Consolidated Financial Statements

For the year ended
March 31, 2017

ITOCHU Techno-Solutions Corporation

Consolidated Statement of Financial Position

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2016 and 2017

	Notes	(Millions of Yen) March 31, 2016	(Millions of Yen) March 31, 2017	(Thousands of U.S. Dollars) March 31, 2017
Assets				
Current assets				
Cash and cash equivalents	6	44,880	48,213	429,708
Trade and other receivables	7, 27	111,118	115,473	1,029,172
Inventories	8	18,488	24,045	214,312
Current tax assets		8	22	204
Other current financial assets	12, 27	20,025	25,017	222,972
Other current assets		34,492	37,421	333,525
Total current assets		229,013	250,194	2,229,893
Non-current assets				
Property, plant and equipment	9, 16	35,514	36,365	324,111
Goodwill	10	4,245	3,899	34,757
Intangible assets	10, 16	11,548	12,560	111,951
Investments accounted for using the equity method	5, 11	635	664	5,924
Other non-current financial assets	12, 27	14,490	13,989	124,683
Deferred tax assets	13	10,286	12,679	113,005
Other non-current assets		2,198	2,769	24,684
Total non-current assets		78,918	82,929	739,119
Total assets	5	307,932	333,123	2,969,013

	Notes	(Millions of Yen) March 31, 2016	(Millions of Yen) March 31, 2017	(Thousands of U.S. Dollars) March 31, 2017
Liabilities and equity				
Current liabilities				
Trade and other payables	14, 27	47,202	48,222	429,792
Other current financial liabilities	15, 27	6,179	5,658	50,434
Income taxes payable		6,312	9,064	80,788
Liabilities for employee benefits		14,061	17,079	152,222
Provisions	18	660	689	6,145
Other current liabilities		34,140	40,909	364,613
Total current liabilities		108,558	121,624	1,083,997
Non-current liabilities				
Non-current financial liabilities	15, 27	10,207	10,016	89,275
Liabilities for employee benefits	17	3,973	3,720	33,162
Provisions	18	1,671	1,732	15,442
Deferred tax liabilities	13	474	327	2,917
Other non-current liabilities		3	-	-
Total non-current liabilities		16,329	15,797	140,798
Total liabilities		124,888	137,422	1,224,796
Equity				
Common stock	19	21,763	21,763	193,970
Capital surplus	19	33,076	33,076	294,795
Treasury stock	19	(9,231)	(9,231)	(82,276)
Retained earnings	19	132,677	146,537	1,306,038
Other components of equity		999	29	264
Total equity attributable to owners of the Company		179,285	192,175	1,712,791
Non-controlling interests		3,758	3,525	31,424
Total equity		183,043	195,701	1,744,216
Total liabilities and equity		307,932	333,123	2,969,013

See notes to consolidated financial statements.

Consolidated Statement of Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2016 and 2017

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Revenue	5, 21	391,606	407,849	3,635,021
Cost of sales		(300,080)	(311,133)	(2,773,023)
Gross profit		91,526	96,716	861,997
Other income and expenses				
Selling, general and administrative expenses	22	(63,464)	(65,512)	(583,889)
Other income	22	450	348	3,108
Other expenses	22	(569)	(423)	(3,770)
Total other income and expenses		(63,583)	(65,586)	(584,552)
Operating income		27,942	31,129	277,445
Financial income	5, 24	193	263	2,347
Financial costs	5, 24	(243)	(158)	(1,414)
Share of profit of associates accounted for using the equity method	5, 11	50	66	592
Profit before tax	5	27,942	31,300	278,970
Income tax expense	13	(9,804)	(9,304)	(82,927)
Profit for the year		18,138	21,996	196,043
Profit for the year attributable to:				
Owners of the Company		18,018	21,861	194,847
Non-controlling interests		120	134	1,195

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	155.85	189.09	1.68
Diluted earnings per share for the year	25	-	-	-

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2016 and 2017

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Profit for the year		18,138	21,996	196,043
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	114	(332)	(2,961)
Remeasurement of defined benefit plans	26	524	671	5,985
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	(1,147)	(918)	(8,183)
Cash flow hedges	26	(30)	6	61
Share of other comprehensive income of associates accounted for using the equity method	11, 26	(21)	(5)	(47)
Total other comprehensive income for the year, net of tax effect		(560)	(576)	(5,139)
Total comprehensive income for the year		17,577	21,419	190,903
Total comprehensive income for the year attributable to:				
Owners of the Company		17,784	21,561	192,168
Non-controlling interests		(206)	(141)	(1,265)

See notes to consolidated financial statements.

Consolidated Statement of Changes In Equity

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2016 and 2017

(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

(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, 2016		21,763	33,076	(9,231)	132,677	64	950
Profit for the year		-	-	-	21,861	-	-
Other comprehensive income for the year, net of tax effect		-	-	-	-	(647)	(331)
Total comprehensive income for the year		-	-	-	21,861	(647)	(331)
Payment of dividends	20	-	-	-	(8,671)	-	-
Purchase of treasury stock		-	-	(0)	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	668	-	2
Total transactions with owners		-	-	(0)	(8,002)	-	2
March 31, 2017		21,763	33,076	(9,231)	146,537	(582)	621

(Millions of Yen)

	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, 2016	(16)	-	179,285	3,758	183,043
Profit for the year	-	-	21,861	134	21,996
Other comprehensive income for the year, net of tax effect	6	671	(300)	(276)	(576)
Total comprehensive income for the year	6	671	21,561	(141)	21,419
Payment of dividends	-	-	(8,671)	(90)	(8,761)
Purchase of treasury stock	-	-	(0)	-	(0)
Transfer to retained earnings from other components of equity	-	(671)	-	-	-
Total transactions with owners	-	(671)	(8,671)	(90)	(8,762)
March 31, 2017	(9)	-	192,175	3,525	195,701

(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, 2016		193,970	294,795	(82,275)	1,182,510	578	8,474
Profit for the year		-	-	-	194,847	-	-
Other comprehensive income for the year, net of tax effect		-	-	-	-	(5,769)	(2,956)
Total comprehensive income for the year		-	-	-	194,847	(5,769)	(2,956)
Payment of dividends	20	-	-	-	(77,282)	-	-
Purchase of treasury stock		-	-	(1)	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	5,962	-	22
Total transactions with owners		-	-	(1)	(71,319)	-	22
March 31, 2017		193,970	294,795	(82,276)	1,306,038	(5,190)	5,540

(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, 2016	(147)	-	1,597,906	33,499	1,631,406
Profit for the year	-	-	194,847	1,195	196,043
Other comprehensive income for the year, net of tax effect	61	5,985	(2,678)	(2,460)	(5,139)
Total comprehensive income for the year	61	5,985	192,168	(1,265)	190,903
Payment of dividends	-	-	(77,282)	(809)	(78,091)
Purchase of treasury stock	-	-	(1)	-	(1)
Transfer to retained earnings from other components of equity	-	(5,985)	-	-	-
Total transactions with owners	-	(5,985)	(77,283)	(809)	(78,092)
March 31, 2017	(86)	-	1,712,791	31,424	1,744,216

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2016 and 2017

	Notes	(Millions of Yen) Year ended March 31, 2016	(Millions of Yen) Year ended March 31, 2017	(Thousands of U.S. Dollars) Year ended March 31, 2017
Cash flows from operating activities				
Profit before tax		27,942	31,300	278,970
Adjustments for:				
Depreciation and amortization expense		8,442	8,438	75,207
Impairment losses		53	69	619
Interest and dividend income		(193)	(227)	(2,027)
Interest expenses		135	112	998
Share of profit of associates accounted for using the equity method		(50)	(66)	(592)
Increase in trade and other receivables		(3,850)	(8,382)	(74,710)
Decrease (increase) in inventories		2,350	(5,704)	(50,839)
(Decrease) increase in trade and other payables		(725)	1,452	12,948
Other - net		(1,220)	7,322	65,258
Subtotal		32,884	34,314	305,832
Interest and dividends received		178	248	2,212
Interest paid		(97)	(85)	(758)
Income taxes paid		(11,108)	(9,274)	(82,657)
Net cash provided by operating activities		21,856	25,203	224,629
Cash flows from investing activities				
Purchases of property, plant and equipment		(4,942)	(4,892)	(43,609)
Payments for retirement of property, plant and equipment		(159)	(1)	(11)
Proceeds from sales of property, plant and equipment		139	21	193
Purchases of intangible assets		(4,907)	(4,297)	(38,303)
Purchases of investment securities		(3,602)	(201)	(1,793)
Proceeds from sale of investment securities		-	0	0
Proceeds from dividends of investment partnerships		171	164	1,465
Proceeds from government grants	23	42	42	381
Increase in deposits other than cash equivalents		(4,932)	(5,000)	(44,563)
Other - net		5	6	54
Net cash used in investing activities		(18,185)	(14,158)	(126,186)
Cash flows from financing activities				
Repayments of short-term borrowings		-	(110)	(986)
Proceeds from short-term borrowings		122	-	-
Purchases of treasury stock		(5)	(0)	(1)
Proceeds from sale and leaseback		1,625	3,570	31,822
Repayments of finance lease obligations		(2,728)	(2,530)	(22,552)
Dividends paid to owners of the Company	20	(7,371)	(8,671)	(77,289)
Dividends paid to non-controlling interests		(64)	(90)	(809)
Net cash used in financing activities		(8,422)	(7,833)	(69,817)
Effects of exchange rate changes on cash and cash equivalents		(514)	121	1,080
Net (decrease) increase in cash and cash equivalents		(5,266)	3,333	29,706
Cash and cash equivalents at the beginning of the year		50,146	44,880	400,001
Cash and cash equivalents at the end of the year	6	44,880	48,213	429,708

See notes to consolidated financial statements.

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, 2017. The Company’s parent company is ITOCHU Corporation (the “Parent Company”).
The principal activities of the Group are sales and maintenance of computers and network systems, commissioned software development, data center services and support.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance with IFRSs

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”).
To conform to IFRSs, the accompanying consolidated financial statements have been prepared by making certain adjustments to the financial statements of the Company, subsidiaries and associates, which have been prepared in accordance with the accounting principles generally accepted in their respective countries of incorporation.
The consolidated financial statements were approved at the Board of Directors’ meeting held on June 15, 2017.

(2) Basis of measurement

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

(3) Presentation currency

The Company presents its consolidated financial statements in Japanese yen, which is the functional currency of the Company.
Further, in its consolidated financial statements, amounts of less than one million yen have been rounded down to the nearest million.
The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2017, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112.2=US$1 (the official rate at March 31, 2017, 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, and amended in 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, 2017, as 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 reliably estimated at this time.

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

3. Significant accounting policies

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

(1) Basis of consolidation

1) Business combinations

The Group elected to apply the exemption for business combinations in IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), so that business combinations that occurred prior to the date of transition to IFRSs of the Parent Company (April 1, 2012) are accounted for in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are the generally accepted accounting principles ("GAAP") that have been previously used by the Group, without retrospective application of IFRS 3 "Business Combinations" ("IFRS 3").

Business combinations that occur after the date of transition to IFRSs of the Parent Company are accounted for using the acquisition method in accordance with IFRS 3. That is, one of the parties to the business combination, as the acquirer, recognizes the acquisition-date fair value of the identifiable assets acquired, liabilities assumed from the acquiree and any non-controlling interest in the acquiree. (However, assets and liabilities that need to be measured at other than fair value in accordance with IFRS 3 are recognized at the amount stipulated in IFRS 3.) Any previously held equity interest or non-controlling interest is remeasured at the acquisition-date fair value. Goodwill is then recognized as of the acquisition date, measured as the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. In addition, for business combinations resulting in a bargain purchase, that is, for transactions where the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured in accordance with IFRS 3, exceeds the aggregate of the consideration transferred, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, and the fair value of any non-controlling interest in the acquiree, the excess amount is recognized in profit or loss at the acquisition date.

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

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

2) Subsidiaries

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

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: 3–8 years and other intangible assets: 4–10 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

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

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

(7) Leases

1) Leases as lessee

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

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

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

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

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

2) Leases as lessor

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

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

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

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

(8) Impairment

1) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

(9) Non-current assets held for sale

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

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

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

(10) Employee benefits

1) Post-employment defined benefit plans

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

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

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

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

2) Post-employment defined contribution plans

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

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

3) Multi-employer plans

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

4) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and recognized in profit or loss as benefits expected to be paid as compensation for 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 a provision for asset retirement obligations, if there are legal or contractual obligations to dismantle or remove property, plant and equipment and restore sites on which they are located, or if it has been stated that, in accordance with industry practices, published policies, or written statements, obligations to dismantle or remove property and equipment and restore sites on which they are located will be fulfilled, or if it is presumed that outside third parties expect the obligations to be fulfilled.

2) Provisions for loss on orders received

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

3) Provisions for after-sales costs

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

(12) 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 accepted contracts, SE services, maintenance and other transactions.

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

3) Multiple components transactions

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

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

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

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

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

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

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

(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 is 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 potentially dilutive common stock.

4. Significant accounting estimates and judgments

To prepare the consolidated financial statements, the management of the Company makes a variety of estimates, judgments, and 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: “Distribution and Enterprise business”, “Telecommunications business”, “Public and Regional business”, “Finance and Social Infrastructure business” and “IT Services business”.

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

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

Based on the change of organization at April 1, 2016, “Enterprise business” and “Distribution business” have been combined into “Distribution and Enterprise business” since the year ended March 31, 2017. Also, “Public and Regional business” has been newly established and a part of “Distribution and Enterprise business”, and “Finance and Social Infrastructure business” has been reclassified into “Public and Regional business”, which has developed business for central government agencies and local governments, educational/academic institutions, companies located in the Greater Tokyo area, as well as the Northern Japan, Chubu (Central Japan) and Nishi-Nihon (Western Japan) regions.

Accordingly, the segment information for the year ended March 31, 2016, has been restated based on the new categorization of the reportable segments.

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

Year ended March 31, 2016

(Millions of Yen)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	112,818	143,402	37,518	50,714
Inter-segment revenue or transfers	3,354	1,498	549	770
Total	116,173	144,900	38,068	51,485
Profit before tax (Segment profit)	4,932	10,359	701	3,677
Segment assets	55,972	60,621	12,133	13,670
Other items				
Financial income	42	17	1	2
Financial costs	(29)	(4)	(6)	(6)
Share of profit of associates accounted for using the equity method	29	-	-	-
Depreciation and amortization expense (Note 3)	(1,683)	(406)	(270)	(223)
Impairment losses	-	-	-	-
Investments accounted for using the equity method	304	-	-	-
Capital expenditures (Note 3)	2,088	204	132	82

(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	94,649	100,822	900	101,722	(101,722)	-
Total	105,662	456,289	37,039	493,329	(101,722)	391,606
Profit before tax (Segment profit)	8,723	28,394	1,666	30,061	(2,118)	27,942
Segment assets	74,631	217,029	25,262	242,291	65,640	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)	(6,844)	(1,598)	(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 ¥2,118 million include primarily administrative expenses and investments that

are not allocated to business segments of ¥2,303 million.

(2) Reconciliations of segment assets of ¥65,640 million include corporate assets of ¥75,448 million and intersegment elimination of receivables and payables of ¥(10,743) 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 ¥79 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 ¥1,598 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, 2017

(Millions of Yen)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	127,265	148,204	37,919	50,649
Inter-segment revenue or transfers	4,367	2,563	654	901
Total	131,632	150,768	38,574	51,551
Profit before tax (Segment profit)	7,256	14,393	886	2,778
Segment assets	58,427	60,754	14,908	15,038
Other items				
Financial income	39	52	5	8
Financial costs	(16)	(3)	(5)	(2)
Share of profit of associates accounted for using the equity method	41	-	-	-
Depreciation and amortization expense (Note 3)	(1,743)	(366)	(210)	(228)
Impairment losses	(1)	-	-	-
Investments accounted for using the equity method	328	-	-	-
Capital expenditures (Note 3)	1,667	273	130	94

(Millions of Yen)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	11,266	375,305	32,543	407,849	-	407,849
Inter-segment revenue or transfers	98,454	106,941	672	107,613	(107,613)	-
Total	109,720	482,246	33,216	515,463	(107,613)	407,849
Profit before tax (Segment profit)	7,986	33,300	1,916	35,217	(3,917)	31,300
Segment assets	78,343	227,472	24,336	251,808	81,314	333,123
Other items						
Financial income	11	117	28	146	116	263
Financial costs	(55)	(83)	(6)	(90)	(67)	(158)
Share of profit of associates accounted for using the equity method	-	41	11	52	13	66
Depreciation and amortization expense (Note 3)	(3,681)	(6,230)	(906)	(7,137)	(1,300)	(8,438)
Impairment losses	(65)	(67)	-	(67)	(2)	(69)
Investments accounted for using the equity method	-	328	195	523	140	664
Capital expenditures (Note 3)	4,783	6,948	631	7,580	3,168	10,748

Notes:

1. “Other”, which is not included in the reportable segments, consists of foreign subsidiaries and a science business segment, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥3,917 million include primarily administrative expenses and investments that are not allocated to business segments of ¥3,549 million.
   (2) Reconciliations of segment assets of ¥81,314 million include corporate assets of ¥92,755 million and

intersegmental elimination of receivables and payables of ¥(12,764) 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 ¥116 million include ¥112 million of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of ¥67 million include ¥80 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 ¥13 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 ¥1,300 million include depreciation and amortization on impairment losses of ¥1,505 million and elimination of unrealized gains of ¥(204) million.

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

Reconciliations of investments in associates accounted for using the equity method of ¥140 million are investments to associates accounted for using the equity method managed by the administrative department of the Company.

Reconciliations of capital expenditures of ¥3,168 million include an increase in corporate assets of ¥3,260 million and elimination of unrealized gains of ¥(92) 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, 2017

(Thousands of U.S. Dollars)

	Reportable segment			
	Distribution and Enterprise business	Telecommunications business	Public and Regional business	Finance and Social Infrastructure business
Revenue				
Revenue from external customers	1,134,271	1,320,894	337,965	451,425
Inter-segment revenue or transfers	38,922	22,851	5,833	8,032
Total	1,173,194	1,343,745	343,799	459,457
Profit before tax (Segment profit)	64,673	128,283	7,903	24,760
Segment assets	520,748	541,483	132,871	134,030
Other items				
Financial income	350	469	45	75
Financial costs	(150)	(31)	(47)	(22)
Share of profit of associates accounted for using the equity method	368	-	-	-
Depreciation and amortization expense (Note 3)	(15,541)	(3,266)	(1,872)	(2,040)
Impairment losses	(14)	-	-	-
Investments accounted for using the equity method	2,925	-	-	-
Capital expenditures (Note 3)	14,861	2,435	1,159	837

(Thousands of U.S. Dollars)

	Reportable segment		Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	IT Services business	Subtotal				
Revenue						
Revenue from external customers	100,413	3,344,969	290,051	3,635,021	-	3,635,021
Inter-segment revenue or transfers	877,491	953,131	5,994	959,125	(959,125)	-
Total	977,904	4,298,100	296,046	4,594,147	(959,125)	3,635,021
Profit before tax (Segment profit)	71,178	296,799	17,082	313,881	(34,911)	278,970
Segment assets	698,249	2,027,382	216,903	2,244,285	724,727	2,969,013
Other items						
Financial income	106	1,047	258	1,305	1,042	2,347
Financial costs	(495)	(747)	(61)	(808)	(605)	(1,414)
Share of profit of associates accounted for using the equity method	-	368	102	470	121	592
Depreciation and amortization expense (Note 3)	(32,810)	(55,532)	(8,080)	(63,612)	(11,594)	(75,207)
Impairment losses	(583)	(598)	-	(598)	(20)	(619)
Investments accounted for using the equity method	-	2,925	1,742	4,668	1,256	5,924
Capital expenditures (Note 3)	42,632	61,926	5,632	67,558	28,235	95,794

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$34,911 thousand include primarily administrative expenses and investments that are not allocated to business segments of US$31,635 thousand.
   (2) Reconciliations of segment assets of US$724,727 thousand include corporate assets of US$826,701 thousand and

intersegmental elimination of receivables and payables of US$(113,766) 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$1,042 thousand include US$1,004 thousand of gains related to the administrative department that are not allocated to business segments.

Reconciliations of financial costs of US$605 thousand include US$715 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$121 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$11,594 thousand include depreciation and amortization on impairment losses of US$13,417 thousand and elimination of unrealized gains of US$(1,822) thousand.

Reconciliations of impairment losses of US$20 thousand are impairment losses related to corporate assets.

Reconciliations of investments in associates accounted for using the equity method of US$1,256 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$28,235 thousand include an increase in corporate assets of US$29,059 thousand and elimination of unrealized gains of US$(823) 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, 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, 2017

(Millions of Yen)

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

Year ended March 31, 2017

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,469,988	776,815	1,388,217	3,635,021

(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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Japan	44,763	47,057	419,410
Asia	7,389	6,500	57,939
Others	20	15	138
Total	52,173	53,574	477,489

(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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Nippon Telegraph and Telephone Corporation and the Group	Telecommunications business	48,546	50,165	447,106
KDDI Corporation and the Group	Telecommunications business	47,396	47,513	423,471

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, 2016	March 31, 2017	March 31, 2017
Cash and bank balances	36,675	46,176	411,553
Securities within three months	2,999	-	-
Deposits within three months	5,204	2,036	18,154
Total	44,880	48,213	429,708

The balance of cash and cash equivalents agrees with both the consolidated statements of financial position and the consolidated statements of cash flows as of March 31, 2016 and 2017.

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, 2016	March 31, 2017	March 31, 2017
Notes and accounts receivable - trade	96,069	99,764	889,167
Lease receivables	13,935	13,942	124,266
Others	1,136	1,785	15,912
Allowance for doubtful accounts	(23)	(19)	(174)
Total	111,118	115,473	1,029,172

8. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Merchandise	13,777	19,599	174,680
Work in progress	82	17	151
Supplies for maintenance service	4,628	4,429	39,479
Total	18,488	24,045	214,312
Inventories to be sold more than one year after	740	312	2,789

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2016 and 2017, is ¥195,357 million and ¥196,453 million (US$1,750,921 thousand), respectively. The write-downs of inventories to net realizable value as of March 31, 2016 and 2017, are ¥1 million and ¥2 million (US$21 thousand), respectively. The write-down amount of inventories is included in “Cost of sales” in the consolidated statements 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, 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
Purchase	3,365	2,489	-	5,855
Disposals	(313)	(1,041)	-	(1,354)
Exchange differences on translating foreign operations	(0)	(86)	-	(86)
Others	(1)	(295)	-	(297)
March 31, 2017	40,860	21,957	4,731	67,548

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2016	336,981	186,198	42,167	565,347
Purchase	29,999	22,189	-	52,189
Disposals	(2,791)	(9,283)	-	(12,074)
Exchange differences on translating foreign operations	(1)	(766)	-	(768)
Others	(14)	(2,638)	-	(2,652)
March 31, 2017	364,173	195,699	42,167	602,040

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
April 1, 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)
Depreciation expense	(2,387)	(3,096)	-	(5,483)
Impairment losses	(64)	(0)	-	(65)
Disposals	275	1,010	-	1,286
Exchange differences on translating foreign operations	0	54	-	54
Others	18	924	-	942
March 31, 2017	(17,665)	(13,518)	-	(31,183)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2016	(138,206)	(110,616)	-	(248,823)
Depreciation expense	(21,275)	(27,598)	-	(48,873)
Impairment losses	(577)	(3)	-	(581)
Disposals	2,452	9,009	-	11,462
Exchange differences on translating foreign operations	0	486	-	486
Others	162	8,237	-	8,400
March 31, 2017	(157,444)	(120,484)	-	(277,928)

(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2016	22,302	8,480	4,731	35,514
March 31, 2017	23,195	8,439	4,731	36,365

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Total
March 31, 2017	206,729	75,214	42,167	324,111

There are no property, plant and equipment pledged as collateral at March 31, 2016 and 2017.

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, 2016	547	2,993	3,540
March 31, 2017	451	2,640	3,092

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2017	4,026	23,536	27,562

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

(2) Impairment losses

Property, plant and equipment are grouped by the asset's cash-generating units that are the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized as "Other expenses" in the consolidated statements of income for the years ended March 31, 2016 and 2017, are ¥49 million and ¥65 million (US$581 thousand), respectively.

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.

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

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

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, 2015	4,660	21,830	4,222	30,713
Separate acquisitions	-	4,400	2	4,402
Disposals	-	(406)	(1)	(408)
Exchange differences on translating foreign operations	(415)	(12)	(362)	(789)
Others	-	(621)	(3)	(624)
March 31, 2016	4,245	25,190	3,858	33,293
Separate acquisitions	-	4,260	0	4,260
Disposals	-	(298)	-	(298)
Exchange differences on translating foreign operations	(345)	(9)	(303)	(658)
Others	-	(663)	-	(663)
March 31, 2017	3,899	28,478	3,555	35,933

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2016	37,839	224,511	34,386	296,736
Separate acquisitions	-	37,968	6	37,975
Disposals	-	(2,663)	-	(2,663)
Exchange differences on translating foreign operations	(3,081)	(82)	(2,703)	(5,867)
Others	-	(5,916)	-	(5,916)
March 31, 2017	34,757	253,817	31,690	320,264

(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 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)
Amortization expense	-	(2,440)	(366)	(2,806)
Impairment losses	-	-	(2)	(2)
Disposals	-	226	-	226
Exchange differences on translating foreign operations	-	4	102	106
Others	-	503	-	503
March 31, 2017	-	(17,802)	(1,670)	(19,472)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2016	-	(143,456)	(12,512)	(155,968)
Amortization expense	-	(21,752)	(3,263)	(25,015)
Impairment losses	-	-	(23)	(23)
Disposals	-	2,014	-	2,014
Exchange differences on translating foreign operations	-	43	909	953
Others	-	4,484	-	4,484
March 31, 2017	-	(158,665)	(14,889)	(173,554)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2016	4,245	9,094	2,454	15,794
March 31, 2017	3,899	10,676	1,885	16,460

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2017	34,757	95,152	16,800	146,710

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, 2016	629
March 31, 2017	154

(Thousands of U.S. Dollars)

	Software
March 31, 2017	1,376

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

(2) Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to each of the acquirer’s cash-generating units that is expected to benefit from the combination at the date of acquisition. The Group’s significant goodwill is related to CTC Global Sdn. Bhd. and CTC Global Pte. Ltd. and belongs to the “Other” reportable segment. The carrying amount is ¥3,899 million (US$34,757 thousand, March 31, 2016: ¥4,245 million). The recoverable amount of the cash-generating unit to which goodwill has been allocated is determined based on value in use. The value in use is based on past experience and financial budgets approved by management over the next 5 years. The estimated future cash flows beyond the five years have been extrapolated using a steady 0% per annum growth rate.
In addition, as of March 31, 2017, the pre-tax discount rate which is used in calculating the value in use is from 10.1% to 14.1% (as of March 31, 2016: from 9.6% to 13.2%).
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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Carrying amount of investments accounted for using the equity method	635	664	5,924

Financial information of associates that are not individually significant, for the years ended March 31, 2016 and 2017, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Share of profit for the year	50	66	592
Share of other comprehensive income for the year	(21)	(4)	(42)
Share of total comprehensive income for the year	28	61	549

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, 2016	March 31, 2017	March 31, 2017
Financial assets measured at amortized cost	27,910	32,864	292,906
FVTOCI financial assets	5,821	5,653	50,385
FVTPL financial assets	784	489	4,363
Total	34,515	39,006	347,655

Current assets	20,025	25,017	222,972
Non-current assets	14,490	13,989	124,683
Total	34,515	39,006	347,655

Dividends from FVTOCI financial assets recognized in “Other financial assets” as of March 31, 2016 and 2017, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
47	96	863

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, 2016 and 2017, are as follows:

March 31, 2016

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	4,514
AEON Financial Service Co., Ltd.	356
Asahi Group Holdings, Ltd.	350
FamilyMart UNY Holdings Co., Ltd.	224
NTT DATA INTRAMART CORPORATION	79

March 31, 2017

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	3,921	34,951
Mizuho Financial Group, Inc.	432	3,856
Asahi Group Holdings, Ltd.	420	3,750
AEON Financial Service Co., Ltd.	281	2,509
FamilyMart UNY Holdings Co., Ltd.	254	2,268

Derecognized FVTOCI financial assets for the years ended March 31, 2016 and 2017, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2016			Year ended March 31, 2017			Year ended March 31, 2017		
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
13	(37)	-	4	(3)	2	44	(33)	23

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, 2016 and 2017, are ¥24 million (losses) and ¥2 million (US$22 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, 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)

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

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	March 31, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2017
Deferred tax assets					
Inventories	26,870	1,551	-	-	28,422
Property, plant and equipment and intangible assets	9,758	5,098	-	-	14,857
Other payables	7,048	92	-	-	7,141
Employee benefits	42,855	8,648	(2,639)	-	48,865
Provisions	5,094	3,020	-	-	8,115
Others	11,274	3,233	(27)	(123)	14,357
Total deferred tax assets	102,903	21,646	(2,666)	(123)	121,759
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(5,510)	601	-	407	(4,501)
Securities and other investments	(2,881)	(71)	1,295	-	(1,656)
Others	(7,067)	1,554	-	-	(5,512)
Total deferred tax liabilities	(15,459)	2,084	1,295	407	(11,670)

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, 2016	March 31, 2017	March 31, 2017
Deferred tax assets	10,286	12,679	113,005
Deferred tax liabilities	474	327	2,917
Net	9,811	12,351	110,088

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Deductible temporary differences	200	15	141
Tax loss carryforwards	464	-	-
Total	664	15	141

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	-	-
Year 4	-	-	-
Year 5 or later	464	-	-
Total	464	-	-

(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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Current tax expense	8,301	11,967	106,657
Deferred tax expense	1,503	(2,662)	(23,730)
Total	9,804	9,304	82,927

"Current tax expense" includes the amount of tax benefits from tax loss carryforwards, tax credits, and deductible temporary differences, for which deferred tax assets were not recognized in previous fiscal years. The amount of deduction of tax expense resulting from these tax benefits for the years ended March 31, 2016 and 2017, is ¥6 million and ¥171 million (US$1,530 thousand), respectively.

"Deferred tax expense" includes the amount of tax benefits from tax loss carryforwards, tax credits, and deductible temporary differences, for which deferred tax assets were not recognized in previous fiscal years, and expenses or benefits arising from write-downs of deferred tax assets or the reversal of previous write-downs of deferred tax assets. The amount of deduction of tax expense resulting from these tax benefits for the year ended March 31, 2017 is ¥75 million (US$673 thousand). There were no deductions of tax expense resulting from these tax benefits for the year ended March 31, 2016.

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

	Year ended March 31, 2016	Year ended March 31, 2017
Effective statutory tax rate	33.1%	30.9%
(Reconciliation)		
Tax credits	(1.5%)	(1.4%)
Effect on the amount of not deductible for tax purposes	0.8%	0.7%
Reduction of deferred tax assets due to the change in the tax rate	1.8%	-
Others	0.9%	(0.5%)
Average effective tax rate	35.1%	29.7%

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, 2016 and 2017, is 33.1% and 30.9%, respectively, based on these taxes. Foreign subsidiaries are subject to income taxes of the countries where they operate.

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, 2016	March 31, 2017	March 31, 2017
Account payables-trade	37,240	38,604	344,064
Other payables	6,137	6,479	57,748
Accrued consumption taxes	3,824	3,139	27,979
Total	47,202	48,222	429,792

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, 2016	March 31, 2017	March 31, 2017
Financial liabilities measured at amortized cost	16,203	15,597	139,013
FVTPL financial liabilities	183	78	697
Total	16,387	15,675	139,710

Current liabilities	6,179	5,658	50,434
Non-current liabilities	10,207	10,016	89,275
Total	16,387	15,675	139,710

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, 2016 and 2017, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Within 1 year	288	-	-
Over 1 year – within 5 years	-	-	-
Total	288	-	-

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, 2016 and 2017, 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, 2016	March 31, 2017	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2017
Within 1 year	4,326	4,219	37,608	3,992	3,892	34,690
Over 1 year – within 5 years	9,542	9,514	84,797	9,034	9,018	80,378
Over 5 years	921	1,055	9,406	908	1,031	9,197
Total lease payments receivable	14,791	14,789	131,813	13,935	13,942	124,266
Less: Unearned finance income	(855)	(846)	(7,547)			
Present value of minimum lease payments receivable	13,935	13,942	124,266			

(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, 2016 and 2017, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Within 1 year	2,713	2,555	22,774
Over 1 year – within 5 years	3,015	1,291	11,510
Total	5,728	3,846	34,284

Lease payments recognized as expense under operating leases for the years ended March 31, 2016 and 2017, are ¥10,381 million and ¥10,391 million (US$92,616 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, 2016 and 2017, 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, 2016	March 31, 2017	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2017
Within 1 year	5,327	4,579	40,813	4,970	4,245	37,839
Over 1 year – within 5 years	9,603	9,264	82,567	9,089	8,752	78,012
Over 5 years	874	1,083	9,657	847	1,053	9,391
Total lease payments	15,805	14,926	133,038	14,908	14,052	125,242
Less: Future finance charges	(897)	(874)	(7,795)			
Present value of minimum lease payments	14,908	14,052	125,242			

Future minimum sublease payments under non-cancelable operating leases as of March 31, 2016 and 2017, are ¥1,987 million and ¥1,738 million (US$15,492 thousand), respectively.

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Balance at the beginning of the year	18,645	20,315	181,061
Current service cost	896	1,017	9,072
Interest cost	192	115	1,026
Remeasurement			
Changes in demographic assumptions	17	(517)	(4,613)
Changes in financial assumptions	1,049	(272)	(2,430)
Experience adjustments	20	150	1,343
Benefits paid	(506)	(487)	(4,340)
Balance at the end of the year	20,315	20,321	181,119

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Balance at the beginning of the year	20,814	21,095	188,017
Interest income	220	122	1,094
Remeasurement			
Return on plan assets	(89)	668	5,955
Employer contributions	603	632	5,633
Benefits paid	(453)	(444)	(3,960)
Balance at the end of the year	21,095	22,074	196,740

Note: In accordance with the retirement benefit regulations, the Company and certain subsidiaries conduct financial verification regularly and recalculate the contribution of benefits in future periods in order to provide employee retirement benefits that are expected to arise in the future or to improve financial position of pension funds in the case of a deficit in its financial position.
The expected contribution to the plan is ¥695 million (US$6,201 thousand) for the year ending March 31, 2018.

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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Balance at the beginning of the year	1,994	-	-
Movements in the effect of the asset ceiling	(1,994)	340	3,031
Balance at the end of the year	-	340	3,031

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Present value of the defined benefit plan obligations	20,315	20,321	181,119
Fair value of plan assets	(21,095)	(22,074)	(196,740)
Funded status	(780)	(1,752)	(15,621)
Effect of the asset ceiling	-	340	3,031
Net liabilities (assets)	(780)	(1,412)	(12,590)
Amount in the consolidated statement of financial position			
Other non-current assets	(1,332)	(2,021)	(18,016)
Liabilities for employee benefits (non-current liabilities)	552	608	5,426

Plan assets by category as of March 31, 2016 and 2017, are as follows. Refer to “Note 27. Financial instruments and disclosures” for input information used in measuring fair value.

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, 2017

(Millions of Yen)

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

March 31, 2017

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	31,457	-	31,457
Overseas	32,522	-	32,522
Debt instruments			
Domestic	63,980	-	63,980
Overseas	32,598	-	32,598
Other assets			
Cash and cash equivalents	2,754	-	2,754
Life insurance company general accounts	-	32,969	32,969
Others	-	458	458
Total	163,312	33,428	196,740

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

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

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

The defined benefit plan obligations are calculated based on the estimated amount of future benefits that have been incurred as of the present point in time. The amount of those future payments is discounted back from the expected time of future payment to the present. Accordingly, the timing of benefit payment influences the amounts of the projected benefit obligation and service costs, and consequently, the disclosure of information regarding benefits in the period in which they are earned is required under IAS 19 "Employee Benefits". The Company believes that it meets this requirement in an effective manner through the disclosure of the weighted-average duration of the defined benefit plan obligations, which takes into account the amount, timing, and discount rate. The weighted-average duration of the Company's defined benefit plan obligations for the years ended March 31, 2016 and 2017 are 13 years and 12 years, respectively.

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

	March 31, 2016	March 31, 2017
Discount rate	0.5%	0.6%
Rate of compensation increase	4.3%	5.7%

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, 2016	March 31, 2017	March 31, 2017
0.5% Increase	(1,222)	(1,096)	(9,769)
0.5% Decrease	1,112	1,001	8,923

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, 2016 and 2017, are ¥824 million and ¥867 million (US$7,730 thousand), respectively.

4) Multi-employer plans

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

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

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

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

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

The ITOCHU United Pension Fund is a defined benefit multi-employer plan that is operated in accordance with the rules above. Events occurring at participating companies influence the allocation of plan assets and expenses to other participating companies, and consequently, there is no consistent basis for that allocation. Accordingly, because it is not possible to obtain sufficient information to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan. In regard to the special premium for this plan, at the time when the periodic 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 statements of financial position at March 31, 2016 and 2017, are ¥3,420 million and ¥3,112 million (US$27,736 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, 2015	March 31, 2016	March 31, 2016
Plan assets	21,191	22,975	204,776
Benefits obligation based on pension plan finance calculation	31,939	33,225	296,125
Net	(10,748)	(10,249)	(91,349)

	March 31, 2015	March 31, 2016
Ratio of the Company and certain subsidiaries contribution to the overall plan	29.8%	30.5%

The principal factors of “Net” in the above table are past service cost obligations based on pension plan finance calculation and general reserve. Past service cost obligations are recognized as a liability.

The ratio of the Company and certain subsidiaries contribution to the overall plan above is calculated by dividing total contribution paid to the pension fund from the Company and certain subsidiaries by the total contribution to the overall pension fund. The ratio of the Company’s and certain subsidiaries’ contribution to the overall plan above does not match the actual proportional contribution.

The expected contribution to the plans for the year ending March 31, 2018, is ¥937 million (US$8,357 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, 2016 and 2017, are ¥58,277 million and ¥60,021 million (US$534,947 thousand), respectively.

18. Provisions

The breakdown and movements in provisions are as follows:

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	1,388	83	1,515
Interest expenses for discounting	38	-	-	38
Decrease for the year (utilization)	(149)	(2,536)	(131)	(2,817)
Decrease for the year (unused)	(7)	(1,852)	(17)	(1,877)
Increase or decrease by offsetting with work in progress	-	2,719	-	2,719
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

Note: Increase and decrease of provisions for loss on order received for the year ended March 31, 2016 were presented by offsetting with corresponding work in progress. These amounts are changed and presented without offsetting with corresponding work in progress from this fiscal year. As a result, increase and decrease of provisions for loss on order received for the year ended March 31, 2016 are amended.
Amounts offset with corresponding work in progress for the year ended March 31, 2016 are as follows. The amount of “Increase for the year” is ¥326 million. The amount of “Decrease for the year (utilization)” is ¥(486) million. The amount of “Decrease for the year (unused)” is ¥(118) million.

Year ended March 31, 2017

(Millions of Yen)

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

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

Year ended March 31, 2017

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2016	14,893	1,593	4,293	20,780
Increase for the year	356	17,327	2,231	19,915
Interest expenses for discounting	274	-	-	274
Decrease for the year (utilization)	(11)	(6,953)	(1,500)	(8,465)
Decrease for the year (unused)	(37)	(1,185)	(908)	(2,132)
Increase or decrease by offsetting with work in progress	-	(8,750)	-	(8,750)
Others	(32)	-	-	(32)
March 31, 2017	15,442	2,030	4,114	21,588

Current liabilities	-	2,030	4,114	6,145
Non-current liabilities	15,442	-	-	15,442
Total	15,442	2,030	4,114	21,588

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 outflow of economic benefits in the future is expected principally in a period after one year from the end of each fiscal year, but the timing could be affected by future business plans.

Provisions for loss on orders received

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

Provisions for after-sales costs

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

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, 2016	Year ended March 31, 2017
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	120,000
Increase	60,000	-
Balance at the end of the year	120,000	120,000

The number of treasury stock included in issued shares above as of March 31, 2016 and 2017, is 4,385 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 legal capital surplus (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.

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

20. Dividends

The Company pays year-end dividends and interim dividends. The year-end dividends are approved at the general meeting of shareholders and the interim dividends are determined by the Board of Directors.
Dividends paid for the years ended March 31, 2016 and 2017 are as follows:

Year ended March 31, 2016

(1) Dividends paid

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
October 29, 2015 Board of Directors	Ordinary shares	3,757	32.50	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	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 Ordinary general meeting of shareholders	Ordinary shares	4,335	37.50	March 31, 2016	June 23, 2016

Year ended March 31, 2017

(1) Dividends paid

Resolution	Class of shares	(Millions of Yen)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 22, 2016 Ordinary general meeting of shareholders	Ordinary shares	4,335	38,641	37.50	0.33	March 31, 2016	June 23, 2016
November 1, 2016 Board of directors	Ordinary shares	4,335	38,641	37.50	0.33	September 30, 2016	December 2, 2016

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

Resolution	Class of shares	(Millions of Yen)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 21, 2017 Ordinary general meeting of shareholders	Ordinary shares	4,913	43,793	42.50	0.37	March 31, 2017	June 22, 2017

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, 2016 and 2017, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Amount due from customers for contract work	7,539	11,754	104,764
Amount due to customers for contract work	(1,860)	(6,168)	(54,979)
Construction costs incurred and profit recognized less losses recognized to date	10,001	15,128	134,839
Progress billings	(4,322)	(9,542)	(85,053)
Amount due from (to) customers	5,678	5,585	49,785

Advances received from customers for contract work amounted to ¥1,334 million and ¥4,354 million (US$38,807 thousand) as of March 31, 2016 and 2017, respectively. There are no retentions held by customers for contract work. Revenue from made-to-order software for the years ended March 31, 2016 and 2017, is ¥76,460 million and ¥88,364 million (US$787,560 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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Employee benefit expenses	37,076	37,850	337,348
Depreciation and amortization expense	2,830	2,505	22,329
Research and development expenses	1,285	1,237	11,030
Others	22,272	23,918	213,181
Total	63,464	65,512	583,889

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Dividend income of insurance	70	80	721
Settlement received	46	-	-
Others	332	267	2,386
Total	450	348	3,108

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Net foreign exchange losses	367	285	2,545
Impairment losses	53	69	619
Compensation for damage	134	21	193
Others	13	46	411
Total	569	423	3,770

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 was determined for the year ended March 31, 2016 that the total amount of the grants would be ¥428 million (US$3,817 thousand), which will be paid in installments over a period of 10 years. The grants are deducted from the cost of assets, and are recognized in profit or loss as decrease of depreciation during their useful lives.

Furthermore, the condition to receive the grants is that the business maintains its present location, in 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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Interest income			
Financial assets measured at amortized cost	105	114	1,019
Others	28	7	67
Subtotal	133	121	1,086
Dividends received			
FVTOCI financial assets	47	99	887
FVTPL financial assets	12	6	53
Subtotal	59	105	940
Other financial income			
FVTPL financial assets	-	35	320
Subtotal	-	35	320
Total	193	263	2,347

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Interest expense			
Financial liabilities measured at amortized cost	135	112	998
Subtotal	135	112	998
Other financial costs			
Financial assets measured at amortized cost	13	4	41
FVTPL financial assets	95	42	374
Subtotal	108	46	415
Total	243	158	1,414

25. Earnings per share

The calculation of basic earnings per share for the years ended March 31, 2016 and 2017, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Profit for the year attributable to owners of the Company	18,018	21,861	194,847

(Shares in thousands)

	Year ended March 31, 2016	Year ended March 31, 2017
Weighted-average number of ordinary shares	115,614	115,614

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Basic earnings per share	155.85	189.09	1.68

Note:
Diluted earnings per share are not presented as there are no potentially dilutive shares.

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, 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)

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

	(Thousands of U.S. Dollars)		
	Year ended March 31, 2017		
	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income			
Amount arising during the year	(4,256)	1,295	(2,961)
Adjustment for the year	(4,256)	1,295	(2,961)
Remeasurement of defined benefit plans			
Amount arising during the year	8,624	(2,639)	5,985
Adjustment for the year	8,624	(2,639)	5,985
Exchange differences on translating foreign operations			
Amount arising during the year	(8,183)	-	(8,183)
Adjustment for the year	(8,183)	-	(8,183)
Cash flow hedges			
Amount arising during the year	(1,651)	510	(1,140)
Reclassification to profit or loss for the year	1,740	(537)	1,202
Adjustment for the year	88	(27)	61
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(42)	-	(42)
Adjustment for the year	(42)	-	(42)
Total other comprehensive income for the year	(3,769)	(1,370)	(5,139)

27. Financial instruments and disclosures

(1) Capital management

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

(2) Financial risk management policy

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

1) Credit risk management

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

a) Financial assets past due

An aging analysis of financial assets that are past due but not impaired as of March 31, 2016 and 2017, is as follows. As of the balance sheet date, the Group has determined that it is not necessary to recognize impairment loss on the following financial assets.

March 31, 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, 2017

(Millions of Yen)

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

March 31, 2017

(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	13,232	3,901	3,659	755	1,594	23,144

b) Movement in allowance for doubtful accounts

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Balance at the beginning of the year	58	68	614
Increase for the year	15	8	74
Decrease for the year (utilization)	(1)	(10)	(94)
Decrease for the year (unused)	(2)	(0)	(2)
Others	(0)	(1)	(13)
Balance at the end of the year	68	64	577

The balances of financial assets individually determined to be impaired by reviewing customers' financial conditions, the status of delayed payments and others as of March 31, 2016 and 2017, are ¥72 million and ¥66 million (US$595 thousand), respectively. For the financial assets, the Group recorded an allowance for doubtful accounts as of March 31, 2016 and 2017, of ¥59 million and ¥54 million (US$486 thousand), respectively.

2) Market risk management

a) Interest rate risk

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

b) Foreign currency exchange rate risk

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

Exposure to foreign currency exchange rate risk (net amount) at the end of the years ended March 31, 2016 and 2017, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016		March 31, 2017	
Balance of foreign exchange (short-term)	(2,016)	(17,890)	(1,225)	(11,186)
Balance of foreign exchange (long-term)	-	-	-	-

Notes:

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

Foreign currency sensitivity analysis

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Profit before tax	20	12	111

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, 2016	March 31, 2017	March 31, 2017
Other comprehensive income	(566)	(553)	(4,932)

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, 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, 2017

(Millions of Yen)

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

March 31, 2017

(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	429,792	429,792	429,792	-	-
Other financial liabilities	49,737	52,712	52,712	-	-
Non-current financial liabilities	89,275	94,097	-	84,195	9,901

b) Derivatives

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

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, 2017

(Millions of Yen)

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

March 31, 2017

(Thousands of U.S. Dollars)

		Within 1 year	Over 1 year – within 5 years	Over 5 years	Total
Currency derivatives	Income	137	-	-	137
	Expenditures	(697)	-	-	(697)

(3) Fair value of financial instruments

1) Fair value measurements

Trade and other receivables

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

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

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

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

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

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

2) Fair value of financial instruments by category

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

	(Millions of Yen)		(Millions of Yen)		(Thousands of U.S. Dollars)	
	March 31, 2016		March 31, 2017		March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	111,118	111,268	115,473	115,567	1,029,172	1,030,009
Other financial assets	27,910	27,910	32,864	32,864	292,906	292,906
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	5,821	5,821	5,653	5,653	50,385	50,385
FVTPL financial assets	784	784	489	489	4,363	4,363
Financial liabilities measured at amortized cost						
Other financial liabilities	5,995	6,009	5,580	5,591	49,737	49,832
Non-current financial liabilities	10,207	10,327	10,016	10,083	89,275	89,870
Financial liabilities measured at fair value						
Other financial liabilities						
FVTPL financial liabilities	183	183	78	78	697	697

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, 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

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

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	49,323	235	826	50,385
FVTPL financial assets	-	137	4,226	4,363
Total assets	49,323	372	5,052	54,748
Liabilities:				
FVTPL financial liabilities	-	697	-	697
Total liabilities	-	697	-	697

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

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, 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)

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	Year ended March 31, 2017	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2016	1,167	3,605
Total gains or losses		
Profit or loss	-	319
Other comprehensive income	(296)	-
Purchases	-	1,782
Disposals	0	-
Distribution	-	(1,465)
Others	(44)	(16)
March 31, 2017	826	4,226
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2017 - net	-	319

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

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

(4) Derivative instruments and hedging activities

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

Accumulated amounts of other comprehensive income that are expected to be reclassified to profit or loss within one year due to cash flow hedges (net tax effect) as of March 31, 2016 and 2017 are loss of ¥16 million and ¥9 million (US$86 thousand), respectively.

Fair values of derivatives as of March 31, 2016 and 2017, are as follows:

(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

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	March 31, 2017			
	Cash flow hedges		Derivatives not designated as hedges	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Currency derivatives	137	694	-	2

28. Related party transactions

(1) Transactions with related parties

The Group had transactions with related parties as follows:

Year ended March 31, 2016

(Millions of Yen)

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

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

Year ended March 31, 2017

(Millions of Yen)

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

Year ended March 31, 2017

(Thousands of U.S. Dollars)

Category	Name	Nature of related party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contracts (Fixed term)	(Funds deposited) 53,475	222,816
			(Repayment of deposit) 8,912	
		Deposit contracts (Withdrawable anytime)	-	3,205

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

(2) Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Benefits and bonuses	341	337	3,009
Total	341	337	3,009

29. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Shares (%)
			March 31, 2017
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	Distribution and Enterprise business	Shinagawa-ku, Tokyo	100.0
CTCSP CORPORATION	Distribution and Enterprise business	Setagaya-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	100.0
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 and Enterprise 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

Note:
CTC LIFE SCIENCE CORPORATION merged with the Company, which was the surviving company, on April 1, 2017.

30. Commitments

Contractual commitments for purchase of assets after the end of each fiscal year are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2016	March 31, 2017	March 31, 2017
Purchase of property, plant and equipment	2,434	-	-
Purchase of intangible assets	1,430	-	-
Total	3,864	-	-

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, 2016	Year ended March 31, 2017	Year ended March 31, 2017
Guarantees for employees	86 (32 people)	66 (31 people)	594 (31 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.

32. Subsequent Event

Reduction of legal capital surplus

The Company resolved at the Board of Directors held on May 1, 2017 to submit a proposal on the reduction of legal capital surplus to the general meeting of shareholders held on June 21, 2017, and the resolution was approved at the general meeting of shareholders, as detailed below.

(1) Purpose of reduction of legal capital surplus
The Company will reduce a part of legal capital surplus and transfer the same amount to other capital surplus in accordance with Article 448, paragraph (1) of the Companies Act in order to maintain the mobility and flexibility of capital policy.

(2) Summary of the reduction of the legal capital surplus
The amount to be reduced is ¥ 20,000 million ($178,253 thousand) out of the total of legal capital surplus of ¥ 33,076 million ($294,795 thousand) and transferred amount to other capital surplus is ¥ 20,000 million ($178,253 thousand).

(3) Schedule
(a) Resolution of the Board of Directors: May 1, 2017
(b) Resolution at the general meeting of shareholders: June 21, 2017
(c) Initial date of public notice to creditors for objection: June 30, 2017 (Planned)
(d) Final due date for creditors to object: July 31, 2017 (Planned)
(e) Effective date: August 31, 2017 (Planned)

1. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	Notes	(Millions of Yen) March 31, 2016	(Millions of Yen) March 31, 2017	(Thousands of U.S. Dollars) March 31, 2017
Assets				
Current assets				
Cash and cash equivalents	6	44,880	48,213	429,708
Trade and other receivables	7, 27	111,118	115,473	1,029,172
Inventories	8	18,488	24,045	214,312
Current tax assets		8	22	204
Other current financial assets	12, 27	20,025	25,017	222,972
Other current assets		34,492	37,421	333,525
Total current assets		229,013	250,194	2,229,893
Non-current assets				
Property, plant and equipment	9, 16	35,514	36,365	324,111
Goodwill	10	4,245	3,899	34,757
Intangible assets	10, 16	11,548	12,560	111,951
Investments accounted for using the equity method	5, 11	635	664	5,924
Other non-current financial assets	12, 27	14,490	13,989	124,683
Deferred tax assets	13	10,286	12,679	113,005
Other non-current assets		2,198	2,769	24,684
Total non-current assets		78,918	82,929	739,119
Total assets	5	307,932	333,123	2,969,013

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

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, 2017, 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, 2017, 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 22, 2017

Member of
Deloitte Touche Tohmatsu Limited

Challenging Tomorrow's Changes

THE GLOBAL COMPACT
COMMUNICATION ON PROGRESS

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

We welcome feedback on its contents.

VOC FREE T&K