financial assets measured at fair value are further classified into those for which changes in fair value after acquisition are recorded in profit or loss ("FVTPL financial assets"), and those for which changes in fair value after acquisition are recorded in other comprehensive income ("FVTOCI financial assets").

Financial assets measured at fair value are further classified into two categories. Those assets that are investments in equity instruments, such as investments in the common stock of other companies, but which are not held with the objective of obtaining gains on short-term sales, are in principle classified as FVTOCI financial assets. Other financial assets are classified as FVTPL financial assets.

Financial assets measured at fair value are measured at fair value at the point of initial recognition. Costs directly related to the acquisition are included in the initial recognition amount for FVTOCI financial assets, but for FVTPL financial assets, these costs are recognized in profit or loss when they occur and are not included in the initial recognition amount.

Financial assets measured at fair value are remeasured at fair value at the end of each reporting period. Changes in fair value are recognized in profit or loss for FVTPL financial assets and in other comprehensive income for FVTOCI financial assets ("Changes in net fair value of financial assets measured through other comprehensive income"). For both FVTPL financial assets and FVTOCI financial assets, dividends received are recognized in profit or loss.

When an FVTOCI financial asset is sold, the difference between the carrying amount and the consideration received is recognized as other comprehensive income ("Changes in net fair value of financial assets measured through other comprehensive income") and the balance of accumulated other comprehensive income on the FVTOCI financial asset recognized through the point of the sale is reclassified to retained earnings.

A financial asset is derecognized when the contractual rights to the cash flows from a financial asset expire, or when the contractual rights to receive cash flows from a financial asset are transferred in such a manner that all of the risks and economic value are effectively transferred.

2) Cash equivalents

Cash equivalents include short-term investments (original maturities of three months or less) that are highly liquid, readily convertible, and have only an insignificant risk of change in value, as well as short-term time deposits (original maturities of three months or less).

3) Financial liabilities other than derivatives

Financial liabilities other than derivatives are measured at fair value less costs directly related to the issuance of the liability, at the point when the contractual liability arises. Those financial liabilities are measured at amortized cost based on the effective interest method. Financial liabilities are derecognized when the obligor pays the obligee and the obligation is discharged or when the contractual obligation is canceled or expired.

4) Derivative instruments and hedging activities

The Group uses forward foreign exchange contracts to hedge exchange rate risk. Derivatives are recognized at fair value as either assets or liabilities, regardless of the purpose or intent for holding them. The accounting treatment for changes in fair value is as follows.

A hedge of the variability of the fair value of a recognized asset or liability that is expected to be highly effective and for which the hedging relationship, risk management objective, and hedge implementation strategy are documented at the inception of the hedge, is designated as a fair value hedge. Changes in the fair value of the derivatives, as well as changes in the fair value of the hedged items, are recognized in profit or loss.

A hedge of the variability of future cash flows arising in relation to a recognized asset or liability, an unrecognized firm commitment, or forecasted transactions, that is expected to be highly effective and for which the hedging relationship, risk management objective, and hedge implementation strategy are documented at the inception of the hedge, is designated as a cash flow hedge. With cash flow hedges, changes in the fair value of the derivative are recognized in other comprehensive income (“cash flow hedges”). This treatment is continued until earnings are affected by the variability in cash flows to be received or paid in relation to the unrecognized forecasted transactions or the recognized assets or liabilities designated as the hedged items. The ineffective portion of the hedge is recognized in profit or loss.

Changes in the fair value of derivatives other than those above are recognized in profit or loss.

The Group, in applying the rules above for fair value hedges and cash flow hedges, evaluates at the inception of the hedge whether or not the hedge will be highly effective. In addition, the Group subsequently continues to evaluate whether or not the derivative will be highly effective in offsetting changes in the fair value or future cash flows of the hedged item.

Hedge accounting is discontinued for ineffective hedges, if any.

5) Presentation of financial assets and liabilities

When both of the following conditions are met, financial assets and financial liabilities are offset and the net amount is disclosed in the consolidated statement of financial position.

- The Company has an unconditional, legally enforceable right to offset the recognized amounts; and
- The Company intends to settle on a net amount basis or to simultaneously realize the asset and settle the liability.

(4) Inventories

The costs of inventories include costs of purchase, costs of conversion, and all other costs incurred in bringing such inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined by the moving-average method for merchandise, specific identification method for work in progress, and straight-line method over a useful life of five years for supplies for maintenance service.

Net realizable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

(5) Property, plant and equipment

1) Recognition and measurement

The cost model is applied and property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Applying the exception under IFRS 1, some items are measured at the fair value of certain property, plant and equipment at the date of transition to IFRSs of the Parent Company as deemed cost.

The cost of property, plant and equipment includes estimates of installation cost and cost directly attributable to bringing property, plant and equipment to working condition and cost of dismantling or removing property, plant and equipment and restoring sites on which they are located.

If multiple differing and significant components of property, plant and equipment can be identified, for each of the components, a residual value, useful life, and depreciation method are determined, and it is accounted for as a separate item of property, plant and equipment.

The difference between the net proceeds from the disposal of an item of property, plant and equipment and the carrying amount of the item is recognized in profit or loss.

2) Depreciation

Except for items that are not subject to depreciation, such as land, property, plant and equipment are mainly depreciated using the straight-line method over their estimated useful lives (buildings and structures: 15–50 years, and tools, furniture and fixtures: 5–10 years) from the time when they become available for use.

Leased assets are depreciated over their estimated useful lives if there are provisions for ownership transfer or bargain purchase options, and in other cases leased assets are depreciated over the shorter of the lease period or the estimated useful life.

At the end of each period, the residual value, useful lives, and depreciation methods of property, plant and equipment are reviewed and the impact is adjusted prospectively.

(6) Goodwill and Intangible Assets

1) Goodwill

Goodwill is not amortized. Impairment tests of goodwill are conducted based on cash-generating units at least once a year, or whenever there are events that indicate the possibility of impairment.

2) Intangible assets

A cost model is applied, and intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Further, development expenditures are recognized as intangible assets if development costs can be measured reliably, future economic benefits are probable, and the Group intends and has sufficient resources to complete development and use or sell the result of the development.

Except for intangible assets for which useful lives cannot be determined, intangible assets are mainly amortized using the straight-line method over their estimated useful lives (software: 3–8 years and other intangible assets: 4–10 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating units annually or whenever there are events that indicate the possibility of impairment.

At the end of each fiscal year, the residual value, useful lives, and amortization methods of intangible assets are reviewed and the impact is adjusted prospectively.

(7) Leases

1) Leases as lessee

The Group leases property, plant and equipment and intangible assets as lessees.

Whether or not an agreement is a lease and whether or not an agreement includes a lease is decided based on examination of the economic nature of transactions and regardless of whether or not an agreement's legal form is that of a lease agreement.

Among the lease transactions, those that substantially transfer all the risks and rewards of ownership to the Group are classified as finance lease agreements, and leases other than finance leases are classified as operating leases.

For finance leases, leased assets (presented in respective accounts of "Property, plant and equipment" or "Intangible assets") and lease obligations (presented in "Other current financial liabilities" and "Other non-current financial liabilities") are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Further, lease payments are categorized into amounts equivalent to the principal and interest of lease obligations, and the effective interest method is used to calculate the amount equivalent to the interest of each lease payment.

For operating leases, leased properties are not recognized as assets, and lease payments are recognized in profit or loss when they are incurred.

2) Leases as lessor

The Group operates businesses that lease property, plant and equipment and intangible assets as lessors.

Whether or not an agreement is a lease and whether or not an agreement includes a lease is decided based on examination of the economic nature of transactions and regardless of whether or not an agreement's legal form is that of a lease agreement.

For finance leases, net investments in finance leases are recognized as lease receivables (presented in "Trade and other receivables”). Lease payments receivable are categorized into amounts equivalent to the principal and interest of lease receivables, and the effective interest method is used to calculate the amount equivalent to the interest of each lease payment receivable. Further, if the main purpose of a finance lease is the sale of goods and the finance leases have been implemented in accordance with sales policies, the lower of the fair value of the assets subject to leases or minimum lease payments receivable discounted at the market rate of interest is recognized as revenue, and the purchase price of the assets subject to leases is recognized in cost of sales.

For operating leases, lease income is recognized in profit or loss over the lease term.

(8) Impairment

1) Financial assets measured at amortized cost

At the end of each fiscal year, based on individual assets or assets grouped according to credit risk, financial assets measured at amortized cost are assessed to determine whether there are any indications of impairment. Indications of impairment of financial assets measured at amortized cost include default on or reschedule of payment of principal or interest, reduction of or exemption from repayments or postponement of repayment schedules, marked deterioration of the debtor’s financial position, and bankruptcy of the debtor.

If there are indications of impairment of financial assets measured at amortized cost, the difference between the carrying amount of the assets and the recoverable amount, which is the present value of estimated future cash flows discounted at the assets’ initial effective rate of interest, is recognized as impairment loss, which is recognized in profit or loss.

Further, if, in periods after the recognition of impairment of financial assets measured at amortized cost, impairment losses decrease, and the decrease can be objectively attributed to events that occurred after recognition of impairment, the impairment losses are reversed based on the amortized cost method and to the extent of the carrying amount.

2) Property, plant and equipment, goodwill, intangible assets, and investment in associates

At the end of each fiscal year, property, plant and equipment, goodwill, intangible assets, and investment in associates are assessed to determine whether there are any indications of impairment. If it is determined that there are indications of impairment, the impairment tests stated below are conducted. In addition, regardless of whether or not there are indications of impairment, impairment tests of goodwill and intangible assets for which the useful life cannot be determined are conducted periodically at least once a year.

Impairment tests for each cash-generating unit are conducted. Regarding the identification of cash-generating units, if an individual asset’s cash flows independent from those of other assets can be identified, the individual asset is classified as a cash-generating unit. If an individual asset’s cash flows independent from those of other assets cannot be identified, assets are grouped together into the smallest group of assets that can be identified as generating independent cash flows and designated as a cash-generating unit. For goodwill, using units equal to operating segments or smaller units, cash-generating units are determined based on the lowest level at which internal management of goodwill is conducted.

When conducting impairment tests of cash-generating units that include goodwill, impairment tests of assets other than goodwill are first conducted. After any required impairment of the assets other than goodwill has been recognized, impairment tests of goodwill are conducted.

Conducting impairment tests entails estimating the recoverable amount of the cash-generating units. The recoverable amount is the higher of fair value less costs to sell or value in use. Furthermore, value in use is the total present value of future cash flows expected from the continued use and disposal after use of the cash-generating units.

If the recoverable amount of cash-generating units is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and impairment losses are recognized in profit or loss. Impairment losses are first allocated to reduce the carrying amount of goodwill allocated to cash-generating units. Impairment losses are then allocated to reduce the carrying amount of each asset, excluding goodwill, in cash-generating units on a pro-rate basis.

Because corporate assets do not generate independent cash flows, when conducting impairment tests of corporate assets, a reasonable method is used to allocate the carrying amount of corporate assets to each cash-generating unit. Then, the carrying amount of cash-generating units is compared, including the carrying amount of the portion of corporate assets allocated to them, with their recoverable amounts.

If there are indications that the impairment losses recognized in past fiscal years have clearly decreased or may not exist, when the estimated recoverable amount of the assets surpasses the carrying amount, impairment losses are reversed. An upper limit for reversals of impairment losses is set as the carrying amount less amortization or depreciation if impairment losses had not been recognized. However, impairment losses on goodwill are not reversed.

Goodwill relating to the acquisition of associates is not classified separately, but included as part of the carrying amount of the investments. Investments in associates are recognized as undistinguishable assets that are subject to impairment.

(9) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition and its sale is highly probable. Management must commit to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group commits to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate. After the disposal takes place, the Group accounts for any retained interest in the associate in accordance with IFRS 9, unless the retained interest continues to be an associate, in which case the Group uses the equity method.

Non-current assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

(10) Employee benefits

1) Post-employment defined benefit plans

Post-employment defined benefit plans are benefit plans other than the post-employment defined contribution plans stated in the paragraphs below.

For post-employment defined benefit plans, the present value of defined benefit plan obligations, net of the fair value of plan assets, are recognized as either liabilities or assets. To calculate the present value of defined benefit plan obligations and related service cost, in principle, the projected unit credit method is used. The discount rate used to calculate the present value of defined benefit plan obligations, in principle, is determined by referring to market yields on highly rated corporate bonds at the end of the period consistent with the expected life of the defined benefit plan obligations.

Changes in the present value of defined benefit plan obligations related to the service of employees in past periods due to amendment of defined benefit plans are recognized in the period of the amendment in profit or loss.

Further, the Group recognizes all actuarial gains or losses arising from post-employment defined benefit plans in other comprehensive income (“Remeasurement of defined benefit plans”) and immediately reclassifies them into retained earnings.

2) Post-employment defined contribution plans

Post-employment defined contribution plans are benefit plans in which fixed contributions are paid to an independent entity and do not assume legal or constructive obligations for payments that exceed these contributions.

Post-employment defined contribution plans are accounted for on an accrual basis, and contributions corresponding to the period employees rendered related services are recognized in profit or loss.

3) Multi-employer plans

The Company and certain subsidiaries participate in multi-employer plans. In accordance with the regulations of the plans, multi-employer plans are classified as post-employment defined benefit plans or post-employment defined contribution plans, and accounting treatment appropriate for each type of post-employment benefit plan is undertaken. However, if sufficient information about multi-employer plans classified as post-employment defined benefit plans cannot be obtained to undertake an accounting treatment appropriate for post-employment defined benefit plans, the accounting treatment appropriate for post-employment defined contribution plans is applied.

4) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and recognized in profit or loss as benefits expected to be paid as compensation for services that employees render during the accounting period.

Estimated bonus payments are recognized in liabilities, if the Group has legal or constructive obligations for which they should make payments, and if the obligations can be estimated reliably.

(11) Provisions

Provisions are recognized if the Group has present obligations (legal or constructive obligations) as a result of past events, if it is probable that settling the obligations will require outflows of resources embodying economic benefits, and if the obligations can be estimated reliably.

If the effect of the time value of money is significant, provisions are measured as the present value of payments expected to be required to settle the obligations. To calculate the present value, a pre-tax, risk-free discount rate corresponding to the period in which future cash flows will arise is used. In estimates of future cash flows, the uncertainty of the occurrence of events subject to provisions is reflected.

1) Provisions for asset retirement obligations

The estimated cost of dismantling or removing property, plant and equipment and restoring sites on which they are located is recognized as a provision for asset retirement obligations, if there are legal or contractual obligations to dismantle or remove property, plant and equipment and restore sites on which they are located, or if it has been stated that, in accordance with industry practices, published policies, or written statements, obligations to dismantle or remove property and equipment and restore sites on which they are located will be fulfilled, or if it is presumed that outside third parties expect the obligations to be fulfilled.

2) Provisions for loss on orders received

To prepare for losses on orders received, the Group records the estimated amount of losses on orders received at the end of the fiscal year as a provision for loss on orders received.

3) Provisions for after-sales costs

To prepare for payment of future after-sales costs related to system development projects, the Group records the estimated amount of costs as a provision for after-sales costs based on the historical rate and the amount required for individual projects.

(12) Share-based payment

The Company has introduced a performance-linked stock compensation plan, which consists of equity-settled share-based payment and cash-settled share-based payment.

The fair value of equity-settled share-based payment at the grant date is recognized as the expense over the vesting period, and the same amount is recognized as increase in capital surplus.

The fair value of cash-settled share-based payment at the grant date is recognized as the expense over the vesting period, and the same amount is recognized as increase in liabilities. The fair value of the liabilities is remeasured at the end of the period and the settlement date, and the change of the fair value is recognized as profit or loss.

(13) Equity

Common stock is classified as equity. Incidental expenses related to the issuance of common stock (net after tax) are deducted from equity.

Treasury stock is recognized as a deduction from equity. If treasury stock is acquired, the consideration paid and incidental expenses (net after tax) are deducted from equity. If treasury stock is sold, the consideration received is recognized as an addition to equity.

(14) Revenues

1) Sales of products

Sales of products are recognized when all of the following conditions are satisfied.

- The significant risks and rewards of ownership of the goods were transferred to the customer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at fair value of the consideration received, after deducting sales taxes that the Group has a direct obligation to collect and pay to such third parties as tax authorities.

Revenue from product sales is recognized at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when goods are received by the customer or the acceptance from the customer is received.

2) Rendering of services

The revenue from rendering of services is recognized in accordance with the progress of transactions at the end of the period when the following conditions are satisfied.

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The progress of the transaction at the end of the reporting period can be measured reliably; and
- The costs arising from the transaction and costs required to complete the transaction can be measured reliably.

Revenue from rendering of services includes system development and infrastructure construction in accepted contracts, SE services, maintenance, and other transactions.

Revenue from system development and infrastructure construction in accepted contracts is recognized based on the accumulated actual cost incurred at the end of the period as a percentage of estimated total cost, if the order amount or the total costs required until completion can be estimated reliably (percentage of completion method). If the order amount or the total costs required until completion cannot be estimated reliably, revenue equivalent to the portion of costs incurred that are judged to be recoverable is recognized (the cost recovery method). Further, revenues from SE services, maintenance, and other transactions are recognized over the period that services are rendered.

3) Multiple components transactions

Revenue related to multiple components transactions such as sale of goods and rendering maintenance is separately recognized if both of the following conditions are satisfied.

- The component has stand-alone value to the customer; and
- The fair value of the component can be measured reliably.

When it is necessary to allocate the agreed consideration to the individual components for multiple components transactions, it is allocated based on the fair value of the components.

4) Presentation of revenue (gross basis versus net basis)

For transactions in which the Group acts as principal and has capabilities to heighten the added value of the actual goods or services provided, and for which the Group assumes significant risk related to the transactions, the gross transaction volume of the sales contracts with customers is presented as revenue in the consolidated statement of income.

Meanwhile, for the following transactions, the gross transaction volume of the sales contracts less cost (i.e., net amount) is presented as revenue in the consolidated statement of income.

- Transactions in which the Group acts as an agent to enable a third party to sell goods or render services.
- Transactions in which, although the Group is involved as principal in legal form, the Group does not have capabilities to heighten the added value of the actual goods or services provided and does not assume significant risk related to the transactions.

(15) Government Grants

Proceeds from government grants are recognized at fair value when there is reasonable assurance that the conditions attached to them will be complied with, and that the grant will be received. Grants for expenses incurred are recorded as revenue in the fiscal year in which the expenses are incurred. For grants for acquisition of assets, the amount is deducted from cost of the assets.

(16) Finance income and costs

Finance income comprises interest income, dividend income, gain on changes of fair value of FVTPL financial assets, gain on disposal of FVTPL financial assets, and gain on changes of fair value of derivatives. Interest income is recognized when it arises according to the effective interest method. Dividend income is recognized when the right of the Group to receive payment is established.

Finance costs comprise interest expense, loss on changes of fair value of FVTPL financial assets, loss on disposal of FVTPL financial assets, impairment losses on financial assets measured at amortized cost, excluding trade receivables, and loss on changes in the fair value of derivatives. Interest expense is recognized when it is incurred according to the effective interest method.

(17) Income taxes

Income taxes comprise current taxes and deferred taxes, which reflect changes in deferred tax assets and liabilities. Income taxes are recognized in profit or loss, except in the following cases.

- Income taxes relate to items that are recognized in other comprehensive income or directly in equity.
- Deferred taxes arising from the recognition of identifiable assets and liabilities in business combinations are recognized and included in the amount of goodwill arising from the business combinations.

Tax expenses for the period are measured based on taxes payable on the period’s taxable profit. These tax amounts are calculated based on tax rates established, or substantially established, at the end of the period.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the carrying amount of assets and liabilities for accounting purposes and their tax bases. Deferred tax assets for items that will mitigate the tax burden of future tax returns, such as deductible temporary differences, unused tax losses and unused tax credits, are recognized to the extent that it is probable that future taxable profit will be available against which they can be used.

Meanwhile, deferred tax liabilities for taxable temporary differences are recognized. However, deferred tax assets or deferred tax liabilities are not recognized for the following temporary differences.

- Deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill in a business combination.
- No deferred tax assets or deferred tax liabilities are recognized for differences that arise from the initial recognition of assets or liabilities in transactions other than business combinations where such temporary differences at the time

of the transaction affect neither accounting profit nor taxable profit.

Taxable temporary differences arising from investments in subsidiaries and associates are not recognized as deferred tax liabilities if the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the taxable temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences arising from investments in subsidiaries and associates if the deductible temporary differences will reverse in the foreseeable future and only to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are calculated pursuant to statutory laws and regulations for income taxes in force, or substantially in force, at the end of the period and based on the tax rates that are expected to apply in the period in which the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset and recognized in the consolidated statement of financial position, if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and if the same taxation authority levies income taxes either on the same taxable entity, or to realize the current tax assets and current tax liabilities simultaneously.

(18) Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to CTC's shareholders by the weighted-average number of common stock (excluding treasury stock) outstanding during the reporting period. Diluted earnings per share are calculated by adjusting for the effects of potentially dilutive common stock.

4. Significant accounting estimates and judgments

To prepare the consolidated financial statements, the management of the Company makes a variety of estimates, judgments, and sets of assumptions that affect adoption of accounting policies and disclosures of amounts recognized for assets, liabilities, income, and expenses. Further, actual results may differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are reflected in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimates that have a risk of resulting in material adjustments for the year ended March 31, 2018, are mainly as follows:

• Recoverable amount of financial assets that are measured at amortized cost and have indications of impairment (Note 13. Other financial assets)

The recoverable amounts of financial assets that are measured at amortized cost and have indications of impairment are recognized as the related estimated future cash flows of the financial assets discounted at the initial effective interest rate to the present value. Changes in uncertain future economic conditions may affect the future cash flows related to the financial assets. Accordingly, there are risks that such changes could result in material adjustments to impairment losses related to financial assets measured at amortized cost in the future accounting periods.

• Recoverable amounts of property, plant and equipment, goodwill, intangible assets, and investments in associates measured through impairment tests (Note 10. Property, plant and equipment, Note 11. Goodwill and intangible assets, and Note 12. Investments accounted for using the equity method)

In impairment tests of property, plant and equipment, goodwill, intangible assets, and investments in associates, after identifying the related cash-generating units, their recoverable amount is recognized as the higher of the fair value less costs to sell or the value in use of the cash-generating units. Changes in uncertain future economic conditions may affect assumptions used to calculate the fair value less costs to sell or assumptions of expected future cash flows that will result from the period of use and subsequent disposal of cash-generating units and discount rates, which underlie the calculation of value in use. Accordingly, there are risks that such changes could result in material adjustments to the impairment losses of property, plant and equipment, goodwill, intangible assets, and investments in associates in the future accounting periods.

• Measurement of provisions (Note 19. Provisions)

Provisions are measured based on the best estimate at the end of the period of the expenditures expected to be required to settle the future obligations. Estimates of expenditures expected to be required to settle future obligations are calculated based on a comprehensive consideration of possible future outcomes. Changes in uncertain future economic conditions may affect assumptions used to calculate the provisions. Accordingly, there are risks that such changes could result in material adjustments to measurements of provisions in the future accounting periods.

• Measurement of fair value of defined benefit plan obligations and plan assets in post-employment defined benefit plans (Note 18. Employee benefits)

For post-employment defined benefit plans, the fair value of defined benefit plan obligations net of plan assets is recognized as liabilities or assets. Defined benefit plan obligations are determined by the actuarial calculation based on the same assumptions such as estimates of the discount rate, the retirement rate, the mortality rate, and the rate of compensation increase. These assumptions are established by comprehensively judging a variety of available information, including market trends such as interest rate changes. Uncertain future economic conditions or changes in social conditions may affect the assumptions used in the actuarial calculation. Accordingly, there are risks that such changes could result in material adjustments to the measurements of the fair value of defined benefit plan obligations and assets in the future accounting periods.

- Recoverability of deferred tax assets (Note 14. Deferred taxes and income taxes)

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be used. However, judgments on the recoverable amounts are made based on estimates of taxable amounts for each future fiscal year, which are determined based on the business plans of the Group. Changes in uncertain future economic conditions may affect the estimates of taxable amounts for future fiscal years. Accordingly, there are risks that such changes could result in material adjustments to the recognition of deferred tax assets in the future accounting periods.

Judgments in applying accounting policies that significantly affect the recognized amounts of assets, liabilities, income, and expenses are mainly as follows.

- Evaluation of whether there are indications of impairment or whether there are indications of reversals of impairment of financial assets measured at amortized cost (Note 13. Other financial assets)
- Evaluation of whether there are indications of impairment of property, plant and equipment, goodwill, intangible assets, and investments in associates (Note 10. Property, plant and equipment, Note 11. Goodwill and intangible assets, and Note 12. Investments accounted for using the equity method)
- Recognition of provisions (Note 19. Provisions)

5. Segment information

(1) Description of reportable segments

The Group consists of five reportable business segments based on organization structure: “Distribution and Enterprise business,” “Telecommunications business,” “Public and Regional business,” “Finance and Social Infrastructure business,” and “IT Services business.”

“Distribution and Enterprise business,” “Telecommunications business,” “Public and Regional business,” and “Finance and Social Infrastructure business” engage in the proposal and sale of system integrations, including consulting services, system design or construction services, system maintenance services, and others.

“IT Services business” engages in the procurement of business for their services, which includes data center services and system maintenance services, and works together with the other four reportable segments to make proposals.

According to the Group reorganization on April 1, 2017, the Company created "Advanced IT Strategy group," which strengthens resources for creating new business and services, and promotes innovation."Science & Engineering Systems Division," "Corporate Information System Division," and "Innovation and R&D Division" are integrated in the "Advanced IT Strategy group." As a result, “Corporate Information Systems Division” and "Innovation and R&D Division," which had been included in the "Adjustments" segment, were transferred to "Others" from this consolidated accounting period. In addition, the amounts of “Inter-segment revenue or transfers” for some reportable segment are fluctuating as compared to the past because the department that had been responsible for some merchandise is changed from the administrative department to reportable segments due to replacement of the Group’s basic operaiting systems.

Accordingly, the segment information for the year ended March 31, 2017, has been restated based on the new categorization of the reportable segments.

The segments, which are reported below, are components of the Group, for which separate financial information is available, and the results are regularly reviewed by the Board of Directors in order to make decisions about resources to be allocated to the segments and to assess their performance.

(2) Revenue, profit, assets, and other information about each reportable segment

The accounting policies of the reportable segments are consistent with the description in “Note 3. Significant accounting policies.” Sales or transfers between reportable segments are based on market prices.

The information about the reportable segments of the Group is as follows:

Year ended March 31, 2017

(Millions of Yen)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	126,947	148,563	37,740	50,787
Inter-segment revenue or transfers	4,344	2,543	667	674
Total	131,291	151,107	38,408	51,461
Profit before tax (Segment profit)	7,198	14,608	937	2,734
Segment assets	58,295	60,593	14,908	15,134
Other items				
Financial income	39	52	5	14
Financial costs	(16)	(3)	(5)	(2)
Share of profit of associates accounted for using the equity method	41	-	-	-
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	-	-
Depreciation and amortization expense (Note 3)	(1,743)	(366)	(210)	(228)
Impairment losses	(1)	-	-	-
Investments accounted for using the equity method	328	-	-	-
Capital expenditures (Note 3)	1,667	273	130	94

(Millions of Yen)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	10,707	374,746	33,102	407,849	-	407,849
Inter-segment revenue or transfers	178,372	186,602	812	187,414	(187,414)	-
Total	189,080	561,349	33,915	595,264	(187,414)	407,849
Profit before tax (Segment profit)	7,750	33,229	901	34,131	(2,831)	31,300
Segment assets	77,435	226,367	32,624	258,992	74,130	333,123
Other items						
Financial income	11	123	29	152	111	263
Financial costs	(53)	(81)	(9)	(91)	(66)	(158)
Share of profit of associates accounted for using the equity method	-	41	25	66	-	66
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	-	-	-	-
Depreciation and amortization expense (Note 3)	(3,663)	(6,212)	(1,954)	(8,167)	(270)	(8,438)
Impairment losses	(65)	(67)	-	(67)	(2)	(69)
Investments accounted for using the equity method	-	328	336	664	-	664
Capital expenditures (Note 3)	4,765	6,930	3,676	10,606	141	10,748

Notes:

1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and a science business

segment, etc.

2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥2,831 million include primarily administrative expenses and investments that are not allocated to business segments of ¥2,623 million.
   (2) Reconciliations of segment assets of ¥74,130 million include corporate assets of ¥85,490 million and intersegment elimination of receivables and payables of ¥(12,682) million.
   Corporate assets consist of primarily cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.
   (3) Reconciliations of financial income in other items of ¥111 million include ¥121 million of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of ¥66 million include ¥79 million of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of depreciation and amortization expense of ¥270 million include depreciation and amortization on impairment losses of ¥475 million and elimination of unrealized gains of ¥(204) million.
   Reconciliations of impairment losses of ¥2 million are impairment losses related to corporate assets.
   Reconciliations of capital expenditures of ¥141 million include an increase in corporate assets of ¥234 million and elimination of unrealized gains of ¥(92) million.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to long-term prepaid expenses.

Year ended March 31, 2018

(Millions of Yen)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	140,650	151,158	39,055	54,563
Inter-segment revenue or transfers	6,288	3,866	269	315
Total	146,938	155,025	39,324	54,879
Profit before tax (Segment profit)	8,839	12,842	1,430	2,985
Segment assets	62,569	72,697	13,394	19,054
Other items				
Financial income	43	58	3	17
Financial costs	(29)	(5)	(3)	(0)
Share of profit of associates accounted for using the equity method	33	-	-	-
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	-	-
Depreciation and amortization expense (Note 3)	(1,429)	(328)	(180)	(93)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	320	-	-	-
Capital expenditures (Note 3)	505	355	182	99

(Millions of Yen)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	10,727	396,155	33,470	429,625	-	429,625
Inter-segment revenue or transfers	178,258	188,997	880	189,877	(189,877)	-
Total	188,985	585,152	34,350	619,503	(189,877)	429,625
Profit before tax (Segment profit)	6,751	32,849	986	33,836	(106)	33,729
Segment assets	78,609	246,325	37,120	283,445	70,436	353,882
Other items						
Financial income	11	134	48	183	391	574
Financial costs	(174)	(214)	(3)	(217)	(594)	(811)
Share of profit of associates accounted for using the equity method	-	33	38	71	(65)	6
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	189	189	1,147	1,337
Depreciation and amortization expense (Note 3)	(3,847)	(5,878)	(2,765)	(8,643)	(176)	(8,820)
Impairment losses	(9)	(9)	-	(9)	(0)	(10)
Investments accounted for using the equity method	-	320	170	491	233	724
Capital expenditures (Note 3)	2,876	4,019	1,242	5,262	(53)	5,208

Notes:
1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and a science business segment, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥106 million include primarily administrative expenses and investments that are not allocated to business segments of ¥834 million.

(2) Reconciliations of segment assets of ¥70,436 million include corporate assets of ¥86,462 million and intersegmental elimination of receivables and payables of ¥(12,965) million.

Corporate assets consist of primarily cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.

(3) Reconciliations of financial income in other items of ¥391 million include ¥399 million of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of ¥ 594 million include ¥602 million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of share of profit of associates accounted for using the equity method of ¥(65) million are profit or loss related to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of gains on sales and remeasurement of investments in subsidiaries and associates of ¥1,147 million are profit or loss related to investments in subsidiaries and associates managed by the administrative department of the Company.

Reconciliations of depreciation and amortization expense of ¥176 million include depreciation and amortization on impairment losses of ¥396 million and elimination of unrealized gains of ¥(219) million.

Reconciliations of impairment losses of ¥0 million are impairment losses related to corporate assets.

Reconciliations of investments in associates accounted for using the equity method of ¥233 million are investments in associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of capital expenditures of ¥(53) million include an increase in corporate assets of ¥65 million and elimination of unrealized gains of ¥(118) million.

3. Depreciation and amortization expense and capital expenditures in other items include amounts related to long-term prepaid expenses.

Year ended March 31, 2018

(Thousands of U.S. Dollars)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	1,323,516	1,422,401	367,507	513,444
Inter-segment revenue or transfers	59,173	36,383	2,532	2,967
Total	1,382,689	1,458,784	370,039	516,412
Profit before tax (Segment profit)	83,183	120,847	13,461	28,094
Segment assets	588,780	684,084	126,040	179,303
Other items				
Financial income	414	552	30	161
Financial costs	(274)	(56)	(36)	(9)
Share of profit of associates accounted for using the equity method	312	-	-	-
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	-	-
Depreciation and amortization expense (Note 3)	(13,448)	(3,090)	(1,694)	(879)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	3,019	-	-	-
Capital expenditures (Note 3)	4,758	3,343	1,716	939

(Thousands of U.S. Dollars)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	100,949	3,727,819	314,955	4,042,775	-	4,042,775
Inter-segment revenue or transfers	1,677,407	1,778,463	8,286	1,786,750	(1,786,750)	-
Total	1,778,356	5,506,283	323,241	5,829,525	(1,786,750)	4,042,775
Profit before tax (Segment profit)	63,528	309,114	9,285	318,399	(1,004)	317,395
Segment assets	739,713	2,317,923	349,301	2,667,224	662,809	3,330,034
Other items						
Financial income	110	1,268	454	1,723	3,684	5,408
Financial costs	(1,639)	(2,014)	(29)	(2,044)	(5,595)	(7,640)
Share of profit of associates accounted for using the equity method	-	312	364	677	(612)	64
Gains on sales and remeasurement of investments in subsidiaries and associates	-	-	1,783	1,783	10,800	12,584
Depreciation and amortization expense (Note 3)	(36,205)	(55,318)	(26,020)	(81,338)	(1,662)	(83,000)
Impairment losses	(93)	(93)	-	(93)	(7)	(100)
Investments accounted for using the equity method	-	3,019	1,602	4,622	2,198	6,820
Capital expenditures (Note 3)	27,066	37,825	11,691	49,517	(501)	49,015

Notes:

1. "Other," which is not included in the reportable segments, consists of foreign subsidiaries and a science business

segment, etc.

2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of US$1,004 thousand include primarily administrative expenses and investments that are not allocated to business segments of US$7,849 thousand.
   (2) Reconciliations of segment assets of US$662,809 thousand include corporate assets of US$813,609 thousand and intersegmental elimination of receivables and payables of US$(122,001) thousand. Corporate assets consist of primarily cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.
   (3) Reconciliations of financial income in other items of US$3,684 thousand include US$3,762 thousand of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of US$5,595 thousand include US$5,672 thousand of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of share of profit of associates accounted for using the equity method of US$(612) thousand are profit or loss related to associates accounted for using the equity method managed by the administrative department of the Company.
   Reconciliations of gains on sales and remeasurement of investments in subsidiaries and associates of US$10,800 thousand are profit or loss related to investments in subsidiaries and associates managed by the administrative department of the Company.
   Reconciliations of depreciation and amortization expense of US$1,662 thousand include depreciation and amortization on impairment losses of US$3,726 thousand and elimination of unrealized gains of US$(2,064) thousand.
   Reconciliations of impairment losses of US$7 thousand are impairment losses related to corporate assets.
   Reconciliations of investments in associates accounted for using the equity method of US$2,198 thousand are investments in associates accounted for using the equity method managed by the administrative department of the Company.
   Reconciliations of capital expenditures of US$(501) thousand include an increase in corporate assets of US$617 thousand and elimination of unrealized gains of US$(1,119) thousand.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to long-term prepaid expenses.

(3) Information about products and services

Year ended March 31, 2017

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	164,932	87,158	155,757	407,849

Year ended March 31, 2018

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	170,918	91,574	167,132	429,625

Year ended March 31, 2018

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,608,341	861,712	1,572,720	4,042,775

(4) Information about geographical areas

1) Revenue from foreign customers

Information about revenue from foreign customers is not disclosed because revenue from domestic external customers comprises the majority of the Group's revenue.

2) Non-current assets

The breakdown of the carrying amount of non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) by geographical area is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Japan	47,057	43,363	408,049
Asia	6,500	7,122	67,026
Others	15	23	222
Total	53,574	50,509	475,297

(5) Information about major customers

Information about revenue from the Group's major external customers is as follows:

	Reportable segment	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Nippon Telegraph and Telephone Corporation and group	Telecommunications business	50,165	50,214	472,521
KDDI Corporation and group	Telecommunications business	47,513	40,695	382,947

6. Business combination and loss of control

(1) Acquisition of Netband Consulting Co., Ltd.

1) Overview of acquiree

Name	Netband Consulting Co., Ltd. (The company's name has changed to CTC Global (Thailand) Ltd.)
Business lines	Sales, installation, and implementation of IT systems and networks and application development

2) Overview of business combination

On September 3, 2017, the Company concluded an agreement with Vnet Capital Co., Ltd. to acquire 55% of shares of Netband Consulting Co., Ltd., which had been an associate in which the Company had held 45% of shares, for the purpose of further strengthening CTC's business in Thailand and other Southeast Asian countries. On November 13, 2017, the Company completed acquisition of shares based on the agreement.

As a result, the Company's ownership ratio of shares of Netband Consulting Co., Ltd. increased from 45% to 100% and Netband Consulting Co., Ltd. became a wholly owned subsidiary.

3) Consideration for acquisition

	(Millions of Yen)	(Thousands of U.S. Dollars)
Cash and cash equivalents	601	5,658
Fair value of the equity interests held by the Company at the acquisition date	366	3,447
Total	968	9,105

4) Gain on step acquisitions

The Company recognizes gain of ¥189 million (US$1,783 thousand) from the business combination as a result of the remeasurement of 45% of equity interests held by the Company at the fair value as of the acquisition date. The gain is recorded in "Gains on sales and remeasurement of investments in subsidiaries and associates" in the consolidated statement of income.

5) Cash outflows related to the acquisition

	(Millions of Yen)	(Thousands of U.S. Dollars)
Cash and cash equivalents paid in acquisition	601	5,658
Cash and cash equivalents held by the acquiree at the acquisition date	(137)	(1,289)
Net cash outflows in the purchase of shares of a subsidiary	464	4,368

6) Fair value of assets acquired and liabilities assumed at the acquisition date

	(Millions of Yen)	(Thousands of U.S. Dollars)
Assets		
Cash and cash equivalents	137	1,289
Trade and other receivables	365	3,439
Inventories	36	344
Other current assets	186	1,753
Others	30	289
Total	756	7,117
Liabilities		
Trade and other payables	222	2,089
Other current liabilities	64	611
Others	12	121
Total	299	2,822

7) Goodwill arising from acquisition

The Company recognizes goodwill of ¥360 million (US$3,392 thousand) from the acquisition. Goodwill is caused by reasonable estimate of future profitability in excess of net asset value anticipated by developing the business.

8) Effect on the Group's performance

Revenue and profit generated by the business combination included in the consolidated statement of income for the year ended March 31, 2018, are not material.

9) Pro forma information

The disclosure of pro forma information, which is not audited, as though the acquisition date for the business combination had been April 1, 2017, is omitted due to immateriality in the consolidated financial statements.

(2) Sale of shares of CTC First Contact Corporation

1) Overview of losing control

On May 30, 2017, the Company concluded the agreement with BELLSYSTEM24 Holdings, Inc. to sell a part of shares of CTC First Contact Corporation, which had been a wholly owned subsidiary of the Company, for the purpose of expanding the BPO (Business Process Outsourcing) business. On July 3, 2017, the Company completed the sale of shares based on the agreement.

As a result, the Company's ownership ratio of shares of CTC First Contact Corporation decreased from 100% to 49% and CTC First Contact Corporation became an associate.

2) Breakdown of assets and liabilities at the date when the control is lost

	(Millions of Yen)	(Thousands of U.S. Dollars)
Assets		
Cash and cash equivalents	183	1,726
Trade and other receivables	36	345
Property, plant and equipment	77	725
Intangible assets	20	190
Deferred tax assets	34	320
Others	15	143
Total	366	3,451
Liabilities		
Trade and other payables	172	1,627
Other current financial liabilities	81	762
Liabilities for employee benefits (current)	77	729
Non-current financial liabilities	43	405
Others	2	22
Total	377	3,548

3) Cash flows related to losing control

	(Millions of Yen)	(Thousands of U.S. Dollars)
Consideration received consisting of cash and cash equivalents	934	8,794
Cash and cash equivalents in the subsidiary over which control is lost	(183)	(1,726)
Proceeds from sales of shares of subsidiaries and associates	751	7,067

4) Gain related to losing control

The Company recognizes gain of ¥1,147 million (US$10,800 thousand) from loss of control over CTC First Contact Corporation. The gain is recorded in "Gains on sales and remeasurement of investments in subsidiaries and associates" in the consolidated statement of income. The portion of gain attributable to measuring investments retained at the fair value at the date when control is lost is ¥256 million (US$2,416 thousand).

7. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Cash and bank balances	46,176	31,602	297,378
Deposits within three months	2,036	19,401	182,563
Total	48,213	51,003	479,942

The balance of cash and cash equivalents agrees with both the consolidated statements of financial position and the consolidated statements of cash flows as of March 31, 2017 and 2018.

8. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Notes and accounts receivable - trade	99,764	112,718	1,060,679
Lease receivables	13,942	15,891	149,535
Others	1,785	1,774	16,702
Allowance for doubtful accounts	(19)	(14)	(132)
Total	115,473	130,370	1,226,784

9. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Merchandise	19,599	20,476	192,684
Work in progress	17	442	4,161
Supplies for maintenance service	4,429	4,658	43,840
Total	24,045	25,577	240,687
Inventories to be sold after more than one year	312	507	4,780

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2017 and 2018, is ¥196,453 million and ¥203,537 million (US$1,915,283 thousand), respectively. The write-downs of inventories to net realizable value as of March 31, 2017 and 2018, are ¥2 million and ¥121 million (US$1,142 thousand), respectively. The write-down amount of inventories is included in “Cost of sales” in the consolidated statements of income.

10. Property, plant and equipment

(1) Movements in property, plant and equipment

The movements in property, plant and equipment at cost, accumulated depreciation and accumulated impairment losses are as follows:

(Cost)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
April 1, 2016	37,809	20,891	4,731	63,431
Purchase	3,365	2,489	-	5,855
Disposals	(313)	(1,041)	-	(1,354)
Exchange differences on translating foreign operations	(0)	(86)	-	(86)
Others	(1)	(295)	-	(297)
March 31, 2017	40,860	21,957	4,731	67,548
Purchase	1,534	2,461	-	3,996
Disposals	(275)	(864)	-	(1,139)
Exchange differences on translating foreign operations	(0)	33	-	33
Others	(81)	(1,146)	-	(1,227)
March 31, 2018	42,037	22,442	4,731	69,210

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2017	384,495	206,619	44,520	635,635
Purchase	14,435	23,166	-	37,602
Disposals	(2,591)	(8,133)	-	(10,725)
Exchange differences on translating foreign operations	(6)	317	-	310
Others	(764)	(10,787)	-	(11,552)
March 31, 2018	395,568	211,182	44,520	651,271

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
April 1, 2016	(15,506)	(12,411)	-	(27,917)
Depreciation expense	(2,387)	(3,096)	-	(5,483)
Impairment losses	(64)	(0)	-	(65)
Disposals	275	1,010	-	1,286
Exchange differences on translating foreign operations	0	54	-	54
Others	18	924	-	942
March 31, 2017	(17,665)	(13,518)	-	(31,183)
Depreciation expense	(2,482)	(2,933)	-	(5,416)
Impairment losses	(9)	-	-	(9)
Disposals	236	829	-	1,065
Exchange differences on translating foreign operations	0	(21)	-	(20)
Others	50	1,161	-	1,211
March 31, 2018	(19,870)	(14,483)	-	(34,353)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2017	(166,229)	(127,208)	-	(293,437)
Depreciation expense	(23,359)	(27,607)	-	(50,967)
Impairment losses	(89)	-	-	(89)
Disposals	2,225	7,803	-	10,029
Exchange differences on translating foreign operations	3	(200)	-	(196)
Others	471	10,926	-	11,397
March 31, 2018	(186,978)	(136,286)	-	(323,264)

(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2017	23,195	8,439	4,731	36,365
March 31, 2018	22,166	7,959	4,731	34,857

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2018	208,590	74,896	44,520	328,006

There is no property, plant and equipment pledged as collateral at March 31, 2017 and 2018.

The carrying amount of finance lease assets included in property, plant and equipment, less accumulated depreciation and accumulated impairment losses, is as follows:

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2017	451	2,640	3,092
March 31, 2018	355	2,167	2,523

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2018	3,349	20,393	23,742

Depreciation expense of property, plant and equipment is recorded as “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.

(2) Impairment losses

Property, plant and equipment are grouped by the asset's cash-generating units which are the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized as "Other expenses" in the consolidated statements of income for the years ended March 31, 2017 and 2018, are ¥65 million and ¥9 million (US$90 thousand), respectively.

Impairment losses recognized for the year ended March 31, 2017 and the year ended March 31, 2018, are losses related to "Buildings and structures" belonging to the "IT Services business" reportable segment and are mainly due to the decline of profitability of data center facilities.

The recoverable amount of the asset group is measured at the value in use, which is calculated by discounting the estimated future cash flows using a rate of 6.0%.

11. Goodwill and intangible assets

(1) Movements in goodwill and intangible assets

The movements in goodwill and intangible assets at cost, accumulated amortization and impairment losses are as follows:

(Cost)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2016	4,245	25,190	3,858	33,293
Separate acquisitions	-	4,260	0	4,260
Acquisitions through business combination	-	-	-	-
Disposals	-	(298)	-	(298)
Exchange differences on translating foreign operations	(345)	(9)	(303)	(658)
Others	-	(663)	-	(663)
March 31, 2017	3,899	28,478	3,555	35,933
Separate acquisitions	-	993	169	1,162
Acquisitions through business combination	360	-	-	360
Disposals	-	(328)	-	(328)
Exchange differences on translating foreign operations	210	5	170	386
Others	-	(2,521)	(288)	(2,809)
March 31,2018	4,470	26,626	3,606	34,703

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2017	36,697	267,980	33,458	338,135
Separate acquisitions	-	9,344	1,590	10,935
Acquisitions through business combination	3,392	-	-	3,392
Disposals	-	(3,094)	-	(3,094)
Exchange differences on translating foreign operations	1,977	50	1,605	3,632
Others	-	(23,726)	(2,714)	(26,441)
March 31, 2018	42,066	250,553	33,940	326,560

(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2016	-	(16,095)	(1,403)	(17,499)
Amortization expense	-	(2,440)	(366)	(2,806)
Impairment losses	-	-	(2)	(2)
Disposals	-	226	-	226
Exchange differences on translating foreign operations	-	4	102	106
Others	-	503	-	503
March 31, 2017	-	(17,802)	(1,670)	(19,472)
Amortization expense	-	(2,895)	(340)	(3,236)
Impairment losses	-	-	(0)	(0)
Disposals	-	295	-	295
Exchange differences on translating foreign operations	-	(3)	(72)	(75)
Others	-	2,506	288	2,795
March 31, 2018	-	(17,898)	(1,796)	(19,694)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2017	-	(167,518)	(15,720)	(183,238)
Amortization expense	-	(27,247)	(3,206)	(30,454)
Impairment losses	-	-	(7)	(7)
Disposals	-	2,778	-	2,778
Exchange differences on translating foreign operations	-	(28)	(681)	(710)
Others	-	23,589	2,714	26,304
March 31, 2018	-	(168,427)	(16,901)	(185,328)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2017	3,899	10,676	1,885	16,460
March 31, 2018	4,470	8,727	1,810	15,008

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2018	42,066	82,126	17,039	141,232

Carrying amount of finance lease assets included in intangible assets, less accumulated amortization and accumulated impairment losses, is as follows:

(Millions of Yen)

	Software
March 31, 2017	154
March 31, 2018	82

(Thousands of U.S. Dollars)

	Software
March 31, 2018	776

Amortization expense of intangible assets is recognized as “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statements of income.
Impairment losses are recognized as “Other expenses” in the consolidated statements of income.

(2) Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to each of the acquirer’s cash-generating units that is expected to benefit from the combination at the date of acquisition. The Group’s significant goodwill is related to foreign subsidiaries such as CTC GLOBAL SDN. BHD. and CTC GLOBAL PTE. LTD. and belongs to the “Other” reportable segment. The carrying amount is ¥4,470 million (US$42,066 thousand; March 31, 2017: ¥3,899 million). The recoverable amount of the cash-generating unit to which goodwill has been allocated is determined based on value in use. The value in use is based on past experience and financial budgets approved by management over the next five years. The estimated future cash flows beyond the five years have been extrapolated using a steady 0% per annum growth rate.
In addition, as of March 31, 2018, the pre-tax discount rate which is used in calculating the value in use is from 9.8 % to 14.3 % (as of March 31, 2017: from 10.1% to 14.1%).
The aggregate recoverable amount of goodwill sufficiently exceeds its carrying amount. Therefore, it is unlikely that the aggregate recoverable amount of the cash-generating unit is lower than the aggregate carrying amount even if the key assumptions change reasonably.

12. Investments accounted for using the equity method

The carrying amount of investments in associates that are not individually significant is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Carrying amount of investments accounted for using the equity method	664	724	6,820

Financial information of associates that are not individually significant, for the years ended March 31, 2017 and 2018, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Share of net profit	66	6	64
Share of other comprehensive income for the year	(4)	(24)	(228)
Share of comprehensive income	61	(17)	(163)

13. Other financial assets

The breakdown of other financial assets is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Financial assets measured at amortized cost	32,864	31,077	292,437
FVTOCI financial assets	5,653	6,465	60,838
FVTPL financial assets	489	679	6,393
Total	39,006	38,222	359,669
Current assets	25,017	23,333	219,565
Non-current assets	13,989	14,888	140,104
Total	39,006	38,222	359,669

Dividends from FVTOCI financial assets recognized in “Other financial assets” as of March 31, 2017 and 2018, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
96	113	1,065

The Group classifies equity securities, which are held with the intention of strengthening business relationships on the condition of long-term ownership, as FVTOCI financial assets. Of the above FVTOCI financial assets, the major equity securities, and their fair values, owened by the Group as of March 31, 2017 and 2018, are as follows:

March 31, 2017

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	3,921
Mizuho Financial Group, Inc.	432
Asahi Group Holdings, Ltd.	420
AEON Financial Service Co., Ltd.	281
FamilyMart UNY Holdings Co., Ltd.	254

March 31, 2018

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	4,210	39,620
Asahi Group Holdings, Ltd.	566	5,332
Mizuho Financial Group, Inc.	405	3,819
FamilyMart UNY Holdings Co., Ltd.	343	3,231
AEON Financial Service Co., Ltd.	328	3,089

Derecognized FVTOCI financial assets for the years ended March 31, 2017 and 2018, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2017			Year ended March 31, 2018			Year ended March 31, 2018		
Fair value at date of sale	Cumulative gains (losses)	Dividends received	Fair value at date of sale	Cumulative gains (losses)	Dividends received	Fair value at date of sale	Cumulative gains (losses)	Dividends received
4	(3)	2	10	-	0	94	-	0

These FVTOCI financial assets are mainly sold because of changes in business relationships. Cumulative losses (net of tax) reclassified from other components of equity to retained earnings for the year ended March 31, 2017 are ¥2 million.

14. Deferred taxes and income taxes

(1) Deferred tax assets and deferred tax liabilities

The breakdown and movements of deferred tax assets and liabilities by major cause are as follows:

(Millions of Yen)

	April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2017
Deferred tax assets					
Inventories	3,014	174	-	-	3,189
Property, plant and equipment and intangible assets	1,094	572	-	-	1,667
Other payables	790	10	-	-	801
Employee benefits	4,808	970	(296)	-	5,482
Provisions	571	338	-	-	910
Others	1,265	362	(3)	(13)	1,610
Total deferred tax assets	11,545	2,428	(299)	(13)	13,661
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(618)	67	-	45	(505)
Securities and other investments	(323)	(7)	145	-	(185)
Others	(792)	174	-	-	(618)
Total deferred tax liabilities	(1,734)	233	145	45	(1,309)

Note: “Others” includes exchange differences on translating foreign operations.

(Millions of Yen)

	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2018
Deferred tax assets					
Inventories	3,189	176	-	-	3,365
Property, plant and equipment and intangible assets	1,667	295	-	(0)	1,961
Other payables	801	(96)	-	(6)	697
Employee benefits	5,482	320	(111)	(22)	5,669
Provisions	910	421	-	-	1,332
Others	1,610	(480)	18	11	1,160
Total deferred tax assets	13,661	636	(92)	(18)	14,187
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(505)	62	-	(56)	(499)
Securities and other investments	(185)	(50)	(189)	-	(426)
Others	(618)	(149)	-	-	(767)
Total deferred tax liabilities	(1,309)	(137)	(189)	(56)	(1,693)

(Thousands of U.S. Dollars)

	April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2018
Deferred tax assets					
Inventories	30,008	1,661	-	-	31,669
Property, plant and equipment and intangible assets	15,686	2,778	-	(8)	18,456
Other payables	7,539	(911)	-	(65)	6,562
Employee benefits	51,591	3,015	(1,047)	(210)	53,349
Provisions	8,568	3,969	-	-	12,537
Others	15,158	(4,521)	176	111	10,924
Total deferred tax assets	128,553	5,991	(870)	(173)	133,500
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(4,752)	589	-	(533)	(4,696)
Securities and other investments	(1,749)	(478)	(1,785)	-	(4,013)
Others	(5,820)	(1,405)	-	-	(7,225)
Total deferred tax liabilities	(12,322)	(1,294)	(1,785)	(533)	(15,935)

Note: "Others" includes exchange differences on translating foreign operations and increase or decrease by business combinations.

Deferred tax assets and deferred tax liabilities recognized in the consolidated statement of financial position are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Deferred tax assets	12,679	12,817	120,614
Deferred tax liabilities	327	324	3,049
Net	12,351	12,493	117,564

Deductible temporary differences and tax loss carryforwards for which deferred tax assets have not been recognized are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Deductible temporary differences	15	15	145
Tax loss carryforwards	-	17	168
Total	15	33	314

The amounts of tax loss carryforwards by expiry date, for which deferred tax assets have not been recognized, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	-	-
Year 4	-	-	-
Year 5 or later	-	17	168
Total	-	17	168

(2) Income tax expense

The breakdown of income tax expense is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Current tax expense	11,967	10,453	98,369
Deferred tax expense	(2,662)	(499)	(4,696)
Total	9,304	9,954	93,673

"Current tax expense" includes the amount of tax benefits from tax loss carryforwards, tax credits, and deductible temporary differences, for which deferred tax assets were not recognized in previous fiscal years. The amount of deduction of tax expense resulting from these tax benefits for the years ended March 31, 2017 and 2018, is ¥171 million and ¥1 million (US$12 thousand), respectively.

"Deferred tax expense" includes the amount of tax benefits from tax loss carryforwards, tax credits, and deductible temporary differences, for which deferred tax assets were not recognized in previous fiscal years, and expenses or benefits arising from write-downs of deferred tax assets or the reversal of previous write-downs of deferred tax assets. The amount of deduction of tax expense resulting from these tax benefits for the year ended March 31, 2017 is ¥75 million. There is no tax expense resulting from these tax benefits for the year ended March 31, 2018.

Reconciliations between the effective statutory tax rate and the average effective tax rate are as follows:

	Year ended March 31, 2017	Year ended March 31, 2018
Effective statutory tax rate	30.9%	30.9%
(Reconciliation)		
Tax credits	(1.4%)	(2.1%)
Effect on the amount of not deductible for tax purposes	0.7%	0.7%
Others	(0.5%)	(0.0%)
Average effective tax rate	29.7%	29.5%

The Company is mainly subject to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate for the years ended March 31, 2017 and 2018, is 30.9% based on these taxes. Foreign subsidiaries are subject to income taxes of the countries where they operate.

15. Trade and other payables

The breakdown of trade and other payables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Account payables-trade	38,604	38,024	357,814
Other payables	6,479	7,164	67,420
Accrued consumption taxes	3,139	3,382	31,829
Total	48,222	48,572	457,065

16. Other financial liabilities (included in non-current financial liabilities)

The breakdown of other financial liabilities and non-current financial liabilities is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Financial liabilities measured at amortized cost	15,597	16,675	156,917
FVTPL financial liabilities	78	229	2,154
Total	15,675	16,904	159,072

Current liabilities	5,658	5,992	56,384
Non-current liabilities	10,016	10,912	102,687
Total	15,675	16,904	159,072

17. Leases

(1) Lessor

1) Operating leases

The Group leases IT-related equipment and servers under operating leases. There are no lease payments receivable under non-cancelable operating leases as of March 31, 2017 and 2018.

2) Finance leases

The Group leases IT-related equipment and servers under finance leases. The schedule of total future minimum lease payments receivable, present value of future minimum lease payments receivable, and the amount of unearned finance income as of March 31, 2017 and 2018, is as follows:

	Total future minimum lease payments receivable			Present value of future minimum lease payments receivable		
	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2018
Within 1 year	4,219	4,616	43,444	3,892	4,265	40,135
Over 1 year-within 5 years	9,514	10,643	100,150	9,018	10,036	94,443
Over 5 years	1,055	1,618	15,233	1,031	1,589	14,956
Total lease payments receivable	14,789	16,878	158,828	13,942	15,891	149,535
Less: Unearned finance income	(846)	(987)	(9,293)			
Present value of minimum lease payments receivable	13,942	15,891	149,535			

(2) Lessee

1) Operating leases

The Group leases real estate such as office buildings and office equipment under operating leases. The schedule of future minimum lease payments under non-cancelable operating leases as of March 31, 2017 and 2018, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Within 1 year	2,555	1,684	15,855
Over 1 year – within 5 years	1,291	575	5,419
Total	3,846	2,260	21,274

Lease payments recognized as expense under operating leases for the years ended March 31, 2017 and 2018, are ¥10,391 million and ¥10,144 million (US$95,459 thousand), respectively.

2) Finance leases

The Group leases office equipment for customer service and data center facilities under finance leases. The schedule of future minimum lease payments, present value of future minimum lease payments, and the amount of future finance charges as of March 31, 2017 and 2018, is as follows:

	Future minimum lease payments			Present value of future minimum lease payments		
	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2018
Within 1 year	4,579	4,597	43,265	4,245	4,238	39,888
Over 1 year – within 5 years	9,264	9.892	93,090	8,752	9,284	87,370
Over 5 years	1,083	1,524	14,345	1,053	1,494	14,058
Total lease payments	14,926	16,015	150,701	14,052	15,017	141,317
Less: Future finance charges	(874)	(997)	(9,383)			
Present value of minimum lease payments	14,052	15,017	141,317			

Future minimum sublease payments under non-cancelable operating leases as of March 31, 2017 and 2018, are ¥1,738 million and ¥1,544 million (US$14,530 thousand), respectively. Lease contracts do not include contingent rent, renewal options or purchase options, escalation payments, and specific limitations (such as dividends, additional borrowings, and additional lease contracts).

18. Employee benefits

(1) Post-employment benefit

1) General outline of retirement benefit plans

In order to provide employee retirement benefits, the Company and certain subsidiaries have defined benefit pension plans, lump-sum payment benefits, and defined contribution plans covering substantially all of their employees, in addition to the ITOCHU United Pension Fund. Benefits under the defined benefit plans are based on the points that employees earned each year of service, or years of service and certain other factors.

In regard to the defined contribution plans, the obligations of the Company and certain subsidiaries are limited to the contribution amounts that are stipulated in the retirement benefit rules, which are determined on a company-by-company basis.

Plan assets primarily comprise marketable equity securities, bonds and other interest-bearing securities, and are exposed to stock price and interest rate risks.

2) Defined benefit plans

Movements in the present value of the defined benefit plan obligations are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Balance at the beginning of the year	20,315	20,321	191,226
Current service cost	1,017	918	8,641
Interest cost	115	126	1,187
Remeasurement			
Changes in demographic assumptions	(517)	(199)	(1,873)
Changes in financial assumptions	(272)	195	1,836
Experience adjustments	150	190	1,789
Benefits paid	(487)	(598)	(5,629)
Effect of business combination	-	7	67
Balance at the end of the year	20,321	20,961	197,246

Note: Current service cost is recognized as profit or loss (cost of sales or selling, general and administrative expenses). Interest related to the net amount of the present value of defined benefit plan obligations and the fair value of plan assets is recognized in profit or loss (financial income).

Movements in the fair value of plan assets are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Balance at the beginning of the year	21,095	22,074	207,719
Interest income	122	140	1,326
Remeasurement			
Return on plan assets	668	867	8,158
Employer contributions	632	645	6,071
Benefits paid	(444)	(504)	(4,746)
Balance at the end of the year	22,074	23,223	218,529

Note: In accordance with the retirement benefit regulations, the Company and certain subsidiaries conduct financial verification regularly and recalculate the contribution of benefits in future periods in order to provide employee retirement benefits that are expected to arise in the future or to improve financial position of pension funds in the case of a deficit in its financial position.

The expected contribution to the plan is ¥711 million (US$6,692 thousand) for the year ending March 31, 2019.

Movements in the effect of the asset ceiling are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Balance at the beginning of the year	-	340	3,200
Movements in the effect of the asset ceiling	340	317	2,984
Balance at the end of the year	340	657	6,184

Note: If defined benefit plans are in a surplus position, defined benefit assets (other non-current assets), recorded in the consolidated statement of financial position, are limited to present value of any economic benefits available in reductions in future contribution to the defined benefit plans.

The amounts of defined benefit plans recognized in the consolidated statement of financial position are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Present value of the defined benefit plan obligations	20,321	20,961	197,246
Fair value of plan assets	(22,074)	(23,223)	(218,529)
Funded status	(1,752)	(2,261)	(21,282)
Effect of the asset ceiling	340	657	6,184
Net liabilities (assets)	(1,412)	(1,604)	(15,098)
Amount in the consolidated statement of financial position			
Other non-current assets	(2,021)	(2,149)	(20,222)
Liabilities for employee benefits (non-current liabilities)	608	544	5,124

Plan assets by category as of March 31, 2017 and 2018, are as follows. Refer to “Note 30. Financial instruments and disclosures” for input information used in measuring fair value.

March 31, 2017

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,529	-	3,529
Overseas	3,649	-	3,649
Debt instruments			
Domestic	7,178	-	7,178
Overseas	3,657	-	3,657
Other assets			
Cash and cash equivalents	309	-	309
Life insurance company general accounts	-	3,699	3,699
Others	-	51	51
Total	18,323	3,750	22,074

March 31, 2018

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,969	-	3,969
Overseas	3,777	-	3,777
Debt instruments			
Domestic	6,908	551	7,460
Overseas	2,330	1,451	3,782
Other assets			
Cash and cash equivalents	319	-	319
Life insurance company general accounts	-	3,866	3,866
Others	-	48	48
Total	17,305	5,917	23,223

March 31, 2018

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	37,349	-	37,349
Overseas	35,547	-	35,547
Debt instruments			
Domestic	65,007	5,191	70,199
Overseas	21,934	13,660	35,594
Other assets			
Cash and cash equivalents	3,002	-	3,002
Life insurance company general accounts	-	36,383	36,383
Others	-	452	452
Total	162,841	55,687	218,529

In setting its portfolio investment policy for plan assets, the Company and certain subsidiaries, on a long-term basis, focus on securing investment returns that are sufficient to provide for the future benefit payments for employees in the context of a tolerable level of risk control. In order to achieve the objectives of the investment policy, the Company and certain subsidiaries establish the most appropriate portfolio considering the past return results as well as the estimated returns on invested assets, and manage the portfolio.

The Company and certain subsidiaries' basic policy is to emphasize asset liquidity and a thorough diversification of their investments. The Company and certain subsidiaries' holdings of equity instruments consist primarily of shares in listed companies. Debt instruments principally comprise highly rated government bonds. The Insurance Business Law Enforcement Regulations stipulate that the investment of assets in life insurance company general accounts be conducted in a manner that provides a specific assumed interest rate and a principal guarantee.

Information about the maturity profile of retirement benefits is as follows.

The defined benefit plan obligations are calculated based on the estimated amount of future benefits that have been incurred as of the present point in time. The amount of those future payments is discounted back from the expected time of future payment to the present. Accordingly, the timing of benefit payment influences the amounts of the projected benefit obligation and service costs, and consequently, the disclosure of information regarding benefits in the period in which they are earned is required under IAS 19 "Employee Benefits". The Company believes that it meets this requirement in an effective manner through the disclosure of the weighted-average duration of the defined benefit plan obligations, which takes into account the amount, timing, and discount rate. The weighted-average duration of the Company's defined benefit plan obligations for the years ended March 31, 2017 and 2018, are 12 years and 11 years, respectively.

Significant actuarial assumptions used in calculating the present value of the defined benefit plan obligations are as follows:

	March 31, 2017	March 31, 2018
Discount rate	0.6%	0.5%
Rate of compensation increase	5.7%	5.6%

Among the above actuarial assumptions, the calculations related to the defined benefit plan are sensitive to the influence of the discount rate assumption.

At the end of the reporting period, the impact on the present value of the defined benefit plan obligations when the discount rate moves 0.5% is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
0.5% Increase	(1,096)	(1,099)	(10,345)
0.5% Decrease	1,001	970	9,134

This analysis is based on the premise that the actuarial assumptions other than the discount rate do not fluctuate and that only the discount rate fluctuates. This method of analysis is based on certain assumptions, and it is possible that the actual calculation could be influenced by fluctuations in other variables.

3) Defined contribution plans

The recognized expenses with respect to the defined contribution plans for the years ended March 31, 2017 and 2018, are ¥867 million and ¥887 million (US$8,347 thousand), respectively.

4) Multi-employer plans

The Company and certain subsidiaries participate in the ITOCHU United Pension Fund, which is a multi-employer plan classified as a defined benefit plan.

The ITOCHU United Pension Fund differs from a single employer plan with respect to the following points:

(i) Assets that an employer contributes to the multi-employer plan could be used for the benefits of employees of other participating employers.

(ii) If one participating employer stops premium contributions, other participating employers could be required to absorb unfunded obligations additionally.

(iii) If a participating employer withdraws from the multi-employer plan, the employer could be required to contribute the amount of the unfunded obligation as a special withdrawal premium.

The ITOCHU United Pension Fund is a defined benefit multi-employer plan that is operated in accordance with the rules above. Events occurring at participating companies influence the allocation of plan assets and expenses to other participating companies, and consequently, there is no consistent basis for that allocation. Accordingly, because it is not possible to obtain sufficient information to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan. In regard to the special premium for this plan, the amount of past service cost obligations is recognized as a liability, and subsequently, that liability is reversed when the special premium is paid. The amounts of that liability in the consolidated statements of financial position at March 31, 2017 and 2018, are ¥3,112 million and ¥3,605 million (US$33,926 thousand), respectively.

The financial position of the ITOCHU United Pension Fund based on recently available information is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Plan assets	22,975	25,926	243,969
Benefits obligation based on pension plan finance calculation	33,225	33,240	312,790
Net	(10,249)	(7,313)	(68,820)

	March 31, 2016	March 31, 2017
Ratio of the Company and certain subsidiaries contribution to the overall plan	30.5%	29.4%

The principal factors of "Net" in the above table are past service cost obligations based on pension plan finance calculation and general reserve.
The ratio of the Company and certain subsidiaries contribution to the overall plan above is calculated by dividing total contribution paid to the pension fund from the Company and certain subsidiaries by the total contribution to the overall pension fund. The ratio of the Company's and certain subsidiaries' contribution to the overall plan above does not match the actual proportional contribution.
The expected contribution to the plans for the year ending March 31, 2019, is ¥931 million (US$8,768 thousand).

(2) Employee benefit expenses

Total employee benefit expenses, included in "Cost of sales" and "Selling, general, and administrative expenses" in the consolidated statements of income for the years ended March 31, 2017 and 2018, are ¥60,021 million and ¥60,721 million (US$571,393 thousand), respectively.

19. Provisions

The breakdown and movements in provisions are as follows:

Year ended March 31, 2017

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2016	1,671	178	481	2,331
Increase for the year	40	1,944	250	2,234
Interest expenses for discounting	30	-	-	30
Decrease for the year (utilization)	(1)	(780)	(168)	(949)
Decrease for the year (unused)	(4)	(133)	(101)	(239)
Increase or decrease by offsetting with work in progress	-	(981)	-	(981)
Others	(3)	-	-	(3)
March 31, 2017	1,732	227	461	2,422

Current liabilities	-	227	461	689
Non-current liabilities	1,732	-	-	1,732
Total	1,732	227	461	2,422

Year ended March 31, 2018

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2017	1,732	227	461	2,422
Increase for the year	5	2,864	106	2,977
Interest expenses for discounting	32	-	-	32
Decrease for the year (utilization)	(36)	(1,319)	(62)	(1,418)
Decrease for the year (unused)	(7)	(160)	(93)	(260)
Increase or decrease by offsetting with work in progress	-	(1,329)	-	(1,329)
Others	1	-	-	1
March 31, 2018	1,728	283	411	2,424

Current liabilities	11	283	411	707
Non-current liabilities	1,716	-	-	1,716
Total	1,728	283	411	2,424

Year ended March 31, 2018

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2017	16,304	2,143	4,344	22,792
Increase for the year	55	26,957	1,002	28,015
Interest expenses for discounting	302	-	-	302
Decrease for the year (utilization)	(346)	(12,414)	(592)	(13,352)
Decrease for the year (unused)	(68)	(1,508)	(879)	(2,455)
Increase or decrease by offsetting with work in progress	-	(12,507)	-	(12,507)
Others	17	-	-	17
March 31, 2018	16,265	2,670	3,875	22,812

Current liabilities	111	2,670	3,875	6,658
Non-current liabilities	16,153	-	-	16,153
Total	16,265	2,670	3,875	22,812

The provisions are as follows:

Provisions for asset retirement obligations

Provisions for asset retirement obligations, to prepare for obligations to remove improvements from buildings under real estate lease contracts, as offices and data centers are the estimated amount of payments in the future based on historical experience. The outflow of economic benefits in the future is expected principally in a period after one year from the end of each fiscal year, but the timing could be affected by future business plans.

Provisions for loss on orders received

Provisions for loss on orders received, to prepare for losses on orders received, are the estimated amount of losses on orders received related to order contracts at the end of each fiscal year. The timing of the outflow of economic benefits in the future is expected to be within one year from the end of each fiscal year.

Provisions for after-sales costs

Provisions for after-sales costs, to prepare for payment of future after-sales costs related to system development projects, are the estimated amount of costs based on the historical rate, or the amount required for individual projects. The timing of the outflow of economic benefits in the future is expected to be within one year from the end of each fiscal year.

20. Share-based payment

Equity-settled share-based payment and cash-settled share-based payment

In order to increase motivation of directors to enhance the Group's performance and increasing corporate value over the medium to long term, the Company has introduced a framework referred to as BBT (Board Benefit Trust), which is a share-based payment plan for the Company's directors from the year ended March 31, 2018.

(1) Overview of the plan

This is a performance-linked stock compensation plan to distribute the Company's shares and cash, which the Company's shares are converted at the market value through the trust. The number of shares and the amount of cash distributed are based on the number of evaluation points granted in accordance with the rules on distribution of shares to officers established by the Company. The timing of distribution of shares and cash to the directors is basically at their retirement.

There is no exercise price since the plan is distribution of the Company's shares and cash.

(2) Expense for share-based payment

The expense related to the stock compensation plan for the year ended March 31, 2018, is ¥51 million (US$486 thousand). The expense is recorded in "Selling, general and administrative expenses."

(3) Fair value of granted points

Fair value of granted points are not applicable, the points are not granted at March 31, 2018.

(4) Changes in the number of points

Changes in the number of points are not applicable, the points are not granted at March 31, 2018.

21. Equity and other equity items

(1) Common stock

The number of shares authorized and issued is as follows:

(Shares in thousands)

	Year ended March 31, 2017	Year ended March 31, 2018
The number of authorized shares		
Ordinary shares with non-par-value	246,000	246,000
The number of issued shares		
Balance at the beginning of the year	120,000	120,000
Increase	-	-
Balance at the end of the year	120,000	120,000

The number of treasury stock included in issued shares above as of March 31, 2017 and 2018, is 4,385 thousand shares and 4,485 thousand shares, respectively. Also, the issued shares above are fully paid and all the shares issued by the Company are non-par-value ordinary shares.
The Companies Act of Japan (the “Companies Act”) states that upon issuance of new shares, at least 50% of the amount raised will be credited to common stock, unless otherwise specified in the Companies Act.

The Company has implemented a stock split of the Company’s common stock in the ratio of 2-for-1, the effective date of which was April 1, 2018. Due to the stock split, the number of issued shares has increased by 120,000 thousand shares to 240,000 thousand shares, and the number of treasury stock has increased by 4,485 thousand shares to 8,970 thousand shares.

(2) Capital surplus and retained earnings

The Companies Act provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional legal capital surplus (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.
Under the Companies Act, in addition to year-end dividends, dividends of surplus can be made at any time during the fiscal year by resolution of the general meeting of shareholders. This Act provides that companies may determine dividends (excluding dividends-in-kind) by resolution of the Board of Directors if the articles of incorporation so stipulate, when certain requirements (having a Board of Corporate Auditors and a Board of Directors, appointing independent auditors, and the terms of service of the directors is prescribed as one year) are satisfied. The Act also provides that companies with Board of Directors may pay dividends (only cash dividends) by the resolution of the Board of Directors only once during a business year, if the articles of incorporation so stipulate.

22. Dividends

The Company pays year-end dividends and interim dividends. The year-end dividends are approved at the general meeting of shareholders and the interim dividends are determined by the Board of Directors.
Dividends paid for the years ended March 31, 2017 and 2018 are as follows:

Year ended March 31, 2017

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 Ordinary general meeting of shareholders	Ordinary shares	4,335	37.50	March 31, 2016	June 23 2016
November 1, 2016 Board of Directors	Ordinary shares	4,335	37.50	September 30, 2016	December 2, 2016

(2) Dividends for which the record date is in the current fiscal year but the effective date is in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 Ordinary general meeting of shareholders	Ordinary shares	4,913	42.50	March 31, 2017	June 22, 2017

Year ended March 31, 2018

(1) Dividends paid

Resolution	Class of shares	(Millions of Yen)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 21, 2017 Ordinary general meeting of shareholders	Ordinary shares	4,913	46,236	42.50	0.39	March 31, 2017	June 22, 2017
October 31, 2017 Board of Directors	Ordinary shares	4,913	46,236	42.50	0.39	September 30, 2017	December 4, 2017

(2) Dividends for which the record date is in the current fiscal year but the effective date is in the following fiscal year

Resolution	Class of shares	(Millions of Yen) Total dividends	(Thousands of U.S. Dollars)	(Yen) Dividends per share	(U.S. Dollars)	Record date	Effective date
June 20, 2018 Ordinary general meeting of shareholders	Ordinary shares	5,491	51,676	47.50	0.44	March 31, 2018	June 21, 2018

23. Construction contracts

Revenue from contracts for made-to-order software is recognized in accordance with IAS 11, "Construction Contracts". The amount due from (to) customers under construction contracts as of March 31, 2017 and 2018, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Amount due from customers for contract work	11,754	9,835	92,549
Amount due to customers for contract work	(6,168)	(3,440)	(32,373)
Construction costs incurred and profit recognized less losses recognized to date	15,128	13,686	128,794
Progress billings	(9,542)	(7,292)	(68,618)
Amount due from (to) customers	5,585	6,394	60,175

Advances received from customers for contract work amounted to ¥4,354 million and ¥3,715 million (US$34,963 thousand) as of March 31, 2017 and 2018, respectively. There are no retentions held by customers for contract work. Revenue from made-to-order software for the years ended March 31, 2017 and 2018, is ¥88,364 million and ¥92,381 million (US$869,311 thousand), respectively.

24. Other income and expenses

The breakdown of selling, general and administrative expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Employee benefit expenses	37,850	39,725	373,819
Depreciation and amortization expense	2,505	3,095	29,128
Research and development expenses	1,237	1,167	10,990
Others	23,918	25,176	236,906
Total	65,512	69,165	650,845

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Dividend income of insurance	80	72	679
Others	267	299	2,821
Total	348	371	3,500

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Net foreign exchange losses	285	100	949
Impairment losses	69	10	100
Compensation for damage	21	48	457
Others	46	24	234
Total	423	185	1,741

25. Government grants

Grants based on the “Yokohama city ordinance for business location incentives for specially designated areas” were certified at January 19, 2016. It was determined for the year ended March 31, 2016 that the total amount of the grants would be ¥428 million (US$4,030 thousand), which will be paid in installments over a period of 10 years. The grants are deducted from the cost of assets, and are recognized in profit or loss as decrease of depreciation during their useful lives.

Furthermore, the condition to receive the grants is that the business maintains its present location, in principle, over a period of 10 years from when the business relating to the business location was launched.

26. Financial income and costs

The breakdown of financial income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Interest income			
Financial assets measured at amortized cost	114	125	1,183
Others	7	14	139
Subtotal	121	140	1,322
Dividends received			
FVTOCI financial assets	99	113	1,066
FVTPL financial assets	6	-	-
Subtotal	105	113	1,066
Other financial income			
Financial assets measured at amortized cost	-	2	23
FVTPL financial assets	35	318	2,995
Subtotal	35	320	3,019
Total	263	574	5,408

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Interest expense			
Financial liabilities measured at amortized cost	112	85	806
Liabilities for retirement benefits	-	708	6,668
Subtotal	112	794	7,474
Other financial costs			
Financial assets measured at amortized cost	4	17	162
FVTPL financial assets	42	0	3
Subtotal	46	17	165
Total	158	811	7,640

27. Earnings per share

The calculation of basic earnings per share for the years ended March 31, 2017 and 2018, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Net profit attributable to CTC's shareholders	21,861	23,581	221,906

(Shares in thousands)

	Year ended March 31, 2017	Year ended March 31, 2018
Weighted-average number of ordinary shares	231,228	231,111

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Basic earnings per share	94.55	102.04	0.96

Note:
1. Diluted earnings per share are not presented as there are no potentially dilutive shares.
2. The Company has implemented a stock split of the Company's common stock in the ratio of 2-for-1, of which the effective date was April 1, 2018. Basic earnings per share are calculated assuming that the stock split was undertaken at the beginning of the year ended March 31, 2017.

28. Other comprehensive income

The breakdown of items in other comprehensive income (loss) and their respective associated tax effects (including non-controlling interests) are as follows:

	(Millions of Yen)		
	Year ended March 31, 2017		
	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income			
Amount arising during the year	(477)	145	(332)
Adjustment for the year	(477)	145	(332)
Remeasurement of defined benefit plans			
Amount arising during the year	967	(296)	671
Adjustment for the year	967	(296)	671
Exchange differences on translating foreign operations			
Amount arising during the year	(918)	-	(918)
Adjustment for the year	(918)	-	(918)
Cash flow hedges			
Amount arising during the year	(185)	57	(128)
Reclassification to profit or loss for the year	195	(60)	134
Adjustment for the year	9	(3)	6
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(4)	-	(4)
Reclassification to profit or loss for the year	-	-	-
Adjustment for the year	(4)	-	(4)
Total other comprehensive income for the year	(422)	(153)	(576)

	(Millions of Yen)		
	Year ended March 31, 2018		
	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income			
Amount arising during the year	620	(189)	430
Adjustment for the year	620	(189)	430
Remeasurement of defined benefit plans			
Amount arising during the year	363	(111)	252
Adjustment for the year	363	(111)	252
Exchange differences on translating foreign operations			
Amount arising during the year	465	-	465
Adjustment for the year	465	-	465
Cash flow hedges			
Amount arising during the year	(336)	103	(233)
Reclassification to profit or loss for the year	275	(84)	191
Adjustment for the year	(61)	18	(42)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	6	-	6
Reclassification to profit or loss for the year	(31)	-	(31)
Adjustment for the year	(24)	-	(24)
Total other comprehensive income for the year	1,363	(282)	1,080

	(Thousands of U.S. Dollars)		
	Year ended March 31, 2018		
	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income			
Amount arising during the year	5,835	(1,785)	4,049
Adjustment for the year	5,835	(1,785)	4,049
Remeasurement of defined benefit plans			
Amount arising during the year	3,421	(1,047)	2,374
Adjustment for the year	3,421	(1,047)	2,374
Exchange differences on translating foreign operations			
Amount arising during the year	4,375	-	4,375
Adjustment for the year	4,375	-	4,375
Cash flow hedges			
Amount arising during the year	(3,168)	969	(2,198)
Reclassification to profit or loss for the year	2,590	(792)	1,798
Adjustment for the year	(577)	176	(400)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	65	-	65
Reclassification to profit or loss for the year	(293)	-	(293)
Adjustment for the year	(228)	-	(228)
Total other comprehensive income for the year	12,827	(2,656)	10,171

29. Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

(Millons of Yen)

	April 1, 2017	Cash flows from financing activities	Non-cash changes		March 31, 2018
			Acquisition of assets by means of leases	Changes arising from obtaining or losing control	
Finance lease obligations	14,052	(2,473)	3,491	(52)	15,017
Total	14,052	(2,473)	3,491	(52)	15,017

(Thousands of U.S. Dollars)

	April 1, 2017	Cash flows from financing activities	Non-cash changes		March 31, 2018
			Acquisition of assets by means of leases	Changes arising from obtaining or losing control	
Finance lease obligations	132,231	(23,273)	32,851	(491)	141,317
Total	132,231	(23,273)	32,851	(491)	141,317

30. Financial instruments and disclosures

(1) Capital management

The Group's capital management policy is to establish and maintain a stable financial foundation in order to ensure management health and efficiency and to realize sustainable growth.
There is no significant capital restriction that applies to the Company (excluding general provisions of the Companies Act and other laws and regulations).

(2) Financial risk management policy

The Group, in its operations, is exposed to credit risk, market risk of foreign currency exchange rates and interest rates, liquidity risk and other financial risks. The Group undertakes risk management for each risk.
In addition, the Group utilizes derivatives, which consist of forward foreign exchange contracts, for the purpose of hedging foreign currency rate risks related to receivables/payables and forecasted transactions denominated in foreign currencies, but does not enter into such transactions for speculative purposes.

1) Credit risk management
Notes, receivables-trade, accounts receivables-trade, and lease receivables that are receivables arising from operating activities are exposed to customer credit risk. Deposits are mainly payments to the Parent Company and are exposed to the Parent Company's credit risk.
The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of due dates and balances of major customers by each business administration department, and by a credit control department that is independent from the business department, to identify the default risk of customers at an early stage.
The transaction data is reported quarterly to the management.
The maximum exposure for the Group's credit risk is the carrying amount after deduction of impairment loss presented in the consolidated financial statements.

a) Financial assets past due
An aging analysis of financial assets that are past due but not impaired as of March 31, 2017 and 2018, is as follows. As of the balance sheet date, the Group has determined that it is not necessary to recognize impairment loss on the following financial assets.

March 31, 2017

(Millions of Yen)

	Overdue amounts					
	Within 30 days	Over 30 days - within 60 days	Over 60 days - within 90 days	Over 90 days - within 120 days	Over 120 days	Total
Trade and other receivables	1,484	437	410	84	178	2,596

March 31, 2018

(Millions of Yen)

	Overdue amounts					
	Within 30 days	Over 30 days - within 60 days	Over 60 days - within 90 days	Over 90 days - within 120 days	Over 120 days	Total
Trade and other receivables	1,861	435	269	52	439	3,059

March 31, 2018

(Thousands of U.S. Dollars)

	Overdue amounts					
	Within 30 days	Over 30 days - within 60 days	Over 60 days - within 90 days	Over 90 days - within 120 days	Over 120 days	Total
Trade and other receivables	17,514	4,099	2,535	496	4,139	28,786

b) Movement in allowance for doubtful accounts

In the case of impairment of financial assets, the Group does not directly write off such assets, instead, it records an allowance for doubtful accounts. Movement in allowance for doubtful accounts is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Balance at the beginning of the year	68	64	609
Increase for the year	8	9	84
Decrease for the year (utilization)	(10)	(1)	(11)
Decrease for the year (unused)	(0)	(11)	(105)
Others	(1)	0	4
Balance at the end of the year	64	61	582

The balances of financial assets individually determined to be impaired by reviewing customers' financial conditions, the status of delayed payments, and others as of March 31, 2017 and 2018, are ¥66 million and ¥ 62 million (US$585 thousand), respectively. For the financial assets, the Group recorded an allowance for doubtful accounts as of March 31, 2017 and 2018, of ¥54 million and ¥50 million (US$470 thousand), respectively.

2) Market risk management

a) Interest rate risk

The Group covers its demand for funds principally by cash on hand. Therefore, the balance of interest-bearing debt is small, and the impact of changes in interest rate on the Group's profit/loss is immaterial.

b) Foreign currency exchange rate risk

The Group is exposed to exchange rate risk related to transactions in foreign currencies due to its involvement in import/export trading. Therefore, the Group strives to minimize foreign currency exchange rate risk through hedge transactions that utilize such derivatives as forward foreign exchange contracts. Also, the Group utilizes foreign currency bank deposits that are held within the limits of actual demand for the purpose of hedging foreign currency exchange rate risk on certain forecasted transactions denominated in foreign currencies.

Exposure to foreign currency exchange rate risk (net amount) at the end of the years ended March 31, 2017 and 2018, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017		March 31, 2018	
Balance of foreign exchange (short-term)	(1,225)	(11,186)	(1,271)	(11,964)
Balance of foreign exchange (long-term)	-	-	-	-

Notes:

1. Balance of foreign exchange is the amount in foreign currencies for which the foreign currency exchange rate risk is not hedged with derivatives, such as forward exchange contracts, in terms of receivables/payables and firm commitments denominated in foreign currencies in import/export transactions (except for foreign currency bank deposits which are held for the purpose of hedging). The balance of foreign exchange that is expected to be settled within one year is classified as short-term, while the balance of foreign exchange that is expected to be settled after one year or later is classified as long-term.
2. Positive balances represent receivables and negative balances represent payables.

Foreign currency sensitivity analysis

Foreign currency sensitivity analysis for the balance of foreign exchange (short and long-term) in U.S. dollars is as follows. The analysis discloses the effects on profit before tax if the value of the Japanese yen increased by 1% and all other variables remained constant.

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Profit before tax	12	12	119

c) Stock price fluctuation risk

The Group holds equity instruments such as marketable securities to strengthen relationships with customers, and these investments are exposed to stock price fluctuation risk. The Group regularly assesses current market prices and financial conditions of issuers and continuously reviews its holdings.

Stock price fluctuation risk sensitivity analysis

Stock price fluctuation risk sensitivity analysis for listed securities held by the Group is as follows. The analysis discloses effects on other comprehensive income (before tax effect) if stock price of listed securities had been 10% lower and all other variables remained constant.

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2017	March 31, 2018	March 31, 2018
Other comprehensive income	(553)	(617)	(5,807)

3) Liquidity risk management

The Group manages its liquidity risk based on an analysis of cash flows received from each of its departments. The Group has created a cash pool that centralizes the Group's funds to provide efficient and stable management of funds.

a) Non-derivative financial liabilities

The breakdown of non-derivative financial liabilities by maturity is as follows:

March 31, 2017

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year - within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	48,222	48,222	48,222	-	-
Other financial liabilities	5,580	5,914	5,914	-	-
Non-current financial liabilities	10,016	10,557	-	9,446	1,110

March 31, 2018

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year – within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	48,572	48,572	48,572	-	-
Other financial liabilities	5,763	6,121	6,121	-	-
Non-current financial liabilities	10,912	11,550	-	10,026	1,524

March 31, 2018

(Thousands of U.S. Dollars)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year – within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	457,065	457,065	457,065	-	-
Other financial liabilities	54,230	57,607	57,607	-	-
Non-current financial liabilities	102,687	108,693	-	94,345	14,348

b) Derivatives

The breakdown of derivative financial liabilities by maturity is as follows:

March 31, 2017

(Millions of Yen)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	15	-	-	15
	Expenditures	(78)	-	-	(78)

March 31, 2018

(Millions of Yen)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	135	-	-	135
	Expenditures	(229)	-	-	(229)

March 31, 2018

(Thousands of U.S. Dollars)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	1,277	-	-	1,277
	Expenditures	(2,154)	-	-	(2,154)

(3) Fair value of financial instruments

1) Fair value measurements

Trade and other receivables

Fair value of lease receivables is measured at the present value of total expected lease receivables, discounted by the rate of interest to be used when the lessor newly contracts a similar lease transaction and is classified as Level 2. The fair values of trade and other receivables other than lease receivables approximate their carrying amount because of the short maturities of these receivables and are classified as Level 2 under fair value measurement and disclosure.

Other financial assets, other financial liabilities, and non-current financial liabilities

Fair value of marketable securities, among other financial assets measured at fair value, is measured at quoted price in active markets and classified as Level 1. When there is no quoted price in active markets, these financial assets are measured by valuation techniques based on discounted cash flows, revenues, benefits, and equity, and are classified as Level 2 or Level 3 corresponding to the input used.

Fair value of derivatives is measured at prices obtained from financial institutions and is classified as Level 2.

Fair value of other financial assets measured at amortized cost approximates their carrying amount and is classified as Level 2 under fair value measurement and disclosure because the fair value is calculated using observable market data.

Fair value of lease obligations, among other financial liabilities and non-current financial liabilities measured at amortized cost, is measured at the present value of total expected lease payments, discounted by the rate of interest supposed to be used when the lessee newly contracts a similar lease transaction and is classified as Level 2. The fair value of other financial liabilities and non-current financial liabilities other than lease obligations approximates their carrying amount and is classified as Level 2 under fair value measurement and disclosure because the fair value is calculated using observable market data.

2) Fair value of financial instruments by category

The carrying amount and fair value of major financial instruments by category are as follows:

	(Millions of Yen)		(Millions of Yen)		(Thousands of U.S. Dollars)	
	March 31, 2017		March 31, 2018		March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	115,473	115,567	130,370	130,423	1,226,784	1,227,287
Other financial assets	32,864	32,864	31,077	31,077	292,437	292,437
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	5,653	5,653	6,465	6,465	60,838	60,838
FVTPL financial assets	489	489	679	679	6,393	6,393
Financial liabilities measured at amortized cost						
Other financial liabilities	5,580	5,591	5,763	5,770	54,230	54,297
Non-current financial liabilities	10,016	10,083	10,912	10,979	102,687	103,318
Financial liabilities measured at fair value						
Other financial liabilities						
FVTPL financial liabilities	78	78	229	229	2,154	2,154

3) Fair value measurements recognized in the consolidated financial statements

The following table provides an analysis of the fair value hierarchy reflecting the significance of inputs used when measuring fair value of financial instruments that have been measured at fair value on a recurring basis.
Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized at the date of the event or change in circumstances that caused the transfer.

(Millions of Yen)

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	5,534	26	92	5,653
FVTPL financial assets	-	15	474	489
Total assets	5,534	41	566	6,142
Liabilities:				
FVTPL financial liabilities	-	78	-	78
Total liabilities	-	78	-	78

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2017.

(Millions of Yen)

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	6,171	29	263	6,465
FVTPL financial assets	-	135	543	679
Total assets	6,171	165	807	7,144
Liabilities:				
FVTPL financial liabilities	-	229	-	229
Total liabilities	-	229	-	229

(Thousands of U.S. Dollars)

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	58,077	277	2,483	60,838
FVTPL financial assets	-	1,277	5,116	6,393
Total assets	58,077	1,554	7,599	67,231
Liabilities:				
FVTPL financial liabilities	-	2,154	-	2,154
Total liabilities	-	2,154	-	2,154

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2018.

4) Financial instruments classified as Level 3

For financial instruments classified as Level 3, an appropriate assessor performs an evaluation and analyzes the result of the evaluation based on the valuation method and procedures established by the Company.

A reconciliation of financial instruments classified as Level 3 is as follows:

(Millions of Yen)

	Year ended March 31, 2017	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2016	130	404
Total gains or losses		
Profit or loss	-	35
Other comprehensive income	(33)	-
Purchases	-	200
Disposals	(0)	-
Distribution	-	(164)
Others	(5)	(1)
March 31, 2017	92	474
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2017 – net	-	35

(Millions of Yen)

	Year ended March 31, 2018	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2017	92	474
Total gains or losses		
Profit or loss	-	317
Other comprehensive income	(16)	-
Purchases	197	200
Disposals	(10)	-
Distribution	-	(445)
Others	-	(2)
March 31, 2018	263	543
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2018 – net	-	(24)

(Thousands of U.S. Dollars)

	Year ended March 31, 2018	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2017	872	4,461
Total gains or losses		
Profit or loss	-	2,991
Other comprehensive income	(153)	-
Purchases	1,858	1,881
Disposals	(94)	-
Distribution	-	(4,196)
Others	-	(22)
March 31, 2018	2,483	5,116
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2018 – net	-	(230)

Gains or losses recognized in profit or loss are included in “Financial income” or “Financial costs” in the consolidated statement of income. Gains or losses (net of tax effect) recognized as other comprehensive income are included in “Changes in net fair value of financial assets measured through other comprehensive income” in the consolidated statement of comprehensive income.

For financial assets classified as Level 3, significant changes in fair value are not expected if the unobservable inputs would be changed to reasonably possible alternative assumptions.

(4) Derivative instruments and hedging activities

The Group uses forward foreign exchange contracts to hedge the risk of variability in the future cash flows of recognized assets and liabilities, unrecognized firm commitments or forecasted transactions denominated in foreign currencies. The changes in fair value of derivative instruments that are designated as cash flow hedges are recognized in other comprehensive income (“cash flow hedges”) if the hedges are considered highly effective. This treatment continues until the variability in future cash flows of unrecognized forecasted transactions or the recognized assets or liabilities designated as the hedged items is recognized. The ineffective portion of the hedge is also recognized in profit or loss.

Accumulated amounts of other comprehensive income that are expected to be reclassified to profit or loss within one year due to cash flow hedges (net tax effect) as of March 31, 2017 and 2018, are losses of ¥9 million and ¥52 million (US$491 thousand), respectively.

Fair values of derivatives as of March 31, 2017 and 2018, are as follows:

(Millions of Yen)

	March 31, 2017			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	15	77	-	0

(Millions of Yen)

	March 31, 2018			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	135	229	-	-

(Thousands of U.S. Dollars)

	March 31, 2018			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	1,277	2,154	-	-

31. Related party transactions

(1) Transactions with related parties

The Group conducted transactions with related parties as follows:

Year ended March 31, 2017

(Millions of Yen)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contracts (Fixed term)	(Funds deposited) 6,000	25,000
			(Repayment of deposit) 1,000	
		Deposit contracts (Withdrawable anytime)	-	359

Year ended March 31, 2018

(Millions of Yen)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contracts (Fixed term)	(Funds deposited) -	23,000
			(Repayment of deposit) 2,000	
		Deposit contracts (Withdrawable anytime)	-	16,944

Year ended March 31, 2018

(Thousands of U.S. Dollars)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contracts (Fixed term)	(Funds deposited) -	216,429
			(Repayment of deposit) 18,819	
		Deposit contracts (Withdrawable anytime)	-	159,429

Notes:

1. The interest rates of deposit contracts are individually determined, considering the market rate of interest.
2. Transaction amounts of deposit contracts (withdrawable anytime) are not disclosed above because changes in balances of deposits and withdrawals frequently occur while using cash management services of ITOCHU Corporation.

(2) Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Benefits and bonuses	337	359	3,384
Total	337	359	3,384

32. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Voting shares (%)
			March 31, 2018
CTC TECHNOLOGY CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTC SYSTEM MANAGEMENT CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTCSP CORPORATION	Distribution and Enterprise business	Setagaya-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	100.0
Asahi Business Solutions Corp.	Distribution and Enterprise business	Sumida-ku, Tokyo	51.0
CTC Global (Thailand) Ltd.	Other	Bangkok, Thailand	100.0
CTC GLOBAL SDN. BHD.	Other	Kuala Lumpur, Malaysia	70.0
CTC GLOBAL PTE. LTD.	Other	Singapore	70.0
ITOCHU Techno-Solutions America, Inc.	Other	Santa Clara, California, U.S.A.	70.0
PT. CTC Techno Solutions Indonesia	Other	Jakarta, Indonesia	100.0 (99.0)

Note:
Figures in parentheses are indirect voting share percentages.

33. Commitments

There are no contractual commitments for purchase of assets after the end of each fiscal year at March 31, 2017 and 2018.

34. Contingent liabilities

The Group provides guarantees on the following loans from financial institutions to the Group's employees:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2018
Guarantees for employees	66 (31 people)	49 (28 people)	463 (28 people)

The guarantees will expire through February 27, 2024. The Group would be required to assume payment obligations under the contracts if the Group's employees are unable to repay the housing loans. The Group's obligations under guarantees are secured by the employees' houses.

35. Subsequent Event

Stock split

At the Board of Directors' meeting held on February 1, 2018, the Board of Directors resolved to implement a stock split, of which the effective date was April 1, 2018 .

(1) Purpose of the stock split

The purpose of the stock split is to create an environment in which it is easier for investors to invest, expand the Company's investor base, and enhance the liquidity of its stock by reducing the price per unit of shares.

(2) Outline of the stock split

(a) Method of the stock split

The record date of the stock split is March 31, 2018. (The substantial record date is March 30, 2018, since March 31, 2018, was a non-business day for the shareholder registry administrator.) And the stock split involved splitting the common stock owned by shareholders entered or recorded in the last register of shareholders as of the record date in the ratio of 2-for-1.

(b) Increase in the number of shares by the stock split

The number of issued shares before stock split:	120,000,000 shares
Increase in the number of shares by stock split:	120,000,000 shares
The number of issued shares after stock split:	240,000,000 shares
The number of authorized shares after stock split:	492,000,000 shares

(c) Schedule of the stock split

Announcement of the record date:	Friday, March 9, 2018
Record date:	Saturday, March 31, 2018 (The substantial record date is March 30, 2018, since March 31, 2018, was a non-business day for the shareholder registry administrator.)
Effective date:	Sunday, April 1, 2018

The information noted in "Note 27. Earnings per share" is calculated assuming that the stock split was undertaken at the beginning of the year ended March 31, 2017.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ITOCHU Techno-Solutions Corporation:

We have audited the accompanying consolidated statement of financial position of ITOCHU Techno-Solutions Corporation and its subsidiaries as of March 31, 2018, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOCHU Techno-Solutions Corporation and its subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2(3) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 21, 2018

Member of
Deloitte Touche Tohmatsu Limited

CTC

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