(English translation of financial statements and notes in the Annual Securities Report for the twelve-month period ended March 31, 2019, pursuant to the Financial Instruments and Exchange act of Japan)

Financial Information in Annual Securities Report

For the fiscal year ended March 31, 2019
(Disclosed on August 1, 2019)

ARTERIA Networks Corporation

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Consolidated Financial Statements

1) Consolidated Statement of Financial Position

	Notes	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
		Millions of yen	Millions of yen
Assets			
Current assets			
Cash and cash equivalents	7	7,278	9,288
Trade and other receivables	8,30	6,183	6,608
Other financial assets	9	54	30
Inventories	10	202	372
Income and other taxes receivables		-	186
Other current assets	11	1,236	1,348
Total current assets		14,954	17,834
Non-current assets			
Property, plant and equipment	12,14	29,119	30,621
Goodwill	13	12,646	12,646
Intangible assets	13	16,971	16,214
Other financial assets	9,30	2,751	2,872
Deferred tax assets	15	1,507	1,201
Other non-current assets	11	609	578
Total non-current assets		63,605	64,134
Total assets		78,560	81,968

	Notes	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
		Millions of yen	Millions of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Borrowings	16,30	1,332	1,634
Trade and other payables	17,30	4,169	5,240
Other financial liabilities	14,16,30	872	748
Income and other taxes payable		1,648	817
Provisions	19	3	182
Other current liabilities	20	4,438	4,241
Total current liabilities		12,464	12,864
Non-current liabilities			
Borrowings	16,30	42,418	40,060
Other financial liabilities	14,16,30	1,650	2,827
Retirement benefit liabilities	18	445	598
Provisions	19	2,922	2,797
Deferred tax liabilities	15	3,103	2,880
Other non-current liabilities	20	1,584	1,203
Total non-current liabilities		52,124	50,367
Total liabilities		64,588	63,231
Equity			
Common stock	21	5,150	5,150
Capital surplus	21	5,883	5,951
Retained earnings	21	953	5,575
Treasury stock		-	(0)
Other components of equity		(114)	(28)
Total equity attributable to owners of the parent		11,872	16,647
Non-controlling interests		2,099	2,089
Total equity		13,972	18,736
Total liabilities and equity		78,560	81,968

2) Consolidated Statement of Income

	Notes	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
		Millions of yen	Millions of yen
Net sales	23	47,587	49,219
Cost of sales		32,391	33,375
Gross profit		15,196	15,843
Selling, general and administrative expenses	24	7,337	7,427
Other income	25	113	56
Other expenses	19,25	422	1,006
Operating profit		7,549	7,466
Finance income	26	33	33
Finance costs	26	436	512
Profit for the year before income taxes		7,146	6,987
Income taxes	15	2,234	1,945
Profit for the year		4,912	5,042
Profit for the year attributable to:			
Owners of the parent		4,610	4,642
Non-controlling interests		301	399
Profit for the year		4,912	5,042
Earnings per share			
Basic earnings per share (yen)	28	92.21	92.85
Diluted earnings per share (yen)		-	-

3) Consolidated Statement of Comprehensive Income

	Notes	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
		Millions of yen	Millions of yen
Profit for the year		4,912	5,042
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	27,30	16	85
Remeasurements of defined benefit plan	18,27	(26)	(19)
Total items that will not be reclassified to profit or loss		(10)	65
Total other comprehensive income, net of tax		(10)	65
Comprehensive income for the year		4,901	5,107
Comprehensive income for the year attributable to:			
Owners of the parent		4,599	4,707
Non-controlling interests		301	399
Comprehensive income for the year		4,901	5,107

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, 2017		5,150	4,849	(3,630)	-	(130)	-
Profit for the year		-	-	4,610	-	-	-
Other comprehensive income	18,27,30	-	-	-	-	16	(26)
Comprehensive income for the year		-	-	4,610	-	16	(26)
Transfer to retained earnings		-	-	(26)	-	-	26
Cash dividends	22	-	-	-	-	-	-
Changes due to business combinations		-	1,033	-	-	-	-
Total transactions with owners		-	1,033	(26)	-	-	26
As of March 31, 2018		5,150	5,883	953	-	(114)	-
Profit for the year		-	-	4,642	-	-	-
Other comprehensive income	18,27,30	-	-	-	-	85	(19)
Comprehensive income for the year		-	-	4,642	-	85	(19)
Transfer to retained earnings		-	-	(19)	-	-	19
Purchase of treasury stock		-	-	-	(0)	-	-
Cash dividends	22	-	-	-	-	-	-
Contributions to directors' remuneration from shareholders	21,32	-	67	-	-	-	-
Total transactions with owners		-	67	(19)	(0)	-	19
As of March 31, 2019		5,150	5,951	5,575	(0)	(28)	-

	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, 2017		(130)	6,239	3,302	9,541
Profit for the year		-	4,610	301	4,912
Other comprehensive income	18,27,30	(10)	(10)	-	(10)
Comprehensive income for the year		(10)	4,599	301	4,901
Transfer to retained earnings		26	-	-	-
Cash dividends	22	-	-	(404)	(404)
Changes due to business combinations		-	1,033	(1,099)	(66)
Total transactions with owners		26	1,033	(1,504)	(470)
As of March 31, 2018		(114)	11,872	2,099	13,972
Profit for the year		-	4,642	399	5,042
Other comprehensive income	18,27,30	65	65	-	65
Comprehensive income for the year		65	4,707	399	5,107
Transfer to retained earnings		19	-	-	-
Purchase of treasury stock		-	(0)	-	(0)
Cash dividends	22	-	-	(409)	(409)
Contributions to directors' remuneration from shareholders	21,32	-	67	-	67
Total transactions with owners		19	67	(409)	(342)
As of March 31, 2019		(28)	16,647	2,089	18,736

5) Consolidated Statement of Cash Flows

	Notes	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
		Millions of yen	Millions of yen
Cash flows from operating activities			
Profit for the year before income taxes		7,146	6,987
Depreciation and amortization	12,13	6,661	6,741
Finance income	26	(33)	(33)
Finance costs	26	436	512
Loss on disposal of property, plant and equipment		54	115
(Increase) decrease in trade and other receivables		(587)	(551)
(Increase) decrease in inventories		(94)	(457)
(Decrease) increase in trade and other payables		(167)	243
Other		730	30
Subtotal		14,146	13,590
Interest received		0	0
Interest paid		(336)	(355)
Income taxes paid		(1,910)	(2,578)
Net cash provided by (used in) operating activities		11,900	10,655
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,203)	(4,779)
Proceeds from sale of property, plant and equipment		1,018	126
Disposals of property, plant and equipment		(133)	(193)
Purchases of intangible assets		(362)	(323)
Other		(234)	(231)
Net cash (used in) provided by investing activities		(6,914)	(5,400)
Cash flows from financing activities			
Repayments of long-term borrowings	30	(1,028)	(1,986)
Repayments of lease obligations	14,30	(1,297)	(972)
Dividends paid to non-controlling interests		(404)	(409)
Payment for purchase of interest in subsidiary from non-controlling interests		(95)	-
Proceeds from sale and leaseback		-	327
Purchase of treasury stock		-	(0)
Other		(21)	(203)
Net cash (used in) provided by financing activities		(2,847)	(3,244)
Net increase (decrease) in cash and cash equivalents		2,137	2,010
Cash and cash equivalents at the beginning of the year	7	5,140	7,278
Cash and cash equivalents at the end of the year	7	7,278	9,288

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, 2019 comprise the Company and its subsidiaries (collectively, "the Group" or "we").

We were listed on the first section of Tokyo Stock Exchange, Inc. on December 12, 2018.

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 and matters concerning first-time adoption

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 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No.28 of 1976) 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 July 31, 2019 by Koji Kabumoto, Representative Director, President and CEO, and Seiichi Tateishi, Director, 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

Accounting policies applied to the consolidated financial statements of the current fiscal year are the same as the accounting policies applied to the consolidated financial statements of the previous fiscal year, except as explained in the following paragraph.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") from the beginning of the fiscal year ended March 31, 2019. The new standard replaces IAS 18 *Revenue* and IAS 11 *Accounting for Construction Contracts*. IFRS 15 provides a comprehensive framework for determining the amount and timing of net sales from contracts with customers, including the presentation of financial statements.

The core principle of the Standard is that revenue is recognized as the amount of the consideration reflecting the value gained in exchange of goods or services that are transferred based on an agreement with a customer.

The objective of the Standard is to recognize 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

(a) Impact of the application of the Standards on the Group

The Group mainly provides internet services, network services and condominium internet services. Net sales from the provision of these services are recognized when the Group performs its obligations based on the contracts with customers.

The application of the standards does not have any significant impact on the Group's results of operations and financial position.

(b) Method of transition

Upon application of the standards, the Group has adopted the transitional provisions to recognize the cumulative effect of applying the standards as an adjustment to the beginning balance of retained earnings at the date of initial application. The impact on the current consolidated financial statements was immaterial as a result of adopting such method.

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 the 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:

- Buildings and structures 10 to 38 years
- Communication equipment 2 to 27 years
- Other 5 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 test 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 test 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, we assess whether an arrangement is a lease or contains a lease based on the substance of the arrangement. If performance of the arrangement is dependent on the use of a specific asset or a group of assets and the arrangement coveys a right to use the asset or the group of assets, they are considered to contain leases.

Leases that contractually transfer substantially all the risks and rewards of ownership of the assets to the Group are classified as finance leases. All the other leases are classified as operating leases.

A leased asset under a finance lease is initially recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. After initial recognition, the leased asset is depreciated by the straight-line method over the shorter of the estimated useful life and the lease term in accordance with the accounting policy applied to the asset. Lease payments are allocated to finance costs and repayments of lease obligations based on the effective interest method.

In operating lease transactions, lease payments are recognized as expenses using the straight-line method over the lease term.

(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) 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.

(13) 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.

(14) 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.), and condominium internet services (building-wide condominium internet service, etc.).

Net sales are recognized when the following conditions are met:

1) 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.

2) 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.

3) Condominium internet services

Condominium internet services mainly provide whole building package-type 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.

(15) 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 bases 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, tax loss carryforwards, and tax credits carried forward 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.

(16) 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.

4. Significant Accounting Estimates and Judgements 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.

Estimates and assumptions, which may have a material impact on the amounts recognized in the consolidated financial statements as from next consolidated fiscal year, are used in the impairment tests of property, plant and equipment and intangible asset including goodwill. Recoverable amounts in impairment testing are determined by setting certain assumptions for an asset’s useful life, future cash flows and discount rates, etc. These assumptions are determined based on the best available estimates and judgements by management but these may be affected as a result of fluctuations in uncertain economic conditions in the future. The determination of recoverable amounts of property, plant and equipment and intangible assets including goodwill are described in Note “3. Significant Accounting Policies (10) Impairment of non-financial assets.”

Other than the above, judgments and estimates made by the management that will have a material impact on the amounts of the consolidated financial statements are as follows:

- estimates of useful lives and residual values of fixed assets (Note “3. Significant Accounting Policies” (7) and (8))
- the determination of whenever a contract includes a lease (Note “3. Significant Accounting Policies” (9) and Note “14. Leases”)
- measurement of defined benefit obligations (Note “3. Significant Accounting Policies” (11) and Note “18. Employee Benefits”)
- accounting treatment and assessment of provisions (Note “3. Significant Accounting Policies” (12) and Note “19. Provisions”)
- revenue recognition (Note “3. Significant Accounting Policies” (14) and Note “23. Net Sales”)
- recoverability of deferred tax assets (Note “3. Significant Accounting Policies” (15) and Note “15. Income Taxes”)

5. New Standards issued but not yet Adopted

The Group has not applied the following standards and amendments to standards, which were issued before the approval date of the consolidated financial statements.

IFRS		Mandatory adoption (from the fiscal year beginning on or after)	To be adopted by the Group from	Overview of new standards and amendments
IFRS 16	*Leases*	January 1, 2019	Fiscal year ending March 31, 2020	Revision to the accounting treatment for leases

(IFRS 16 *Leases*)

In January 2016, IASB issued IFRS 16 *Leases*. Due to the adoption of IFRS 16 *Leases*, leases will be accounted for based on the right-of-use model. Under this model, a lessee gains right-of-use of the underlying asset over the lease period while recognizing the obligation for lease payments to the lessor at the inception of the lease. Hence, when applied to the Group's operating leases, an increase in assets and liabilities is likely to arise. In addition, under IAS 17 *Leases*, lease payments on operating leases are recorded as rent fee, but under IFRS 16 *Leases*, depreciation of right-of-use assets and interest expenses of the lease obligation will be recorded as profit and loss.

The impact of adopting IFRS16 *Lease* is expected to increase assets and liabilities approximately ¥4,400 million respectively and be immaterial to consolidated statement of income. In addition, the cumulative impact of the adoption of the new standards will be recognized as of the date of initial application.

6. 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.), and condominium internet services (building-wide condominium internet service, 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.

(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, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
	Millions of yen	Millions of yen
Internet services	20,299	20,721
Network services	13,280	13,881
Condominium internet services	10,450	10,947
Others	3,557	3,668
Total	47,587	49,219

(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, 2017 to March 31, 2018)		Current fiscal year (From April 1, 2018 to March 31, 2019)	
	Millions of yen	%	Millions of yen	%
USEN Corporation and its Group	8,846	18.6	8,841	18.0

7. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Cash and cash equivalents		
Cash and deposits	7,278	9,288
Total	7,278	9,288

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.

8. Trade and Other Receivables

Trade and other receivables are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Notes receivable	20	22
Accounts receivable- trade	5,385	6,395
Accounts receivable-other	782	195
Allowance for doubtful accounts	(5)	(3)
Total	6,183	6,608

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

9. Other Financial Assets

(1) The analysis of other financial assets

Other financial assets are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Other financial assets		
Stocks	105	190
Lease and guarantee deposits	2,629	2,664
Other	88	48
Allowance for doubtful accounts	(17)	(2)
Total	2,806	2,902
Current assets	54	30
Non-current assets	2,751	2,872
Total	2,806	2,902

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

(2) 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, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Listed	-	-
Unlisted	105	190
Total	105	190

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.

10. Inventories

Inventories are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Goods	46	312
Supplies	155	59
Total	202	372

The amounts of inventories that were recognized as an expense during the fiscal years ended March 31, 2018 and 2019 were ¥278 million and ¥432 million, respectively.

There were no write-downs on inventories that were recognized as an expense during the fiscal years ended March 31, 2018 and the amounts of write-downs that were recognized during the fiscal year ended March 31, 2019 was ¥6 million.

11. Other Assets

Other assets are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Other current assets		
Prepaid expenses (Note)	1,234	1,348
Other	1	0
Total	1,236	1,348
Other non-current assets		
Long-term prepaid expenses (Note)	609	578
Total	609	578

(Note)

Prepaid expenses and long-term prepaid expenses mainly consist of rent payments and fees related to outsourcing, respectively.

12. 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, 2017	78,460	7,744	1,006	1,221	1,928	90,361
Increase	6,275	625	-	3,955	344	11,200
Decrease	(3,033)	(1,168)	-	(3,659)	(154)	(8,014)
As of March 31, 2018	81,702	7,201	1,006	1,518	2,118	93,547
Increase	8,665	161	-	2,328	252	11,407
Decrease	(13,242)	(117)	-	(2,790)	(127)	(16,277)
As of March 31, 2019	77,125	7,245	1,006	1,055	2,243	88,677

(Note)

The decrease in machinery equipment is mainly due to equipment sold related to sale and lease back of ¥814 million, disposal of customer site equipment and cancellations of installation work of ¥9,877 million.

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, 2017	(56,190)	(4,907)	-	-	(775)	(61,874)
Depreciation	(4,549)	(230)	-	-	(272)	(5,052)
Decrease	2,064	334	-	-	100	2,499
As of March 31, 2018	(58,675)	(4,804)	-	-	(947)	(64,427)
Depreciation	(4,842)	(147)	-	-	(333)	(5,323)
Decrease	11,471	102	-	-	120	11,695
As of March 31, 2019	(52,046)	(4,848)	-	-	(1,161)	(58,056)

(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, 2018	23,027	2,397	1,006	1,518	1,170	29,119
As of March 31, 2019	25,079	2,396	1,006	1,055	1,082	30,621

(2) Leased assets

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

	Communication equipment	Other	Total
	Millions of yen	Millions of yen	Millions of yen
As of March 31, 2018	2,191	243	2,435
As of March 31, 2019	3,153	159	3,313

(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 for the fiscal years ended March 31, 2018 and 2019.

(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, 2018 and March 31, 2019.

13. 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, 2017	12,646	2,486	15,814	3,550	1,912	23,764
Increase	-	-	-	496	164	660
Decrease	-	-	-	(18)	(222)	(241)
As of March 31, 2018	12,646	2,486	15,814	4,028	1,854	24,183
Increase	-	-	-	184	350	534
Decrease	-	-	-	(15)	(94)	(109)
As of March 31, 2019	12,646	2,486	15,814	4,197	2,110	24,609

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, 2017	-	-	(1,411)	(2,902)	(1,612)	(5,926)
Depreciation	-	-	(878)	(401)	(24)	(1,304)
Decrease	-	-	-	18	-	18
As of March 31, 2018	-	-	(2,289)	(3,285)	(1,637)	(7,212)
Depreciation	-	-	(878)	(297)	(21)	(1,197)
Decrease	-	-	-	15	-	15
As of March 31, 2019	-	-	(3,168)	(3,567)	(1,658)	(8,395)

(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, 2018	12,646	2,486	13,524	742	217	16,971
As of March 31, 2019	12,646	2,486	12,646	629	452	16,214

The primary amount of goodwill recorded in the consolidated statement of financial position consists of goodwill that arose on the business combination and merger of UCOM Corporation in February 2014. Its carrying amount is ¥11,337 million and ¥11,337 million, respectively, at the end of the previous fiscal year and current fiscal year.

In addition, the carrying amount of goodwill that arose on acquiring shares of Tsunagu Network Communications Inc. is ¥1,309 million and ¥1,309 million, 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 ¥6,164 million and ¥5,719 million 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.

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 ¥7,359 million and ¥6,926 million, 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 16 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 cash flows beyond the period of the business plan are estimated assuming that the growth rate is zero in each fiscal year.

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 Company's debt-to-equity ratio. The discount rates were 6.1% and 4.4%, 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, 2018 and 2019.

(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, 2018 and 2019.

14. Leases

(1) Finance leases

The total of future minimum lease payments based on finance lease contracts and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Within one year	932	864	872	748
Over one year to five years	1,392	2,125	1,271	1,829
Over five years	405	1,067	378	998
Total	2,730	4,058	2,522	3,576
Future finance costs	208	482		
Present value of lease obligation	2,522	3,576		

As a lessee, the Group leases assets including communication equipment.

Some of the lease contracts contain terms of renewal or purchase options. In addition, the Group does not have any lease contracts that contain restrictions such as those concerning additional debt and further leasing.

(2) Non-cancellable operating leases

The analysis of future minimum lease payments under non-cancellable operating leases is as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Within one year	11	8
Over one year to five years	7	3
Over five years	-	-
Total	18	12

Minimum lease payments and contingent rents of operating leases recognized as expenses are as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Minimum lease payments	128	120
Contingent rents	-	-
Total	128	120

As a lessee, the Group leases assets including machinery and equipment.

Some of the lease contracts contain terms of renewal or purchase options. In addition, the Group does not have any lease contracts that contain restrictions such as those concerning additional debt or further leasing.

15. 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, 2017 to March 31, 2018)

	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	64	60	-	125
Accrued bonuses	178	(31)	-	147
Allowance for doubtful accounts	11	(9)	-	1
Valuation loss on goods	9	(0)	-	9
Accrued expenses	266	158	-	425
Retirement benefit liabilities	110	14	11	136
Depreciation	1,911	(255)	-	1,655
Asset retirement obligations	598	35	-	633
Impairment loss	190	(40)	-	150
Accrued paid leave	82	2	-	85
Deferred income	99	14	-	114
Other	89	(26)	-	62
Total	3,612	(76)	11	3,547
Deferred tax liabilities				
Customer-related assets	4,411	(270)	-	4,141
Trademarks	761	-	-	761
Other	270	(29)	-	241
Total	5,443	(299)	-	5,143

Current fiscal year (From April 1, 2018 to March 31, 2019)

	Beginning balance	Recognized through profit or loss	Recognized in other comprehensive income	Acquisition through business combinations	Ending balance
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Deferred tax assets					
Accrued business tax	125	(55)	-	-	69
Accrued bonuses	147	(8)	-	-	138
Allowance for doubtful accounts	1	(0)	-	-	1
Valuation loss on goods	9	-	-	-	9
Accrued expenses	425	108	-	-	533
Retirement benefit liabilities	136	38	8	-	183
Depreciation	1,655	(381)	-	-	1,274
Asset retirement obligations	633	(14)	-	-	619
Impairment loss	150	(19)	-	-	130
Accrued paid leave	85	2	-	-	88
Deferred income	114	14	-	-	128
Other	62	(39)	-	-	23
Total	3,547	(355)	8	-	3,200
Deferred tax liabilities					
Customer-related assets	4,141	(269)	-	-	3,871
Trademarks	761	-	-	-	761
Other	241	6	-	-	241
Total	5,143	(263)	-	-	4,880

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

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Tax loss carryforwards	-	-
Deductible temporary differences	108	92
Total	108	92

Total amounts of deductible temporary differences for investments in subsidiaries for which deferred tax liabilities are not recognized at the fiscal years ended March 31, 2018 and 2019 are ¥3,416 million and ¥4,460 million, respectively.

Deferred tax liabilities for these deductible 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, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Current tax expense	2,427	1,869
Deferred tax expense	(193)	76
Total	2,234	1,945

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

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	%	%
Statutory effective tax rate	30.9	30.6
Non-deductible expenses for tax purposes	0.3	1.5
Changes in unrecognized deferred tax assets and deferred tax liabilities	(0.4)	(3.9)
Other	0.5	(0.4)
Average actual tax rate	31.3	27.8

16. Financial Liabilities

(1) Financial liabilities

Borrowings and other financial liabilities are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)	Average rate	Due date
	Millions of yen	Millions of yen	%	
Current portion of long-term borrowings	1,332	1,634	0.41	-
Long-term borrowings	42,418	40,060	0.58	2020 to 2023
Short-term lease obligations	872	748	-	-
Long-term lease obligations	1,650	2,827	-	2020 to 2028
Total	46,273	45,270	-	-
Current liabilities	2,204	2,383	-	-
Non-current liabilities	44,068	42,887	-	-
Total	46,273	45,270	-	-

(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.

3. The following table shows the balance of long-term borrowings excluding the balance of current portion of long-term borrowings by due dates, as of March 31, 2019.

	Carrying amount March 31, 2019	Contractual cash flows	From April 1, 2020 to March 31, 2021	From April 1, 2021 to March 31, 2022	From April 1, 2022 to March 31, 2023
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Long-term borrowings	40,060	40,423	1,938	2,240	36,244

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.

(2) Assets pledged as collateral

Assets pledged as collateral for borrowings are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Shares of consolidated subsidiaries	9,079	-
Total	9,079	-

The corresponding obligations are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Current portion of long-term borrowings	1,332	-
Long-term borrowings	42,418	-
Total	43,751	-

(Note)

The condition of assets pledged as collateral is described in Note “32. Related Parties.”

17. Trade and Other Payables

Trade and other payables are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Accounts payable - other	2,668	3,076
Accounts payable-property, plant and equipment	1,500	2,163
Total	4,169	5,240

18. Employee Benefits

The Group operates retirement plans unfunded 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, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Present value of defined benefit obligations (unfunded)	445	598
Retirement benefit liabilities	445	598
Balance on the consolidated statement of financial position		
Retirement benefit liabilities	445	598
Net defined benefit liability recognized on the consolidated statement of financial position	445	598

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, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Beginning balance of present value of defined benefit obligations	359	445
Current service cost	61	130
Interest cost	1	2
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	27	28
Actuarial differences arising from changes in financial assumptions	1	4
Other	9	(3)
Benefits paid	(15)	(8)
Ending balance of present value of defined benefit obligations	445	598

The weighted average durations of the defined benefit obligations at the fiscal years ended March 31, 2018 and 2019 were 10.3 years and 11.2 years, respectively.

3) Major actuarial assumptions

A major actuarial assumption is as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	%	%
Discount rate	0.5	0.4

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, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
0.5% increase of the discount rate	(23)	(31)
0.5% decrease of the discount rate	22	27

(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, 2018 and 2019 are ¥63 million and ¥133 million, respectively.

19. 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, 2018	2,922	3	2,925
Increase during the period	118	181	300
Unwinding of discounts	22	-	22
Decrease during the period (intended use)	(266)	(0)	(266)
Decrease during the period (reversal)	-	(2)	(2)
As of March 31, 2019	2,797	182	2,979

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

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Current liabilities	3	182
Non-current liabilities	2,922	2,797
Total	2,925	2,979

(Note)

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 plan, 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 as “provision for the levies related to Antimonopoly Act” included in “other expenses” in the consolidated statement of income.

20. Other Liabilities

Other liabilities are as follows:

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Other current liabilities		
Accrued expenses	2,095	2,139
Contract liability (Note)	910	1,005
Deferred income	405	349
Deposits received	193	31
Accrued bonuses	484	448
Other	349	266
Total	4,438	4,241
Other non-current liabilities		
Contract liability (Note)	407	368
Long-term deferred income (Note)	1,145	814
Other	31	19
Total	1,584	1,203

(Note)

The contract liabilities are described in Note “23. Net sales.”

21. 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, 2017)	1,000,000,000	10,000,000	5,150	4,849
Changes during the period	-	-	-	1,033
Previous fiscal year (as of March 31, 2018)	1,000,000,000	10,000,000	5,150	5,883
Changes during the period	(800,000,000)	40,000,000	-	67
Current fiscal year (as of March 31, 2019)	200,000,000	50,000,000	5,150	5,951

(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 Company conducted a stock split on September 28, 2018. As a result of the stock split, the number of authorized shares decreased by 800,000,000 shares and the number of issued shares increased by 40,000,000 shares.

(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 capital surplus to common stock. The outline of the increase in capital surplus due to the contribution to director’s remuneration from shareholders is described in Note “32. Related Parties.”

(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.

22. Dividends

Previous fiscal year From April 1, 2017 to March 31, 2018

Not applicable

Current fiscal year From April 1, 2018 to March 31, 2019

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

Resolution	Class	Total dividends (Millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
June 27, 2019 Annual meeting of shareholders	Common shares	1,310	26.22	March 31, 2019	June 28, 2019

(Note)

Dividends were paid from capital surplus.

23. Net Sales

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

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 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 current fiscal year (April 1, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Receivables arising from contracts with customers	6,099	6,564
Contract liabilities	1,317	1,374

Out of the amount of net sales recognized for the year ended March 31, 2019 ¥910 million is included in the beginning balance of contract liabilities as of April 1, 2018. The amount of net sales recognized during the fiscal year ended March 31, 2019 related to performance obligations satisfied (or partially satisfied) in previous periods is 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:

	Current fiscal year (March 31, 2019)
	Millions of yen
Assets recognized from the costs of obtaining contracts	84
Assets recognized from the costs of fulfilling contracts	221
Total	305

The costs to obtain contracts are amortized on a straight-line basis over the period of the main estimated contract term. In the fiscal years ended March 31, 2019, ¥197 million of amortization cost was recognized, and no impairment loss was recorded.

24. Selling, General and Administrative Expenses

Selling, general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2017 To March 1, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Personnel expenses	3,470	3,534
Depreciation and amortization	1,138	1,176
Commissions and other fees	494	598
Outsourcing expenses	640	649
Agent fee and promotion expenses	324	337
Other	1,268	1,129
Total	7,337	7,427

25. Other income and Other expenses

Other income is as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Construction and related installment income	52	-
Refund on rerouting construction	12	-
Other	47	56
Total	113	56

Other expenses are as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Loss on retirement of non-current assets	54	115
Restructuring costs	76	-
Initial Public Offering related costs	248	629
Provision for the levies related to Antimonopoly Act (Note)	-	180
Other	43	79
Total	422	1,006

(Note)

The provision for the levies related to Antimonopoly Act is described in Note “19. Provisions.”

26. Finance Income and Finance Costs

Finance income is as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Interest income:		
Financial assets measured at amortized cost	33	33
Total	33	33

Finance costs are as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Interest expenses:		
Financial liabilities measured at amortized cost	409	466
Other	27	46
Total	436	512

27. 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, 2017 to March 31, 2018)

	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	16	16	-	16
Remeasurements of defined benefit plan	(38)	(38)	11	(26)
Total	(22)	(22)	11	(10)

Current fiscal year (From April 1, 2018 to March 31, 2019)

	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	85	85	-	85
Remeasurements of defined benefit plan	(28)	(28)	8	(19)
Total	56	56	8	65

28. Earnings per Share

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

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
Profit for the year attributable to owners of the parent (Millions of yen)	4,610	4,642
Average number of shares of common stock during the period (Shares)	50,000,000	49,999,991
Basic earnings per share (Yen)	92.21	92.85

(Notes)

1. Diluted earnings per share are not calculated as there are no potential dilutive shares.
2. The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. The amounts of basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

29. Non-cash Transactions

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

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Property, plant and equipment acquired through leases	869	1,937

30. 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 credit rating in assessing financial strength when appropriate. There are no material capital controls applicable to the Group.

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
Return on equity (ROE) attributable to owners of the parent company (%)	50.9	32.6

(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, 2018)		Current fiscal year (March 31, 2019)	
	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	-	6,188	-	6,612
More than a year	17	-	2	-
Total	17	6,188	2	6,612

2) Changes in allowance for doubtful accounts

	Previous fiscal year (From April 1, 2017 To March 31, 2018)		Current fiscal year (From April 1, 2018 To March 31, 2019)	
	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	4	30	17	5
Increase during the period	15	5	2	3
Decrease during the period (intended use)	(2)	(17)	(1)	(3)
Decrease during the period (reversal)	-	(13)	(16)	(1)
Ending balance	17	5	2	3

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, 2018 and 2019.

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 and other credit facilities

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, 2018)	Current fiscal year (March 31, 2019)
	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:

Previous fiscal year (March 31, 2018)

	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	4,169	4,169	4,169	-	-
Borrowings	43,751	44,043	1,332	42,711	-
Lease obligations	2,522	2,730	932	1,392	405
Total	50,443	50,943	6,434	44,103	405

Current fiscal year (March 31, 2019)

	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	5,240	5,240	5,240	-	-
Borrowings	41,694	42,057	1,634	40,423	-
Lease obligations	3,576	4,058	864	2,125	1,067
Total	50,511	51,356	7,739	42,548	1,067

(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, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Profit for the year before income taxes	(440)	(420)

(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, 2018)		Current fiscal year (March 31, 2019)	
	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	2,629	2,735	2,664	2,756
Total	2,629	2,735	2,664	2,756
Financial liabilities				
Borrowings	43,751	43,751	41,694	41,694
Lease obligations	2,522	2,299	3,576	3,561
Total	46,273	46,050	45,270	42,255

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

Borrowings and lease obligations 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

The fair values of the lease and guarantee deposits are the present value of future cash flows discounted by the assumed additional borrowing rate that reflects the time to maturity.

(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 obligations

The fair values of lease obligations 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, 2018 and 2019.

Previous fiscal year (March 31, 2018)

	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	-	-	105	105
Equity instruments measured at fair value through profit or loss				
Other financial assets	-	16	-	16
Total	-	16	105	122

Current fiscal year (March 31, 2019)

	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	-	-	190	190
Equity instruments measured at fair value through profit or loss				
Other financial assets	-	16	-	16
Total	-	16	190	207

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. Unobservable inputs such as discount rates and valuation multiples are used for fair value measurements of unlisted stocks, adjusted for certain illiquidity discounts, if necessary.

(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, 2017 to March 31, 2018)

	Fair value measurement as of the reporting date
	Equity instruments measured at fair value through other comprehensive income
	Millions of yen
Beginning balance	89
Net gain or loss	
Other comprehensive income (Note)	16
Purchase	-
Sale	-
Other	-
Ending balance	105

(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, 2018 to March 31, 2019)

	Fair value measurement as of the reporting date
	Equity instruments measured at fair value through other comprehensive income
	Millions of yen
Balance at the beginning of the year	105
Net gain or loss	
Other comprehensive income (Note)	85
Purchase	-
Sale	-
Other	-
Ending balance	190

(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.

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, 2018 and 2019.

(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, 2017 to March 31, 2018)

			Changes incurred from non-cash transactions			
	Balance as of April 1, 2017	Changes in cash flows	Amortized cost measurement	New lease	Other	Balance as of March 31, 2018
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Borrowings	44,706	(1,028)	73	-	-	43,751
Lease obligation	3,139	(1,297)	-	869	(189)	2,522
Total	47,846	(2,325)	73	869	(189)	46,273

Current fiscal year (From April 1, 2018 to March 31, 2019)

			Changes incurred from non-cash transactions			
	Balance as of April 1, 2018	Changes in cash flows	Amortized cost measurement	New lease	Other	Balance as of March 31, 2019
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Borrowings	43,751	(2,167)	110	-	-	41,694
Lease obligation	2,522	(972)	-	2,092	(65)	3,576
Total	46,273	(3,139)	110	2,092	(65)	45,270

31. 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, 2018)	Current fiscal year (March 31, 2019)
			%	%
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

(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, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Current assets	4,421	5,139
Non-current assets	11,871	11,003
Current liabilities	2,592	2,745
Non-current liabilities	3,173	2,913
Net assets	10,527	10,484
Equity attributable to owners of the parent	8,428	8,395
Non-controlling interests	2,099	2,089

	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen
Net sales	12,257
Profit for the year	1,942
Other comprehensive income	-
Comprehensive income for the year	1,942
Cash flows from operating activities	2,899
Cash flows from investing activities	(558)
Cash flows from financing activities	(1,399)
Net (decrease) increase in cash and cash equivalents	941
Profit for the year distributed to non-controlling interests	399
Dividends paid to non-controlling interests	409

32. 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, 2017 to March 31, 2018)

Type	Name	Details of transaction	Transaction amount	Unsettled amount
			Millions of yen	Millions of yen
Parties with joint control of the company	MAS Holdings, Co., Ltd. (Note 1)	Collateral for the Company's bank borrowings	5,000	-
	Red Anchor Investments Limited (Note 1)	Collateral for the Company's bank borrowings	5,000	-

(Notes)

1. MAS Holdings, Co., Ltd. and Red Anchor Investments Limited directly own 50% of the Company's voting rights. MAS Holdings, Co., Ltd. is a subsidiary of Marubeni Corporation and Red Anchor Investments Limited is a subsidiary of funds advised by CVC Asia Pacific Limited. Note, MAS Holdings, Co., Ltd. allotted all its shares in ARTERIA Network Corporation to Marubeni Corporation via a distribution-in-kind on July 12, 2018.

Current fiscal year (From April 1, 2018 to March 31, 2019)

Type	Name	Details of transaction	Transaction amount	Unsettled amount
			Millions of yen	Millions of yen
Parties with joint control of the company	MAS Holdings, Co., Ltd. (Note 1)	Collateral for the Company's bank borrowings (Note 5)	5,000	-
	Red Anchor Investments Limited (Note 3)	Contribution to director's remuneration from this company (Note 4)	67	-
		Collateral for the Company's bank borrowings (Note 5)	5,000	
Parent of a party with joint control of the company	Marubeni Corporation (Note 1, 2)	Interlocking director Acceptance seconded employee	-	-
Sister company of parties with joint control of the company	Marubeni Information Systems Co., Ltd.	Purchase of equipment (Note 6)	867	422

(Notes)

1. MAS Holdings, Co., Ltd which was a subsidiary of Marubeni Corporation and used to own 50% of the Company's voting rights, allotted all its shares of the Company to Marubeni Corporation via a distribution-in-kind on July 12, 2018. Therefore MAS Holdings, Co., Ltd is no longer our affiliate company and Marubeni Corporation became the affiliate of the Company.
2. Marubeni Corporation became our parent company when they acquired additional shares of our common stock after our listing on December 12, 2018. A description is omitted as the transaction amount with Marubeni Corporation is immaterial.
3. Red Anchor Investments Limited was a subsidiary of funds advised by CVC Asia Pacific Limited and used to own 50% of the Company's voting rights. However Red Anchor Investments Limited is no longer our shareholder since they sold part of our issued shares when we were listed on December 12, 2018, and sold the rest of their shares on March 14, 2019.
4. The Company recognized ¥67 million of remuneration paid to a former director as an increase in capital surplus in this fiscal year, since former shareholder, Red Anchor Investments Limited executed the payment.
5. Shares of the Company and its subsidiaries pledged as collateral offered for the Company's bank borrowings were released under the AMENDMENT AND RESTATEMENT AGREEMENT dated July 11, 2018.
6. The transaction terms and conditions were determined by the Board of Directors in consideration of the prevailing market price.

(2) Compensation to key management personnel

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Compensations and bonuses	175	244
Post-employment benefit	0	0
Total	176	245

33. Commitments

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

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Acquisition of property, plant and equipment and intangible assets	1,084	616

34. Subsequent Events

Not applicable

Independent Auditor's Report

July 31, 2019

The Board of Directors
ARTERIA Networks Corporation

Ernst & Young ShinNihon LLC

Designated and Engagement Partner
Certified Public Accountant: Tadashi Watanabe (Seal)

Designated and Engagement Partner
Certified Public Accountant: Shinichi Masuda (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of ARTERIA Networks Corporation and its subsidiaries included in the Financial Information, which comprise the consolidated statement of financial position as at March 31, 2019, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to consolidated financial statements for the fiscal year from April 1, 2018 to March 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ARTERIA Networks Corporation and its consolidated subsidiaries as at March 31, 2019, and the consolidated results of their operation and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

(The above represents a translation, for convenience only, of the original report issued in the Japanese language.)