(English translation of financial statements and notes in the Annual Securities Report for the twelve-month period ended March 31, 2022, pursuant to the Financial Instruments and Exchange act of Japan)

Financial Information in Annual Securities Report

For the fiscal year ended March 31, 2022
(Disclosed on August 15, 2022)

ARTERIA Networks Corporation

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Consolidated Financial Statements

1) Consolidated Statement of Financial Position

	Notes	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
		Millions of yen	Millions of yen
Assets			
Current assets			
Cash and cash equivalents	7	10,957	7,781
Trade and other receivables	8, 31	7,495	8,258
Other financial assets	9	309	5
Inventories	10	200	275
Other current assets	11	2,204	2,395
Total current assets		21,167	18,715
Non-current assets			
Property, plant and equipment	12, 14	35,414	41,775
Goodwill	13	12,646	12,646
Intangible assets	13	15,072	15,052
Other financial assets	9, 31	3,562	8,017
Deferred tax assets	15	1,253	1,923
Other non-current assets	11	687	950
Total non-current assets		68,637	80,365
Total assets		89,804	99,081

	Notes	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
		Millions of yen	Millions of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Borrowings	16, 31	2,240	36,163
Trade and other payables	17, 31	6,031	7,655
Lease liabilities	14, 16, 31	2,027	2,630
Income and other taxes payable		2,181	2,519
Provisions	20	182	182
Other current liabilities	21	4,589	4,611
Total current liabilities		17,253	53,762
Non-current liabilities			
Borrowings	16, 31	36,076	-
Long-term lease liabilities	14, 16, 31	4,741	8,508
Retirement benefit liabilities	18	867	906
Provisions	20	2,041	3,704
Deferred tax liabilities	15	2,469	2,320
Other non-current liabilities	21	823	1,948
Total non-current liabilities		47,019	17,388
Total liabilities		64,273	71,151
Equity			
Common stock	22	5,150	5,150
Capital surplus	22	4,663	4,703
Retained earnings	22	13,765	16,485
Treasury stock		(79)	(322)
Other components of equity		109	(0)
Total equity attributable to owners of the parent		23,608	26,017
Non-controlling interests	32	1,922	1,913
Total equity		25,531	27,930
Total liabilities and equity		89,804	99,081

2) Consolidated Statement of Income

	Notes	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
		Millions of yen	Millions of yen
Net sales	24	53,328	55,402
Cost of sales		36,828	38,543
Gross profit		16,500	16,859
Selling, general and administrative expenses	25	8,113	9,315
Other income	26	702	2,270
Other expenses	20, 26	221	273
Operating profit		8,867	9,541
Finance income	27	71	189
Finance costs	27	479	486
Profit for the year before income taxes		8,460	9,243
Income taxes	15	2,562	2,835
Profit for the year		5,897	6,408
Profit for the year attributable to:			
Owners of the parent		5,535	6,033
Non-controlling interests		361	374
Profit for the year		5,897	6,408
Earnings per share			
Basic earnings per share (yen)	29	110.74	120.89
Diluted earnings per share (yen)		-	-

3) Consolidated Statement of Comprehensive Income

	Notes	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
		Millions of yen	Millions of yen
Profit for the year		5,897	6,408
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	28, 31	63	758
Remeasurements of defined benefit plan	18, 28	4	32
Total items that will not be reclassified to profit or loss		67	791
Total other comprehensive income, net of tax		67	791
Comprehensive income for the year		5,965	7,199
Comprehensive income for the year attributable to:			
Owners of the parent		5,603	6,825
Non-controlling interests		361	374
Comprehensive income for the year		5,965	7,199

4) Consolidated Statement of Changes in Equity

	Notes	Equity attributable to owners of the parent					
						Other components of equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020		5,150	4,640	10,873	(0)	46	-
Profit for the year		-	-	5,535	-	-	-
Other comprehensive income	18, 28, 31	-	-	-	-	63	4
Comprehensive income for the year		-	-	5,535	-	63	4
Transfer to retained earnings		-	-	4	-	-	(4)
Purchase of treasury stock		-	-	-	(79)	-	-
Cash dividends	23	-	-	(2,648)	-	-	-
Share-based payment transactions	19	-	23	-	-	-	-
Total transactions with owners		-	23	(2,644)	(79)	-	(4)
As of March 31, 2021		5,150	4,663	13,765	(79)	109	-
Profit for the year		-	-	6,033	-	-	-
Other comprehensive income	18, 28, 31	-	-	-	-	758	32
Comprehensive income for the year		-	-	6,033	-	758	32
Transfer to retained earnings		-	-	901	-	(868)	(32)
Purchase of treasury stock		-	-	-	(242)	-	-
Cash dividends	23	-	-	(4,214)	-	-	-
Share-based payment transactions	19	-	39	-	-	-	-
Establishment of subsidiary with non-controlling interests		-	-	-	-	-	-
Total transactions with owners		-	39	(3,313)	(242)	(868)	(32)
As of March 31, 2022		5,150	4,703	16,485	(322)	(0)	-

	Notes	Equity attributable to owners of the parent		Non-controlling interests	Total
		Other components of equity Total	Total		
		Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020		46	20,709	1,997	22,706
Profit for the year		-	5,535	361	5,897
Other comprehensive income	18, 28, 31	67	67	-	67
Comprehensive income for the year		67	5,603	361	5,965
Transfer to retained earnings		(4)	-	-	-
Purchase of treasury stock		-	(79)	-	(79)
Cash dividends	23	-	(2,648)	(436)	(3,084)
Share-based payment transactions	19	-	23	-	23
Total transactions with owners		(4)	(2,704)	(436)	(3,140)
As of March 31, 2021		109	23,608	1,922	25,531
Profit for the year		-	6,033	374	6,408
Other comprehensive income	18, 28, 31	791	791	-	791
Comprehensive income for the year		791	6,825	374	7,199
Transfer to retained earnings		(901)	-	-	-
Purchase of treasury stock		-	(242)	-	(242)
Cash dividends	23	-	(4,214)	(423)	(4,638)
Share-based payment transactions	19	-	39	-	39
Establishment of subsidiary with non-controlling interests		-	-	39	39
Total transactions with owners		(901)	(4,416)	(384)	(4,801)
As of March 31, 2022		(0)	26,017	1,913	27,930

5) Consolidated Statement of Cash Flows

	Notes	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
		Millions of yen	Millions of yen
Cash flows from operating activities			
Profit for the year before income taxes		8,460	9,243
Depreciation and amortization	12, 13	8,857	8,707
Finance income	27	(71)	(189)
Finance costs	27	479	486
Loss on disposal of property, plant and equipment	26	172	178
(Increase) decrease in trade and other receivables		(881)	(379)
(Increase) decrease in inventories		(133)	(166)
Increase (decrease) in trade and other payables		761	362
Gain on sale of fixed assets and transfer of customer contract		-	(2,094)
Other		(604)	1,150
Subtotal		17,039	17,299
Interest received		0	94
Dividends received		49	68
Interest paid		(344)	(376)
Income taxes paid		(2,431)	(3,774)
Net cash provided by (used in) operating activities		14,314	13,312
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,080)	(8,910)
Proceeds from sale of property, plant and equipment		637	2,191
Disposals of property, plant and equipment		(230)	(349)
Purchases of intangible assets		(976)	(1,121)
Proceeds from sale of investment securities		-	1,500
Other		(33)	(118)
Net cash (used in) provided by investing activities		(7,683)	(6,809)
Cash flows from financing activities			
Repayments of long-term borrowings	31	(1,938)	(2,240)
Repayments of lease liabilities	14, 31	(2,578)	(2,582)
Dividends paid		(2,648)	(4,213)
Dividends paid to non-controlling interests		(436)	(423)
Proceeds from share issuance to non-controlling interests		-	39
Purchase of treasury stock		(79)	(242)
Other		(17)	(17)
Net cash (used in) provided by financing activities		(7,698)	(9,680)
Net effect of currency translation on cash and cash equivalents		28	1
Net (decrease) increase in cash and cash equivalents		(1,039)	(3,175)
Cash and cash equivalents at the beginning of the year	7	11,996	10,957
Cash and cash equivalents at the end of the year	7	10,957	7,781

Notes to Consolidated Financial Statements

1. Reporting Entity

ARTERIA Networks Corporation ("the Company") is a corporation domiciled in Japan. The address of its registered head office is 6-9-8 Shimbashi, Minato-ku, Tokyo. The Company's consolidated financial statements as of and for the year ended March 31, 2022 comprise the Company and its subsidiaries (collectively, "the Group" or "we").

The Group's major lines of business are described in Note "6. Segment Information (1) Overview of reportable segments. "

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as provided in Article 93 as they satisfy the requirements of a "Specified Company Complying with Designated International Accounting Standards" in Japan set forth in Article 1-2 of the said Ordinance.

The consolidated financial statements were approved on June 29, 2022 by Koji Kabumoto, Representative Director, President and CEO, and Seiichi Tateishi, Managing Executive Officer and CFO.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value, as described in Note "3. Significant Accounting Policies."

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and the amounts are rounded down to the nearest million yen.

(4) Changes in accounting policies

None

3. Significant Accounting Policies

(1) Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. When the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, the Group is deemed to have control over the entity.

Subsidiaries are consolidated from the date when control is obtained and deconsolidated from the date when control is lost.

If the accounting policies applied by a subsidiary differ from those applied by the Group, we adjust the financial statements of the subsidiary as necessary. We eliminate the balance of receivables and payables between the Group entities, the amount of intra-group transactions, and unrealized gains or losses arising from transactions between the Group entities when preparing the consolidated financial statements.

We account for partial disposal in ownership interest in subsidiaries over which we continue to have control as an equity transaction. Any difference between the adjustment of the non-controlling interests and fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the parent.

When we lose control over a subsidiary, we recognize gains or losses arising from the loss of control through profit or loss.

(2) Business combinations

The Group accounts for business combinations by applying the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities assumed by the Group, and the equity instruments issued by the Group. We account for acquisition-related costs in profit or loss as incurred.

We measure identifiable assets and liabilities of the acquiree at fair value at the acquisition date, except that the following are accounted for in accordance with the relevant accounting standards:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements; and
- assets or disposal groups that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Where the consideration transferred exceeds the fair value of identifiable assets and liabilities, we recognize such excess as goodwill in the consolidated statement of financial position. In cases where the difference is negative, we immediately recognize the difference in the consolidated statement of income as a gain on bargain purchase.

For each business combination, we measure the acquiree's non-controlling interests either at fair value or as the non-controlling interest's proportionate share of the amount recognized for acquiree's identifiable net assets.

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, we report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the amounts recognized as of that date. Additional assets and liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Regarding the additional acquisition of non-controlling interests after obtaining control, we do not recognize goodwill as we account for such a transaction as an equity transaction.

The Group adopts the exemption provision of IFRS 1 and does not retrospectively apply IFRS 3 *Business Combinations* with respect to business combinations that occurred prior to the transition date (April 1, 2016). Therefore, goodwill arising from acquisitions prior to the transition date is recognized at the carrying amount under the previously adopted accounting standards (Japanese GAAP) as of the transition date.

(3) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each individual Group company using the exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at end of the reporting period. Exchange differences arising from translation or settlement are recognized in profit or loss.

(4) Financial instruments

1) Financial assets

(a) Initial recognition and measurement

The Group classifies financial assets as measured at fair value through profit or loss, measured at fair value through other comprehensive income, or measured at amortized cost. The Group determines the classification at initial recognition.

The Group initially recognizes trade receivables at the date of occurrence. All other financial assets are initially recognized at the date of the transaction, which is when the Group becomes a contracting party to the financial assets.

All financial assets are measured at fair value plus transaction costs unless the financial assets are classified as financial assets measured at fair value through profit or loss.

Financial assets are classified as measured at amortized cost if both of the following conditions are met:

- the financial assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

The Group designates equity instruments either as financial assets measured at fair value through profit or loss or measured at fair value through other comprehensive income on an instrument-by-instrument basis unless equity instruments measured at fair value through profit or loss are held for trading. The Group applies the designation continuously.

(b) Subsequent measurement

Measurement of financial assets after initial recognition is performed according to the following classification:

(i) Financial assets measured at amortized cost

These financial assets are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value

Subsequent changes in the fair value of the financial assets measured at fair value are recognized in profit or loss.

However, changes in the fair value of the equity instruments that are measured at fair value through other comprehensive income are recognized in other comprehensive income. Dividends received from financial assets measured at fair value through other comprehensive income are recognized as part of finance income in profit or loss for the period.

(c) Impairment of financial assets

The Group recognizes the allowances for doubtful accounts based on the expected credit loss model for financial assets measured at amortized cost.

The Group assesses at the end of each reporting period whether credit risks on financial assets have increased significantly since initial recognition. If credit risks on financial assets have not increased significantly since initial recognition, the Group recognizes an allowance for doubtful accounts for the financial assets at an amount equal to 12-months expected credit losses. On the other hand, when credit risks on financial assets have increased significantly since initial recognition, an amount equal to lifetime expected credit losses on the financial assets is recognized as an allowance for doubtful accounts. The Group assesses whether credit risks on financial assets have increased significantly based on the changes in default risk. When making the assessment, the Group considers significant changes in the external credit rating of the financial assets, the adverse changes in business conditions or operating environment, and information relating to overdue payments.

The Group assumes that credit risks on financial assets have not increased significantly since initial recognition if the financial assets are determined to have low credit risk at the reporting date. However, the allowance for doubtful accounts for trade and other receivables is always measured at an amount equal to the lifetime expected credit losses, regardless of whether there has been a significant increase of credit risks since initial recognition.

Expected credit losses are calculated as the present value of the difference between the cash flows that are due in accordance with the contract and the cash flows that the Group expects to receive.

The gross carrying amount of a financial asset is reduced directly when the Group has no reasonable expectations of recovering it in its entirety or a portion thereof.

Provision for the allowance for doubtful accounts for the financial assets is recognized in profit or loss. A reduction in the allowance for doubtful accounts is recognized as a reversal of allowance for doubtful accounts in profit or loss.

(d) Derecognition of financial assets

The Group derecognizes its financial assets if the contractual rights to the cash flows from the financial assets expire, or the Group transfers substantially all the risks and rewards of ownership of the financial assets. If the Group retains control of the transferred financial assets, the Group continues to recognize the transferred asset and the associated liability to the extent of its continuing involvement.

2) Financial liabilities

(a) Initial recognition and measurement

The Group classifies financial liabilities either as measured at fair value through profit or loss or measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition, however financial liabilities measured at amortized cost are initially recognized at fair value after deduction of directly attributable transaction costs.

(b) Subsequent measurement

The Group subsequently measures the fair value of the financial liabilities based on the following classification:

(i) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as those measured at fair value through profit or loss at initial recognition. Those liabilities are measured at fair value, and subsequently changes in the fair value are recognized in profit or loss for the period.

(ii) Financial liabilities measured at amortized cost

After initial recognition, the financial liabilities are measured at amortized cost using the effective interest method.

Amortization using the effective interest method and gains and losses upon derecognition are recognized as part of finance costs in profit or loss for the period.

(c) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished—i.e. when the obligations specified in the contract are discharged, cancelled or expire.

3) Presentation of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in the value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is generally calculated using the moving average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

(7) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses.

Acquisition cost includes costs directly attributable to the acquisition of the asset, the costs of dismantling and removing the asset and restoring the site on which it is located, as well as any borrowing costs eligible for capitalization.

We calculate depreciation on assets other than land and construction in progress by the straight-line method over their respective estimated useful lives. The estimated useful lives of major items of property, plant and equipment are as follows:

- Communication equipment 3 to 27 years
- Buildings and structures 10 to 38 years
- Other 4 to 15 years

The estimated useful lives, residual values, and depreciation methods are reviewed at the end of each reporting period, and if any changes, they are made prospectively as changes in accounting estimates.

(8) Goodwill and intangible assets

1) Goodwill

The measurement of goodwill at initial recognition is described in Note “3. Significant Accounting Policies, (2) Business combinations.”

After the initial recognition, goodwill is stated at cost less any accumulated impairment losses.

Goodwill is not amortized. Instead, it is allocated to cash-generating units and is subject to impairment testing annually, or whenever there are indications of impairment.

An impairment loss on goodwill is recognized in profit or loss in the consolidated statement of income and is not reversed in subsequent periods.

2) Intangible assets

The Group adopts the cost model for measurement after initial recognition of intangible assets and recognizes intangible assets at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at initial recognition. The acquisition cost of intangible assets acquired in a business combination is its fair value at the acquisition date.

After initial recognition, intangible assets other than goodwill are amortized using the straight-line method over their respective estimated useful lives, except for intangible assets with indefinite useful lives. Estimated useful lives of major intangible assets are as follows:

- Customer-related assets 18 years
- Software 5 years

Estimated useful lives, residual values, and depreciation methods are reviewed at the end of each reporting period, and if there are any changes, those changes are made prospectively as changes in accounting estimates.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized. Instead, they are, either separately or as part of a cash-generating unit, subject to impairment testing annually or whenever there are indications of impairment.

In principle, we do not amortize trademarks as we consider they will generally continue to exist as long as the business continues and thus are considered to be intangible assets with indefinite useful lives.

(9) Leases

At the inception of a lease contract, the Group assesses whether an arrangement is a lease or contains a lease based on the substance of the arrangement even if it does not have the legal form of a lease.

The Group accounts for lease transactions as lessee by initially measuring the lease liability at the discounted present value of the lease payments that are not paid at the commencement date and the right-of-use asset at the amount of the initial measurement of the lease liability, adjusted by the amounts of any prepaid lease payments or other relevant accounts.

The right-of-use asset is depreciated using the straight-line method over the lease term.

Lease payments are allocated using the effective interest method between the finance cost and repayment of the lease liability. The finance cost is presented separately from depreciation of the right-of-use asset on the consolidated statement of income.

For leases that have a lease term of 12 months or less and those for which the underlying asset is of low value, the Group recognizes the lease payments associated with those leases as an expense using either the straight-line method over the lease term or another systematic basis rather than recognizing the right-of-use asset and lease liability.

(10) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that non-financial assets except inventories and deferred tax assets may be impaired. If any indication exists, the Group estimates the recoverable amount of the assets or group of assets (cash-generating unit). Goodwill and intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or whenever there are indications of impairment.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using the pretax discount rate that reflects the time value of money and the risks specific to the asset or cash-generating unit. A cash-generating unit is the smallest group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

If the recoverable amount of the asset or cash-generating unit is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and an impairment loss is recognized in profit or loss.

Impairment losses on goodwill are not reversed in subsequent periods. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may have decreased or may no longer exist. An impairment loss previously recognized is reversed if an indication of reversal of impairment losses exists and an event has occurred which changes the estimates used to determine the asset’s recoverable amount. Reversals of impairment losses do not exceed the carrying amount, net of depreciation and amortization, which would have been determined if no impairment loss had been recognized for the asset in prior years.

(11) Employee benefits

1) Post-employment benefits

The Group has a defined benefit plan for employee's retirement benefits.

Defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The discount rate is calculated based on the market yield of high quality corporate bonds at the end of the reporting period corresponding to the period until the expected benefit payment dates in the future.

Net defined benefit liability is recognized as the amount calculated by discounting the defined benefit obligation to its present value.

Defined benefit cost consists of service cost, net interest on the defined benefit obligation and remeasurements of the defined benefit obligation. Service cost and net interest are recognized in profit or loss. Net interest is determined using the discount rate described above.

If the retirement benefit plan is amended, any increase or decrease in benefit obligations for employees’ past service due to the revision of the pension is immediately recognized in profit or loss.

The Group recognizes remeasurements of all the net defined benefit liabilities (assets) resulting from its defined benefit plan in other comprehensive income and immediately reclassifies them from other components of equity to retained earnings.

2) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period in which the employee renders services to which they relate. Bonus accruals and expenses for compensated absence are recognized as a liability at the estimated amounts to be paid when the Group has legal or constructive obligations, and when the obligation can be estimated reliably.

(12) Share-based compensation

The Group has a restricted shares compensation plan as an equity-settled share-based compensation plan for its directors (excluding outside directors), executive officers, and employees (hereinafter, the “Eligible Individuals”). Restricted shares to be granted to the Eligible Individuals as consideration for the received services are measured at the grant date fair value and are recognized as an expense in the consolidated statement of income over the vesting period, with the corresponding same amount recognized as an increase in equity in the consolidated statement of financial position. The fair value of the restricted shares is measured based on the closing price of the shares of the Company’s common stock on the Tokyo Stock Exchange, Inc. on the business day immediately preceding the date of the resolution by the Board of Directors of the Company.

(13) Provisions

We recognize provisions when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably. Provisions are measured by discounting the estimated future cash outflows to present value using the time value of money and the pretax interest rate that reflects the risks specific to the liability.

(14) Equity

1) Common stock

Common stock is classified as equity. Proceeds from the Company’s issuance of shares of common stock are included in common stock and capital surplus, and direct issuance costs are deducted from capital surplus.

2) Treasury stock

When the Group acquires its own shares (treasury stock), the consideration paid, including direct transaction costs, is recognized as a deduction from equity. When the Group sells treasury stock, the consideration received upon sale is recognized as an increase in equity.

(15) Net sales

The Group has applied IFRS 15 and recognizes revenue based on the five-step approach described below.

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 is engaged in the telecommunications business and provides network services (leased line services, VPN connection services, etc.), internet services (optical internet connection services, etc.), condominium internet services (building-wide condominium internet service, etc.), and DX services (telephone and other services for condominiums, etc.).

Net sales are recognized when the following conditions are met:

- Internet services

Internet services mainly provide optical internet connection services by identifying the provision of an internet connection to subscribers as the obligation to be performed. The basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

- Network services

Network services mainly provide leased circuit services and VPN connection services by identifying the provision of leased circuits and virtual private networks to subscribers as the obligation to be performed and records the basic monthly charges as net sales for each month.

- Condominium internet services

Condominium internet services mainly provide building-wide optical internet services by identifying the provision of an internet connection to subscribers as the obligation to be performed. The basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

- DX services

DX services mainly provide a telephone service for condominium residents and condo-related support services by identifying the provision of services for condominium residents as the obligation to be performed. The basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

(16) Income taxes

Income tax expense consists of current and deferred taxes. These are recognized in profit or loss, except for income taxes that arise from business combinations, or that are recognized either directly in equity or in other comprehensive income.

Current taxes are measured at the amount expected to be paid to or refunded from the tax authorities using the tax rates enacted or substantially enacted at the end of the reporting period.

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their respective tax basis at the end of the reporting period; tax loss carryforwards; and tax credits carried forward. However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- temporary differences arising from the initial recognition of goodwill;
- temporary differences arising from the initial recognition of assets and liabilities related to transactions, other than business combinations, that affect neither accounting income nor taxable income; and
- taxable temporary differences associated with investments in subsidiaries, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized with respect to deductible temporary differences to the extent that it is probable that future taxable income will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are, in principle, recognized on all taxable temporary differences. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to realize all or part of the benefit of the deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset will be realized or the liability will be settled, based on tax laws that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(17) Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to common stockholders of the parent by the weighted average number of shares of common stock outstanding during the period, adjusted for the number of shares of treasury stock during that period. Diluted earnings per share are not calculated as there are no potential dilutive shares.

1. Significant Accounting Estimates and Judgments Involving Estimates

In preparing the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By the nature of the estimates or assumptions, however, actual results may differ from those estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of any changes in accounting estimates is recognized in the period in which the estimates are changed.

Judgments and estimates made by management that will have a material impact on the amounts of the consolidated financial statements are as follows:

Impairment losses for goodwill

The amount of goodwill recorded in the consolidated financial statement is 12,646 million yen for the fiscal year ended March 31, 2022.

For goodwill, the Group tests the relevant group of assets for impairment annually, or more frequently whenever there is an indication of impairment.

Recoverable amounts in impairment testing are determined by setting certain assumptions for future cash flows, growth rate after the forecasted period, discount rates or other variables. These assumptions are determined based on the best available estimate and judgements by management. Furthermore COVID-19 continued to have an impact and resulted in some postponement of sales deals and increase in congestion costs, however these are expected to shrink in the next fiscal year.

In the future, there is a possibility that the discount rate will suddenly increase or the growth rate will suddenly decrease. If future cash flows, discount rates, and growth rates after the end of the forecasted period are significantly different from the company's assumption this could have a material impact on the impairment test in the consolidated financial statements for the subsequent reporting periods. The major assumptions used for calculation of the recoverable amounts are described in Note "13. Goodwill and Intangible Assets."

2. New Standards Issued But Not Yet Adopted

There are no material standards and interpretations that were newly established or amended before the approval date of the consolidated financial statements and have not been early adopted by the Group.

3. Segment Information

(1) Overview of reportable segments

The Group is mainly engaged in the provision of internet services (optical internet connection services, etc.), network services (leased circuit services, VPN connection services, etc.), condominium internet services (building-wide condominium internet service, etc.), and DX services (telephone and other services for condominiums, etc.) in a single operating segment of telecommunications business based on the Telecommunications Business Act. The outline of each line of service is as follows:

- Optical internet connection services: This service includes high-speed data transmission by using optical fibers for access lines. The Group provides proprietary, high-quality service.
- Leased circuit services: This is a service which connects two specific locations and is characterized by high reliability, quality and security. The Group has a competitive advantage in terms of its ability to provide high-performance connections within Tokyo and between Tokyo, Nagoya, Osaka, and Fukuoka.
- VPN connection services: This is a private network service that configures a virtual communication tunnel among users connected to the internet. The Group offers a comprehensive, one-stop service from design to maintenance using various access lines.
- Building-wide condominium internet services: As an internet connection service for individual users, the Group provides this connection service for which all the condominium residents sign a contract with a service provider.
- Telephone and other services for condominiums: These services include a telephone service for condominium residents and condominium-related operation support services.

(2) Net sales and other operating results by segment

The Group is engaged in a single business segment providing telecommunications services.

(3) Information on products and services

Net sales to external customers by product and service are as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
	Millions of yen	Millions of yen
Internet services	18,499	19,368
Network services	12,449	13,309
Condominium internet services	10,840	11,198
DX services	723	747
Others	10,815	10,778
Total	53,328	55,402

(Note)

The Group made changes to its reportable segments in the current fiscal year to clarify the progress of its growth strategies according to the Mid-Term Plan announced on May 14, 2021. Specifically, the data center business, which was previously included in network services, and the B2C internet service and other services, which were previously included in internet services, are currently included in others. The option services for condominium residents and a part of the condo-related support services, which were previously included in condominium internet services, are currently included in DX services. In view of these changes, comparable information is presented according to the revised reportable segments.

(4) Information by region

The disclosure for net sales by region is omitted due to the Group's net sales from external customers in Japan account for more than 90% of net sales in the consolidated statement of income. In addition, the disclosure for non-current assets by region is omitted due to the carrying amount of non-current assets attributable to locations in Japan accounts for more than 90% of non-current assets in the consolidated statement of financial position.

(5) Information on major customers

The following external customer which accounts for 10% or more of the Group's consolidated net sales is as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)		Current fiscal year (From April 1, 2021 to March 31, 2022)	
	Millions of yen	%	Millions of yen	%
USEN Corporation and its Group	7,699	14.4	7,946	14.3

4. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Cash and cash equivalents		
Cash and deposits	10,957	7,781
Total	10,957	7,781

The balances of “cash and cash equivalents” in the consolidated statement of financial position at the end of the previous fiscal year and the end of the current fiscal year are the same as the above balances of “cash and cash equivalents” in the consolidated statement of cash flows for the corresponding periods.

5. Trade and Other Receivables

Trade and other receivables are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Notes receivable	11	26
Accounts receivable- trade	7,063	7,397
Accounts receivable-other	422	836
Allowance for doubtful accounts	(2)	(2)
Total	7,495	8,258

Trade and other receivables are classified as financial assets measured at amortized cost.

6. Other Financial Assets

(1) The analysis of other financial assets

Other financial assets are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Other financial assets		
Stocks	378	39
Lease and guarantee deposits	2,399	2,694
Long-term accounts receivable-other	714	5,213
Other	381	76
Allowance for doubtful accounts	(1)	(0)
Total	3,871	8,023
Current assets	309	5
Non-current assets	3,562	8,017
Total	3,871	8,023

Stocks are classified as financial assets measured at fair value through other comprehensive income, and lease and guarantee deposits and long-term accounts receivable-other are classified as financial assets measured at amortized cost.

(2) Equity instruments measured at fair value through other comprehensive income

1) Fair values of equity instruments measured at fair value through other comprehensive income

Fair values of financial assets measured at fair value through other comprehensive income are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Listed	-	-
Unlisted	378	39
Total	378	39

As unlisted equity instruments are those issued by telecommunications-related companies and held by the Group for strategic investment purposes, we designate them as financial assets measured at fair value through other comprehensive income.

2) Equity instruments measured at fair value through other comprehensive income that were derecognized during the period

The Group disposes of, by sale or disposal, and derecognizes a part of equity instruments measured at fair value through other comprehensive income to efficiently and effectively use assets owned by the Group. Their fair value and accumulated gains or losses (before income taxes) on disposal date are as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
	Millions of yen	Millions of yen
Fair value on disposal date	-	1,500
Accumulated gains (losses) on disposal date	-	1,320

(Note)

The Group transfers accumulated gains or losses due to changes in the fair value of equity instruments measured at fair value through other comprehensive income to retained earnings when the investments are disposed of. There were no accumulated gains or losses (net of tax) of other comprehensive income that was transferred to retained earnings during the fiscal year ended March 31, 2021 and the amounts of accumulated gains (net of tax) of other comprehensive income that was transferred to retained earnings during the fiscal year ended March 31, 2022 were 868 million yen.

7. Inventories

Inventories are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Goods	72	40
Work in process	-	5
Supplies	126	229
Total	200	275

The amounts of inventories that were recognized as an expense during the fiscal years ended March 31, 2021 and March 31, 2022 were 151 million yen and 242 million yen, respectively.

The amounts of write-downs on inventories that were recognized as an expense during the fiscal years ended March 31, 2021 and March 31, 2022 are immaterial.

8. Other Assets

Other assets are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Other current assets		
Prepaid expenses (Note)	1,833	1,816
Other	371	578
Total	2,204	2,395
Other non-current assets		
Long-term prepaid expenses (Note)	687	950
Total	687	950

(Note)

The majority of prepaid expenses consist out of initial line installations and electricity for data centers. Long-term prepaid expenses mainly consist of fees related to outsourcing.

9. Property, Plant and Equipment

(1) Changes in property, plant and equipment

Changes in the carrying amounts of property, plant and equipment are as follows:

Acquisition cost

	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020	85,937	8,436	1,006	1,881	2,309	99,571
Increase	7,238	496	-	6,585	367	14,688
Decrease	(6,649)	(4,103)	-	(6,086)	(89)	(16,928)
As of March 31, 2021	86,527	4,829	1,006	2,381	2,587	97,331
Increase	12,072	2,886	9	9,242	445	24,656
Decrease	(4,222)	(1,497)	(793)	(8,611)	(224)	(15,349)
As of March 31, 2022	94,377	6,218	222	3,012	2,807	106,638

(Note)

Decrease in buildings and structures and communication equipment during the fiscal years ended March 31, 2021 and March 31, 2022 includes part of the decrease in assets caused by the sale of data center facilities and the subsequent transfer of fixed assets.

Accumulated depreciation and accumulated impairment losses

	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020	(55,069)	(5,066)	-	-	(1,282)	(61,419)
Depreciation	(6,112)	(768)	-	-	(369)	(7,249)
Decrease	3,804	2,858	-	-	89	6,751
As of March 31, 2021	(57,377)	(2,976)	-	-	(1,562)	(61,917)
Depreciation	(6,120)	(680)	-	-	(334)	(7,135)
Decrease	3,092	958	-	-	137	4,188
As of March 31, 2022	(60,405)	(2,698)	-	-	(1,759)	(64,863)

(Note)

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

Carrying amount

	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of March 31, 2021	29,150	1,852	1,006	2,381	1,024	35,414
As of March 31, 2022	33,972	3,520	222	3,012	1,048	41,775

(2) Right-of-use assets

The carrying amounts of the right-of-use assets included in property, plant and equipment are as follows:

	Communicati on equipment	Buildings and structures	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of March 31, 2021	5,355	437	57	5,849
As of March 31, 2022	6,250	999	53	7,302

(3) Impairment losses

The property, plant and equipment are grouped in cash-generating units based on the smallest group of assets identified as a unit that generates largely independent cash inflows.

No impairment losses of property, plant and equipment were recognized because there is no indication of impairment for the fiscal years ended March 31, 2021 and 2022.

(4) Borrowing costs

There are no significant borrowing costs included in the costs of property, plant and equipment for the fiscal years ended March 31, 2021 and March 31, 2022.

10. Goodwill and Intangible Assets

(1) Changes in goodwill and intangible assets

Changes in the carrying amounts of goodwill and intangible assets are as follows:

Acquisition cost

	Goodwill	Intangible assets				
		Trademarks	Customer-related assets	Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020	12,646	2,486	15,814	1,581	2,162	22,045
Increase	-	-	-	376	691	1,067
Decrease	-	-	-	(45)	(194)	(239)
As of March 31, 2021	12,646	2,486	15,814	1,912	2,659	22,872
Increase	-	-	-	553	892	1,446
Decrease	-	-	-	(63)	(240)	(304)
As of March 31, 2022	12,646	2,486	15,814	2,402	3,311	24,014

Accumulated depreciation and accumulated impairment losses

	Goodwill	Intangible assets				
		Trademarks	Customer-related assets	Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020	-	-	(4,047)	(954)	(1,681)	(6,682)
Depreciation	-	-	(878)	(262)	(22)	(1,163)
Decrease	-	-	-	45	-	45
As of March 31, 2021	-	-	(4,925)	(1,171)	(1,703)	(7,800)
Depreciation	-	-	(878)	(322)	(24)	(1,225)
Decrease	-	-	-	63	0	63
As of March 31, 2022	-	-	(5,804)	(1,430)	(1,728)	(8,962)

(Note)

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

Carrying amount

	Goodwill	Intangible assets				
		Trademarks	Customer-related assets	Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of March 31, 2021	12,646	2,486	10,889	741	956	15,072
As of March 31, 2022	12,646	2,486	10,010	972	1,583	15,052

The primary amount of goodwill recorded in the consolidated statement of financial position consists of goodwill that arose on the merger of UCOM Corporation in February 2014. Its carrying amount is 11,337 million yen and 11,337 million yen, respectively, for the fiscal years ended March 31, 2021 and March 31, 2022.

In addition, the carrying amount of goodwill that arose on acquiring shares of Tsunagu Network Communications Inc. in March 2017 is 1,309 million yen and 1,309 million yen, respectively, at the end of the previous fiscal year and current fiscal year.

Goodwill is allocated to a group of cash-generating units in the single business segment which consists of the provision of telecommunications services.

Significant intangible assets recorded in the consolidated statement of financial position consist of customer-related assets, which the Company acquired by the business combination and merger of UCOM Corporation in February 2014. The carrying amount was 4,828 million yen and 4,382 million yen respectively, at the end of the previous fiscal year and current fiscal year. The remaining amortization period at the end of the current fiscal year is 10 years.

In addition, the carrying amount of customer-related assets that the Company acquired by acquiring shares of Tsunagu Network Communications Inc. in March 2017 is 6,060 million yen and 5,628 million yen, respectively, at the end of the previous fiscal year and current fiscal year. The remaining amortization period at the end of the current fiscal year is 13 years.

(2) Intangible assets with indefinite useful lives

Of the intangible assets described above, trademarks are expected to continue to exist as long as the business continues and so the period over which future economic benefits are expected to be received cannot be estimated. Accordingly, such assets are determined to be intangible assets with indefinite useful lives.

(3) Impairment losses relating to goodwill and trademarks with indefinite useful lives

The Group allocates goodwill and trademarks with indefinite useful lives to groups of cash-generating units in the single business segment which provides telecommunications services and conducts impairment tests annually, or more frequently whenever there is an indication of impairment.

The recoverable amounts used for the impairment tests were determined based on value in use.

In assessing value in use, we discount the estimated future cash flows based on the five-year business plan approved by the management to their present values using a discount rate. The business plan is prepared based on the management evaluation of future trends in the industry, past performance and information obtained within and outside of the Company. The estimated cash flows are affected mainly by changes in the number of contracts concluded and the amount of capital investment. The cash flows beyond the period of the business plan are estimated assuming that the growth rate is zero in each fiscal year given the uncertainty about the future. The terminal value beyond the forecasted period is calculated using the perpetual annuity method, which discounts the cash flows expected to continue to occur perpetually after the forecasted period.

The discount rate used is the rate determined based on the weighted average rate of discount reflecting the return that the shareholders require as capital providers and the return that debt providers require by using the debt-to-equity ratio. The discount rates were 6.8% and 6.2%, respectively, at the end of the previous fiscal year and current fiscal year.

Regarding goodwill and trademarks with indefinite useful lives, the recoverable amount of the cash-generating units exceeds the carrying amount at the end of the current fiscal year; therefore, it is unlikely that the recoverable amount of the cash-generating units will be lower than the carrying amount regardless of changes in key assumptions within a reasonable range.

No impairment losses for goodwill were recognized for the fiscal years ended March 31, 2021 and 2022.

(4) Impairment losses for intangible assets (excluding goodwill and intangible assets with indefinite useful lives)

Intangible assets are allocated to groups of cash-generating units in the single business segment which provides telecommunications services. Impairment tests are conducted to determine the need to recognize impairment on an individual basis for idle assets that are not expected to be used in the future.

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

No impairment losses were recognized for the fiscal year ended March 31, 2021 and 2022.

11. Leases

The Group leases assets including data centers, head office buildings and communication equipment for access service. Some of the lease contracts have a renewal option, whereas none of them have a material escalation clause. In addition, the Group does not have any lease contracts that have a material purchase option or restrictions such as those concerning additional debt or further leasing.

(1) Expenses related to leases

Expenses related to leases are as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Depreciation of right-of-use assets:		
Communication equipment	2,013	1,750
Buildings and structures	571	575
Other	58	20
Total	2,644	2,346
Interest expense on lease liabilities	147	186
Expense on short-term leases	22	21
Expense on leases of low-value assets	453	477
Total	3,268	3,032

(2) Total amount of cash outflows related to leases

The total amount of cash outflows related to leases for the fiscal years ended March 31, 2021 and 2022 are 3,055 million yen and 3,081 million yen, respectively.

(3) Extension and termination options

As the Group has a policy that each group company shall be responsible for managing its own lease contracts, their terms and conditions vary widely across the Group as a result of the contracts being negotiated individually.

Extension and termination options are typically included in the real estate leases for data centers, many of which have an option to extend for one year or for the same period as in the original contract, or an option to terminate the contract early by advance written notice delivered to the other party of the contract.

These options will be exercised when the respective group company, as a contracting party, deems it necessary to do so in order to use the real estate for its business operations.

(4) Sale and leaseback transaction

The Company entered into a leaseback transaction for part of its assets as well as transferred assets related to its data centers for the purpose of optimizing a portfolio of assets owned by the Company. Gains arising from these transactions during the fiscal years ended March 31, 2021 and March 31, 2022 amounted to 163 million yen and 478 million yen, respectively.

The carrying amounts of right-of-use assets by class of the underlying assets are presented in Notes “12. Property, Plant and Equipment, (2) Right-of-use assets;” increases in right-of-use assets in “30. Non-cash Transactions;” and the maturity analysis of lease liabilities in “31. Financial Instruments, (4) Liquidity risk management.”

12. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

Changes in deferred tax assets and deferred tax liabilities by major cause are as follows:

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Beginning balance	Recognized through profit or loss	Recognized in other comprehensive income	Ending balance
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets				
Accrued business tax	102	40	-	142
Accrued bonuses	186	(0)	-	186
Allowance for doubtful accounts	0	(0)	-	0
Valuation loss on goods	9	(0)	-	9
Accrued expenses	525	24	-	550
Retirement benefit liabilities	220	34	(1)	253
Depreciation	809	(287)	-	522
Asset retirement obligations	639	(148)	-	490
Accrued paid leave	97	6	-	104
Deferred income	155	80	-	235
Other (Note)	5	688	-	693
Total	2,752	438	(1)	3,188
Deferred tax liabilities				
Customer-related assets	3,603	(269)	-	3,334
Trademarks	761	-	-	761
Other	235	46	27	309
Total	4,599	(222)	27	4,404

(Note) Sale and leaseback transaction is included.

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Beginning balance	Recognized through profit or loss	Recognized in other comprehensive income	Ending balance
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets				
Accrued business tax	142	12	-	155
Accrued bonuses	186	85	-	272
Allowance for doubtful accounts	0	0	-	0
Valuation loss on goods	9	0	-	9
Accrued expenses	550	281	-	831
Retirement benefit liabilities	253	39	(14)	277
Depreciation	522	(193)	-	328
Asset retirement obligations	490	19	-	509
Accrued paid leave	104	(1)	-	102
Deferred income	235	(235)	-	-
Other (Note)	693	386	-	1,080
Total	3,188	395	(14)	3,569
Deferred tax liabilities				
Customer-related assets	3,334	(269)	-	3,065
Trademarks	761	-	-	761
Other	309	(120)	(48)	140
Total	4,404	(389)	(48)	3,966

(Note) Sale and leaseback transaction is included.

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

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Tax loss carryforwards	-	-
Deductible temporary differences	90	69
Total	90	69

Total amounts of taxable temporary differences for investments in subsidiaries for which deferred tax liabilities are not recognized at the fiscal years ended March 31, 2021 and 2022 are 3,886 million yen and 3,614 million yen, respectively. Deferred tax liabilities for these taxable temporary differences were not recognized as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(2) Income tax expenses

Income tax expenses are as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Current tax expense	3,224	3,619
Deferred tax expense	(661)	(784)
Total	2,562	2,835

Significant differences between statutory effective tax rates and the average actual tax rates are as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	%	%
Statutory effective tax rate	30.6	30.6
Non-deductible expenses for tax purposes	0.2	0.2
Non-taxable revenues	(0.1)	(0.1)
Changes in unrecognized deferred tax assets and deferred tax liabilities	0.0	(0.1)
Other	(0.4)	0.0
Average actual tax rate	30.3	30.7

The Group is mainly subject to corporate tax, inhabitant tax and business tax and statutory effective court tax rate is calculated based on these.

13. Financial Liabilities

Financial liabilities

Financial liabilities are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)	Average rate	Due date
	Millions of yen	Millions of yen	%	
Current portion of long-term borrowings	2,240	36,163	0.52	-
Long-term borrowings	36,076	-	-	-
Short-term lease liabilities	2,027	2,630	-	-
Long-term lease liabilities	4,741	8,508	-	2022 to 2031
Total	45,085	47,302	-	-
Current liabilities	4,267	38,793	-	-
Non-current liabilities	40,818	8,508	-	-
Total	45,085	47,302	-	-

(Notes)

1. The average rate is determined by calculating the weighted average of interest rates and balances at the end of the reporting period.
2. The average rate and due date are as of the end of the current fiscal year.

Some of the borrowings of the Group are subject to certain financial covenants with which the Group complies.
These covenants are being monitored to maintain the level required by the covenants.
The main covenants are as follows:

- profit for the year must be more than zero every fiscal year;
- if the profit for the year is zero or less, the leverage ratio (consolidated net amount of liability/consolidated EBITDA) must be below the standard value (between 4.00 and 4.75 times);
- consolidated total equity must be maintained at above 50% compared to previous fiscal year.

14. Trade and Other Payables

Trade and other payables are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Accounts payable - other	3,659	3,932
Accounts payable-property, plant and equipment	2,372	3,723
Total	6,031	7,655

15. Employee Benefits

The Group operates retirement plans for employees, a lump-sum is paid to employees on retirement.

The Group adopts a point system in the retirement benefit plans, where the amount of benefits is calculated based on the accumulated points granted in proportion to the employees' entitlement and length of service.

Additional severance payment may be given to employees in conjunction with their retirement.

(1) Defined benefit plans

1) Reconciliation of defined benefit obligations

The relation between defined benefit obligations and net defined benefit liability recognized in the consolidated statement of financial position is as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Present value of defined benefit obligations (unfunded)	867	906
Retirement benefit liabilities	867	906
Balance on the consolidated statement of financial position		
Retirement benefit liabilities	867	906
Net defined benefit liability recognized on the consolidated statement of financial position	867	906

2) Reconciliation of the present value of defined benefit obligations

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

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Beginning balance of present value of defined benefit obligations	718	867
Current service cost	158	170
Interest cost	3	4
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	0	(27)
Actuarial differences arising from changes in financial assumptions	(1)	(9)
Other	(5)	(10)
Past service cost	-	(38)
Benefits paid	(7)	(49)
Ending balance of present value of defined benefit obligations	867	906

The weighted average durations of the defined benefit obligations at the fiscal years ended March 31, 2021 and 2022 were 10.7 years and 13.5 years, respectively.

3) Major actuarial assumptions

A major actuarial assumption is as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	%	%
Discount rate	0.5	0.7

4) Sensitivity analysis

The impact of changes in discount rates used in the actuarial calculation on the present value of the defined benefit obligations is as follows. This sensitivity analysis assumes that actuarial assumptions other than the discount rates are constant, but in reality, movements in other actuarial assumptions may affect the sensitivity analysis.

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
0.5% increase of the discount rate	(39)	(46)
0.5% decrease of the discount rate	52	75

(2) Employee benefits expense

The total amounts of employee benefits expense included in the "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of income for the fiscal years ended March 31, 2021 and 2022 are 162 million yen and 137 million yen, respectively.

16. Share-based Compensation

(1) Overview of the share-based compensation plan

The Group has the restricted shares compensation plan for its directors (excluding outside directors), executive officers, and employees (hereinafter, the “Eligible Individuals”) in order to share the benefits and risks of stock price fluctuations with shareholders and improve their motivation to contribute to enhancing the stock price and corporate value more than before. Based on this plan, the Group applies accounting for an equity-settled share-based compensation plan.
Under the plan, each Eligible Individual shall be granted monetary remuneration receivables as compensation for the allotment of restricted shares and receive the payment of the full amount of the monetary remuneration receivables by the way of contribution in kind.

For a period of more than three years specified by the Board of Directors of the Company (the “Restricted Period”), the Eligible Individual may not dispose of the restricted shares allotted to them in any way whatsoever, including transfer to third parties, establishment of right of pledge, establishment of a security interest,
advancement or bequest (the “Transfer Restriction”).

The Transfer Restrictions shall be lifted on all of the allotted shares held by an Eligible Individual who has been allotted restricted shares upon the expiration of the Restricted Period, on the condition that the Eligible Individual remains in the position of a director, an executive officer, or an employee of the Company or any of its subsidiaries after the start date of the Restricted Period. Whereas if there are any allotted shares on which the Transfer Restrictions have not been lifted at the time when the Restricted Period expires pursuant to provisions on the lifting of the Transfer Restrictions above, the Company shall automatically acquire them without contribution.

(2) Number of shares granted during the period and their fair value

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
Grant date	August 12, 2020	August 12, 2021
Number of shares granted (shares)	26,136	33,593
Fair value at grant date (yen)	52,062,912	61,575,969

(3) Share-based compensation expenses

Share-based compensation expenses of 23 million yen and 39 million yen, respectively, for the previous fiscal year and current fiscal year are included in “Selling, general and administrative expenses” in the consolidated statement of income.

17. Provisions

Changes in provisions are as follows:

	Asset retirement obligations	Other provisions	Total
	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2021	2,041	182	2,223
Increase during the period	1,688	0	1,689
Unwinding of discounts	6	-	6
Decrease during the period (intended use)	(32)	(0)	(32)
Decrease during the period (reversal)	-	(0)	0
As of March 31, 2022	3,704	182	3,886

Provisions in the consolidated statement of financial position are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Current liabilities	182	182
Non-current liabilities	2,041	3,704
Total	2,223	3,886

(Notes)

1. Asset retirement obligations

The obligation to restore to the original state in relation to real estate lease agreements for data centers and head office, dismantling costs of communication equipment for access service, dismantling costs of communication equipment installed in condominiums and, etc. are reasonably estimated and recorded as asset retirement obligations.

These costs are expected to be paid after the expected period of use has passed, which is determined based on the leasehold improvements and installed communication equipment; however, these are affected by future business plans, etc.

2. Other provisions

We identified that the Company and a subsidiary may have engaged in certain conduct with competitors that may potentially have been in violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (“Antimonopoly Act”). We have executed a detailed review of each possible instance to determine the probability of the levies occurrence and categorized them as either probable or not probable to occur. Accordingly, we have accrued an estimated amount probable to occur and recorded 180 million yen as provision.

18. Other Liabilities

Other liabilities are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Other current liabilities		
Accrued expenses	2,019	2,117
Contract liability (Note)	1,168	1,164
Deferred income	201	147
Deposits received	26	46
Accrued bonuses	604	883
Other	569	252
Total	4,589	4,611
Other non-current liabilities		
Contract liability (Note)	384	1,658
Long-term deferred income	424	282
Other	14	7
Total	823	1,948

(Note)

The contract liabilities are described in Note “24. Net sales.”

19. Paid-in Capital and Other Equity Items

(1) Common stock and capital surplus

Changes in the number of authorized shares and issued shares, as well as the balance of paid-in capital are as follows:

	Number of authorized shares	Number of issued shares	Common stock	Capital surplus
	Shares	Shares	Millions of yen	Millions of yen
Transition date (as of April 1, 2020)	200,000,000	50,000,000	5,150	4,640
Changes during the period	-	-	-	23
Previous fiscal year (as of March 31, 2021)	200,000,000	50,000,000	5,150	4,663
Changes during the period	-	-	-	39
Current fiscal year (as of March 31, 2022)	200,000,000	50,000,000	5,150	4,703

(Notes)

1. All the shares of common stock issued by Company have no par value with no restrictions on rights granted to shareholders, and issued shares are fully paid in.
2. The numbers of treasury stock included in the issued shares for the fiscal years ended March 31, 2021 and March 31, 2022, are 13,625 and 112,766 respectively.

(2) Capital surplus

The Companies Act of Japan ("the Companies Act") requires that at least 50% of the proceeds upon issuance of shares to be credited to common stock and the remainder of the proceeds to be credited to capital surplus. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of legal capital surplus to common stock.

(3) Retained earnings

The Companies Act provides that 10% of the dividend of retained earnings shall be appropriated as legal capital surplus or as legal retained earnings until their aggregate amount equals 25% of common stock. Legal retained earnings may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the general meeting of shareholders.

20. Dividends

The amount of dividend payment is as follows

Previous fiscal year From April 1, 2020 to March 31, 2021

Resolution	Class	Total dividends (Millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
May 29, 2020 Board of Directors	Common shares	2,648	52.97	March 31, 2020	June 12, 2020

Current fiscal year From April 1, 2021 to March 31, 2022

Resolution	Class	Total dividends (Millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
May 31, 2021 Board of Directors	Common shares	2,767	55.37	March 31, 2021	June 11, 2021
November 12, 2021 Board of Directors	Common shares	1,446	29.00	September 30, 2021	December 10, 2021

Dividends with an effective date within the next fiscal year are as follows:

Previous fiscal year From April 1, 2020 to March 31, 2021

Resolution	Class	Total dividends (Millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
May 31, 2021 Board of Directors	Common shares	2,767	55.37	March 31, 2021	June 11, 2021

Current fiscal year From April 1, 2021 to March 31, 2022

Resolution	Class	Total dividends (Millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
June 1, 2022 Board of Directors	Common shares	1,568	31.45	March 31, 2022	June 14, 2022

21. Net Sales

The Group mainly provides internet services, network services, condominium internet services and DX services.

In internet services we mainly provide optical internet connection services to subscribers, and these are identified as the Company's performance obligations. Subscribers simultaneously receive and consume the benefits of the services and accordingly, the basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

Network services mainly consist of the provision of leased circuit services and VPN connection services to subscribers. The provision of these circuits and networks is identified as the Company's performance obligations. Subscribers simultaneously receive and consume the benefits of the services and accordingly, the basic monthly charges are recognized as net sales when services are rendered to customers.

Condominium internet services mainly represents the provision of building-wide condominium internet service to subscribers, these are identified as the company's performance obligation. Subscribers simultaneously receive and consume the benefits of the services and accordingly, the basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

DX services mainly provide a telephone service for condominium residents and condo-related support services to subscribers. The Company will identify the provision of internet-related business that uses a priority-route internet connection and software technology as its performance obligation. Subscribers simultaneously receive and consume the benefits of the services and accordingly, the basic monthly charges and communication charges are recognized as net sales when services are rendered to customers.

Subscribers pay handling fees and construction charges as initial costs. The initial costs are deferred from the time of entering into the contract and recognized as net sales over the estimated average contract period. The services provided by the Group may be sold with rebates subject to conditions such as the achievement of a certain target sales volume or sales amount. In such cases, the transaction prices are calculated by deducting the estimated achievement rebates from the consideration promised in the contracts with customers. The achievement rebates are estimated using the most likely amount method based on the past results, and revenue is recognized only when it is highly probable that a significant reversal will not occur. In addition, in cases where the Group makes payments to customers such as sales incentives, the cost of which are not payments for other goods or services provided by the customers, revenue is measured by deducting such costs from the transaction prices.

No financial elements are included in the amount of the consideration promised.

Net sales are mainly incurred from contracts with customers, and the category is disclosed in Note "6. Segment Information."

(1) Contract balance

The balance of receivables arising from contracts with customers and contract liabilities is as follows:

	Beginning of previous fiscal year (April 1, 2020)	previous fiscal year (March 31, 2021)
	Millions of yen	Millions of yen
Receivables arising from contracts with customers	6,312	7,464
Contract liabilities	1,242	1,553

	Beginning of current fiscal year (April 1, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Receivables arising from contracts with customers	7,464	7,584
Contract liabilities	1,553	2,822

Out of the amounts of net sales recognized for the fiscal years ended March 31, 2021 and March 31, 2022, 1,027 million yen and 929 million yen are included respectively in the beginning balance of contract liabilities for the relevant year. The amounts of net sales recognized during the fiscal years ended March 31, 2021 and March 31, 2022 related to performance obligations satisfied (or partially satisfied) in previous periods are immaterial.

Contract liabilities are recorded as “Other current liabilities” or “Other non-current liabilities” in the consolidated statements of financial positions and mainly reflect the consideration received before the performance obligation is satisfied.

(2) Transaction price allocated to remaining performance obligation

The Group applied the practical expedients in accordance with IFRS 15 Article 121, and omitted the disclosure of information on the remaining performance obligations since there were no significant transactions with individual expected contractual terms exceeding one year. In addition there were no significant amounts in consideration from contracts with customers that were not included in transaction prices.

(3) Costs to obtain contracts

The Group recognized the costs expected to be recoverable as assets, within the incremental costs of obtaining or fulfilling contracts with customers. The assets are recorded as “Other current assets” in the consolidated statement of financial position.

The incremental costs of obtaining contracts mainly include commission to agents for closing contracts with customers. The costs to fulfill the contract with customers mainly include equipment costs which are not recognized as property, plant and equipment or inventories, and initial costs.

The components of costs to obtain contracts with customers are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Assets recognized from the costs of obtaining contracts	332	463
Assets recognized from the costs of fulfilling contracts	418	765
Total	750	1,228

The costs to obtain contracts are amortized on a straight-line basis over the period of the main estimated contract term. The amounts of amortization cost recognized in the fiscal years ended March 31, 2021 and March 31, 2022 were 1,092 million yen and 817 million yen, respectively, and no impairment loss was recorded.

22. Selling, General and Administrative Expenses

Selling, general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Personnel expenses	3,843	4,266
Depreciation and amortization	1,448	1,422
Commissions and other fees	788	960
Outsourcing expenses	789	1,152
Agent fee and promotion expenses	401	466
Other	843	1,046
Total	8,113	9,315

23. Other Income and Other Expenses

Other income is as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Gain on sale of fixed assets	163	478
Gain on transfer of customer contract (Note 1)	436	1,616
Other (Note 2)	101	176
Total	702	2,270

(Notes)

1. Gains arose from the gradual of transfer contracts with customers related to our data center.
2. “Other” mainly includes construction costs.

Other expenses are as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Loss on retirement of non-current assets	172	178
Other	48	94
Total	221	273

24. Finance Income and Finance Costs

Finance income is as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Interest income:		
Financial assets measured at amortized cost	21	120
Dividend income		
Financial assets measured at fair value through other comprehensive income	49	68
Total	71	189

Finance costs are as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Interest expenses:		
Financial liabilities measured at amortized cost	437	469
Other	41	17
Total	479	486

25. Other Comprehensive Income

The amounts of components of other comprehensive income arising during the year, the amount reclassified to profit or loss and the amount of tax effect are as follows:

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Amount arising during the year	Before tax effect	Tax effect	After tax effect
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	91	91	(27)	63
Remeasurements of defined benefit plan	6	6	(1)	4
Total	97	97	(29)	67

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Amount arising during the year	Before tax effect	Tax effect	After tax effect
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	1,161	1,161	(402)	758
Remeasurements of defined benefit plan	47	47	(14)	32
Total	1,208	1,208	(417)	791

26. Earnings per Share

The calculation basis for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
Profit for the year attributable to owners of the parent (Millions of yen)	5,535	6,033
Average number of shares of common stock during the period (Shares)	49,985,444	49,912,636
Basic earnings per share (Yen)	110.74	120.89

(Note)

Diluted earnings per share are not calculated as there are no potential dilutive shares.

27. Non-cash Transactions

Property, plant and equipment acquired through leases is as follows:

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Property, plant and equipment acquired through leases	1,042	3,899

28. Financial Instruments

(1) Capital management

The basic principle of the Group's capital management is to enhance capital efficiency while securing financial soundness in order to maximize corporate value through medium- to long-term sustainable growth.

The group focuses on the ratio of profit to equity attributable to owners of the parent (ROE) as its capital efficiency measurement, while monitoring our credit rating in assessing financial strength when appropriate. There are no material capital controls applicable to the Group.

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
Return on equity (ROE) attributable to owners of the parent company (%)	25.0	24.3

(2) Financial risk management

The Group is exposed to various financial risks such as credit risk, liquidity risk, foreign currency risk, interest rate risk and market price fluctuation risk. To mitigate such risks, the Group has a risk management program in place. We do not engage in any derivative transactions for speculative purpose.

(3) Credit risk management

The Group has a lot of receivables due from various customers. These receivables involve credit risk that results in the financial risk of loss to the Group if a counterparty fails to fulfill its contractual obligation.

Based on its internal guidelines on control over receivables, the Group manages credit risk associated with our customers through periodical monitoring of customers' credit status and by undertaking maturity and account balance control. At the same time, the Group strives to early detect and mitigate doubtful accounts associated with the deterioration of customers' financial position.

Trade receivables consist of amounts due from many customers; therefore, the Group classifies them into groups according to past due information and measures expected credit loss based on historical credit loss experience. The Group regards trade receivables that have been past due for a certain period since they became due as in default and recognizes impairment losses in respect of such receivables.

The Group assesses whether the credit risk on other financial assets measured at amortized cost has increased significantly since initial recognition after considering past due information and operating results of the debtors.

The Group records allowance for doubtful accounts as loss allowance for trade receivables and other financial assets measured at amortized cost.

The Group directly write-off financial assets that are credit-impaired if the entire or certain or part of the financial assets is deemed to be uncollectable and amortizing those financial assets are determined to be appropriate as the result of credit investigation.

Maximum exposure to credit risk of financial assets is the carrying amount less impairment presented in the consolidated financial statements. These credit risk exposures are not covered by any collateral held as security or other credit enhancements.

There is no excessive concentration of credit risk requiring special attention.

The Group always calculates allowance for doubtful accounts at an amount equal to lifetime expected credit loss if the trade receivables do not contain a significant financing component.

Credit risk exposure (before deducting allowance for doubtful accounts) and changes in allowance for doubtful accounts are as follows:

1) Credit risk exposure (before deducting allowance for doubtful accounts)

	Previous fiscal year (March 31, 2021)		Current fiscal year (March 31, 2022)	
	Credit-impaired financial assets	Trade receivables	Credit-impaired financial assets	Trade receivables
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Past due				
Less than a year	-	7,497	-	8,260
More than a year	1	-	0	-
Total	1	7,497	0	8,260

2) Changes in allowance for doubtful accounts

	Previous fiscal year (From April 1, 2020 To March 31, 2021)		Current fiscal year (From April 1, 2021 To March 31, 2022)	
	Credit-impaired financial assets	Trade receivables	Credit-impaired financial assets	Trade receivables
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Beginning balance	0	2	1	2
Increase during the period	1	2	0	1
Decrease during the period (intended use)	(0)	(0)	(0)	(1)
Decrease during the period (reversal)	(0)	(3)	(1)	(0)
Ending balance	1	2	0	2

There have been no significant changes in the carrying amount of financial assets which have material impacts on allowance for doubtful accounts for the fiscal years ended March 31, 2021 and March 31, 2022.

In addition, there are no material contractual, uncollected balances for financial assets directly written off, for which collection efforts are still being made.

(4) Liquidity risk management

The Group raises funds for its business through borrowings from financial institutions. Hence, in the event of a disruption of the financial system and capital markets or a major downgrade of the Group's credit rating by a rating agency, the Group's fundraising may become constrained and consequently, there is a possibility that the Group will not be able to meet its obligations when they become due.

The Group has sufficient levels of cash and cash equivalents and maintains a commitment line agreement with major financial institutions to ensure liquidity and stability of funds. The Group maintains good relationships with each financial institution.

1) Loan commitments

The total amount of loan commitments and the balance of drawn credit facilities as of the reporting date are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Total amount of loan commitment	5,000	5,000
Balance of credit facilities drawn down	-	-
Remaining balance	5,000	5,000

2) Balance of financial liabilities by due date

The balance of financial liabilities by due date is as follows. The average rate and due date are described in Note "16. Financial Liabilities"

Previous fiscal year (March 31, 2021)

	Carrying amount	Contractual amounts	Within one year	Over one year to five years	Over five years
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Non-derivative financial liabilities:					
Trade and other payables	6,031	6,031	6,031	-	-
Borrowings	38,317	38,484	2,240	36,244	-
Lease obligations	6,768	7,276	2,179	3,629	1,466
Total	51,117	51,792	10,451	39,874	1,466

Current fiscal year (March 31, 2022)

	Carrying amount	Contractual amounts	Within one year	Over one year to five years	Over five years
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Non-derivative financial liabilities:					
Trade and other payables	7,655	7,655	7,655	-	-
Borrowings	36,163	36,244	36,244	-	-
Lease liabilities	11,138	11,780	2,799	5,858	3,122
Total	54,957	55,680	46,699	5,858	3,122

(5) Foreign currency risk management

Foreign currency risk arises from transactions in currencies other than the Group's functional currency. The Group does not engage in any significant foreign currency transactions in the course of its business activities; therefore, we are not exposed to a material foreign currency risk. While the fluctuation of foreign currency rate would affect the Group profit, the impact is not material. As a result, the Group does not disclose a sensitivity analysis of foreign currency risk.

(6) Interest rate risk management

The Group raises operating capital and funds for capital expenditures in the course of business and pays interest thereon. When the Group borrows funds at variable interest rates, the amount of interest expenses depends on the changes in the market interest rate. Accordingly, future cash flows from interest expenses are exposed to interest rate risk.

Sensitivity analysis of interest rate risk

As of the end of each reporting period, the following shows the amounts affecting profit before tax of the consolidated statement of income, assuming that the interest rate has increased by 1%.

Other variable factors such as outstanding balance and foreign currency rate are deemed to be constant in this sensitivity analysis.

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Profit for the year before income taxes	(384)	(362)

(7) Market price fluctuation risk

Certain equity instruments held by the Group are exposed to the market price fluctuation risk. The Group holds equity instruments in accordance with the Group's policy, but not for trading purposes.

Equity instruments held by the Group are unlisted stocks and their respective fair values and the financial condition of the issuers (business partners) are reviewed periodically by the Group.

Stocks are designated as financial assets measured at fair value through other comprehensive income. There is no impact on the profit or loss arising from market price fluctuation of the stocks, and immaterial impact on other comprehensive income.

(8) Fair values of financial instruments

1) Measurement of fair values

Fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial instruments, when the market price of the financial instrument is readily available, is based on the quoted market price. The fair value of the financial instruments, which do not have quoted market prices, is assessed using valuation methods, including discounted future cash flows, net asset values and other appropriate valuation methods.

2) Fair value hierarchy

Financial instruments measured at fair value after initial recognition are classified into the three levels of the fair value hierarchy according to the observability and significance of the inputs used for the measurement of fair values. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices in active markets for identical asset or liability

Level 2: Fair value measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured by valuation techniques using unobservable inputs

3) Financial instruments measured at amortized cost

Fair values and carrying amounts of financial instruments measured at amortized costs are as follows:

	Previous fiscal year (March 31, 2021)		Current fiscal year (March 31, 2022)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets				
Lease and guarantee deposits	2,399	2,451	2,694	2,726
Long-term accounts receivable-other	714	714	5,213	5,213
Total	3,114	3,165	7,907	7,939
Financial liabilities				
Borrowings	38,317	38,317	36,163	36,163
Lease liabilities	6,768	6,708	11,138	11,166
Total	45,085	45,025	47,302	47,330

Financial assets and financial liabilities measured at amortized cost are classified into level 2 of the fair value hierarchy.

Borrowings and lease liabilities in the table above include any current portion.

Other than the above, short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are approximate to the carrying amounts.

The Group measures the fair values above based on the following methods.

(a) Lease and guarantee deposits and long-term accounts receivable-other

The fair values of guarantee deposits and long-term accounts receivable-other are the present value of future cash flows discounted by an interest rate that reflects the time to maturity and an assumed rate available for additional borrowings of similar type.

(b) Borrowings

For borrowings with variable interest rates, the carrying amount is regarded as fair value, as the rates reflect the market interest rate within a short term and there is no significant change expected in the Group entities' credit conditions after financing.

(c) Lease liabilities

The fair values of lease liabilities are the present value of future cash flows discounted by an interest rate that reflects the time to maturity and credit risk.

4) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value on a recurring basis is presented as follows. There was no significant transfer of the financial instruments between levels for the fiscal years ended March 31, 2021 and 2022.

Previous fiscal year (March 31, 2021)

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:				
Other financial assets				
Financial assets measured at fair value through other comprehensive income				
Stock	-	-	378	378
Equity instruments measured at fair value through profit or loss				
Other financial assets	-	29	-	29
Total	-	29	378	408

Current fiscal year (March 31, 2022)

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:				
Other financial assets				
Financial assets measured at fair value through other comprehensive income				
Stock	-	-	39	39
Equity instruments measured at fair value through profit or loss				
Other financial assets	-	29	-	29
Total	-	29	39	69

Measurement method of fair values of the financial instruments above is presented as follows:

(a) Stock

Unlisted stocks are estimated using valuation techniques based on the net asset value and are classified as level 3 in the fair value hierarchy.

(b) Other financial assets

Fair values of golf club memberships in the other financial assets are measured based on market prices.

5) Reclassification of financial instruments classified as level 3 of the fair value hierarchy

Changes in financial instruments classified as level 3 from the beginning to the end of each fiscal year are presented as follows:

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Fair value measurement as of the reporting date
	Equity instruments measured at fair value through other comprehensive income
	Millions of yen
Beginning balance	286
Net gain or loss	
Other comprehensive income (Note)	91
Purchase	-
Sale	-
Other	-
Ending balance	378

(Note)

Gains and losses included in other comprehensive income relate to equity instruments measured at fair value through other comprehensive income as of the reporting date. These gains and losses are included in the "financial assets measured at fair value through other comprehensive income" in the statement of consolidated comprehensive income.

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Fair value measurement as of the reporting date
	Equity instruments measured at fair value through other comprehensive income
	Millions of yen
Beginning balance	378
Net gain or loss	
Other comprehensive income (Note)	1,161
Purchase	-
Sale	(1,500)
Other	-
Ending balance	39

(Note)

Gains of 0 million yen related to equity instruments measured at fair value through other comprehensive income held as of the reporting date included in other comprehensive income. These gains and losses are included in the "financial assets measured at fair value through other comprehensive income" in the statement of consolidated comprehensive income.

6) Evaluation process of level 3 of the fair value hierarchy

Measurement method and process of the fair value of unlisted stocks classified as level 3 are determined by the accounting department independent from the department which handles such stocks. Fair value measurements including fair value models are examined for the adequacy by periodically evaluating the business descriptions and financial conditions of the companies issuing the stocks.

7) Sensitivity analysis related to the fair value measurement of assets classified into level 3

For financial instruments classified as level 3, no significant changes in fair value are expected to occur as a result of changing unobservable inputs to other alternative assumptions that are considered reasonable during the fiscal years ended in March 31, 2021 and 2022.

(9) Adjustment of liabilities incurred from financing activities

Changes in the liabilities incurred from financing activities are determined as follows:

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Balance as of April 1, 2020	Changes in cash flows	Changes incurred from non-cash transactions			Balance as of March 31, 2021
			Amortized cost measurement	New lease	Other	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Borrowings	40,162	(1,938)	93	-	-	38,317
Lease liabilities (Note)	9,756	(2,578)	-	1,626	(2,035)	6,768
Total	49,918	(4,517)	93	1,626	(2,035)	45,085

(Note)

"Other" in changes incurred from non-cash transactions for lease liabilities mainly includes the cancellation of data center related lease contracts in the previous fiscal year.

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Balance as of April 1, 2021	Changes in cash flows	Changes incurred from non-cash transactions			Balance as of March 31, 2022
			Amortized cost measurement	New lease	Other	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Borrowings	38,317	(2,240)	86	-	-	36,163
Lease liabilities	6,768	(2,582)	-	7,064	(112)	11,138
Total	45,085	(4,823)	86	7,064	(112)	47,302

29. Significant Subsidiaries

(1) Organizational structure

Major subsidiaries of the Group are as follows:

Name of subsidiary	Location	Reportable segments	Proportion of voting rights	
			Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
			%	%
ARTERIA Engineering Corporation	Minato-ku, Tokyo	Telecommunications business	100	100
ARTERIA Interconnect Corporation	Minato-ku, Tokyo	Telecommunications business	100	100
Tsunagu Network Communications Inc.	Chiyoda-ku, Tokyo	Telecommunications business	80	80
GameWith ARTERIA Corporation (Note)	Minato-ku, Tokyo	Telecommunications business	-	51

(Note)

GameWith ARTERIA Corporation was established in the current fiscal year.

(2) Condensed financial statements of Group subsidiaries with material non-controlling interest

The subsidiary with material non-controlling interests is Tsunagu Network Communications Inc. and its condensed financial statements are as follows. The amounts presented below are before the elimination of intra-group transactions.

Tsunagu Network Communications Inc.

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Current assets	5,207	5,606
Non-current assets	9,887	10,044
Current liabilities	3,046	3,240
Non-current liabilities	2,394	3,113
Net assets	9,654	9,295
Equity attributable to owners of the parent	7,731	7,421
Non-controlling interests	1,922	1,874

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Net sales	14,564	15,611
Profit for the year	1,509	1,268
Other comprehensive income	-	-
Comprehensive income for the year	1,509	1,268
Cash flows from operating activities	2,307	2,911
Cash flows from investing activities	(341)	(328)
Cash flows from financing activities	(2,282)	(2,221)
Net increase (decrease) in cash and cash equivalents	(317)	362
Profit for the year distributed to non-controlling interests	361	374
Dividends paid to non-controlling interests	436	423

30. Related Parties

The transactions between the Group and other related parties are as follows. Although the Group's subsidiaries are related parties of the Company, transactions with subsidiaries are not subject to disclosure as they are eliminated for the purpose of the consolidated financial statements.

(1) Related party transactions

Previous fiscal year (From April 1, 2020 to March 31, 2021)

Type	Name	Details of transaction	Transaction amount	Unsettled amount
			Millions of yen	Millions of yen
Parent company	Marubeni Corporation (Note 1)	Interlocking director Acceptance seconded employee	-	-
Subsidiary of parent company	Marubeni Information Systems Co., Ltd.	Purchase of equipment (Note 2)	664	392

(Notes)

1. A description is omitted as the transaction amount with Marubeni Corporation is immaterial.
2. The transaction terms and conditions were determined by the Board of Directors in consideration of the prevailing market price.

Type	Name	Profession	Details of transaction	Transaction amount	Ending Balance
				Millions of yen	Millions of yen
Director	Koji Kabumoto	Representative Director	Contribution in kind for monetary remuneration receivables with disposal of treasury stock (Note)	15	-

(Note)

The above reflects the contribution in kind for monetary remuneration receivables related to the restricted shares compensation plan. The amount of treasury stock disposed was determined based on the closing price of the Company's common stock on the Tokyo Stock Exchange on July 21, 2020, the business day immediately preceding the resolution by the Company's Board of Directors.

Current fiscal year (From April 1, 2021 to March 31, 2022)

Type	Name	Details of transaction	Transaction amount	Unsettled amount
			Millions of yen	Millions of yen
Parent company	Marubeni Corporation (Note 1)	Interlocking director Acceptance seconded employee	-	-
Subsidiary of parent company	Marubeni Information Systems Co., Ltd.	Purchase of equipment (Note 2)	1,115	716

(Notes)

1. A description is omitted as the transaction amount with Marubeni Corporation is immaterial.
2. The transaction terms and conditions were determined by the Board of Directors in consideration of the prevailing market price.

Type	Name	Profession	Details of transaction	Transaction amount	Ending Balance
				Millions of yen	Millions of yen
Director	Koji Kabumoto	Representative Director	Contribution in kind for monetary remuneration receivables with disposal of treasury stock (Note)	15	-

(Note)

The above reflects the contribution in kind for monetary remuneration receivables related to the restricted shares compensation plan. The amount of treasury stock disposed was determined based on the closing price of the Company's common stock on the Tokyo Stock Exchange on July 20, 2021, the business day immediately preceding the resolution by the Company's Board of Directors.

(2) Compensation to key management personnel

	Previous fiscal year (From April 1, 2020 To March 31, 2021)	Current fiscal year (From April 1, 2021 To March 31, 2022)
	Millions of yen	Millions of yen
Compensations and bonuses	176	194
Share-based compensation	16	23
Total	192	218

31. Commitments

Commitments related to payment after the reporting date are as follows:

	Previous fiscal year (March 31, 2021)	Current fiscal year (March 31, 2022)
	Millions of yen	Millions of yen
Acquisition of property, plant and equipment and intangible assets	1,904	4,305

32. Subsequent Events

(Capital and business alliance with GameWith, Inc.)

At the meeting of the Board of Directors held on June 24, 2022, the Company concluded a capital and business alliance with GameWith, Inc. (hereinafter “GameWith”).

(1) Reason for the Business Alliance

The Group plans to start up a DX business as one of the strategies formulated in its Mid-Term Plan announced in May 2021. In line with this, the Group has launched Connectix(note1), as a first D2C service, constructed a service platform system for realizing D2C business, and has been eyeing entry into new business domains, including the nontelecommunications field, with a view to incorporating them into a new growth portfolio.

GameWith aims to supply and enhance three main types of content, namely game strategies, game introduction, and video streaming, through “GameWith,” one of Japan’s largest game information media services. Recently, the company has also been focusing on the esports-related domain and new domains such as NFT games and is investing proactively in creating its next earnings pillar to follow the media domain.

Against this background, in March 2022, the Company and GameWith jointly established GameWith ARTERIA Corporation (hereinafter, the “Joint Company”). The Joint Company will operate a livestreaming studio for esports competitions and provide comfortable telecommunication services for online gamers. In doing so, it will increase the number of companies and groups organizing esports competitions and promote efforts to prepare optimal environments for participating in, viewing, and supporting esports.

Furthermore, after establishing the Joint Company, the Company and GameWith continued discussions regarding a further business alliance.

Through these discussions, the Company has decided that a close merging of the GameWith brand, which has a high level of recognition and strong appeal among tens of millions of game users who use “GameWith” game information media, with the Company’s own achievements and experience in in telecommunication services has potential as a strategy for promoting the D2C business, such as telecommunication services that the Company has included in its Mid-Term Plan. It has therefore decided to conclude the capital and business alliance agreement to strengthen its relationship with GameWith.

Under the capital and business alliance agreement, the Company and GameWith will jointly strive to increase the value of both companies’ businesses in the esports-related domain and plan to pursue the potential for continued collaboration in new business domains, such as NFTs(note 2).

(Notes)

1. Connectix uses SD-WAN technology to control the quality of telecommunications in each condo via a virtual network. It is an option service at an additional charge. SD-WAN stands for Software Defined Wide Area Network: a specific application of software defined networking (SDN) technology expanding from LAN (Local Area Network) to WAN connections. SDN offers bandwidth on demand, security, and authentication functions through software to enable shorter network connection times and easy changes to configurations and functions.
2. Non-fungible token: a unique unit of data (= the only one existing of its type) that links to a particular piece of digital art, music, video, etc.

(2) Details of Business Alliance

Under the capital and business alliance, the Company will become a strategic partner in telecommunication services in the esports-related domain promoted by GameWith. In this role, the Company will use its proprietary optical fiber networks to provide high speed, low latency telecommunication services, for which there is a high demand in the online gamer market and expand the product lineup.

Furthermore, the Company will dispatch one director to GameWith and look at dispatching people on secondment, aiming to increase the corporate value of both companies by identifying and maximizing synergies through mutual provision of management resources and collaboration in the form of knowledge of and user interface with the markets of the Company’s telecommunication services and GameWith.

(3) Details of Share Acquisition

The Company acquired 3,694,200 common shares of GameWith stock held by Incubate Fund IFLP No. 2. and Incubate Fund IFLP No. 3 (20.00% of the total number of issued and dilutive shares as of May 31, 2022, rounded to two decimal places) for the total amount of 1,733 million yen (469 yen per share, the simple average of the closing price).

(4) Schedule

1) Date of Board of Directors resolution: June 24, 2022
2) Agreement conclusion date: June 24, 2022
3) Share acquisition date: June 30, 2022

(5) Outlook

Through this capital and business alliance, GameWith is planned to become an affiliate of the Company. The impact of this deal on the Company's business results forecast for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) is expected to be negligible.

(Disposal of Treasury Shares as Restricted Shares)

The Company resolved to dispose of treasury stock as restricted shares on July 22, 2022 in accordance with Article 370 of the Companies Act and Article 23 of the Company's Articles of Incorporation.

(1) Purpose and reason for the disposal

The Company's Board of Directors resolved at a meeting held on May 29, 2020 to introduce the restricted shares compensation plan for directors (excluding outside directors; hereinafter, the "Eligible Directors"), executive officers, and some employees of the Company and its subsidiaries as an incentive plan for the purpose of improving their motivation to contribute to enhancing the Company's stock price and corporate value. The plan is implemented based on the resolution approved at the 5th Annual General Meeting of Shareholders held on June 26, 2020 for 1) setting the total amount of monetary remuneration receivables to be paid as remuneration, etc. related to the restricted shares to the Company's Eligible Directors within 100 million yen per year, 2) limiting the total number of restricted shares that can be allocated to the Company's Eligible Directors each fiscal year to 50,000 shares, and 3) setting the transfer restriction period on the restricted shares to a period of more than three years specified by the Company's Board of Directors.

(2) Overview of the disposal

(1) Pay-in date	August 19, 2022
(2) Class and number of shares for disposal	Common stock of the Company: 53,961 shares
(3) Disposal price	1,262 yen per share
(4) Total amount of disposal	68,098,782 yen
(5) Method of offer or disposal	Allocation of specified restricted shares
(6) Method of contribution	Contribution in kind with the contribution asset being monetary remuneration receivables
(7) Allocation recipients	2 executive directors of the Company: 17,795 shares 30 executive officers and employees of the Company: 28,715 shares 8 executive directors, executive officers, and employees of the Company's subsidiaries: 7,451 shares
(8) Transfer restriction period	August 19, 2022 through August 19, 2025
(9) Other	A securities notice of the disposal of treasury stock has been submitted in accordance with the Financial Instruments and Exchange Act.

Other information

Quarterly information for the current fiscal year

(Millions of yen, unless otherwise stated)

	First three months	First six months	First nine months	Full year
Net sales	13,071	26,599	40,283	55,402
Profit for the period before income taxes	2,482	4,945	7,354	9,243
Profit for the period attributable to owners of the parent	1,562	3,214	4,828	6,033
Basic earnings per share (yen)	31.26	64.37	96.72	120.89

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (yen)	31.26	33.11	32.35	24.16