Consolidated Financial Statements

Fiscal Year Ended March 31, 2020

Challenging Tomorrow's Changes

ITOCHU Techno-Solutions Corporation

Consolidated Statement of Financial Position

ITOCHU Techno-Solutions Corporation and Subsidiaries
As of March 31, 2019 and 2020

	Notes	(Millions of Yen) March 31, 2019	(Millions of Yen) March 31, 2020	(Thousands of U.S. Dollars) March 31, 2020
Assets				
Current assets				
Cash and cash equivalents	7	58,878	74,615	685,610
Trade and other receivables	8, 30	132,348	137,736	1,265,611
Inventories	9	28,907	29,044	266,876
Current tax assets		78	76	700
Other current financial assets	13, 30	20,089	20,301	186,539
Other current assets		58,021	62,963	578,548
Total current assets		298,325	324,736	2,983,886
Non-current assets				
Property, plant and equipment	10, 17	34,488	55,382	508,885
Goodwill	11	4,233	10,406	95,626
Intangible assets	11, 17	8,937	8,477	77,901
Investments accounted for using the equity method	5, 12	1,568	5,035	46,272
Other non-current financial assets	13, 30, 35	16,233	18,721	172,025
Deferred tax assets	14	12,467	13,910	127,814
Other non-current assets		2,681	2,145	19,718
Total non-current assets		80,611	114,080	1,048,243
Total assets	5	378,936	438,816	4,032,130

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	March 31, 2019	March 31, 2020	March 31, 2020
Liabilities and equity				
Current liabilities				
Trade and other payables	15, 30	53,901	56,788	521,807
Other current financial liabilities	16, 29 30, 35	5,479	14,818	136,163
Income taxes payable		9,964	11,696	107,470
Liabilities for employee benefits		19,047	21,761	199,957
Provisions	19	1,333	995	9,143
Other current liabilities		45,677	56,545	519,575
Total current liabilities		135,403	162,604	1,494,118
Non-current liabilities				
Non-current financial liabilities	16, 29 30, 35	12,243	31,222	286,888
Liabilities for employee benefits	18	4,016	3,839	35,281
Provisions	19	1,825	2,198	20,201
Deferred tax liabilities	14	341	387	3,556
Total non-current liabilities		18,427	37,647	345,927
Total liabilities		153,830	200,252	1,840,046
Equity				
Common stock	21	21,763	21,763	199,977
Capital surplus	21	33,193	30,526	280,492
Treasury stock	21	(9,622)	(9,613)	(88,337)
Retained earnings	21	174,460	188,149	1,728,842
Other components of equity		906	846	7,776
Total shareholders' equity		220,701	231,672	2,128,751
Non-controlling interests		4,404	6,892	63,332
Total equity		225,105	238,564	2,192,084
Total liabilities and equity		378,936	438,816	4,032,130

See notes to the consolidated financial statements.

Consolidated Statement of Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 201 and 2019

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Revenue	5, 23	451,957	487,018	4,475,039
Cost of sales		(344,248)	(368,967)	(3,390,306)
Gross profit		107,709	118,051	1,084,733
Other income and expenses				
Selling, general and administrative expenses	24	(71,795)	(75,474)	(693,506)
Other income	24	558	849	7,803
Other expenses	24	(574)	(1,758)	(16,161)
Total other income and expenses		(71,810)	(76,383)	(701,863)
Operating income		35,898	41,667	382,869
Financial income	5, 26	284	343	3,157
Financial costs	5, 26	(285)	(616)	(5,661)
Share of profit of associates accounted for using the equity method	5, 12	388	146	1,343
Profit before tax	5	36,286	41,541	381,708
Income tax expense	14	(11,407)	(13,080)	(120,188)
Net profit		24,878	28,461	261,520
Net profit attributable to:				
CTC's shareholders		24,616	28,451	261,432
Non-controlling interests		261	9	87

Earnings per share attributable to CTC's shareholders		(Yen)	(Yen)	(U.S. Dollars)
Basic earnings per share for the year	27	106.55	123.15	1.13
Diluted earnings per share for the year	27	-	-	-

See notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2019 and 2020

Consolidated Statement of Comprehensive Income

	Notes	(Millions of Yen) Year ended March 31, 2019	(Millions of Yen) Year ended March 31, 2020	(Thousands of U.S. Dollars) Year ended March 31, 2020
Net profit		24,878	28,461	261,520
Other comprehensive income, net of tax effect				
Items that will not be reclassified to profit or loss:				
Changes in net fair value of financial assets measured through other comprehensive income	28	108	1,367	12,568
Remeasurement of defined benefit plans	28	295	(236)	(2,174)
Share of other comprehensive income of associates accounted for using the equity method	12, 28	(2)	0	0
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	28	26	(1,977)	(18,172)
Cash flow hedges	28	53	(32)	(297)
Share of other comprehensive income of associates accounted for using the equity method	12, 28	1	(9)	(90)
Total other comprehensive income for the year, net of tax effect		482	(888)	(8,165)
Total comprehensive income		25,361	27,572	253,355
Total comprehensive income attributable to:				
CTC's shareholders		25,086	28,151	258,671
Non-controlling interests		275	(578)	(5,316)

See notes to the consolidated financial statements.

Consolidated Statement of Changes In Equity

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2019 and 2020

(Millions of Yen)

	Notes	Shareholders' equity					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2018		21,763	33,152	(9,621)	160,544	(270)	1,053
Cumulative effect of change in accounting policy		-	-	-	46	-	-
Restated balance		21,763	33,152	(9,621)	160,591	(270)	1,053
Net profit		-	-	-	24,616	-	-
Other comprehensive income, net of tax effect		-	-	-	-	14	105
Total comprehensive income		-	-	-	24,616	14	105
Payment of dividends	22	-	-	-	(11,041)	-	-
Purchase of treasury stock		-	-	(0)	-	-	-
Disposal of treasury stock		-	0	0	-	-	-
Share-based payment transactions	20	-	47	-	-	-	-
Changes in purchase of shares of subsidiaries		-	-	-	-	-	-
Changes in interests in subsidiaries		-	(6)	-	-	-	-
Put options held by non-controlling shareholders		-	-	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	293	-	1
Total transactions with owners		-	41	(0)	(10,747)	-	1
March 31, 2019		21,763	33,193	(9,622)	174,460	(256)	1,160

(Millions of Yen)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity		Total shareholders' equity		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2018	(52)	-	206,569	4,281	210,850
Cumulative effect of change in accounting policy	-	-	46	-	46
Restated balance	(52)	-	206,616	4,281	210,897
Net profit	-	-	24,616	261	24,878
Other comprehensive income, net of tax effect	53	295	469	13	482
Total comprehensive income	53	295	25,086	275	25,361
Payment of dividends	-	-	(11,041)	(158)	(11,199)
Purchase of treasury stock	-	-	(0)	-	(0)
Disposal of treasury stock	-	-	0	-	0
Share-based payment transactions	-	-	47	-	47
Changes in purchase of shares of subsidiaries	-	-	-	-	-
Changes in interests in subsidiaries	-	-	(6)	6	-
Put options held by non-controlling shareholders	-	-	-	-	-
Transfer to retained earnings from other components of equity	-	(295)	-	-	-
Total transactions with owners	-	(295)	(11,000)	(152)	(11,152)
March 31, 2019	1	-	220,701	4,404	225,105

(Millions of Yen)

	Notes	Shareholders' equity					
						Other components of equity	
		Common stock	Capital surplus	Treasury stock	Retained earnings	Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2019		21,763	33,193	(9,622)	174,460	(256)	1,160
Cumulative effect of change in accounting policy	2	-	-	-	(2,151)	-	-
Restated balance		21,763	33,193	(9,622)	172,309	(256)	1,160
Net profit		-	-	-	28,451	-	-
Other comprehensive income, net of tax effect		-	-	-	-	(1,399)	1,367
Total comprehensive income		-	-	-	28,451	(1,399)	1,367
Payment of dividends	22	-	-	-	(12,370)	-	-
Purchase of treasury stock		-	-	(0)	-	-	-
Disposal of treasury stock		-	-	8	-	-	-
Share-based payment transactions	20	-	60	-	-	-	-
Changes in purchase of shares of subsidiaries	6	-	-	-	-	-	-
Changes in interests in subsidiaries		-	-	-	-	-	-
Put options held by non-controlling shareholders	6	-	(2,727)	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	(240)	-	4
Total transactions with owners		-	(2,667)	8	(12,611)	-	4
March 31, 2020		21,763	30,526	(9,613)	188,149	(1,655)	2,532

(Millions of Yen)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity				
	Cash flow hedges	Remeasurement of defined benefit plans	Total shareholders' equity		
April 1, 2019	1	-	220,701	4,404	225,105
Cumulative effect of change in accounting policy	-	-	(2,151)	(4)	(2,155)
Restated balance	1	-	218,550	4,399	222,949
Net profit	-	-	28,451	9	28,461
Other comprehensive income, net of tax effect	(32)	(236)	(300)	(588)	(888)
Total comprehensive income	(32)	(236)	28,151	(578)	27,572
Payment of dividends	-	-	(12,370)	(82)	(12,453)
Purchase of treasury stock	-	-	(0)	-	(0)
Disposal of treasury stock	-	-	8	-	8
Share-based payment transactions	-	-	60	-	60
Changes in purchase of shares of subsidiaries	-	-	-	3,154	3,154
Changes in interests in subsidiaries	-	-	-	-	-
Put options held by non-controlling shareholders	-	-	(2,727)	-	(2,727)
Transfer to retained earnings from other components of equity	-	236	-	-	-
Total transactions with owners	-	236	(15,029)	3,071	(11,957)
March 31, 2020	(31)	-	231,672	6,892	238,564

(Thousands of U.S. Dollars)

	Notes	Shareholders' equity					
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity	
						Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income
April 1, 2019		199,977	305,004	(88,417)	1,603,059	(2,352)	10,666
Cumulative effect of change in accounting policy	2	-	-	-	(19,766)	-	-
Restated balance		199,977	305,004	(88,417)	1,583,292	(2,352)	10,666
Net profit		-	-	-	261,432	-	-
Other comprehensive income, net of tax effect		-	-	-	-	(12,858)	12,568
Total comprehensive income		-	-	-	261,432	(12,858)	12,568
Payment of dividends	22	-	-	-	(113,669)	-	-
Purchase of treasury stock		-	-	(0)	-	-	-
Disposal of treasury stock		-	-	81	-	-	-
Share-based payment transactions	20	-	554	-	-	-	-
Changes in purchase of shares of subsidiaries	6	-	-	-	-	-	-
Changes in interests in subsidiaries		-	-	-	-	-	-
Put options held by non-controlling shareholders	6	-	(25,066)	-	-	-	-
Transfer to retained earnings from other components of equity		-	-	-	(2,212)	-	38
Total transactions with owners		-	(24,511)	80	(115,882)	-	38
March 31, 2020		199,977	280,492	(88,337)	1,728,842	(15,211)	23,274

(Thousands of U.S. Dollars)

	Shareholders' equity			Non-controlling interests	Total equity
	Other components of equity		Total shareholders' equity		
	Cash flow hedges	Remeasurement of defined benefit plans			
April 1, 2019	11	-	2,027,948	40,466	2,068,414
Cumulative effect of change in accounting policy	-	-	(19,766)	(42)	(19,808)
Restated balance	11	-	2,008,181	40,424	2,048,605
Net profit	-	-	261,432	87	261,520
Other comprehensive income, net of tax effect	(297)	(2,174)	(2,760)	(5,404)	(8,165)
Total comprehensive income	(297)	(2,174)	258,671	(5,316)	253,355
Payment of dividends	-	-	(113,669)	(758)	(114,428)
Purchase of treasury stock	-	-	(0)	-	(0)
Disposal of treasury stock	-	-	81	-	81
Share-based payment transactions	-	-	554	-	554
Changes in purchase of shares of subsidiaries	-	-	-	28,982	28,982
Changes in interests in subsidiaries	-	-	-	-	-
Put options held by non-controlling shareholders	-	-	(25,066)	-	(25,066)
Transfer to retained earnings from other components of equity	-	2,174	-	-	-
Total transactions with owners	-	2,174	(138,101)	28,224	(109,876)
March 31, 2020	(286)	-	2,128,751	63,332	2,192,084

See notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

ITOCHU Techno-Solutions Corporation and Subsidiaries
Years ended March 31, 2019 and 2020

	Notes	(Millions of Yen) Year ended March 31, 2019	(Millions of Yen) Year ended March 31, 2020	(Thousands of U.S. Dollars) Year ended March 31, 2020
Cash flows from operating activities				
Profit before tax		36,286	41,541	381,708
Adjustments for:				
Depreciation and amortization expense		8,851	16,240	149,226
Impairment losses		456	1,124	10,335
Interest and dividend income		(283)	(342)	(3,150)
Interest expenses		234	567	5,216
Share of profit of associates accounted for using the equity method		(388)	(146)	(1,343)
Increase in trade and other receivables		(16,332)	(11,771)	(108,166)
Decrease (increase) in inventories		(2,309)	1,648	15,144
Increase in trade and other payables		5,494	831	7,643
Other-net		(1,286)	12,579	115,591
Subtotal		30,722	62,273	572,207
Interest and dividends received		318	693	6,376
Interest paid		(81)	(413)	(3,798)
Income taxes paid		(10,336)	(12,450)	(114,403)
Net cash provided by operating activities		20,622	50,103	460,382
Cash flows from investing activities				
Purchases of property, plant and equipment		(3,248)	(4,921)	(45,221)
Payments for retirement of property, plant and equipment		(116)	(26)	(247)
Proceeds from sales of property, plant and equipment		11	23	212
Purchases of intangible assets		(1,646)	(2,056)	(18,895)
Proceeds from sales of intangible assets		1	3	29
Purchases of investment securities		(963)	(381)	(3,507)
Proceeds from sales of investment securities		3	307	2,825
Purchase of shares of subsidiaries	6	-	(6,872)	(63,153)
Purchase of shares of associates		(504)	(3,684)	(33,851)
Proceeds from dividends of investment partnerships		13	64	590
Proceeds from government grants	25	42	42	393
Net decrease in deposits other than cash equivalents		3,000	-	-
Other-net		171	314	2,885
Net cash used in investing activities		(3,235)	(17,188)	(157,940)
Cash flows from financing activities				
Proceeds from short-term borrowings	29	539	-	-
Net decrease in short-term borrowings	29	-	(53)	(493)
Purchases of treasury stock		(0)	(0)	(0)
Proceeds from sale and leaseback		3,806	7,337	67,422
Repayments of lease liabilities	29	(2,715)	(11,961)	(109,911)
Dividends paid to CTC’s shareholders	22	(11,039)	(12,363)	(113,599)
Dividends paid to non-controlling interests		(158)	(82)	(758)
Other-net		0	-	-
Net cash used in financing activities		(9,567)	(17,123)	(157,341)
Effects of exchange rate changes on cash and cash equivalents		56	(55)	(505)
Net increase in cash and cash equivalents		7,875	15,736	144,595
Cash and cash equivalents at the beginning of the year		51,003	58,878	541,015
Cash and cash equivalents at the end of the year	7	58,878	74,615	685,610

See notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting entity

ITOCHU Techno-Solutions Corporation (the “Company” or “CTC”) is a company incorporated and located in Japan. The addresses of its registered office and principal place of business are disclosed on the Company’s website (https://www.ctc-g.co.jp/). The consolidated reporting period of the Company and its subsidiaries (the “Group”) is the year ended March 31, 2020. The Company’s parent company is ITOCHU Corporation (the “Parent Company”).
The principal activities of the Group are sales and maintenance of computers and network systems, commissioned software development, data center services and support.

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance with IFRSs

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”).
To conform to IFRSs, the accompanying consolidated financial statements have been prepared by making certain adjustments to the financial statements of the Company, subsidiaries, and associates, which have been prepared in accordance with the accounting principles generally accepted in their respective countries of incorporation.
The consolidated financial statements were approved at the Board of Directors’ meeting held on June 11, 2020.

(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, 2020, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108.83 = US$1 (the official exchange rate at March 31, 2020, announced by Mizuho Bank, Ltd.).

(4) Changes in the accounting policy

The Group has adopted the following standard. In applying this standard, the Group has adopted the method of recognizing the cumulative effect of applying the new standard at the date of initial application, which is permitted as a transitional measure.

Standard	Title	Summary of new or amended standard
IFRS 16	Leases	Adoption of concept of control for definition of leases (Abolition of IAS 17, IFRIC 4, SIC 15, SIC 27)

Significant impacts from the application of this standard on the consolidated financial statements of the Company are as follows: Right-of-use assets of ¥19,114 million and lease liabilities of ¥22,220 million have been additionally recognized in Property, plant and equipment, and Intangible assets as well as Other current financial liabilities and Non-current financial liabilities respectively, in the consolidated statement of financial position on the date of the initial application. As a result, retained earnings have decreased by ¥2,151 million.
In addition, Repayments of finance lease obligations, which were presented in cash flows from financing activities in the consolidated statement of cash flows in the year ended March 31, 2019, are presented as Repayments of lease liabilities in the year ended March 31, 2020.
The weighted average of the lessee’s incremental borrowing rate applied to lease liabilities as of the date of initial application is 1.1%.

The reconciliation of non-cancellable operating lease contracts to which International Accounting Standards ("IAS") 17 "Leases" was applied as of March 31, 2019 and lease liabilities recognized on the date of initial application is as follows:

(Millions of yen)

Non-cancellable operating lease contracts as of March 31, 2019 Non-cancellable operating lease contracts discounted by using an incremental borrowing rate on the date of initial application	5,264 5,196
Finance lease obligations recognized as of March 31, 2019	16,210
Discounted present value of cancellable operating lease contracts	17,023
Lease liabilities recognized on the date of initial application	38,430

In applying IFRS 16, the Group uses the following practical expedients:

・ The pre-existing assessment is used when deciding whether a lease is included in the contracts existing on the date of initial application.
・ A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
・ Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
・ Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
・ The Group uses hindsight to calculate the lease term for lease contracts including options to extend or terminate the lease.

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

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

3. Significant accounting policies

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

(1) Basis of consolidation

1) Business combinations

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

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

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

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

2) Subsidiaries

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

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

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

3) Loss of control

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

4) Business combination under common control

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

5) Associates

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

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

The consolidated financial statements include an investment in an associate with a reporting period end that differs from that of the Company because it is impracticable to unify the reporting period end. The reasons why it is impracticable include the existence of relationships with other shareholders. The reporting periods for the associates subject to the equity method are December 31 and February 28. Adjustments are made to reflect significant transactions or events that result from the difference in the reporting period end.

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

6) Transactions eliminated on consolidation

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

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

(2) Foreign currency translation

1) Foreign currency transactions

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

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

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

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

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

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

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

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

(3) Financial instruments

1) Financial assets other than derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

2) Cash equivalents

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

3) Financial liabilities other than derivatives

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

4) Derivative instruments and hedging activities

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

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

A hedge of the variability of future cash flows arising in relation to a recognized asset or liability, an unrecognized firm commitment, or forecasted transactions, that is expected to be effective and for which the hedging relationship, risk management objective, and hedge implementation strategy are documented at the inception of the hedge, is designated as a cash flow hedge. 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 effective. In addition, the Group subsequently continues to evaluate whether or not the derivative will be effective in offsetting changes in the fair value or future cash flows of the hedged item.

Hedge accounting is discontinued for ineffective hedges, if any.

5) Presentation of financial assets and liabilities

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

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

(4) Inventories

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

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

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

(5) Property, plant and equipment

1) Recognition and measurement

The cost model is applied and property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Applying the exception under IFRS 1, some items are measured at 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.

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

(6) Goodwill and Intangible Assets

1) Goodwill

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

2) Intangible assets

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

Except for intangible assets for which useful lives cannot be determined, intangible assets are mainly amortized using the straight-line method over their estimated useful lives (software: 3–5 years and other intangible assets: 2–10 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

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

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

(7) Leases

1) Leases as lessee

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

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.

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

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

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

2) Leases as lessor

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

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

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

(8) Impairment

1) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

When conducting impairment tests of cash-generating units that include goodwill, impairment tests of assets other than goodwill are first conducted. After any required impairment of the assets other than goodwill has been recognized, impairment tests of goodwill are conducted.
Conducting impairment tests entails estimating the recoverable amount of the cash-generating units. The recoverable amount is the higher of fair value less costs to sell or value in use. Furthermore, value in use is the total present value of future cash flows expected from the continued use and disposal after use of the cash-generating units.
If the recoverable amount of cash-generating units is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and impairment losses are recognized in profit or loss. Impairment losses are first allocated to reduce the carrying amount of goodwill allocated to cash-generating units. Impairment losses are then allocated to reduce the carrying amount of each asset, excluding goodwill, in cash-generating units on a pro-rate basis.
Because corporate assets do not generate independent cash flows, when conducting impairment tests of corporate assets, a reasonable method is used to allocate the carrying amount of corporate assets to each cash-generating unit. Then, the carrying amount of cash-generating units is compared, including the carrying amount of the portion of corporate assets allocated to them, with their recoverable amounts.
If there are indications that the impairment losses recognized in past fiscal years have clearly decreased or may not exist, when the estimated recoverable amount of the assets surpasses the carrying amount, impairment losses are reversed. An upper limit for reversals of impairment losses is set as the carrying amount less amortization or depreciation if impairment losses had not been recognized. However, impairment losses on goodwill are not reversed.
Goodwill relating to the acquisition of associates is not classified separately, but included as part of the carrying amount of the investments. Investments in associates are recognized as undistinguishable assets that are subject to impairment.

(9) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition and its sale is highly probable. Management must commit to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
When the Group commits to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate. After the disposal takes place, the Group accounts for any retained interest in the associate in accordance with IFRS 9, unless the retained interest continues to be an associate, in which case the Group uses the equity method.
Non-current assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

(10) Employee benefits

1) Post-employment defined benefit plans
Post-employment defined benefit plans are benefit plans other than the post-employment defined contribution plans stated in the paragraphs below.
For post-employment defined benefit plans, the present value of defined benefit plan obligations, net of the fair value of plan assets, are recognized as either liabilities or assets. To calculate the present value of defined benefit plan obligations and related service cost, in principle, the projected unit credit method is used. The discount rate used to calculate the present value of defined benefit plan obligations, in principle, is determined by referring to market yields on highly rated corporate bonds at the end of the period consistent with the expected life of the defined benefit plan obligations.
Changes in the present value of defined benefit plan obligations related to the service of employees in past periods due to amendment of defined benefit plans are recognized in the period of the amendment in profit or loss.
Further, the Group recognizes all actuarial gains or losses arising from post-employment defined benefit plans in other comprehensive income (“Remeasurement of defined benefit plans”) and immediately reclassifies them into retained earnings.

2) Post-employment defined contribution plans
Post-employment defined contribution plans are benefit plans in which fixed contributions are paid to an independent entity and do not assume legal or constructive obligations for payments that exceed these contributions.
Post-employment defined contribution plans are accounted for on an accrual basis, and contributions corresponding to the period employees rendered related services are recognized in profit or loss.

3) Multi-employer plans

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

4) Short-term employee benefits

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

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

(11) Provisions

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

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

1) Provisions for asset retirement obligations

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

2) Provisions for loss on orders received

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

3) Provisions for after-sales costs

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

(12) Share-based payment

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

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

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

(13) Equity

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

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

(14) Put options held by non-controlling interests

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

(15) Revenue from contracts with customers

The Group recognizes revenue by applying the following five steps.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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

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

1) Services

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

2) Development and SI

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

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

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

3) Products

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

4) Multiple components transactions

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

(16) Government grants

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

(17) Finance income and costs

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

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

(18) Income taxes

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

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

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

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

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

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

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

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

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

(19) Earnings per share

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

4. Significant accounting estimates and judgments

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

Assumptions and estimates that have a risk of resulting in material adjustments for the year ending March 31, 2021, are mainly as follows:

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

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

- Measurement of provisions (Note 19. Provisions)

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

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

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

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

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

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

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

5. Segment information

(1) Description of reportable segments

The Group's reporting segments are components of the Group's organizational structure, and the Group has six reportable segments: "Enterprise business," "Distribution business," "Telecommunication business," "Regional and Social Infrastructure business," "Financial Services business," and "IT Services business".

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

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

As the Group conducted organizational restructuring on April 1, 2019, for the purpose of achieving the medium-term business plan and expanding business in the future, the reportable segment "Distribution and Enterprise business" has been reclassified into "Enterprise business" and "Distribution business".

Accordingly, the segment information for the year ended March 31, 2019, has been restated based on the new categorization of the reportable segments.

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

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

The accounting policies of the reportable segments are consistent with the Group's accounting policies. Sales or transfers between reportable segments are based on market prices.

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

Year ended March 31, 2019

(Millions of Yen)

	Reportable segment					
	Enterprise business	Distribution business	Telecommunications business	Regional and Social Infrastructure business	Financial Services business	IT Services business
Revenue						
Revenue from external customers	125,505	43,280	168,934	49,298	25,052	11,105
Inter-segment revenue or transfers	9,082	175	6,785	542	76	97,182
Total	134,587	43,456	175,720	49,841	25,128	108,288
Profit before tax (segment profit)	7,677	4,161	15,026	1,018	1,493	9,109
Segment assets	64,331	16,153	79,693	21,290	7,252	74,195
Other items						
Financial income	33	17	66	9	18	9
Financial costs	(25)	(6)	(13)	(7)	(2)	(95)
Share of profit of associates accounted for using the equity method	52	8	-	-	-	-
Depreciation and amortization expense (Note 3)	(1,301)	(158)	(319)	(162)	(24)	(3,962)
Impairment losses	-	-	-	-	-	(226)
Investments accounted for using the equity method	500	97	-	-	-	-
Capital expenditures (Note 3)	584	458	661	68	124	3,076

(Millions of Yen)

	Reportable segment	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Subtotal				
Revenue					
Revenue from external customers	423,178	28,779	451,957	-	451,957
Inter-segment revenue or transfers	113,844	1,335	115,179	(115,179)	-
Total	537,022	30,114	567,137	(115,179)	451,957
Profit before tax (segment profit)	38,487	1,316	39,803	(3,516)	36,286
Segment assets	262,916	34,695	297,611	81,324	378,936
Other items					
Financial income	155	84	239	45	284
Financial costs	(151)	(3)	(154)	(130)	(285)
Share of profit of associates accounted for using the equity method	60	328	388	-	388
Depreciation and amortization expense (Note 3)	(5,928)	(2,705)	(8,633)	(217)	(8,851)
Impairment losses	(226)	(225)	(451)	(5)	(456)
Investments accounted for using the equity method	598	969	1,568	-	1,568
Capital expenditures (Note 3)	4,974	1,899	6,873	362	7,236

Notes:
1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥(3,516) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(3,137) million.
   (2) Reconciliations of segment assets of ¥81,324 million include corporate assets of ¥94,345 million and intersegment elimination of receivables and payables of ¥(12,685) million.
   Corporate assets primarily consist of cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.
   (3) Reconciliations of financial income in other items of ¥45 million include ¥28 million of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of ¥(130) million include ¥(128) million of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of depreciation and amortization expense of ¥(217) million include depreciation and amortization of ¥(427) million and elimination of unrealized gains of ¥209 million.
   Reconciliations of impairment losses of ¥(5) million are impairment losses related to corporate assets.
   Reconciliations of capital expenditures of ¥362 million include an increase in corporate assets of ¥442 million and elimination of unrealized gains of ¥(80) million.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to long-term prepaid expenses.

Year ended March 31, 2020

(Millions of Yen)

	Reportable segment					
	Enterprise business	Distribution business	Telecommuni-cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business
Revenue						
Revenue from external customers	131,087	46,258	173,480	60,683	24,041	11,010
Inter-segment revenue or transfers	14,083	124	7,465	307	29	101,433
Total	145,170	46,382	180,945	60,990	24,070	112,444
Profit before tax (segment profit)	9,451	5,124	17,019	2,412	1,207	11,316
Segment assets	64,330	17,238	90,725	24,755	7,461	79,101
Other items						
Financial income	34	31	67	24	18	5
Financial costs	(24)	(7)	(27)	(7)	(2)	(149)
Share of profit of associates accounted for using the equity method	85	34	5	-	-	-
Depreciation and amortization expense (Note 3)	(1,316)	(216)	(843)	(318)	(38)	(5,005)
Impairment losses	-	-	-	-	-	(122)
Investments accounted for using the equity method	585	3,733	65	-	-	-
Capital expenditures (Note 3)	1,011	345	777	666	139	3,715

(Millions of Yen)

	Reportable segment	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Subtotal				
Revenue					
Revenue from external customers	446,561	40,456	487,018	-	487,018
Inter-segment revenue or transfers	123,442	988	124,431	(124,431)	-
Total	570,004	41,445	611,450	(124,431)	487,018
Profit before tax (segment profit)	46,532	631	47,163	(5,622)	41,541
Segment assets	283,612	45,759	329,371	109,444	438,816
Other items					
Financial income	183	126	309	33	343
Financial costs	(219)	(124)	(344)	(271)	(616)
Share of profit of associates accounted for using the equity method	126	19	146	-	146
Depreciation and amortization expense (Note 3)	(7,738)	(3,247)	(10,985)	(5,254)	(16,240)
Impairment losses	(122)	(999)	(1,122)	(2)	(1,124)
Investments accounted for using the equity method	4,384	651	5,035	-	5,035
Capital expenditures (Note 3)	6,655	2,831	9,486	6,679	16,165

Notes:

1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥(5,622) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(4,650) million.
   (2) Reconciliations of segment assets of ¥109,444 million include corporate assets of ¥123,053 million and intersegment elimination of receivables and payables of ¥(13,475) million.
   Corporate assets primarily consist of cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.
   (3) Reconciliations of financial income in other items of ¥33 million include ¥32 million of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of ¥(271) million include ¥(258) million of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of depreciation and amortization expense of ¥(5,254) million include depreciation and amortization of ¥(5,463) million and elimination of unrealized gains of ¥208 million.
   Reconciliations of impairment losses of ¥(2) million are impairment losses related to corporate assets.
   Reconciliations of capital expenditures of ¥6,679 million include an increase in corporate assets of ¥6,842 million and elimination of unrealized gains of ¥(163) million.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to Right-of-use asset and long-term prepaid expenses.

Year ended March 31, 2020

(Thousands of U.S. Dollars)

	Reportable segment					
	Enterprise business	Distribution business	Telecommuni-cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business
Revenue						
Revenue from external customers	1,204,515	425,052	1,594,052	557,598	220,905	101,173
Inter-segment revenue or transfers	129,404	1,141	68,594	2,821	271	932,039
Total	1,333,919	426,194	1,662,646	560,420	221,177	1,033,212
Profit before tax (segment profit)	86,843	47,090	156,385	22,170	11,096	103,984
Segment assets	591,110	158,399	833,640	227,467	68,562	726,831
Other items						
Financial income	319	292	621	228	170	50
Financial costs	(228)	(71)	(252)	(71)	(22)	(1,371)
Share of profit of associates accounted for using the equity method	787	320	52	-	-	-
Depreciation and amortization expense (Note 3)	(12,094)	(1,984)	(7,750)	(2,927)	(354)	(45,990)
Impairment losses	-	-	-	-	-	(1,129)
Investments accounted for using the equity method	5,380	34,301	605	-	-	-
Capital expenditures (Note 3)	9,293	3,170	7,143	6,128	1,277	34,138

(Thousands of U.S. Dollars)

	Reportable segment	Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Subtotal				
Revenue					
Revenue from external customers	4,103,297	371,742	4,475,039	-	4,475,039
Inter-segment revenue or transfers	1,134,273	9,085	1,143,358	(1,143,358)	-
Total	5,237,570	380,828	5,618,398	(1,143,358)	4,475,039
Profit before tax (segment profit)	427,570	5,801	433,372	(51,663)	381,708
Segment assets	2,606,011	420,469	3,026,481	1,005,649	4,032,130
Other items					
Financial income	1,682	1,165	2,848	308	3,157
Financial costs	(2,019)	(1,146)	(3,165)	(2,495)	(5,661)
Share of profit of associates accounted for using the equity method	1,160	183	1,343	-	1,343
Depreciation and amortization expense (Note 3)	(71,102)	(29,843)	(100,945)	(48,282)	(149,226)
Impairment losses	(1,129)	(9,184)	(10,313)	(21)	(10,335)
Investments accounted for using the equity method	40,286	5,985	46,272	-	46,272
Capital expenditures (Note 3)	61,152	26,018	87,170	61,371	148,542

Notes:

1. "Other," which is not included in the reportable segments, consists of foreign subsidiaries and the Service Design Group, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of US$(51,663) thousand include primarily administrative expenses and investments that are not allocated to business segments of US$(42,732) thousand.
   (2) Reconciliations of segment assets of US$1,005,649 thousand include corporate assets of US$1,130,696 thousand and intersegment elimination of receivables and payables of US$(123,825) thousand. Corporate assets primarily consist of cash and cash equivalents that are not allocated to business segments and assets related to the administrative department.
   (3) Reconciliations of financial income in other items of US$308 thousand include US$301 thousand of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of US$(2,495) thousand include US$(2,372) thousand of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of depreciation and amortization expense of US$(48,282) thousand include depreciation and amortization of US$(50,201) thousand and elimination of unrealized gains of US$1,918 thousand.
   Reconciliations of impairment losses of US$(21) thousand are impairment losses related to corporate assets.
   Reconciliations of capital expenditures of US$61,371 thousand include an increase in corporate assets of US$62,870 thousand and elimination of unrealized gains of US$(1,498) thousand.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to Right-of-use asset long-term prepaid expenses.

(3) Information about products and services

Year ended March 31, 2019

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	179,105	94,963	177,888	451,957

Year ended March 31, 2020

(Millions of Yen)

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

Year ended March 31, 2020

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,768,682	965,082	1,741,274	4,475,039

(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, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Japan	40,540	58,876	540,999
Asia	7,464	15,793	145,121
Others	37	106	978
Total	48,042	74,776	687,098

(5) Information about major customers

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

	Reportable segment	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
		Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31,2020
Nippon Telegraph and Telephone Corporation and group	Telecommunications business	74,288	72,671	667,753

6. Business combination

No significant business combination or loss of control occurred in the year ended March 31, 2019.

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

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

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

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

(1) PT. Nusantara Compnet Integrator

	(Millions of Yen)	(Thousands of U.S. Dollars)
Fair value of consideration paid	7,132	65,539
Fair value of non-controlling interests	3,056	28,088
Total	10,189	93,628
Fair value of assets acquired		
Cash and cash equivalents	468	4,305
Trade and other receivables	1,807	16,611
Inventories	1,983	18,228
Intangible assets	916	8,421
Others	1,775	16,312
Total of fair value of assets acquired	6,951	63,879
Fair value of liabilities assumed		
Trade and other payables (current)	(2,369)	(21,773)
Other financial liabilities (current)	(1,043)	(9,586)
Others	(1,367)	(12,568)
Total of fair value of liabilities assumed	(4,780)	(43,928)
Goodwill	8,018	73,677
Total	10,189	93,628

Notes:
1. All consideration is paid by cash.
2. Revisions to provisional amounts
   The acquisition cost is allocated to assets acquired and liabilities assumed based on the fair value on the date of acquiring control, and the allocation of the acquisition cost has been completed in the year ended March 31, 2020. Major revisions to the initial amounts include an increase in intangible assets of ¥916 million (US$8,421 thousand) and deferred tax liabilities of ¥229 million (US$2,105 thousand), and as a result, goodwill has decreased by ¥650 million (US$5,977 thousand).

(2) PT. Pro Sistimatika Automasi

	(Millions of Yen)	(Thousands of U.S. Dollars)
Fair value of consideration paid	227	2,086
Fair value of non-controlling interests	97	894
Total	324	2,981
Fair value of assets acquired		
Cash and cash equivalents	18	167
Trade and other receivables	137	1,266
Others	36	333
Total of fair value of assets acquired	192	1,767
Fair value of liabilities assumed		
Trade and other payables (current)	(86)	(798)
Liabilities for employee benefits (Non-current)	(63)	(585)
Others	(17)	(160)
Total of fair value of liabilities assumed	(168)	(1,545)
Goodwill	300	2,758
Total	324	2,981

Note: All consideration is paid by cash.

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

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

Cash flows related to the acquisition are as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)
Cash and cash equivalents paid in acquisition	7,359	67,626
Cash and cash equivalents held by the acquiree at the acquisition date	(486)	(4,473)
Net cash outflows in the purchase of shares of a subsidiary	6,872	63,153

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

For the written put options on the shares of subsidiaries granted to the owners of non-controlling interests, the amount deducted from capital surplus is ¥2,859 million (US$26,277 thousand) and ¥77 million (US$716 thousand), respectively, as of the date of acquisition.

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

7. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Cash and bank balances	34,088	39,164	359,872
Deposits within three months	24,789	35,450	325,738
Total	58,878	74,615	685,610

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, 2019 and 2020.

8. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Notes and accounts receivable - trade	111,840	114,916	1,055,927
Lease receivables	17,041	20,307	186,596
Others	3,482	2,577	23,685
Allowance for doubtful accounts	(14)	(65)	(598)
Total	132,348	137,736	1,265,611

9. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Merchandise	22,634	23,666	217,465
Work in progress	1,505	858	7,888
Supplies for maintenance service	4,767	4,518	41,521
Total	28,907	29,044	266,876
Inventories to be sold after more than one year	112	1,623	14,916

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2019 and 2020, is ¥215,109 million and ¥243,838 million (US$2,240,546 thousand), respectively. The write-down amount of inventories to net realizable value as of March 31, 2019 is ¥227 million. The write-down amount of inventories to net realizable value as of March 31, 2020 is reversal, the amount is ¥(72) million (US$(670) thousand). The write-down and reversal amount of inventories is included in “Cost of sales” in the consolidated statements of income.

10. Property, plant and equipment

(1) Movements in property, plant and equipment

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

(Cost)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
April 1, 2018	42,037	22,442	4,731	-	69,210
Separate acquisitions	962	3,390	-	-	4,352
Acquisitions through business combination	-	-	-	-	-
Disposals	(472)	(1,050)	-	-	(1,523)
Exchange differences on translating foreign operations	0	21	-	-	21
Others	(125)	543	-	-	417
March 31, 2019	42,402	25,346	4,731	-	72,479
Cumulative effect of change in accounting policy	20,031	1,207	-	3	21,242
Separate acquisitions	9,632	4,502	-	-	14,135
Acquisitions through business combination	385	3,095	168	18	3,667
Disposals	(229)	(792)	-	-	(1,022)
Exchange differences on translating foreign operations	(84)	(661)	(17)	(1)	(765)
Others	(527)	(2,677)	-	-	(3,205)
March 31, 2020	71,611	30,019	4,881	20	106,531

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2019	389,621	232,896	43,473	-	665,991
Cumulative effect of change in accounting policy	184,061	11,092	-	33	195,187
Purchase	88,513	41,370	-	-	129,883
Acquisitions through business combination	3,541	28,445	1,547	168	33,702
Disposals	(2,107)	(7,283)	-	-	(9,391)
Exchange differences on translating foreign operations	(774)	(6,079)	(165)	(17)	(7,036)
Others	(4,846)	(24,606)	-	-	(29,453)
March 31, 2020	658,009	275,834	44,855	183	978,883

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
April 1,2018	(19,870)	(14,483)	-	-	(34,353)
Depreciation expense	(2,565)	(2,993)	-	-	(5,558)
Acquisitions through business combination	-	-	-	-	-
Impairment losses	(115)	(42)	-	-	(158)
Disposals	399	995	-	-	1,394
Exchange differences on translating foreign operations	(0)	(13)	-	-	(14)
Others	127	570	-	-	698
March 31, 2019	(22,024)	(15,966)	-	-	(37,990)
Cumulative effect of change in accounting policy	(2,158)	-	-	-	(2,158)
Depreciation expense	(8,964)	(4,118)	-	(6)	(13,088)
Acquisitions through business combination	(67)	(2,797)	-	-	(2,865)
Impairment losses	(7)	(115)	-	-	(122)
Disposals	180	768	-	-	949
Exchange differences on translating foreign operations	15	464	-	0	480
Others	204	3,441	-	-	3,646
March 31, 2020	(32,821)	(18,322)	-	(5)	(51,149)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31,2019	(202,371)	(146,713)	-	-	(349,085)
Cumulative effect of change in accounting policy	(19,832)	-	-	-	(19,832)
Depreciation expense	(82,374)	(37,838)	-	(55)	(120,269)
Acquisitions through business combination	(621)	(25,707)	-	-	(26,328)
Impairment losses	(66)	(1,061)	-	-	(1,128)
Disposals	1,660	7,062	-	-	8,722
Exchange differences on translating foreign operations	140	4,272	-	5	4,418
Others	1,879	31,625	-	-	33,505
March 31, 2020	(301,586)	(168,360)	-	(50)	(469,997)

(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2019	20,378	9,379	4,731	-	34,488
March 31, 2020	38,789	11,696	4,881	14	55,382

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2020	356,423	107,473	44,855	133	508,885

There is no property, plant and equipment pledged as collateral at March 31, 2019 and 2020.

The carrying amount of finance lease assets (after deducting accumulated depreciation and accumulated impairment losses) included in property, plant and equipment in the year ended March 31, 2019, as stipulated in IAS 17, is as follows. The carrying amount of finance lease assets as of March 31, 2020 is stated in “17. Leases,” included in the carrying amount of right-of-use assets as a result of applying IFRS 16 “Leases”.

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Total
March 31, 2019	242	2,265	2,507

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

(2) Impairment losses

Property, plant and equipment are grouped by the asset's cash-generating units which are the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized as "Other expenses" in the consolidated statements of income for the years ended March 31, 2019 and 2020, are ¥158 million and ¥122 million (US$1,128 thousand), respectively.

Impairment losses recognized for the year ended March 31, 2019, are losses related to "Buildings and structures" belonging to the "IT Services business" reportable segment and are mainly due to the decline of profitability of data center facilities. Impairment losses recognized for the year ended March 31, 2020 are mainly losses related to "Tools, furniture and fixtures" belonging to the "IT Services business" reportable segment and are chiefly due to a decline in the profitability of shared mainframe equipment.

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

11. Goodwill and intangible assets

(1) Movements in goodwill and intangible assets

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

(Cost)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2018	4,470	26,626	3,606	34,703
Separate acquisitions	-	1,559	0	1,559
Acquisitions through business combination	-	-	-	-
Disposals	-	(7,446)	-	(7,446)
Exchange differences on translating foreign operations	(12)	0	(11)	(23)
Others	-	(75)	-	(75)
March 31, 2019	4,458	20,663	3,595	28,717
Cumulative effect of change in accounting policy	-	-	30	30
Separate acquisitions	-	2,162	0	2,162
Acquisitions through business combination	8,318	-	916	9,235
Disposals	-	(311)	(0)	(311)
Exchange differences on translating foreign operations	(1,145)	(11)	(325)	(1,482)
Others	-	(845)	97	(748)
March 31, 2020	11,631	21,657	4,314	37,603

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2019	40,963	189,873	33,034	263,871
Cumulative effect of change in accounting policy	-	-	281	281
Separate acquisitions	-	19,872	0	19,872
Acquisitions through business combination	76,436	-	8,421	84,857
Disposals	-	(2,861)	(2)	(2,863)
Exchange differences on translating foreign operations	(10,521)	(106)	(2,990)	(13,618)
Others	-	(7,771)	897	(6,873)
March 31, 2020	106,878	199,006	39,644	345,529

(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2018	-	(17,898)	(1,796)	(19,694)
Amortization expense	-	(2,734)	(334)	(3,069)
Acquisitions through business combination	-	-	-	-
Impairment losses	(225)	(68)	(5)	(298)
Disposals	-	7,438	-	7,438
Exchange differences on translating foreign operations	-	(0)	4	3
Others	-	74	-	74
March 31, 2019	(225)	(13,190)	(2,130)	(15,546)
Cumulative effect of change in accounting policy	-	-	-	-
Amortization expense	-	(2,580)	(463)	(3,044)
Acquisitions through business combination	-	-	-	-
Impairment losses	(999)	-	(2)	(1,001)
Disposals	-	286	-	286
Exchange differences on translating foreign operations	-	9	162	171
Others	-	471	(55)	415
March 31, 2020	(1,224)	(15,004)	(2,489)	(18,718)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2019	(2,067)	(121,202)	(19,577)	(142,848)
Cumulative effect of change in accounting policy	-	-	-	-
Amortization expense	-	(23,711)	(4,260)	(27,971)
Acquisitions through business combination	-	-	-	-
Impairment losses	(9,184)	-	(22)	(9,206)
Disposals	-	2,628	-	2,628
Exchange differences on translating foreign operations	-	84	1,496	1,580
Others	-	4,328	(513)	3,815
March 31, 2020	(11,252)	(137,872)	(22,877)	(172,002)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2019	4,233	7,473	1,464	13,170
March 31, 2020	10,406	6,653	1,824	18,884

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2020	95,626	61,134	16,766	173,527

In the balance of goodwill as of March 31, 2020, goodwill of ¥7,163 million (US$65,818 thousand), which was recognized associated with the acquisition of PT. Nusantara Compnet Integrator belonging to the Other segment, is included.

The carrying amount of finance lease assets (after deducting accumulated depreciation and accumulated impairment losses) included in intangible assets in the year ended March 31, 2019, as stipulated in IAS 17, is as follows:

(Millions of Yen)

	Software
March 31, 2019	63

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

(2) Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to each of the acquirer’s cash-generating units that is expected to benefit from the combination at the date of acquisition. The recoverable amount of the cash-generating units in the impairment test of goodwill is determined based on historical experience approved by management and the value in use based on estimates over the next five years. The estimated future cash flows beyond the five years have been extrapolated using a steady 0% per annum growth rate.
In addition, as of March 31, 2020, the pre-tax discount rate which is used in calculating the value in use is from 10.2 % to 15.6 % (as of March 31, 2019: from 10.2 % to 14.1 %).
Impairment losses recognized in the year ended March 31, 2020 were due to the review of business plans at overseas subsidiaries because of changes in the market environment.
The recoverable amount excluding the cash-generating units that posted impairment losses of goodwill sufficiently exceeds the carrying amount of goodwill. Therefore, we expect it to be unlikely that the recoverable amount will be lower than the carrying amount even if the key assumptions change reasonably.

12. Investments accounted for using the equity method

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Carrying amount of investments accounted for using the equity method	1,568	5,035	46,272

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Share of net profit	388	146	1,343
Share of other comprehensive income for the year	(0)	(9)	(91)
Share of comprehensive income	387	136	1,251

13. Other financial assets

The breakdown of other financial assets is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Financial assets measured at amortized cost	28,218	28,878	265,353
FVTOCI financial assets	7,060	8,825	81,093
FVTPL financial assets	1,044	1,318	12,117
Total	36,323	39,022	358,564

Current assets	20,089	20,301	186,539
Non-current assets	16,233	18,721	172,025
Total	36,323	39,022	358,564

Dividends from FVTOCI financial assets recognized in “Other financial assets” as of March 31, 2019 and 2020, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
118	124	1,141

The Group classifies equity securities, which are held with the intention of strengthening business relationships on the condition of long-term ownership, as FVTOCI financial assets. Of the above FVTOCI financial assets, the major equity securities, and their fair values, owned by the Group as of March 31, 2019 and 2020, are as follows:

March 31, 2019

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	4,370
Asahi Group Holdings, Ltd.	493
FamilyMart Co., Ltd.	432
Mizuho Financial Group, Inc.	363
SRA Holdings, Inc.	345

March 31, 2020

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	6,919	63,583
Asahi Group Holdings, Ltd.	351	3,225
SRA Holdings, Inc.	299	2,749
FamilyMart Co., Ltd.	297	2,730
NTT DATA INTRAMART CORP.	198	1,827

Derecognized FVTOCI financial assets for the years ended March 31, 2019 and 2020, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2019			Year ended March 31, 2020			Year ended March 31, 2020		
Fair value at date of sale	Cumulative gains (losses)	Dividends received	Fair value at date of sale	Cumulative gains (losses)	Dividends received	Fair value at date of sale	Cumulative gains (losses)	Dividends received
3	(1)	-	307	(6)	15	2,825	(64)	146

These FVTOCI financial assets are mainly sold because of changes in business relationships. Cumulative losses (net of tax) reclassified from other components of equity to retained earnings for the years ended March 31, 2019 and 2020, are ¥(1) million and ¥(4) million (US$(38) thousand), respectively.

14. Deferred taxes and income taxes

(1) Deferred tax assets and deferred tax liabilities

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

(Millions of Yen)

	April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2019
Deferred tax assets					
Inventories	3,365	98	-	-	3,463
Property, plant and equipment and intangible assets	1,961	(155)	-	-	1,805
Other payables	697	61	-	-	759
Employee benefits	5,669	484	(130)	(17)	6,006
Provisions	1,332	(513)	-	-	819
Others	1,160	449	(23)	(23)	1,563
Total deferred tax assets	14,187	425	(153)	(40)	14,418
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(499)	11	-	2	(485)
Securities and other investments	(426)	8	(47)	-	(465)
Others	(767)	(573)	-	-	(1,341)
Total deferred tax liabilities	(1,693)	(552)	(47)	2	(2,292)

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

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2020
Deferred tax assets					
Inventories	31,825	2,407	-	-	34,232
Property, plant and equipment and intangible assets	16,591	(4,402)	-	9,142	21,330
Other payables	6,976	1,002	-	-	7,979
Employee benefits	55,196	7,557	974	706	64,435
Provisions	7,527	(901)	-	-	6,625
Others	14,366	5,341	131	(55)	19,783
Total deferred tax assets	132,483	11,004	1,105	9,793	154,387
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(4,457)	(816)	-	(1,787)	(7,061)
Securities and other investments	(4,279)	30	(5,532)	-	(9,781)
Others	(12,323)	(961)	-	-	(13,285)
Total deferred tax liabilities	(21,060)	(1,748)	(5,532)	(1,787)	(30,128)

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Deferred tax assets	12,467	13,910	127,814
Deferred tax liabilities	341	387	3,556
Net	12,126	13,523	124,258

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, 2019	March 31, 2020	March 31, 2020
Deductible temporary differences	7	10	100
Tax loss carryforwards	14	26	241
Total	22	37	342

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, 2019	March 31, 2020	March 31, 2020
Year 1	-	-	-
Year 2	-	-	-
Year 3	-	14	136
Year 4	14	-	-
Year 5 or later	-	11	105
Total	14	26	241

(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, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Current tax expense	11,280	14,087	129,444
Deferred tax expense	127	(1,007)	(9,256)
Total	11,407	13,080	120,188

"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, 2019 and 2020, is ¥4 million and ¥2 million (US$18 thousand), respectively.

"Deferred tax expense" includes the amount of tax benefits from tax loss carryforwards, tax credits, and deductible temporary differences, for which deferred tax assets were not recognized in previous fiscal years, and expenses or benefits arising from write-downs of deferred tax assets or the reversal of previous write-downs of deferred tax assets. There is no tax expense resulting from these tax benefits for the years ended March 31, 2019 and 2020.

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

	Year ended March 31, 2019	Year ended March 31, 2020
Effective statutory tax rate	30.6%	30.6%
(Reconciliation)		
Tax credits	(0.0%)	(0.4%)
Effect on the amount of not deductible for tax purposes	0.6%	0.5%
Others	0.2%	0.8%
Average effective tax rate	31.4%	31.5%

The Company is mainly subject to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rate for the years ended March 31, 2019 and 2020, is 30.6% based on these taxes, respectively. Foreign subsidiaries are subject to income taxes of the countries where they operate.

15. Trade and other payables

The breakdown of trade and other payables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Account payables-trade	43,364	43,632	400,920
Other payables	6,161	7,075	65,016
Accrued consumption taxes	4,375	6,080	55,871
Total	53,901	56,788	521,807

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Financial liabilities measured at amortized cost	17,658	43,090	395,940
FVTPL financial liabilities	64	222	2,046
Put options held by non-controlling shareholders	-	2,727	25,066
Total	17,723	46,040	423,052

Current liabilities	5,479	14,818	136,163
Non-current liabilities	12,243	31,222	286,888
Total	17,723	46,040	423,052

17. Leases

Year ended March 31, 2019

(1) Lessor

1) Operating leases

The Group leases IT-related equipment and servers under operating leases. There are no lease payments receivable under non-cancelable operating leases as of March 31, 2019.

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, 2019, is as follows:

	Total future minimum lease payments receivable	Present value of future minimum lease payments receivable
	(Millions of Yen)	(Millions of Yen)
	March 31, 2019	March 31, 2019
Within 1 year	4,580	4,206
1-5 years	11,970	11,364
More than 5 years	1,499	1,470
Total lease payments receivable	18,050	17,041
Less: Unearned finance income	(1,009)	
Present value of minimum lease payments receivable	17,041	

(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, 2019 is as follows:

	(Millions of Yen)
	March 31, 2019
Within 1 year	2,321
1-5 years	2,943
Total	5,264

Lease payments recognized as expense under operating leases for the year ended March 31, 2019 is ¥10,401 million.

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, 2019 is as follows:

	Future minimum lease payments	Present value of future minimum lease payments
	(Millions of Yen)	(Millions of Yen)
	March 31, 2019	March 31, 2019
Within 1 year	4,474	4,058
1-5 years	11,527	10,806
More than 5 years	1,373	1,344
Total lease payments	17,376	16,210
Less: Future finance charges	(1,166)	
Present value of minimum lease payments	16,210	

Future minimum sublease payments under non-cancelable operating leases as of March 31 2019 is ¥1,400 million. 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).

Year ended March 31, 2020

(1) Lessor

1) Operating leases

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

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2020
Within 1 year	156	1,435
1-5 years	166	1,526
Total	322	2,961

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2020
Lease income on operating leases	575	5,284

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2020
Tools, furniture and fixtures	455	4,182
Total	455	4,182

2) Finance leases

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

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2020
Within 1 year	5,404	49,661
1-5 years	14,217	130,635
More than 5 years	1,884	17,313
Total gross investment in the lease	21,505	197,610
Less: Unearned finance income	(1,198)	(11,013)
Net investment in the lease	20,307	186,596

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2020
Selling profit or loss on finance leases	1,347	12,382
Finance income on the net investment in the lease	79	725

(2) Lessee

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

Profit and loss related to right-of-use assets and lease liabilities in the year ended March 31, 2020, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2020	Year ended March 31, 2020
Depreciation expense associated with right-of-use assets		
Buildings and structures as the underlying assets	6,467	59,428
Tools, furniture and fixtures as the underlying assets	1,523	13,999
Other property, plant and equipment as the underlying assets	6	55
Other intangible assets as the underlying assets	34	312
Total of depreciation expense	8,031	73,797
Interest expense associated with lease liabilities	365	3,362
Expense associated with short-term leases	1,111	10,216
Expense associated with leases of low-value assets	1,478	13,586
Income from subleasing right-of-use assets	1,395	12,824

There is no variable lease that is not included in the measurement of lease liabilities in the year ended March 31, 2020.

Gains or losses arising from sale and leaseback transactions in the year ended March 31, 2020, is immaterial.

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

	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2020	March 31, 2020
Buildings and structures	18,836	173,084
Tools, furniture and fixtures	2,952	27,126
Other property, plant and equipment	14	133
Other intangible assets	58	541
Total	21,862	200,886

The amount of increase in right-of-use assets in the year ended March 31, 2020, is ¥8,602 million (US$79,049 thousand).

Total cash outflows for leases in the year ended March 31, 2020, are ¥15,055 million (US$138,340 thousand).

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

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

18. Employee benefits

(1) Post-employment benefit

1) General outline of retirement benefit plans

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

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

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

2) Defined benefit plans

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Balance at the beginning of the year	20,961	21,793	200,252
Current service cost	975	1,054	9,685
Interest cost	110	94	864
Remeasurement			
Changes in demographic assumptions	230	(18)	(167)
Changes in financial assumptions	226	(271)	(2,491)
Experience adjustments	1	101	933
Benefits paid	(712)	(1,218)	(11,199)
Effect of business combination	-	356	3,277
Foreign exchange difference	(0)	4	38
Balance at the end of the year	21,793	21,896	201,199

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, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Balance at the beginning of the year	23,223	23,532	216,235
Interest income	124	103	953
Remeasurement			
Return on plan assets	226	(529)	(4,869)
Employer contributions	632	638	5,862
Benefits paid	(673)	(736)	(6,766)
Balance at the end of the year	23,532	23,008	211,415

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 ¥715 million (US$6,574 thousand) for the year ending March 31, 2021.

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, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Balance at the beginning of the year	657	-	-
Movements in the effect of the asset ceiling	(657)	-	-
Balance at the end of the year	-	-	-

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, 2019	March 31, 2020	March 31, 2020
Present value of the defined benefit plan obligations	21,793	21,896	201,199
Fair value of plan assets	(23,532)	(23,008)	(211,415)
Funded status	(1,739)	(1,111)	(10,216)
Effect of the asset ceiling	-	-	-
Net liabilities (assets)	(1,739)	(1,111)	(10,216)
Amount in the consolidated statement of financial position			
Other non-current assets	(2,298)	(1,635)	(15,032)
Liabilities for employee benefits (non-current liabilities)	559	524	4,816

Plan assets by category as of March 31, 2019 and 2020, are as follows. Refer to “Note 30. Financial instruments and disclosures” for input information used in measuring fair value.

March 31, 2019

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,664	-	3,664
Overseas	3,986	-	3,986
Debt instruments			
Domestic	6,985	562	7,547
Overseas	2,448	1,536	3,985
Other assets			
Cash and cash equivalents	271	-	271
Life insurance company general accounts	-	4,033	4,033
Others	-	43	43
Total	17,355	6,177	23,532

March 31, 2020

(Millions of Yen)

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

March 31, 2020

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	30,929	-	30,929
Overseas	30,037	-	30,037
Debt instruments			
Domestic	64,401	5,166	69,567
Overseas	24,238	14,679	38,918
Other assets			
Cash and cash equivalents	2,955	-	2,955
Life insurance company general accounts	-	38,623	38,623
Others	-	384	384
Total	152,562	58,853	211,415

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, 2019 and 2020, is 11 years and 11 years, respectively.

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

	March 31, 2019	March 31, 2020
Discount rate	0.4%	0.5%
Rate of compensation increase	5.5%	5.5%

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, 2019	March 31, 2020	March 31, 2020
0.5% Increase	(1,170)	(1,101)	(10,119)
0.5% Decrease	942	1,049	9,640

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, 2019 and 2020, are ¥906 million and ¥936 million (US$8,602 thousand), respectively.

4) Multi-employer plans

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

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

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

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

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

The ITOCHU United Pension Fund is a defined benefit multi-employer plan that is operated in accordance with the rules above. Events occurring at participating companies influence the allocation of plan assets and expenses to other participating companies, and consequently, there is no consistent basis for that allocation. Accordingly, because it is not possible to obtain sufficient information to account for this plan as a defined benefit plan, it is accounted for as a defined contribution plan. With regard to the special premium for this plan, the amount of past service cost obligations is recognized as a liability, and subsequently, that liability is reversed when the special premium is paid. The amounts of that liability in the consolidated statements of financial position as of March 31, 2019 and 2020, are ¥3,456 million and ¥3,315 million (US$30,465 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, 2018	March 31, 2019	March 31, 2019
Plan assets	28,330	30,140	276,951
Benefits obligation based on pension plan finance calculation	34,990	35,713	328,157
Net	(6,659)	(5,572)	(51,205)

	March 31, 2018	March 31, 2019
Ratio of the Company and certain subsidiaries contribution to the overall plan	30.5%	31.7%

The principal factors of "Net" in the above table are past service cost obligations based on pension plan finance calculation and general reserve.

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

The expected contribution to the plans for the year ending March 31, 2021, is ¥967 million (US$8,888 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, 2019 and 2020, are ¥62,444 million and ¥66,841 million (US$614,182 thousand), respectively.

19. Provisions

The breakdown and movements in provisions are as follows:

Year ended March 31, 2019

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2018	1,728	283	411	2,424
Increase for the year	121	1,168	162	1,452
Interest expenses for discounting	30	-	-	30
Decrease for the year (utilization)	(64)	(2,868)	(84)	(3,018)
Decrease for the year (unused)	(1)	(73)	(35)	(110)
Increase or decrease by offsetting with work in progress	-	2,370	-	2,370
Increase or decrease due to changes in estimates	11	-	-	11
Others	(0)	(0)	-	(0)
March 31, 2019	1,825	879	453	3,159

Current liabilities	-	879	453	1,333
Non-current liabilities	1,825	-	-	1,825
Total	1,825	879	453	3,159

Year ended March 31, 2020

(Millions of Yen)

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

Current liabilities	12	504	478	995
Non-current liabilities	2,198	-	-	2,198
Total	2,211	504	478	3,193

Year ended March 31, 2020

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2019	16,774	8,085	4,169	29,029
Increase for the year	856	12,481	2,008	15,346
Interest expenses for discounting	306	-	-	306
Decrease for the year (utilization)	(222)	(12,625)	(994)	(13,842)
Decrease for the year (unused)	-	(4,315)	(789)	(5,104)
Increase or decrease by offsetting with work in progress	-	1,027	-	1,027
Increase or decrease due to changes in estimates	2,624	-	-	2,624
Others	(22)	(19)	-	(42)
March 31, 2020	20,317	4,633	4,393	29,344

Current liabilities	116	4,633	4,393	9,143
Non-current liabilities	20,201	-	-	20,201
Total	20,317	4,633	4,393	29,344

The provisions are as follows:

Provisions for asset retirement obligations

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

Provisions for loss on orders received

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

Provisions for after-sales costs

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

20. Share-based payment

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

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

(1) Overview of the plan

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

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

(2) Expense for share-based payment

The expense related to the stock compensation plan is ¥107 million for the year ended March 31, 2019 and ¥134 million (US$1,235 thousand) for the year ended March 31, 2020. The expense is recorded in "Selling, general and administrative expenses."

(3) Fair value of granted points

The fair value of points granted in the year ended March 31, 2020, as of the granting date is ¥80 million (US$742 thousand). This is based on the stock price on the granting date because the fair value as of the granting date is similar to the market price on the granting date.

(4) Changes in the number of points

Changes in the number of points in the year ended March 31, 2019 and 2020, are as follows:

(Points)

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of year	-	42,422
Increase due to granting of points	42,422	29,237
Decrease due to lapse of points	-	-
Decrease due to exercise of points	-	8,698
Balance at end of year	42,422	62,961
Balance of exercisable points at end of the year	-	-

21. Equity and other equity items

(1) Common stock

The number of shares authorized and issued is as follows:

(Shares in thousands)

	Year ended March 31, 2019	Year ended March 31, 2020
The number of authorized shares		
Ordinary shares with non-par-value	492,000	492,000
The number of issued shares		
Balance at the beginning of the year	120,000	240,000
Increase	120,000	-
Balance at the end of the year	240,000	240,000

The number of treasury stock included in issued shares above as of March 31, 2019 and 2020, is 8,970 thousand shares and 8,966 thousand shares, respectively. The Company has implemented a stock split of the Company's common stock in the ratio of 2-for-1, the effective date of which was April 1, 2018. Due to the stock split, the number of issued shares has increased by 120,000 thousand shares to 240,000 thousand shares, and the number of treasury stock has increased by 4,485 thousand shares to 8,970 thousand shares. 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 term of service of the directors is prescribed as one year) are satisfied. The Act also provides that companies with Board of Directors may pay dividends (only cash dividends) by the resolution of the Board of Directors only once during a business year, if the articles of incorporation so stipulate.

22. Dividends

The Company pays year-end dividends and interim dividends. The year-end dividends are approved at the general meeting of shareholders and the interim dividends are determined by the Board of Directors.

Dividends paid for the years ended March 31, 2019 and 2020 are as follows:

Year ended March 31, 2019

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 20, 2018 Ordinary general meeting of shareholders	Ordinary shares	5,491	47.50	March 31, 2018	June 21, 2018
November 1, 2018 Board of Directors	Ordinary shares	5,549	24.00	September 30, 2018	December 7, 2018

(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 19, 2019 Ordinary general meeting of shareholders	Ordinary shares	6,011	26.00	March 31, 2019	June 20, 2019

Note: With regard to dividends per share prior to March 31, 2018, dividends per share do not reflect the impact of the stock split of the Company's common stock in the ratio of 2-for-1, for which the record date was March 31, 2018, and the effective date was April 1, 2018.

Year ended March 31, 2020

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (Yen)	Dividends per share (U.S. Dollars)	Record date	Effective date
June 19, 2019 Ordinary general meeting of shareholders	Ordinary shares	6,011	55,241	26.00	0.23	March 31, 2019	June 20, 2019
October 31, 2019 Board of Directors	Ordinary shares	6,358	58,428	27.50	0.25	September 30, 2019	December 6, 2019

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

Resolution	Class of shares	(Millions of Yen)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 18, 2020 Ordinary general meeting of shareholders	Ordinary shares	7,052	64,802	30.50	0.28	March 31, 2020	June 19, 2020

23. Revenue

(1) Disaggregation of revenue

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

As the classification method of reportable segments changed in the year ended March 31, 2020, the segment information for the year ended March 31, 2019 has been restated based on the new categorization of the reportable segments.

Year ended March 31, 2019

(Millions of Yen)

	Reportable segment				
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business
Services	56,263	20,159	50,328	25,908	8,474
Development/SI	28,582	15,944	28,640	8,781	11,200
Products	40,659	7,176	89,966	14,608	5,378
Total	125,505	43,280	168,934	49,298	25,052
Revenue recognized from contracts with customers	121,348	42,604	168,869	48,943	24,956
Revenue recognized from other sources	4,157	675	65	354	95
Total	125,505	43,280	168,934	49,298	25,052

(Millions of Yen)

	Reportable segment		Other	Total
	IT Services business	Subtotal		
Services	10,033	171,167	7,937	179,105
Development/SI	780	93,929	1,033	94,963
Products	291	158,081	19,807	177,888
Total	11,105	423,178	28,779	451,957
Revenue recognized from contracts with customers	11,104	417,828	28,752	446,580
Revenue recognized from other sources	1	5,350	26	5,376
Total	11,105	423,178	28,779	451,957

Note: Revenue amounts exclude intersegment transactions.

Year ended March 31, 2020

(Millions of Yen)

	Reportable segment				
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business
Services	59,844	20,715	56,745	26,095	8,294
Development/SI	30,434	18,155	31,515	13,805	10,169
Products	40,808	7,387	85,220	20,782	5,577
Total	131,087	46,258	173,480	60,683	24,041
Revenue recognized from contracts with customers	125,507	45,162	173,379	60,336	24,029
Revenue recognized from other sources	5,579	1,095	101	347	11
Total	131,087	46,258	173,480	60,683	24,041

(Millions of Yen)

	Reportable segment		Other	Total
	IT Services business	Subtotal		
Services	9,776	181,471	11,014	192,485
Development/SI	837	104,917	112	105,029
Products	396	160,172	29,329	189,502
Total	11,010	446,561	40,456	487,018
Revenue recognized from contracts with customers	11,010	439,425	40,433	479,859
Revenue recognized from other sources	-	7,136	22	7,158
Total	11,010	446,561	40,456	487,018

Year ended March 31, 2020

(Thousands of U.S. Dollars)

	Reportable segment				
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business
Services	549,885	190,349	521,414	239,784	76,213
Development/SI	279,650	166,821	289,581	126,850	93,446
Products	374,978	67,880	783,056	190,962	51,246
Total	1,204,515	425,052	1,594,052	557,598	220,905
Revenue recognized from contracts with customers	1,153,242	414,981	1,593,122	554,406	220,798
Revenue recognized from other sources	51,272	10,070	929	3,191	106
Total	1,204,515	425,052	1,594,052	557,598	220,905

(Thousands of U.S. Dollars)

	Reportable segment		Other	Total
	IT Services business	Subtotal		
Services	89,828	1,667,475	101,206	1,768,682
Development/SI	7,697	964,049	1,033	965,082
Products	3,647	1,471,772	269,502	1,741,274
Total	101,173	4,103,297	371,742	4,475,039
Revenue recognized from contracts with customers	101,173	4,037,725	371,532	4,409,258
Revenue recognized from other sources	-	65,571	209	65,781
Total	101,173	4,103,297	371,742	4,475,039

Note: Revenue amounts exclude intersegment transactions.

(2) Contract balances

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Receivables arising from contracts with customers	111,840	114,916	1,055,927
Contract assets	12,843	11,087	101,882
Contract liabilities	45,126	55,685	511,672

Notes:

1. The amount of revenue recognized for the years ended March 31, 2019 and 2020, that was included in contract liability balance at the beginning of the years ended March 31, 2019 and 2020, was ¥29,338 million and ¥26,274 million (US$241,427 thousand), respectively.
2. The amount of revenue recognized for the years ended March 31, 2019 and 2020 from performance obligations satisfied (or partially satisfied) in previous years was ¥1,062 million and ¥1,788 million (US$16,435 thousand), respectively.

(3) Transaction price allocated to the remaining performance obligations

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Within 1 year	193,185	195,650	1,797,764
More than 1 year	69,749	76,647	704,290
Total	262,935	272,298	2,502,054

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

a) Items

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Costs to obtain a contract	-	-	-
Costs to fulfill a contract	-	99	910

b) Amortization and Impairment losses

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Amortization	11	16	151
Impairment losses	-	-	-

24. Other income and expenses

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Employee benefit expenses	41,227	43,646	401,054
Depreciation and amortization expense	3,083	6,297	57,865
Research and development expenses	1,558	1,546	14,209
Others	25,925	23,983	220,376
Total	71,795	75,474	693,506

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Net foreign exchange gains	-	136	1,258
Penalty income	193	-	-
Others	365	712	6,545
Total	558	849	7,803

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Net foreign exchange losses	29	-	-
Impairment losses	456	1,124	10,335
Compensation for damage	-	587	5,401
Others	87	46	424
Total	574	1,758	16,161

25. Government grants

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

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

26. Financial income and costs

The breakdown of financial income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Interest income			
Financial assets measured at amortized cost	150	192	1,771
Others	14	9	91
Subtotal	165	202	1,862
Dividends received			
FVTOCI financial assets	118	140	1,287
Subtotal	118	140	1,287
Other financial income			
Financial assets measured at amortized cost	0	-	-
FVTPL financial assets	0	0	7
Subtotal	0	0	7
Total	284	343	3,157

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Interest expense			
Financial liabilities measured at amortized cost	106	444	4,084
Liabilities for retirement benefits	127	123	1,131
Subtotal	234	567	5,216
Other financial costs			
Financial assets measured at amortized cost	5	27	251
FVTPL financial assets	45	20	192
Subtotal	51	48	444
Total	285	616	5,661

27. Earnings per share

The calculation of basic earnings per share for the years ended March 31, 2019 and 2020, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Net profit attributable to CTC's shareholders	24,616	28,451	261,432

(Shares in thousands)

	Year ended March 31, 2019	Year ended March 31, 2020
Weighted-average number of ordinary shares	231,029	231,032

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Basic earnings per share	106.55	123.15	1.13

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

28. Other comprehensive income

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

	(Millions of Yen)		
	Year ended March 31, 2019		
	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	156	(47)	108
Adjustment for the year	156	(47)	108
Remeasurement of defined benefit plans			
Amount arising during the year	425	(130)	295
Adjustment for the year	425	(130)	295
Exchange differences on translating foreign operations			
Amount arising during the year	26	-	26
Adjustment for the year	26	-	26
Cash flow hedges			
Amount arising during the year	208	(63)	145
Reclassification to profit or loss for the year	(132)	40	(91)
Adjustment for the year	76	(23)	53
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(0)	-	(0)
Adjustment for the year	(0)	-	(0)
Total other comprehensive income (loss) for the year	683	(201)	482

	(Millions of Yen)		
	Year ended March 31, 2020		
	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income			
Amount arising during the year	1,970	(602)	1,367
Adjustment for the year	1,970	(602)	1,367
Remeasurement of defined benefit plans			
Amount arising during the year	(342)	106	(236)
Adjustment for the year	(342)	106	(236)
Exchange differences on translating foreign operations			
Amount arising during the year	(1,977)	-	(1,977)
Adjustment for the year	(1,977)	-	(1,977)
Cash flow hedges			
Amount arising during the year	(34)	10	(24)
Reclassification to profit or loss for the year	(11)	3	(8)
Adjustment for the year	(46)	14	(32)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(9)	-	(9)
Adjustment for the year	(9)	-	(9)
Total other comprehensive income (loss) for the year	(406)	(481)	(888)

	(Thousands of U.S. Dollars)		
	Year ended March 31, 2020		
	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	18,102	(5,532)	12,568
Adjustment for the year	18,102	(5,532)	12,568
Remeasurement of defined benefit plans			
Amount arising during the year	(3,148)	974	(2,174)
Adjustment for the year	(3,148)	974	(2,174)
Exchange differences on translating foreign operations			
Amount arising during the year	(18,172)	-	(18,172)
Adjustment for the year	(18,172)	-	(18,172)
Cash flow hedges			
Amount arising during the year	(320)	98	(222)
Reclassification to profit or loss for the year	(107)	33	(74)
Adjustment for the year	(428)	131	(297)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(91)	-	(91)
Adjustment for the year	(91)	-	(91)
Total other comprehensive income (loss) for the year	(3,738)	(4,426)	(8,165)

29. Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Year ended March 31, 2019

(Millions of Yen)

	April 1, 2018	Cash flows from financing activities	Non-cash changes			March 31, 2019
			Acquisition ofassets by means of leases	Changes arisingfrom obtainingor losing control	Exchange differences on translating foreign operations	
Short-term borrowings	-	539	-	-	1	540
Lease liabilities	15,017	(2,715)	3,907	-	-	16,210
Total	15,017	(2,176)	3,907	-	1	16,750

Year ended March 31, 2020

(Millions of Yen)

	April 1, 2019	Cumulative effect of change in accounting policy	April 1, 2019 (as restated)	Cash flows from financing activities
Short-term borrowings	540	-	540	(53)
Lease liabilities	16,210	22,220	38,430	(11,961)
Total	16,750	22,220	38,970	(12,015)

(Millions of Yen)

	Non-cash changes			March 31, 2020
	Acquisition of assets by means of leases	Changes arising from obtaining or losing control	Exchange differences on translating foreign operations	
Short-term borrowings	-	843	(71)	1,258
Lease liabilities	14,204	469	(139)	41,003
Total	14,204	1,313	(211)	42,261

Year ended March 31, 2020

(Thousands of U.S. Dollars)

	April 1, 2019	Cumulative effect of change in accounting policy	April 1, 2019 (as restated)	Cash flows from financing activities
Short-term borrowings	4,966	-	4,966	(493)
Lease liabilities	148,949	204,171	353,120	(109,911)
Total	153,915	204,171	358,087	(110,405)

(Thousands of U.S. Dollars)

	Non-cash changes			March 31, 2020
	Acquisition of assets by means of leases	Changes arisingfrom obtainingor losing control	Exchange differences on translating foreign operations	
Short-term borrowings	-	7,748	(660)	11,560
Lease liabilities	130,524	4,317	(1,282)	376,768
Total	130,524	12,065	(1,942)	388,329

30. Financial instruments and disclosures

(1) Capital management

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

(2) Financial risk management policy

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

1) Credit risk management

Trade receivables (notes and accounts receivable-trade), which are receivables arising from the Group's operating activities, lease receivables, other receivables, and other financial assets are exposed to credit risk. The Group's maximum exposure to credit risk is the sum of all the Group's trade and other receivables, other financial assets measured at amortized cost, contract assets, and the balance of guarantee obligations.
With regard to trade and other receivables, the Group manages the due dates and balances of each customer in accordance with the Group's Credit Management Regulations. A credit control department that is independent from the business department also examines the credit status of each customer, sets appropriate credit limits and due dates, and also regularly monitors the recovery status and overdue status of receivables to ensure recovery.
With regard to other financial assets measured at amortized cost, the Group seeks to quickly identify doubtful accounts and mitigate credit risk by gathering and assessing information about the financial status of each counterparty.
With regard to derivatives to which IFRS 9 requirements for impairment do not apply, the Group judges credit risk to be insignificant because it only conducts transactions with financial institutions with high credit ratings.
On calculation of the allowance for doubtful accounts, the Group classifies financial instruments into the following three stages according to the level of credit risk and estimates expected credit losses for each stage.

Stage 1: Financial instruments for which the credit risk has not increased significantly after initial recognition
Stage 2: Financial instruments for which the credit risk has increased significantly after initial recognition
Stage 3: Credit-impaired financial instruments

When payments are more than 30 days past due on the last day of the consolidated fiscal year or postponement of the payment due date has been requested, or when a credit event has occurred, the Group judges that there has been a significant increase in credit risk and classifies the financial instrument as Stage 2 unless the cause is temporary, the risk of default is low, and the borrower is judged to have the ability to pay contractual cash flows in the near future.
When collection of contractual cash flows is judged doubtful, for example, when payments are more than 90 days past due or postponement of the payment due date has been requested because the borrower is in serious financial difficulties at the end of the fiscal year, default is deemed to have occurred and the financial instruments are judged to be credit impaired and classified as Stage 3.
With regard to financial assets classified as Stage 1, the Group recognizes 12-month expected credit losses as the allowance for doubtful accounts. However, with regard to financial assets classified as Stage 2 or Stage 3, the Group recognizes an amount equal to lifetime expected credit losses as the allowance for doubtful accounts.
However, trade receivables, contract assets, and lease receivables are not classified into Stage 1 or Stage 2 and the Group always calculates the amount of the allowance for doubtful accounts based on lifetime expected credit losses.

a) Credit risk exposure

The Group's credit risk exposure (before deduction of allowance for doubtful accounts) as of March 31, 2019 and 2020, is as follows:

March 31, 2019

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	31,671	-	49	138,386	170,107
Within 90 days	16	-	-	2,893	2,910
More than 90 days	0	-	6	438	446
Total	31,688	-	56	141,718	173,464

March 31, 2020

(Millions of Yen)

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

March 31, 2020

(Thousands of U.S. Dollars)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	288,154	-	458	1,301,223	1,589,836
Within 90 days	315	-	-	36,360	36,676
More than 90 days	9	-	509	6,763	7,281
Total	288,479	-	967	1,344,347	1,633,793

b) Movement in allowance for doubtful accounts

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

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Balance as of April 1, 2018	0	-	50	11	61
Increase for the year	0	-	1	1	2
Decrease for the year (utilization)	-	-	-	-	-
Decrease for the year (unused)	-	-	(6)	-	(6)
Others	-	-	0	-	0
Balance as of March 31, 2019	0	-	44	12	58
Increase for the year	-	-	1	0	2
Decrease for the year (utilization)	-	-	(1)	-	(1)
Decrease for the year (unused)	(0)	-	(0)	-	(0)
Others	-	-	48	-	48
Balance as of March 31, 2020	0	-	93	13	106

(Thousands of U.S. Dollars)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Balance as of March 31, 2019	3	-	412	119	533
Increase for the year	-	-	17	2	19
Decrease for the year (utilization)	-	-	(11)	-	(11)
Decrease for the year (unused)	(0)	-	(6)	-	(6)
Others	-	-	446	-	446
Balance as of March 31, 2020	3	-	857	121	981

There was no significant movement in the carrying amount of financial instruments that would have a material impact on the allowance for doubtful accounts in the years ended March 31, 2019 and 2020. The uncollected contract balance of financial assets that have been directly written off and are still the subject of activities to compel performance is immaterial.

2) Market risk management

a) Interest rate risk

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

b) Foreign currency exchange rate risk

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

Exposure to foreign currency exchange rate risk (net amount) at the end of the years ended March 31, 2019 and 2020, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019		March 31, 2020	
Balance of foreign exchange (short-term)	(3,859)	(34,771)	(2,039)	(18,743)
Balance of foreign exchange (long-term)	-	-	-	-

Notes:

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

Foreign currency sensitivity analysis

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Profit before tax	38	20	187

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, 2019	March 31, 2020	March 31, 2020
Other comprehensive income	(668)	(834)	(7,672)

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, 2019

(Millions of Yen)

	Carrying amount	Contractual cash flow	Within 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	53,901	53,901	53,901	-	-
Other financial liabilities	1,356	1,356	1,356	-	-
Non-current financial liabilities	92	92	-	91	0
Lease liabilities	16,210	17,376	4,474	11,527	1,373

March 31, 2020

(Millions of Yen)

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

March 31, 2020

(Thousands of U.S. Dollars)

	Carrying amount	Contractual cash flow	Within 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities					
Trade and other payables	521,807	521,807	521,807	-	-
Other financial liabilities	18,053	18,053	18,053	-	-
Non-current financial liabilities	1,118	1,118	-	1,110	7
Lease liabilities	376,768	393,389	123,392	254,843	15,154

b) Derivatives

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

March 31, 2019

(Millions of Yen)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	61	-	-	61
	Expenditures	(58)	(6)	-	(64)

March 31, 2020

(Millions of Yen)

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

March 31, 2020

(Thousands of U.S. Dollars)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	1,327	-	-	1,327
	Expenditures	(1,921)	(125)	-	(2,046)

(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 put options granted to non-controlling interests is determined based on the method of discounting future cash flows and is classified as Level 3.

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

2) Fair value of financial instruments by category

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

	(Millions of Yen)		(Millions of Yen)		(Thousands of U.S. Dollars)	
	March 31, 2019		March 31, 2020		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	132,348	132,391	137,736	137,756	1,265,611	1,265,792
Other financial assets	28,218	28,218	28,878	28,878	265,353	265,353
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	7,060	7,060	8,825	8,825	81,093	81,093
FVTPL financial assets	1,044	1,044	1,318	1,318	12,117	12,117
Financial liabilities measured at amortized cost						
Other current financial liabilities	5,414	5,418	14,596	14,605	134,117	134,201
Non-current financial liabilities	12,243	12,299	28,494	28,577	261,822	262,592
Financial liabilities measured at fair value						
Other current financial liabilities						
FVTPL financial liabilities	64	64	222	222	2,046	2,046
Non-current financial liabilities						
Others	-	-	2,727	2,727	25,066	25,066

3) Fair value measurements recognized in the consolidated financial statements

The following table provides an analysis of the fair value hierarchy reflecting the significance of inputs used when measuring fair value of financial instruments that have been measured at fair value on a recurring basis.

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the assets or liabilities

Transfers between levels of the fair value hierarchy are recognized at the date of the event or change in circumstances that caused the transfer. In addition, the written put options on the shares of subsidiaries that the Group granted to the owners of non-controlling interests are not included below.

(Millions of Yen)

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	6,681	8	370	7,060
FVTPL financial assets	-	61	982	1,044
Total assets	6,681	69	1,353	8,104
Liabilities:				
FVTPL financial liabilities	-	64	-	64
Total liabilities	-	64	-	64

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2019.

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	76,722	74	4,296	81,093
FVTPL financial assets	-	1,327	10,789	12,117
Total assets	76,722	1,402	15,085	93,211
Liabilities:				
FVTPL financial liabilities	-	2,046	-	2,046
Total liabilities	-	2,046	-	2,046

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

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, 2019	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2018	263	543
Total gains or losses		
Profit or loss	-	(45)
Other comprehensive income	0	-
Purchases	111	499
Disposals	(5)	(0)
Distribution	-	(13)
Others	-	(1)
March 31, 2019	370	982
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2019 – net	-	(45)

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	Year ended March 31, 2020	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2019	3,407	9,032
Total gains or losses		
Profit or loss	-	(185)
Other comprehensive income	(43)	-
Purchases	932	2,561
Disposals	-	-
Distribution	-	(590)
Others	-	(28)
March 31, 2020	4,296	10,789
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2020 – net	-	(185)

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.

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

(Millions of Yen)

	March 31, 2019			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	5,330	61	56	Other financial assets (current) Other financial liabilities (current)

(Millions of Yen)

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

(Thousands of U.S. Dollars)

	March 31, 2020			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	127,927	1,327	1,883	Other financial assets (current) Other financial liabilities (current)

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

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

31. Related-party transactions

(1) Transactions with related parties

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

Year ended March 31, 2019

(Millions of Yen)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Deposit contracts (fixed term)	(Funds deposited) -	-
			(Repayment of deposit) 23,000	
		Deposit contracts (withdrawable anytime)	-	-
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited) 21,000	20,000
			(Repayment of deposit) 1,000	
		Deposit contracts (withdrawable anytime)	-	22,612

Notes:
1. The interest rates of deposit contracts are individually determined, considering the market rate of interest.
2. In the year ended March 31, 2019, the contracting entity for cash management services was changed from ITOCHU Corporation to ITOCHU Treasury Corporation. As a result, the balance of deposits with ITOCHU Corporation was transferred to ITOCHU Treasury Corporation.
3. 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 and ITOCHU Treasury Corporation.

Year ended March 31, 2020

(Millions of Yen)

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

Year ended March 31, 2020

(Thousands of U.S. Dollars)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited) 18,377	183,772
			(Repayment of deposit) 18,377	
		Deposit contracts (withdrawable anytime)	-	301,179

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

(2) Remuneration of key management personnel

The remuneration of key management personnel is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Benefits and bonuses	301	263	2,424
Share-based payment	43	46	427
Total	344	310	2,851

32. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Voting shares (%)
			March 31, 2020
CTC TECHNOLOGY CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTC SYSTEM MANAGEMENT CORPORATION	IT Services business	Chiyoda-ku, Tokyo	100.0
CTCSP CORPORATION	Enterprise business	Setagaya-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	100.0
Asahi Business Solutions Corp.	Enterprise business	Sumida-ku, Tokyo	51.0
CTC Global (Thailand) Ltd.	Other	Bangkok, Thailand	100.0
CTC GLOBAL SDN. BHD.	Other	Kuala Lumpur, Malaysia	70.0
PT. Nusantara Compnet Integrator	Other	Jakarta, Indonesia	70.0
CTC GLOBAL PTE. LTD.	Other	Singapore	70.0
PT. Pro Sistimatika Automasi	Other	Jakarta, Indonesia	70.0
ITOCHU Techno-Solutions America, Inc.	Other	Santa Clara, California, U.S.A.	70.0

33. Commitments

There are no contractual commitments for purchase of assets after the end of each fiscal year at March 31, 2019 and 2020.

34. Contingent liabilities

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2020
Guarantees for employees	30 (20 people)	16 (12 people)	154 (12 people)

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

35. Security

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2019	March 31, 2020	March 31, 2020
Assets provided as security			
Other non-current financial assets	-	7,720	70,938
Total	-	7,720	70,938
Obligations pertaining to security			
Other current financial liabilities and non-current financial liabilities	-	7,720	70,938
Total	-	7,720	70,938

As the result of applying IFRS 16 "Leases," security deposits and lease liabilities are recognized as assets provided as security and obligations pertaining to security, respectively, as of March 31, 2020.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of ITOCHU Techno-Solutions Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Convenience Translation

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

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 19, 2020

Challenging Tomorrow's Changes

COMMUNICATION ON PROGRESS

UN GLOBAL COMPACT

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

We welcome feedback on its contents.