

# Consolidated Financial Statements

Fiscal Year Ended March 31, 2021

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***ITOCHU Techno-Solutions Corporation  
and Subsidiaries***

*Consolidated Financial Statements  
for the Year Ended March 31, 2021,  
and Independent Auditor's Report*

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of ITOCHU Techno-Solutions Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>1. <u>Revenue recognition for product sales which occur near year-end (Note 3. "Significant accounting policies (15) Revenue from contracts with customers" to the consolidated financial statements)</u></p> <p>ITOCHU Techno-Solutions Corporation (the "Company") is engaged in business relating to the sale of products such as hardware and software, system development and infrastructure construction.</p> <p>Product sales, which constituted about 40% of the Company's total revenue of 479,878 million yen for the year ended March 31, 2021, are generally recorded in large amounts near year-end. This is due to frequent receipt of customer's acceptance near year-end. The Company often delivers products and system releases to its main customers, being domestic companies, by the end of their fiscal year, which is typically March 31.</p> <p>As described in Note 3. "Significant accounting policies (15) Revenue from contracts with customers" to the consolidated financial statements, the Company determines that it satisfies the performance obligation related to product sales when it meets the conditions of delivery under the contract, such as delivery of the hardware, software or other products, or receipt of acceptance inspection. There are some cases where the Company engages in multiple element arrangements that includes not only product sales but also related system development and infrastructure construction. Since multiple element arrangements may be conducted in multiple contracts rather than a single contract, it is important to identify the appropriate number of performance obligations.</p> <p>If product sales related to multiple element arrangements are recorded near year-end, complex judgment is required regarding the unit and timing of revenue recognition. For the above reasons, we identified revenue recognition for product sales which occur near year-end as a key audit matter.</p>	<p>The audit procedures we performed to address this key audit matter included the following, among others:</p> <ul style="list-style-type: none"> <li>• We tested the design, implementation, and operating effectiveness of controls over complete identification of the relevant contracts and identification of performance obligations in the contract and controls over recognition of sales based on the satisfaction of performance obligations such as product delivery to customers.</li> <li>• For product sales over a certain amount recorded near year-end, in order to test the completeness of multiple element arrangements identified, we inspected the contracts agreed upon with the customers and performed inquiry with the related department, and checked if there are related products, related system development or infrastructure construction. We also evaluated whether the Company appropriately combined contracts and identified performance obligations.</li> <li>• We tested whether revenue was recognized in the correct period by inspecting supporting documents such as contracts, acceptance slips and invoices, testing whether there is a discrepancy between the planned sales date and the sales recording date, and evaluating whether the billing period is unreasonable.</li> </ul>



Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>2. <u>Assessment of goodwill for PT. Nusantara Compnet Integrator (Note 11. "Goodwill and intangible assets" to the consolidated financial statements)</u></p> <p>Goodwill of 11,702 million yen was recorded in the consolidated statement of financial position as of March 31, 2021, which resulted from the acquisition of consolidated subsidiaries that operate businesses in Association of South-East Asian Nations, where high information technology ("IT") market growth is expected. As described in Note 11. "Goodwill and intangible assets" to the consolidated financial statements, goodwill recognized with the acquisition of PT. Nusantara Compnet Integrator, which operates IT consulting business and system integration in Indonesia, was recorded at 8,232 million yen, accounting for 70.3% of the total goodwill balance.</p> <p>According to International Accounting Standard (IAS) 36 "Impairment of Assets," the Company is required to perform an impairment test annually, and whenever there is an indication of impairment. The recoverable amount of the cash-generating units in the impairment test of goodwill is determined using the value in use model based on estimate future cash flows over the next five years approved by management. The estimated future cash flows beyond the five years have been extrapolated using a 0% per annum growth rate.</p> <p>The PT. Nusantara Compnet Integrator's value in use estimates include key assumptions such as increased orders correlating with IT market growth and the timing of when the COVID-19 pandemic will subside. If the achievement of the business plan on the premise of increased sales and profits due to increased orders is significantly delayed due to fluctuations in the above assumptions, the recoverable amount may fall below the carrying amount. Hence, the value in use is subject to high estimation uncertainty. Therefore, we identified the assessment of goodwill for PT. Nusantara Compnet Integrator as a key audit matter.</p>	<p>The audit procedures we performed to address this key audit matter included the following, among others:</p> <ul style="list-style-type: none"> <li>• We tested the design, implementation, and operating effectiveness of controls over the assessment and approval of goodwill impairment recognition related to the cash-generating unit.</li> <li>• We evaluated the effectiveness of management's prior year estimation process by comparing the cash flow projections estimated by management in the prior year with the actual results of the current year.</li> <li>• We inspected the business plan, which is the basis of the five-year cash projections, and determined whether it was supportable with sufficient audit evidence and approved by management.</li> <li>• For the growth outlook of Indonesia's IT market, we obtained an understanding of the market environment, and evaluated the consistency with available external data. For the increase in orders, we obtained an understanding of the Company's business strategy and competitive situation and performed comparative analysis of past results and market growth outlook.</li> <li>• We evaluated the consistency of management's assumptions regarding COVID-19 with available external data.</li> <li>• With the assistance of our valuation specialists, we evaluated the appropriateness of the methodology used to compute discount rate, and traced input data to external data sources.</li> <li>• We evaluated the impact of the change in management's assumptions on recognition of an impairment loss.</li> </ul>

## **Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*

June 18, 2021

## 1. Consolidated Financial Statements

### (1) Consolidated Statement of Financial Position

	Notes	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		March 31, 2020	March 31, 2021	March 31, 2021
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	7	74,615	80,944	731,077
Trade and other receivables	8, 30 35	137,736	140,171	1,265,995
Inventories	9	29,044	41,197	372,090
Current tax assets		76	249	2,257
Other current financial assets	13, 30 35	20,301	24,822	224,187
Other current assets		62,963	66,291	598,734
Total current assets		324,736	353,677	3,194,342
<b>Non-current assets</b>				
Property, plant and equipment	10, 17 35	55,382	45,009	406,512
Goodwill	11	10,406	11,702	105,693
Intangible assets	11, 17	8,477	7,319	66,104
Investments accounted for using the equity method	5, 12	5,035	6,377	57,602
Other non-current financial assets	13, 30, 35	18,721	21,379	193,090
Deferred tax assets	14	13,910	13,777	124,431
Other non-current assets		2,145	3,506	31,670
Total non-current assets		114,080	109,071	985,107
<b>Total assets</b>	5	<b>438,816</b>	<b>462,748</b>	<b>4,179,449</b>

	Notes	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		March 31, 2020	March 31, 2021	March 31, 2021
Liabilities and equity				
Current liabilities				
Trade and other payables	15, 30	56,788	55,983	505,630
Other current financial liabilities	16, 29 30, 35	14,818	12,859	116,143
Income taxes payable		11,696	11,295	102,020
Liabilities for employee benefits		21,761	22,305	201,454
Provisions	19	995	4,837	43,687
Other current liabilities		56,545	65,523	591,798
Total current liabilities		162,604	172,804	1,560,734
Non-current liabilities				
Non-current financial liabilities	16, 29 30, 35	31,222	22,169	200,229
Liabilities for employee benefits	18	3,839	3,793	34,262
Provisions	19	2,198	993	8,972
Deferred tax liabilities	14	387	378	3,416
Total non-current liabilities		37,647	27,334	246,881
Total liabilities		200,252	200,139	1,807,615
Equity				
Common stock	21	21,763	21,763	196,563
Capital surplus	21	30,526	32,048	289,455
Treasury stock	21	(9,613)	(9,582)	(86,546)
Retained earnings	21	188,149	205,402	1,855,154
Other components of equity		846	5,167	46,671
Total shareholders' equity		231,672	254,799	2,301,297
Non-controlling interests		6,892	7,809	70,536
Total equity		238,564	262,609	2,371,833
Total liabilities and equity		438,816	462,748	4,179,449

See notes to the consolidated financial statements.

**(2) Consolidated Statements of Income and Comprehensive Income**

**Consolidated Statement of Income**

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Revenue	5, 23	487,018	479,878	4,334,164
Cost of sales		(368,967)	(358,412)	(3,237,111)
Gross profit		118,051	121,465	1,097,053
Other income and expenses				
Selling, general and administrative expenses	24	(75,474)	(79,329)	(716,484)
Other income	24	849	1,844	16,660
Other expenses	24	(1,758)	(356)	(3,216)
Total other income and expenses		(76,383)	(77,840)	(703,040)
Operating income		41,667	43,625	394,012
Financial income	5, 26	343	567	5,121
Financial costs	5, 26	(616)	(690)	(6,237)
Share of profit of associates accounted for using the equity method	5, 12	146	409	3,697
Gains on sales and remeasurement of investments in subsidiaries and associates		-	41	374
Profit before tax	5	41,541	43,952	396,969
Income tax expense	14	(13,080)	(13,108)	(118,397)
Net profit		28,461	30,843	278,572
Net profit attributable to:				
CTC's shareholders		28,451	30,486	275,345
Non-controlling interests		9	357	3,227

Earnings per share attributable to CTC's shareholders		(Yen)	(Yen)	(U.S. Dollars)
Basic earnings per share for the year	27	123.15	131.95	1.19
Diluted earnings per share for the year	27	123.15	131.94	1.19

See notes to the consolidated financial statements.



### Consolidated Statement of Comprehensive Income

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Net profit		28,461	30,843	278,572
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	1,367	2,556	23,086
Remeasurement of defined benefit plans	28	(236)	1,098	9,921
Share of other comprehensive income of associates accounted for using the equity method	12, 28	0	9	85
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	28	(1,977)	2,206	19,932
Cash flow hedges	28	(32)	201	1,816
Share of other comprehensive income of associates accounted for using the equity method	12, 28	(9)	27	243
Total other comprehensive income for the year, net of tax effect		(888)	6,099	55,087
Total comprehensive income		27,572	36,942	333,659
Total comprehensive income attributable to:				
CTC's shareholders		28,151	35,909	324,331
Non-controlling interests		(578)	1,032	9,328

See notes to the consolidated financial statements.

(3) Consolidated Statement of Changes in Equity

(Millions of Yen)

	Notes	Shareholders' equity										Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity				Total shareholders' equity			
						Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges	Re-measurement of defined benefit plans				
April 1, 2019		21,763	33,193	(9,622)	174,460	(256)	1,160	1	-	220,701	4,404	225,105	
Cumulative effect of change in accounting policy	2	-	-	-	(2,151)	-	-	-	-	(2,151)	(4)	(2,155)	
Restated balance		21,763	33,193	(9,622)	172,309	(256)	1,160	1	-	218,550	4,399	222,949	
Net profit		-	-	-	28,451	-	-	-	-	28,451	9	28,461	
Other comprehensive income, net of tax effect		-	-	-	-	(1,399)	1,367	(32)	(236)	(300)	(588)	(888)	
Total comprehensive income		-	-	-	28,451	(1,399)	1,367	(32)	(236)	28,151	(578)	27,572	
Payment of dividends	22	-	-	-	(12,370)	-	-	-	-	(12,370)	(82)	(12,453)	
Purchase of treasury stock		-	-	(0)	-	-	-	-	-	(0)	-	(0)	
Disposal of treasury stock		-	-	8	-	-	-	-	-	8	-	8	
Share-based payment transactions	20	-	60	-	-	-	-	-	-	60	-	60	
Changes in purchase of shares of subsidiaries	6	-	-	-	-	-	-	-	-	-	3,154	3,154	
Put options held by non-controlling shareholders	6	-	(2,727)	-	-	-	-	-	-	(2,727)	-	(2,727)	
Transfer to retained earnings from other components of equity		-	-	-	(240)	-	4	-	236	-	-	-	
Total transactions with owners		-	(2,667)	8	(12,611)	-	4	-	236	(15,029)	3,071	(11,957)	
March 31, 2020		21,763	30,526	(9,613)	188,149	(1,655)	2,532	(31)	-	231,672	6,892	238,564	

(Millions of Yen)

	Notes	Shareholders' equity								Non-controlling interests	Total equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity						Total shareholders' equity
						Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges	Re-measurement of defined benefit plans			
April 1, 2020		21,763	30,526	(9,613)	188,149	(1,655)	2,532	(31)	-	231,672	6,892	238,564
Net profit		-	-	-	30,486	-	-	-	-	30,486	357	30,843
Other comprehensive income, net of tax effect		-	-	-	-	1,557	2,566	201	1,098	5,423	675	6,099
Total comprehensive income		-	-	-	30,486	1,557	2,566	201	1,098	35,909	1,032	36,942
Payment of dividends	22	-	-	-	(14,336)	-	-	-	-	(14,336)	(115)	(14,451)
Purchase of treasury stock		-	-	(0)	-	-	-	-	-	(0)	-	(0)
Disposal of treasury stock		-	0	31	-	-	-	-	-	31	-	31
Share-based payment transactions	20	-	45	-	-	-	-	-	-	45	-	45
Changes in purchase of shares of subsidiaries	6	-	-	-	-	-	-	-	-	-	-	-
Put options held by non-controlling shareholders	6	-	1,477	-	-	-	-	-	-	1,477	-	1,477
Transfer to retained earnings from other components of equity		-	-	-	1,102	-	(4)	-	(1,098)	-	-	-
Total transactions with owners		-	1,522	31	(13,233)	-	(4)	-	(1,098)	(12,782)	(115)	(12,897)
March 31, 2021		21,763	32,048	(9,582)	205,402	(97)	5,094	169	-	254,799	7,809	262,609

(Thousands of U.S. Dollars)

	Notes	Shareholders' equity										Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity				Total shareholders' equity			
						Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges	Re-measurement of defined benefit plans				
April 1, 2020		196,563	275,704	(86,829)	1,699,331	(14,951)	22,877	(281)	—	2,092,413	62,251	2,154,665	
Net profit		-	-	-	275,345	-	-	-	-	275,345	3,227	278,572	
Other comprehensive income, net of tax effect		-	-	-	-	14,070	23,176	1,816	9,921	48,986	6,101	55,087	
Total comprehensive income		-	-	-	275,345	14,070	23,176	1,816	9,921	324,331	9,328	333,659	
Payment of dividends	22	-	-	-	(129,480)	-	-	-	-	(129,480)	(1,043)	(130,524)	
Purchase of treasury stock		-	-	(4)	-	-	-	-	-	(4)	-	(4)	
Disposal of treasury stock		-	0	287	-	-	-	-	-	287	-	287	
Share-based payment transactions	20	-	407	-	-	-	-	-	-	407	-	407	
Changes in purchase of shares of subsidiaries	6	-	-	-	-	-	-	-	-	-	-	-	
Put options held by non-controlling shareholders	6	-	13,342	-	-	-	-	-	-	13,342	-	13,342	
Transfer to retained earnings from other components of equity		-	-	-	9,958	-	(37)	-	(9,921)	-	-	-	
Total transactions with owners		-	13,750	282	(119,521)	-	(37)	-	(9,921)	(115,447)	(1,043)	(116,490)	
March 31, 2021		196,563	289,455	(86,546)	1,855,154	(880)	46,016	1,535	-	2,301,297	70,536	2,371,833	

See notes to the consolidated financial statements.



#### (4) Consolidated Statement of Cash Flows

	Notes	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Cash flows from operating activities				
Profit before tax		41,541	43,952	396,969
Adjustments for:				
Depreciation and amortization expense		16,240	19,664	177,609
Impairment losses		1,124	94	857
Interest and dividend income		(342)	(422)	(3,815)
Interest expenses		567	581	5,254
Share of profit of associates accounted for using the equity method		(146)	(409)	(3,697)
Gains on disposal and remeasurement of investments in subsidiaries and associates		-	(41)	(374)
Increase in trade and other receivables		(11,771)	(6,640)	(59,978)
Decrease (increase) in inventories		1,648	(11,965)	(108,072)
Increase (decrease) in trade and other payables		831	(1,252)	(11,313)
Other-net		12,579	8,855	79,979
Subtotal		62,273	52,416	473,417
Interest and dividends received		693	554	5,010
Interest paid		(413)	(415)	(3,750)
Income taxes paid		(12,450)	(15,290)	(138,098)
Net cash provided by operating activities		50,103	37,266	336,579
Cash flows from investing activities				
Purchases of property, plant and equipment		(4,921)	(3,878)	(35,028)
Payments for retirement of property, plant and equipment		(26)	(17)	(157)
Proceeds from sales of property, plant and equipment		23	68	615
Purchases of intangible assets		(2,056)	(1,818)	(16,427)
Proceeds from sales of intangible assets		3	8	76
Payments for leasehold and guarantee deposits		-	(3,774)	(34,089)
Proceeds from refund of leasehold and guarantee deposits		-	273	2,467
Purchases of investment securities		(381)	(603)	(5,451)
Proceeds from sales of investment securities		307	597	5,394
Purchase of shares of subsidiaries	6	(6,872)	-	-
Purchase of shares of associates		(3,684)	(1,018)	(9,196)
Proceeds from dividends of investment partnerships		64	95	866
Proceeds from government grants	25	42	42	386
Other-net		314	(95)	(864)
Net cash used in investing activities		(17,188)	(10,120)	(91,408)
Cash flows from financing activities				
Net decrease in short-term borrowings	29	(53)	(142)	(1,290)
Purchases of treasury stock		(0)	(0)	(4)
Proceeds from sale of treasury stock		-	0	0
Proceeds from sale and leaseback		7,337	4,909	44,337
Repayments of lease liabilities	29	(11,961)	(11,373)	(102,719)
Dividends paid to CTC's shareholders	22	(12,363)	(14,339)	(129,510)
Dividends paid to non-controlling interests		(82)	(115)	(1,043)
Net cash used in financing activities		(17,123)	(21,062)	(190,230)
Effects of exchange rate changes on cash and cash equivalents		(55)	246	2,229
Net increase in cash and cash equivalents		15,736	6,329	57,169
Cash and cash equivalents at the beginning of the year		58,878	74,615	673,907
Cash and cash equivalents at the end of the year	7	74,615	80,944	731,077

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 (<https://www.ctc-g.co.jp/>). The consolidated reporting period of the Company and its subsidiaries (the “Group”) is year ended March 31, 2021. 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 11, 2021.

#### (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, 2021, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110.72 = US\$1 (the official exchange rate at March 31, 2021, announced by Mizuho Bank, Ltd.).

#### (4) Early adoption of new or amended IFRSs or Interpretations

There are no new or amended IFRSs or Interpretations that were early adopted by the Group.



### 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 currently 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 investments in associates 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 periods for the associates subject to the equity method are December 31 and 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 fair value through other comprehensive income (“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 financial asset is held within a business model whose objective is achieved by collecting contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

Equity instruments 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 (“equity instruments at FVTOCI”).

Equity instruments measured at fair value that are investments in the common stock of other companies and are not held with the objective of obtaining gains on short-term sales are, in principle, classified as equity instruments at FVTOCI. Other financial assets measured at fair value are classified as FVTPL financial assets.

Debt instruments measured at fair value are classified as financial assets measured at FVTOCI (“debt instruments at FVTOCI”) if the following two conditions are met, and as FVTPL financial assets if they are not.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 equity instruments at FVTOCI and debt instruments at FVTOCI, 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 (“Net changes in 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 equity instruments at FVTOCI are sold, the difference between the carrying amount and the consideration received is recognized as other comprehensive income (“Net changes in fair value of financial assets measured through other comprehensive income”) and the balance of accumulated other comprehensive income on the FVTOCI financial assets recognized by the point of the sale is reclassified to retained earnings.

Any changes in the fair value of debt instruments at FVTOCI, excluding impairment losses (and reversed impairments) and foreign exchange gains and losses, are recognized as other comprehensive income until the debt instruments at FVTOCI are derecognized or reclassified.

When debt instruments at FVTOCI are sold, the difference between the carrying amount and the consideration received is recognized as other comprehensive income (“Net changes in fair values of financial assets measured through other comprehensive income”) and the balance of accumulated other comprehensive income on the debt instruments at FVTOCI recognized by the point of the sale is reclassified to net profit or loss.

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 rewards are substantially 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 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 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. For 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 effective. In addition, the Group subsequently continues to evaluate whether or not the derivative will be 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 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.

At the end of each fiscal year, 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: 3–5 years and other intangible assets: 2–10 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.

The Group assesses whether an agreement is or contains a lease based on examining the economic nature of transactions regardless of whether an agreement's legal form is that of a lease agreement.

In lease transactions, the right-of-use assets (presented in the respective accounts of Property, plant and equipment or Intangible assets) and lease liabilities (presented in the respective accounts of Other current financial liabilities or Non-current financial liabilities) are recognized on the commencement date of the lease. Lease liabilities are measured as the discounted present value of total expected lease payments as of the commencement date of the lease. Right-of-use assets are measured by making an adjustment for lease payments paid before the commencement date of the lease and initial direct costs to the originally measured amount of lease liabilities.

Total lease payments are categorized into amounts equivalent to the principal and interest of lease liabilities, and the interest method is used to measure the amount equivalent to the interest of lease payments. Right-of-use assets are depreciated by the straight-line method over the estimated useful life of the underlying leased assets if the ownership of the underlying leased assets is transferred to the lessee by the end of the lease term, or if the future exercise of a purchase option is reasonably certain. In other cases, right-of-use assets are depreciated by the straight-line method



over shorter of the estimated useful life of the right-of-use assets from the commencement date of lease or the lease term.

Short-term leases, the lease term of which ends within 12 months, and leases of low-value assets are recognized as the expenses by such as the straight-line method over the lease term without recognizing right-of-use assets and lease liabilities.

## **2) Leases as lessor**

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

The Group assesses whether an agreement is or contains a lease based on examining the economic nature of transactions regardless of whether 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, 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**

On every last day of the fiscal year, the Group assesses whether there has been a significant increase in credit risk associated with financial assets since initial recognition, and when credit risk has not increased significantly since initial recognition, the Group recognizes an allowance for doubtful accounts at an amount equal to the 12-month expected credit losses. However, when there has been a significant increase in credit risk since initial recognition, the Group recognizes an allowance for doubtful accounts at an amount equal to lifetime expected credit losses.

As a general rule, the Group presumes that there has been a significant increase in credit risk when contractual payments are more than 30 days past due but, when assessing whether there has been a significant increase in credit risk, the Group takes not only past due date information but also other information that is reasonably available and supportable into consideration.

When credit risk associated with financial assets is judged to be low as of the end of the fiscal period, the Group assesses that credit risk associated with the financial assets has not increased significantly since initial recognition.

However, for expected credit losses associated with trade receivables, contract assets, and lease receivables, the Group adopts the simplified approach provided for in IFRS 9 and recognizes an allowance for doubtful accounts at an amount equal to lifetime expected credit losses.

Expected credit losses are measured as the present value of the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive.

A financial asset is treated as credit-impaired when it is considered to be in default, for example, when, despite activities to compel performance, payments are significantly past due, or when the borrower has filed for bankruptcy, corporate rehabilitation, civil rehabilitation, special liquidation, or other legal proceedings. When the Group has no reasonable expectation of collecting some or all of the contractual cash flows with respect to a certain financial asset, the Group directly reduces the gross carrying amount of the financial asset.

Provision of allowance for doubtful accounts associated with financial assets is recognized in profit or loss. The Group recognizes a reversal of the allowance for doubtful accounts in profit or loss when an event meriting reduction of the allowance occurs.

### **2) Property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method**

At the end of each fiscal year, property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method 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 accounted for using the equity method 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 estimating the 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) Put options held by non-controlling interests**

For written put options on the shares of subsidiaries, which the Group granted to the owners of non-controlling interests, the present value of the redemption amounts is, in principle, initially recognized as long-term financial liabilities, and the same amount is deducted from capital surplus. After the initial recognition, they are measured at amortized cost based on the effective interest method, and the amount of ex-post changes is recognized as capital surplus.

#### **(15) Revenue from contracts with customers**

The Group recognizes revenue by applying the following five steps.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group operates in three segments: services, development and SI, and the sale of products, and recognizes revenue as follows in each segment.

Revenue is measured based on the consideration indicated in contracts with customers and excludes amounts collected on behalf of third parties. The Group recognizes revenue when the Group has transferred control of the goods or services to the customer.

Consideration for each performance obligation is usually received within one year after each performance obligation is satisfied and does not include significant financing components.

##### **1) Services**

Transactions where revenue arises from the rendering of services include SE services and maintenance transactions and other transactions involving the rendering of services. Such transactions are services rendered on a daily basis or repeatedly, and the Group judges the performance obligation to be satisfied according to the passage of time during which the service is rendered to the customer in accordance with the contract and recognizes revenue by prorating the amount promised in the contract with the customer over the period during which the service is rendered.

##### **2) Development and SI**

Transactions where revenue arises from development and SI include system development based on a contract for work or a quasi-mandate agreement and infrastructure construction transactions.

In the case of a transaction based on a contract for work, the Group is not allowed to use the system under development for another customer or alternative use and has an enforceable right to receive payment for completed work. The Group therefore determines the performance obligation to be satisfied according to the progress of system development or infrastructure construction, and when the total cost to complete the project can be reasonably measured, the Group recognizes revenue according to the cost-to-cost approach (based on cumulative costs incurred to the estimated total cost to complete the project as of the last day of the period). When the total cost to complete the project cannot be reasonably measured, the Group recognizes revenue based on the amount of costs incurred that is expected to be recovered. Revenue recognized before the date the Group bills the customer is recognized as contract assets.

In the case of a transaction based on a quasi-mandate agreement, the Group generally renders a certain service over the term of the agreement and therefore determines the performance obligation to be satisfied according to the passage of time and recognizes revenue by prorating the amount promised in the agreement with the customer over the period during which it renders the service.

##### **3) Products**

Transactions where revenue arises from the sale of products include sales of hardware and software. For such transactions, the Group determines that it satisfies the performance obligation related to product sales when it meets the conditions of delivery under the contract, such as delivery of the hardware, software or other products, or receipt of acceptance inspection, and the Group recognizes revenue in the amount promised in the contract with the customer at this point in time.

##### **4) Multiple components transactions**

In the case of revenue related to multiple components transactions, for example, where the Group sells goods and renders maintenance services, the Group identifies the performance obligations in the contract, and when it is necessary to allocate the transaction price to the performance obligations in the contract, the Group allocates the transaction price based on the standalone selling price estimated by expected cost plus a margin approach.

## **(16) 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.

## **(17) 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.

## **(18) 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 enacted, or substantially enacted, 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 enacted, or substantially enacted, 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.

## **(19) 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, management of the Company makes a variety of estimates, judgments, and sets of assumptions that affect the adoption of accounting policies and disclosures of amounts recognized for assets, liabilities, income, and expenses. However, actual results may differ from these estimates, and the estimates and the underlying assumptions are reviewed on an ongoing basis. With respect to the impact of COVID-19, as a result of exercising judgment based on information available to the Company at the time of preparing the consolidated financial statements, the Company recognizes that COVID-19 will not have a material impact, although there is a possibility that the estimates and the assumptions will be changed depending on the future spread of infections and the situation of their settlement. The effects of revisions to accounting estimates are recognized 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 ending March 31, 2021, are mainly as follows:

- Recoverable amounts of property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method 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 accounted for using the equity method, 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 accounted for using the equity method 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 present value of defined benefit plan obligations and fair value of plan assets in post-employment defined benefit plans (Note 18. Employee benefits)  
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 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 present value of defined benefit plan obligations and the fair value of plan assets in 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 of property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method (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's reporting segments are components of the Group's organizational structure, and the Group has six reportable segments: "Enterprise business," "Distribution business," "Telecommunication business," "Regional and Social Infrastructure business," "Financial Services business," and "IT Services business".

"Enterprise business," "Distribution business," "Telecommunication business," "Regional and Social Infrastructure business" and "Financial Services business" are classified as organizations that can provide optimum solutions to meet customer needs, and each of these segments conduct comprehensive proposal and sales activities ranging from consulting to system design, construction, maintenance and operation services.

The role of "IT Services business" is to collaborate with the abovementioned five reportable segments over proposals and procurement in the service-type business which consists mainly in IT infrastructure outsourcing and maintenance and operations.

As the Group conducted organizational restructuring on April 1, 2020, for the purpose of achieving the medium-term business plan and expanding business toward the next medium-term business plan, a part of business for the manufacturing sector included in "Enterprise business" has been reclassified into "Distribution business."

Accordingly, the segment information for the year ended March 31, 2020, 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 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 Group's 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, 2020

	(Millions of Yen)											
	Reportable segment											
	Enterprise business	Distribution business	Telecommunications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated	
Revenue												
Revenue from external customers	117,640	59,650	173,480	60,738	24,041	11,010	446,561	40,456	487,018	-	487,018	
Inter-segment revenue or transfers	13,757	1,139	7,465	307	29	101,398	124,096	988	125,085	(125,085)	-	
Total	131,397	60,789	180,945	61,046	24,070	112,408	570,658	41,445	612,104	(125,085)	487,018	
Profit before tax (segment profit)	9,041	5,541	17,025	2,430	1,327	11,305	46,671	519	47,190	(5,649)	41,541	
Segment assets	59,576	22,044	90,677	24,755	7,461	79,102	283,617	45,774	329,392	109,424	438,816	
Other items												
Financial income	33	33	67	24	18	5	183	126	309	33	343	
Financial costs	(16)	(16)	(27)	(7)	(2)	(149)	(219)	(124)	(344)	(271)	(616)	
Share of profit of associates accounted for using the equity method	85	34	5	-	-	-	126	19	146	-	146	
Depreciation and amortization expense (Note 3)	(847)	(684)	(843)	(318)	(38)	(5,005)	(7,738)	(3,273)	(11,011)	(5,228)	(16,240)	
Impairment losses	-	-	-	-	-	(122)	(122)	(999)	(1,122)	(2)	(1,124)	
Investments accounted for using the equity method	585	3,733	65	-	-	-	4,384	651	5,035	-	5,035	
Capital expenditures (Note 3)	810	545	777	666	139	3,715	6,655	2,870	9,526	6,639	16,165	

Notes:

1. "Other," which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.
2. Reconciliations are as follows:
  - (1) Reconciliations of segment loss of ¥(5,649) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(4,677) million.
  - (2) Reconciliations of segment assets of ¥109,424 million include corporate assets of ¥123,035 million and intersegment elimination of receivables and payables of ¥(13,478) million. Corporate assets primarily consist of 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 ¥33 million include ¥32 million of gains related to the administrative department that are not allocated to business segments. Reconciliations of financial costs of ¥(271) million include ¥(258) million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of depreciation and amortization expense of ¥(5,228) million include depreciation and amortization of ¥(5,437) million and elimination of unrealized gains of ¥208 million.

Reconciliations of impairment losses of ¥(2) million are impairment losses related to corporate assets.

Reconciliations of capital expenditures of ¥6,639 million include an increase in corporate assets of ¥6,802 million and elimination of unrealized gains of ¥(163) million.

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

Year ended March 31, 2021

	Reportable segment							Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Enterprise business	Distribution business	Telecommuni- cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal				
Revenue											
Revenue from external customers	115,125	51,430	178,636	62,100	24,574	10,043	441,909	37,968	479,878	-	479,878
Inter-segment revenue or transfers	11,446	820	8,639	134	92	105,629	126,762	812	127,575	(127,575)	-
Total	126,571	52,250	187,275	62,234	24,666	115,672	568,672	38,781	607,454	(127,575)	479,878
Profit before tax (segment profit)	8,509	1,245	18,327	4,680	2,276	12,735	47,775	2,422	50,197	(6,245)	43,952
Segment assets	60,600	20,935	101,492	29,450	8,288	78,589	299,356	49,596	348,952	113,796	462,748
Other items											
Financial income	20	43	81	26	2	5	180	350	530	36	567
Financial costs	(116)	(11)	(29)	(7)	(2)	(124)	(291)	(178)	(470)	(220)	(690)
Share of profit of associates accounted for using the equity method	120	108	9	-	-	-	238	171	409	-	409
Depreciation and amortization expense (Note 3)	(721)	(376)	(792)	(378)	(67)	(5,277)	(7,613)	(3,794)	(11,407)	(8,257)	(19,664)
Impairment losses	-	-	-	-	-	(94)	(94)	-	(94)	(0)	(94)
Investments accounted for using the equity method	635	3,847	75	-	-	-	4,558	1,818	6,377	-	6,377
Capital expenditures (Note 3)	527	460	658	522	68	3,524	5,761	2,949	8,710	5,925	14,635

Notes:

1. "Other," which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.

2. Reconciliations are as follows:

(1) Reconciliations of segment loss of ¥(6,245) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(5,144) million.

(2) Reconciliations of segment assets of ¥113,796 million include corporate assets of ¥127,970 million and intersegment elimination of receivables and payables of ¥(14,083) million.



Corporate assets primarily consist of 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 ¥36 million include ¥10 million of gains related to the administrative department that are not allocated to business segments. Reconciliations of financial costs of ¥(220) million include ¥(209) million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of depreciation and amortization expense of ¥(8,257) million include depreciation and amortization of ¥(8,452) million and elimination of unrealized gains of ¥195 million.

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

Reconciliations of capital expenditures of ¥5,925 million include an increase in corporate assets of ¥6,075 million and elimination of unrealized gains of ¥(150) million.

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

Year ended March 31, 2021

	Reportable segment								Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	(Thousands of U.S. Dollars)											
	Enterprise business	Distribution business	Telecommuni- cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal					
Revenue												
Revenue from external customers	1,039,786	464,507	1,613,403	560,877	221,952	90,709	3,991,237	342,927	4,334,164	-	4,334,164	
Inter-segment revenue or transfers	103,384	7,411	78,029	1,214	831	954,024	1,144,896	7,342	1,152,238	(1,152,238)	-	
Total	1,143,170	471,918	1,691,432	562,092	222,783	1,044,734	5,136,133	350,269	5,486,403	(1,152,238)	4,334,164	
Profit before tax (segment profit)	76,856	11,253	165,530	42,277	20,558	115,024	431,500	21,875	453,376	(56,407)	396,969	
Segment assets	547,330	189,082	916,660	265,986	74,856	709,805	2,703,722	447,943	3,151,666	1,027,783	4,179,449	
Other items												
Financial income	186	396	732	235	24	52	1,626	3,166	4,793	327	5,121	
Financial costs	(1,049)	(101)	(267)	(71)	(23)	(1,121)	(2,633)	(1,611)	(4,245)	(1,991)	(6,237)	
Share of profit of associates accounted for using the equity method	1,085	978	85	-	-	-	2,149	1,547	3,697	-	3,697	
Depreciation and amortization expense (Note 3)	(6,517)	(3,398)	(7,154)	(3,416)	(606)	(47,667)	(68,761)	(34,270)	(103,031)	(74,578)	(177,609)	
Impairment losses	-	-	-	-	-	(854)	(854)	-	(854)	(2)	(857)	
Investments accounted for using the equity method	5,741	34,753	680	-	-	-	41,175	16,427	57,602	-	57,602	
Capital expenditures (Note 3)	4,765	4,156	5,948	4,714	620	31,829	52,035	26,639	78,675	53,513	132,189	

Notes:

1. "Other," which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.

2. Reconciliations are as follows:
- (1) Reconciliations of segment loss of US\$(56,407) thousand include primarily administrative expenses and investments that are not allocated to business segments of US\$(46,464) thousand.
  - (2) Reconciliations of segment assets of US\$1,027,783 thousand include corporate assets of US\$1,155,806 thousand and intersegment elimination of receivables and payables of US\$(127,200) thousand. Corporate assets primarily consist of 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\$327 thousand include US\$90 thousand of gains related to the administrative department that are not allocated to business segments.  
Reconciliations of financial costs of US\$(1,991) thousand include US\$(1,895) thousand of losses related to the administrative department that are not allocated to business segments.  
Reconciliations of depreciation and amortization expense of US\$(74,578) thousand include depreciation and amortization of US\$(76,342) thousand and elimination of unrealized gains of US\$1,764 thousand.  
Reconciliations of impairment losses of US\$(2) thousand are impairment losses related to corporate assets.  
Reconciliations of capital expenditures of US\$53,513 thousand include an increase in corporate assets of US\$54,876 thousand and elimination of unrealized gains of US\$(1,362) thousand.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to right-of-use asset and long-term prepaid expenses.



### (3) Information about products and services

Year ended March 31, 2020

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	192,485	105,029	189,502	487,018

Year ended March 31, 2021

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	195,409	103,307	181,161	479,878

Year ended March 31, 2021

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,764,897	933,053	1,636,212	4,334,164

### (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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Japan	58,876	47,579	429,732
Asia	15,793	16,933	152,940
Others	106	88	802
Total	74,776	64,602	583,474

### (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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Nippon Telegraph and Telephone Corporation and group	Telecommunications business	72,671	79,683	719,683
SoftBank Group Corp. and group	Telecommunications business	46,420	48,774	440,519

## 6. Business combination

The significant business combination that occurred in the year ended March 31, 2020, are as follows:

(Acquisition of shares of PT. Nusantara Compnet Integrator and PT. Pro Sistimatika Automasi)

On September 2, 2019, the Company acquired 70% of shares outstanding of two Indonesian IT companies, namely PT. Nusantara Compnet Integrator and PT. Pro Sistimatika Automasi (“Two Companies Concerned”), to further expand business in the ASEAN region, and the Two Companies Concerned have become subsidiaries of the Company.

The fair values of consideration paid, assets acquired and liabilities assumed by the business combination as of the date of acquisition are as follows. There is no conditional consideration.

### (1) PT. Nusantara Compnet Integrator

	(Millions of Yen)
Fair value of consideration paid	7,132
Fair value of non-controlling interests	3,056
Total	10,189
Fair value of assets acquired	
Cash and cash equivalents	468
Trade and other receivables	1,807
Inventories	1,983
Intangible assets	916
Others	1,775
Total of fair value of assets acquired	6,951
Fair value of liabilities assumed	
Trade and other payables (current)	(2,369)
Other financial liabilities (current)	(1,043)
Others	(1,367)
Total of fair value of liabilities assumed	(4,780)
Goodwill	8,018
Total	10,189

Notes:

1. All consideration is paid by cash.
2. The acquisition cost is allocated to assets acquired and liabilities assumed based on the fair value on the date of acquiring control, and the allocation of the acquisition cost has been completed in the year ended March 31, 2020.



**(2) PT. Pro Sistimatika Automasi**

	(Millions of Yen)
Fair value of consideration paid	227
Fair value of non-controlling interests	97
Total	324
Fair value of assets acquired	
Cash and cash equivalents	18
Trade and other receivables	137
Others	36
Total of fair value of assets acquired	192
Fair value of liabilities assumed	
Trade and other payables (current)	(86)
Liabilities for employee benefits (Non-current)	(63)
Others	(17)
Total of fair value of liabilities assumed	(168)
Goodwill	300
Total	324

Note: All consideration is paid by cash.

Goodwill acquired is recognized as a result of taking profitability into account which is in excess of net asset value anticipated by developing the business, taking advantage of the complementary relationship between the Group and the Two Companies Concerned.

The fair values of assets acquired, liabilities assumed and non-controlling interests are measured by comprehensively taking into consideration the financial position and the asset situation closely investigated by a third party through due diligence and the corporate evaluation (the discounted cash flow method) by a financial adviser.

Cash flows related to the acquisition are as follows:

	(Millions of Yen)
Cash and cash equivalents paid in acquisition	7,359
Cash and cash equivalents held by the acquiree at the acquisition date	(486)
Net cash outflows in the purchase of shares of a subsidiary	6,872

The Group grants the owners of non-controlling interests of the Two Companies Concerned written put options on the shares of subsidiaries. For the written put options granted to the non-controlling interests, the present value of the redemption amounts is recognized as Non-current financial liabilities, in principle, and the same amount is deducted from capital surplus.

For the written put options on the shares of subsidiaries granted to the owners of non-controlling interests, the amount deducted from capital surplus is ¥2,859 million and ¥77 million, respectively, as of the date of acquisition.

Financial results of the Two Companies Concerned since the date of acquisition are not stated because they are immaterial. In addition, the disclosure of pro forma information, which is not audited, based on the assumption that the business combination was conducted on April 1, 2019, is omitted because the impact on the consolidated financial statements is immaterial.

No significant business combination or loss of control occurred in the year ended March 31, 2021.

## 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, 2020	March 31, 2021	March 31, 2021
Cash and bank balances	39,164	37,991	343,127
Deposits within three months	35,450	42,953	387,949
Total	74,615	80,944	731,077

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, 2020 and 2021.

## 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, 2020	March 31, 2021	March 31, 2021
Notes and accounts receivable - trade	114,916	117,622	1,062,344
Lease receivables	20,307	20,104	181,581
Others	2,577	2,875	25,974
Allowance for doubtful accounts	(65)	(432)	(3,903)
Total	137,736	140,171	1,265,995

## 9. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Merchandise	23,666	35,056	316,619
Work in progress	858	1,813	16,382
Supplies for maintenance service	4,518	4,327	39,088
Total	29,044	41,197	372,090
Inventories to be sold after more than one year	1,623	953	8,609

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2020 and 2021, is ¥243,838 million and ¥217,902 million (US\$1,968,053 thousand), respectively. The write-down amount of inventories to net realizable value as of March 31, 2020 is reversal, the amount is (¥72) million. The write-down amount of inventories to net realizable value as of March 31, 2021 is ¥39 million (US\$360 thousand). The write-down and reversal 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	Others	Total
April 1, 2019	42,402	25,346	4,731	-	72,479
Cumulative effect of change in accounting policy	20,031	1,207	-	3	21,242
Separate acquisitions	9,632	4,502	-	-	14,135
Acquisitions through business combination	385	3,095	168	18	3,667
Disposals	(229)	(792)	-	-	(1,022)
Exchange differences on translating foreign operations	(84)	(661)	(17)	(1)	(765)
Others	(527)	(2,677)	-	-	(3,205)
March 31, 2020	71,611	30,019	4,881	20	106,531
Separate acquisitions	7,864	3,831	-	295	11,991
Acquisitions through business combination	-	-	-	-	-
Disposals	(1,349)	(1,580)	(69)	-	(2,998)
Exchange differences on translating foreign operations	70	876	18	6	971
Others	(7,526)	(1,681)	-	50	(9,157)
March 31, 2021	70,670	31,464	4,831	372	107,338

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2020	646,777	271,126	44,089	180	962,173
Separate acquisitions	71,027	34,601	-	2,671	108,300
Acquisitions through business combination	-	-	-	-	-
Disposals	(12,184)	(14,272)	(624)	-	(27,080)
Exchange differences on translating foreign operations	637	7,917	168	54	8,778
Others	(67,976)	(15,191)	-	456	(82,711)
March 31, 2021	638,281	284,181	43,634	3,363	969,460

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
April 1, 2019	(22,024)	(15,966)	-	-	(37,990)
Cumulative effect of change in accounting policy	(2,158)	-	-	-	(2,158)
Depreciation expense	(8,964)	(4,118)	-	(6)	(13,088)
Acquisitions through business combination	(67)	(2,797)	-	-	(2,865)
Impairment losses	(7)	(115)	-	-	(122)
Disposals	180	768	-	-	949
Exchange differences on translating foreign operations	15	464	-	0	480
Others	204	3,441	-	-	3,646
March 31, 2020	(32,821)	(18,322)	-	(5)	(51,149)
Depreciation expense	(12,048)	(4,453)	-	(3)	(16,505)
Acquisitions through business combination	-	-	-	-	-
Impairment losses	(94)	-	-	-	(94)
Disposals	1,068	1,550	-	-	2,618
Exchange differences on translating foreign operations	(24)	(627)	-	(2)	(653)
Others	1,348	2,139	-	(33)	3,455
March 31, 2021	(42,572)	(19,712)	-	(44)	(62,329)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2020	(296,438)	(165,486)	-	(49)	(461,974)
Depreciation expense	(108,820)	(40,221)	-	(35)	(149,077)
Acquisitions through business combination	-	-	-	-	-
Impairment losses	(851)	-	-	-	(851)
Disposals	9,646	14,002	-	-	23,649
Exchange differences on translating foreign operations	(222)	(5,663)	-	(20)	(5,906)
Others	12,182	19,327	-	(298)	31,212
March 31, 2021	(384,502)	(178,040)	-	(404)	(562,947)



(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2020	38,789	11,696	4,881	14	55,382
March 31, 2021	28,098	11,751	4,831	327	45,009

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2021	253,779	106,140	43,634	2,959	406,512

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, 2020 and 2021, are ¥122 million and ¥94 million (US\$851 thousand), respectively.

Impairment losses recognized for the year ended March 31, 2020 are mainly losses related to "Tools, furniture and fixtures" belonging to the "IT Services business" reportable segment and are mainly due to a decline in the profitability of shared mainframe equipment. Impairment losses recognized for the year ended March 31, 2021 are losses related to "Buildings and structures" belonging to the "IT Services business" reportable segment and are due to a decline in the 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, 2019	4,458	20,663	3,595	28,717
Cumulative effect of change in accounting policy	-	-	30	30
Separate acquisitions	-	2,162	0	2,162
Acquisitions through business combination	8,318	-	916	9,235
Disposals	-	(311)	(0)	(311)
Exchange differences on translating foreign operations	(1,145)	(11)	(325)	(1,482)
Others	-	(845)	97	(748)
March 31, 2020	11,631	21,657	4,314	37,603
Separate acquisitions	-	1,825	11	1,837
Acquisitions through business combination	-	-	-	-
Disposals	-	(450)	(1)	(452)
Exchange differences on translating foreign operations	1,295	10	322	1,628
Others	-	(22)	(68)	(90)
March 31, 2021	12,927	23,020	4,578	40,526

	(Thousands of U.S. Dollars)			
	Goodwill	Software	Others	Total
March 31, 2020	105,054	195,609	38,967	339,631
Separate acquisitions	-	16,485	107	16,592
Acquisitions through business combination	-	-	-	-
Disposals	-	(4,067)	(17)	(4,085)
Exchange differences on translating foreign operations	11,700	93	2,914	14,708
Others	-	(205)	(616)	(821)
March 31, 2021	116,754	207,916	41,355	366,025



(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2019	(225)	(13,190)	(2,130)	(15,546)
Cumulative effect of change in accounting policy	-	-	-	-
Amortization expense	-	(2,580)	(463)	(3,044)
Acquisitions through business combination	-	-	-	-
Impairment losses	(999)	-	(2)	(1,001)
Disposals	-	286	-	286
Exchange differences on translating foreign operations	-	9	162	171
Others	-	471	(55)	415
March 31, 2020	(1,224)	(15,004)	(2,489)	(18,718)
Amortization expense	-	(2,477)	(539)	(3,017)
Acquisitions through business combination	-	-	-	-
Impairment losses	-	-	(0)	(0)
Disposals	-	439	-	439
Exchange differences on translating foreign operations	-	(8)	(179)	(187)
Others	-	(80)	60	(19)
March 31, 2021	(1,224)	(17,131)	(3,148)	(21,504)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2020	(11,060)	(135,518)	(22,486)	(169,066)
Amortization expense	-	(22,376)	(4,873)	(27,250)
Acquisitions through business combination	-	-	-	-
Impairment losses	-	-	(6)	(6)
Disposals	-	3,971	-	3,971
Exchange differences on translating foreign operations	-	(78)	(1,618)	(1,697)
Others	-	(727)	548	(179)
March 31, 2021	(11,060)	(154,729)	(28,436)	(194,226)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2020	10,406	6,653	1,824	18,884
March 31, 2021	11,702	5,888	1,430	19,021

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2021	105,693	53,186	12,918	171,798

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 recoverable amount of the cash-generating units in the impairment test of goodwill is determined by value in use based on past experience and estimates over the next five years approved by management. 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, 2021, the pre-tax discount rate which is used in calculating the value in use is from 10.3 % to 15.4 % (as of March 31, 2020: from 10.2 % to 15.6 %).

Impairment losses recognized in the year ended March 31, 2020 were due to the review of business plans at overseas subsidiaries because of changes in the market environment. No impairment losses are recognized in the year ended March 31, 2021.

The goodwill balance as of March 31, 2020 and 2021, includes ¥7,163 million and ¥8,232 million, respectively, (US\$74,351 thousand) recognized associated with the acquisition of PT. Nusantara Compnet Integrator, a company that engages in IT consulting services and system integration, among other services, in Indonesia. In the impairment test of the goodwill, the Company used the value in use based on estimates over the next five years of increased sales and profits due to the growth of orders based on the IT market growth. In estimating the value in use, economic conditions are assumed to be as follows: the amount of IT investment by the government and private companies in 2020 temporarily shrank and stagnated due to the impact of COVID-19, but the impact will gradually come to an end in the second half of 2021, and the amount of IT investment will increase thereafter. The recoverable amount based on the value in use estimated in the impairment test at the end of March 31, 2021 exceeded the book value of goodwill. However, the recoverable amount may fall below the book value if the achievement of the business plan, which assumes increased sales and profits due to the growth of orders, is significantly delayed due to changes in economic conditions.

## 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, 2020	March 31, 2021	March 31, 2021
Carrying amount of investments accounted for using the equity method	5,035	6,377	57,602

Financial information of associates that are not individually significant is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Share of net profit	146	409	3,697
Share of other comprehensive income for the year	(9)	36	329
Share of comprehensive income	136	445	4,026

## 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, 2020	March 31, 2021	March 31, 2021
Financial assets measured at amortized cost	28,878	32,028	289,272
FVTOCI financial assets	8,825	12,545	113,312
FVTPL financial assets	1,318	1,626	14,693
Total	39,022	46,201	417,278

Current assets	20,301	24,822	224,187
Non-current assets	18,721	21,379	193,090
Total	39,022	46,201	417,278

Dividends from FVTOCI financial assets recognized in “Other financial assets” as of March 31, 2020 and 2021, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
124	131	1,188



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, owned by the Group as of March 31, 2020 and 2021, are as follows:

March 31, 2020

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	6,919
Asahi Group Holdings, Ltd.	351
SRA Holdings, Inc.	299
FamilyMart Co., Ltd.	297
NTT DATA INTRAMART CORP.	198

March 31, 2021

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	10,142	91,605
Intumit Inc.	676	6,110
Asahi Group Holdings, Ltd.	466	4,213
SRA Holdings, Inc.	379	3,427
AEON Financial Services Co., Ltd.	199	1,800

Derecognized FVTOCI financial assets for the years ended March 31, 2020 and 2021, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2020			Year ended March 31, 2021			Year ended March 31, 2021		
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
307	(6)	15	352	5	3	3,187	53	27

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 years ended March 31, 2020 and 2021, are ¥(4) million and ¥4 million (US\$37 thousand), respectively.

#### 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, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2020
Deferred tax assets					
Inventories	3,463	261	-	-	3,725
Property, plant and equipment and intangible assets	1,805	(479)	-	994	2,321
Other payables	759	109	-	-	868
Employee benefits	6,006	822	106	76	7,012
Provisions	819	(98)	-	-	721
Others	1,563	581	14	(6)	2,152
Total deferred tax assets	14,418	1,197	120	1,065	16,801
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(485)	(88)	-	(194)	(768)
Securities and other investments	(465)	3	(602)	-	(1,064)
Others	(1,341)	(104)	-	-	(1,445)
Total deferred tax liabilities	(2,292)	(190)	(602)	(194)	(3,278)

Note: "Others" includes exchange differences on translating foreign operations, increase or decrease by business combinations and adoption of IFRS 16 "Leases".

(Millions of Yen)

	April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2021
Deferred tax assets					
Inventories	3,725	388	-	-	4,114
Property, plant and equipment and intangible assets	2,321	(241)	-	0	2,079
Other payables	868	6	-	-	874
Employee benefits	7,012	208	(484)	(13)	6,722
Provisions	721	962	-	-	1,683
Others	2,152	533	(13)	(0)	2,671
Total deferred tax assets	16,801	1,858	(498)	(14)	18,147
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(768)	(220)	-	(21)	(1,010)
Securities and other investments	(1,064)	17	(1,125)	4	(2,168)
Others	(1,445)	(49)	(74)	-	(1,570)
Total deferred tax liabilities	(3,278)	(252)	(1,200)	(17)	(4,748)

(Thousands of U.S. Dollars)

	April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2021
Deferred tax assets					
Inventories	33,648	3,512	-	-	37,161
Property, plant and equipment and intangible assets	20,966	(2,182)	-	0	18,784
Other payables	7,843	59	-	-	7,902
Employee benefits	63,335	1,884	(4,379)	(124)	60,716
Provisions	6,512	8,695	-	-	15,207
Others	19,445	4,816	(124)	(6)	24,131
Total deferred tax assets	151,751	16,786	(4,503)	(129)	163,904
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(6,941)	(1,991)	-	(192)	(9,124)
Securities and other investments	(9,614)	158	(10,164)	38	(19,582)
Others	(13,058)	(445)	(676)	-	(14,180)
Total deferred tax liabilities	(29,614)	(2,278)	(10,841)	(154)	(42,888)

Note: "Others" includes exchange differences on translating foreign operations.

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Deferred tax assets	13,910	13,777	124,431
Deferred tax liabilities	387	378	3,416
Net	13,523	13,398	121,015

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, 2020	March 31, 2021	March 31, 2021
Deductible temporary differences	10	9	84
Tax loss carryforwards	26	31	282
Total	37	40	367



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, 2020	March 31, 2021	March 31, 2021
Year 1	-	-	-
Year 2	-	14	134
Year 3	14	-	-
Year 4	-	11	103
Year 5 or later	11	4	45
Total	26	31	282

## (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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Current tax expense	14,087	14,715	132,904
Deferred tax expense	(1,007)	(1,606)	(14,507)
Total	13,080	13,108	118,397

“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, 2020 and 2021, is ¥2 million and ¥3 million (US\$27 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. There is no tax expense resulting from these tax benefits for the years ended March 31, 2020 and 2021.

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

	Year ended March 31, 2020	Year ended March 31, 2021
Effective statutory tax rate	30.6%	30.6%
(Reconciliation)		
Tax credits	(0.4%)	(0.5%)
Effect on the amount of not deductible for tax purposes	0.5%	0.2%
Others	0.8%	(0.6%)
Average effective tax rate	31.5%	29.8%

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, 2020 and 2021, is 30.6% 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, 2020	March 31, 2021	March 31, 2021
Account payables-trade	43,632	43,873	396,256
Other payables	7,075	7,679	69,355
Accrued consumption taxes	6,080	4,430	40,018
Total	56,788	55,983	505,630

## 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, 2020	March 31, 2021	March 31, 2021
Financial liabilities measured at amortized cost	43,090	33,745	304,782
FVTPL financial liabilities	222	32	294
Put options held by non-controlling shareholders	2,727	1,250	11,296
Total	46,040	35,028	316,373

Current liabilities	14,818	12,859	116,143
Non-current liabilities	31,222	22,169	200,229
Total	46,040	35,028	316,373

## 17. Leases

### (1) Lessor

#### 1) Operating leases

The Group leases IT-related equipment and servers under operating leases.

The breakdown of future lease payments receivable for operating leases as of March 31, 2020 and 2021, by receipt year is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Within 1 year	156	346	3,125
1-5 years	166	450	4,071
Total	322	796	7,196

Lease income on operating leases for the year ended March 31, 2020 and 2021, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Lease income on operating leases	575	510	4,608

The breakdown of the carrying amount of property, plant and equipment subject to operating leases as of March 31, 2020 and 2021, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Tools, furniture and fixtures	455	735	6,645
Total	455	735	6,645

#### 2) Finance leases

The Group leases IT-related equipment and servers under finance leases.

The gross investment in the lease and the net investment in the lease for finance lease contracts and the reconciliation of these items as of March 31, 2020 and 2021, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Within 1 year	5,404	5,933	53,590
1-5 years	14,217	13,885	125,407
More than 5 years	1,884	1,467	13,252
Total gross investment in the lease	21,505	21,285	192,249
Less: Unearned finance income	(1,198)	(1,181)	(10,668)
Net investment in the lease	20,307	20,104	181,581



Selling profit or loss on finance leases and finance income on the net investment in the lease for finance leases for the year ended March 31, 2020 and 2021, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Selling profit or loss on finance leases	1,347	1,104	9,979
Finance income on the net investment in the lease	79	181	1,637

**(2) Lessee**

The Group leases real estate such as office buildings as well as office equipment and data center facilities for customer services.

Profit and loss related to right-of-use assets and lease liabilities for the years ended March 31, 2020 and 2021, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Depreciation expense associated with right-of-use assets			
Buildings and structures as the underlying assets	6,467	6,683	60,364
Tools, furniture and fixtures as the underlying assets	1,523	1,268	11,458
Other property, plant and equipment as the underlying assets	6	3	35
Other intangible assets as the underlying assets	34	25	229
Total of depreciation expense	8,031	7,981	72,087
Interest expense associated with lease liabilities	365	355	3,208
Expense associated with short-term leases	1,111	1,063	9,606
Expense associated with leases of low-value assets	1,478	1,440	13,010
Income from subleasing right-of-use assets	1,395	1,425	12,874

There is no variable lease that is not included in the measurement of lease liabilities for the years ended March 31, 2020 and 2021.

Gains or losses arising from sale and leaseback transactions for the years ended March 31, 2020 and 2021, are immaterial.

The breakdown of the carrying amount of right-of-use assets as of March 31, 2020 and 2021, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Buildings and structures	18,836	10,103	91,251
Tools, furniture and fixtures	2,952	2,722	24,588
Other property, plant and equipment	14	25	234
Other intangible assets	58	39	356
Total	21,862	12,891	116,431

The amount of increase in right-of-use assets for the years ended March 31, 2020 and 2021, is ¥8,602 million and ¥5,345 million (US\$48,280 thousand), respectively.

Total cash outflows for leases for the years ended March 31, 2020 and 2021, are ¥15,055 million and ¥14,573 million (US\$131,622 thousand), respectively.

The maturity analysis of lease liabilities is stated in “30. Financial instruments and disclosures, (2) Financial risk management policy, 3) Liquidity risk management.”

Extension options and termination options are granted to some of the lease contracts of real estate such as office buildings. In addition, there are no restrictions (restrictions on dividends, additional borrowings and additional leases) imposed by the 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.

With 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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Balance at the beginning of the year	21,793	21,896	197,764
Current service cost	1,054	1,055	9,532
Interest cost	94	115	1,040
Remeasurement			
Changes in demographic assumptions	(18)	142	1,284
Changes in financial assumptions	(271)	(24)	△223
Experience adjustments	101	60	549
Benefits paid	(1,218)	(813)	△7,348
Effect of business combination	356	-	-
Foreign exchange difference	4	8	76
Balance at the end of the year	21,896	22,440	202,674

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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Balance at the beginning of the year	23,532	23,008	207,806
Interest income	103	123	1,115
Remeasurement			
Return on plan assets	(529)	2,682	24,227
Employer contributions	638	668	6,034
Benefits paid	(736)	(788)	△7,117
Balance at the end of the year	23,008	25,694	232,066

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 ¥734 million (US\$6,633thousand) for the year ending March 31, 2022.



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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Balance at the beginning of the year	-	-	-
Movements in the effect of the asset ceiling	-	920	8,317
Balance at the end of the year	-	920	8,317

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, 2020	March 31, 2021	March 31, 2021
Present value of the defined benefit plan obligations	21,896	22,440	202,674
Fair value of plan assets	(23,008)	(25,694)	(232,066)
Funded status	(1,111)	(3,254)	(29,391)
Effect of the asset ceiling	-	920	8,317
Net liabilities (assets)	(1,111)	(2,333)	(21,074)
Amount in the consolidated statement of financial position			
Other non-current assets	(1,635)	(2,934)	(26,507)
Liabilities for employee benefits (non-current liabilities)	524	601	5,433

Plan assets by category as of March 31, 2020 and 2021, are as follows. Refer to “Note 30. Financial instruments and disclosures” for input information used in measuring fair value.

March 31, 2020

	(Millions of Yen)		
	Level 1	Level 2	Total
Equity instruments			
Domestic	3,366	-	3,366
Overseas	3,268	-	3,268
Debt instruments			
Domestic	7,008	562	7,571
Overseas	2,637	1,597	4,235
Other assets			
Cash and cash equivalents	321	-	321
Life insurance company general accounts	-	4,203	4,203
Others	-	41	41
Total	16,603	6,404	23,008

March 31, 2021

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	4,498	-	4,498
Overseas	4,546	-	4,546
Debt instruments			
Domestic	7,287	562	7,850
Overseas	2,451	1,568	4,019
Other assets			
Cash and cash equivalents	365	-	365
Life insurance company general accounts	-	4,377	4,377
Others	-	36	36
Total	19,149	6,544	25,694

March 31, 2021

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	40,630	-	40,630
Overseas	41,059	-	41,059
Debt instruments			
Domestic	65,823	5,077	70,900
Overseas	22,137	14,162	36,299
Other assets			
Cash and cash equivalents	3,304	-	3,304
Life insurance company general accounts	-	39,540	39,540
Others	-	331	331
Total	172,955	59,111	232,066

In setting its portfolio investment policy for plan assets on a long-term basis, the Company and certain subsidiaries 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, 2020 and 2021, is 11 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, 2020	March 31, 2021
Discount rate	0.5%	0.5%
Rate of compensation increase	5.5%	5.3%

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, 2020	March 31, 2021	March 31, 2021
0.5% Increase	(1,101)	(1,091)	(9,856)
0.5% Decrease	1,049	993	8,970

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, 2020 and 2021, are ¥936 million and ¥983 million (US\$8,882 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:

- a) Assets that an employer contributes to the multi-employer plan could be used for the benefits of employees of other participating employers.
- b) If one participating employer stops premium contributions, other participating employers could be required to absorb unfunded obligations additionally.
- c) 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. With 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 as of March 31, 2020 and 2021, are ¥3,315 million and ¥3,192 million (US\$28,829 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, 2019	March 31, 2020	March 31, 2020
Plan assets	30,140	30,856	278,689
Benefits obligation based on pension plan finance calculation	35,713	37,284	336,746
Net	(5,572)	(6,428)	(58,056)

	March 31, 2019	March 31, 2020
Ratio of the Company and certain subsidiaries contribution to the overall plan	31.7%	32.9%

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’s 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, 2022, is ¥1,041million (US\$9,407 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, 2020 and 2021, are ¥66,841 million and ¥70,186million (US\$633,911 thousand), respectively.

## 19. Provisions

The breakdown and movements in provisions are as follows:

Year ended March 31, 2020

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2019	1,825	879	453	3,159
Increase for the year	93	1,358	218	1,670
Interest expenses for discounting	33	-	-	33
Decrease for the year (utilization)	(24)	(1,373)	(108)	(1,506)
Decrease for the year (unused)	-	(469)	(85)	(555)
Increase or decrease by offsetting with work in progress	-	111	-	111
Increase or decrease due to changes in estimates	285	-	-	285
Others	(2)	(2)	-	(4)
March 31, 2020	2,211	504	478	3,193
Current liabilities	12	504	478	995
Non-current liabilities	2,198	-	-	2,198
Total	2,211	504	478	3,193

Year ended March 31, 2021

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2020	2,211	504	478	3,193
Increase for the year	33	1,982	119	2,134
Interest expenses for discounting	30	-	-	30
Decrease for the year (utilization)	(405)	(1,209)	(156)	(1,771)
Decrease for the year (unused)	-	(64)	(71)	(136)
Increase or decrease by offsetting with work in progress	-	(32)	-	(32)
Increase or decrease due to changes in estimates	2,409	-	-	2,409
Others	2	-	-	2
March 31, 2021	4,280	1,179	370	5,830
Current liabilities	3,287	1,179	370	4,837
Non-current liabilities	993	-	-	993
Total	4,280	1,179	370	5,830

Year ended March 31, 2021

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2020	19,970	4,554	4,318	28,843
Increase for the year	298	17,903	1,080	19,282
Interest expenses for discounting	276	-	-	276
Decrease for the year (utilization)	(3,665)	(10,924)	(1,409)	(16,000)
Decrease for the year (unused)	-	(586)	(642)	(1,228)
Increase or decrease by offsetting with work in progress	-	(296)	-	(296)
Increase or decrease due to changes in estimates	21,762	-	-	21,762
Others	19	-	-	19
March 31, 2021	38,662	10,650	3,346	52,659

Current liabilities	29,689	10,650	3,346	43,687
Non-current liabilities	8,972	-	-	8,972
Total	38,662	10,650	3,346	52,659

The provisions are as follows:

Provisions for asset retirement obligations

Provisions for asset retirement obligations for obligations to remove improvements from buildings under real estate lease contracts, such 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 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 for the 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.

#### (1) Overview of the plan

This is a performance-linked stock compensation plan to distribute the Company's shares and cash, where 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 is ¥134 million for the year ended March 31, 2020 and ¥118 million (US\$1,072 thousand) for the year ended March 31, 2021. The expense is recorded in "Selling, general and administrative expenses."

#### (3) Fair value of granted points

The fair value of points granted in the year ended March 31, 2021, as of the granting date is ¥139 million (US\$1,261 thousand). This is based on the stock price on the granting date because the fair value as of the granting date is similar to the market price on the granting date.

#### (4) Changes in the number of points

Changes in the number of points for the year ended March 31, 2020 and 2021, are as follows:

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of year	42,422	62,961
Increase due to granting of points	29,237	34,573
Decrease due to lapse of points	-	-
Decrease due to exercise of points	8,698	20,425
Balance at end of year	62,961	77,109
Balance of exercisable points at end of the year	-	-

(Points)

## 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, 2020	Year ended March 31, 2021
The number of authorized shares		
Ordinary shares with non-par-value	492,000	492,000
The number of issued shares		
Balance at the beginning of the year	240,000	240,000
Increase	-	-
Balance at the end of the year	240,000	240,000

The number of treasury stock included in issued shares above as of March 31, 2020 and 2021, is 8,966 thousand shares and 8,950 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.

### (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. The Companies 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 term of service of the directors is prescribed as one year) are satisfied. The Companies 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, 2020 and 2021 are as follows:

Year ended March 31, 2020

### (1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 19, 2019 Ordinary general meeting of shareholders	Ordinary shares	6,011	26.00	March 31, 2019	June 20, 2019
October 31, 2019 Board of Directors	Ordinary shares	6,358	27.50	September 30, 2019	December 6, 2019

### (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 18, 2020 Ordinary general meeting of shareholders	Ordinary shares	7,052	30.50	March 31, 2020	June 19, 2020

Year ended March 31, 2021

### (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 18, 2020 Ordinary general meeting of shareholders	Ordinary shares	7,052	63,696	30.50	0.27	March 31, 2020	June 19, 2020
November 2, 2020 Board of Directors	Ordinary shares	7,283	65,784	31.50	0.28	September 30, 2020	December 4, 2020

### (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)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 17, 2021 Ordinary general meeting of shareholders	Ordinary shares	7,514	67,872	32.50	0.29	March 31, 2021	June 18, 2021



## 23. Revenue

### (1) Disaggregation of revenue

The Group disaggregates its revenue by primary business model. The relationship between disaggregated revenue and reportable segments is as follows:

As the classification method of reportable segments changed in the year ended March 31, 2021, the segment information for the year ended March 31, 2020 has been restated based on the new categorization of the reportable segments.

Year ended March 31, 2020

	Reportable segment						Subtotal	Other	Total
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business			
Services	53,254	27,250	56,745	26,151	8,294	9,776	181,471	11,014	192,485
Development/SI	25,114	23,474	31,515	13,805	10,169	837	104,917	112	105,029
Products	39,271	8,925	85,220	20,782	5,577	396	160,172	29,329	189,502
Total	117,640	59,650	173,480	60,738	24,041	11,010	446,561	40,456	487,018
Revenue recognized from contracts with customers	112,066	58,547	173,379	60,391	24,029	11,010	439,425	40,433	479,859
Revenue recognized from other sources	5,573	1,102	101	347	11	-	7,136	22	7,158
Total	117,640	59,650	173,480	60,738	24,041	11,010	446,561	40,456	487,018

Note: Revenue amounts exclude intersegment transactions.

Year ended March 31, 2021

	Reportable segment							Other	Total
	(Millions of Yen)								
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal		
Services	54,786	25,823	57,374	27,350	9,051	8,735	183,121	12,287	195,409
Development/SI	24,481	18,183	35,131	13,704	10,747	974	103,223	83	103,307
Products	35,857	7,423	86,130	21,044	4,775	333	155,564	25,597	181,161
Total	115,125	51,430	178,636	62,100	24,574	10,043	441,909	37,968	479,878
Revenue recognized from contracts with customers	110,285	51,139	178,503	61,857	24,562	10,043	436,392	37,949	474,342
Revenue recognized from other sources	4,839	290	132	243	11	-	5,517	19	5,536
Total	115,125	51,430	178,636	62,100	24,574	10,043	441,909	37,968	479,878

Year ended March 31, 2021

	Reportable segment							Other	Total
	(Thousands of U.S. Dollars)								
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal		
Services	494,816	233,233	518,190	247,028	81,749	78,897	1,653,915	110,982	1,764,897
Development/SI	221,112	164,230	317,304	123,778	97,070	8,800	932,296	757	933,053
Products	323,857	67,043	777,908	190,071	43,132	3,011	1,405,025	231,187	1,636,212
Total	1,039,786	464,507	1,613,403	560,877	221,952	90,709	3,991,237	342,927	4,334,164
Revenue recognized from contracts with customers	996,075	461,881	1,612,208	558,682	221,845	90,709	3,941,403	342,755	4,284,158
Revenue recognized from other sources	43,711	2,625	1,194	2,195	106	-	49,833	171	50,005
Total	1,039,786	464,507	1,613,403	560,877	221,952	90,709	3,991,237	342,927	4,334,164

Note: Revenue amounts exclude intersegment transactions.

## (2) Contract balances

Balances of receivables, contract assets, and contract liabilities arising from contracts with customers are as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Receivables arising from contracts with customers	114,916	117,622	1,062,344
Contract assets	11,087	9,405	84,950
Contract liabilities	55,685	64,376	581,435

Notes:

1. The amount of revenue recognized for the years ended March 31, 2020 and 2021, that was included in contract liability balance at the beginning of the years ended March 31, 2020 and 2021, was ¥26,274 million and ¥32,762 million (US\$295,905 thousand), respectively.
2. The amount of revenue recognized for the years ended March 31, 2020 and 2021 from performance obligations satisfied (or partially satisfied) in previous years was ¥1,788 million and ¥719 million (US\$6,497 thousand), respectively.

## (3) Transaction price allocated to the remaining performance obligations

The aggregated amounts of transaction price allocated to the performance obligations unsatisfied (or partially unsatisfied) by duration are as follows. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

	(Millions of Yen)		(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Within 1 year	195,650	230,015	2,077,454
More than 1 year	76,647	84,897	766,772
Total	272,298	314,912	2,844,226



**(4) Assets recognized from the costs to obtain or fulfill a contract with a customer**

**a) Items**

The breakdown of assets recognized from the costs to obtain or fulfill a contract with a customer is as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Costs to obtain a contract	-	-	-
Costs to fulfill a contract	99	82	745

**b) Amortization and Impairment losses**

Amortization and impairment losses recognized on assets recognized from the costs to obtain or fulfill contracts with customers are as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Amortization	16	16	149
Impairment losses	-	-	-

## 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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Employee benefit expenses	43,646	47,059	425,032
Depreciation and amortization expense	6,297	9,660	87,249
Research and development expenses	1,546	1,516	13,698
Others	23,983	21,092	190,503
Total	75,474	79,329	716,484

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Net foreign exchange gains	136	-	-
Insurance income	-	603	5,449
Others	712	1,241	11,210
Total	849	1,844	16,660

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Net foreign exchange losses	-	104	943
Impairment losses	1,124	94	857
Compensation for damage	587	78	711
Others	46	77	704
Total	1,758	356	3,216

## 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, 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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Interest income			
Financial assets measured at amortized cost	192	279	2,522
Others	9	8	76
Subtotal	202	287	2,599
Dividends received			
FVTOCI financial assets	140	134	1,216
Subtotal	140	134	1,216
Other financial income			
FVTPL financial assets	0	144	1,305
Subtotal	0	144	1,305
Total	343	567	5,121

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Interest expense			
Financial liabilities measured at amortized cost	444	462	4,176
Liabilities for retirement benefits	123	119	1,078
Subtotal	567	581	5,254
Other financial costs			
Financial assets measured at amortized cost	27	2	20
FVTPL financial assets	20	106	961
Subtotal	48	108	982
Total	616	690	6,237



## 27. Earnings per share

### (1) Basic and diluted earnings per share

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Basic earnings per share	123.15	131.95	1.19
Diluted earnings per share	123.15	131.94	1.19

### (2) Basis for the calculation of basic and diluted earnings per share

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Net profit attributable to CTC's shareholders	28,451	30,486	275,345

### (Shares in thousands)

	Year ended March 31, 2020	Year ended March 31, 2021
	Weighted-average number of ordinary shares	231,032
Effect of potentially dilutive shares Share-based payment	9	13
Diluted weighted-average number of ordinary shares	231,041	231,057

## 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)			(Millions of Yen)			(Thousands of U.S. Dollars)		
	Year ended March 31, 2020			Year ended March 31, 2021			Year ended March 31, 2021		
	Before tax effects	Tax effects	Net of tax effects	Before tax effects	Tax effects	Net of tax effects	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	1,970	(602)	1,367	3,681	(1,125)	2,556	33,251	(10,164)	23,086
Adjustment for the year	1,970	(602)	1,367	3,681	(1,125)	2,556	33,251	(10,164)	23,086
Remeasurement of defined benefit plans									
Amount arising during the year	(342)	106	(236)	1,583	(484)	1,098	14,300	(4,379)	9,921
Adjustment for the year	(342)	106	(236)	1,583	(484)	1,098	14,300	(4,379)	9,921
Exchange differences on translating foreign operations									
Amount arising during the year	(1,977)	-	(1,977)	2,206	-	2,206	19,932	-	19,932
Adjustment for the year	(1,977)	-	(1,977)	2,206	-	2,206	19,932	-	19,932
Cash flow hedges									
Amount arising during the year	(34)	10	(24)	160	(49)	111	1,448	(443)	1,005
Reclassification to profit or loss for the year	(11)	3	(8)	129	(39)	89	1,169	(357)	811
Adjustment for the year	(46)	14	(32)	289	(88)	201	2,618	(801)	1,816
Share of other comprehensive income of associates accounted for using the equity method									
Amount arising during the year	(9)	-	(9)	36	-	36	329	-	329
Adjustment for the year	(9)	-	(9)	36	-	36	329	-	329
Total other comprehensive income (loss) for the year	(406)	(481)	(888)	7,798	(1,699)	6,099	70,432	(15,345)	55,087

## 29. Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Year ended March 31, 2020

(Millions of Yen)

	April 1, 2019	Cumulative effect of change in accounting policy	April 1, 2019 (as restated)	Cash flows from financing activities	Non-cash changes			March 31, 2020
					Acquisition of assets by means of leases	Changes arising from obtaining or losing control	Exchange differences on translating foreign operations	
Short-term borrowings	540	-	540	(53)	-	843	(71)	1,258
Lease liabilities	16,210	22,220	38,430	(11,961)	14,204	469	(139)	41,003
Total	16,750	22,220	38,970	(12,015)	14,204	1,313	(211)	42,261

Year ended March 31, 2021

(Millions of Yen)

	April 1, 2020	Cash flows from financing activities	Non-cash changes				March 31, 2021
			Acquisition of assets by means of leases	Changes arising from obtaining or losing control	Exchange differences on translating foreign operations	Others	
Short-term borrowings	1,258	(142)	-	-	105	-	1,220
Lease liabilities	41,003	(11,373)	8,300	-	175	(6,873)	31,233
Total	42,261	(11,515)	8,300	-	280	(6,873)	32,453

Year ended March 31, 2021

(Thousands of U.S. Dollars)

	April 1, 2020	Cash flows from financing activities	Non-cash changes				March 31, 2021
			Acquisition of assets by means of leases	Changes arising from obtaining or losing control	Exchange differences on translating foreign operations	Others	
Short-term borrowings	11,363	(1,290)	-	-	949	-	11,021
Lease liabilities	370,337	(102,719)	74,966	-	1,585	(62,077)	282,093
Total	381,700	(104,009)	74,966	-	2,535	(62,077)	293,115



## **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**

Trade receivables (notes and accounts receivable-trade), which are receivables arising from the Group's operating activities, lease receivables, other receivables, and other financial assets are exposed to credit risk. The Group's maximum exposure to credit risk is the sum of all the Group's trade and other receivables, other financial assets measured at amortized cost, contract assets, and the balance of guarantee obligations.

With regard to trade and other receivables, the Group manages the due dates and balances of each customer in accordance with the Group's Credit Management Regulations. A credit control department that is independent from the business department also examines the credit status of each customer, sets appropriate credit limits and due dates, and also regularly monitors the recovery status and overdue status of receivables to ensure recovery.

With regard to other financial assets measured at amortized cost, the Group seeks to quickly identify doubtful accounts and mitigate credit risk by gathering and assessing information about the financial status of each counterparty.

With regard to derivatives to which IFRS 9 requirements for impairment do not apply, the Group judges credit risk to be insignificant because it only conducts transactions with financial institutions with high credit ratings.

On calculation of the allowance for doubtful accounts, the Group classifies financial instruments into the following three stages according to the level of credit risk and estimates expected credit losses for each stage.

Stage 1: Financial instruments for which the credit risk has not increased significantly after initial recognition

Stage 2: Financial instruments for which the credit risk has increased significantly after initial recognition

Stage 3: Credit-impaired financial instruments

When payments are more than 30 days past due on the last day of the consolidated fiscal year or postponement of the payment due date has been requested, or when a credit event has occurred, the Group determines that there has been a significant increase in credit risk and classifies the financial instrument as Stage 2 unless the cause is temporary, the risk of default is low, and the borrower is deemed to have the ability to pay contractual cash flows in the near future.

When collection of contractual cash flows is deemed doubtful, for example, when payments are more than 90 days past due or postponement of the payment due date has been requested because the borrower is in serious financial difficulties at the end of the fiscal year, default is deemed to have occurred and the financial instruments are considered to be credit impaired and classified as Stage 3.

With regard to financial assets classified as Stage 1, the Group recognizes 12-month expected credit losses as the allowance for doubtful accounts. However, with regard to financial assets classified as Stage 2 or Stage 3, the Group recognizes an amount equal to lifetime expected credit losses as the allowance for doubtful accounts.

However, trade receivables, contract assets, and lease receivables are not classified into Stage 1 or Stage 2 and the Group always calculates the amount of the allowance for doubtful accounts based on lifetime expected credit losses.

**a) Credit risk exposure**

The Group's credit risk exposure (before deduction of allowance for doubtful accounts) as of March 31, 2020 and 2021, is as follows:

March 31, 2020

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	31,359	-	49	141,612	173,021
Within 90 days	34	-	-	3,957	3,991
More than 90 days	1	-	55	736	792
Total	31,395	-	105	146,305	177,805

March 31, 2021

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	34,748	-	50	143,094	177,893
Within 90 days	38	-	-	2,657	2,696
More than 90 days	103	-	501	879	1,485
Total	34,891	-	552	146,631	182,075

March 31, 2021

(Thousands of U.S. Dollars)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	313,839	-	460	1,292,396	1,606,696
Within 90 days	349	-	-	24,003	24,353
More than 90 days	938	-	4,531	7,944	13,414
Total	315,128	-	4,991	1,324,345	1,644,465

**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)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Balance as of April 1, 2019	0	-	44	12	58
Increase for the year	-	-	1	0	2
Decrease for the year (utilization)	-	-	(1)	-	(1)
Decrease for the year (unused)	(0)	-	(0)	-	(0)
Others	-	-	48	-	48
Balance as of March 31, 2020	0	-	93	13	106
Increase for the year	0	-	310	45	356
Decrease for the year (utilization)	-	-	(12)	-	(12)
Decrease for the year (unused)	-	-	(1)	-	(1)
Others	-	-	23	3	26
Balance as of March 31, 2021	0	-	412	62	475

(Thousands of U.S. Dollars)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Balance as of March 31, 2020	2	-	842	118	963
Increase for the year	0	-	2,800	414	3,215
Decrease for the year (utilization)	-	-	(110)	-	(110)
Decrease for the year (unused)	-	-	(16)	-	(16)
Others	-	-	210	28	238
Balance as of March 31, 2021	3	-	3,726	562	4,291

There was no significant movement in the carrying amount of financial instruments that would have a material impact on the allowance for doubtful accounts in the years ended March 31, 2020 and 2021. The uncollected contract balance of financial assets that have been directly written off but still subject to enforcement activities is immaterial.



## 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, 2020 and 2021, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020		March 31, 2021	
Balance of foreign exchange (short-term)	(2,039)	(18,743)	(4,627)	(41,791)
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-term 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, 2020	March 31, 2021	March 31, 2021
Profit before tax	20	46	417

### 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, 2020	March 31, 2021	March 31, 2021
Other comprehensive income	(834)	(1,220)	(11,021)

### 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, 2020

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	56,788	56,788	56,788	-	-
Other financial liabilities	1,964	1,964	1,964	-	-
Non-current financial liabilities	121	121	-	120	0
Lease liabilities	41,003	42,812	13,428	27,734	1,649

March 31, 2021

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	55,983	55,983	55,983	-	-
Other financial liabilities	2,247	2,247	2,247	-	-
Non-current financial liabilities	264	264	-	264	-
Lease liabilities	31,233	33,053	11,351	20,347	1,354

March 31, 2021

(Thousands of U.S. Dollars)

	Carrying amount	Contractual cash flow	Within 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	505,630	505,630	505,630	-	-
Other financial liabilities	20,300	20,300	20,300	-	-
Non-current financial liabilities	2,387	2,387	-	2,387	-
Lease liabilities	282,093	298,528	102,526	183,771	12,230

**b) Derivatives**

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

March 31, 2020

(Millions of Yen)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	144	-	-	144
	Expenditures	(209)	(13)	-	(222)

March 31, 2021

(Millions of Yen)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	534	5	-	539
	Expenditures	(32)	-	-	(32)

March 31, 2021

(Thousands of U.S. Dollars)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	4,823	52	-	4,875
	Expenditures	(294)	-	-	(294)



### (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 carrying amounts of trade and other receivables other than lease receivables approximate their fair values 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 put options granted to non-controlling interests is determined based on the method of discounting future cash flows and is classified as Level 3.

The carrying amounts of other financial assets measured at amortized cost approximates their fair values 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 liabilities, 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 current financial liabilities and non-current financial liabilities other than lease liabilities 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, 2020		March 31, 2021		March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	137,736	137,756	140,171	140,139	1,265,995	1,265,712
Other financial assets	28,878	28,878	32,028	32,028	289,272	289,272
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	8,825	8,825	12,545	12,545	113,312	113,312
FVTPL financial assets	1,318	1,318	1,626	1,626	14,693	14,693
Financial liabilities measured at amortized cost						
Other current financial liabilities	14,596	14,605	12,826	12,829	115,848	115,875
Non-current financial liabilities	28,494	28,577	20,918	20,966	188,933	189,368
Financial liabilities measured at fair value						
Other current financial liabilities						
FVTPL financial liabilities	222	222	32	32	294	294
Non-current financial liabilities						
Others	2,727	2,727	1,250	1,250	11,296	11,296

### 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. In addition, the written put options on the shares of subsidiaries that the Group granted to the owners of non-controlling interests are not included below.

(Millions of Yen)

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	8,349	8	467	8,825
FVTPL financial assets	-	144	1,174	1,318
Total assets	8,349	152	1,641	10,144
Liabilities:				
FVTPL financial liabilities	-	222	-	222
Total liabilities	-	222	-	222

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2020.

(Millions of Yen)

	March 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	12,203	8	334	12,545
FVTPL financial assets	-	539	1,087	1,626
Total assets	12,203	547	1,421	14,172
Liabilities:				
FVTPL financial liabilities	-	32	-	32
Total liabilities	-	32	-	32

(Thousands of U.S. Dollars)

	March 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	110,216	73	3,022	113,312
FVTPL financial assets	-	4,875	9,817	14,693
Total assets	110,216	4,948	12,839	128,005
Liabilities:				
FVTPL financial liabilities	-	294	-	294
Total liabilities	-	294	-	294

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2021.

#### 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, 2020	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2019	370	982
Total gains or losses		
Profit or loss	-	(20)
Other comprehensive income	(4)	-
Purchases	101	278
Disposals	-	-
Distribution	-	(64)
Transfer from Level 3	-	-
Others	-	(3)
March 31, 2020	467	1,174
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2020 – net	-	(20)

	(Millions of Yen)	
	Year ended March 31, 2021	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2020	467	1,174
Total gains or losses		
Profit or loss	-	38
Other comprehensive income	(110)	-
Purchases	382	219
Disposals	(0)	(244)
Distribution	-	(95)
Transfer from Level 3	(410)	-
Others	6	(5)
March 31, 2021	334	1,087
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2021 – net	-	(106)



(Thousands of U.S. Dollars)

	Year ended March 31, 2021	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2020	4,222	10,605
Total gains or losses		
Profit or loss	-	344
Other comprehensive income	(1,002)	-
Purchases	3,451	1,989
Disposals	(2)	(2,205)
Distribution	-	(866)
Transfer from Level 3	(3,705)	-
Others	58	(47)
March 31, 2021	3,022	9,817
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2021 – net	-	(961)

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.

Transfer from Level 3 recognized for the fiscal year ended March 31, 2021 occurred because fair value was measurable based on the market trading prices as a result of an investee being listed.

#### **(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.

Details of main hedging instruments designated as cash flow hedges are as follows:

(Millions of Yen)

	March 31, 2020			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	13,922	144	204	Other financial assets (current) Other financial liabilities (current)

(Millions of Yen)

	March 31, 2021			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	14,769	539	29	Other financial assets (current) Other financial liabilities (current)

(Thousands of U.S. Dollars)

	March 31, 2021			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	133,392	4,875	267	Other financial assets (current) Other financial liabilities (current)

The change in value of the hedged item, which is used as a basis for recognizing the ineffective portion of the hedge, is similar to the change in the fair value of the hedging instrument.

Since the Group's only risk category for cash flow hedges is foreign currency risk, the change in the value of hedging instruments designated as cash flow hedges is the same as the change in other comprehensive income recorded in "28. Other comprehensive income." Profit reclassification adjustments relating to cash flow hedges are recorded in "Other income" or "Other expenses" on the consolidated statement of income, and the ineffective portion of hedges is immaterial.

### 31. Related-party transactions

#### (1) Transactions with related parties

The Group conducted transactions with related parties, which are as follows:

Year ended March 31, 2020

(Millions of Yen)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited) 2,000	20,000
			(Repayment of deposit) 2,000	
		Deposit contracts (withdrawable anytime)	-	32,777

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 Treasury Corporation.

Year ended March 31, 2021

(Millions of Yen)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited) -	20,000
			(Repayment of deposit) -	
		Deposit contracts (withdrawable anytime)	-	40,649



Year ended March 31, 2021

(Thousands of U.S. Dollars)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited)	180,635
			-	
		(Repayment of deposit)	-	
		Deposit contracts (withdrawable anytime)	-	367,139

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 Treasury 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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Benefits and bonuses	263	256	2,316
Share-based payment	46	50	456
Total	310	307	2,773

### 32. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Voting shares (%)
			March 31, 2021
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	Enterprise business	Setagaya-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	100.0
Asahi Business Solutions Corp.	Distribution 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
PT. Nusantara Compnet Integrator	Other	Jakarta, Indonesia	70.0
CTC GLOBAL PTE. LTD.	Other	Singapore	70.0
PT. Pro Sistimatika Automasi	Other	Jakarta, Indonesia	70.0
ITOCHU Techno-Solutions America, Inc.	Other	Santa Clara, California, U.S.A.	70.0

### 33. Commitments

There are no contractual commitments for purchase of assets after the end of each fiscal year at March 31, 2020.

Commitments associated with the acquisition of property, plant and equipment, such as leasing and the improvement and expansion of facilities, as a result of office relocation amounted to ¥4,945 million (US\$44,664 thousand) at the end of the fiscal year ended March 31, 2021.

### 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, 2020	Year ended March 31, 2021	Year ended March 31, 2021
Guarantees for employees	16 (12 people)	9 (10 people)	86 (10 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. Security

The breakdown of assets provided as security and obligations pertaining to security is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2021	March 31, 2021
Assets provided as security			
Trade and other receivables	-	269	2,434
Other current financial assets	-	4,001	36,137
Property, plant and equipment	-	90	816
Other non-current financial assets	7,720	6,617	59,772
Total	7,720	10,979	99,160
Obligations pertaining to security			
Other current financial liabilities and non-current financial liabilities	7,720	4,013	36,247
Total	7,720	4,013	36,247



# CTC

Challenging Tomorrow's Changes



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.