

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fujitsu Limited and Consolidated Subsidiaries

## 1. Reporting Entity

Fujitsu Limited (the "Company") is a company domiciled in Japan. The Company's consolidated financial statements consist of the Company, its consolidated subsidiaries (together, the "Group"), and the equity interests held in associates of the Group. In the field of ICT, while delivering a wide variety of services, the Group offers comprehensive solutions, from the development, manufacturing, and sales to the maintenance and operations of cutting-edge, high-performance, high-quality products and electronic devices that support services.

## 2. Basis of Preparation

The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), based on Article 93 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976; the "Ordinance on Consolidated Financial Statements"), and the requirements for "specified company applying Designated IFRS" set forth in Article 1-2, items 1 and 2.

The consolidated financial statements were approved on June 26, 2017 by the Company's President and Representative Director, Tatsuya Tanaka, and Chief Financial Officer, Hidehiro Tsukano.

The consolidated financial statements, except for the following important items in the consolidated statement of financial position, have been prepared based on acquisition cost.

Derivative financial instruments are measured at fair value.

Available-for-sale financial assets are measured at fair value.

Net defined benefit liability (asset) is measured at the present value of the defined benefit obligation less the fair value of plan assets.

The consolidated financial statements are presented in Japanese yen. The financial information presented in Japanese yen is rounded to the nearest million yen.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

### (a) Basis of consolidation

#### (i) Business combinations

Acquisitions of subsidiaries, accounted for using the acquisition method, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The Group measures goodwill at the acquisition date as follows:

- fair value of consideration transferred, plus
- the recognized amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, less
- the net recognized amount of the identifiable assets acquired and liabilities assumed.

A gain from a bargain purchase in a business combination is recognized in profit or loss.

Any transaction costs which are incurred in connection to a business acquisition, such as legal fees, due diligence fees, and other professional or consulting fees, are expensed as incurred and not included within the fair value of consideration transferred.

*(ii) Acquisition of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognized as a result of such transactions. A change in the ownership interest, without changing control, is accounted for as an equity transaction.

*(iii) Subsidiaries*

Subsidiaries are entities which the Group controls. Financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

The Group's consolidated financial statements include financial statements of subsidiaries that have a different reporting date from that of the consolidated financial statements. In such cases, for consolidation purposes, the subsidiary prepares additional financial information as of the same date as the financial statements of the parent, unless it is impracticable to do so. In such cases, the effects of significant transactions or events that occur between those dates are adjusted in the consolidated financial statements. In any case, the difference between those dates is no more than three months.

Comprehensive income of a subsidiary is attributed to the owners of the parent and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*(iv) Loss of control*

If the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests, and other components of equity related to the subsidiary. Any gain or loss arising from loss of control is recognized in profit or loss. If the Group retains any interest in the subsidiary, that investment is remeasured at fair value on the day that control ceases. Subsequently, it is accounted for as an equity method associate or as an available-for-sale financial asset depending on the level of influence retained.

*(v) Investments in associates and joint ventures (equity-accounted investments)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence over the investee, unless it can be clearly demonstrated that this is not the case. In addition, the Group assumes that it has significant influence over the investee, if the Group has rights for involvements in deciding financial and operating policies of the investee through the board meeting. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, requiring unanimous consent of the parties sharing control for important financial and operating decisions and the parties, including the Group, have rights to the net assets of the arrangement.

Investments in associates and joint ventures are initially accounted for at cost and subsequently under the equity method. Any acquisition costs are included in the cost of the investment.

The consolidated financial statements include the Group's share of profit or loss and other comprehensive income of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases.

The Group's consolidated financial statements include financial statements of associates or joint ventures that have a different reporting date from that of the consolidated financial statements. In such cases, for consolidation purposes, the associate or joint venture prepares additional financial information as of the same date as the financial statements of the parent, unless it is impracticable to do so. In such cases, the effects of significant transactions or events that occur between those dates are adjusted in the consolidated financial statements. In any case, the difference between those dates is no more than three months.

When the Group's share of losses exceeds its investment in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations or made payments on behalf of the investee.

*(vi) Consolidation adjustments*

All inter-Group balances, transactions, and unrealized gains and losses resulting from inter-Group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains only if there is no evidence of impairment.

**(b) Foreign currencies***(i) Transactions denominated in foreign currencies*

Transactions denominated in foreign currencies are translated into the functional currency of each Group company at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost denominated in foreign currencies are translated at the foreign exchange rate at the date of the transaction.

Foreign exchange differences arising on translation are recognized in profit or loss. However, foreign exchange translation differences upon conversion of equity securities classified as available-for-sale financial assets and effective cash flow hedges are recognized in other comprehensive income.

*(ii) Financial statements of foreign operations*

The assets and liabilities of foreign operations, including any goodwill arising on the acquisition and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are translated into Japanese yen at the rate of exchange prevailing at the reporting date and their revenue and expenses are translated at the average monthly exchange rate.

The foreign exchange differences arising on translation are recognized in other comprehensive income and included in foreign currency translation adjustments within other components of equity. Upon disposal of a foreign operation, if controlled, significant influence or joint control is lost and the accumulated amount of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss as part of gains and losses on the disposal.

**(c) Financial instruments***(i) Non-derivative financial assets*

The Group classifies non-derivative financial assets into the following categories: held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

The Group initially recognizes loans and receivables on the date that they originate. All other financial assets are recognized initially on the trade date, the date on which the Group becomes party to the contractual provisions.

The Group derecognizes a financial asset when contractual rights to the cash flows from the asset expire. In transferring contractual rights to the cash flows from a financial asset, the Group will derecognize the financial asset if the Group either transfers substantially all the risks and rewards of ownership of the financial asset or neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control of the asset. The Group will recognize another asset or liability to the extent that the Group retains any rights or obligations after the transfer.

Financial assets and liabilities are offset and presented net only when the Group has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Held-to-maturity investments**

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity that the Group intends and has ability to hold until maturity. This category includes corporate bonds for example. These investments are initially measured at fair value, plus any directly attributable transaction costs and subsequently at amortized cost using the effective interest method, less any impairment losses. The amortization charge for each period is recognized as financial income in profit or loss.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market; this category includes trade and other receivables. Such assets are initially measured at fair value, plus any directly attributable transaction costs and subsequently at amortized cost using the effective interest method, less any impairment losses. The amortization charge for each period is recognized as financial income in profit or loss.

**Available-for-sale financial assets**

Available-for-sale financial assets are those financial assets designated as available for sale or are not classified in one of the other categories above. They comprise equity securities and debt securities.

These assets are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at fair value at the reporting date. The resulting gains and losses, except impairment losses, foreign exchange gains, and losses on debt securities and interest costs incurred due to the effective interest method, are recognized in other comprehensive income and presented as available-for-sale financial assets in other components of equity. Upon derecognition of the assets, the gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

*(ii) Non-derivative financial liabilities*

The Group recognizes debt securities on the day that they are issued. All other financial liabilities are initially recognized on the trade date, the date on which the Group becomes party to contractual provisions. Other financial liabilities include loans and borrowings and trade and other payables.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

These financial liabilities are measured initially at fair value, less any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. The amortization charge for each period is recognized as financial expense in profit or loss.

*(iii) Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from capital surplus, net of any tax effects.

Treasury shares

When share capital recognized as equity (treasury shares) is repurchased, the amount of consideration paid net of tax effects, including directly attributable costs, is recognized as a deduction from equity. When treasury shares are subsequently sold or reissued, the amounts received are recognized as an increase in equity and the resulting gains and loss on the transactions are presented within capital surplus.

*(iv) Compound financial instruments*

The liability component of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the equity and liability components of the compound financial instrument in proportion to their initial carrying values.

Subsequently, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method; the equity component is not remeasured.

Interest related to the financial liability is recognized as financial expense in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

*(v) Derivative financial instruments*

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially and subsequently measured at fair value.

An embedded derivative is separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and if an individual instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives to which hedge accounting is not applied

When a derivative is not designated as a hedging instrument in accordance with the criteria for hedge accounting, any changes in the fair value of the derivative are recognized in profit or loss.

Derivatives to which hedge accounting is applied

Upon initial qualification of a derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk. The Group continually assesses the efficacy of hedging instruments for their ability to offset changes in the fair values of the cash flows of their respective hedged items, and whether the actual results of each hedge are within the acceptable range of 80–125%. For cash flow hedges, execution of a forecast transaction that is the subject of the hedge must be highly probable and must present exposure to variation in cash flows that could ultimately impact profit or loss.

Cash flow hedges

The effective portion of changes in fair value of a derivative is recognized in other comprehensive income and presented as cash flow hedges in other components of equity. Any ineffective portion of changes in the fair value is recognized in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in other components of equity is included in the carrying amount when the asset is recognized. In other cases, the amount accumulated in other components of equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. Discontinuation of hedge accounting applies prospectively from the date on which a derivative no longer meets the criteria for hedge accounting, expires, or is sold, terminated, or exercised. If a forecast transaction is no longer probable, then the balance in other components of equity is reclassified to profit or loss.

#### **(d) Property, plant and equipment (excluding leased assets)**

##### *(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes the following expenses which are directly attributable to the acquisition of the asset:

- Costs of employee benefits arising directly from the construction of the asset and costs of installation and assembly
- Estimate of costs of dismantling or restoring the asset if such obligation exists
- Capitalized borrowing costs

When different parts of an asset have different useful lives they are accounted for as separate items (by major parts).

Any gain or loss on disposal of an item of property, plant and equipment, calculated as the difference between net proceeds received and carrying amount of the item, is recognized as other income or expenses in profit or loss.

##### *(ii) Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that the future economic benefits from the expenditure will flow to the Group. Ongoing maintenance and repairs are expensed as incurred.

##### *(iii) Depreciation*

The depreciable amount (cost less residual value) for items of property, plant and equipment is allocated on a systematic basis over its useful life. The Group in principle adopts the straight-line method of depreciation reflecting the pattern of consumption (matching of costs with revenue) of the future economic benefits from the asset.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is either classified as held for sale or is derecognized.

The estimated useful lives for significant categories of property, plant and equipment are:

- |                                |               |
|--------------------------------|---------------|
| • Buildings                    | 7 to 50 years |
| • Machinery and equipment      | 3 to 7 years  |
| • Tools, fixtures and fittings | 2 to 10 years |

Depreciation methods, useful lives, and residual values are reviewed and adjusted if necessary.

**(e) Goodwill**

For the measurement of goodwill at the acquisition date, please refer to Note "3 (a) (i) Business combinations."

## Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Goodwill in relation to equity-accounted investments is included in the carrying amount of the investment and, therefore, the entire carrying amount of the investment as a single asset is compared with the recoverable amount for the purpose of impairment test. An impairment loss is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment.

**(f) Intangible assets***(i) Research and development*

Research is basic and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditures on research activities are expensed as incurred in profit or loss.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, etc.

Development activities include a plan or design for the production of new or substantially improved products or processes. Development expenditures are capitalized only if they can be reliably measured, the product or process is technically and commercially feasible, it is probable that the future economic benefits will flow to the Group, and the Group intends to and has the ability as well as sufficient resources to complete development and to use or sell the asset. Capitalized expenditures include directly attributable cost of generation and manufacture of the asset as well as bringing the asset to its working condition, such as cost of materials and cost of employee benefits. Other development expenditures are expensed as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and impairment losses.

*(ii) Software and other intangibles*

The Group develops software for sale and for its own use. An intangible asset is recognized if it meets the criteria for capitalization of development expenditures as described in the preceding section. The cost of software includes costs of employee benefits as well as costs of materials and services used or consumed in generating the software. The cost of a separately acquired intangible asset is capitalized because normally the price the Group pays to acquire the asset reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group. Other intangible assets are measured at historical cost less accumulated amortization and impairment losses.

*(iii) Amortization*

Software held for sale is amortized based on the expected sales volumes and allocated equally based on the remaining useful life. Software for internal use and other intangible assets with finite useful lives are amortized over their respective useful lives using, in principle, the straight-line method to reflect the pattern of consumption of the expected future benefits from the assets. Goodwill acquired in a business combination is not amortized.

The estimated useful lives are:

- Software held for sale            3 years
- Software for internal use        Within 5 years

Amortization methods, useful lives, and residual values are reviewed and adjusted if necessary.

**(g) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments at inception of the lease term. Subsequently, the asset is depreciated over the shorter period of either the lease term or the economic useful life of the leased asset. The depreciation expense is recognized as incurred in profit or loss.

All other leases are assumed to be operating leases and the annual rentals are charged to profit or loss on a straight-line basis over the lease term.

#### **(h) Inventories**

Inventories are measured at cost. However, should the net realizable value (NRV) at the reporting date fall below the cost, inventories are measured at the NRV, with the difference in value between the cost and the NRV, in principle, booked as cost of sales.

The cost of inventories comprises costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are interchangeable is determined by the moving-average cost method or the periodic average method, whereas the cost of inventories of items that are not interchangeable is determined by the specific identification method.

NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated direct selling expenses. Inventories that are slow moving and inventories held for long-term maintenance contracts are measured at the NRV that reflects future demand and market trends.

#### **(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with a maturity of three months or less from the date of acquisition and an insignificant risk of changes in value. The ending balance of cash and cash equivalents in the consolidated statement of cash flows excludes overdrafts that are included and presented in short-term borrowings, current portion of long-term debt and lease obligations in the consolidated statement of financial position.

#### **(j) Impairment**

##### *(i) Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss are assessed for objective evidence of impairment at the reporting date and the amount of impairment loss is determined if any such evidence exists.

Objective evidence that financial assets are impaired includes significant financial difficulty of a debtor, restructuring of an amount due to the Group on terms which the Group would not consider otherwise, adverse changes in the payment status of borrowers or issuers such as bankruptcy, and other adverse changes in the economic climate impacting default of payment such as the disappearance of an active market for a security. In addition, equity investments are considered to be impaired if the fair value falls by more than 20% or there is a prolonged decline in the fair value throughout the year in comparison with the original acquisition value.

Financial assets measured at amortized cost

The impairment assessment is made at an individual level for assets considered to be individually significant, or at a collective level if not considered to be individually significant. If the Group determines no objective evidence of impairment on assets assessed individually, those assets are included within a group of assets with similar credit risk for collective impairment review as to whether an impairment loss is necessary. Individual assets for which an impairment loss has been recognized are not included in a collective assessment of impairment.

If there is objective evidence that a financial asset carried at amortized cost such as loans, receivables, and held-to-maturity investment securities has been impaired, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding possible bad debt losses in the future) discounted at the assets original effective interest rate (in other words, at the effective interest rate calculated at initial recognition). The carrying amount is reduced through the use of an allowance account. The impairment loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in a debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal will not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

#### Available-for-sale financial assets

When a decline in the fair value of available-for-sale financial assets has been recognized in equity and there is objective evidence that the asset has been impaired, the accumulated loss already recognized in equity is reclassified to profit or loss. The amount of cumulative loss reclassified is equal to the difference between acquisition cost (less repayment of principal or amount of amortization if any) and current fair value, less any impairment losses on the asset previously recognized in profit or loss. The reversal of impairment losses of equity instruments is recognized in other comprehensive income. For debt securities that are classified as available-for-sale financial assets, reversal of impairment losses is recognized in profit or loss if the increase in its fair value can be objectively related to an event occurring after initial impairment.

#### (ii) Non-financial assets

If there is an indication of impairment for non-financial assets other than inventories and deferred tax assets, the asset's recoverable amount is estimated and the asset is tested for impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment both annually and when there is an indication of impairment. An impairment loss is recognized if the recoverable amount of an asset or cash-generating unit (CGU) is less than its carrying amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows associated with the asset or CGU are discounted to present value using a pre-tax discount rate which reflects current market assessments of the time value of money and any risks specific to the asset or CGU. For impairment testing purposes, assets are grouped together into the smallest group of assets that generate cash inflows independently of cash inflows of other assets or CGUs. Goodwill is grouped together so that the impairment is tested for the smallest group of units used for internal reporting purposes. Goodwill acquired in a business combination is allocated to the groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to that CGU (or CGU group) and then to reduce the carrying amounts of other assets in the CGU (or CGU group) on a pro-rata basis.

Impairment losses on goodwill are not reversed. For all other assets, impairment losses are only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### (k) Assets classified as held for sale

Non-current assets (or disposal group) are classified as held for sale if the carrying amount of the assets will be principally recovered through sale rather than through continuing use. Furthermore, non-current assets (or disposal group) are classified as held for sale if the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group), its sale is highly probable, the appropriate level of management is committed to a plan to sell the asset (or disposal group), and the sale is expected to be completed within one year from the date of classification. Non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and they are no longer depreciated or amortized. An impairment loss is recognized in profit or loss for any initial or subsequent write-down of the non-current asset (or disposal group) to fair value less costs to sell. Equally a gain is recognized for any subsequent increase in the fair value, but not in excess of the accumulated impairment losses previously recognized.

#### (l) Employee benefits

##### (i) Retirement benefit plans

##### Defined benefit plans

The Group's net defined benefit liability (asset) is measured at the present value of the defined benefit obligation less the fair value of plan assets. The defined benefit liability in respect of each defined benefit plan is calculated separately by estimating the amount of future benefits employees have earned in return for services rendered and discounted to present value. The calculation is performed in each reporting period by qualified actuaries using the projected unit credit method. The discount rate used is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximate to the terms of the Group's obligations that are denominated in the currency in which the benefits are expected to be paid.

The Group recognizes in profit or loss the current service cost that is calculated by the projected unit credit method using an actuarial technique. Net interest on the net defined benefit liability (asset), which is determined by multiplying the net defined benefit liability (asset) by the appropriate discount rate, is recognized in profit or loss. The Group recognizes any past service cost in profit or loss when a plan is amended or curtailed. A gain or loss on a settlement of a pension plan is also recognized in profit or loss when the settlement actually occurs.

Remeasurements of the net defined benefit liability (asset) (actuarial gains and losses) are recognized, after adjusting for tax effects, under other comprehensive income, and immediately reflected in retained earnings.

#### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligations to pay further amounts. Contributions to defined contribution plans are recognized as employee costs in profit or loss in the period when the service is provided by the employee.

#### *(ii) Termination benefits*

Termination benefits are recognized as employee expenses in profit or loss when the Group announces a detailed formal plan to terminate employment or to provide termination benefits as part of a restructuring program in the form of redundancy. Such termination benefits are recognized in profit or loss only when withdrawal of the plan is not practicable.

#### *(iii) Short-term employee benefits*

The cost of short-term employee benefits are measured on an undiscounted basis and recognized in profit or loss as the service is provided by the employee. A liability is recognized for any bonus expected to be paid in accordance with the Group policy as the service is provided by the employee.

### **(m) Provisions**

A provision is recognized if, as result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are discounted to present value using a pre-tax rate that reflects the time value of money and risks specific to the liability.

#### *(i) Provision for product warranties*

A provision for product warranties is recognized at the time of sales of the products at an amount that represents the estimated cost, based on past experience, to repair or exchange certain products within the warranty period.

#### *(ii) Provision for contract losses*

A provision is recognized for losses on projects such as customized software development if it is probable that the total estimated project costs exceed the total estimated project revenues.

#### *(iii) Asset retirement obligation*

A provision is made mainly for the estimated cost of restoring the leased site at the agreement of the lease, in accordance with the laws or contracts.

#### *(iv) Provision for restructuring*

A provision is recognized for the estimated costs of restructuring such as personnel rationalization and disposal of business, only when the Group starts to implement the plan or announces its main features to those affected by the plan.

**(n) Revenue***(i) Product revenue*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when a contract exists, significant risk and rewards of ownership have transferred to the customer, it is probable that the future economic benefits will flow to the Group, associated costs and possible return of the goods can be measured reliably, there is no continuing involvement in the management of the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the value can be reliably estimated at time of sale then these are deducted from revenue as it is recognized. The Group offers various marketing programs including volume discounts and sales incentives to customers in channel sales. If such incentives are given directly to customers and the amount is based on sales proceeds or volumes, then the incentives are deducted directly from revenue because they in substance comprise discounts. For price protection credits based on inventory remaining in the sales channel, the corresponding revenue is reduced when a price adjustment is announced.

Revenue on standard hardware, such as personal computers, mobile phones, and electronic devices, is in principle recognized upon delivery to the customer and is subject to risks and rewards having passed to the customer. If installation is a significant part of the contract, such as servers and network products, revenue is in principle recognized upon customer acceptance.

Revenue on software which is preinstalled on the product before delivery is recognized at the same time as the revenue relating to the product itself is recognized. Revenue on standard software products (application package) is recognized on delivery unless further services or activities are required at which point revenue is recognized upon customer acceptance. Revenue from software licensing arrangements is recognized at point of sale if it can be demonstrated that delivery of licensed software is complete and there are no further performance obligations. Where these conditions are not met the license revenue is recognized over the license period on a straight-line basis. Revenue from services related to software products (e.g. upgrades or support) is generally recognized on a straight-line basis over the software contract period.

Where there are separately identifiable components in a contract or transaction, appropriate revenue recognition criteria is applied to each component (e.g. supply of hardware and ongoing services). Warranty or user training services that are provided to all customers equally and without charge is generally considered to be part of the primary transaction (supply of hardware), of which revenue is recognized as one transaction.

*(ii) Service revenue*

Revenue on ongoing service contracts is recognized over the period during which the service is provided. Revenue and costs for fixed price service contracts including construction contracts are recognized by reference to the stage of completion when the outcome of the transaction can be reliably estimated. The Group in principle adopts the percentage of completion method based on costs incurred to date as a percentage of total estimated project costs. When milestones are defined at contract inception, revenue is recognized based on completion of the contractual milestones.

In applying the percentage of completion method, the cumulative impact of change in estimates is recognized in profit or loss in the period in which the changes become known and estimable. An expected loss, which is a difference between total estimated project costs and total estimated project revenues, is recognized in profit or loss.

Where outsourcing services are charged on a per unit basis, revenue is recognized when the service is rendered and is billed or billable. Where services are charged on a time period basis, revenue is recognized evenly over the period of the service contract. Revenue for maintenance agreements is in principle recognized over the period in which the services are provided. Where maintenance services are charged on a time period basis, revenue is recognized on a time and materials basis.

*(iii) Agent transactions*

Revenue is recognized at the net amount if the Group does not assume financial risks, such as credit risk, associated with the contract or transaction and acts as an agent in supplying products or services.

*(iv) Operating leases*

Revenue arising from hardware used by a customer under the terms of an operating lease is recognized evenly over the lease term.

**(o) Financial income and expenses**

Financial income includes dividend income, interest income, gains on foreign exchange, gains on sales of available-for-sale financial assets, gains on hedging instruments recognized in profit or loss, and reclassifications of amounts previously recognized in other comprehensive income. Interest income is recognized as incurred using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Financial expenses include interest expenses on bonds, borrowings, and lease obligations; losses on foreign exchange, losses on sales of available-for-sale financial assets (excluding accounts receivables); losses on hedging instruments recognized in profit or loss; and reclassifications of amounts previously recognized in other comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset is recognized as incurred using the effective interest method. Total minimum lease payments for finance leases are allocated to the portion of financial expenses and the unpaid balance of liabilities and the financial expenses are allocated over the lease term on a pro rata basis against the unpaid balance of liabilities.

**(p) Income tax expenses**

Income tax expenses comprise current and deferred tax, both of which are recognized in profit or loss except to the extent that it relates to a business combination or items recognized in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or loss for the year, using tax rates and tax laws enacted or substantially enacted at the reporting date, with any tax adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amount of assets and liabilities and the amounts used for tax purposes, the carryforward of unused tax losses, and unused tax credits. Deferred tax is not recognized for the following:

- Temporary differences on the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and associates to the extent that the parent 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; and
- Taxable temporary differences arising on initial recognition of goodwill.

Deferred tax assets and liabilities are measured using the tax rates that are expected to be applied in the period when the assets are realized or the liabilities are settled, based on the tax laws enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset current tax assets against current tax liabilities.

A deferred tax asset is recognized for the carryforward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are impaired if it is no longer probable that future taxable income would be sufficient to allow part or all of the benefit of the deferred tax asset to be realized. Deferred tax liabilities are recognized in principle for all taxable temporary differences.

**(q) Discontinued operations**

Classification as a discontinued operation occurs on the date of disposal or the date at which a separate operating segment meets the definition of being held for sale, whichever is earlier. When an operating segment is classified as a discontinued operation, the comparative profit or loss statement is re-presented as if the operating segment had been discontinued from the start of the comparative year.

#### 4. Use of Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Assumptions about the current situation and future prospects could change depending on the changes in the market or other circumstances that are out of the control of the Group. The assumptions are revised when such changes occur. The key estimates and judgments that have a significant effect on the amounts recognized in the consolidated financial statements are as follows.

##### (a) Revenue recognition

Revenue and cost for fixed-price service contracts, including construction contracts, are recognized by reference to the stage of completion when the outcome of the contract can be reliably estimated. Recognition of the revenue and cost are dependent on the estimate of project costs and revenues as well as the measurement of the stage of completion. The Group in principle adopts the percentage of completion method based on costs incurred to date as a percentage of total estimated project costs. When milestones are defined at contract inception, revenue is recognized based on completion of contractual milestones.

Assumptions about the estimates and measurement are reviewed as necessary. The impact from changes in the assumptions is recognized in the period in which the reliable estimate can be made. Revisions to the original estimate, as a result of the changes in the contract amount or costs for completion, could have a significant effect on the amounts recognized in the consolidated financial statements.

##### (b) Inventories

Inventories are measured at cost. However, should the net realizable value ("NRV") at the reporting date fall below the cost, inventories are subsequently measured based on the NRV, with the difference in value between the cost and the NRV, in principle, booked as cost of sales. Slow-moving inventories and those outside the normal operating cycle are calculated at an NRV that reflects future demand and market trends. The Group may experience substantial losses in cases where the NRV drops dramatically as a result of deterioration in the market environment against the forecast.

##### (c) Property, plant and equipment

Depreciation for an item of property, plant and equipment is calculated primarily using the straight-line method, based on the estimated useful life that reflects the period in which the asset's future economic benefits are expected to be consumed. The depreciation charge for the period could increase if an item of property, plant and equipment becomes obsolete or repurposed in the future and the estimated useful life becomes shorter. An impairment loss may be recognized if there is a decrease in the expected future cash flows from the asset as a result of underutilization of production facilities or a decrease in the capacity utilization rate associated with rapid changes in the business environment as well as business realignment.

##### (d) Goodwill

Goodwill is tested for impairment both annually and when there is an indication of impairment. An impairment loss is recognized if the recoverable amount of a CGU to which the goodwill is allocated is less than its carrying amount.

The recoverable amount of a CGU is in most cases measured at the value in use. The value in use of a CGU is calculated using the discounted cash flow model with assumptions such as future cash flow, growth rate, and discount rate. Future cash flow is based on the business plan. The growth rate for the periods beyond the term of the business plan is determined primarily based on the inflation rate in the area where each CGU is located and long-term average growth rate in the industry to which each CGU belongs. The discount rate is calculated primarily based on the weighted average cost of capital of the Group company to which each CGU belongs.

These assumptions represent management's best estimates and judgments. Impairment losses could be recognized when the assumptions are revised as a result of a change in the market environment or other changes in the circumstances.

**(e) Intangible assets**

Computer software for sale is amortized by a method based on projected sales volume over the estimated useful life. An intangible asset with a finite useful life, including software for internal use and other intangible assets, is amortized on a straight-line basis in principle to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Should actual sales volumes fail to meet initial projected volumes due to changes in the business environment, etc., or should actual useful life in the future be less than the original estimate, there is a risk that amortization expenses for the reporting period may increase.

**(f) Available-for-sale financial assets**

An available-for-sale financial asset is measured at its fair value based on the market price or other inputs at the reporting date. Other comprehensive income fluctuates as a result of changes in the fair value of available-for-sale financial assets. An impairment loss for an available-for-sale financial asset is recognized or could be recognized in future periods if there is a significant or prolonged decline in the fair value.

**(g) Deferred tax assets**

Reasonable estimates and judgments about various factors are necessary in the calculation of income taxes. Such factors include interpretation of tax regulations and revision of tax laws in the jurisdictions where the Group operates. If there is a difference between the amount of income tax that the Group recognized and the amount presented by the taxation authorities, there could be a significant effect on the amounts recognized in the financial statements for the following periods.

A deferred tax asset is recognized for the carryforward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The amount and the timing when the taxable profit occurs could be affected by uncertain changes in economic terms in the future. When the actual amount and timing are different from those of the estimate, there could be a significant effect on the amounts recognized in the financial statements for the following periods. In addition, the carrying amount of a deferred tax asset could fluctuate if an effective tax rate changes as a result of an amendment to tax laws.

A deferred tax asset is not recognized for certain unused tax losses, unused tax credits, and deductible temporary differences. Tax losses can be carried forward for 9 years under the current tax laws for Japan, 20 years for the US, and indefinitely for the UK.

**(h) Provisions***(i) Provision for product warranties*

Some of the Group's products such as PCs and mobile phones are covered by contracts that require the Group to repair or exchange them free of charge during a certain period of time. The Group recognizes a provision for estimated repair and exchange expenses at the time of sale based on past records such as defect ratio, repair cost, and residual contract period. The Group is taking steps to strengthen quality management during the product development, manufacturing, and procurement stages. However, should product defects or other problems occur at a level in excess of that covered by the estimated expenses, additional expenses may be incurred.

*(ii) Provision for contract losses*

The Group records provisions for losses on projects such as customized software development if it is probable that the total estimated project costs exceed the total estimated project revenues and the amount of losses can be reliably measured. The Group is taking steps to curtail the emergence of new, unprofitable projects by moving ahead with the standardization of its business processes, establishing a check system as a dedicated organizational component, and conducting risk management throughout the entire progression of projects (beginning with business negotiations). Notwithstanding these efforts, the Group may incur additional losses in the event of an increase in estimated project costs in the future.

*(iii) Asset retirement obligation*

A provision is made, in preparation for restoring the leased site based on the contract, at an estimated amount to be paid based on past experience. Such expenses are expected to be paid when leaving the site and could change depending on the review of the business plan in the future.

*(iv) Provision for restructuring*

A provision is recognized for the estimated costs of restructuring such as personnel rationalization and disposal of business. The costs are estimated based on the announced plan and could fluctuate when the plan is reviewed as a result of a rapid change in the business environment.

**(i) Defined benefit plans**

The Company and its consolidated subsidiaries have both defined benefit and defined contribution retirement benefit plans. Net defined benefit liability (the present value of the defined benefit obligation less the fair value of plan assets) is recognized, when remeasured, in other comprehensive income after adjusting for tax effects. The gains and losses recognized in other comprehensive income are immediately reclassified into retained earnings. Net defined benefit liability could be worsened if the fair value of plan assets decreases as a result of deterioration of return on plan assets or if a defined benefit liability increases as a result of a change in assumptions (such as discount rate, turnover ratio, and mortality ratio) for determining the defined benefit liability, which could lead to a reduction in equity.

**5. Accounting Standards Issued but Not Yet Effective**

The following new or amended accounting standards have been released by the date that the consolidated financial statements were approved, but the Group has not yet applied them.

The effects of applying these standards are now being reviewed and are difficult to estimate at this time.

Standard		Effective date	Timing of application	Outline of new or amended standards
IFRS 15	Revenue from contracts with customers	Annual reporting periods beginning on or after January 1, 2018	FY2018 April 1, 2018– March 31, 2019	Clarifications of the core principle and introduction of five steps for revenue recognition and amendments pertaining to accounting treatment and disclosure on revenue recognition (such as accounting for variable consideration and licensing and disclosure for transaction price allocated to the remaining performance obligations)
IFRS 9	Financial instruments	Annual reporting periods beginning on or after January 1, 2018	FY2018 April 1, 2018– March 31, 2019	Amendments pertaining to classification and measurements of financial instruments (including prohibition of reclassification to profit or loss for subsequent changes in the fair value of an investment in an equity instrument if such changes are elected to be presented in other comprehensive income) and introduction of impairment based on expected credit losses model for financial assets
IFRS 16	Leases	Annual reporting periods beginning on or after January 1, 2019	FY2019 April 1, 2019– March 31, 2020	Amendments pertaining to accounting treatment and disclosure on leases primarily for a lessee such as recognition of right-of-use assets and lease liabilities in principle for all leases

## 6. Segment Information

### (1) Segment overview

The Company's reportable segments consist of components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resource allocation to the segments and assess their performance.

In the field of information and communication technology (ICT), while delivering a wide variety of services, the Group offers comprehensive solutions, from the development, manufacturing, and sales to the maintenance and operations of cutting-edge, high-performance, high-quality products and electronic devices that support services. The Group's business is organized into three reportable segments—Technology Solutions, Ubiquitous Solutions, and Device Solutions—based on the Group's managerial structure, characteristics of the products and services, and the similarities of the sales market within each operating segment. Managerial structure and product and service classification in each reportable segment are as follows.

#### (a) Technology Solutions

The Group has a composite business management structure, organized along business lines, with categories of products and services enabling global strategic proposals, cost management, and other business management operations so as to provide customers the optimum products, software, and services in an integrated format. This matrix structure is also organized along customer lines, categorized into Japan, EMEIA (Europe, the Middle East, India, and Africa), Americas, Asia, and Oceania.

This reportable segment consists of Solutions/Systems Integration, which are services for the construction of information and communication systems; Infrastructure Services, which are primarily cloud services, outsourcing, and maintenance services; System Products, which cover mainly the servers and storage systems that comprise ICT platforms, and Network Products, which are used to build communications infrastructure, such as mobile phone base stations and optical transmission systems.

#### (b) Ubiquitous Solutions

The segment is organized into independent business management units along product lines and includes the sales departments.

This reportable segment contains ubiquitous terminals, including personal computers and mobile phones, as well as car audio and navigation systems, mobile communication equipment, and automotive electronic equipment, that collect various information and knowledge generated from the behavioral patterns of people and organizations needed to achieve the Group's vision of a "Human Centric Intelligent Society" (a safer, more prosperous and sustainable society built by the power of technology).

#### (c) Device Solutions

The segment is organized by product in independent business management units which include the respective sales departments and contains cutting-edge technologies, including LSI devices used in mobile phones, digital home appliances, automobiles, and servers, as well as electronic components, such as semiconductor packages and batteries.

Accounting treatment applied to operating segments is mostly the same as in the Note "3. Significant Accounting Policies."

Profit figures for the operating segments are presented on the basis of operating profit, but because corporate expenses are managed on the basis of the entire Group, they are not allocated to the operating segments. In addition, because the Group's finances (including financial income and expenses) and income from investments accounted for using the equity method are also managed on the basis of the entire Group, they are not allocated to the operating segments.

Intersegment transactions are based on an arm's length price.

**(2) Amounts of revenue, operating profit, and other items by reportable segment**

Years ended March 31	Reportable segments				Other	Elimination and Corporate	Consolidated
	Technology Solutions	Ubiquitous Solutions	Device Solutions	Subtotal			
(Millions of yen)							
2016							
Revenue							
External customers	¥3,222,645	¥ 917,703	¥550,894	¥4,691,242	¥ 18,261	¥ 29,791	¥4,739,294
Inter-segment	60,706	123,201	53,031	236,938	49,034	(285,972)	-
Total Revenue	3,283,351	1,040,904	603,925	4,928,180	67,295	(256,181)	4,739,294
Operating Profit	186,233	(7,653)	30,387	208,967	(22,959)	(65,396)	120,612
Financial income							7,673
Financial expenses							(14,925)
Income from investments accounted for using the equity method, net							18,462
Profit before income taxes							131,822
(Other items)							
Depreciation and amortization	(108,824)	(23,095)	(39,831)	(171,750)	(3,892)	(9,108)	(184,750)
Impairment loss	(10,744)	-	(3,536)	(14,280)	(190)	(3,903)	(18,373)
Capital expenditure (including intangible assets and goodwill)	128,774	17,305	58,434	204,513	8,215	9,723	222,451
2017							
Revenue							
External customers	3,066,325	905,253	497,898	4,469,476	12,517	27,701	4,509,694
Inter-segment	60,323	120,544	46,453	227,320	56,326	(283,646)	-
Total Revenue	3,126,648	1,025,797	544,351	4,696,796	68,843	(255,945)	4,509,694
Operating Profit	190,747	28,786	4,254	223,787	(25,553)	(69,373)	128,861
Financial income							6,559
Financial expenses							(7,227)
Income from investments accounted for using the equity method, net							6,954
Profit before income taxes							135,147
(Other items)							
Depreciation and amortization	(102,065)	(21,388)	(42,356)	(165,809)	(4,178)	(7,214)	(177,201)
Impairment loss	(5,897)	-	(4,051)	(9,948)	(67)	(2,007)	(12,022)
Capital expenditure (including intangible assets and goodwill)	103,648	20,347	46,434	170,429	3,519	9,812	183,760

- Notes: 1. The "Other" segment consists of operations not included in the reportable segments, such as Japan's Next-Generation Supercomputer project, Next-Generation Cloud services and facility services and the development of information systems for Group companies, and welfare benefits for Group employees.
2. Revenue under "Elimination and Corporate" represents the elimination of intersegment transactions and others.
3. Operating profit under "Elimination and Corporate" includes corporate expenses and the elimination of intersegment transactions. For the years ended March 31, 2016 and 2017, corporate expenses were -¥67,141 million and -¥73,456 million, and the elimination of intersegment transactions were ¥1,745 million and ¥4,083 million, respectively.
- Corporate expenses mainly consist of strategic expenses such as basic research and development expenses which are not attributable to the reportable segments and shared Group management expenses incurred by the Company.

### (3) Information about products and services

#### Revenue to external customers

Years ended March 31	(Millions of yen)	
	2016	2017
Technology Solutions		
Services* <sup>1</sup>	¥2,728,436	¥2,579,727
System Platforms* <sup>2</sup>	494,209	486,598
Ubiquitous Solutions		
PCs/Mobile phones	534,199	497,211
Mobilewear* <sup>3</sup>	383,504	408,042
Device Solutions		
LSI	291,149	249,966
Electronic components	259,745	247,932
Other Operations	18,261	12,517
Elimination and Corporate	29,791	27,701
Total	<u>¥4,739,294</u>	<u>¥4,509,694</u>

\*<sup>1</sup> System integration (system construction and business applications), consulting, front-end technologies (ATMs and POS systems, etc.), outsourcing services (data centers, ICT operation/management, application operation/management, business process outsourcing, etc.), network services (business networks, distribution of Internet/mobile content), system support services (maintenance and surveillance services for information systems and networks), security solutions (installation of information systems and networks), and cloud services (including IaaS, PaaS, and SaaS)

\*<sup>2</sup> Full range of servers (mainframe, UNIX, mission-critical IA and x86 servers, etc.), storage systems, various types of software (operating system and middleware), network management systems, optical transmission systems, and mobile-phone base stations

\*<sup>3</sup> Car audio and navigation systems, mobile communication equipment, automotive electronics, and others

### (4) Geographical information

#### (a) Revenue to external customers

Years ended March 31	(Millions of yen)	
	2016	2017
Japan	¥2,845,078	¥2,865,627
Outside Japan		
EMEIA	952,020	778,110
Americas	420,485	386,978
Asia	421,074	385,135
Oceania	100,637	93,844
Total	<u>¥4,739,294</u>	<u>¥4,509,694</u>

Notes: 1. Revenue to external customers is classified by countries or regions based on locations of customers.

2. Principal countries and regions comprising the segments other than Japan:

(1) EMEIA (Europe, the Middle East, India, and Africa): UK, Germany, Spain, Finland, and Sweden

(2) Americas: US and Canada

(3) Asia: China, Singapore, Korea, and Taiwan

(4) Oceania: Australia

3. There is no country for which a separate individual disclosure is required.

#### (b) Non-current assets (property, plant and equipment, goodwill, and intangible assets)

At March 31	(Millions of yen)	
	2016	2017
Japan	¥656,893	¥637,051
Outside Japan		
EMEIA	82,924	73,858
Americas	18,737	25,824
Asia	36,448	30,923
Oceania	26,019	24,204
Total	<u>¥821,021</u>	<u>¥791,860</u>

Notes: 1. Non-current assets are classified by countries or regions based on locations of the Group.

2. Principal countries and regions comprising the segments other than Japan:

(1) EMEIA (Europe, the Middle East, India, and Africa): UK, Germany, Spain, Finland, and Sweden

(2) Americas: US and Canada

(3) Asia: China, Singapore, Korea, and Taiwan

(4) Oceania: Australia

3. There is no country for which a separate individual disclosure is required.

**(5) Information about major customers**

Information is not disclosed because no specific customers reached 10% of revenue in the consolidated statement of profit or loss.

**7. Business Combinations and Acquisition of Non-Controlling Interests**

Not applicable.

**8. Property, Plant and Equipment**

Carrying amount

	(Millions of yen)				
	Land	Buildings	Machinery and equipment, tools, fixtures and fittings	Construction in progress	Total
Balance at April 1, 2015* <sup>3</sup>	¥105,803	¥271,226	¥226,365	¥ 32,095	¥ 635,489
Additions* <sup>1</sup>	72	28,785	95,818	31,374	156,049
Acquisitions through business combinations	-	282	119	-	401
Depreciation	-	(25,135)	(94,665)	-	(119,800)
Impairment losses* <sup>2</sup>	(1,901)	(4,883)	(6,591)	(4,081)	(17,456)
Disposals or reclassifications to assets held for sale	(10,001)	(9,462)	(3,640)	(7,624)	(30,727)
Exchange differences on translation	(421)	(3,858)	(3,664)	(118)	(8,061)
Others	1	124	2,102	(1,648)	579
Balance at March 31, 2016* <sup>3</sup>	93,553	257,079	215,844	49,998	616,474
Additions* <sup>1</sup>	1	43,033	96,583	(11,027)	128,590
Acquisitions through business combinations	-	30	57	2	89
Depreciation	-	(25,420)	(89,590)	-	(115,010)
Impairment losses* <sup>2</sup>	(264)	(7,292)	(1,801)	(84)	(9,441)
Reversal of impairment losses	60	678	188	-	926
Disposals or reclassifications to assets held for sale	(6,395)	(8,544)	(3,314)	(1,240)	(19,493)
Exchange differences on translation	(201)	(2,417)	(2,425)	(39)	(5,082)
Others	(110)	795	(107)	(982)	(404)
Balance at March 31, 2017* <sup>3</sup>	¥ 86,644	¥257,942	¥215,435	¥ 36,628	¥ 596,649

Cost

	(Millions of yen)				
	Land	Buildings	Machinery and equipment, tools, fixtures and fittings	Construction in progress	Total
April 1, 2015	¥132,325	¥875,113	¥1,379,095	¥32,110	¥2,418,643
March 31, 2016	114,877	843,456	1,351,884	54,074	2,364,291
March 31, 2017	107,633	802,956	1,331,473	36,729	2,278,791

Accumulated depreciation and accumulated impairment losses

	(Millions of yen)				
	Land	Buildings	Machinery and equipment, tools, fixtures and fittings	Construction in progress	Total
April 1, 2015	¥26,522	¥603,887	¥1,152,730	¥ 15	¥1,783,154
March 31, 2016	21,324	586,377	1,136,040	4,076	1,747,817
March 31, 2017	20,989	545,014	1,116,038	101	1,682,142

\*<sup>1</sup> Additions under construction in progress are shown on a net basis that includes an increase in the amount of new additions and amounts transferred to each item in property, plant and equipment.

\*<sup>2</sup> Impairment losses of ¥17,456 million and ¥9,441 million recorded for the years ended March 31, 2016 and 2017, respectively, are included in other income (expenses) in the consolidated statement of profit or loss.

\*<sup>3</sup> The amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction is included in construction in progress and totaled ¥28,887 million and ¥31,350 million at March 31, 2016 and 2017, respectively.

Carrying amount of finance leased assets

The carrying amount of finance leased assets included in property, plant and equipment is as follows.

	(Millions of yen)	
	2016	2017
At March 31		
Buildings	¥ 3,648	¥ 2,909
Machinery and equipment, tools, fixtures and fittings	22,580	18,860
Total	<u>¥26,228</u>	<u>¥21,769</u>

## 9. Goodwill and Intangible Assets

Carrying amount

	(Millions of yen)			
	Goodwill	Intangible assets*1		
		Software	Others	Total
Balance at April 1, 2015	¥37,616	¥138,858	¥28,702	¥167,560
Additions	-	61,627	4,775	66,402
Acquisitions through business combinations	4,224	899	3	902
Amortization*2	-	(58,232)	(6,718)	(64,950)
Impairment losses*3	-	(905)	(12)	(917)
Disposals	-	(1,939)	(337)	(2,276)
Exchange differences on translation	(1,620)	(1,098)	(162)	(1,260)
Others	35	(961)	(208)	(1,169)
Balance at March 31, 2016	<u>40,255</u>	<u>138,249</u>	<u>26,043</u>	<u>164,292</u>
Additions	-	49,207	5,963	55,170
Acquisitions through business combinations	5,077	236	3,143	3,379
Amortization*2	-	(55,130)	(7,061)	(62,191)
Impairment losses*3	(1,702)	(764)	(115)	(879)
Disposals or reclassification to assets held for sale	(377)	(3,816)	(159)	(3,975)
Exchange differences on translation	(2,170)	(959)	(98)	(1,057)
Others	154	(488)	(277)	(765)
Balance at March 31, 2017	<u>¥41,237</u>	<u>¥126,535</u>	<u>¥27,439</u>	<u>¥153,974</u>

Cost

	(Millions of yen)			
	Goodwill	Intangible assets*1		
		Software	Others	Total
April 1, 2015	¥37,616	¥284,886	¥43,264	¥328,150
March 31, 2016	40,255	278,445	43,652	322,097
March 31, 2017	42,925	257,610	50,034	307,644

Accumulated amortization and accumulated impairment losses

	(Millions of yen)			
	Goodwill	Intangible assets*1		
		Software	Others	Total
April 1, 2015	¥ -	¥146,028	¥14,562	¥160,590
March 31, 2016	-	140,196	17,609	157,805
March 31, 2017	1,688	131,075	22,595	153,670

\*1 Intangible assets that fall under the category of internally generated are mainly software. The carrying amounts of internally generated software included in intangible assets totaled ¥125,754 million at March 31, 2016 and ¥120,753 million at March 31, 2017. Additions from internal development included in the above Additions totaled ¥56,413 million at March 31, 2016 and ¥47,386 million at March 31, 2017.

\*2 Amortization is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

\*3 Impairment losses on intangible assets of ¥917 million recorded for the year ended March 31, 2016, and impairment losses on intangible assets of ¥879 million and on goodwill of ¥1,702 million for the year ended March 31, 2017 are included in other income (expenses) in the consolidated statement of profit or loss.

Research and development expenses for the years ended March 31, 2016 and 2017 are as follows.

Years ended March 31	(Millions of yen)	
	2016	2017
Research and development expenses	¥179,895	¥173,934

## 10. Subsidiaries

### (1) Major subsidiaries

The Group's consolidated financial statements are prepared with consolidation of 502 subsidiaries. Major changes for the year ended March 31, 2017 are as follows.

Newly consolidated as a result of acquisitions or formations of new companies: 12 companies

Excluded due to liquidations, sale, or other: 17 companies

Excluded due to mergers: 7 companies

The major subsidiaries at March 31, 2017 are as follows.

Segments	Name	Country	Ratio of total voting rights (%)
Technology Solutions* <sup>1</sup>	Fujitsu Frontech Limited	Japan	53.56
	Fujitsu Broad Solution & Consulting Inc.	Japan	56.45
	Fujitsu Marketing Limited	Japan	100.00
	Fujitsu Services Holdings PLC	UK	100.00
	Fujitsu Technology Solutions (Holding) B.V.* <sup>2</sup>	Netherlands	100.00
	Fujitsu America, Inc.	US	100.00
	Fujitsu Australia Limited	Australia	100.00
	Fujitsu FSAS Inc.	Japan	100.00
	PFU Limited	Japan	100.00
	Fujitsu FIP Corporation	Japan	100.00
	Fujitsu IT Products Limited	Japan	100.00
	Fujitsu Telecom Networks Limited	Japan	100.00
	Fujitsu Network Communications, Inc.	US	100.00
Ubiquitous Solutions	Fujitsu Personal System Limited	Japan	100.00
	Fujitsu Client Computing Limited	Japan	100.00
	Fujitsu Connected Technologies Limited	Japan	100.00
	Fujitsu Isotec Limited	Japan	100.00
	Fujitsu Peripherals Limited	Japan	100.00
	Fujitsu TEN Limited	Japan	55.00
Device Solutions	Fujitsu Semiconductor Ltd.	Japan	100.00
	Fujitsu Electronics Inc.	Japan	100.00
	Shinko Electric Industries Co., LTD.	Japan	50.06
	FDK Corporation	Japan	72.57
	Fujitsu Component Limited	Japan	76.57
Other	Fujitsu Laboratories Ltd.	Japan	100.00

\*<sup>1</sup> Fujitsu Systems East Limited, Fujitsu Systems West Limited and Fujitsu Mission Critical Systems Limited merged with the Company and were dissolved on November 1, 2016.

\*<sup>2</sup> The PC business of Fujitsu Technology Solutions falls under Ubiquitous Solutions.

### (2) Changes in ownership interest in subsidiaries that do not result in loss of control

The impact on capital surplus arising from changes in the Company's ownership interest in subsidiaries that do not result in loss of control is as follows.

Years ended March 31	(Millions of yen)	
	2016	2017
Impact on capital surplus from equity transactions with non-controlling interests	¥464	¥(2,251)

**(3) Subsidiaries in which the Company holds material non-controlling interests**

The Company recognizes material non-controlling interests in the following subsidiaries. Information of companies for which material non-controlling interests are recognized is as follows. Summarized financial information is based on amounts before elimination of inter-Group transactions.

Shinko Electric Industries Co., LTD.

**(a) Profit or loss allocated to non-controlling interests of the subsidiary during the reporting period**

Years ended March 31	(Millions of yen)	
	2016	2017
Profit or loss allocated to non-controlling interests	¥1,731	¥1,712

**(b) Proportion of ownership interests held by non-controlling interests and accumulated non-controlling interests**

At March 31	(Millions of yen)	
	2016	2017
Proportion of ownership interests held by non-controlling interests	49.94%	49.94%
Accumulated non-controlling interests	¥65,859	¥66,643

**(c) Dividends paid to non-controlling interests**

Years ended March 31	(Millions of yen)	
	2016	2017
Dividends paid to non-controlling interests	¥(1,855)	¥(1,686)

**(d) Summarized financial information***(i) Summarized consolidated statement of financial position*

At March 31	(Millions of yen)	
	2016	2017
Current assets	¥102,284	¥ 99,855
Non-current assets	78,439	79,788
Total assets	¥180,723	¥179,643
Current liabilities	¥ 34,772	¥ 34,164
Non-current liabilities	14,107	12,053
Total liabilities	48,879	46,217
Total equity	131,844	133,426
Total liabilities and equity	¥180,723	¥179,643

*(ii) Summarized consolidated statement of profit or loss and consolidated statement of comprehensive income*

Years ended March 31	(Millions of yen)	
	2016	2017
Revenue	¥143,453	¥139,890
Profit for the year	3,463	3,432
Other comprehensive income	(4,352)	1,528
Comprehensive income for the year	¥ (889)	¥ 4,960

*(iii) Summarized consolidated statement of cash flows*

Years ended March 31	(Millions of yen)	
	2016	2017
Net cash provided by operating activities	¥ 24,056	¥ 19,625
Net cash used in investing activities	(16,264)	(17,287)
Net cash used in financing activities	(3,774)	(3,446)
Net increase (decrease) in cash and cash equivalents	4,018	(1,108)
Cash and cash equivalents at end of year	¥ 48,355	¥ 47,248

Note: The summarized financial information above includes IFRS adjustments to the consolidated financial statements of Shinko Electric Industries Co., LTD., which were prepared under JGAAP.

## 11. Associates

### (1) Major associates

The major associates at March 31, 2017 are as follows.

Name	Country	Ratio of total voting rights (%)	Business description	Business transactions, etc.
Fujitsu General Limited	Japan	44.25	Development, production, and sales of air conditioners and information communication equipment and electronic devices, as well as provision of services	Contracted manufacturing and sales of the Company products
Fujitsu Leasing Co., LTD.	Japan	20.00	Leasing and sales of information processing equipment, communications equipment, etc.	Leasing and sales of the Company products
Socionext Inc.	Japan	40.00	Design, development, and sales of system LSI (SoC: System on a Chip) and provision of solutions and services	Some of its products are supplied to the Company

Notes: 1. Investments in associates are accounted for using the equity method and the number of companies to which the method applies is 24. For the year ended March 31, 2017, two companies were added and three companies were subtracted.

2. The Group holds 20% or more of the JECC Corporation shares issued, but because it is a special company operated through the joint capital investment of six companies, including domestic computer manufacturing companies, for the promotion of the domestic data processing industry, it is not an equity method associate.

### (2) Summarized financial information of material equity method associates

Summarized financial information of material equity method associates is as follows.

Fujitsu General Limited

#### (a) Dividends received from Fujitsu General Limited

Years ended March 31	(Millions of yen)	
	2016	2017
Dividends received from Fujitsu General Limited	¥876	¥1,014

**(b) Summarized consolidated financial information***(i) Summarized consolidated statement of financial position*

At March 31	(Millions of yen)	
	2016	2017
Current assets	¥130,399	¥142,375
Non-current assets	48,293	49,290
<b>Total assets</b>	<b>¥178,692</b>	<b>¥191,665</b>
Current liabilities	¥ 74,890	¥ 78,565
Non-current liabilities	16,432	17,280
<b>Total liabilities</b>	<b>91,322</b>	<b>95,845</b>
Equity attributable to owners of the parent	85,585	93,428
Non-controlling interests	1,785	2,392
<b>Total equity</b>	<b>87,370</b>	<b>95,820</b>
<b>Total liabilities and equity</b>	<b>¥178,692</b>	<b>¥191,665</b>

*(ii) Summarized consolidated statement of profit or loss and summarized consolidated statement of comprehensive income*

Years ended March 31	(Millions of yen)	
	2016	2017
Revenue	¥280,977	¥260,054
Profit for the year	18,394	10,675
Other comprehensive income	(5,160)	(58)
<b>Total comprehensive income for the year</b>	<b>¥ 13,234</b>	<b>¥ 10,617</b>

Note: The summarized financial information above includes IFRS adjustments to the consolidated financial statements of Fujitsu General Limited, which were prepared under JGAAP.

**(c) Reconciliation of summarized financial information and the carrying amount of the Group's investment in the equity method associate**

Reconciliation of summarized financial information presented and the carrying amount of the Group's investment in the equity method associate is as follows.

At March 31	(Millions of yen)	
	2016	2017
Equity attributable to owners of the parent	¥85,585	¥ 93,428
Ownership interest	44.08%	44.08%
Equity attributable to the Group	¥37,726	¥ 41,183
Unrealized gains and losses	¥ (455)	¥ (455)
<b>Carrying amount of the Group's investment in the equity method associate</b>	<b>¥37,271</b>	<b>¥ 40,728</b>
<b>Fair value of the Group's investment in the equity method associate</b>	<b>¥80,112</b>	<b>¥101,466</b>

**12. Marketable Securities and Other Investments**

Marketable securities and other investments comprise primarily available-for-sale financial assets. Please refer to Note "34. Financial Instruments" for available-for-sale financial assets.

### 13. Income Taxes

#### (1) Deferred tax assets and liabilities

##### (a) Major components of deferred tax assets and deferred tax liabilities

At March 31	(Millions of yen)	
	2016	2017
Deferred tax assets		
Net defined benefit liability	¥ 153,149	¥ 131,075
Accrued bonuses	28,829	32,228
Excess of depreciation and amortization, impairment losses, etc.	31,271	27,443
Carryforward of unused tax losses	15,835	19,615
Inventories	13,064	13,832
Intercompany profit	4,531	3,538
Others	26,806	29,859
Total deferred tax assets	273,485	257,590
Deferred tax liabilities		
Gains from establishment of stock holding trust for retirement benefit plan	(83,373)	(83,373)
Gains and losses on revaluation of available-for-sale financial assets to fair value	(23,807)	(31,715)
Undistributed profits primarily of subsidiaries outside Japan	(4,101)	(9,087)
Others	(4,616)	(5,612)
Total deferred tax liabilities	(115,897)	(129,787)
Net deferred tax assets	¥ 157,588	¥ 127,803

Net deferred tax assets are included in the following line items in the consolidated statement of financial position.

At March 31	(Millions of yen)	
	2016	2017
Deferred tax assets	¥162,812	¥132,591
Deferred tax liabilities	(5,224)	(4,788)

Fujitsu Technology Solutions (Holding) B.V. (FTS) is strengthening product operations primarily by improving the efficiency of development, manufacturing and logistics bases, as well as moving ahead with the digital transformation of the services business with the goal of strengthening the competitiveness of existing IT services while simultaneously launching and growing the digital services business.

FTS recognized deferred tax assets of ¥6,554 million at March 31, 2016 and ¥8,428 million at March 31, 2017 in the tax jurisdiction where it recorded losses in the current or preceding period as a result of recording business model transformation expenses. The utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The management recognized deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilized based on the business plan prepared to reflect judgments for future forecasts and data in the past, using internal and external data.

##### (b) Changes in net deferred tax assets

Years ended March 31	(Millions of yen)	
	2016	2017
Opening balance	¥131,179	¥157,588
Amounts recognized through profit or loss	(2,496)	1,745
Amounts recognized in other comprehensive income		
Foreign currency translation adjustments	-	(404)
Cash flow hedges	106	(137)
Available-for-sale financial assets	8,050	(8,117)
Remeasurements of defined benefit plans	24,147	(18,176)
Total	32,303	(26,834)
Exchange differences on translation and others	(3,398)	(4,696)
Closing balance	¥157,588	¥127,803

**(c) Deductible temporary differences and the amount of carryforward of unused tax losses for which deferred tax assets are not recognized**

At March 31	(Millions of yen)	
	2016	2017
Deductible temporary differences*	¥ 98,766	¥ 90,498
Carryforward of unused tax losses*	153,038	157,145
Total	<u>¥251,804</u>	<u>¥247,643</u>

The expiration dates of carryforward of unused tax losses for which deferred tax assets are not recognized are as follows.

At March 31	(Millions of yen)	
	2016	2017
1st year	¥ 39	¥ 5,375
2nd year	6,125	8,325
3rd year	8,929	5,196
4th year	7,266	12,207
5th year and thereafter	130,679	126,042
Total	<u>¥153,038</u>	<u>¥157,145</u>

\* The amounts presented above are calculated, multiplying the amounts of deductible temporary differences and carryforward of unused tax losses by applicable tax rates.

**(2) Income tax recognized through profit or loss**

Years ended March 31	(Millions of yen)	
	2016	2017
Current tax expense	¥38,905	¥41,575
Deferred tax expense		
Origination and reversal of temporary differences	6,593	1,284
Changes in tax rate	(3,832)	454
Others*	(265)	(3,483)
Total deferred tax expense	<u>2,496</u>	<u>(1,745)</u>
Total income tax expense	<u>¥41,401</u>	<u>¥39,830</u>

\* The Company reviewed the future taxable profits estimation this fiscal year. As a result, deferred tax expense was reduced by ¥7,020 million due to write-downs of deferred tax assets and reversals of write-downs previously recorded.

**(3) Difference between applicable tax rate and average effective tax rate**

Years ended March 31	(%)	
	2016	2017
Applicable tax rate	33.0%	30.8%
Increase and decrease in income tax rate		
Change in unrecognized deferred tax assets	7.0%	(4.5%)
Tax credit	(3.3)%	(4.2)%
Undistributed profits primarily of subsidiaries outside Japan	(0.1)%	3.2%
Non-deductible tax expenses	2.8%	2.7%
Others	(8.0)%	1.5%
Average effective tax rate	<u>31.4%</u>	<u>29.5%</u>

The Company and its consolidated subsidiaries in Japan are primarily affected by corporation, residents, and business taxes. As a result of the revision of tax laws in Japan, the applicable tax rates calculated based on these rates were 33.0% and 30.8% for the years ended March 31, 2016 and 2017, respectively. The Company's consolidated subsidiaries outside Japan are affected by corporation and other taxes at the domicile of each subsidiary.

## 14. Inventories

At March 31	(Millions of yen)	
	2016	2017
Finished goods	¥135,780	¥134,989
Work in progress	84,229	80,324
Raw materials and supplies	78,840	77,850
Total	<u>¥298,849</u>	<u>¥293,163</u>

The amounts of write-downs of inventories recognized as an expense due to a decline in profitability for the years ended March 31, 2016 and 2017 were ¥21,493 million and ¥24,581 million, respectively.

## 15. Trade Receivables and Other Receivables

### (1) Trade receivables

At March 31	(Millions of yen)	
	2016	2017
Accounts receivable	¥978,435	¥991,625
Others	15,052	15,450
Allowance for doubtful accounts*	(8,857)	(7,837)
Total	<u>¥984,630</u>	<u>¥999,238</u>

\* A reconciliation of changes in allowance for doubtful accounts is disclosed in changes in allowance for doubtful accounts (current) in Note "34. Financial Instruments."

### (2) Other receivables

At March 31	(Millions of yen)	
	2016	2017
Accounts receivable—other	¥88,136	¥60,442
Others	5,827	6,407
Total	<u>¥93,963</u>	<u>¥66,849</u>

## 16. Cash and Cash Equivalents

At March 31	(Millions of yen)	
	2016	2017
Cash and deposits	¥234,660	¥220,695
Short-term investments	146,150	160,000
Cash and cash equivalents in consolidated statement of financial position	<u>¥380,810</u>	<u>¥380,695</u>

The following is a reconciliation of cash and cash equivalents at the end of the year in the consolidated statement of financial position and in the consolidated statement of cash flows.

At March 31	(Millions of yen)	
	2016	2017
Cash and cash equivalents in the consolidated statement of financial position	¥380,810	¥380,695
Cash and cash equivalents included in assets held for sale	-	3,274
Cash and cash equivalents at end of year in the consolidated statement of cash flows	<u>¥380,810</u>	<u>¥383,969</u>

## 17. Assets Held for Sale

At March 31	(Millions of yen)	
	2016	2017
Assets held for sale	¥5,735	¥23,408
Liabilities directly associated with assets held for sale	-	12,014

For the year ended March 31, 2016

The Group decided to sell a business site and classified the land and buildings as assets held for sale. These assets were sold on November 30, 2016.

For the year ended March 31, 2017

The Group has decided to sell certain assets and liabilities related mainly to the following business as part of the business model transformation, and classified them as assets held for sale or liabilities directly associated with assets held for sale.

The Company has decided to establish a new company for the consumer business of NIFTY Corporation and transfer the Company's entire shareholding in the new company to Nojima Corporation.

The Group has classified NIFTY Corporation's consumer business company's trade receivables, intangible assets, and trade payables, etc., as assets held for sale or liabilities directly associated with assets held for sale. The transfer of these assets and liabilities has been completed on April 1, 2017. These assets and liabilities fall under the Technology Solutions segment.

The Group decided to transfer a portion of its shareholdings in Fujitsu Computer Products of Vietnam, Inc. (FCV), classifying FCV's inventories, property, plant and equipment, and trade payables, etc., as assets held for sale or liabilities directly associated with assets held for sale. The cumulative income or expense recognized in other comprehensive income relating to these assets and liabilities is recognized in other components of equity. The transfer is planned to be completed at the end of June 2017 and FCV is going to be accounted for using the equity method. These assets and liabilities fall under the Device Solutions segment.

The Company and DENSO Corporation reached an agreement on April 28, 2017, to transfer a portion of the Company's shareholdings in Fujitsu TEN Limited. Fujitsu TEN's assets and liabilities are not included in assets held for sale or liabilities directly associated with assets held for sale at the fiscal year-end. Following the stock transfer, the ratio of the Company's shareholdings in Fujitsu TEN will be 14%, compared with 55% at the end of the fiscal year. The stock transfer is planned to be completed by Monday, October 2, 2017, depending on the status of approval from competition regulators or other factors. As of the fiscal year-end, Fujitsu TEN falls under the Ubiquitous Solutions segment.

## 18. Equity and Other Components of Equity

### (1) Share capital

#### (a) Number of shares authorized

Ordinary shares (no par value)

At March 31	(Thousands of shares)
	Number of shares
2016	5,000,000
2017	5,000,000

#### (b) Number of shares issued and fully paid

Ordinary shares

At March 31	(Units: Thousands of shares, Millions of yen)	
	Number of shares	Share capital
2016	2,070,018	¥324,625
Changes during the year	-	-
2017	2,070,018	¥324,625

**(c) Treasury stock**

## Ordinary shares

At March 31	(Units: Thousands of shares, Millions of yen)	
	Number of shares	Amount
2016	1,189	¥ 627
Acquisitions	18,356	11,877
Disposals	(5)	(2)
2017	<u>19,540</u>	<u>¥12,502</u>

**(2) Capital surplus and retained earnings**

Under the Japanese Companies Act, the entire amount paid for new shares is required to be designated as common stock in principle. However, a company may designate a maximum 50% of the amount of the new shares as capital reserve, which is included in capital surplus. The Companies Act also requires that an amount equal to 10% of dividends must be appropriated as a legal reserve, which is included in retained earnings, or as a capital reserve, which is included in capital surplus, until the total amounts of legal reserve and capital reserve reach 25% of share capital. The Companies Act allows legal reserve, capital reserve, other capital surplus, and other retained earnings to be transferred among the accounts under certain conditions upon resolution of the shareholders meetings.

Capital surplus in the consolidated financial statements includes capital reserve and other capital surplus of non-consolidated financial statements, and retained earnings in the consolidated financial statements includes legal reserve and other retained earnings of non-consolidated financial statements. The maximum amount that a company can distribute as dividends is calculated based on the Companies Act and its non-consolidated financial statements in accordance with JGAAP.

**(3) Other components of equity and changes in other comprehensive income**

Years ended March 31	(Millions of yen)	
	2016	2017
Foreign currency translation adjustments		
Opening balance	¥ 30,496	¥ 11,308
Other comprehensive income	(19,188)	(16,437)
Others	-	-
Closing balance	<u>¥ 11,308</u>	<u>¥ (5,129)</u>
Cash flow hedges		
Opening balance	¥ (38)	¥ (386)
Other comprehensive income	(348)	404
Others	-	-
Closing balance	<u>¥ (386)</u>	<u>¥ 18</u>
Available-for-sale financial assets		
Opening balance	¥ 71,380	¥ 58,036
Other comprehensive income	(13,344)	18,711
Others	-	-
Closing balance	<u>¥ 58,036</u>	<u>¥ 76,747</u>
Remeasurements of defined benefit plans		
Opening balance	¥ -	¥ -
Other comprehensive income	(45,023)	38,024
Others	45,023	(38,024)
Closing balance	<u>¥ -</u>	<u>¥ -</u>
Total other components of equity		
Opening balance	¥101,838	¥ 68,958
Other comprehensive income	(77,903)	40,702
Others	45,023	(38,024)
Closing balance	<u>¥ 68,958</u>	<u>¥ 71,636</u>

**(4) Breakdown of each item of other comprehensive income included in non-controlling interests**

Years ended March 31	(Millions of yen)	
	2016	2017
Foreign currency translation adjustments	¥(2,745)	¥ (922)
Cash flow hedges	(105)	116
Available-for-sale financial assets	(248)	(77)
Remeasurements of defined benefit plans	(3,890)	1,951
Other comprehensive income	<u>¥(6,988)</u>	<u>¥1,068</u>

**(5) Income tax effects relating to each item of other comprehensive income**

Years ended March 31	(Millions of yen)	
	2016	2017
Foreign currency translation adjustments		
Gains (losses) during the year	¥(18,732)	¥(15,111)
Reclassification to profit or loss	(55)	-
Amount before related income tax effects	(18,787)	(15,111)
Income tax effects	-	(404)
Amount after related income tax effects	<u>¥(18,787)</u>	<u>¥(15,515)</u>
Cash flow hedges		
Gains (losses) during the year	¥ (254)	¥ 587
Reclassification to profit or loss	(108)	(135)
Amount before related income tax effects	(362)	452
Income tax effects	106	(137)
Amount after related income tax effects	<u>¥ (256)</u>	<u>¥ 315</u>
Available-for-sale financial assets		
Gains (losses) during the year	¥(21,312)	¥ 26,954
Reclassification to profit or loss	(325)	(260)
Amount before related income tax effects	(21,637)	26,694
Income tax effects	8,050	(8,117)
Amount after related income tax effects	<u>¥(13,587)</u>	<u>¥ 18,577</u>
Remeasurements of defined benefit plans		
Gains (losses) during the year	¥(73,060)	¥ 58,151
Amount before related income tax effects	(73,060)	58,151
Income tax effects	24,147	(18,176)
Amount after related income tax effects	<u>¥(48,913)</u>	<u>¥ 39,975</u>
Share of other comprehensive income of investments accounted for using the equity method		
Gains (losses) during the year	¥ (4,052)	¥ (2,416)
Reclassification to profit or loss	704	834
Amount after related income tax effects	<u>¥ (3,348)</u>	<u>¥ (1,582)</u>
Total other comprehensive income		
Amount after related income tax effects	<u>¥(84,891)</u>	<u>¥ 41,770</u>

## 19. Dividends

Year ended March 31, 2016

### (1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share	Record date	Effective date
Board of directors meeting on May 22, 2015	Ordinary shares	¥8,276	Retained earnings	4 yen	March 31, 2015	June 1, 2015
Board of directors meeting on October 29, 2015	Ordinary shares	¥8,275	Retained earnings	4 yen	September 30, 2015	November 25, 2015

### (2) Among the dividends whose record date falls within the year ended March 31, 2016, those whose effective date falls within the year ending March 31, 2017

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share	Record date	Effective date
Board of directors meeting on May 26, 2016	Ordinary shares	¥8,275	Retained earnings	4 yen	March 31, 2016	June 6, 2016

Year ended March 31, 2017

### (1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share	Record date	Effective date
Board of directors meeting on May 26, 2016	Ordinary shares	¥8,275	Retained earnings	4 yen	March 31, 2016	June 6, 2016
Board of directors meeting on October 27, 2016	Ordinary shares	¥8,275	Retained earnings	4 yen	September 30, 2016	November 25, 2016

### (2) Among the dividends whose record date falls within the year ended March 31, 2017, those whose effective date falls within the year ending March 31, 2018

Resolution	Class of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share	Record date	Effective date
Board of directors meeting on May 25, 2017	Ordinary shares	¥10,252	Retained earnings	5 yen	March 31, 2017	June 5, 2017

## 20. Bonds, Borrowings, and Lease Obligations

### (1) Breakdown of interest-bearing loans

	(Millions of yen)		Average interest rate (2016) (%) <sup>*1</sup>	Average interest rate (2017) (%) <sup>*1</sup>	Repayment due date
	2016	2017			
At March 31					
Current portion of bonds <sup>*2</sup>	¥ 60,278	¥ 19,992	-	-	-
Bonds <sup>*2</sup>	199,568	179,703	-	-	-
Short-term borrowings	14,842	47,864	0.84%	1.05%	-
Current portion of long-term borrowings	56,902	51,452	0.49%	0.53%	-
Long-term borrowings	162,856	153,493	0.42%	0.27%	April 1, 2018– December 28, 2036
Lease obligations (current)	12,645	11,480	2.31%	2.25%	-
Lease obligations (non-current)	25,458	21,108	2.99%	2.72%	April 1, 2018– August 28, 2081
Total	¥532,549	¥485,092			
Short-term borrowings, current portion of long-term debt and lease obligations (current)	¥144,667	¥130,788			
Long-term debt and lease obligations (non-current)	387,882	354,304			

<sup>\*1</sup> Average interest rates are the weighted average interest rates for the balance at March 31, 2016 and 2017.

<sup>\*2</sup> A breakdown of the bonds is on the next page. Interest rates in subtotal and total are the weighted average interest rates for the total face value of the bonds.

At March 31

Company name/Issue	Issue date	(Millions of yen)		Interest rate (%)	Collateral	Maturity
		2016	2017			
<b>The Company</b>						
Seventeenth Series Unsecured Straight Bonds	May 8, 1998	¥ 29,974	¥ 29,986	3.000%	None	May 8, 2018
Twenty-Ninth Series Unsecured Straight Bonds	July 15, 2011	29,995	-	0.623%	None	July 15, 2016
Thirty-First Series Unsecured Straight Bonds	October 16, 2012	19,976	19,992	0.476%	None	October 16, 2017
Thirty-Second Series Unsecured Straight Bonds	October 16, 2013	29,983	-	0.267%	None	October 14, 2016
Thirty-Third Series Unsecured Straight Bonds	October 16, 2013	34,936	34,961	0.410%	None	October 16, 2018
Thirty-Fourth Series Unsecured Straight Bonds	October 16, 2013	14,959	14,968	0.644%	None	October 16, 2020
Thirty-Fifth Series Unsecured Straight Bonds	June 12, 2014	39,912	39,939	0.339%	None	June 12, 2019
Thirty-Sixth Series Unsecured Straight Bonds	June 12, 2014	29,917	29,933	0.562%	None	June 11, 2021
Thirty-Seventh Series Unsecured Straight Bonds	July 22, 2015	19,934	19,949	0.352%	None	July 22, 2020
Thirty-Eighth Series Unsecured Straight Bonds	July 22, 2015	9,960	9,967	0.533%	None	July 22, 2022
Subtotal		259,546	199,695	0.832%		
Subsidiaries in Japan Unsecured convertible bonds	December 12, 2008- December 17, 2010	300	-	0.000%	None	December 31, 2016
<b>Total</b>		<b>¥259,846</b>	<b>¥199,695</b>	<b>0.832%</b>		

## (2) Minimum lease payments

At March 31	(Millions of yen)			
	2016		2017	
	Undiscounted	Present value	Undiscounted	Present value
Not later than one year	¥13,603	¥12,645	¥12,232	¥11,480
Later than one year and not later than five years	23,789	22,441	20,542	19,243
Later than five years	6,251	3,017	4,648	1,865
<b>Total</b>	<b>43,643</b>	<b>38,103</b>	<b>37,422</b>	<b>32,588</b>
Less: future financial expenses	(5,540)	-	(4,834)	-
<b>Total present value</b>	<b>¥38,103</b>	<b>¥38,103</b>	<b>¥32,588</b>	<b>¥32,588</b>

## 21. Post-Employment Benefits

### (1) Defined benefit plans

#### (a) Characteristics of defined benefit plans and risks associated with the plans

The Group provides defined benefit plans, as part of retirement benefit plans, in countries such as Japan, the UK, and Germany. The Company and some subsidiaries in Japan have retirement benefit trusts. In addition, the Group provide defined contribution plans in countries such as the UK, Japan, and Australia.

The major defined benefit plans in Japan are funded pension plans and retirement benefit plans operated by the Fujitsu Corporate Pension Fund that is participated by the Company and some subsidiaries in Japan. The Fujitsu Corporate Pension Fund is a special corporation approved by the Minister of Health, Labour and Welfare, and operated in accordance with the Defined-Benefit Corporate Pension Act.

There is a board of representatives as a legislative arm and a board of directors as an executive arm in the Fujitsu Corporate Pension Fund. The representatives and directors split evenly with half selected by the Company and some subsidiaries in Japan and the other half elected by the employees through mutual vote. The major plans under the Fujitsu Corporate Pension Fund are plans contributed by the Company and some subsidiaries in Japan but there is a plan contributed by the employees. The benefits are determined by the accumulated salary in the participation period and the length of participation as well as other factors. The period of benefit payment is twenty years, primarily from age 60 to 80, while some participants are guaranteed lifetime benefits. The benefits to employees from retirement benefit plans are primarily paid by the plan assets of the fund, partly paid by the Company and some subsidiaries in Japan depending on the age of the employee at retirement. The benefits are determined by the amount of salary at retirement and the length of service as well as other factors. The retirement benefit plan participated by the employees that joined the Company and some subsidiaries in Japan from April 1999 onwards was transferred from a defined benefit plan (DB) to a cash balance plan and a defined contribution plan (DC) was implemented as a result of the plan amendment in 2014. The benefits under the cash balance plan are determined by the accumulated points up to the time of retirement and the market yields during the participation in the plan as well as other factors.

In addition to the above, some subsidiaries in Japan provide defined benefit corporate pensions operated primarily by themselves in accordance with the rules agreed with the employees and also participate in the employees pension fund established by multi-employers that have no capital relationship. Further, some subsidiaries in Japan have unfunded lump-sum retirement benefit plans.

The major defined benefit plans provided outside Japan are the plans that Fujitsu Services Holdings PLC (including its consolidated subsidiaries, "FS") located in the UK and Fujitsu Technology Solutions (Holding) B.V. (including its consolidated subsidiaries, "FTS") located in Germany provide. FS' defined benefit plan is operated by the board of trustees composed of representatives of the company and the employees and independent outside specialists, in conformity with the guideline issued by the UK Pensions Regulator. Under the FS' defined benefit plan, the benefits are based on the amount of salary at retirement, the length of participation in the plan and price index and the benefits are guaranteed throughout the life time of the participants. FS closed new participation to the funded defined benefit plan in 2000 and instead provided a defined contribution plan for employees that joined the company thereafter. In 2010, for the employees that participate in the defined benefit plan, FS started to transfer the benefits that correspond to the future service into the defined contribution plan, which was completed in 2011. In March 2013, a special contribution of ¥114,360 million was made into the pension scheme to make up a deficit (defined benefit obligation less plan assets) of the defined benefit plan. In addition, the investment portfolio of plan assets was shifted primarily toward bonds to match the defined benefit obligation. FTS used to provide an unfunded defined benefit plan, which was closed for new participation in 1999.

The Group's defined benefit plans are exposed to the following risks.

*(i) Investment risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields at the end of the reporting periods on high-quality corporate bonds. If the return on asset is below this rate, it worsens the funded status and thus risks reducing equity. Plan assets may be affected by the volatility of return on assets in the short term. The asset allocation of plan assets is regularly reviewed to ensure long-term return and future payment of pensions and retirement benefits.

*(ii) Interest risk*

A decrease in the interest of high-quality corporate bonds increases the present value of the defined benefit obligation. This worsens the funded status and thus risks reducing equity.

*(iii) Longevity risk*

An increase in the life expectancy of the plan participants increases the present value of the defined benefit obligation. This worsens the funded status and thus risks reducing equity.

*(iv) Inflation risk*

Some benefits in the plans for the UK and Germany are linked to price index. Higher inflation increases the present value of the defined benefit obligation. This worsens the funded status and thus risks reducing equity.

**(b) Amounts in the financial statements**

*(i) Reconciliation for the closing balance of the defined benefit obligation and plan assets and net defined benefit liability (asset) recognized in the consolidated statement of financial position*

At March 31	(Millions of yen)	
	2016	2017
Present value of defined benefit obligation	¥(2,434,277)	¥(2,438,975)
Fair value of plan assets	2,074,579	2,151,124
Effect of asset ceiling*1	-	(193)
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	<u>¥ (359,698)</u>	<u>¥ (288,044)</u>
Retirement benefit assets*2	¥ 24,280	¥ 20,987
Retirement benefit liabilities	<u>(383,978)</u>	<u>(309,031)</u>
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	<u>¥ (359,698)</u>	<u>¥ (288,044)</u>

\*1 If the fair value of the plan assets exceeds the present value of the defined benefit obligation, the defined benefit asset is adjusted for any effect of limiting it to the asset ceiling in accordance with IAS 19 "Employee Benefits."

\*2 Retirement benefit assets are included in others under non-current assets in the consolidated statement of financial position.

**At March 31, 2016**

The present value of the defined benefit obligation at March 31, 2016 comprises –¥1,568,799 million for plans in Japan and –¥865,478 million for plans outside Japan, while the fair value of plan assets comprises ¥1,289,181 million for plans in Japan and ¥785,398 million for plans outside Japan.

**At March 31, 2017**

The present value of the defined benefit obligation at March 31, 2017 comprises –¥1,561,150 million for plans in Japan and –¥877,825 million for plans outside Japan, while the fair value of plan assets comprises ¥1,353,175 million for plans in Japan and ¥797,949 million for plans outside Japan.

*(ii) Components of defined benefit costs*

Years ended March 31	(Millions of yen)	
	2016	2017
Current service cost (net of contribution from plan participants)* <sup>3</sup>	¥59,399	¥56,718
Net interest	2,517	2,709
Past service cost and gains and losses arising from settlements	175	(489)
Total	<u>¥62,091</u>	<u>¥58,938</u>

\*<sup>3</sup> Current service cost (net of contribution from plan participants) includes defined benefit costs related with multi-employer plans.

*(iii) Reconciliation for beginning and ending balances of the defined benefit obligation and plan assets*

Present value of defined benefit obligation	(Millions of yen)	
	2016	2017
Opening balance	¥(2,484,398)	¥(2,434,277)
Current service cost	(67,091)	(64,293)
Interest expense	(40,163)	(28,369)
Remeasurements of the net defined benefit liability (asset)		
Actuarial gains and losses arising from changes in financial assumptions	(49,831)	(120,380)
Actuarial gains and losses arising from changes in demographic assumptions	8,214	4,950
Past service cost and gains and losses arising from settlements	173	489
Payments from the plan		
Payments from the employer	12,527	8,803
Payments from plan assets	76,890	81,742
Payments in respect of settlements	30,039	1,327
Effects of business combinations and disposals	-	(192)
Effect of changes in foreign exchange rates	79,363	107,372
Transfer to liabilities directly associated with assets held for sale	-	3,853
Closing balance	<u>¥(2,434,277)</u>	<u>¥(2,438,975)</u>

Fair value of plan assets	(Millions of yen)	
	2016	2017
Opening balance	¥2,180,829	¥2,074,579
Interest income	37,646	25,660
Remeasurements of the net defined benefit liability (asset)		
Return on plan assets, excluding amounts included in interest income	(28,993)	174,383
Gains and losses arising from settlements	(348)	-
Contributions to the plan		
Contributions by the employer	56,554	59,709
Contributions by the plan participants	7,692	7,575
Payments from the plan		
Payments from plan assets	(76,890)	(81,742)
Payments in respect of settlements	(23,638)	(1,327)
Effects of business combinations and disposals	-	(708)
Effect of changes in foreign exchange rates	(78,273)	(104,171)
Transfer to liabilities directly associated with assets held for sale	-	(2,834)
Closing balance	<u>¥2,074,579</u>	<u>¥2,151,124</u>

(iv) Components of fair value of plan assets

At March 31	(Millions of yen)			
	2016		2017	
	Market price in an active market		Market price in an active market	
	Quoted	Unquoted	Quoted	Unquoted
Cash and cash equivalents	¥ 46,309	¥ -	¥ 80,022	¥ -
Equity instruments				
Japan	138,635	26,140	152,113	28,035
Outside Japan	161,912	92,883	160,927	103,767
Debt instruments				
Japan	146,535	300,975	67,093	351,824
Outside Japan	433,137	155,455	489,505	164,237
General accounts of life insurance companies	-	296,098	-	295,800
Liability Driven Investment (LDI)*	17,846	199,663	30,251	166,744
Others	2,561	56,430	2,904	57,902
Total	¥946,935	¥1,127,644	¥982,815	¥1,168,309

\* LDI represents a portfolio of investments that primarily consists of bonds and swap instruments, designated to match the plan assets with a change in the present value of the defined benefit obligation arising from a change in indices such as interest rates and inflation.

(v) Significant actuarial assumptions used in calculating the present value of the defined benefit obligation

At March 31	2016		2017	
	Plans in Japan	Plans outside Japan* <sup>1</sup>	Plans in Japan	Plans outside Japan* <sup>1</sup>
Discount rate	0.30%	3.35%	0.59%	2.45%
Life expectancy* <sup>2</sup>	23.3 years	23.1 years	23.3 years	22.8 years
Inflation rate	-	2.9%	-	3.15%

\*<sup>1</sup> Assumptions for plans outside Japan represent the assumptions for the defined benefit plan provided by a UK subsidiary.

\*<sup>2</sup> Life expectancy is based on a male currently at age 60 for plans in Japan and on a male currently at age 65 for plans outside Japan.

(c) Amount, timing, and uncertainty of future cash flows

(i) Sensitivity analysis for significant actuarial assumptions

The sensitivity analysis below shows the effect on the defined benefit obligation when one of the significant actuarial assumptions changes reasonably while holding all other assumptions constant. However, the change in assumptions would not necessarily occur in isolation from one another. A negative amount represents a decrease of the defined benefit obligation while a positive amount represents an increase of the defined benefit obligation.

At March 31		(Millions of yen)	
		2016	2017
Discount rate	0.1% increase*	¥(32,213)	¥(31,594)
	0.1% decrease*	32,743	32,328
Life expectancy	1 year increase	40,875	45,202
Inflation rate	0.1% increase	11,447	9,451
	0.1% decrease	(9,023)	(12,027)

\* For the defined benefit plan of a UK subsidiary, because the investments in the plan assets are managed matching with the defined benefit obligation, the impact on the funded status arising from changes in the discount rate will be limited.

*(ii) Funding and performance policy of plan assets*

The Group funds the defined benefit plans, taking into consideration various factors such as the Company's financial condition, funded status of the plan assets, and actuarial calculations. The Fujitsu Corporate Pension Fund regularly reviews the amount of contributions, for example, by conducting an actuarial review every five years in accordance with the Defined-Benefit Corporate Pension Act.

The Group aims to increase the value of the plan assets by taking an acceptable range of risks to ensure benefits to pensioners (including deferred pensioners).

For management of the plan assets of the Fujitsu Corporate Pension Fund, asset management meetings are regularly held, participated by committee members elected from representatives and directors of the fund as well as the Company's representatives for the finance and HR departments. Risks are reduced by considering returns and risks of the investment assets and setting out the basic allocation of investment assets as well as adjusting the rules (regarding the range of changes). The basic allocation of investment assets and the adjusting rules are reviewed regularly, corresponding to the market environment and any changes in the funded status, so that the best investment balance is ensured.

FS invests in a portfolio that primarily consists of bonds and swap instruments, designated to match the plan assets with a change in the present value of the defined benefit obligation arising from a change in indices such as interest rates and inflation, to reduce market volatility risk.

*(iii) Expected contributions to defined benefit plans*

The Group expects contributions of ¥57,590 million to defined benefit plans for the year ending March 31, 2018.

*(iv) Maturity profile of the defined benefit obligation*

At March 31	2016	2017
Weighted average duration of the defined benefit obligation	13.7 years	13.9 years

**(2) Defined contribution plans**

The Group recognized ¥24,240 million and ¥21,578 million as expenses for defined contribution plans for the years ended March 31, 2016 and 2017, respectively.

**22. Deferred Revenue**

Not applicable.

**23. Provisions**

	(Millions of yen)					
	Provision for restructuring	Provision for product warranties	Provision for contract losses	Asset retirement obligation	Others	Total
Balance at March 31, 2016	¥16,349	¥19,495	¥ 12,454	¥13,147	¥29,227	¥ 90,672
Additional provisions made during the year	26,187	9,183	10,160	3,857	2,698	52,085
Amounts used during the year	(8,065)	(9,382)	(10,256)	(473)	(6,114)	(34,290)
Change in scope of consolidation	-	-	-	(13)	202	189
Exchange differences on translation and others	(529)	(313)	(279)	(180)	(945)	(2,246)
Balance at March 31, 2017	<u>¥33,942</u>	<u>¥18,983</u>	<u>¥ 12,079</u>	<u>¥16,338</u>	<u>¥25,068</u>	<u>¥106,410</u>

	(Millions of yen)	
At March 31	2016	2017
Current liabilities	¥57,319	¥ 75,047
Non-current liabilities	33,353	31,363
Total	<u>¥90,672</u>	<u>¥106,410</u>

**Provision for restructuring**

A provision is recognized at the estimated costs of restructuring such as personnel rationalization and disposal of business, only when the Group has a detailed formal plan and starts to implement the plan or announces its main features to those affected by the plan. Most of the expenditure is expected within 1 or 2 years.

**Provision for product warranties**

A provision for product warranties is recognized at the time of sale of the products at an amount that represents the estimated cost, based on past experience, to repair or exchange certain products within the warranty period. Most of the expenditure is expected within 1 or 2 years.

**Provision for contract losses**

A provision is recognized for losses on projects such as customized software development if it is probable that the total estimated project costs exceed the total estimated project revenues. The timing of the expenditure is affected by future progress of the project and other factors.

**Asset retirement obligation**

A provision is made mainly for the estimated cost of restoring the leased site at the agreement of the lease, in accordance with the laws or contracts. The timing of the expenditure is affected by future business plans and other factors.

Provisions for environmental measures are included in "Others."

## 24. Trade Payables and Other Payables

### Trade payables

	(Millions of yen)	
At March 31	2016	2017
Accounts payable	¥610,202	¥592,094
Others	12,132	25,612
Total	<u>¥622,334</u>	<u>¥617,706</u>

### Other payables

	(Millions of yen)	
At March 31	2016	2017
Accrued expenses	¥324,523	¥315,249
Accounts payable—other	98,149	67,645
Total	<u>¥422,672</u>	<u>¥382,894</u>

## 25. Revenue

	(Millions of yen)	
Years ended March 31	2016	2017
Revenue from rendering of services	¥2,816,261	¥2,646,445
Revenue from sale of goods	1,923,033	1,863,249
Total	<u>¥4,739,294</u>	<u>¥4,509,694</u>

## 26. Other Income (Expenses)

	(Millions of yen)	
Years ended March 31	2016	2017
Other income (expenses)	¥(43,730)	¥(36,621)

### For the year ended March 31, 2016

The Group recognized business model transformation expenses of ¥37,610 million for overseas businesses such as EMEIA (Europe, the Middle East, India, and Africa) and North America as well as network businesses. The breakdown of the amount by segment was ¥35,919 million for Technology Solutions and ¥1,691 million for Ubiquitous Solutions. The Group recognized ¥32,450 million in expenses related to overseas businesses. This consisted mainly of ¥17,624 million for proceeding with the closure of a development base and enhancement of efficiency for manufacturing and logistics bases in Europe and ¥9,641 million of an impairment loss primarily for the Managed Infrastructure Services business in North America. Further, the Group recognized expenses of ¥5,160 million for the reassignment of employees and asset streamlining losses accompanying a realignment of network businesses.

In addition to the above, the Group recorded a gain on sales of property, plant and equipment of ¥5,021 million and ¥2,493 million in income on government grants.

### For the year ended March 31, 2017

The Group recognized business model transformation expenses of ¥44,727 million, which consist primarily of the following. The Group recognized ¥34,052 million in expenses in overseas businesses related to its shift toward the digital services business and enhancement of efficiency. This consists mainly of ¥29,469 million in expenses related to personnel measures designed to foster growth in the digital services business at subsidiaries in Europe.

The Group recognized expenses of ¥3,991 million accompanying the realignment of its data centers in Japan. A decision was made to close aging and unprofitable data centers to accelerate high-level integration at cutting-edge data centers, resulting in the recording of impairment losses on fixed assets and costs necessary for closures. The Group also recognized expenses of ¥6,684 million for the realignment of domestic and global production sites primarily in the electronic components businesses.

The breakdown of the amount by segment was ¥36,285 million for Technology Solutions, ¥4,391 million for Ubiquitous Solutions, and ¥4,051 million for Device Solutions.

In addition to the above, the Group recorded a gain on sales of property, plant and equipment of ¥5,087 million and ¥3,250 million in income on government grants.

## 27. Impairment of Non-Financial Assets

### (1) Cash-generating unit (CGU)

In principle, a cash-generating unit (CGU) is identified for business-use assets based on the units that the management uses to make decisions.

### (2) Impairment losses

A breakdown of assets for which impairment losses were recognized is as follows. These impairment losses are included in other income (expenses) in the consolidated statement of profit or loss.

Years ended March 31	(Millions of yen)	
	2016	2017
Property, plant and equipment		
Land	¥ 1,901	¥ 264
Buildings	4,883	7,292
Machinery and equipment, tools, fixtures and fittings	6,591	1,801
Construction in progress	4,081	84
Total property, plant and equipment	17,456	9,441
Goodwill	-	1,702
Intangible assets		
Software	905	764
Others	12	115
Total intangible assets	917	879
Total impairment losses	¥18,373	¥12,022

For the year ended March 31, 2016

Impairment losses were recognized primarily for the following assets and CGUs.

#### (a) North America—Managed Infrastructure Services business

In the Managed Infrastructure Services business in North America, the Group opted to move forward with a business model transformation that increases the relevance of a consulting business and integrated cloud service operations based on new cloud infrastructure developed and supplied by the Company, in order to enhance both growth potential and efficiency. This represents a shift away from the previous managed services model, whereby customer IT assets were held at data centers.

As a result, the Company has reviewed the business plan for its previous managed services model, impaired the carrying amount of the CGU to its recoverable amount, and recorded an impairment loss of ¥9,207 million.

The breakdown by asset type includes ¥6,402 million in machinery and equipment, tools, fixtures and fittings; ¥2,475 million in buildings; and ¥330 million in others.

The recoverable amount is measured at the value in use, which is zero because the discounted future cash flow is negative. The value in use is calculated using the future cash flow discounted by 10.1% (pre-tax). The discount rate after tax is 8.5%.

**(b) Business site scheduled for sale**

The business site scheduled for sale was subjected to an impairment test as a CGU independent from corporate assets; the carrying amount was then reduced to the recoverable amount, with the resulting reduction of ¥3,658 million recorded as an impairment loss.

The breakdown by asset type includes ¥1,946 million in buildings, ¥1,705 million in land, and ¥7 million in others.

The recoverable amount is measured at the fair value less costs of disposal. The fair value less costs of disposal was evaluated at ¥5,735 million, with the estimated sale value as a baseline. The fair value hierarchy classification was Level 2.

This CGU is classified as an asset held for sale. Please refer to Note "17. Assets Held for Sale" for more information.

**(c) Idle assets**

In the IC Assembly business, manufacturing equipment fulfilling no business purpose with no prospects of future utilization was subjected to an impairment test as a CGU, independent from the business assets of the IC Assembly business; the carrying amount was then written down to the recoverable amount, with the resulting reduction of ¥3,430 million recorded as an impairment loss. The asset type is construction in progress.

The recoverable amount is measured at the fair value less costs of disposal. Due to the difficulty in selling these assets, the fair value less costs of disposal is set to zero. The fair value hierarchy classification was Level 3.

The breakdown of impairment losses by segment is ¥10,744 million for Technology Solutions, ¥3,536 million for Device Solutions, ¥190 million for Others, and ¥3,903 million for Corporate.

The Managed Infrastructure Services business in North America is included under Technology Solutions; idle assets are included under Device Solutions; and the business site scheduled for sale is included under Corporate.

For the year ended March 31, 2017

Impairment losses were recognized primarily for the following assets and CGUs.

***Outsourcing Business***

In the outsourcing businesses, the Group is accelerating high-level integration at cutting-edge data centers, while closing aging and unprofitable centers. As a result, assets that fulfill no business purpose with no prospects of future utilization on and after the end of the year ending March 31, 2019 were subjected to an impairment test as a CGU, independent from the business assets of the outsourcing business; the carrying amount was then written down to the recoverable amount, with the resulting reduction of ¥3,810 million recorded as an impairment loss. The breakdown of impairment losses by asset type includes ¥3,637 million in buildings, and ¥173 million in other assets.

The recoverable amount is measured based on the value in use, which is zero because the discounted future cash flow is negative. The value in use is calculated using the future cash flow discounted by 5.0% (pre-tax). The discount rate after tax is 3.4%.

The breakdown of impairment losses by segment is described below. Technology Solutions recorded an impairment loss of ¥5,897 million. This largely consisted of an impairment loss of ¥3,810 million related to aging and unprofitable centers in the outsourcing businesses, and an impairment loss of ¥1,702 million for goodwill allocated to the platform software business. In Device Solutions, an impairment loss of ¥4,051 million was recorded for restructuring of production facilities. This consisted of ¥2,403 million for the electronic components business on coils and ceramic components, and ¥1,648 million for the printed board business. For Elimination and Corporate, an impairment loss of ¥2,007 million was recorded for idle assets scheduled for sale. An impairment loss of ¥67 million was recorded for Other.

**(3) Goodwill impairment test**

Fujitsu Technology Solutions (Holding) B.V. (FTS) recognizes goodwill, which consists primarily of the goodwill related to the product support business acquired from Siemens Business Service GmbH in April 2006.

The target business regions for FTS are continental Europe, the Middle East, Africa, and India. The goodwill is allocated to two CGUs— one is Full Portfolio Countries, where they focus on services business and conduct product sales and maintenance, and the other is Focus Portfolio Countries, where they consist of the product group that develops and manufactures products and the countries/regions that conduct mainly product sales and maintenance. Full Portfolio Countries consist of Germany, Spain, the Benelux countries, and France while Focus Portfolio Countries consist of other countries and regions, such as Poland, the Czech Republic, and South Africa.

Important goodwill allotted to each CGU was assigned to Full Portfolio Countries.

	(Millions of yen)	
	2016	2017
FTS Full Portfolio Countries	¥9,733	¥9,459

An impairment loss on goodwill is recognized when the recoverable amount of the CGU is below its carrying amount. The recoverable amount is measured based on the value in use.

The value in use of goodwill from Full Portfolio Countries, which is important at the end of the fiscal year, is calculated by discounting estimated cash flow based on a three-year business plan and growth rate to the present value. The recoverable amount at the end of this fiscal year was well above the carrying amount of the CGU.

The business plan is prepared to reflect judgments for future forecasts by the management and data in the past, using internal and external data.

The growth rate is determined by accounting for the long-term average market growth rate of the market of the region to which the CGU belongs. The growth rate for the year ended March 31, 2016 and the year ended March 31, 2017 was 0.5%. The discount rate is calculated based on the pre-tax weighted average capital cost of the CGU. The discount rates for the years ended March 31, 2016 and 2017 were 12.4% and 13.5% before tax, respectively, and 8.6% and 9.1% after tax, respectively.

Even when the growth rate and discount rate used in calculating the recoverable amount change to a reasonable extent, the recoverable amount is well above the carrying amount of the CGU, and the probability that a significant impairment loss is recognized is considered low.

## 28. Employee Expenses

Years ended March 31	(Millions of yen)	
	2016	2017
Salaries and bonuses	¥1,150,252	¥1,090,033
Retirement benefit cost	86,331	80,516
Legal welfare expenses and others	248,219	246,417
Total	<u>¥1,484,802</u>	<u>¥1,416,966</u>

## 29. Financial Income and Financial Expenses

### Financial income

Years ended March 31	(Millions of yen)	
	2016	2017
Interest income	¥1,621	¥1,579
Dividend income	3,825	3,546
Others	2,227	1,434
Total	<u>¥7,673</u>	<u>¥6,559</u>

### Financial expenses

Years ended March 31	(Millions of yen)	
	2016	2017
Interest expense	¥ 5,245	¥4,615
Foreign exchange losses, net	5,960	1,296
Others	3,720	1,316
Total	<u>¥14,925</u>	<u>¥7,227</u>

## 30. Discontinued Operations

Not applicable.

### 31. Earnings per Share

Calculation bases for basic earnings per share and diluted earnings per share

#### (1) Basic earnings per share

Years ended March 31	2016	2017
Profit for the year attributable to ordinary equity holders of the parent (Millions of yen)	¥86,763	¥88,489
Weighted average number of ordinary shares—basic (Thousands of shares)	2,068,877	2,065,886
Basic earnings per share (Yen)	¥41.94	¥42.83

#### (2) Diluted earnings per share

Years ended March 31	2016	2017
Profit for the year attributable to ordinary equity holders of the parent (Millions of yen)	¥86,763	¥88,489
Adjustment related to dilutive securities issued by subsidiaries and associates (Millions of yen)	(10)	(9)
Profit used to calculate diluted earnings per share (Millions of yen)	86,753	88,480
Weighted average number of ordinary shares—basic (Thousands of shares)	2,068,877	2,065,886
Weighted average number of ordinary shares—diluted (Thousands of shares)	2,068,877	2,065,886
Diluted earnings per share (Yen)	¥41.93	¥42.83

### 32. Non-Cash Transactions

Years ended March 31	(Millions of yen)	
	2016	2017
Acquisitions of finance leased assets	¥9,381	¥6,185

### 33. Share-Based Payment

Not applicable.

### 34. Financial Instruments

#### (1) Capital management

The fundamental principles of the Group's capital management are to provide a stable return to shareholders while a portion of retained earnings is used by the Company to strengthen its financial base and support new business development opportunities that will result in improved long-term performance.

The Group views equity attributable to owners of the parent and ROE (return on equity attributable to owners of the parent) as important management indicators that show profitability and efficiency of invested capital for businesses.

#### (2) Risk management

The Group carries out its financial activities in accordance with the "Fujitsu Group Treasury Policy" and primarily obtains funds through bank borrowings and the issuance of corporate bonds based on funding requirements of its business activities. After the adequate liquidity for its business activities has been ensured, the Group invests temporary excess funds in financial assets with low risk. The Group utilizes derivative transactions only for hedging purposes and not for speculative or trading purposes.

Trade receivables such as notes receivables and trade accounts receivables are exposed to customer credit risk. Additionally, some trade receivables are denominated in foreign currencies in conjunction with the export of products and exposed to exchange rate fluctuation risk. Available-for-sale financial assets are composed primarily of the certificates of deposit held for fund management and the shares issued by customers or other parties for the purpose of maintaining and strengthening the business relationship. Shares are exposed to market price fluctuation risk and financial risk of the company invested. The Group also loans to business partners and other parties.

Trade payables such as notes payables, trade accounts payables, and accrued expenses are generally payable within one year. Some trade liabilities are denominated in foreign currencies in conjunction with the import of components and exposed to exchange rate fluctuation risk. Borrowings, corporate bonds, and finance lease obligations are mainly for the purpose of obtaining working capital and preparing capital expenditures. Because some of these have floating interest rates, they are exposed to interest rate fluctuation risk.

#### (a) Credit risk

The Group strives to mitigate collection risk in accordance with credit management standards and procedures in selling goods and services. A unit independent from the sales units assesses the credit standing of customers and manages collection dates and the balance outstanding for each customer to ensure smooth collection of trade receivables. Regarding loan receivables, the Group periodically assesses a debtor's financial condition and reviews the terms of the loan if needed.

The counterparties to derivative transactions are selected upon assessment of their credit risk.

The amounts of the largest credit risks at March 31, 2017 are indicated in the consolidated statement of financial position values of the financial assets that are exposed to credit risk.

Aging analysis of trade accounts receivables is as follows.

At March 31	(Millions of yen)							
	Total	Within due date	Overdue amounts					Over 180 days
			Total	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	
2016	¥978,435	¥929,734	¥48,701	¥25,579	¥6,971	¥3,249	¥3,144	¥9,758
2017	991,625	949,183	42,442	22,331	5,667	1,885	3,948	8,611

The balance of allowance for doubtful accounts corresponding to trade accounts receivables at March 31, 2016 and 2017 were ¥8,857 million and ¥7,837 million, respectively.

Impairment is accounted for using the allowance for doubtful accounts, not directly reducing the carrying amount of financial assets. Changes in the allowance for doubtful accounts are presented below.

	(Millions of yen)		
	Current assets	Non-current assets	Total
Balance at April 1, 2015	¥ 9,004	¥ 1,989	¥10,993
Additional provisions made during the year	3,736	1,479	5,215
Amounts used during the year	(1,675)	(466)	(2,141)
Unused amounts reversed during the year	(1,842)	(1,331)	(3,173)
Exchange differences on translation and others	(366)	(9)	(375)
Balance at March 31, 2016	8,857	1,662	10,519
Additional provisions made during the year	3,503	1,953	5,456
Amounts used during the year	(1,689)	(37)	(1,726)
Unused amounts reversed during the year	(2,107)	(1,228)	(3,335)
Exchange differences on translation and others	(727)	4	(723)
Balance at March 31, 2017	¥ 7,837	¥ 2,354	¥10,191

**(b) Liquidity risk**

The Group prepares a cash flow projection and monitors its funding requirements. The Group also strives to diversify its sources of financing in order to reduce liquidity risk.

Contractual maturity analysis of financial liabilities is presented below.

The Group classifies financial liabilities that mature within one year as current liabilities.

For the undiscounted future cash flows of lease obligations, please refer to Note "20. Bonds, Borrowings, and Lease Obligations."

At March 31	(Millions of yen)							
	Carrying amount	Contractual cash flow	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
<b>2016</b>								
Non-derivative financial liabilities								
Bonds	¥259,846	¥260,300	¥60,300	¥20,000	¥65,000	¥40,000	¥35,000	¥40,000
Borrowings	234,600	234,600	71,744	51,613	8,847	20,229	45,049	37,118
Lease obligations	38,103	38,103	12,645	9,163	6,895	4,100	2,283	3,017
Derivative financial liabilities								
	1,738	1,738	1,628	45	16	16	12	21
<b>2017</b>								
Non-derivative financial liabilities								
Bonds	¥199,695	¥200,000	¥20,000	¥65,000	¥40,000	¥35,000	¥30,000	¥10,000
Borrowings	252,809	252,809	99,316	23,843	35,359	45,171	20,143	28,977
Lease obligations	32,588	32,588	11,480	8,400	5,546	3,562	1,735	1,865
Derivative financial liabilities								
	683	683	629	16	5	12	4	17

To ensure efficient funding when the need for funds arises, the Group enters into commitment line contracts established with multiple financial institutions.

At March 31	(Millions of yen)	
	2016	2017
Commitment lines		
Used	¥ -	¥ -
Unused	198,200	174,400
<b>Total</b>	<b>¥198,200</b>	<b>¥174,400</b>

**(c) Market risk**

The Group utilizes exchange forward contracts in respect to trade receivables and trade liabilities denominated in foreign currencies to mitigate the exchange rate fluctuation risk that is monitored by each currency respectively, currency swap contracts to mitigate the foreign currency exchange rate fluctuation risk of cash flows denominated in foreign currencies, and interest swap contracts in respect to borrowings and corporate bonds to mitigate interest rate fluctuation risk.

For the shares issued by customers or other parties, the Group regularly monitors the fair value and the financial condition of the issuer and continuously reviews the investment, taking into account its relationship with the counterparty.

The Group enters into derivative transactions based on the Group policy. Following the policies approved by the Chief Financial Officer (CFO), the finance division undertakes particular transactions, records them, and confirms the balance of transactions with counterparties. In addition, the finance division reports on the content of the transactions undertaken and changes in the transaction balance to the CFO and the head of the accounting department.

*(i) Foreign currency sensitivity analysis*

The following table represents the Group's sensitivity analysis for foreign currency risk exposures. The analysis shows the hypothetical impact on profit before tax in the consolidated statement of profit or loss that would result from a 1% appreciation of the Japanese yen against the US dollar for the recurring positions at the end of the year. The analysis calculated the impact on US dollar-denominated assets and liabilities, and is based on the assumption that other factors such as the outstanding balance and interest rates are held constant.

Years ended March 31	(Millions of yen)	
	2016	2017
Impact on profit before income taxes	¥(726)	¥(443)

*(ii) Interest rate sensitivity analysis*

The following table represents the hypothetical impact on the Group's profit before tax that is attributable to financial instruments which are exposed to the risk of fluctuations in interest rates in the case where the interest rate increases by 0.1%. The analysis is based on the assumption that all other variable factors, specifically foreign currency rates are held constant.

Years ended March 31	(Millions of yen)	
	2016	2017
Impact on profit before income taxes	¥50	¥38

**(3) Hedge accounting****(a) Objective for derivative transactions**

Derivative transactions consist primarily of exchange forward contracts for the purpose of hedging exchange rate fluctuation risk related to trade receivables and trade liabilities, currency swap contracts for the purpose of hedging exchange rate fluctuation risk related to foreign currency-denominated cash flow, and interest swap contracts for the purpose of hedging interest rate fluctuation risk related to borrowings and corporate bonds.

**(b) Policies for derivative transactions**

The Group utilizes derivative transactions only for hedging purposes and not for speculative or trading purposes. Derivative transactions to increase market risks cannot be entered into. In addition, credit risks are considered in choosing a counterparty. Therefore, the Group recognizes that market risk and credit risk for derivative transactions are de-minimis.

**(c) Risk management structure for derivative transactions**

The Group enters into derivative transactions based on regulations established by the Company. Based on policies approved by the Chief Financial Officer (CFO), the finance division undertakes particular transactions, records them, and confirms the balance of transactions with counterparties. In addition, the finance division reports on the content of transactions undertaken and changes in transaction balances to the CFO and the head of the accounting department.

**(d) Accounting treatment for derivative transactions**

Derivatives are measured at fair value and any change in the fair value are recognized in profit or loss. However, if it satisfies the required conditions for hedge accounting, a gain or loss arising from any changes in the fair value of hedging instruments are deferred until the gain or loss arising from hedged item is recognized in profit or loss.

**(e) The fair value of derivative transactions for which hedge accounting is applied**

## Cash flow hedges

At March 31	(Millions of yen)	
	2016	2017
Currency: Forward foreign exchange transaction		
Buy (US dollar)	¥ (82)	¥ 40
Sell (US dollar)	-	4
Interest: Interest rate swap transaction		
Pay fixed/Receive variable	(46)	(37)
Shares: Put options	337	595
Total	<u>¥209</u>	<u>¥602</u>

**(4) Fair value of financial instruments**

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly or indirectly.
- Level 3 inputs are unobservable inputs for assets or liabilities.

**(a) Financial assets and liabilities measured at fair value***(i) Measurement method of fair value for financial assets and liabilities*

## Derivatives

The fair value is based on the prices provided by financial institutions and other appropriate valuation techniques based on information available.

## Available-for-sale financial assets

If a quoted price in an active market is available, the fair value is based on the quoted price. If a quoted price in an active market is not available, the fair value is estimated based on discounted future cash flow or other appropriate valuation method.

*(ii) Fair value hierarchy and comparison between carrying amount and fair value*

At March 31	Carrying amount	Fair value				(Millions of yen)
		Total	Level 1	Level 2	Level 3	
2016						
Assets						
Financial assets measured at fair value through profit or loss	¥ 1,634	¥ 1,634	¥ -	¥1,634	¥ -	
Available-for-sale financial assets	151,814	151,814	99,120	24	52,670	
Total	¥153,448	¥153,448	¥ 99,120	¥1,658	¥52,670	
Liabilities						
Financial liabilities measured at fair value through profit or loss	¥ 1,738	¥ 1,738	¥ -	¥1,738	¥ -	
Total	¥ 1,738	¥ 1,738	¥ -	¥1,738	¥ -	
2017						
Assets						
Financial assets measured at fair value through profit or loss	¥ 1,145	¥ 1,145	¥ -	¥1,145	¥ -	
Available-for-sale financial assets	178,515	178,515	125,404	26	53,085	
Total	¥179,660	¥179,660	¥125,404	¥1,171	¥53,085	
Liabilities						
Financial liabilities measured at fair value through profit or loss	¥ 683	¥ 683	¥ -	¥ 683	¥ -	
Total	¥ 683	¥ 683	¥ -	¥ 683	¥ -	

Available-for-sale financial assets mainly consist of shares.

*(iii) Reconciliation between the beginning and ending balance of available-for-sale financial assets measured at fair value using Level 3 inputs*

	(Millions of yen)
	Available-for-sale financial assets
Balance at April 1, 2015	¥52,087
Subtotal (Gains and losses)	
Profit or loss	(536)
Other comprehensive income	880
Purchases	5,361
Sales	(43)
Settlements	(5,023)
Others	(56)
Balance at March 31, 2016	52,670
Subtotal (Gains and losses)	
Profit or loss	299
Other comprehensive income	239
Purchases	4,395
Sales	(636)
Settlements	(2,991)
Others	(891)
Balance at March 31, 2017	¥53,085

Gains and losses recognized in profit or loss are included in financial income or financial expenses in the consolidated statement of profit or loss. Gains and losses recognized in other comprehensive income are included in available-for-sale financial assets in the consolidated statement of comprehensive income.

**(b) Financial liabilities measured at amortized cost***(i) Measurement method of fair value for financial liabilities***Bonds**

The fair value of bonds which have a market price is based on the market price. The fair value of bonds for which there is no market price is calculated by discounting the sum of future principal and interest payments to the present value at a rate taking into account the remaining term and the credit risk of bonds.

**Long-term borrowings and lease obligations (non-current liabilities)**

The fair value of long-term borrowings and lease obligations is calculated by discounting the sum of future principal and interest payments to the present value at the rate expected for another loan or lease transaction with the same conditions at the end of the year.

(ii) Fair value hierarchy and comparison between carrying amount and fair value

At March 31	Carrying amount	Fair value				(Millions of yen)
		Total	Level 1	Level 2	Level 3	
2016						
Liabilities						
Financial liabilities measured at amortized cost						
Bonds (Non-current)	¥199,568	¥203,647	¥203,647	¥ -	¥-	
Long-term borrowings (Non-current)	162,856	163,924	-	163,924	-	
Lease obligations (Non-current)	25,458	25,736	-	25,736	-	
Subtotal	387,882	393,307	203,647	189,660	-	
Total	¥387,882	¥393,307	¥203,647	¥189,660	¥-	
2017						
Liabilities						
Financial liabilities measured at amortized cost						
Bonds (Non-current)	¥179,703	¥182,439	¥182,439	¥ -	¥-	
Long-term borrowings (Non-current)	153,493	154,310	-	154,310	-	
Lease obligations (Non-current)	21,108	21,252	-	21,252	-	
Subtotal	354,304	358,001	182,439	175,562	-	
Total	¥354,304	¥358,001	¥182,439	¥175,562	¥-	

The disclosure for the current portion of financial liabilities measured at amortized cost is omitted in this note because the carrying amount is a reasonable approximation of its fair value.

**(5) Collateral**

At March 31	(Millions of yen)	
	2016	2017
Land	¥4,242	¥3,870
Buildings	685	601
Others	13	-
Total	¥4,940	¥4,471

### 35. Operating Leases

Total of future minimum lease payments under non-cancellable operating leases

At March 31	(Millions of yen)	
	2016	2017
Not later than one year	¥ 20,768	¥ 18,905
Later than one year and not later than five years	48,450	50,282
Later than five years	37,032	33,813
Total	<u>¥106,250</u>	<u>¥103,000</u>

Lease payments recognized as an expense under non-cancellable operating leases were ¥25,252 million and ¥18,183 million for the years ended March 31, 2016 and 2017, respectively.

### 36. Related Parties

#### (1) Related-party transactions

No significant transactions.

#### (2) Key management personnel compensation

Years ended March 31	(Millions of yen)	
	2016	2017
Base compensation	¥527	¥457
Stock-based compensation	35	34
Bonuses	85	86
Total	<u>¥647</u>	<u>¥577</u>

### 37. Commitments

At March 31	(Millions of yen)	
	2016	2017
Purchase agreements for property, plant and equipment and intangible assets	¥26,155	¥15,004

### 38. Contingencies

At March 31	(Millions of yen)	
	2016	2017
Contingent liabilities for guarantee contracts (Main guaranteed debts)	¥573	¥374
Employees' housing loans	573	374

The aforementioned contingent liabilities for guarantee contracts and main guaranteed debts include similar transactions such as debt guarantees, commitments to guarantee, and letters of awareness.

### 39. Events after the Reporting Period

No significant events.