Consolidated Financial Statements

For the year ended March 31, 2016

ITOCHU Techno-Solutions Corporation

CTC

Challenging Tomorrow's Changes

Consolidated Financial Statements

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2015 and 2016

	Notes	(Millions of Yen) March 31, 2015	(Millions of Yen) March 31, 2016	(Thousands of U.S. Dollars) March 31, 2016
Assets				
Current assets				
Cash and cash equivalents	6	50,146	44,880	398,261
Trade and other receivables	7, 27	109,568	111,118	986,054
Inventories	8	20,973	18,488	164,064
Current tax assets		27	8	76
Other current financial assets	12, 27	15,200	20,025	177,700
Other current assets		31,327	34,492	306,087
Total current assets		227,245	229,013	2,032,245
Non-current assets				
Property, plant and equipment	9, 16	34,780	35,514	315,147
Goodwill	10	4,660	4,245	37,674
Intangible assets	10, 16	10,534	11,548	102,480
Investments accounted for using the equity method	5, 11	621	635	5,636
Other non-current financial assets	12, 27	10,749	14,490	128,587
Deferred tax assets	13	12,298	10,286	91,278
Other non-current assets		1,844	2,198	19,507
Total non-current assets		75,489	78,918	700,313
Total assets	5	302,734	307,932	2,732,558

	Notes	(Millions of Yen) March 31, 2015	(Millions of Yen) March 31, 2016	(Thousands of U.S. Dollars) March 31, 2016
Liabilities and equity				
Current liabilities				
Trade and other payables	14, 27	49,691	47,202	418,871
Other current financial liabilities	15, 27	6,869	6,179	54,840
Income taxes payable		8,604	6,312	56,019
Liabilities for employee benefits		14,786	14,061	124,784
Provisions	18	1,100	660	5,860
Other current liabilities		29,896	34,140	302,959
Total current liabilities		110,949	108,558	963,335
Non-current liabilities				
Non-current financial liabilities	15, 27	12,236	10,207	90,580
Liabilities for employee benefits	17	4,259	3,973	35,257
Provisions	18	1,646	1,671	14,828
Deferred tax liabilities	13	724	474	4,214
Other non-current liabilities		11	3	29
Total non-current liabilities		18,878	16,329	144,910
Total liabilities		129,827	124,888	1,108,246
Equity				
Common stock	19	21,763	21,763	193,127
Capital surplus	19	33,076	33,076	293,513
Treasury stock	19	(9,225)	(9,231)	(81,917)
Retained earnings	19	121,530	132,677	1,177,369
Other components of equity		1,732	999	8,866
Total equity attributable to owners of the Company		168,876	179,285	1,590,958
Non-controlling interests		4,030	3,758	33,353
Total equity		172,907	183,043	1,624,312
Total liabilities and equity		302,734	307,932	2,732,558

Consolidated Statement of Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2015 and 2016

	Notes	(Millions of Yen) Year ended March 31, 2015	(Millions of Yen) Year ended March 31, 2016	(Thousands of U.S. Dollars) Year ended March 31, 2016
Revenue	5	381,939	391,606	3,475,076
Cost of sales		(290,660)	(300,080)	(2,662,882)
Gross profit		91,279	91,526	812,193
Other income and expenses				
Selling, general and administrative expenses	22	(62,500)	(63,464)	(563,178)
Other income	22	1,225	450	3,995
Other expenses	22	(666)	(569)	(5,051)
Total other income and expenses		(61,940)	(63,583)	(564,234)
Operating income		29,339	27,942	247,958
Financial income	5, 24	221	193	1,719
Financial costs	5, 24	(157)	(243)	(2,162)
Share of profit of associates accounted for using the equity method	5, 11	66	50	447
Gain on sales of shares of subsidiaries and associates		23	-	-
Profit before tax	5	29,494	27,942	247,963
Income tax expense	13	(11,844)	(9,804)	(87,005)
Profit for the year		17,650	18,138	160,958
Profit for the year attributable to:				
Owners of the Company		17,406	18,018	159,892
Non-controlling interests		243	120	1,065

Earnings per share for the year (Attributable to owners of the Company)		(Yen)	(Yen)	(U.S. Dollars)
Basic earnings per share for the year	25	148.79	155.85	1.38
Diluted earnings per share for the year	25	-	-	-

Consolidated Statement of Comprehensive Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2015 and 2016

	Notes	(Millions of Yen) Year ended March 31, 2015	(Millions of Yen) Year ended March 31, 2016	(Thousands of U.S. Dollars) Year ended March 31, 2016
Profit for the year		17,650	18,138	160,958
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	26	17	114	1,018
Remeasurement of defined benefit plans	26	(363)	524	4,650
Share of other comprehensive income of associates accounted for using the equity method	11, 26	0	(0)	(4)
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	26	568	(1,147)	(10,185)
Cash flow hedges	26	8	(30)	(267)
Share of other comprehensive income of associates accounted for using the equity method	11, 26	34	(21)	(186)
Total other comprehensive income for the year, net of tax effect		266	(560)	(4,974)
Total comprehensive income for the year		17,917	17,577	155,983
Total comprehensive income for the year attributable to:				
Owners of the Company		17,533	17,784	157,816
Non-controlling interests		383	(206)	(1,833)

Consolidated Statement of Changes In Equity

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2015 and 2016

(Millions of Yen)

	Notes	Attributable to owners of the Company					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2014		21,763	33,076	(4,223)	111,132	442	771
Profit for the year		-	-	-	17,406	-	-
Other comprehensive income for the year, net of tax effect		-	-	-	-	464	17
Total comprehensive income for the year		-	-	-	17,406	464	17
Payment of dividends	20	-	-	-	(6,622)	-	-
Purchase of treasury stock		-	-	(5,002)	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	(386)	-	22
Total transactions with owners		-	-	(5,002)	(7,008)	-	22
March 31, 2015		21,763	33,076	(9,225)	121,530	907	812

(Millions of Yen)

	Attributable to owners of the Company			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of the Company		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2014	4	-	162,967	3,732	166,700
Profit for the year	-	-	17,406	243	17,650
Other comprehensive income for the year, net of tax effect	8	(363)	127	139	266
Total comprehensive income for the year	8	(363)	17,533	383	17,917
Payment of dividends	-	-	(6,622)	(85)	(6,708)
Purchase of treasury stock	-	-	(5,002)	-	(5,002)
Transfer to retained earnings from other components of equity	-	363	-	-	-
Total transactions with owners	-	363	(11,624)	(85)	(11,710)
March 31, 2015	13	-	168,876	4,030	172,907

(Millions of Yen)

	Notes	Attributable to owners of the Company					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2015		21,763	33,076	(9,225)	121,530	907	812
Profit for the year		-	-	-	18,018	-	-
Other comprehensive income for the year, net of tax effect		-	-	-	-	(842)	114
Total comprehensive income for the year		-	-	-	18,018	(842)	114
Payment of dividends	20	-	-	-	(7,370)	-	-
Purchase of treasury stock		-	-	(5)	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	499	-	24
Total transactions with owners		-	-	(5)	(6,870)	-	24
March 31, 2016		21,763	33,076	(9,231)	132,677	64	950

(Millions of Yen)

	Attributable to owners of the Company			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of the Company		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2015	13	-	168,876	4,030	172,907
Profit for the year	-	-	18,018	120	18,138
Other comprehensive income for the year, net of tax effect	(30)	524	(233)	(326)	(560)
Total comprehensive income for the year	(30)	524	17,784	(206)	17,577
Payment of dividends	-	-	(7,370)	(64)	(7,435)
Purchase of treasury stock	-	-	(5)	-	(5)
Transfer to retained earnings from other components of equity	-	(524)	-	-	-
Total transactions with owners	-	(524)	(7,376)	(64)	(7,441)
March 31, 2016	(16)	-	179,285	3,758	183,043

(Thousands of U.S. Dollars)

	Notes	Attributable to owners of the Company					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2015		193,127	293,513	(81,868)	1,078,446	8,049	7,208
Profit for the year		-	-	-	159,892	-	-
Other comprehensive income for the year, net of tax effect		-	-	-	-	(7,472)	1,013
Total comprehensive income for the year		-	-	-	159,892	(7,472)	1,013
Payment of dividends	20	-	-	-	(65,404)	-	-
Purchase of treasury stock		-	-	(49)	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	4,434	-	215
Total transactions with owners		-	-	(49)	(60,969)	-	215
March 31, 2016		193,127	293,513	(81,917)	1,177,369	576	8,437

(Thousands of U.S. Dollars)

	Attributable to owners of the Company			Non-controlling interests	Total equity
	Other components of equity		Total equity attributable to owners of the Company		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2015	120	-	1,498,595	35,764	1,534,359
Profit for the year	-	-	159,892	1,065	160,958
Other comprehensive income for the year, net of tax effect	(267)	4,650	(2,075)	(2,898)	(4,974)
Total comprehensive income for the year	(267)	4,650	157,816	(1,833)	155,983
Payment of dividends	-	-	(65,404)	(576)	(65,981)
Purchase of treasury stock	-	-	(49)	-	(49)
Transfer to retained earnings from other components of equity	-	(4,650)	-	-	-
Total transactions with owners	-	(4,650)	(65,454)	(576)	(66,030)
March 31, 2016	(146)	-	1,590,958	33,353	1,624,312

Consolidated Statement of Cash Flows

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2015 and 2016

	Notes	(Millions of Yen) Year ended March 31, 2015	(Millions of Yen) Year ended March 31, 2016	(Thousands of U.S. Dollars) Year ended March 31, 2016
Cash flows from operating activities				
Profit before tax		29,494	27,942	247,963
Adjustments for:				
Depreciation and amortization expense		8,202	8,442	74,921
Impairment losses		298	53	478
Interest and dividend income		(149)	(193)	(1,719)
Interest expenses		157	135	1,200
Share of profit of associates accounted for using the equity method		(66)	(50)	(447)
Gain on sales of shares of subsidiaries and associates		(23)	-	-
Increase in trade and other receivables		(9,466)	(3,850)	(34,169)
Decrease in inventories		2,685	2,350	20,854
Increase (decrease) in trade and other payables		4,596	(725)	(6,439)
Other - net		(238)	(1,220)	(10,830)
Subtotal		35,489	32,884	291,811
Interest and dividends received		195	178	1,580
Interest paid		(131)	(97)	(866)
Income taxes paid		(9,722)	(11,108)	(98,575)
Net cash provided by operating activities		25,830	21,856	193,950
Cash flows from investing activities				
Purchases of property, plant and equipment		(2,650)	(4,942)	(43,858)
Payments for retirement of property, plant and equipment		-	(159)	(1,415)
Proceeds from sales of property, plant and equipment		36	139	1,235
Purchases of intangible assets		(1,458)	(4,907)	(43,550)
Purchases of investment securities		(1)	(3,602)	(31,967)
Proceeds from sale of investment securities		28	-	-
Proceeds from dividend of investment partnership		190	171	1,524
Proceeds from sales of shares of subsidiaries and associates		925	-	-
Proceeds from government grants	23	-	42	380
Increase in deposits other than cash equivalents		(14,415)	(4,932)	(43,770)
Other - net		3	5	44
Net cash used in investing activities		(17,342)	(18,185)	(161,377)
Cash flows from financing activities				
Repayments of short-term borrowings		(870)	-	-
Proceeds from short-term borrowings		402	122	1,088
Purchases of treasury stock		(5,004)	(5)	(49)
Proceeds from sale and leaseback		1,569	1,625	14,426
Repayments of finance lease obligations		(2,982)	(2,728)	(24,214)
Dividends paid to owners of the Company	20	(6,623)	(7,371)	(65,414)
Dividends paid to non-controlling interests		(85)	(64)	(576)
Net cash used in financing activities		(13,594)	(8,422)	(74,739)
Effects of exchange rate changes on cash and cash equivalents		168	(514)	(4,568)
Net decrease in cash and cash equivalents		(4,937)	(5,266)	(46,735)
Cash and cash equivalents at the beginning of the year		55,083	50,146	444,996
Cash and cash equivalents at the end of the year	6	50,146	44,880	398,261

Notes to Consolidated Financial Statements

1. Reporting entity

ITOCHU Techno-Solutions Corporation (the "Company") is a company incorporated and located in Japan. The addresses of its registered office and principal place of business are disclosed on the Company's website (http://www.ctc-g.co.jp/). The consolidated reporting period of the Company and its subsidiaries (the "Group") is the year ended March 31, 2016. 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 to 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 countries of incorporation.

The consolidated financial statements were approved at the board of directors' meeting held on June 16, 2016.

(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 yen.

The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2016, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112.69=US$1 (the official rate at March 31, 2016, announced by Mizuho Bank, Ltd.).

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

For the preparation of the consolidated financial statements, the Company has early adopted IFRS 9 "Financial Instruments" (published in November 2009, amended October 2010 and December 2011).

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

Of the new or amended IFRSs or Interpretations published by the date of approval of the consolidated financial statements, the Company has not adopted the following IFRSs as of March 31, 2016 because adoption is not mandatory.

The Company is currently evaluating the potential impacts that these applications will have on the consolidated financial statements, which cannot be estimated at this time.

Standard	Title	Mandatory adoption (from the year beginning)	To be adopted by the Group (from the year ending)	Summary of new or amended standard
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Limited changes to classification and measurement of financial instruments New requirements for impairment losses of financial assets Amendment to hedge accounting for general hedge
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Establishment of standard for "Revenue from Contracts with Customers" (Replacement of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31)
IFRS 16	Leases	January 1, 2019	March 31, 2020	Adoption of concept of control for definition of leases (Abolition of IAS 17, IFRIC 4, SIC 15, SIC 27)
IAS 1	Presentation of Financial Statements	January 1, 2016	March 31, 2017	Clarification of disclosure requirement regarding materiality considerations

3. Significant accounting policies

Unless otherwise stated, accounting policies described below have been applied to the consolidated financial statements consistently throughout all the 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 previous generally accepted accounting principles ("GAAP"), 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 at the acquisition date.

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

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

2) Subsidiaries

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

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

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

3) Loss of control

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

4) Business combination under common control

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

5) Associates

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

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

The consolidated financial statements include an investment in an associate with a reporting period end that differs from that of the Company because it is impracticable to unify the reporting period end. The reasons why it is impracticable include the existence of relationships with other shareholders. The reporting period for the associate subject to the equity method is December 31. 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 equity method is recognized in profit or loss.

6) Transactions eliminated on consolidation

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

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

(2) Foreign currency translation

1) Foreign currency transactions

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

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

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

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

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

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

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

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

(3) Financial instruments

1) Financial assets other than derivatives

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

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

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

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

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

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

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

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

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

2) Cash equivalents

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

3) Financial liabilities other than derivatives

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

4) Derivative instruments and hedging activities

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

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

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

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

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

Hedge accounting is discontinued for ineffective hedges, if any.

5) Presentation of financial assets and liabilities

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

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

(4) Inventories

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

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

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

(5) Property, plant and equipment

1) Recognition and measurement

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

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

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

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

2) Depreciation

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

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

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

(6) Goodwill and Intangible Assets

1) Goodwill

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

2) Intangible assets

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

Except for intangible assets for which useful lives cannot be determined, intangible assets are mainly amortized using the straight-line method over their estimated useful lives (software: 5 years and other intangible assets: 4–10 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

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

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

(7) Leases

1) Leases as lessee

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

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

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

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

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

2) Leases as lessor

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

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

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

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

(8) Impairment

1) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

If there are indications that the impairment losses recognized in past fiscal years have clearly decreased or may not exist, when the estimated recoverable amount of the assets surpasses the carrying amount, impairment losses are reversed. An upper limit for reversals of impairment losses is set as the carrying amount less amortization or depreciation if impairment losses had not been recognized. However, impairment losses on goodwill are not reversed.
Goodwill relating to the acquisition of associates is not classified separately, but included as part of the carrying amount of the investments. Investments in associates are recognized as undistinguishable assets that are subject to impairment.

(9) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition and its sale is highly probable. Management must commit to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
When the Group commits to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associates. 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 service that employees render during the accounting period.
Estimated bonus payments are recognized in liabilities, if the Group has legal or constructive obligations for which they should make payments, and if the obligations can be estimated reliably.

(11) Provisions

Provisions are recognized if the Group has present obligations (legal or constructive obligations) as a result of past events, if it is probable that settling the obligations will require outflows of resources embodying economic benefits, and if the obligations can be estimated reliably.
If the effect of the time value of money is significant, provisions are measured as the present value of payments expected to be required to settle the obligations. To calculate the present value, a pre-tax risk-free discount rate corresponding to the period in which future cash flows will arise is used. In estimates of future cash flows, the uncertainty of the occurrence of events subject to provisions is reflected.

1) Provisions for asset retirement obligations
The estimated cost of dismantling or removing property, plant and equipment and restoring sites on which they are located is recognized as provisions 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 that 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 estimate amount of losses on orders received at the end of the fiscal year as provisions 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 estimate amount of costs as provisions for after-sales costs based on the historical rate and the amount required for individual projects.

(12) 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.

(13) Revenues

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

Revenue is measured at fair value of the consideration received, after deducting sales taxes that the Group has a direct obligation to collect and pay to such third parties as tax authorities.
Revenue from product sales is recognized at the time the delivery conditions agreed with customers are met. These conditions are usually considered to have been met when goods are received by the customer or the acceptance from the customer is received.

2) Rendering of services
The revenue from rendering of services is recognized in accordance with the progress of transactions at the end of the period when the following conditions are satisfied.
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The progress of the transaction at the end of the reporting period can be measured reliably; and
- The costs arising from the transaction and costs required to complete the transaction can be measured reliably.

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

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

3) Multiple components transactions

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

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

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

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

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

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

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

(14) 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.

(15) 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.

(16) Income taxes

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

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

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

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

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

- Deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill in a business combination.
- No deferred tax assets or deferred tax liabilities are recognized for differences that arise from the initial recognition of assets or liabilities in transactions other than business combinations where such temporary differences at the time of the transaction affect neither accounting profit nor taxable profit.

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

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

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

(17) Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to owners of the Company 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 dilutive potential common stock.

4. Significant accounting estimates and judgments

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

Assumptions and estimates that have a risk of resulting in material adjustments for the year ended March 31, 2017, are mainly as follows.

- Recoverable amount of financial assets that are measured at amortized cost and have indications of impairment (Note 12. Other financial assets)

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

- Recoverable amounts of property, plant and equipment, goodwill, intangible assets and investments in associates measured through impairment tests (Note 9. Property, plant and equipment, Note 10. Goodwill and intangible assets, and Note 11. Investments accounted for using the equity method)

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

- Measurement of provisions (Note 18. Provisions)

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

- Measurement of fair value of defined benefit plan obligations and plan assets in post-employment defined benefit plans (Note 17. Employee benefits)

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

- Recoverability of deferred tax assets (Note 13. 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 significantly affect the recognized amounts of assets, liabilities, income, and expenses are mainly as follows.

- Evaluation of whether there are indications of impairment or whether there are indications of reversals of impairment of financial assets measured at amortized cost (Note 12. Other financial assets)
- Evaluation of whether there are indications of impairment of property, plant and equipment, goodwill, intangible assets, and investments in associates (Note 9. Property, plant and equipment, Note 10. Goodwill and intangible assets, and Note 11. Investments accounted for using the equity method)
- Recognition of provisions (Note 18. Provisions)

5. Segment information

(1) Description of reportable segments

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

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

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

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

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

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

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

Year ended March 31, 2015

(Millions of Yen)

	Reportable segment			
	Telecommunications business	Finance and Public business	Enterprise business	Distribution business
Revenue				
Revenue from external customers	132,089	71,975	74,750	62,351
Inter-segment revenue or transfers	1,212	279	4,425	348
Total	133,301	72,254	79,175	62,700
Profit before tax (Segment profit)	9,744	6,001	409	4,342
Segment assets	51,759	21,606	30,442	31,402
Other items				
Financial income	15	0	3	91
Financial costs	(6)	(23)	(30)	(13)
Share of profit of associates accounted for using the equity method	-	-	-	40
Depreciation and amortization expense (Note 3)	(423)	(564)	(729)	(670)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	-	-	-	284
Capital expenditures (Note 3)	275	268	1,234	1,287

(Millions of Yen)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	10,809	351,976	29,963	381,939	-	381,939
Inter-segment revenue or transfers	91,216	97,482	678	98,161	(98,161)	-
Total	102,025	449,458	30,642	480,100	(98,161)	381,939
Profit before tax (Segment profit)	8,565	29,063	1,743	30,807	(1,313)	29,494
Segment assets	72,206	207,417	23,433	230,850	71,883	302,734
Other items						
Financial income	18	129	22	152	68	221
Financial costs	(55)	(128)	(4)	(133)	(23)	(157)
Share of profit of associates accounted for using the equity method	-	40	6	47	19	66
Depreciation and amortization expense (Note 3)	(3,026)	(5,414)	(1,022)	(6,437)	(1,764)	(8,202)
Impairment losses	(293)	(293)	(1)	(295)	(3)	(298)
Investments accounted for using the equity method	-	284	214	498	122	621
Capital expenditures (Note 3)	2,661	5,728	539	6,268	1,707	7,975

Notes:
1. "Other", which is not included in the reportable segments, consists of foreign subsidiaries and a science business segment, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥1,313 million include primarily administrative expenses and investments that are not allocated to business segments of ¥1,722 million.

(2) Reconciliations of segment assets of ¥71,883 million include corporate assets of ¥83,413 million and intersegmental elimination of receivables and payables of ¥(11,928) million.

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

(3) Reconciliations of financial income in other items of ¥68 million include ¥144 million of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of ¥23 million include ¥44 million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of share of profit of associates accounted for using the equity method of ¥19 million are profit or loss related to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of depreciation and amortization expense of ¥1,764 million include depreciation and amortization on impairment losses of ¥1,924 million and elimination of unrealized gains of ¥159 million.

Reconciliations of impairment losses of ¥3 million are impairment losses related to corporate assets.

Reconciliations of investments in associates accounted for using the equity method of ¥122 million are investments to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of capital expenditures of ¥1,707 million include an increase in corporate assets of ¥1,904 million and elimination of unrealized gains of ¥(197) million.

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

Year ended March 31, 2016

(Millions of Yen)

	Reportable segment			
	Telecommunications business	Finance and Public business	Enterprise business	Distribution business
Revenue				
Revenue from external customers	142,392	67,116	82,818	52,127
Inter-segment revenue or transfers	1,517	201	3,888	428
Total	143,909	67,318	86,706	52,555
Profit before tax (Segment profit)	10,132	3,234	2,518	3,658
Segment assets	60,621	20,969	31,589	29,233
Other items				
Financial income	17	2	7	35
Financial costs	(4)	(12)	(19)	(11)
Share of profit of associates accounted for using the equity method	-	-	-	29
Depreciation and amortization expense (Note 3)	(406)	(448)	(871)	(857)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	-	-	-	304
Capital expenditures (Note 3)	204	164	1,488	650

(Millions of Yen)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	11,012	355,467	36,139	391,606	-	391,606
Inter-segment revenue or transfers	95,608	101,643	900	102,544	(102,544)	-
Total	106,620	457,111	37,039	494,150	(102,544)	391,606
Profit before tax (Segment profit)	8,658	28,201	1,871	30,072	(2,129)	27,942
Segment assets	74,624	217,308	25,262	242,300	65,631	307,932
Other items						
Financial income	17	81	31	113	80	193
Financial costs	(49)	(97)	(4)	(102)	(141)	(243)
Share of profit of associates accounted for using the equity method	-	29	(7)	21	29	50
Depreciation and amortization expense (Note 3)	(3,182)	(5,767)	(1,076)	(6,843)	(1,599)	(8,442)
Impairment losses	(49)	(49)	-	(49)	(4)	(53)
Investments accounted for using the equity method	-	304	189	493	141	635
Capital expenditures (Note 3)	5,246	7,754	538	8,292	2,790	11,083

Notes:

1. “Other”, which is not included in the reportable segments, consists of foreign subsidiaries and a science business segment, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥2,129 million include primarily administrative expenses and investments that are not allocated to business segments of ¥2,304 million.
   (2) Reconciliations of segment assets of ¥65,631 million include corporate assets of ¥75,432 million and intersegmental elimination of receivables and payables of ¥(10,731) million.

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

(3) Reconciliations of financial income in other items of ¥80 million include ¥89 million of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of ¥141 million include ¥146 million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of share of profit of associates accounted for using the equity method of ¥29 million are profit or loss related to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of depreciation and amortization expense of ¥1,599 million include depreciation and amortization on impairment losses of ¥1,788 million and elimination of unrealized gains of ¥189 million.

Reconciliations of impairment losses of ¥4 million are impairment losses related to corporate assets.

Reconciliations of investments in associates accounted for using the equity method of ¥141 million are investments to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of capital expenditures of ¥2,790 million include an increase in corporate assets of ¥2,967 million and elimination of unrealized gains of ¥(177) million.

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

Year ended March 31, 2016

(Thousands of U.S. Dollars)

	Reportable segment			
	Telecommunications business	Finance and Public business	Enterprise business	Distribution business
Revenue				
Revenue from external customers	1,263,578	595,583	734,920	462,571
Inter-segment revenue or transfers	13,463	1,791	34,508	3,799
Total	1,277,041	597,375	769,428	466,371
Profit before tax (Segment profit)	89,911	28,701	22,350	32,461
Segment assets	537,948	186,081	280,318	259,419
Other items				
Financial income	156	25	68	316
Financial costs	(44)	(109)	(171)	(99)
Share of profit of associates accounted for using the equity method	-	-	-	258
Depreciation and amortization expense (Note 3)	(3,609)	(3,979)	(7,735)	(7,613)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	-	-	-	2,704
Capital expenditures (Note 3)	1,811	1,462	13,206	5,773

(Thousands of U.S. Dollars)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	97,727	3,154,381	320,694	3,475,076	-	3,475,076
Inter-segment revenue or transfers	848,416	901,978	7,986	909,965	(909,965)	-
Total	946,144	4,056,360	328,681	4,385,041	(909,965)	3,475,076
Profit before tax (Segment profit)	76,832	250,258	16,605	266,863	(18,900)	247,963
Segment assets	662,213	1,925,981	224,172	2,150,153	582,404	2,732,558
Other items						
Financial income	158	726	276	1,002	716	1,719
Financial costs	(437)	(862)	(43)	(906)	(1,255)	(2,162)
Share of profit of associates accounted for using the equity method	-	258	(70)	187	259	447
Depreciation and amortization expense (Note 3)	(28,244)	(51,183)	(9,548)	(60,732)	(14,189)	(74,921)
Impairment losses	(439)	(439)	-	(439)	(39)	(478)
Investments accounted for using the equity method	-	2,704	1,677	4,381	1,255	5,636
Capital expenditures (Note 3)	46,558	68,812	4,778	73,591	24,759	98,351

Notes:

1. "Other", which is not included in the reportable segments, consists of foreign subsidiaries and a science business segment, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of US$18,900 thousand include primarily administrative expenses and investments that are not allocated to business segments of US$20,453 thousand.
   (2) Reconciliations of segment assets of US$582,404 thousand include corporate assets of US$669,385 thousand and intersegmental elimination of receivables and payables of US$(95,229) thousand. Corporate assets consist of

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

(3) Reconciliations of financial income in other items of US$716 thousand include US$794 thousand of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of US$1,255 thousand include US$1,300 thousand of losses related to the administrative department that are not allocated to business segments.

Reconciliations of share of profit of associates accounted for using the equity method of US$259 thousand are profit or loss related to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of depreciation and amortization expense of US$14,189 thousand include depreciation and amortization on impairment losses of US$15,872 thousand and elimination of unrealized gains of US$1,683 thousand.

Reconciliations of impairment losses of US$39 thousand are impairment losses related to corporate assets.

Reconciliations of investments in associates accounted for using the equity method of US$1,255 thousand are investments to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of capital expenditures of US$24,759 thousand include an increase in corporate assets of US$26,332 thousand and elimination of unrealized gains of US$(1,572) thousand.

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

(3) Information about products and services

Year ended March 31, 2015

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	155,062	79,001	147,875	381,939

Year ended March 31, 2016

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	158,338	77,625	155,642	391,606

Year ended March 31, 2016

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,405,081	688,839	1,381,155	3,475,076

(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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Japan	42,441	44,763	397,222
Asia	8,651	7,389	65,573
Others	19	20	185
Total	51,112	52,173	462,981

(5) Information about major customers

Information about revenue from the Group's major external customers that contributed 10% or more to the Group's revenue is as follows:

	Reportable segment	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Nippon Telegraph and Telephone Corporation and the Group	Telecommunications business	46,346	48,546	430,800
KDDI Corporation and the Group	Telecommunications business	43,167	47,396	420,591

6. 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, 2015	March 31, 2016	March 31, 2016
Cash and bank balances	30,674	36,675	325,456
Securities within three months	2,999	2,999	26,619
Deposits within three months	16,472	5,204	46,186
Total	50,146	44,880	398,261

The balance of cash and cash equivalents agrees with both the consolidated statement of financial position and the consolidated statement of cash flows as of March 31, 2015 and 2016.

7. 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, 2015	March 31, 2016	March 31, 2016
Notes and accounts receivable - -trade	92,860	96,069	852,509
Lease receivables	15,376	13,935	123,660
Others	1,340	1,136	10,089
Allowance for doubtful accounts	(9)	(23)	(204)
Total	109,568	111,118	986,054

8. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Merchandise	15,639	13,777	122,259
Work in progress	227	82	729
Supplies for maintenance service	5,106	4,628	41,076
Total	20,973	18,488	164,064
Inventories to be sold more than one year after	13	740	6,566

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2015 and 2016, is ¥191,483 million and ¥195,357 million (US$1,733,580 thousand), respectively. The write-downs of inventories to net realizable value as of March 31, 2015 and 2016, are ¥0 million and ¥1 million (US$13 thousand), respectively. The write-down amount of inventories is included in “Cost of sales” in the consolidated statement of income.

9. Property, plant and equipment

(1) Movements in property, plant and equipment

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

(Cost)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
April 1, 2014	35,639	17,135	4,839	57,614
Purchase	1,661	1,839	-	3,500
Disposals	(110)	(1,128)	-	(1,239)
Exchange differences on translating foreign operations	1	113	-	114
Others	(399)	636	-	237
March 31, 2015	36,791	18,596	4,839	60,226
Purchase	2,901	2,634	-	5,535
Disposals	(713)	(507)	(108)	(1,329)
Exchange differences on translating foreign operations	(0)	(119)	-	(120)
Others	(1,169)	287	-	(881)
March 31, 2016	37,809	20,891	4,731	63,431

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2015	326,483	165,020	42,942	534,446
Purchase	25,746	23,375	-	49,122
Disposals	(6,332)	(4,502)	(958)	(11,793)
Exchange differences on translating foreign operations	(6)	(1,060)	-	(1,067)
Others	(10,373)	2,555	-	(7,818)
March 31, 2016	335,516	185,388	41,984	562,889

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
April 1, 2014	(12,460)	(9,557)	-	(22,017)
Depreciation expense	(2,304)	(2,621)	-	(4,926)
Impairment losses	(287)	(7)	-	(295)
Disposals	69	1,098	-	1,168
Exchange differences on translating foreign operations	(0)	(59)	-	(60)
Others	412	272	-	685
March 31, 2015	(14,571)	(10,874)	-	(25,446)
Depreciation expense	(2,300)	(2,861)	-	(5,161)
Impairment losses	(23)	(15)	(10)	(49)
Disposals	597	473	10	1,081
Exchange differences on translating foreign operations	0	71	-	71
Others	791	795	-	1,586
March 31, 2016	(15,506)	(12,411)	-	(27,917)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2015	(129,308)	(96,501)	-	(225,809)
Depreciation expense	(20,415)	(25,389)	-	(45,804)
Impairment losses	(207)	(133)	(95)	(436)
Disposals	5,301	4,198	95	9,596
Exchange differences on translating foreign operations	3	632	-	636
Others	7,019	7,057	-	14,076
March 31, 2016	(137,605)	(110,135)	-	(247,741)

(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2015	22,219	7,721	4,839	34,780
March 31, 2016	22,302	8,480	4,731	35,514

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2016	197,911	75,252	41,984	315,147

There are no property, plant and equipment pledged as collateral at March 31, 2015 and 2016.

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

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2015	587	2,963	3,551
March 31, 2016	547	2,993	3,540

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2016	4,861	26,560	31,422

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

(2) Impairment losses

Property, plant and equipment are grouped by 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 statement of income for the years ended March 31, 2015 and 2016, are ¥295 million and ¥49 million (US$436 thousand), respectively.

The impairment losses recognized for the year ended March 31, 2015, are the losses related to "Buildings and structures" and "Tools, furniture and fixtures" belonging to the "IT Services business" reportable segment and are mainly due to the decline of profitability of data center facilities.

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

The impairment losses recognized for the year ended March 31, 2016, are the losses related to "Buildings and structures" and "Land" belonging to the "IT Services business" reportable segment and are mainly due to reduction of the carrying amount of a company dormitory sold to the recoverable amount.

The recoverable amount of the assets was measured at the fair value less costs to sell, and the assets were sold at November 16, 2015.

10. 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, 2014	4,467	19,529	4,063	28,060
Separate acquisitions	-	2,378	5	2,383
Disposals	-	(1,100)	-	(1,100)
Exchange differences on translating foreign operations	193	5	155	354
Others	-	1,017	(2)	1,015
March 31, 2015	4,660	21,830	4,222	30,713
Separate acquisitions	-	4,400	2	4,402
Disposals	-	(1,027)	(1)	(1,028)
Exchange differences on translating foreign operations	(415)	(12)	(362)	(789)
Others	-	(1)	(3)	(4)
March 31, 2016	4,245	25,190	3,858	33,293

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2015	41,357	193,719	37,472	272,550
Separate acquisitions	-	39,049	20	39,069
Disposals	-	(9,114)	(11)	(9,125)
Exchange differences on translating foreign operations	(3,683)	(107)	(3,216)	(7,007)
Others	-	(12)	(29)	(41)
March 31, 2016	37,674	223,535	34,236	295,446

(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2014	-	(12,929)	(617)	(13,546)
Amortization expense	-	(2,629)	(439)	(3,069)
Impairment losses	-	-	(3)	(3)
Disposals	-	1,086	-	1,086
Exchange differences on translating foreign operations	-	(2)	(18)	(21)
Others	-	35	-	35
March 31, 2015	-	(14,438)	(1,080)	(15,518)
Amortization expense	-	(2,600)	(417)	(3,017)
Impairment losses	-	-	(4)	(4)
Disposals	-	335	0	336
Exchange differences on translating foreign operations	-	5	97	103
Others	-	602	-	602
March 31, 2016	-	(16,095)	(1,403)	(17,499)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2015	-	(128,128)	(9,584)	(137,713)
Amortization expense	-	(23,076)	(3,703)	(26,779)
Impairment losses	-	-	(41)	(41)
Disposals	-	2,976	5	2,981
Exchange differences on translating foreign operations	-	52	866	919
Others	-	5,342	-	5,342
March 31, 2016	-	(142,832)	(12,457)	(155,290)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2015	4,660	7,391	3,142	15,194
March 31, 2016	4,245	9,094	2,454	15,794

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2016	37,674	80,702	21,778	140,156

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

(Millions of Yen)

	Software
March 31, 2015	1,293
March 31, 2016	629

(Thousands of U.S. Dollars)

	Software
March 31, 2016	5,586

Amortization expense of intangible assets is recognized as “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses are recognized as “Other expenses” in the consolidated statement of income.

(2) Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to each of the acquirer’s cash-generating units that is expected to benefit from the combination at the date of acquisition. The Group’s significant goodwill is related to CTC GLOBAL Sdn. Bhd. and CTC GLOBAL Pte. Ltd., and belongs to the “Other” reportable segment. The carrying amount is ¥4,245 million (US$37,674 thousand, March 31, 2015: ¥4,660 million). The recoverable amount of the cash-generating unit to which goodwill has been allocated is determined based on value in use. The value in use is based on past experience and financial budgets in the next five years approved by the management. The cash flows beyond the five years have been extrapolated using a steady 0% per annum growth rate.

In addition, the pre-tax discount rate which is used in calculating the value in use is from 9.6% to 13.2% (as of March 31, 2015: from 9.1% to 11.1%).

The aggregate recoverable amount of goodwill sufficiently exceeds its carrying amount. Therefore, it is unlikely that the aggregate recoverable amount of the cash-generating unit is lower than the aggregate carrying amount even if the key assumptions change reasonably.

11. Investments accounted for using the equity method

Carrying amount of investments in associates, not individually significant, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Carrying amount of investments accounted for using the equity method	621	635	5,636

Financial information of associates that are not individually significant, for the years ended March 31, 2015 and 2016, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Share of profit for the year	66	50	447
Share of other comprehensive income for the year	34	(21)	(191)
Share of total comprehensive income for the year	101	28	255

12. 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, 2015	March 31, 2016	March 31, 2016
Financial assets measured at amortized cost	22,692	27,910	247,673
FVTOCI financial assets	2,294	5,821	51,656
FVTPL financial assets	963	784	6,958
Total	25,950	34,515	306,288

Current assets	15,200	20,025	177,700
Non-current assets	10,749	14,490	128,587
Total	25,950	34,515	306,288

Dividends from FVTOCI financial assets recognized in "Other financial assets" as of March 31, 2015 and 2016, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
46	47	425

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 value, the Group owns as of March 31, 2015 and 2016, are as follows:

March 31, 2015

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	1,027
AEON Financial Service Co., Ltd.	407
Asahi Group Holdings, Ltd.	381
FamilyMart Co., Ltd.	193
NTT DATA INTRAMART CORPORATION	62

March 31, 2016

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	4,514	40,065
AEON Financial Service Co., Ltd.	356	3,164
Asahi Group Holdings, Ltd.	350	3,112
FamilyMart Co., Ltd.	224	1,989
NTT DATA INTRAMART CORPORATION	79	705

Derecognized FVTOCI financial assets for the years ended March 31, 2015 and 2016, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2015			Year ended March 31, 2016			Year ended March 31, 2016		
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
3	(35)	0	13	(37)	-	115	(332)	-

These FVTOCI financial assets are mainly sold because of changes in business relationships. Cumulative gains (losses) (net of tax) reclassified from other components of equity to retained earnings for the years ended March 31, 2015 and 2016, are ¥22 million (losses) and ¥24 million (US$215 thousand) (losses), respectively.

13. 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, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2015
Deferred tax assets					
Inventories	3,618	(320)	-	-	3,297
Property, plant and equipment and intangible assets	885	104	-	-	990
Other payables	1,025	302	-	-	1,328
Employee benefits	5,319	40	71	-	5,430
Provisions	1,085	477	-	-	1,563
Others	752	58	-	(7)	804
Total deferred tax assets	12,687	664	71	(7)	13,415
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(883)	109	-	(28)	(802)
Securities and other investments	(216)	(112)	47	-	(281)
Others	(864)	111	(4)	-	(757)
Total deferred tax liabilities	(1,964)	108	43	(28)	(1,841)

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

(Millions of Yen)

	March 31, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2016
Deferred tax assets					
Inventories	3,297	(283)	-	-	3,014
Property, plant and equipment and intangible assets	990	104	-	-	1,094
Other payables	1,328	(537)	-	-	790
Employee benefits	5,430	(328)	(293)	-	4,808
Provisions	1,563	(991)	-	-	571
Others	804	462	7	(9)	1,265
Total deferred tax assets	13,415	(1,574)	(286)	(9)	11,545
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(802)	122	-	61	(618)
Securities and other investments	(281)	(8)	(32)	-	(323)
Others	(757)	(42)	6	-	(792)
Total deferred tax liabilities	(1,841)	70	(26)	61	(1,734)

(Thousands of U.S. Dollars)

	March 31, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2016
Deferred tax assets					
Inventories	29,265	(2,511)	-	-	26,753
Property, plant and equipment and intangible assets	8,789	927	-	-	9,716
Other payables	11,786	(4,768)	-	-	7,018
Employee benefits	48,193	(2,918)	(2,605)	-	42,669
Provisions	13,873	(8,800)	-	-	5,072
Others	7,138	4,104	64	(81)	11,225
Total deferred tax assets	119,046	(13,968)	(2,540)	(81)	102,455
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(7,120)	1,084	-	549	(5,486)
Securities and other investments	(2,498)	(77)	(292)	-	(2,868)
Others	(6,717)	(378)	59	-	(7,036)
Total deferred tax liabilities	(16,336)	628	(233)	549	(15,391)

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Deferred tax assets	12,298	10,286	91,278
Deferred tax liabilities	724	474	4,214
Net	11,574	9,811	87,063

Deductible temporary differences and tax losses 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, 2015	March 31, 2016	March 31, 2016
Deductible temporary differences	214	200	1,775
Tax losses carry forward	281	464	4,124
Total	495	664	5,899

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	-	-
Year 4	-	-	-
Year 5 or later	281	464	4,124
Total	281	464	4,124

(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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Current tax expense	12,616	8,301	73,665
Deferred tax expense	(772)	1,503	13,339
Total	11,844	9,804	87,005

"Current tax expense" includes the amount of tax benefits from tax losses 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, 2015 and 2016, is ¥155 million and ¥6 million (US$53 thousand), respectively.

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

	Year ended March 31, 2015	Year ended March 31, 2016
Effective statutory tax rate	36.0%	33.1%
(Reconciliation)		
Effect on the amount of not deductible for tax purposes	2.4%	0.8%
Reduction of deferred tax assets due to the change in the tax rate	3.8%	1.8%
Others	(2.0%)	(0.6%)
Average effective tax rate	40.2%	35.1%

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, 2015 and 2016, is 36.0% and 33.1%, respectively, based on these taxes. Foreign subsidiaries are subject to income taxes of the countries where they operate.

In Japan, the income tax rate has been changed since the fiscal year beginning on or after April 1, 2016 in accordance with the "Act on Partial Revision for the Income Tax Act, etc." and "Act on Partial Revision for the Local Tax Act, etc." that were enacted in the Diet on March 29, 2016. Consequently, the effective statutory tax rates used in calculating deferred tax assets and liabilities for the year ended March 31, 2016 were changed from 32.3% for the year ended March 31, 2015 to 30.9% for the temporary differences expected to be settled from April 1, 2016 to March 31, 2018, and to 30.6% for the temporary differences expected to be settled from April 1, 2018.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥509 million (US$4,524 thousand), income tax expense increased by ¥503 million (US$4,467 thousand), net changes in fair value of financial assets measured through other comprehensive income increased by ¥23 million (US$205 thousand), cash flow hedge decreased by ¥0 million (US$2 thousand) and remeasurement of defined benefit plans decreased by ¥29 million (US$259 thousand).

14. 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, 2015	March 31, 2016	March 31, 2016
Account payables-trade	36,766	37,240	330,471
Other payables	7,424	6,137	54,462
Accrued consumption taxes	5,501	3,824	33,937
Total	49,691	47,202	418,871

15. 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, 2015	March 31, 2016	March 31, 2016
Financial liabilities measured at amortized cost	19,019	16,203	143,788
FVTPL financial liabilities	85	183	1,632
Total	19,105	16,387	145,421

Current liabilities	6,869	6,179	54,840
Non-current liabilities	12,236	10,207	90,580
Total	19,105	16,387	145,421

16. Leases

(1) Lessor

1) Operating leases

The Group leases IT-related equipment and servers under operating leases. The schedule of future minimum lease payments receivable under non-cancelable operating leases as of March 31, 2015 and 2016, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Within 1 year	367	288	2,555
Over 1 year – within 5 years	288	-	-
Total	655	288	2,555

2) Finance leases

The Group leases IT-related equipment and servers under finance leases. The schedule of total future minimum lease payments receivable, present value of future minimum lease payments receivable, and the amount of unearned finance income as of March 31, 2015 and 2016, is as follows:

	Total future minimum lease payments receivable			Present value of future minimum lease payments receivable		
	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2016
Within 1 year	4,713	4,326	38,393	4,271	3,992	35,427
Over 1 year – within 5 years	10,288	9,542	84,682	9,663	9,034	80,173
Over 5 years	1,467	921	8,181	1,441	908	8,059
Total lease payments receivable	16,469	14,791	131,256	15,376	13,935	123,660
Less: Unearned finance income	(1,092)	(855)	(7,595)			
Present value of minimum lease payments receivable	15,376	13,935	123,660			

(2) Lessee

1) Operating leases

The Group leases real estate such as office buildings, and office equipment under operating leases. The schedule of future minimum lease payments under non-cancelable operating leases as of March 31, 2015 and 2016, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Within 1 year	2,025	2,713	24,078
Over 1 year – within 5 years	1,276	3,015	26,755
Total	3,301	5,728	50,834

Lease payments recognized as expense under operating leases for the years ended March 31, 2015 and 2016, are ¥10,316 million and ¥10,381 million (US$92,122 thousand), respectively.

2) Finance leases

The Group leases office equipment for customer service and data center facilities under finance leases. The schedule of future minimum lease payments, present value of future minimum lease payments, and the amount of future finance charges as of March 31, 2015 and 2016, is as follows:

	Future minimum lease payments			Present value of future minimum lease payments		
	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2016
Within 1 year	5,892	5,327	47,279	5,517	4,970	44,109
Over 1 year – within 5 years	11,301	9,603	85,222	10,762	9,089	80,662
Over 5 years	1,179	874	7,756	1,158	847	7,523
Total lease payments	18,373	15,805	140,257	17,438	14,908	132,295
Less: Future finance charges	(935)	(897)	(7,962)			
Present value of minimum lease payments	17,438	14,908	132,295			

Future minimum sublease payments under non-cancelable operating leases as of March 31, 2015 and 2016, are ¥2,494 million and ¥1,987 million (US$17,638 thousand), respectively.

Lease contracts do not include contingent rent, renewal options or purchase options, escalation payments and specific limitations (such as dividends, additional borrowing, and additional lease contract).

17. 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 employee earned each year of service, or years of service and certain other factors.

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

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

2) Defined benefit plans

Movements in 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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Balance at the beginning of the year	17,741	18,645	165,454
Current service cost	845	896	7,953
Interest cost	240	192	1,707
Remeasurement			
Changes in demographic assumptions	(47)	17	156
Changes in financial assumptions	353	1,049	9,314
Experience adjustments	(73)	20	178
Benefits paid	(414)	(506)	(4,491)
Balance at the end of the year	18,645	20,315	180,274

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 present fair value of plan assets are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Balance at the beginning of the year	17,851	20,814	184,703
Interest income	248	220	1,960
Remeasurement			
Return on plan assets	1,138	(89)	(794)
Employer contributions	1,947	603	5,352
Benefits paid	(371)	(453)	(4,022)
Balance at the end of the year	20,814	21,095	187,200

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 fund in the case of a deficit in its financial position.
The expected contribution to the plan is ¥645 million (US$5,729 thousand) for the year ending March 31, 2017.

The 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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Balance at the beginning of the year	654	1,994	17,699
Movements in the effect of the asset ceiling	1,339	(1,994)	(17,699)
Balance at the end of the year	1,994	-	-

Note: In the case that defined benefit plans are surplus, 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, 2015	March 31, 2016	March 31, 2016
Present value of the defined benefit plan obligations	18,645	20,315	180,274
Fair value of plan assets	(20,814)	(21,095)	(187,200)
Funded status	(2,169)	(780)	(6,925)
Effect of the asset ceiling	1,994	-	-
Net liabilities (assets)	(174)	(780)	(6,925)
Amount in the consolidated statement of financial position			
Other non-current assets	(707)	(1,332)	(11,828)
Liabilities for employee benefits (non-current liabilities)	532	552	4,902

Plan assets by category as of March 31, 2015 and 2016, are as follows. Refer to “Note 27. Financial instruments and disclosure” for input information used in measuring fair value.

March 31, 2015

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,161	-	3,161
Overseas	2,675	-	2,675
Debt instruments			
Domestic	8,737	-	8,737
Overseas	2,442	-	2,442
Other assets			
Cash and cash equivalents	419	-	419
Life insurance company general accounts	-	3,326	3,326
Others	-	51	51
Total	17,436	3,377	20,814

March 31, 2016

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,163	-	3,163
Overseas	3,365	-	3,365
Debt instruments			
Domestic	6,888	-	6,888
Overseas	3,673	-	3,673
Other assets			
Cash and cash equivalents	428	-	428
Life insurance company general accounts	-	3,525	3,525
Others	-	51	51
Total	17,519	3,576	21,095

March 31, 2016

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	28,069	-	28,069
Overseas	29,869	-	29,869
Debt instruments			
Domestic	61,123	-	61,123
Overseas	32,594	-	32,594
Other assets			
Cash and cash equivalents	3,806	-	3,806
Life insurance company general accounts	-	31,283	31,283
Others	-	452	452
Total	155,463	31,736	187,200

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

The Company and certain subsidiaries' basic policy is to emphasize asset liquidity and a thorough diversification of its 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 corporate pension plans (general account) 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 projected benefit obligation is 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 projected benefit obligation, which takes into account the amount, timing, and discount rate. The weighted-average duration of the Company's projected benefit obligation for the years ended March 31, 2015 and 2016 are 13 years and 13 years, respectively.

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

	March 31, 2015	March 31, 2016
Discount rate	1.0%	0.5%
Rate of compensation increase	4.3%	4.3%

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, 2015	March 31, 2016	March 31, 2016
0.5% Increase	(1,119)	(1,222)	(10,852)
0.5% Decrease	1,162	1,112	9,867

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, 2015 and 2016, are ¥859 million and ¥824 million (US$7,316 thousand), respectively.

4) Multi-employer plans

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

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

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

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

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

The ITOCHU United Pension Fund is a defined benefit multi-employer plan that is operated in accordance with the rules above. Events occurring at participating companies influence the allocation of plan assets and expenses to other participating companies, and consequently, there is no consistent basis for that allocation. Accordingly, because it is not possible to obtain sufficient information to account for this plan as a defined benefit plan, it is accounted for as defined contribution plan. In regard to the special premium for this plan, at the time when the periodical revaluation is conducted, the difference from the previous revaluation is added and the amount 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 statement of financial position at March 31, 2015 and 2016, are ¥3,726 million and ¥3,420 million (US$30,354 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, 2014	March 31, 2015	March 31, 2015
Plan assets	16,132	21,191	188,048
Benefits obligation based on pension plan finance calculation	30,177	31,939	283,428
Net	(14,044)	(10,748)	(95,380)

	March 31, 2014	March 31, 2015
Ratio of the Company and certain subsidiaries contribution to overall plan	30.0%	29.8%

The principal factors of "Net" in the above table, based on pension plan finance calculation, are past service cost obligations, general reserve and determined deficits. Past service cost obligations are recognized as a liability. Determined deficits are accounted for by increasing rate of special premium or others based on financial recalculation of pension plan finance calculation.

The ratio of the Company and certain subsidiaries contribution to 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 Group's actual proportional contribution.

The expected contribution to the plans for the year ending March 31, 2017, is ¥898 million (US$7,968 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, 2015 and 2016, are ¥57,776 million and ¥58,277 million (US$517,144 thousand), respectively.

18. Provisions

The breakdown and movements in provisions are as follows:

Year ended March 31, 2015

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2014	1,649	765	459	2,874
Increase for the year	50	1,086	276	1,413
Interest expenses for discounting	41	-	-	41
Decrease for the year (utilization)	-	(1,351)	(99)	(1,451)
Decrease for the year (unused)	-	(42)	(90)	(132)
Others	1	-	-	1
March 31, 2015	1,742	458	546	2,746

Current liabilities	95	458	546	1,100
Non-current liabilities	1,646	-	-	1,646
Total	1,742	458	546	2,746

Year ended March 31, 2016

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2015	1,742	458	546	2,746
Increase for the year	42	326	83	452
Interest expenses for discounting	38	-	-	38
Decrease for the year (utilization)	(149)	(486)	(131)	(767)
Decrease for the year (unused)	(7)	(118)	(17)	(144)
Others	5	-	-	5
March 31, 2016	1,671	178	481	2,331

Current liabilities	-	178	481	660
Non-current liabilities	1,671	-	-	1,671
Total	1,671	178	481	2,331

Year ended March 31, 2016

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2015	15,459	4,066	4,850	24,375
Increase for the year	380	2,893	743	4,016
Interest expenses for discounting	338	-	-	338
Decrease for the year (utilization)	(1,330)	(4,318)	(1,163)	(6,812)
Decrease for the year (unused)	(68)	(1,054)	(155)	(1,278)
Others	50	-	-	50
March 31, 2016	14,828	1,586	4,274	20,689

Current liabilities	-	1,586	4,274	5,860
Non-current liabilities	14,828	-	-	14,828
Total	14,828	1,586	4,274	20,689

Note: Provisions for loss on order received relating to made-to-order software from which loss is expected are presented by offsetting with corresponding work in progress.

The provisions are as follows:

Provisions for asset retirement obligations

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

Provisions for loss on orders received

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

Provisions for after-sales costs

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

19. 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, 2015	Year ended March 31, 2016
The number of authorized shares		
Ordinary shares with non-par-value	246,000	246,000
The number of issued shares		
Balance at the beginning of the year	60,000	60,000
Increase	-	60,000
Balance at the end of the year	60,000	120,000

The number of treasury stock included in issued shares above as of March 31, 2015 and 2016, is 2,191 thousand shares and 4,385 thousand shares, respectively. The Company has implemented a stock split of the Company's common stock at a ratio of 2-for-1, the effective date of which is April 1, 2015. Due to the stock split, the number of issued shares has increased by 60,000 thousand shares, and the number of treasury stock has increased by 2,191 thousand shares. 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 paid-in capital (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.

Under the Companies Act, in addition to year-end dividends, dividends of surplus can be made at any time during the fiscal year by resolution of the general meeting of shareholders. This Act provides that companies may determine dividends (excluding dividends in kind) by resolution of the board of directors if the articles of incorporation so stipulate, when certain requirements (having a board of corporate auditors and a board of directors, appointing independent auditors, and the terms of service of the directors is prescribed as one year) are satisfied. The Act also provides that companies with board of directors may pay dividends (only cash dividends) by the resolution of the board of directors only once during a business year, if the articles of incorporation so stipulate.

20. Dividends

The Company pays year-end dividends and interim dividends. The year-end dividends are approved by the general meeting of shareholders and the interim dividends are determined by the board of directors.
Dividends paid for the years ended March 31, 2015 and 2016 are as follows:

Year ended March 31, 2015

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 18, 2014 Ordinary general meeting of shareholders	Ordinary shares	3,237	55.00	March 31, 2014	June 19, 2014
November 6, 2014 Board of directors	Ordinary shares	3,384	57.50	September 30, 2014	December 5, 2014

(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 23, 2015 Ordinary general meeting of shareholders	Ordinary shares	3,613	62.50	March 31, 2015	June 24, 2015

Year ended March 31, 2016

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (Yen)	Dividends per share (U.S. Dollars)	Record date	Effective date
June 23, 2015 Ordinary general meeting of shareholders	Ordinary shares	3,613	32,061	62.50	0.55	March 31, 2015	June 24, 2015
October 29, 2015 Board of directors	Ordinary shares	3,757	33,343	32.50	0.28	September 30, 2015	December 4, 2015

Note: Regarding dividends for which the record date is before March 31, 2015, dividends per share do not reflect the impact of a stock split of the Company's common stock at a ratio of 2-for-1 for which the record date is March 31, 2015 and the effective date is April 1, 2015.

(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 22, 2016 Ordinary general meeting of shareholders	Ordinary shares	4,335	38,473	37.50	0.33	March 31, 2016	June 23, 2016

21. Construction contracts

Revenue from contracts for made-to-order software is recognized in accordance with IAS 11 “Construction Contracts”. The amount due from (to) customers under construction contracts as of March 31, 2015 and 2016, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Amount due from customers for contract work	9,968	7,539	66,907
Amount due to customers for contract work	(3,638)	(1,860)	(16,512)
Construction costs incurred and profit recognized less losses recognized to date	13,766	10,001	88,751
Progress billings	(7,436)	(4,322)	(38,357)
Amount due from (to) customers	6,330	5,678	50,394

Advances received from customers for contract work amounted to ¥2,939 million and ¥1,334 million (US$11,842 thousand) as of March 31, 2015 and 2016, respectively. There are no retentions held by customers for contract work. Revenue from made-to-order software for the years ended March 31, 2015 and 2016, is ¥77,907 million and ¥76,460 million (US$678,507 thousand), respectively.

22. 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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Employee benefit expenses	36,998	37,076	329,011
Depreciation and amortization expense	2,993	2,830	25,117
Research and development expenses	561	1,285	11,408
Others	21,947	22,272	197,641
Total	62,500	63,464	563,178

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Net foreign exchange gains	842	-	-
Dividends income of insurance	79	70	628
Settlement received	-	46	412
Others	303	332	2,954
Total	1,225	450	3,995

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Net foreign exchange losses	-	367	3,263
Impairment losses	298	53	478
Compensation for damage	20	134	1,189
Losses on non-cancelable lease	272	-	-
Others	75	13	119
Total	666	569	5,051

23. Government grants

Grants based on the Yokohama city ordinance for business location incentives for specially designated areas were certified at January 19, 2016. It is determined for the year ended March 31, 2016 that the total amount of the grants is ¥428 million (US$3,801 thousand), which will be paid in installments over a period of 10 years. The grants are deducted from 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 relating to the business location is continued, in principal, over a period of 10 years from when the business relating to the business location was launched.

24. 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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Interest income			
Financial assets measured at amortized cost	82	105	934
Others	7	28	253
Subtotal	90	133	1,187
Dividends received			
FVTOCI financial assets	46	47	425
FVTPL financial assets	12	12	106
Subtotal	58	59	531
Other financial income			
FVTPL financial assets	72	-	-
Subtotal	72	-	-
Total	221	193	1,719

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Interest expense			
Financial liabilities measured at amortized cost	157	135	1,200
Subtotal	157	135	1,200
Other financial costs			
Financial assets measured at amortized cost	-	13	115
FVTPL financial assets	-	95	845
Subtotal	-	108	961
Total	157	243	2,162

25. Earnings per share

The calculation of basic earnings per share for the years ended March 31, 2015 and 2016, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Profit for the year attributable to owners of the Company	17,406	18,018	159,892

(Shares in thousands)

	Year ended March 31, 2015	Year ended March 31, 2016
Weighted-average number of ordinary shares	116,989	115,614

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Basic earnings per share	148.79	155.85	1.38

Notes:
1. Diluted earnings per share are not presented as there are no potentially dilutive shares.
2. The Company has implemented a stock split of the Company's common stock at a ratio of 2-for-1, of which the effective date is April 1, 2015. Basic earnings per share are calculated assuming that the stock split is undertaken at the beginning of the year ended March 31, 2015.

26. Other comprehensive income

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

	(Millions of Yen)		
	Year ended March 31, 2015		
	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	(30)	47	17
Adjustment for the year	(30)	47	17
Remeasurement of defined benefit plans			
Amount arising during the year	(434)	71	(363)
Adjustment for the year	(434)	71	(363)
Exchange differences on translating foreign operations			
Amount arising during the year	568	-	568
Adjustment for the year	568	-	568
Cash flow hedges			
Amount arising during the year	453	(162)	290
Reclassification to profit or loss for the year	(440)	158	(281)
Adjustment for the year	13	(4)	8
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	34	-	34
Adjustment for the year	34	-	34
Total other comprehensive income for the year	152	114	266

	(Millions of Yen)		
	Year ended March 31, 2016		
	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	147	(32)	114
Adjustment for the year	147	(32)	114
Remeasurement of defined benefit plans			
Amount arising during the year	817	(293)	524
Adjustment for the year	817	(293)	524
Exchange differences on translating foreign operations			
Amount arising during the year	(1,147)	-	(1,147)
Adjustment for the year	(1,147)	-	(1,147)
Cash flow hedges			
Amount arising during the year	(179)	58	(120)
Reclassification to profit or loss for the year	135	(44)	90
Adjustment for the year	(44)	14	(30)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(21)	-	(21)
Adjustment for the year	(21)	-	(21)
Total other comprehensive income for the year	(248)	(312)	(560)

	(Thousands of U.S. Dollars)		
	Year ended March 31, 2016		
	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	1,311	(292)	1,018
Adjustment for the year	1,311	(292)	1,018
Remeasurement of defined benefit plans			
Amount arising during the year	7,255	(2,605)	4,650
Adjustment for the year	7,255	(2,605)	4,650
Exchange differences on translating foreign operations			
Amount arising during the year	(10,185)	-	(10,185)
Adjustment for the year	(10,185)	-	(10,185)
Cash flow hedges			
Amount arising during the year	(1,595)	522	(1,072)
Reclassification to profit or loss for the year	1,204	(398)	805
Adjustment for the year	(391)	124	(267)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(191)	-	(191)
Adjustment for the year	(191)	-	(191)
Total other comprehensive income for the year	(2,201)	(2,773)	(4,974)

27. Financial instruments and disclosure

(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. In accordance with the capital management policy, the Group conducts investments in business such as acquiring external resources and dividends to shareholders by using cash from operating activities generated by providing innovative and competitive products, and IT services.
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 in foreign currency exchange rate and interest rate, liquidity risk and others. The Group undertakes risk management for each risk.
In addition, the Group utilizes derivatives, which are only forward foreign exchange contracts, for the purpose of hedging foreign currency rate risks related to receivables/payables and forecasted transactions denominated in foreign currencies, but does not enter into such transactions for speculative purposes.

1) Credit risk management
Notes, receivables-trade, accounts receivables-trade, and lease receivables that are receivables arising from operating activities are exposed to customer credit risk. Commercial paper held for investments of surplus funds is also exposed to issuer credit risk. Deposits are mainly payments to the Parent company and are exposed to the parent company's credit risk.
The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of due dates and balances of major customers by each business administration department, and by a credit control department that is independent from the business department, to identify the default risk of customers at an early stage.
The internal guidelines for commercial paper, which prescribe the authority and the limit for each transaction by the general accounting and finance control department, have been approved at the management committee meeting. The transaction data is reported quarterly to the management.
The maximum exposure for the Group's credit risk is the carrying amount after deduction of impairment loss presented in the consolidated financial statements.

Financial assets past due
An aging analysis of financial assets that are past due but not impaired as of March 31, 2015 and 2016, is as follows. At this point, the Group has determined that it is not necessary to recognize impairment.

March 31, 2015

(Millions of Yen)

	Overdue amounts					
	Within 30 days	Over 30 days-within 60 days	Over 60 days-within 90 days	Over 90 days-within 120 days	Over 120 days	Total
Trade and other receivables	1,524	864	161	377	230	3,157

March 31, 2016

(Millions of Yen)

	Overdue amounts					
	Within 30 days	Over 30 days-within 60 days	Over 60 days-within 90 days	Over 90 days-within 120 days	Over 120 days	Total
Trade and other receivables	1,997	731	278	377	85	3,471

March 31, 2016

(Thousands of U.S. Dollars)

	Overdue amounts					
	Within 30 days	Over 30 days- within 60 days	Over 60 days- within 90 days	Over 90 days- within 120 days	Over 120 days	Total
Trade and other receivables	17,728	6,488	2,472	3,352	760	30,803

Movement in allowance for doubtful accounts

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Balance at the beginning of the year	35	58	518
Increase for the year	24	15	134
Decrease for the year (utilization)	(1)	(1)	(10)
Decrease for the year (unused)	(0)	(2)	(25)
Others	-	(0)	(5)
Balance at the end of the year	58	68	611

The balances of financial assets individually determined to be impaired by reviewing customers' financial conditions, the status of delay payment and others as of March 31, 2015 and 2016, are ¥63 million and ¥72 million (US$639 thousand), respectively. For the financial assets, the Group recorded an allowance for doubtful accounts as of March 31, 2015 and 2016, of ¥49 million and ¥59 million (US$526 thousand), respectively.

2) Market risk management

a) Interest rate risk

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

b) Foreign currency exchange rate risk

The Group is exposed to foreign exchange rate risk related to transactions in foreign currencies due to its involvement in import/export trading. Therefore, the Group strives to minimize foreign 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, 2015 and 2016, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015		March 31, 2016	
Balance of foreign exchange (short-term)	(627)	(5,221)	(2,016)	(17,890)
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 commitment 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 1 year is classified as short-term, while the balance of foreign exchange that is expected to be settled after 1 year or later is classified as long-term.
2. Positive balances represent receivables and negative balances represent payables.

Foreign currency sensitivity analysis

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Profit before tax	6	20	178

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, 2015	March 31, 2016	March 31, 2016
Other comprehensive income	(217)	(566)	(5,025)

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, 2015

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year – within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	49,691	49,691	49,691	-	-
Other financial liabilities	6,783	7,159	7,159	-	-
Non-current financial liabilities	12,236	12,796	-	11,571	1,224

March 31, 2016

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year – within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	47,202	47,202	47,202	-	-
Other financial liabilities	5,995	6,353	6,353	-	-
Non-current financial liabilities	10,207	10,747	-	9,843	904

March 31, 2016

(Thousands of U.S. Dollars)

	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year – within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade and other payables	418,871	418,871	418,871	-	-
Other financial liabilities	53,207	56,337	56,337	-	-
Non-current financial liabilities	90,580	95,373	-	87,348	8,024

b) Derivatives

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

March 31, 2015

(Millions of Yen)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	131	-	-	131
	Expenditures	(85)	-	-	(85)

March 31, 2016

(Millions of Yen)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	23	-	-	23
	Expenditures	(183)	-	-	(183)

March 31, 2016

(Thousands of U.S. Dollars)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	204	-	-	204
	Expenditures	(1,632)	-	-	(1,632)

(3) Fair value of financial instruments

1) Fair value measurements

Trade and other receivables

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

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

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

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

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

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

2) Fair value of financial instruments by category

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, 2015		March 31, 2016		March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	109,568	109,688	111,118	111,268	986,054	987,386
Other financial assets	22,692	22,692	27,910	27,910	247,673	247,673
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	2,294	2,294	5,821	5,821	51,656	51,656
FVTPL financial assets	963	963	784	784	6,958	6,958
Financial liabilities measured at amortized cost						
Other financial liabilities	6,783	6,796	5,995	6,009	53,207	53,327
Non-current financial liabilities	12,236	12,329	10,207	10,327	90,580	91,641
Financial liabilities measured at fair value						
Other financial liabilities						
FVTPL financial liabilities	85	85	183	183	1,632	1,632

3) Fair value measurements recognized in the consolidated financial statements

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

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

(Millions of Yen)

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	2,170	48	74	2,294
FVTPL financial assets	-	579	383	963
Total assets	2,170	628	458	3,257
Liabilities:				
FVTPL financial liabilities	-	85	-	85
Total liabilities	-	85	-	85

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2015.

(Millions of Yen)

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	5,663	26	130	5,821
FVTPL financial assets	-	379	404	784
Total assets	5,663	405	535	6,605
Liabilities:				
FVTPL financial liabilities	-	183	-	183
Total liabilities	-	183	-	183

(Thousands of U.S. Dollars)

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	50,259	234	1,162	51,656
FVTPL financial assets	-	3,368	3,590	6,958
Total assets	50,259	3,602	4,752	58,614
Liabilities:				
FVTPL financial liabilities	-	1,632	-	1,632
Total liabilities	-	1,632	-	1,632

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2016.

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, 2015	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2014	74	748
Total gains or losses		
Profit or loss	-	57
Other comprehensive income	-	-
Purchases	-	-
Disposals	(0)	-
Distribution	-	(419)
Others	-	(2)
March 31, 2015	74	383
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2015 - net	-	57

(Millions of Yen)

	Year ended March 31, 2016	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2015	74	383
Total gains or losses		
Profit or loss	-	(4)
Other comprehensive income	(3)	-
Purchases	59	200
Disposals	-	-
Distribution	-	(171)
Others	(0)	(3)
March 31, 2016	130	404
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2016 - net	-	(4)

(Thousands of U.S. Dollars)

	Year ended March 31, 2016	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2015	662	3,407
Total gains or losses		
Profit or loss	-	(36)
Other comprehensive income	(28)	-
Purchases	528	1,774
Disposals	-	-
Distribution	-	(1,524)
Others	(0)	(30)
March 31, 2016	1,162	3,590
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2016 - net	-	(36)

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

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

(4) Derivative instruments and hedging activities

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

Accumulated amounts of other comprehensive income that are expected to be reclassified to profit or loss within one year due to cash flow hedges (net tax effect) as of March 31, 2015 and 2016 are profit of ¥13 million, and loss of ¥16 million (US$146 thousand), respectively.

Fair values of derivatives as of March 31, 2015 and 2016, are as follows:

(Millions of Yen)

	March 31, 2015			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	113	85	18	-

(Millions of Yen)

	March 31, 2016			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	23	171	-	12

(Thousands of U.S. Dollars)

	March 31, 2016			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	204	1,519	-	113

28. Related party transactions

(1) Transactions with related parties

The Group had transactions with related parties as follows:

Year ended March 31, 2015

(Millions of Yen)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contract (Fixed term)	(Funds deposited) 14,000	14,000
			(Repayment of deposit) -	
		Deposit contract (Withdrawable anytime)	-	16,030

Year ended March 31, 2016

(Millions of Yen)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contract (Fixed term)	(Funds deposited) 6,000	20,000
			(Repayment of deposit) -	
		Deposit contract (Withdrawable anytime)	-	4,286
		Purchases of investment securities	3,321	-

Year ended March 31, 2016

(Thousands of U.S. Dollars)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contract (Fixed term)	(Funds deposited) 53,243	177,478
			(Repayment of deposit) -	
		Deposit contract (Withdrawable anytime)	-	38,034
		Purchases of investment securities	29,477	-

Notes:

1. The rate of deposit contract is individually determined, considering market rate of interest, through negotiations between companies.
2. Transaction amounts of deposit contracts (withdrawable anytime) are not disclosed above because changes in balances of deposits and withdrawals frequently occur while using cash management services of ITOCHU Corporation.
3. Purchases of investment securities were conducted using ToSTNeT-1, through which off-hours trading is conducted on the Tokyo Stock Exchange. The trading price was determined at the closing price on the transaction date (November 27, 2015).

(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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Benefits and bonus	363	341	3,029
Total	363	341	3,029

29. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Shares (%)
			March 31, 2016
CTC TECHNOLOGY CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTC SYSTEM MANAGEMENT CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTC LIFE SCIENCE CORPORATION	Enterprise business	Shinagawa-ku, Tokyo	100.0
CTCSP CORPORATION	Enterprise business	Setagaya-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	100.0
CTC BUSINESS SERVICE CORPORATION	Corporation	Chiyoda-ku, Tokyo	100.0
CTC First Contact Corporation	IT Services business	Setagaya-ku, Tokyo	100.0
Asahi Business Solutions Corp.	Distribution business	Sumida-ku, Tokyo	51.0
ITOCHU Techno-Solutions America, Inc.	Other	Santa Clara, California, U.S.A.	100.0
CTC Global Sdn. Bhd.	Other	Kuala Lumpur, Malaysia	70.0
CTC Global Pte. Ltd.	Other	Singapore	70.0

30. Commitments

Contractual commitments for purchase of property, plant and equipment are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2015	March 31, 2016	March 31, 2016
Purchase of property, plant and equipment	1,902	2,434	21,603
Purchase of intangible assets	-	1,430	12,691
Total	1,902	3,864	34,295

31. 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, 2015	Year ended March 31, 2016	Year ended March 31, 2016
Guarantees for employees	109 (37 people)	86 (32 people)	763 (32 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.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of ITOCHU Techno-Solutions Corporation and its subsidiaries as of March 31, 2016, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOCHU Techno-Solutions Corporation and its subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 23, 2016

Member of
Deloitte Touche Tohmatsu Limited

Challenging Tomorrow's Changes

ITOCHU Techno-Solutions Corporation

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THE GLOBAL COMPACT
COMMUNICATION ON PROGRESS

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We welcome feedback on its contents.

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