ITOCHU Techno-Solutions Corporation and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2023, and Independent Auditor's Report

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, 2023, 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Convenience Translation

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
1. Revenue recognition for product sales which occur near year-end (Note 3. "Significant accounting policies (15) Revenue from contracts with customers" to the consolidated financial statements) ITOCHU Techno-Solutions Corporation (the "Company") is engaged in business relating to the sale of products such as hardware and software, system development and infrastructure construction. Product sales, which approximated 40% of the Company's total revenue of 570,934 million yen for the year ended March 31, 2023, are generally recorded in large amounts near year-end. This is due to frequent receipt of customers' acceptances near year-end. The Company often delivers products and system releases to its main customers, most of which are domestic companies, by the end of their fiscal year, which is typically March 31. As described in Note 3. "Significant accounting policies (15) Revenue from contracts with customers" to the consolidated financial statements, the Company determines that the performance obligation related to product sales is satisfied when it meets the conditions of delivery under the contract, such as delivery of the hardware, software or other products, or receipt of acceptance inspection. In certain cases, the Company engages in multiple element arrangements that include not only product sales but also related system development and infrastructure construction. Since multiple element arrangements may be conducted in multiple contracts rather than a single contract, it is important to identify the appropriate number of performance obligations. If product sales related to multiple element arrangements are recorded near year-end, complex management judgment is required to determine the unit and timing of revenue recognition. For the above reasons, we identified the revenue recognition for product sales occurring near year-end as a key audit matter.	Our audit procedures to address this key audit matter included the following, among others: (1) Evaluation of the effectiveness of internal controls • We tested the design and operating effectiveness of controls over the completeness of the relevant contracts and performance obligations in the contract and controls over the recognition of sales based on the satisfaction of performance obligations such as product delivery to customers. (2) Evaluation of the reasonableness of the combination of contracts and identification and satisfaction of performance obligations • For product sales over a certain amount recorded near year-end, we inspected the contracts agreed upon with the customers and inquired of management in the related department in order to test the completeness of multiple element arrangements identified. We tested whether there were related products to be provided to the customers and related system development or infrastructure construction and evaluated whether the Company appropriately combined contracts and identified performance obligations. • We tested whether the Company appropriately satisfied the performance obligations by inspecting supporting documents such as contracts, acceptance slips and invoices, testing whether there was a discrepancy between the planned sales date and the sales recording date, and evaluating whether the billing period was unreasonable.

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
2. <u>Assessment of goodwill for PT. Nusantara Compnet Integrator (Note 10. "Goodwill and intangible assets" to the consolidated financial statements)</u> Goodwill of 4,956 million yen was recorded in the consolidated statement of financial position as of March 31, 2023, which resulted from the acquisition of consolidated subsidiaries that operate businesses in Association of South-East Asian Nations where high information technology ("IT") market growth is expected. As described in Note 10. "Goodwill and intangible assets" to the consolidated financial statements, regarding goodwill recognized with the acquisition of PT. Nusantara Compnet Integrator, which engages IT consulting services and system integration in Indonesia, an impairment loss of 3,290 million yen was recorded in other expenses in the consolidated statement of income, and the balance of goodwill as of March 31, 2023, was 1,112 million yen. The Company performs an impairment test annually, or more frequently if indicators of potential impairment exist. If the recoverable amount is less than the carrying amount, an impairment loss is recognized. For the current year's goodwill impairment test for PT. Nusantara Compnet Integrator, the recoverable amount was based on the value in use, which was calculated by discounting the estimated future cash flows developed based on the five-year projections approved by management and the discount rate of 16.5%. The growth rate of the estimated future cash flows beyond the five years is 3%, which is the country's inflation rate factored in the discount rate. As the calculated value in use reflecting the above assumptions was lower than the carrying amount, the impairment loss was recognized. The PT. Nusantara Compnet Integrator's value in use estimates include key assumptions such as the order projection considering the impact of global semiconductor shortage and forecasts of medium to long term IT market growth in Indonesia. If the achievement of the future cash flows is significantly delayed due to changes in future economic conditions of the country or the above assumptions, the value in use may fall further below the carrying amount. There is a high degree of uncertainty in the estimates of value in use and an impact on the consolidated financial statements. For the reasons above, we identified the assessment of goodwill for PT. Nusantara Compnet Integrator as a key audit matter.	Our audit procedures to address this key audit matter included the following, among others: (1) Evaluation of the effectiveness of internal controls • We tested the design and operating effectiveness of controls over the measurement of goodwill impairment related to the cash-generating unit. (2) Evaluation of the reasonableness of the estimate of the value in use • We assessed the degree of estimation uncertainty and the reasonableness of the estimate in the current year by comparing the cash flow projections estimated by management in the prior year with the actual results of the current year. • We determined whether the business plan which was the basis of the five-year cash flow projections was approved by management. • We evaluated the consistency of the impact of global semiconductor shortage and forecasts of medium to long term IT market growth in Indonesia with available external information. • For the order projection, we obtained an understanding of the Company's business strategy and competitive situation and performed comparative analysis of the external environment and past results. • With the assistance of our valuation specialists, we evaluated whether the selection and application of the method, assumptions and data for measuring the value in use, including the growth rate of the estimated future cash flows beyond the five years and the discount rate, were reasonable.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 30, 2023

1. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	March 31, 2022	March 31, 2023	March 31, 2023
Assets				
Current assets				
Cash and cash equivalents	6	94,078	92,530	692,902
Trade and other receivables	7, 28	150,892	158,195	1,184,624
Inventories	8	43,437	55,683	416,979
Current tax assets		197	146	1,095
Other current financial assets	12, 28 33	22,425	21,848	163,606
Other current assets		70,071	76,658	574,045
Total current assets		381,100	405,060	3,033,251
Non-current assets				
Property, plant and equipment	9, 16	51,992	47,255	353,865
Goodwill	10	7,810	4,956	37,109
Intangible assets	10, 16	5,702	5,498	41,171
Investments accounted for using the equity method	5, 11	7,940	8,413	63,000
Other non-current financial assets	12, 28, 33	39,797	45,029	337,193
Deferred tax assets	13	10,170	9,079	67,988
Other non-current assets	17	3,210	2,756	20,635
Total non-current assets		126,621	122,985	920,960
Total assets	5	507,721	528,045	3,954,211

	Notes	(Millions of Yen) March 31, 2022	(Millions of Yen) March 31, 2023	(Thousands of U.S. Dollars) March 31, 2023
Liabilities and equity				
Current liabilities				
Trade and other payables	14, 28	57,972	66,688	499,389
Other current financial liabilities	15, 27 28, 33	14,097	14,990	112,250
Income taxes payable		10,878	7,845	58,750
Liabilities for employee benefits		26,653	25,965	194,437
Provisions	18	962	1,364	10,217
Other current liabilities		63,115	66,162	495,446
Total current liabilities		173,677	183,015	1,370,489
Non-current liabilities				
Non-current financial liabilities	15, 27 28, 33	38,866	32,573	243,919
Liabilities for employee benefits	17	3,755	3,717	27,834
Provisions	18	2,547	2,706	20,262
Deferred tax liabilities	13	392	435	3,258
Total non-current liabilities		45,560	39,431	295,272
Total liabilities		219,237	222,446	1,665,761
Equity				
Common stock	20	21,764	21,764	162,974
Capital surplus	20	32,701	32,812	245,706
Treasury stock	20	(9,535)	(9,519)	(71,280)
Retained earnings	20	225,273	238,326	1,784,678
Other components of equity		10,939	15,269	114,337
Total shareholders' equity		281,142	298,651	2,236,414
Non-controlling interests		7,342	6,949	52,036
Total equity		288,484	305,600	2,288,450
Total liabilities and equity		507,721	528,045	3,954,211

See notes to the consolidated financial statements.

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

	Notes	(Millions of Yen) Year ended March 31, 2022	(Millions of Yen) Year ended March 31, 2023	(Thousands of U.S. Dollars) Year ended March 31, 2023
Revenue	5, 22	522,356	570,934	4,275,377
Cost of sales		(387,678)	(431,857)	(3,233,912)
Gross profit		134,678	139,077	1,041,464
Other income and expenses				
Selling, general and administrative expenses	23	(84,525)	(91,021)	(681,600)
Other income	23	5,441	2,088	15,635
Other expenses	23	(5,112)	(3,671)	(27,490)
Total other income and expenses		(84,196)	(92,604)	(693,454)
Operating income		50,482	46,473	348,010
Financial income	5, 24	1,378	997	7,463
Financial costs	5, 24	(553)	(1,228)	(9,194)
Share of profit of associates accounted for using the equity method	5, 11	568	682	5,106
Profit before tax	5	51,875	46,924	351,386
Income tax expense	13	(17,409)	(13,155)	(98,510)
Net profit		34,466	33,769	252,876
Net profit attributable to:				
CTC's shareholders		35,373	34,208	256,164
Non-controlling interests		(906)	(439)	(3,288)

Earnings per share attributable to CTC's shareholders		(Yen)	(Yen)	(U.S. Dollars)
Basic earnings per share for the year	25	153.08	148.04	1.11
Diluted earnings per share for the year	25	153.08	148.03	1.11

See notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

		(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Notes	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Net profit		34,466	33,769	252,876
Other comprehensive income, net of tax effect				
Items that will not be reclassified to profit or loss:				
Changes in net fair value of financial assets measured through other comprehensive income	26	3,899	3,684	27,586
Remeasurement of defined benefit plans	26	106	(228)	(1,710)
Share of other comprehensive income of associates accounted for using the equity method	11, 26	10	49	364
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations	26	2,022	1,568	11,743
Cash flow hedges	26	302	(687)	(5,146)
Share of other comprehensive income of associates accounted for using the equity method	11, 26	136	157	1,177
Total other comprehensive income for the year, net of tax effect		6,475	4,542	34,014
Total comprehensive income		40,942	38,311	286,890
Total comprehensive income attributable to:				
CTC's shareholders		41,250	38,308	286,867
Non-controlling interests		(308)	3	23

See notes to the consolidated financial statements.

(3) Consolidated Statement of Changes in Equity

(Millions of Yen)

	Notes	Shareholders' equity									Non-controlling interests	Total equity
						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	Cash flow hedges	Re-measurement of defined benefit plans	Total shareholders' equity		
April 1, 2021		21,764	32,048	(9,582)	205,403	(98)	5,095	170	―	254,800	7,810	262,609
Net profit		―	―	―	35,373	―	―	―	―	35,373	(906)	34,466
Other comprehensive income, net of tax effect		―	―	―	―	1,559	3,911	302	106	5,878	598	6,475
Total comprehensive income		―	―	―	35,373	1,559	3,911	302	106	41,250	(308)	40,942
Payment of dividends	21	―	―	―	(15,608)	―	―	―	―	(15,608)	(187)	(15,795)
Purchase of treasury stock		―	―	(0)	―	―	―	―	―	(0)	―	(0)
Disposal of treasury stock		―	―	48	―	―	―	―	―	48	―	48
Share-based payment transactions	19	―	2	―	―	―	―	―	―	2	―	2
Changes in ownership interest in subsidiaries		―	27	―	―	―	―	―	―	27	28	55
Put options held by non-controlling shareholders		―	623	―	―	―	―	―	―	623	―	623
Transfer to retained earnings from other components of equity		―	―	―	106	―	―	―	(106)	―	―	―
Total transactions with owners		―	652	48	(15,502)	―	―	―	(106)	(14,908)	(159)	(15,067)
March 31, 2022		21,764	32,701	(9,535)	225,273	1,462	9,006	472	―	281,142	7,342	288,484

(Millions of Yen)

	Notes	Shareholders' equity									Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Other components of equity				Total shareholders' equity		
						Exchange differences on translating foreign operations	Changes in net fair value of financial assets measured through other comprehensive income	Cash flow hedges	Re-measurement of defined benefit plans			
April 1, 2022		21,764	32,701	(9,535)	225,273	1,462	9,006	472	—	281,142	7,342	288,484
Net profit		—	—	—	34,208	—	—	—	—	34,208	(439)	33,769
Other comprehensive income, net of tax effect		—	—	—	—	1,283	3,732	(687)	(228)	4,100	442	4,542
Total comprehensive income		—	—	—	34,208	1,283	3,732	(687)	(228)	38,308	3	38,311
Payment of dividends	21	—	—	—	(20,926)	—	—	—	—	(20,926)	(396)	(21,322)
Purchase of treasury stock		—	—	(0)	—	—	—	—	—	(0)	—	(0)
Disposal of treasury stock		—	—	16	—	—	—	—	—	16	—	16
Share-based payment transactions	19	—	27	—	—	—	—	—	—	27	—	27
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Put options held by non-controlling shareholders		—	84	—	—	—	—	—	—	84	—	84
Transfer to retained earnings from other components of equity		—	—	—	(229)	—	1	—	228	—	—	—
Total transactions with owners		—	111	16	(21,155)	—	1	—	228	(20,800)	(396)	(21,196)
March 31, 2023		21,764	32,812	(9,519)	238,326	2,745	12,738	(215)	—	298,651	6,949	305,600

(Thousands of U.S. Dollars)

	Notes	Shareholders' equity									Non-controlling interests	Total 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	Cash flow hedges	Re-measurement of defined benefit plans	Total shareholders' equity		
April 1, 2022		162,974	244,877	(71,398)	1,686,933	10,945	67,437	3,536	—	2,105,303	54,980	2,160,283
Net profit		—	—	—	256,164	—	—	—	—	256,164	(3,288)	252,876
Other comprehensive income, net of tax effect		—	—	—	—	9,611	27,949	(5,146)	(1,710)	30,703	3,311	34,014
Total comprehensive income		—	—	—	256,164	9,611	27,949	(5,146)	(1,710)	286,867	23	286,890
Payment of dividends	21	—	—	—	(156,703)	—	—	—	—	(156,703)	(2,967)	(159,670)
Purchase of treasury stock		—	—	(1)	—	—	—	—	—	(1)	—	(1)
Disposal of treasury stock		—	—	119	—	—	—	—	—	119	—	119
Share-based payment transactions	19	—	198	—	—	—	—	—	—	198	—	198
Changes in ownership interest in subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Put options held by non-controlling shareholders		—	631	—	—	—	—	—	—	631	—	631
Transfer to retained earnings from other components of equity		—	—	—	(1,715)	—	5	—	1,710	—	—	—
Total transactions with owners		—	829	118	(158,418)	—	5	—	1,710	(155,756)	(2,967)	(158,723)
March 31, 2023		162,974	245,706	(71,280)	1,784,678	20,557	95,391	(1,611)	—	2,236,414	52,036	2,288,450

See notes to the consolidated financial statements.

(4) Consolidated Statement of Cash Flows

	Notes	(Millions of Yen) Year ended March 31, 2022	(Millions of Yen) Year ended March 31, 2023	(Thousands of U.S. Dollars) Year ended March 31, 2023
Cash flows from operating activities				
Profit before tax		51,875	46,924	351,386
Adjustments for:				
Depreciation and amortization expense		18,432	15,637	117,094
Impairment losses		4,677	3,296	24,684
Loss (gain) on sale and retirement of fixed assets		(4,202)	9	64
Interest and dividend income		(516)	(902)	(6,753)
Interest expenses		493	667	4,995
Share of profit of associates accounted for using the equity method		(568)	(682)	(5,106)
Decrease (increase) in trade and other receivables		(12,198)	(12,127)	(90,809)
Decrease (increase) in inventories		(1,901)	(12,038)	(90,145)
Increase (decrease) in trade and other payables		1,517	7,940	59,461
Other-net		(5,770)	(1,293)	(9,684)
Subtotal		51,839	47,431	355,185
Interest and dividends received		760	1,202	8,998
Interest paid		(367)	(562)	(4,208)
Income taxes paid		(16,171)	(16,280)	(121,915)
Net cash provided by operating activities		36,061	31,791	238,060
Cash flows from investing activities				
Purchases of property, plant and equipment		(8,832)	(4,007)	(30,005)
Proceeds from sales of property, plant and equipment		10,376	24	181
Purchases of intangible assets		(1,476)	(1,568)	(11,744)
Proceeds from sales of intangible assets		9	0	3
Payments for leasehold and guarantee deposits		(138)	(137)	(1,023)
Proceeds from refund of leasehold and guarantee deposits		4,543	161	1,205
Purchases of investment securities and other		(759)	(1,751)	(13,109)
Proceeds from sales of investment securities and other		0	9	66
Purchase of shares of associates		(1,097)	—	—
Proceeds from dividends of investment partnerships		202	33	248
Proceeds from collection of long-term accounts receivable-other		500	1,322	9,902
Other-net		134	31	233
Net cash provided by (used in) investing activities		3,462	(5,881)	(44,043)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	27	(738)	(90)	(671)
Purchases of treasury stock		(0)	(0)	(1)
Capital contribution from non-controlling interests		72	—	—
Proceeds from sale and leaseback		2,896	5,908	44,243
Repayments of lease liabilities	27	(13,852)	(12,393)	(92,806)
Dividends paid to CTC's shareholders	21	(15,604)	(20,920)	(156,655)
Dividends paid to non-controlling interests		(187)	(396)	(2,967)
Net cash used in financing activities		(27,413)	(27,891)	(208,858)
Effects of exchange rate changes on cash and cash equivalents		1,023	434	3,249
Net increase (decrease) in cash and cash equivalents		13,133	(1,548)	(11,592)
Cash and cash equivalents at the beginning of the year		80,945	94,078	704,493
Cash and cash equivalents at the end of the year	6	94,078	92,530	692,902

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/en/). The consolidated reporting period of the Company and its subsidiaries (the “Group”) is year ended March 31, 2023. 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 12, 2023. The Company evaluated subsequent events through June 30, 2023, which was the issuance date of the consolidated financial statements, and found none.

(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 to the nearest million yen.
The translation of Japanese yen amounts into U.S. dollar amounts for the year ended March 31, 2023, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥133.54 = US$1 (the official exchange rate at March 31, 2023, announced by Mizuho Bank, Ltd.). Amounts of less than one thousand dollars have been rounded to the nearest thousand dollars.

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

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

3. Significant accounting policies

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

(1) Basis of consolidation

1) Business combinations

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

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

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

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

2) Subsidiaries

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

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

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

3) Loss of control

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

4) Business combination under common control

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

5) Associates

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

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

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

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

6) Transactions eliminated on consolidation

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

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

(2) Foreign currency translation

1) Foreign currency transactions

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

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

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

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

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

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

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

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

(3) Financial instruments

1) Financial assets other than derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

2) Cash equivalents

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

3) Financial liabilities other than derivatives

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

4) Derivative instruments and hedging activities

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

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

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

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

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

Hedge accounting is discontinued for ineffective hedges, if any.

5) Presentation of financial assets and liabilities

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

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

(4) Inventories

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

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

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

(5) Property, plant and equipment

1) Recognition and measurement

The cost model is applied and property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

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: 15–20 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: 9–10 years) from the time when they become available for use. The amortization expenses allocated to each accounting period are recognized in profit or loss.

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

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

(7) Leases

1) Leases as lessee

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

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

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

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

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

2) Leases as lessor

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

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

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

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

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

(8) Impairment

1) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

(9) Non-current assets held for sale

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

(10) Employee benefits

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

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

3) Multi-employer plans

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

4) Short-term employee benefits

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

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

(11) Provisions

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

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

1) Provisions for asset retirement obligations

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

2) Provisions for loss on orders received

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

3) Provisions for after-sales costs

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

(12) Share-based payment

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

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

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

(13) Equity

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

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

(14) Put options held by non-controlling interests

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

(15) Revenue from contracts with customers

The Group recognizes revenue by applying the following five steps.

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

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

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

The Group receives consideration for performance obligations with a payment deadline of within one year after satisfying performance obligations in principle. Therefore, the Group has not adjusted the effects impact of a significant financing component by using a practical expedient.

1) Services

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

2) Development and SI

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

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

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

3) Products

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

4) Multiple components transactions

In the case of revenue related to multiple components transactions, for example, transactions to provide both sales of goods and maintenance services, the Company identified the performance obligations attributable to the relevant contracts and allocated transaction prices to respective performance obligations in proportion to stand-alone selling prices. In addition, it allocated discounts to respective performance obligations mainly in proportion to stand-alone selling prices. The Company estimated stand-alone selling prices by using an expected cost plus a margin approach, based on all information available to the Company through reasonable means including market conditions and the Group’s specific factors, as well as other observable inputs.

(16) Finance income and costs

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

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

(17) Income taxes

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

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

Tax expenses for the period are measured based on taxes payable on the period's taxable profit. These tax amounts are calculated based on tax rates 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.

In accordance with the international tax reform (the Pillar Two model rules), the global minimum tax framework is scheduled to be introduced from the fiscal year ending March 31, 2025. However, the Company has applied the exception from the requirement to recognize and disclose deferred tax assets and liabilities arising from the implementation of this tax framework.

(18) Earnings per share

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

4. Significant accounting estimates and judgments

To prepare the consolidated financial statements, management of the Company makes a variety of estimates, judgments, and sets of assumptions that affect the adoption of accounting policies and disclosures of amounts recognized for assets, liabilities, income, and expenses. However, actual results may differ from these estimates, and the estimates and the underlying assumptions are reviewed on an ongoing basis. 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, 2024, are mainly as follows:

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

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

- Measurement of provisions (Note 18. Provisions)

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

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

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

- Recoverability of deferred tax assets (Note 13. Deferred taxes and income taxes)

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

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

- Evaluation of whether there are indications of impairment of property, plant and equipment, goodwill, intangible assets, and investments accounted for using the equity method (Note 9. Property, plant and equipment, Note 10. Goodwill and intangible assets, and Note 11. Investments accounted for using the equity method)
- Recognition of provisions (Note 18. Provisions)

5. Segment information

(1) Description of reportable segments

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

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

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

On April 1, 2022, the Group conducted an organizational restructuring for the purpose of achieving the Medium-Term Management Plan and expanding business in the future. Specifically, some of the business for non-manufacturing sectors, such as retail, and all business for automotive industry that were previously included in "Enterprise business" segment has been transferred to "Distribution business" segment and "Regional and Social Infrastructure business" segment, respectively. In addition, some of the business for financial services companies that were previously included in the "Distribution business" segment have been transferred to the "Finance Services business" segment.

The segment information for the previous fiscal year has been prepared based on the reportable segment classifications after the change.

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, 2022

(Millions of Yen)

	Reportable segment							Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Enterprise business	Distribution business	Telecommuni-cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal				
Revenue											
Revenue from external customers	92,703	57,704	188,719	88,177	39,899	10,790	477,993	44,363	522,356	—	522,356
Inter-segment revenue or transfers	14,469	1,069	16,109	1,125	32	111,778	144,580	1,205	145,785	(145,785)	—
Total	107,172	58,773	204,828	89,302	39,930	122,567	622,573	45,568	668,141	(145,785)	522,356
Profit before tax (segment profit or loss)	6,871	3,900	19,232	6,332	3,290	18,106	57,731	(2,995)	54,736	(2,861)	51,875
Segment assets	56,220	23,247	118,849	35,829	12,363	70,492	317,000	49,015	366,015	141,705	507,721
Other items											
Financial income	14	43	182	37	5	53	333	163	496	881	1,378
Financial costs	(13)	(9)	(27)	(9)	(4)	(99)	(161)	(244)	(405)	(148)	(553)
Share of profit of associates accounted for using the equity method	38	387	11	—	—	—	436	131	568	—	568
Depreciation and amortization expense (Note 3)	(469)	(370)	(671)	(408)	(188)	(4,276)	(6,381)	(2,458)	(8,839)	(9,593)	(18,432)
Impairment losses	—	—	—	—	—	(11)	(11)	(4,655)	(4,666)	(11)	(4,677)
Investments accounted for using the equity method	350	4,462	83	—	—	1,106	6,001	1,939	7,940	—	7,940
Capital expenditures (Note 3)	299	315	747	310	160	4,404	6,235	2,372	8,606	35,464	44,071

Notes:

1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and the Business innovation & Digital Transformation Group, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥(2,861) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(3,433) million.
   (2) Reconciliations of segment assets of ¥141,705 million include corporate assets of ¥157,508 million and intersegment elimination of receivables and payables of ¥(16,541) 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 ¥881 million include ¥913 million of gains related to the administrative department that are not allocated to business segments. Reconciliations of financial costs of ¥(148) million include ¥(175) million of losses related to the administrative department that are not allocated to business segments.

Reconciliations of depreciation and amortization expense of ¥(9,593) million include depreciation and amortization of ¥(9,795) million and elimination of unrealized gains of ¥202 million.

Reconciliations of impairment losses of ¥(11) million are impairment losses related to corporate assets.

Reconciliations of capital expenditures of ¥35,464 million include an increase in corporate assets of ¥35,606 million and elimination of unrealized gains of ¥(142) 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, 2023

(Millions of Yen)

	Reportable segment							Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Enterprise business	Distribution business	Telecommunications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal				
Revenue											
Revenue from external customers	110,140	63,786	173,346	103,233	49,762	11,738	512,006	58,928	570,934	—	570,934
Inter-segment revenue or transfers	18,390	1,088	20,908	948	199	117,983	159,515	2,623	162,138	(162,138)	—
Total	128,530	64,874	194,254	104,181	49,961	129,721	671,521	61,551	733,072	(162,138)	570,934
Profit before tax (segment profit or loss)	9,483	6,034	11,280	9,211	5,348	13,757	55,113	(1,480)	53,633	(6,709)	46,924
Segment assets	63,220	25,725	120,782	38,702	18,131	71,578	338,139	53,195	391,334	136,712	528,045
Other items											
Financial income	13	31	230	39	5	133	451	305	756	241	997
Financial costs	(12)	(7)	(22)	(8)	(4)	(82)	(134)	(219)	(354)	(874)	(1,228)
Share of profit of associates accounted for using the equity method	52	524	4	—	—	(58)	523	159	682	—	682
Depreciation and amortization expense (Note 3)	(547)	(573)	(691)	(425)	(213)	(2,655)	(5,104)	(3,028)	(8,133)	(7,504)	(15,637)
Impairment losses	—	—	—	—	—	(0)	(0)	(3,295)	(3,296)	(1)	(3,296)
Investments accounted for using the equity method	385	4,794	87	—	—	1,048	6,315	2,098	8,413	—	8,413
Capital expenditures (Note 3)	226	163	673	237	201	3,264	4,764	3,138	7,902	2,633	10,535

Notes:

1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and the Business innovation & Digital Transformation Group, etc.
2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of ¥(6,709) million include primarily administrative expenses and investments that are not allocated to business segments of ¥(5,851) million.
   (2) Reconciliations of segment assets of ¥136,712 million include corporate assets of ¥154,105 million and intersegment elimination of receivables and payables of ¥(18,723) 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 ¥241 million include ¥200 million of gains related to the administrative department that are not allocated to business segments.
Reconciliations of financial costs of ¥(874) million include ¥(858) million of losses related to the administrative department that are not allocated to business segments.
Reconciliations of depreciation and amortization expense of ¥(7,504) million include depreciation and amortization of ¥(7,593) million and elimination of unrealized gains of ¥89 million.
Reconciliations of impairment losses of ¥(1) million are impairment losses related to corporate assets.
Reconciliations of capital expenditures of ¥2,633 million include an increase in corporate assets of ¥2,782 million and elimination of unrealized gains of ¥(149) 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, 2023

(Thousands of U.S. Dollars)

	Reportable segment							Other (Note 1)	Total	Reconciliations (Note 2)	Consolidated
	Enterprise business	Distribution business	Telecommuni-cations business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal				
Revenue											
Revenue from external customers	824,775	477,655	1,298,084	773,053	372,639	87,896	3,834,103	441,274	4,275,377	—	4,275,377
Inter-segment revenue or transfers	137,710	8,146	156,569	7,096	1,489	883,503	1,194,512	19,643	1,214,155	(1,214,155)	—
Total	962,485	485,801	1,454,653	780,148	374,128	971,399	5,028,614	460,917	5,489,532	(1,214,155)	4,275,377
Profit before tax (segment profit or loss)	71,015	45,187	84,468	68,972	40,050	103,016	412,708	(11,080)	401,628	(50,243)	351,386
Segment assets	473,419	192,640	904,464	289,816	135,770	536,006	2,532,114	398,346	2,930,461	1,023,751	3,954,211
Other items											
Financial income	98	234	1,719	294	36	996	3,378	2,283	5,661	1,803	7,463
Financial costs	(86)	(53)	(165)	(61)	(29)	(613)	(1,006)	(1,644)	(2,650)	(6,544)	(9,194)
Share of profit of associates accounted for using the equity method	388	3,927	33	—	—	(432)	3,917	1,189	5,106	—	5,106
Depreciation and amortization expense (Note 3)	(4,094)	(4,290)	(5,176)	(3,185)	(1,598)	(19,882)	(38,223)	(22,676)	(60,900)	(56,194)	(117,094)
Impairment losses	—	—	—	—	—	(4)	(4)	(24,675)	(24,679)	(5)	(24,684)
Investments accounted for using the equity method	2,885	35,899	654	—	—	7,850	47,289	15,711	63,000	—	63,000
Capital expenditures (Note 3)	1,689	1,221	5,040	1,775	1,506	24,443	35,673	23,500	59,172	19,721	78,893

Notes:

1. “Other,” which is not included in the reportable segments, consists of foreign subsidiaries and the Business innovation & Digital Transformation Group, etc.

2. Reconciliations are as follows:
   (1) Reconciliations of segment loss of US$(50,243) thousand include primarily administrative expenses and investments that are not allocated to business segments of US$(43,817) thousand.
   (2) Reconciliations of segment assets of US$1,023,751 thousand include corporate assets of US$1,154,001 thousand and intersegment elimination of receivables and payables of US$(140,205) 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$1,803 thousand include US$1,498 thousand of gains related to the administrative department that are not allocated to business segments.
   Reconciliations of financial costs of US$(6,544) thousand include US$(6,422) thousand of losses related to the administrative department that are not allocated to business segments.
   Reconciliations of depreciation and amortization expense of US$(56,194) thousand include depreciation and amortization of US$(56,857) thousand and elimination of unrealized gains of US$663 thousand.
   Reconciliations of impairment losses of US$(5) thousand are impairment losses related to corporate assets.
   Reconciliations of capital expenditures of US$19,721 thousand include an increase in corporate assets of US$20,833 thousand and elimination of unrealized gains of US$(1,112) thousand.
3. Depreciation and amortization expense and capital expenditures in other items include amounts related to right-of-use asset and long-term prepaid expenses.

(3) Information about products and services

Year ended March 31, 2022

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	209,148	120,064	193,144	522,356

Year ended March 31, 2023

(Millions of Yen)

	Service	Development/SI	Products	Total
Revenue from external customers	225,859	132,746	212,329	570,934

Year ended March 31, 2023

(Thousands of U.S. Dollars)

	Service	Development/SI	Products	Total
Revenue from external customers	1,691,318	994,057	1,590,002	4,275,377

(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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Japan	52,689	47,325	354,388
Asia	13,036	10,756	80,545
Others	207	219	1,639
Total	65,932	58,300	436,572

(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, 2022	Year ended March 31, 2023	Year ended March 31,2023
Nippon Telegraph and Telephone Corporation and group	Telecommunications business	73,225	79,871	598,105
KDDI Corporation and group	Telecommunications business	58,140	45,549	341,087

6. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Cash and bank balances	54,834	63,401	474,769
Deposits within three months	39,244	29,129	218,132
Total	94,078	92,530	692,902

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, 2022 and 2023.

7. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Notes and accounts receivable - trade	129,755	136,080	1,019,018
Lease receivables	19,362	20,617	154,389
Others	2,366	2,096	15,692
Allowance for doubtful accounts	(591)	(598)	(4,475)
Total	150,892	158,195	1,184,624

8. Inventories

The breakdown of inventories is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Merchandise	35,495	49,351	369,560
Work in progress	3,014	1,240	9,286
Supplies for maintenance service	4,928	5,092	38,133
Total	43,437	55,683	416,979
Inventories to be sold after more than one year	599	958	7,174

The cost of inventories recognized as “Cost of sales” for the years ended March 31, 2022 and 2023, is ¥244,509 million and ¥265,792 million (US$1,990,354 thousand), respectively. The write-down amount of inventories to net realizable value as of March 31, 2022 and 2023, are ¥219 million and ¥846 million (US$6,332 thousand), respectively. The write-down amount of inventories is included in “Cost of sales” in the consolidated statements of income.

9. Property, plant and equipment

(1) Movements in property, plant and equipment

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

(Cost)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
April 1, 2021	70,671	31,465	4,831	372	107,339
Separate acquisitions	34,695	5,661	—	1,430	41,786
Disposals	(42,347)	(3,495)	(4,831)	(8)	(50,682)
Exchange differences on translating foreign operations	62	1,112	1	8	1,183
Others	(7,416)	(426)	—	(1,698)	(9,540)
March 31, 2022	55,664	34,316	1	105	90,086
Separate acquisitions	2,376	5,293	—	32	7,702
Disposals	(339)	(5,044)	—	(30)	(5,413)
Exchange differences on translating foreign operations	50	1,078	—	5	1,134
Others	(2,451)	680	—	—	(1,771)
March 31, 2023	55,300	36,324	1	113	91,738

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2022	416,833	256,975	8	785	674,601
Separate acquisitions	17,791	39,638	—	243	57,672
Disposals	(2,538)	(37,772)	—	(222)	(40,532)
Exchange differences on translating foreign operations	376	8,074	—	39	8,490
Others	(18,354)	5,094	—	—	(13,260)
March 31, 2023	414,107	272,010	8	845	686,971

(Accumulated depreciation and accumulated impairment losses)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
April 1, 2021	(42,572)	(19,713)	—	(45)	(62,330)
Depreciation expense	(10,482)	(4,844)	—	(16)	(15,342)
Impairment losses	—	(12)	—	—	(12)
Disposals	27,747	3,282	—	6	31,035
Exchange differences on translating foreign operations	(22)	(783)	—	(4)	(809)
Others	7,941	1,419	—	3	9,363
March 31, 2022	(17,388)	(20,650)	—	(56)	(38,094)
Depreciation expense	(7,912)	(5,412)	—	(17)	(13,341)
Impairment losses	—	(6)	—	—	(6)
Disposals	332	5,027	—	20	5,379
Exchange differences on translating foreign operations	(15)	(742)	—	(3)	(760)
Others	1,783	555	—	—	2,338
March 31, 2023	(23,200)	(21,227)	—	(56)	(44,483)

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2022	(130,211)	(154,637)	—	(418)	(285,266)
Depreciation expense	(59,244)	(40,529)	—	(127)	(99,900)
Impairment losses	—	(42)	—	—	(42)
Disposals	2,490	37,644	—	146	40,280
Exchange differences on translating foreign operations	(115)	(5,554)	—	(20)	(5,689)
Others	13,353	4,158	—	—	17,511
March 31, 2023	(173,728)	(158,959)	—	(419)	(333,106)

(Carrying amount)

(Millions of Yen)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2022	38,275	13,666	1	49	51,992
March 31, 2023	32,100	15,097	1	57	47,255

(Thousands of U.S. Dollars)

	Buildings and structures	Tools, furniture and fixtures	Land	Others	Total
March 31, 2023	240,380	113,051	8	426	353,865

For the year ended March 31, 2022, the “Separate acquisitions” of “Buildings and structures” mainly included the recognition of the right-of-use assets for the Kamiyacho office included in the corporate assets, and the “Disposals” of “Buildings and structures”, “Tools, furniture and fixtures” and “Land” mainly includes the sales of data center assets belonging to the “IT Services business” reportable segment. For the year ended March 31, 2023, the “Separate acquisitions” of “Tools, furniture and fixtures” mainly included acquisition of operating assets at some of our foreign subsidiaries, which are included in the “Other” segment. The “Disposals” of “Tools, furniture and fixtures” mainly included disposal and sale of equipment at some of our foreign subsidiaries, which are included in the “Other” segment.

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. In the year ended March 31, 2022, an impairment loss of ¥12 million was recorded for “Tools, furniture and fixtures” mainly due to a decline in the profitability of part of data center facilities for “IT Services business” reportable segment. The recoverable amount of the asset group is measured as the value in use, which is calculated by discounting the estimated future cash flows using a rate of 6.0%. In the year ended March 31, 2023, an impairment loss of ¥6 million (US$42 thousand) was recognized for “Tools, furniture and fixtures” at one of our foreign subsidiaries, which is included in the “Other” segment.

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

10. Goodwill and intangible assets

(1) Movements in goodwill and intangible assets

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

(Cost)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2021	12,927	23,020	4,579	40,526
Separate acquisitions	—	1,404	0	1,404
Disposals	—	(590)	(17)	(607)
Exchange differences on translating foreign operations	762	19	399	1,179
Others	—	98	(322)	(224)
March 31, 2022	13,689	23,951	4,639	42,279
Separate acquisitions	—	1,546	1	1,547
Disposals	—	(633)	(4)	(637)
Exchange differences on translating foreign operations	435	15	272	723
Others	—	410	(3,627)	(3,216)
March 31, 2023	14,124	25,290	1,281	40,696

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2022	102,506	179,352	34,740	316,598
Separate acquisitions	—	11,579	6	11,585
Disposals	—	(4,737)	(30)	(4,767)
Exchange differences on translating foreign operations	3,260	116	2,039	5,415
Others	—	3,073	(27,159)	(24,086)
March 31, 2023	105,767	189,382	9,596	304,744

(Accumulated amortization and impairment losses)

(Millions of Yen)

	Goodwill	Software	Others	Total
April 1, 2021	(1,225)	(17,132)	(3,149)	(21,505)
Amortization expense	—	(2,579)	(476)	(3,055)
Impairment losses	(4,654)	—	(11)	(4,666)
Disposals	—	522	7	530
Exchange differences on translating foreign operations	—	(16)	(378)	(395)
Others	—	2	322	324
March 31, 2022	(5,879)	(19,203)	(3,685)	(28,766)
Amortization expense	—	(1,718)	(473)	(2,191)
Impairment losses	(3,290)	—	(1)	(3,291)
Disposals	—	624	2	626
Exchange differences on translating foreign operations	—	(13)	(153)	(166)
Others	—	(81)	3,627	3,546
March 31, 2023	(9,169)	(20,390)	(684)	(30,242)

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2022	(44,024)	(143,796)	(27,594)	(215,415)
Amortization expense	—	(12,862)	(3,543)	(16,405)
Impairment losses	(24,633)	—	(9)	(24,642)
Disposals	—	4,674	13	4,687
Exchange differences on translating foreign operations	—	(101)	(1,145)	(1,246)
Others	—	(603)	27,159	26,556
March 31, 2023	(68,657)	(152,688)	(5,119)	(226,464)

(Carrying amount)

(Millions of Yen)

	Goodwill	Software	Others	Total
March 31, 2022	7,810	4,748	954	13,512
March 31, 2023	4,956	4,900	598	10,454

(Thousands of U.S. Dollars)

	Goodwill	Software	Others	Total
March 31, 2023	37,109	36,694	4,477	78,280

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

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

(2) Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to each of the acquirer’s cash-generating units that is expected to benefit from the combination at the date of acquisition. The recoverable amount of the cash-generating units in the impairment test of goodwill is determined by value in use based on past experience and estimates over the next five years approved by management. The estimated future cash flows beyond the five years have been extrapolated using a steady 0% per annum growth rate.

In addition, as of March 31, 2023, the pre-tax discount rate which is used in calculating the value in use is from 10.2% to 16.5% (as of March 31, 2022: from 9.6% to 14.9%).

The major goodwill recorded in the consolidated statement of financial position was goodwill recognized following the acquisition of PT. Nusantara Compnet Integrator, a company that engages in IT consulting services and system integration, among other services, in Indonesia.

In the impairment test of the goodwill performed in the year ended March 31, 2022, the assumption the Company used to determine potential impairment was as follows: the amount of IT investment by the Indonesian government, its major customer, would continue to shrink and stagnate for about two years due to the impact of COVID-19 but then gradually recover and begin to increase. To estimate future cash flows over the following five years, the Company assumed that the foreign subsidiary would succeed in acquiring orders from the government, taking the said external environment into account. In addition, the Company used 14.9% as discount rate for the estimate and assumed the growth rate of future cash flows beyond the five-year projection to be 3.0% of the country's inflation rate, which was factored in the discount rate.

As the value in use calculated based on this assumption was lower than the carrying amount, an impairment loss of ¥4,514 million was recorded as "Other expenses" in the consolidated statement of income in the previous fiscal year, and consequently, the balance of goodwill as of March 31, 2022 was ¥4,169 million.

In the impairment test of the subsidiary's goodwill in the year ended March 31, 2023, it was assumed that its acquisition of orders for the government projects and other projects would remain weak in the year ending March 31, 2024 due to the impact of procurement delays in product sales caused by the global semiconductor shortage and other factors, while the country's IT market would continue to expand in the medium to long term. The five-year forecast of future cash flows in the test was conducted based on this assumption. The discount rate was 16.5%, reflecting increases in market interest rates, and the growth rate of future cash flows beyond the five-year projection was assumed to be 3.0% of the country's inflation rate, which was factored in the discount rate.

As the value in use calculated based on these assumptions was lower than the carrying amount, an impairment loss of ¥3,290 million (US$24,633 thousand) was recorded as "Other expenses" in the consolidated statement of income in the year ended March 31, 2023, and consequently, the balance of goodwill as of the end of the fiscal year was ¥1,112 million (US$8,325 thousand).

If there are changes in the above assumptions including the future economic conditions in the country and the discount rate, then the value in use may fall further below the carrying amount in the future.

11. Investments accounted for using the equity method

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Carrying amount of investments accounted for using the equity method	7,940	8,413	63,000

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, 2022	March 31, 2023	March 31, 2023
Share of net profit	568	682	5,106
Share of other comprehensive income for the year	146	206	1,542
Share of comprehensive income	714	888	6,648

12. Other financial assets

The breakdown of other financial assets is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Financial assets measured at amortized cost	40,838	39,611	296,625
FVTOCI financial assets	18,491	25,258	189,143
FVTPL financial assets	2,893	2,007	15,031
Total	62,222	66,877	500,799

Current assets	22,425	21,848	163,606
Non-current assets	39,797	45,029	337,193
Total	62,222	66,877	500,799

Dividends from FVTOCI financial assets recognized in “Other financial assets” as of March 31, 2022 and 2023, are as follows:

(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
234	286	2,143

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, 2022 and 2023, are as follows:

March 31, 2022

Stock	(Millions of Yen)
Internet Initiative Japan Inc.	16,026
Intumit Inc.	541
Asahi Group Holdings, Ltd.	446
SRA Holdings, Inc.	389
AEON Financial Services Co., Ltd.	163

March 31, 2023

Stock	(Millions of Yen)	(Thousands of U.S. Dollars)
Internet Initiative Japan Inc.	21,456	160,674
Kamiyama Marugoto College of Design, Engineering and Entrepreneurship scholarship fund	1,000	7,488
Intumit Inc.	611	4,575
Asahi Group Holdings, Ltd.	492	3,687
SRA Holdings, Inc.	409	3,059

Derecognized FVTOCI financial assets for the years ended March 31, 2022 and 2023, are as follows:

(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
Year ended March 31, 2022			Year ended March 31, 2023			Year ended March 31, 2023		
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
—	—	—	5	(2)	—	40	(15)	—

These FVTOCI financial assets are mainly sold because of changes in business relationships. Cumulative losses (net of tax) reclassified from other components of equity to retained earnings for the year ended March 31, 2023 are ¥(1) million (US$(5) thousand).

13. Deferred taxes and income taxes

(1) Deferred tax assets and deferred tax liabilities

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

(Millions of Yen)

	April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2022
Deferred tax assets					
Inventories	4,114	105	—	—	4,219
Property, plant and equipment and intangible assets	2,080	(1,346)	—	0	734
Other payables	875	23	—	—	898
Employee benefits	6,722	1,394	(47)	(7)	8,063
Provisions	1,684	(690)	—	—	994
Others	2,672	(163)	—	(9)	2,499
Total deferred tax assets	18,147	(678)	(47)	(16)	17,406
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(1,010)	(347)	—	(23)	(1,381)
Securities and other investments	(2,168)	(205)	(1,720)	2	(4,091)
Others	(1,570)	(454)	(133)	—	(2,157)
Total deferred tax liabilities	(4,749)	(1,006)	(1,854)	(20)	(7,629)

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

(Millions of Yen)

	April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2023
Deferred tax assets					
Inventories	4,219	100	—	—	4,319
Property, plant and equipment and intangible assets	734	(74)	—	—	660
Other payables	898	(83)	—	—	814
Employee benefits	8,063	(165)	104	(8)	7,993
Provisions	994	150	—	—	1,143
Others	2,499	97	95	(29)	2,662
Total deferred tax assets	17,406	24	199	(38)	17,592
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(1,381)	88	—	(16)	(1,308)
Securities and other investments	(4,091)	123	(1,622)	—	(5,589)
Others	(2,157)	(101)	208	—	(2,050)
Total deferred tax liabilities	(7,629)	110	(1,413)	(16)	(8,948)

(Thousands of U.S. Dollars)

	April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2023
Deferred tax assets					
Inventories	31,595	748	—	—	32,342
Property, plant and equipment and intangible assets	5,495	(551)	—	—	4,944
Other payables	6,721	(625)	—	—	6,096
Employee benefits	60,378	(1,238)	780	(64)	59,857
Provisions	7,441	1,121	—	—	8,562
Others	18,717	725	710	(218)	19,935
Total deferred tax assets	130,346	181	1,491	(281)	131,736
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(10,338)	660	—	(120)	(9,797)
Securities and other investments	(30,634)	922	(12,143)	—	(41,856)
Others	(16,155)	(757)	1,559	—	(15,353)
Total deferred tax liabilities	(57,127)	826	(10,584)	(120)	(67,006)

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Deferred tax assets	10,170	9,079	67,988
Deferred tax liabilities	392	435	3,258
Net	9,778	8,644	64,730

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, 2022	March 31, 2023	March 31, 2023
Deductible temporary differences	14	15	113
Tax loss carryforwards	32	24	182
Total	46	39	295

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, 2022	March 31, 2023	March 31, 2023
Year 1	15	—	—
Year 2	—	11	86
Year 3	11	5	37
Year 4	5	0	3
Year 5 or later	0	7	55
Total	32	24	182

(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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Current tax expense	15,725	13,289	99,517
Deferred tax expense	1,684	(134)	(1,007)
Total	17,409	13,155	98,510

"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, 2022 and 2023, is ¥3 million and ¥4 million (US$31 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, 2022 and 2023.

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

	Year ended March 31, 2022	Year ended March 31, 2023
Effective statutory tax rate	30.6%	30.6%
(Reconciliation)		
Tax credits	(0.0%)	(4.5%)
Effect on the amount of not deductible for tax purposes	0.3%	0.5%
Others	2.7%	1.4%
Average effective tax rate	33.6%	28.0%

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, 2022 and 2023, is 30.6% based on these taxes. Foreign subsidiaries are subject to income taxes of the countries where they operate.

14. Trade and other payables

The breakdown of trade and other payables is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Account payables-trade	43,756	53,617	401,506
Other payables	7,168	7,408	55,477
Accrued consumption taxes	7,049	5,663	42,407
Total	57,972	66,688	499,389

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

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Financial liabilities measured at amortized cost	52,313	46,431	347,693
FVTPL financial liabilities	22	588	4,405
Put options held by non-controlling shareholders	628	544	4,070
Total	52,963	47,563	356,169

Current liabilities	14,097	14,990	112,250
Non-current liabilities	38,866	32,573	243,919
Total	52,963	47,563	356,169

16. Leases

(1) Lessor

1) Operating leases

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

The breakdown of future lease payments receivable for operating leases as of March 31, 2022 and 2023, by receipt year is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Within 1 year	67	30	222
1-5 years	12	17	130
Total	79	47	352

Lease income on operating leases for the year ended March 31, 2022 and 2023, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Lease income on operating leases	196	131	980

The breakdown of the carrying amount of property, plant and equipment subject to operating leases as of March 31, 2022 and 2023, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Tools, furniture and fixtures	69	45	340
Total	69	45	340

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, 2022 and 2023, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Within 1 year	5,971	6,798	50,903
1-5 years	13,297	13,793	103,288
More than 5 years	1,149	1,081	8,096
Total gross investment in the lease	20,417	21,672	162,287
Less: Unearned finance income	(1,055)	(1,055)	(7,898)
Net investment in the lease	19,362	20,617	154,389

Selling profit or loss on finance leases and finance income on the net investment in the lease for finance leases for the years ended March 31, 2022 and 2023, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Selling profit or loss on finance leases	1,064	1,373	10,279
Finance income on the net investment in the lease	231	96	721

(2) Lessee

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

Profit and loss related to right-of-use assets and lease liabilities for the years ended March 31, 2022 and 2023, are as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Depreciation expense associated with right-of-use assets			
Buildings and structures as the underlying assets	7,910	6,959	52,109
Tools, furniture and fixtures as the underlying assets	1,534	1,286	9,631
Other property, plant and equipment as the underlying assets	9	10	76
Other intangible assets as the underlying assets	15	14	104
Total depreciation expense	9,468	8,269	61,920
Interest expense associated with lease liabilities	301	506	3,788
Expense associated with short-term leases	1,118	1,036	7,756
Expense associated with leases of low-value assets	1,805	2,083	15,598
Income from subleasing right-of-use assets	1,401	1,424	10,660

There is no variable lease that is not included in the measurement of lease liabilities for the years ended March 31, 2022 and 2023.

Gains or losses arising from sale and leaseback transactions for the years ended March 31, 2022 and 2023, are immaterial.

The breakdown of the carrying amount of right-of-use assets as of March 31, 2022 and 2023, is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022	March 31, 2023	March 31, 2023
Buildings and structures	31,715	25,883	193,822
Tools, furniture and fixtures	2,381	2,741	20,527
Other property, plant and equipment	18	12	91
Other intangible assets	24	10	77
Total	34,138	28,647	214,517

The amount of increase in right-of-use assets for the years ended March 31, 2022 and 2023, is ¥31,384 million and ¥3,296 million (US$24,684 thousand), respectively.
Total cash outflows for leases for the years ended March 31, 2022 and 2023, are ¥17,980 million and ¥18,200 million (US$136,286 thousand), respectively.

The maturity analysis of lease liabilities is stated in “28. Financial instruments and disclosures, (2) Financial risk management policy, and 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.

17. Employee benefits

(1) Post-employment benefit

1) General outline of retirement benefit plans

In order to provide employee retirement benefits, the Company and certain subsidiaries have defined benefit pension plans, lump-sum payment benefits, and defined contribution plans covering substantially all of their employees, in addition to the ITOCHU United Pension Fund. Benefits under the defined benefit plans are based on the points that 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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Balance at the beginning of the year	22,440	22,995	172,197
Current service cost	1,083	1,079	8,078
Interest cost	118	147	1,099
Remeasurement			
Changes in demographic assumptions	261	247	1,846
Changes in financial assumptions	(290)	(999)	(7,485)
Experience adjustments	118	26	195
Benefits paid	(750)	(932)	(6,977)
Foreign exchange difference	14	8	59
Balance at the end of the year	22,995	22,570	169,014

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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Balance at the beginning of the year	25,694	25,790	193,126
Interest income	138	170	1,270
Remeasurement			
Return on plan assets	19	(946)	(7,087)
Employer contributions	668	700	5,243
Benefits paid	(730)	(899)	(6,731)
Balance at the end of the year	25,790	24,814	185,820

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 ¥772 million (US$5,778 thousand) for the year ending March 31, 2024.

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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Balance at the beginning of the year	921	698	5,227
Movements in the effect of the asset ceiling	(223)	113	847
Balance at the end of the year	698	811	6,075

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, 2022	March 31, 2023	March 31, 2023
Present value of the defined benefit plan obligations	22,995	22,570	169,014
Fair value of plan assets	(25,790)	(24,814)	(185,820)
Funded status	(2,795)	(2,244)	(16,806)
Effect of the asset ceiling	698	811	6,075
Net liabilities (assets)	(2,097)	(1,433)	(10,732)
Amount in the consolidated statement of financial position			
Other non-current assets	(2,782)	(2,164)	(16,208)
Liabilities for employee benefits (non-current liabilities)	685	731	5,476

Note: Positive balances represent liabilities and negative balances represent assets.

Plan assets by category as of March 31, 2022 and 2023, are as follows. Refer to “Note 28. Financial instruments and disclosures” for input information used in measuring fair value.

March 31, 2022

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,578	—	3,578
Overseas	3,816	—	3,816
Debt instruments			
Domestic	7,032	523	7,555
Overseas	5,054	1,279	6,333
Other assets			
Cash and cash equivalents	701	—	701
Life insurance company general accounts	—	3,774	3,774
Others	—	34	34
Total	20,180	5,610	25,790

March 31, 2023

(Millions of Yen)

	Level 1	Level 2	Total
Equity instruments			
Domestic	3,752	—	3,752
Overseas	3,373	—	3,373
Debt instruments			
Domestic	6,945	518	7,463
Overseas	4,804	1,182	5,986
Other assets			
Cash and cash equivalents	285	—	285
Life insurance company general accounts	—	3,923	3,923
Others	—	31	31
Total	19,159	5,655	24,814

March 31, 2023

(Thousands of U.S. Dollars)

	Level 1	Level 2	Total
Equity instruments			
Domestic	28,100	—	28,100
Overseas	25,257	—	25,257
Debt instruments			
Domestic	52,006	3,882	55,888
Overseas	35,974	8,851	44,825
Other assets			
Cash and cash equivalents	2,136	—	2,136
Life insurance company general accounts	—	29,380	29,380
Others	—	234	234
Total	143,473	42,347	185,820

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

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

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

The defined benefit plan obligations are calculated based on the estimated amount of future benefits that have been incurred as of the present point in time. The amount of those future payments is discounted back from the expected time of future payment to the present. Accordingly, the timing of benefit payment influences the amounts of the projected benefit obligation and service costs, and consequently, the disclosure of information regarding benefits in the period in which they are earned is required under IAS 19 "Employee Benefits". The Company believes that it meets this requirement in an effective manner through the disclosure of the weighted-average duration of the defined benefit plan obligations, which takes into account the amount, timing, and discount rate. The weighted-average duration of the Company's defined benefit plan obligations for the years ended March 31, 2022 and 2023, is 10 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, 2022	March 31, 2023
Discount rate	0.6%	1.1%
Rate of compensation increase	5.1%	5.0%

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, 2022	March 31, 2023	March 31, 2023
0.5% Increase	(1,082)	(1,053)	(7,885)
0.5% Decrease	1,066	1,080	8,087

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, 2022 and 2023, are ¥1,007 million and ¥1,032 million (US$7,725 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, 2022 and 2023, are ¥3,070 million and ¥2,986 million (US$22,357 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, 2021	March 31, 2022	March 31, 2022
Plan assets	34,755	36,395	272,544
Benefits obligation based on pension plan finance calculation	38,940	44,813	335,576
Net	(4,185)	(8,417)	(63,032)

	March 31, 2021	March 31, 2022
Ratio of the Company and certain subsidiaries contribution to the overall plan	33.4%	33.5%

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, 2024, is ¥1,494 million (US$11,188 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, 2022 and 2023, are ¥73,973 million and ¥77,371 million (US$579,385 thousand), respectively.

18. Provisions

The breakdown and movements in provisions are as follows:

Year ended March 31, 2022

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2021	4,281	1,179	371	5,830
Increase for the year	1,568	1,071	28	2,667
Interest expenses for discounting	29	—	—	29
Decrease for the year (utilization)	(3,364)	(1,155)	(27)	(4,546)
Decrease for the year (unused)	(294)	(488)	(30)	(811)
Increase or decrease due to changes in estimates	336	—	—	336
Others	4	—	—	4
March 31, 2022	2,560	608	341	3,508

Current liabilities	13	608	341	962
Non-current liabilities	2,547	—	—	2,547
Total	2,560	608	341	3,508

Year ended March 31, 2023

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2022	2,560	608	341	3,508
Increase for the year	35	1,315	90	1,440
Interest expenses for discounting	25	—	—	25
Decrease for the year (utilization)	(180)	(874)	(21)	(1,075)
Decrease for the year (unused)	(5)	(172)	(33)	(210)
Increase or decrease due to changes in estimates	379	—	—	379
Others	3	—	—	3
March 31, 2023	2,816	877	377	4,070

Current liabilities	111	877	377	1,364
Non-current liabilities	2,706	—	—	2,706
Total	2,816	877	377	4,070

Year ended March 31, 2023

(Thousands of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provisions for after-sales costs	Total
April 1, 2022	19,167	4,551	2,554	26,272
Increase for the year	260	9,849	673	10,782
Interest expenses for discounting	188	—	—	188
Decrease for the year (utilization)	(1,347)	(6,545)	(159)	(8,051)
Decrease for the year (unused)	(38)	(1,287)	(247)	(1,573)
Increase or decrease due to changes in estimates	2,837	—	—	2,837
Others	25	—	—	25
March 31, 2023	21,090	6,567	2,821	30,479

Current liabilities	828	6,567	2,821	10,217
Non-current liabilities	20,262	—	—	20,262
Total	21,090	6,567	2,821	30,479

The provisions are as follows:

Provisions for asset retirement obligations

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

Provisions for loss on orders received

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

Provisions for after-sales costs

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

19. Share-based payment

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

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

(1) Overview of the plan

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

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

(2) Expense for share-based payment

The expense related to the stock compensation plan is ¥55 million for the year ended March 31, 2022 and ¥81 million (US$609 thousand) for the year ended March 31, 2023. 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, 2023, as of the granting date is ¥76 million (US$569 thousand). This is based on the stock price on the granting date because the fair value as of the granting date is similar to the market price on the granting date.

(4) Changes in the number of points

Changes in the number of points for the years ended March 31, 2022 and 2023, are as follows:

(Points)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of year	77,109	76,074
Increase due to granting of points	26,719	22,844
Decrease due to lapse of points	—	—
Decrease due to exercise of points	27,754	11,704
Balance at end of year	76,074	87,214
Balance of exercisable points at end of the year	—	—

20. 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, 2022	Year ended March 31, 2023
The number of authorized shares		
Ordinary shares with non-par-value	492,000	492,000
The number of issued shares		
Balance at the beginning of the year	240,000	240,000
Increase	—	—
Balance at the end of the year	240,000	240,000

The number of treasury stock included in issued shares above as of March 31, 2022 and 2023, is 8,925 thousand shares and 8,917 thousand shares, respectively. Also, the issued shares above are fully paid and all the shares issued by the Company are non-par-value ordinary shares.

The Companies Act of Japan (the "Companies Act") states that upon issuance of new shares, at least 50% of the amount raised will be credited to common stock, unless otherwise specified in the Companies Act.

(2) Capital surplus and retained earnings

The Companies Act provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional legal capital surplus (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.

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

21. 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, 2022 and 2023 are as follows:

Year ended March 31, 2022

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
June 17, 2021 Ordinary general meeting of shareholders	Ordinary shares	7,515	32.50	March 31, 2021	June 18, 2021
November 1, 2021 Board of Directors	Ordinary shares	8,093	35.00	September 30, 2021	December 3, 2021

(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 16, 2022 Ordinary general meeting of shareholders	Ordinary shares	11,561	50.00	March 31, 2022	June 17, 2022

Year ended March 31, 2023

(1) Dividends paid

Resolution	Class of shares	(Millions of Yen)	(Thousands of U.S. Dollars)	(Yen)	(U.S. Dollars)	Record date	Effective date
		Total dividends		Dividends per share			
June 16, 2022 Ordinary general meeting of shareholders	Ordinary shares	11,561	86,576	50.00	0.37	March 31, 2022	June 17, 2022
November 1, 2022 Board of Directors	Ordinary shares	9,365	70,127	40.50	0.30	September 30, 2022	December 2, 2022

(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 16, 2023 Ordinary general meeting of shareholders	Ordinary shares	9,365	70,127	40.50	0.30	March 31, 2023	June 19, 2023

22. 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, 2023, the segment information for the year ended March 31, 2022 has been restated based on the new categorization of the reportable segments.

Year ended March 31, 2022

(Millions of Yen)

	Reportable segment							Other	Total
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal		
Services	42,114	29,852	60,053	36,001	16,228	9,342	193,591	15,558	209,148
Development/SI	20,731	20,677	42,147	19,759	15,494	1,189	119,997	67	120,064
Products	29,858	7,176	86,519	32,417	8,177	259	164,405	28,739	193,144
Total	92,703	57,704	188,719	88,177	39,899	10,790	477,993	44,363	522,356
Revenue recognized from contracts with customers	89,768	56,649	188,520	87,965	39,823	10,790	473,516	44,358	517,874
Revenue recognized from other sources	2,935	1,055	199	212	75	—	4,477	5	4,482
Total	92,703	57,704	188,719	88,177	39,899	10,790	477,993	44,363	522,356

Notes:
1. Revenue amounts exclude intersegment transactions.
2. Revenue recognized from other sources reflects revenues from leases as lessor under IFRS 16, “Leases” (“IFRS 16”).

Year ended March 31, 2023

(Millions of Yen)

	Reportable segment							Other	Total
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal		
Services	47,088	31,194	59,927	41,793	17,765	10,014	207,780	18,078	225,859
Development/SI	26,155	22,715	37,629	22,857	21,904	1,340	132,599	147	132,746
Products	36,898	9,878	75,791	38,583	10,093	384	171,626	40,703	212,329
Total	110,140	63,786	173,346	103,233	49,762	11,738	512,006	58,928	570,934
Revenue recognized from contracts with customers	106,760	61,954	173,282	102,485	49,705	11,738	505,923	57,089	563,012
Revenue recognized from other sources	3,380	1,832	64	749	58	—	6,083	1,838	7,921
Total	110,140	63,786	173,346	103,233	49,762	11,738	512,006	58,928	570,934

Year ended March 31, 2023

(Thousands of U.S. Dollars)

	Reportable segment							Other	Total
	Enterprise business	Distribution business	Tele-communications business	Regional and Social Infrastructure business	Financial Services business	IT Services business	Subtotal		
Services	352,611	233,591	448,754	312,963	133,032	74,991	1,555,942	135,376	1,691,318
Development/SI	195,856	170,095	281,780	171,163	164,029	10,034	992,957	1,100	994,057
Products	276,308	73,969	567,551	288,926	75,578	2,872	1,285,204	304,798	1,590,002
Total	824,775	477,655	1,298,084	773,053	372,639	87,896	3,834,103	441,274	4,275,377
Revenue recognized from contracts with customers	799,462	463,937	1,297,603	767,445	372,208	87,896	3,788,551	427,508	4,216,059
Revenue recognized from other sources	25,313	13,718	481	5,608	432	—	45,551	13,767	59,318
Total	824,775	477,655	1,298,084	773,053	372,639	87,896	3,834,103	441,274	4,275,377

Notes:

1. Revenue amounts exclude intersegment transactions.
2. Revenue recognized from other sources reflects revenues from leases as lessor under IFRS 16.

(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, 2022	March 31, 2023	March 31, 2023
Receivables arising from contracts with customers	129,755	136,080	1,019,018
Contract assets	14,189	13,938	104,370
Contract liabilities	61,705	64,710	484,576

Notes:

1. The amount of revenue recognized for the years ended March 31, 2022 and 2023, that was included in contract liability balance at the beginning of the years ended March 31, 2022 and 2023, was ¥41,729 million and ¥36,847 million (US$275,925 thousand), respectively.
2. The amount of revenue recognized for the years ended March 31, 2022 and 2023 from performance obligations satisfied (or partially satisfied) in previous years was ¥1,211 million and ¥1,070 million (US$8,016 thousand), respectively.

A contract asset reflects revenue, which is recognized before the date the Group bills the customer, under a contract agreement for the provision of development and SI. It is transferred to account receivables after the completion of the contract through the delivery of the result of the development and receipt of acceptance inspection.

A contract liability reflects the portion exceeding the amount already recognized as revenue within the consideration received from customers, under a contract agreement of the provision of services, development and SI and products. It is transferred to revenue after the Group satisfied those performance obligations.

(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, 2022	March 31, 2023	March 31, 2023
Within 1 year	257,139	280,379	2,099,585
More than 1 year	82,427	116,641	873,450
Total	339,566	397,019	2,973,036

(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, 2022	March 31, 2023	March 31, 2023
Costs to obtain a contract	—	—	—
Costs to fulfill a contract	89	50	371

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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Amortization	32	30	224
Impairment losses	—	10	78

23. 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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Employee benefit expenses	50,349	52,973	396,680
Depreciation and amortization expense	8,305	6,275	46,987
Research and development expenses	1,494	1,961	14,686
Others	24,377	29,812	223,246
Total	84,525	91,021	681,600

The breakdown of other income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Net foreign exchange gains	641	1,014	7,592
Gain on sale of fixed assets	4,100	12	88
Others	700	1,062	7,956
Total	5,441	2,088	15,635

The breakdown of other expenses is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Impairment losses	4,677	3,296	24,684
Compensation for damage	210	290	2,168
Others	224	85	638
Total	5,112	3,671	27,490

24. Financial income and costs

The breakdown of financial income is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Interest income			
Financial assets measured at amortized cost	261	593	4,439
Others	20	23	171
Subtotal	282	616	4,610
Dividends received			
FVTOCI financial assets	234	286	2,143
Subtotal	234	286	2,143
Other financial income			
Financial assets measured at amortized cost	―	1	4
FVTPL financial assets	861	94	706
Subtotal	861	95	710
Total	1,378	997	7,463

The breakdown of financial costs is as follows:

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Interest expense			
Financial liabilities measured at amortized cost	377	586	4,385
Liabilities for retirement benefits	116	81	609
Subtotal	493	667	4,995
Other financial costs			
Financial assets measured at amortized cost	4	3	20
FVTPL financial assets	56	558	4,180
Subtotal	60	561	4,199
Total	553	1,228	9,194

25. Earnings per share

(1)Basic and diluted earnings per share

	(Yen)	(Yen)	(U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Basic earnings per share	153.08	148.04	1.11
Diluted earnings per share	153.08	148.03	1.11

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

	(Millions of Yen)	(Millions of Yen)	(Thousands of U.S. Dollars)
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Net profit attributable to CTC’s shareholders	35,373	34,208	256,164

(Shares in thousands)

	Year ended March 31, 2022	Year ended March 31, 2023
Weighted-average number of ordinary shares	231,066	231,079
Effect of potentially dilutive shares Share-based payment	8	6
Diluted weighted-average number of ordinary shares	231,075	231,086

26. Other comprehensive income

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

	(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
	Year ended March 31, 2022			Year ended March 31, 2023			Year ended March 31, 2023		
	Before tax effects	Tax effects	Net of tax effects	Before tax effects	Tax effects	Net of tax effects	Before tax effects	Tax effects	Net of tax effects
Changes in net fair value of financial assets measured through other comprehensive income									
Amount arising during the year	5,620	(1,720)	3,899	5,305	(1,622)	3,684	39,730	(12,143)	27,586
Adjustment for the year	5,620	(1,720)	3,899	5,305	(1,622)	3,684	39,730	(12,143)	27,586
Remeasurement of defined benefit plans									
Amount arising during the year	152	(47)	106	(333)	104	(228)	(2,491)	780	(1,710)
Adjustment for the year	152	(47)	106	(333)	104	(228)	(2,491)	780	(1,710)
Exchange differences on translating foreign operations									
Amount arising during the year	2,022	—	2,022	1,568	—	1,568	11,743	—	11,743
Adjustment for the year	2,022	—	2,022	1,568	—	1,568	11,743	—	11,743
Cash flow hedges									
Amount arising during the year	720	(220)	500	(662)	202	(459)	(4,955)	1,516	(3,439)
Reclassification to profit or loss for the year	(285)	87	(198)	(329)	101	(228)	(2,461)	753	(1,708)
Adjustment for the year	435	(133)	302	(990)	303	(687)	(7,416)	2,269	(5,146)
Share of other comprehensive income of associates accounted for using the equity method									
Amount arising during the year	146	—	146	206	—	206	1,542	—	1,542
Adjustment for the year	146	—	146	206	—	206	1,542	—	1,542
Total other comprehensive income (loss) for the year	8,375	(1,900)	6,475	5,757	(1,214)	4,542	43,108	(9,094)	34,014

27. Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Year ended March 31, 2022

(Millions of Yen)

	April 1, 2021	Cash flows from financing activities	Non-cash changes			March 31, 2022
			Acquisition of assets by means of leases	Exchange differences on translating foreign operations	Others	
Short-term borrowings	1,220	(738)	–	59	–	542
Lease liabilities	31,233	(13,852)	31,384	222	1,655	50,642
Total	32,454	(14,590)	31,384	282	1,655	51,184

Year ended March 31, 2023

(Millions of Yen)

	April 1, 2022	Cash flows from financing activities	Non-cash changes			March 31, 2023
			Acquisition of assets by means of leases	Exchange differences on translating foreign operations	Others	
Short-term borrowings	542	(90)	–	46	–	498
Lease liabilities	50,642	(12,393)	3,296	115	3,294	44,954
Total	51,184	(12,483)	3,296	161	3,294	45,452

Year ended March 31, 2023

(Thousands of U.S. Dollars)

	April 1, 2022	Cash flows from financing activities	Non-cash changes			March 31, 2023
			Acquisition of assets by means of leases	Exchange differences on translating foreign operations	Others	
Short-term borrowings	4,055	(671)	–	346	–	3,730
Lease liabilities	379,227	(92,806)	24,684	857	24,668	336,630
Total	383,283	(93,477)	24,684	1,203	24,668	340,360

28. Financial instruments and disclosures

(1) Capital management

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

(2) Financial risk management policy

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

1) Credit risk management

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

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

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

a) Credit risk exposure

The Group's credit risk exposure (before deduction of allowance for doubtful accounts) as of March 31, 2022 and 2023, is as follows:

March 31, 2022

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	43,170	—	51	158,728	201,949
Within 90 days	14	—	—	3,185	3,199
More than 90 days	5	—	502	895	1,402
Total	43,189	—	553	162,808	206,550

March 31, 2023

(Millions of Yen)

	Stage 1	Stage 2	Stage 3	Trade receivables, contract assets and lease receivables (excluding Stage 3)	Total
Not past due	41,521	—	47	166,933	208,501
Within 90 days	169	—	—	2,489	2,658
More than 90 days	6	—	561	657	1,223
Total	41,696	—	608	170,079	212,383

March 31, 2023

(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	310,929	—	351	1,250,056	1,561,336
Within 90 days	1,266	—	—	18,641	19,907
More than 90 days	42	—	4,200	4,920	9,162
Total	312,237	—	4,551	1,273,617	1,590,405

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, 2021	0	—	413	62	475
Increase for the year	1	—	157	25	183
Decrease for the year (utilization)	—	—	(80)	—	(80)
Decrease for the year (unused)	—	—	(1)	—	(1)
Others	—	—	49	4	53
Balance as of March 31, 2022	2	—	538	91	631
Increase for the year	—	—	70	(55)	15
Decrease for the year (utilization)	—	—	(35)	—	(35)
Decrease for the year (unused)	(0)	—	—	—	(0)
Others	—	—	23	6	28
Balance as of March 31, 2023	1	—	596	42	639

(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, 2022	12	—	4,029	684	4,725
Increase for the year	—	—	524	(414)	110
Decrease for the year (utilization)	—	—	(262)	—	(262)
Decrease for the year (unused)	(1)	—	—	—	(1)
Others	—	—	171	43	213
Balance as of March 31, 2023	11	—	4,461	313	4,785

There was no significant movement in the carrying amount of financial instruments that would have a material impact on the allowance for doubtful accounts for the years ended March 31, 2022 and 2023. The uncollected contract balance of financial assets that have been directly written off, but still subject to enforcement activities is immaterial.

2) Market risk management

a) Interest rate risk

The Group covers its demand for funds principally by cash on hand. Therefore, the balance of interest-bearing liabilities does not have significance generally, and the impact of changes in interest rates on the Group's net 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, 2022 and 2023, is as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)	(Millions of Yen)	(Thousands of U.S. Dollars)
	March 31, 2022		March 31, 2023	
Balance of foreign exchange (short-term)	(7,846)	(64,092)	(2,562)	(19,187)
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, 2022	March 31, 2023	March 31, 2023
Profit before tax	78	26	192

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, 2022	March 31, 2023	March 31, 2023
Other comprehensive income	(1,789)	(2,341)	(17,527)

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, 2022

(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	57,972	57,972	57,972	—	—
Other financial liabilities	1,454	1,454	1,454	—	—
Non-current financial liabilities	218	218	—	218	—
Lease liabilities	50,642	52,930	13,160	32,133	7,637

March 31, 2023

(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	66,688	66,688	66,688	—	—
Other financial liabilities	1,386	1,386	1,386	—	—
Non-current financial liabilities	92	92	—	92	—
Lease liabilities	44,954	47,383	13,704	30,164	3,515

March 31, 2023

(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	499,389	499,389	499,389	—	—
Other financial liabilities	10,377	10,377	10,377	—	—
Non-current financial liabilities	686	686	—	686	—
Lease liabilities	336,630	354,824	102,622	225,883	26,320

b) Derivatives

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

March 31, 2022

(Millions of Yen)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	793	—	—	793
	Expenditures	(22)	—	—	(22)

March 31, 2023

(Millions of Yen)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	159	—	—	159
	Expenditures	(587)	(1)	—	(588)

March 31, 2023

(Thousands of U.S. Dollars)

		Within 1 year	1-5 years	More than 5 years	Total
Currency derivatives	Income	1,187	—	—	1,187
	Expenditures	(4,396)	(9)	—	(4,405)

(3) Fair value of financial instruments

1) Fair value measurements

Trade and other receivables

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

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

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

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

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

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

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

2) Fair value of financial instruments by category

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

	(Millions of Yen)		(Millions of Yen)		(Thousands of U.S. Dollars)	
	March 31, 2022		March 31, 2023		March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Trade and other receivables	150,892	150,862	158,195	158,099	1,184,624	1,183,908
Other financial assets	40,838	40,838	39,611	39,611	296,625	296,625
Financial assets measured at fair value						
Other financial assets						
FVTOCI financial assets	18,491	18,491	25,258	25,258	189,143	189,143
FVTPL financial assets	2,893	2,893	2,007	2,007	15,031	15,031
Financial liabilities measured at amortized cost						
Other current financial liabilities	14,075	14,074	13,858	13,847	103,774	103,695
Non-current financial liabilities	38,239	38,370	32,573	32,368	243,919	242,383
Financial liabilities measured at fair value						
Other current financial liabilities						
FVTPL financial liabilities	22	22	588	588	4,405	4,405
Others	—	—	544	544	4,070	4,070
Non-current financial liabilities						
Others	628	628	—	—	—	—

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, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	17,887	8	595	18,491
FVTPL financial assets	—	793	2,100	2,893
Total assets	17,887	801	2,695	21,384
Liabilities:				
FVTPL financial liabilities	—	22	—	22
Total liabilities	—	22	—	22

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2022.

(Millions of Yen)

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	23,405	8	1,845	25,258
FVTPL financial assets	—	159	1,849	2,007
Total assets	23,405	167	3,694	27,265
Liabilities:				
FVTPL financial liabilities	—	588	—	588
Total liabilities	—	588	—	588

(Thousands of U.S. Dollars)

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTOCI financial assets	175,267	61	13,816	189,143
FVTPL financial assets	—	1,187	13,843	15,031
Total assets	175,267	1,248	27,659	204,174
Liabilities:				
FVTPL financial liabilities	—	4,405	—	4,405
Total liabilities	—	4,405	—	4,405

No significant transfers occurred between Level 1 and Level 2 for the year ended March 31, 2023.

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, 2022	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2021	335	1,087
Total gains or losses		
Profit or loss	—	805
Other comprehensive income	(3)	—
Purchases	283	415
Disposals	—	—
Distribution	—	(202)
Others	(19)	(5)
March 31, 2022	595	2,100
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2022 – net	—	805

(Millions of Yen)

	Year ended March 31, 2023	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2022	595	2,100
Total gains or losses		
Profit or loss	—	(494)
Other comprehensive income	(207)	—
Purchases	1,278	467
Disposals	(8)	—
Distribution	—	(33)
Others	186	(191)
March 31, 2023	1,845	1,849
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2023 – net	—	(558)

(Thousands of U.S. Dollars)

	Year ended March 31, 2023	
	FVTOCI financial assets	FVTPL financial assets
April 1, 2022	4,458	15,726
Total gains or losses		
Profit or loss	—	(3,700)
Other comprehensive income	(1,547)	—
Purchases	9,570	3,498
Disposals	(63)	—
Distribution	—	(248)
Others	1,396	(1,432)
March 31, 2023	13,816	13,843
The amount of total gains (losses) recognized in profit or loss for the period relating to financial instruments held at March 31, 2023 – net	—	(4,180)

Gains or losses recognized in profit or loss are included in "Financial income" or "Financial costs" in the consolidated statements 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 statements 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, 2022			
	Notional amount	Carrying amounts of hedging instruments		Account item on consolidated statement of financial position
		Derivative assets	Derivative liabilities	
Cash flow hedges				
Foreign currency exchange rate risk				
Currency derivatives	14,124	793	22	Other financial assets (current) Other financial liabilities (current)

(Millions of Yen)

	March 31, 2023			
	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	24,779	159	588	Other financial assets (current) Other financial liabilities (current)

(Thousands of U.S. Dollars)

	March 31, 2023			
	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	185,555	1,187	4,405	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 “26. Other comprehensive income.” Profit reclassification adjustments relating to cash flow hedges are recorded in “Other income” or “Other expenses” in the consolidated statements of income, and the ineffective portion of hedges is immaterial.

29. Related-party transactions

(1) Transactions with related parties

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

Year ended March 31, 2022

(Millions of Yen)

<table>
<tr><th>Category</th><th>Name</th><th>Nature of related-party transactions</th><th>Transaction amount</th><th>Outstanding balance</th></tr>
<tr><td rowspan="3">Parent company</td><td rowspan="3">ITOCHU Corporation</td><td rowspan="2">Lease of real estate</td><td>(Recognition of lease liabilities) 23,641</td><td rowspan="2">23,348</td></tr>
<tr><td>(Payments of lease liabilities) 293</td></tr>
<tr><td>Deposit of leasehold deposit</td><td>—</td><td>3,500</td></tr>
<tr><td rowspan="3">Subsidiary of parent company</td><td rowspan="3">ITOCHU Treasury Corporation</td><td rowspan="2">Deposit contracts (fixed term)</td><td>(Funds deposited) —</td><td rowspan="2">20,000</td></tr>
<tr><td>(Repayment of deposit) —</td></tr>
<tr><td>Deposit contracts (withdrawable anytime)</td><td>—</td><td>37,425</td></tr>
</table>

Notes:
1. The real estate relates to the headquarters office in Kamiyacho. The Company decides on the conditions of the rent price, etc., after considering in neighboring areas.
2. Lease liabilities reflect the amount of lease liabilities recognized under IFRS 16, subject to the conclusion of a new lease agreement due to the maturity of the agreement.
3. The interest rates of deposit contracts are individually determined, considering the market rate of interest.
4. Transaction amounts of deposit contracts (withdrawable anytime) are not disclosed above because changes in balances of deposits and withdrawals frequently occur while using cash management services of ITOCHU Treasury Corporation.

Year ended March 31, 2023

(Millions of Yen)

<table>
<tr><th>Category</th><th>Name</th><th>Nature of related-party transactions</th><th>Transaction amount</th><th>Outstanding balance</th></tr>
<tr><td rowspan="3">Parent company</td><td rowspan="3">ITOCHU Corporation</td><td rowspan="2">Lease of real estate</td><td>(Recognition of lease liabilities) 220</td><td rowspan="2">19,807</td></tr>
<tr><td>(Payments of lease liabilities) 3,761</td></tr>
<tr><td>Deposit of leasehold deposit</td><td>—</td><td>3,500</td></tr>
<tr><td rowspan="3">Subsidiary of parent company</td><td rowspan="3">ITOCHU Treasury Corporation</td><td rowspan="2">Deposit contracts (fixed term)</td><td>(Funds deposited) —</td><td rowspan="2">20,000</td></tr>
<tr><td>(Repayment of deposit) —</td></tr>
<tr><td>Deposit contracts (withdrawable anytime)</td><td>—</td><td>26,210</td></tr>
</table>

Year ended March 31, 2023

(Thousands of U.S. Dollars)

Category	Name	Nature of related-party transactions	Transaction amount	Outstanding balance
Parent company	ITOCHU Corporation	Lease of real estate	(Recognition of lease liabilities) 1,649	148,322
			(Payments of lease liabilities) 28,164	
		Deposit of leasehold deposit	—	26,209
Subsidiary of parent company	ITOCHU Treasury Corporation	Deposit contracts (fixed term)	(Funds deposited) —	149,768
			(Repayment of deposit) —	
		Deposit contracts (withdrawable anytime)	—	196,268

Notes:

1. The real estate relates to the headquarters office in Kamiyacho. The Company decides the condition of the rent price, etc., after considering in neighboring areas.
2. Recognition of lease liabilities reflects interest expenses under IFRS 16, whose rates are determined considering the market interest rates.
3. The interest rates of deposit contracts are individually determined, considering the market rate of interest.
4. 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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Benefits and bonuses	244	197	1,472
Share-based payment	17	18	136
Total	262	215	1,608

30. Ownership interest in subsidiaries

Major subsidiaries are as follows:

Name	Reportable segment	Location	Voting shares (%)
			March 31, 2023
CTC TECHNOLOGY CORPORATION	IT Services business	Minato-ku, Tokyo	100.0
CTC SYSTEM MANAGEMENT CORPORATION	IT Services business	Minato-ku, Tokyo	100.0
CTCSP CORPORATION	Enterprise business	Minato-ku, Tokyo	100.0
CTC FACILITIES CORPORATION	IT Services business	Tsuzuki-ku, Yokohama	70.0
Asahi Business Solutions Corp.	Distribution business	Sumida-ku, Tokyo	51.0
CTC Global (Thailand) Ltd.	Other	Bangkok, Thailand	100.0
CTC GLOBAL SDN. BHD.	Other	Kuala Lumpur, Malaysia	70.0
PT. Nusantara Compnet Integrator	Other	Jakarta, Indonesia	70.0
CTC GLOBAL PTE. LTD.	Other	Singapore	70.0
PT. Pro Sistimatika Automasi	Other	Jakarta, Indonesia	70.0
ITOCHU Techno-Solutions America, Inc.	Other	Santa Clara, California, U.S.A.	70.0

31. Commitments

There are no contractual commitments for purchase of assets after the end of each fiscal year at March 31, 2022 and 2023.

32. 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, 2022	Year ended March 31, 2023	Year ended March 31, 2023
Guarantees for employees	4 (7 people)	1 (3 people)	7 (3 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.

33. 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, 2022	March 31, 2023	March 31, 2023
Assets provided as security			
Other current financial assets	134	170	1,271
Other non-current financial assets	6,100	5,965	44,666
Total	6,234	6,134	45,937
Obligations pertaining to security			
Other current financial liabilities and non-current financial liabilities	6,234	6,134	45,937
Total	6,234	6,134	45,937