Financial Section 2017

For the year ended March 31, 2017

Fujitsu Group
Integrated Report 2017

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Contents

FIVE-YEAR SUMMARY

Fujitsu Limited and Consolidated Subsidiaries

(Millions of yen)

	JGAAP		IFRS			
Years ended March 31	2013	2014	2014	2015	2016	**2017**
Revenue	¥4,381,728	¥4,762,445	¥4,762,445	¥4,753,210	¥4,739,294	**¥4,509,694**
Operating profit	88,272	142,567	147,275	178,628	120,612	**128,861**
Profit before income taxes	(52,119)	92,934	161,103	198,864	131,822	**135,147**
Profit for the year	(76,379)	55,873	122,010	145,011	90,421	**95,317**
Profit for the year attributable to owners of the parent	(79,919)	48,610	113,215	140,024	86,763	**88,489**
Total comprehensive income for the year	(80,616)	104,907	175,559	250,283	5,530	**137,087**
Total comprehensive income attributable to owners of the parent	(86,694)	95,912	161,531	240,329	8,860	**129,191**
Total equity	¥ 752,438	¥ 702,449	¥ 697,951	¥ 934,397	¥ 926,240	**¥1,019,202**
Total assets	2,920,326	3,079,534	3,105,937	3,271,121	3,226,303	**3,191,498**
Equity per share attributable to owners of the parent (Yen)	¥ 301.57	¥ 277.03	¥ 273.79	¥ 381.88	¥ 378.37	**¥ 429.80**
Basic earnings per share (Yen)	(38.62)	23.49	54.71	67.68	41.94	**42.83**
Diluted earnings per share (Yen)	–	23.49	54.71	67.64	41.93	**42.83**
Total equity attributable to owners of the parent	¥ 624,045	¥ 573,211	¥ 566,515	¥ 790,089	¥ 782,782	**¥ 881,292**
Equity attributable to owners of the parent ratio	21.4%	18.6%	18.2%	24.2%	24.3%	**27.6%**
Return on equity attributable to owners of the parent (ROE)	(11.8%)	8.1%	23.2%	20.6%	11.0%	**10.6%**
Price earnings ratio	–	26.56	11.41	12.10	9.94	**15.90**
Cash flows from operating activities	¥ 71,010	¥ 175,532	¥ 176,502	¥ 280,149	¥ 253,092	**¥ 250,331**
Cash flows from investing activities	(161,481)	(128,873)	(128,938)	(200,516)	(164,317)	**(145,479)**
Cash flows from financing activities	100,384	(44,794)	(46,217)	(17,327)	(67,741)	**(98,896)**
Cash and cash equivalents	284,548	301,162	301,162	362,028	380,810	**383,969**
Number of employees	168,733	162,393	162,393	158,846	156,515	**155,069**
Average number of temporary personnel	17,941	17,466	17,466	17,304	17,207	**16,684**

Notes: 1. The Fujitsu Group adopted International Financial Reporting Standards (IFRS) for the preparation of its consolidated financial statements in the year ended March 31, 2015. April 1, 2013 is the date of transition to IFRS.

2. Account names are under IFRS. Account names in JGAAP corresponding to names in IFRS are mainly as follows:
   - Income (loss) before minority interests/Profit for the year
   - Net income (loss)/Profit for the year attributable to owners of the parent
   - Owners' equity/Total equity attributable to owners of the parent
   - Owners' equity ratio/Equity attributable to owners of the parent ratio

   (Owners' equity: total net assets – subscription rights to shares – non-controlling interests in consolidated subsidiaries)

3. Consumption taxes are not included in revenue.
4. Fujitsu's consolidated subsidiaries outside Japan have applied IAS 19 "Employee Benefits" (issued June 16, 2011) at the beginning of the year ended March 31, 2014. IAS 19 is applied retrospectively for the year ended March 31, 2013.
5. Average number of temporary personnel includes contracted employees, part-time workers, and others and excludes temporary staff provided by agencies.
6. Diluted earnings per share and price earnings ratio for the year ended March 31, 2013 are not disclosed due to the recording of net losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") for the year ended March 31, 2017.

Forward-looking statements in this section are based on management's understanding and best judgments as of March 31, 2017.

1. Issues and Initiatives

Information and Communication Technology (ICT) services are currently progressing rapidly in various types of industries worldwide. The Group refers to these ICT services as "connected services" and positions their expansion as a future growth driver. To ensure the steady expansion of "connected services," The Company formulated a Management Direction in October 2015 to effectively display global competitive strength as an ICT company.

We are aiming for (1) an operating profit margin of over 10%; (2) free cash flow of over ¥150 billion; (3) an owners' equity ratio of 40% or more; and (4) a ratio of revenue outside Japan of over 50% as mid-term management targets.

The Company is pursuing "business model transformation" to convert the Group's "shape" and "characteristics." The Company decided to change its area of focus from the existing vertically integrated business centered on three business segments—Technology Solutions, Ubiquitous Solutions, and Device Solutions (see Note 1)—to concentrate management resources in Technology Solutions. We will invest in "connected services" underpinned by digital technology in order to sharpen the Group's competitive edge globally in the evolving IoT (see Note 2) market. We will move ahead while keeping all options within reach as we strengthen the market competitiveness of Ubiquitous Solutions and Device Solutions to make them strong, independent businesses and pursue synergies with the Group's core business, as well as promote collaboration with key companies, as necessary.

Note 1: The Technology Solutions segment delivers products, software, and services primarily to corporate customers in an optimal, integrated package of comprehensive services. These consist of Solutions/SI for information and communication system construction; Infrastructure Services, which are primarily outsourcing and maintenance services; System Products, which cover mainly the servers and storage that comprise ICT platforms; and Network Products, which are used to build communications infrastructure such as mobile phone base stations and optical transmission systems.

The Ubiquitous Solutions segment is composed of PCs designed to enhance smartphone connectivity, low power consumption, fast startup, and other advanced features; mobile phones, including the "arrows" and "STYLISTIC" brands of smartphones and tablets in addition to traditional feature phones; and car audio and navigation systems, mobile communication equipment, and automotive electronics.

The Device Solutions segment provides cutting-edge technology products, such as LSI devices used in mobile phones, digital home appliances, automobiles and servers, as well as electronic components consisting chiefly of semiconductor packages and batteries.

Note 2: Internet of Things, a structure where a wide variety of things, not only PCs and servers, are connected to the internet and exchange information.

(a) Progress in "Business Structure Transformation" (concentrating management resources in Technology Solutions)

In April 2017, The Company reached an agreement to transfer a portion of its shareholdings in its consolidated subsidiary FUJITSU TEN Limited (headquarters: Kobe, Hyogo, hereinafter "Fujitsu TEN") to DENSO Corporation (headquarters: Kariya, Aichi, hereinafter "DENSO"). By making FUJITSU TEN a group company of DENSO, which is a general automotive component manufacturer, it will enhance cooperation between the two companies in developing in-vehicle ECUs, millimeter-wave radar, advanced driver assistance and automated driving technologies, and basic electronic technologies, among others. The objective of this initiative is to integrate the two companies so as to achieve higher corporate value. Fujitsu believes that ICT will become increasingly important in developing next-generation vehicles, such as connected cars and automated driving. Fujitsu will enhance its collaboration with DENSO and FUJITSU TEN to strengthen the automotive and mobility IoT businesses.

Fujitsu Client Computing Limited (headquarters: Kawasaki, Kanagawa), a company newly established to take over the PC business, has begun exploring strategic cooperation in the realm of research, development, design and manufacturing with Lenovo Group Limited (headquarters: Hong Kong, China, hereinafter Lenovo). Through the cooperation, the two companies aim to create a successful model that leverages Fujitsu's global sales, customer support, R&D, and manufacturing capabilities together with Lenovo's operational excellence to improve competitiveness in the dynamic global PC market.

(b) Progress in "Growth Strategy Transformation" (expansion of "connected services" underpinned by digital technology)

The Group is moving ahead with efforts to strengthen its frameworks for expanding the digital and global businesses, forecast for growth. In April 2016, Fujitsu established the Digital Services Business, which brought together all of the Group's technology, planning, development, and manufacturing relating to IoT, AI, and cloud dispersed among Group Companies. At the same time, the Global Services Integration Business was created by reorganizing the Integration

Services Business and the Global Delivery Group to form a framework for utilizing the Group's intellectual property and service assets on a global basis. In November 2016, the Company integrated its system engineering resources, which help guide customers' transformations. The aim of this move was to better coordinate the industry and process expertise dispersed among Group companies to consolidate technologies and otherwise build upon the Group's knowledge and capabilities. Furthermore, we are taking steps to reinforce the structure of the Global Services Integration Business. One such step was the formation of the Digital Front, an organization that is separate from existing delivery organizations and that makes deliveries directly to customers, in order to foster new businesses that utilize our AI, IoT, and other digital technologies.

Personnel allocation is also advancing in the shift to digital services. While continuing to expand the Global Delivery Centers, which are offshore and nearshore digital services and R&D bases, in EMEIA (Europe, the Middle East, India, and Africa), The Group has been increasing the number of personnel assigned to digital services while scaling back more traditional roles. The Company changed the EMEIA's management structure to the business line structure from the country and region-based structure that had been in place to improve digital service capabilities. The One Asia framework unifying the Japanese and Asian sales structures and the EMEIA and Americas structure under integrated management are steadily taking effect.

In July 2016, NIFTY Corporation (headquarters: Shinjuku, Tokyo, hereinafter "NIFTY"), a listed subsidiary engaged in the consumer ISP business, web service business, and the cloud business, was made into a wholly owned subsidiary. Subsequently, from April 2017 NIFTY was reorganized as a cloud-focused company for enterprises and a consumer ISP company. In the enterprise business, The Company will strengthen collaboration with NIFTY and share customer bases and expertise to further strengthen the Group's "connected services" with cloud business at the core. To effectively utilize the expertise and assets that NIFTY has developed, while further raising corporate value, the consumer business company was transferred to Nojima Corporation (headquarters: Yokohama, Kanagawa) in April 2017.

(c) Consolidated operating profit

Operating profit was ¥128.8 billion, a 6.8% increase year on year, with an operating profit margin of 2.9%, factoring in ¥44.7 billion in business model transformation expenses for structural reforms undertaken to shift to digitization and greater efficiency in the overseas services business, increased by 3.1 billion compared with 41.5 billion at March 31, 2016.

In the year ending March 31, 2018, Fujitsu forecasts operating profit of ¥185.0 billion and an operating profit margin of 4.5%, as the effects of the business model transformation yield a higher profit margin. Looking ahead, the Company will strengthen further connected services that are specialized and high value-added as well as low cost model by expanding the Global Delivery Centers which are offshore and nearshore digital services and R&D bases will work toward generating an operating profit margin of 10%, in line with management's target.

2. Significant Accounting Policies and Estimates

The Company's consolidated statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Regarding critical accounting policies applied to the consolidated financial statements, please refer to "Notes to Consolidated Financial Statements 3. Significant Accounting Policies."

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 following assumptions and estimates based on the application of accounting principles are those that the management believes may have a material impact on the consolidated financial statements.

(1) Property, plant and equipment

Depreciation for property, plant and equipment is primarily computed by the straight-line method at rates based on the estimated useful lives of the respective assets, reflecting the likely period over which the value of the assets can be realized under normal business conditions. In the future, some equipment and facilities may become obsolete or may be repurposed as a result of technical innovation or other factors. In such cases, their actual useful lives may be reduced to shorter than their originally estimated useful lives. As such, there is a risk that depreciation expenses for the period may increase. In addition, impairment losses may be recognized in cases in which there is a decline in expected future cash flows from assets due to production facilities becoming idle and a decrease in the capacity utilization rate, associated with rapid changes in the operating environment or other factors, and business realignment.

(2) 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 cash-generating unit (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 discount rate is calculated 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 judgment. Impairment losses could be recognized when the assumptions are revised as a result of a change in the market environment or other changes in circumstances.

(3) 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.

(4) 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 as well as the amount and timing of taxable income. A deferred tax asset is recognized for the carry-forward 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 of and the timing when the taxable profit occurs could be affected by uncertain changes in economic terms in the future. 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.

(5) Defined benefit plans

The Group has both defined benefit and defined contribution retirement benefit plans. A change in 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.

3. Analysis of Results for the Year Ended March 31, 2017

In the following section, "for the year ended March 31, 2016" and "for the year ended March 31, 2017" are shown as "2016" and "2017," respectively.

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

Years ended March 31	2016	**2017**	YoY change	Change (%)
Revenue	4,739.2	**4,509.6**	(229.6)	(4.8)
Cost of sales	(3,487.8)	**(3,292.6)**	195.1	(5.6)
Gross profit	1,251.4	**1,217.0**	(34.4)	(2.8)
Selling, general and administrative expenses	(1,087.1)	**(1,051.5)**	35.6	(3.3)
Other income (expenses)	(43.7)	**(36.6)**	7.1	–
Operating profit	120.6	**128.8**	8.2	6.8
Financial income (expenses)	(7.2)	**(0.6)**	6.5	–
Income from investments accounted for using the equity method, net	18.4	**6.9**	(11.5)	(62.3)
Profit before income taxes	131.8	**135.1**	3.3	2.5
Income tax expenses	(41.4)	**(39.8)**	1.5	(3.8)
Profit for the year	90.4	**95.3**	4.8	5.4
Profit for the year attributable to:				
Owners of the parent	86.7	**88.4**	1.7	2.0
Non-controlling interests	3.6	**6.8**	3.1	86.7

Reference: Financial Indicators

(Billions of yen)

	2016	**2017**	YoY change
Ratio of revenue outside Japan	40.0%	**36.5%**	(3.5%)
EMEIA*1	952.0	**778.1**	(173.9)
Americas	420.4	**386.9**	(33.5)
Asia	421.0	**385.1**	(35.9)
Oceania	100.6	**93.8**	(6.7)
Revenue outside Japan by locations of customers	1,894.2	**1,644.0**	(250.1)
Gross profit margin	26.4%	**27.0%**	0.6%
Operating profit margin	2.5%	**2.9%**	0.4%
Return on equity attributable to owners of the parent (ROE)*2	11.0%	**10.6%**	(0.4%)

*1 EMEIA: Europe, the Middle East, India, and Africa
*2 ROE = Profit for the year attributable to owners of the parent ÷ [(Beginning balance of total equity attributable to owners of the parent (Owners' equity) + Ending balance of total equity attributable to owners of the parent (Owners' equity)) ÷ 2]

Reference: Exchange Rate

	2016	**2017**	YoY change
US dollar/Yen	¥120	**¥108**	¥(12)
Euro/Yen	¥133	**¥119**	¥(14)
British pound/Yen	¥181	**¥142**	¥(39)
Euro/US dollar	$1.11	**$1.10**	$(0.01)

(1) Revenue

Consolidated revenue for the year ended March 31, 2017 was ¥4,509.6 billion, a 4.8% decrease compared to the year ended March 31, 2016. However, if the appreciation of the yen against the US dollar, euro and British pound is excluded, consolidated revenue was essentially unchanged. Revenue in Japan was largely the same as the year ended March 31, 2016. System integration and infrastructure services performed steadily and there were increased revenues in enterprise PCs and car audio and navigation systems. However, the impact of the lengthening of the replacement cycle for smartphones resulted in a decrease in the number of mobile phones shipped and the revenue for LSI devices used in smartphones declined on weak demand. Outside Japan, revenue decreased 13.2%, or 3%, if foreign currency effects are excluded. Infrastructure services declined, mainly in Europe, reflecting the inability to counter a rebound effect from having secured a major public contract in the year ended March 31, 2016. Revenue also decreased in North America in optical transmission systems with the rollout of new models.

For the year ended March 31, 2017, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥108, ¥119, and ¥142, respectively, representing a year-on-year appreciation of ¥12 against the US dollar, ¥14 against the euro, and ¥39 against the British pound. Exchange rate fluctuations versus the US dollar, euro, and British pound caused decreases in revenue of approximately ¥68 billion, ¥51 billion, and ¥85 billion, respectively.

As a result, currency exchange rate fluctuations had a negative impact of approximately ¥200.0 billion on revenue for the year ended March 31, 2017, dropping the overseas revenue ratio by 3.5 percentage points, to 36.5%.

(2) Cost of sales, selling, general and administrative expenses, other income (expenses), and operating profit

For the year ended March 31, 2017, cost of sales totaled ¥3,292.6 billion; gross profit was ¥1,217.0 billion; and the gross profit margin was 27.0%, up 0.6 of a percentage point year on year.

Selling, general and administrative (SG&A) expenses were ¥1,051.5 billion, a decrease of ¥35.6 billion year on year. SG&A expenses were essentially unchanged if foreign currency effects are excluded. R&D spending amounted to ¥173.9 billion, a decrease of ¥5.9 billion year on year. In response to weak growth in the smartphone market, there were positive impacts from limiting the number of introduction of high-end models introduced from twice yearly to winter models only as well as the improved efficiency in the development of network products. The ratio of R&D expenses to revenue was 3.9%.

Other expenses totaled ¥36.6 billion, a decrease of ¥7.1 billion year on year. This was due to the reduction of impairment losses, including property, plant and equipment, and increased profit on sales of property, plant and equipment.

As a result, operating profit amounted to ¥128.8 billion, an increase of ¥8.2 billion compared to the year ended March 31, 2016. While there was a rebound from the business model transformation expenses of the previous fiscal year that led to an increase in operating profit of ¥41.5 billion, business model transformation expenses of ¥44.7 billion for the year under review, coupled with the impact of the yen and euro's appreciation against the US dollar, mainly during the first half, led to a decrease of ¥3.0 billion. Excluding these factors, on a regular basis this would have resulted in an increase in operating profit of ¥14.4 billion. Reduced demand for smartphone LSI devices had an impact, but operating profit increased due to the effects of increased operating profit resulting from cost-cutting and greater efficiency in expenses for PCs, mobile phones, and car audio and navigation systems. Of the ¥44.7 billion in business model transformation expenses for the year ended March 31, 2017, ¥34.0 billion was used for the digital shift and for greater efficiency in overseas business, ¥3.9 billion as expenses for restructuring 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), and ¥6.6 billion in restructuring expenses for domestic bases in Japan and overseas, mainly for the electronic components business. The operating profit margin was 2.9%, rising by 0.4 of a point year on year.

An important management priority for the Group is raising the profitability of its overseas business. In the year ended March 31, 2016, the Group strengthened product operations primarily by improving the efficiency of development, manufacturing and logistics bases, as well as by integrating service provision functions toward shifting to a service-oriented business model. In the year ended March 31, 2017, the digital transformation of the services business moved ahead with the goal of strengthening the competitiveness of existing IT services while simultaneously launching and growing the digital service business. Of the ¥34.0 billion in business model transformation expenses outlaid for efficiency and the digital shift for the overseas business for the year ended March 31, 2017, there were costs associated with approximately 3,200 personnel, mainly in the UK, Germany, northern Europe and Spain, as well as expenses incurred to propel greater efficiency through the promotion of automation in service delivery, sales, and marketing functions. Looking ahead, about 1,200 personnel will be added to the digital service business to support construction of a framework, and investment will be made to train people in the new business.

Compared to the year ended March 31, 2016, exchange rate volatility caused operating profit to decrease by roughly ¥3.0 billion for the year ended March 31, 2017. For bases in Japan, where the Japanese yen is used, the US dollar, euro, and British pound had a minimal effect on operating profit, amounting to about ¥2.0 billion year on year. While an overvalued yen led to lower procurement costs for US dollar-denominated components for PCs, mobile phones, and other products, this was largely negated by a decrease in US dollar-denominated export sales of LSI devices and electronic components, for a minimal impact overall. For the year ended March 31, 2017, the effect on operating profit of a fluctuation of ¥1 in the exchange rate for foreign currency would be approximately ¥0.05 billion, ¥0.03 billion, and ¥0.01 billion for the US dollar, the euro, and the British pound, respectively. In the case of certain European bases, the progressive devaluation of the euro versus the US dollar would have raised procurement costs for components and materials denominated in US dollars, causing operating profit to deteriorate. For the year ended March 31, 2017, the impact was immaterial, a decline of about ¥1.0 billion year on year. For the year ended March 31, 2017, a fluctuation of 0.01 in the euro/US dollar exchange rate would have an impact of roughly ¥1.2 billion on operating profit. In addition to cost reductions and the burden shifting to sales prices, the Group will continue working diligently to minimize as much as possible the impact of foreign exchange fluctuations on profits, including through steps to heighten the efficiency of manufacturing and logistics bases in Europe.

(3) Financial income (expenses), income from investments accounted for using the equity method, net, and profit before income taxes

Net financial expenses amounted to ¥0.6 billion, an improvement of ¥6.5 billion from the year ended March 31, 2016. This was mainly the result of a net loss of ¥5.9 billion on foreign exchange accompanying a swift rise in the yen's value at the end of the year ended March 31, 2016, and the net loss on foreign exchange for the year under review was ¥1.2 billion. Income from investments accounted for using the equity method, net, was ¥6.9 billion, a decrease of ¥11.5 billion year on year. The Group made allowances for the possibility of a loss arising in a domestic affiliate during the year ended March 31, 2017, in contrast to having recorded a dilution gain from changes in equity interest stemming from an offering of shares of an affiliate on China's Shenzhen Stock Exchange in the year ended March 31, 2016.

As a result, profit before income taxes was ¥135.1 billion, an increase of ¥3.3 billion year on year, primarily reflecting higher operating profit.

(4) Income tax expenses, profit for the year, and profit for the year attributable to owners of the parent

Profit for the year came to ¥95.3 billion, an increase of ¥4.8 billion year on year. Of profit for the year, profit for the year attributable to owners of the parent came to ¥88.4 billion and profit attributable to non-controlling interests was ¥6.8 billion, for increases of ¥1.7 billion and ¥3.1 billion year on year, respectively. Income tax expenses were ¥39.8 billion, down ¥1.5 billion year on year. The Company and its wholly owned subsidiaries in Japan have adopted the consolidated tax return system of Japan and for deferred tax assets related to income taxes (including local corporate taxes), the Company records items judged to be utilized as deferred tax assets as a single consolidated taxable entity. However, in regard to deferred tax assets for non-consolidated tax systems such as municipal taxes and business taxes, the Company did not record the deferred tax assets for individual companies in the year ended March 31, 2016, but for the year under review it recorded deferred tax assets that it deems to be utilized in the year ending March 31, 2018. The Company deems a future utilization possible in consideration of the November 2016 absorption-type merger of its three major systems-engineering subsidiaries in Japan aiming for strengthening the digital business and global delivery capabilities.

The Group views profitability and efficiency of invested capital in businesses as important management indicators. ROE, calculated by dividing profit for the year attributable to owners of the parent by equity attributable to owners of the parent (owners' equity), was 10.6%. Profit for the year attributable to owners of the parent increased year on year, while owners' equity increased due to improvement in the unfunded obligation pertaining to the employee defined benefit plans, decreasing ROE by 0.4 of a point year on year.

(5) Total other comprehensive income for the year, net of taxes, and total comprehensive income for the year

Total other comprehensive income for the year, net of taxes, amounted to ¥41.7 billion. Rising stock prices converted pension fund operations toward a favorable cycle, and remeasurements of defined benefit plans generated a positive ¥39.9 billion. The improved stock prices also led to an increase in available-for-sale financial assets amounting to a positive ¥18.5 billion, but the yen's ongoing appreciation against the British pound and the US dollar resulted in foreign currency translation adjustments for foreign operations of negative ¥15.5 billion.

Total comprehensive income for the year, which combines profit for the year and other comprehensive income after taxes, was ¥137.0 billion. Of total comprehensive income, total comprehensive income attributable to owners of the parent came to ¥129.1 billion, and total comprehensive income attributable to non-controlling interests was ¥7.8 billion.

(6) Segment information

The reportable segments were consolidated into the three segments of "Technology Solutions," "Ubiquitous Solutions," and "Device Solutions," based on organizational structure, the characteristics of the products and services, and the similarities in sales markets. The "Other Operations" segment includes operations not included in the reportable segments, such as Japan's Next-Generation Supercomputer project, next-generation cloud business, facility services and the development of information systems for Group companies, and welfare benefits for Group employees. Revenue (including intersegment revenue) and operating profit by segment for the year ended March 31, 2017 are shown as follows.

(Billions of yen)

Years ended March 31		2016	**2017**	YoY change	Change (%)
Technology Solutions	Revenue	3,283.3	**3,126.6**	(156.7)	(4.8)
	Operating profit	186.2	**190.7**	4.5	2.4
	[Operating profit margin]	[5.7%]	**[6.1%]**	[0.4%]	
Ubiquitous Solutions	Revenue	1,040.9	**1,025.7**	(15.1)	(1.5)
	Operating profit	(7.6)	**28.7**	36.4	–
	[Operating profit margin]	[(0.7%)]	**[2.8%]**	[3.5%]	
Device Solutions	Revenue	603.9	**544.3**	(59.5)	(9.9)
	Operating profit	30.3	**4.2**	(26.1)	(86.0)
	[Operating profit margin]	[5.0%]	**[0.8%]**	[(4.2%)]	
Other Operations/ Elimination & Corporate	Revenue	(188.8)	**(187.1)**	1.7	–
	Operating profit	(88.3)	**(94.9)**	(6.5)	–
Consolidated	Revenue	4,739.2	**4,509.6**	(229.6)	(4.8)
	Operating profit	120.6	**128.8**	8.2	6.8
	[Operating profit margin]	[2.5%]	**[2.9%]**	[0.4%]	

(a) Technology Solutions

The Technology Solutions segment delivers products, software, and services to customers in an optimal, integrated package of comprehensive services. These consist of Solutions/SI for information communication system consulting and construction; Infrastructure Services, which primarily comprise outsourcing services (integrated information system operation and management); 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.

Revenue amounted to ¥3,126.6 billion, a decrease of 4.8% compared to the year ended March 31, 2016. Revenue in Japan increased by 3.0%. Revenue from system integration services rose on growth from a wide array of domains, including telecommunication carriers, in addition to the manufacturing and service sectors in spite of factors to decrease revenue, most notably passing the peak period in large-scale financial sector projects initiated by the Social Security and Tax Number System. Revenue from system integration services for the year ended March 31, 2017, was ¥1,024.1 billion, an increase over the year ended March 31, 2016, the first time that revenue had exceeded ¥1 trillion. Revenue from infrastructure services was also higher, largely due to outsourcing, and revenue also increased in IA servers and mobile phone base stations.

However, revenue outside Japan decreased 17.7%. In addition to the impact of a sustained strong yen, revenue declined largely because infrastructure services were unable to cover the loss of sales in Europe following a large-scale public project in the year ended March 31, 2016, and revenue for optical transmission systems in North America declined as new models were being prepared for rollout in a renewal period.

The segment posted an operating profit of ¥190.7 billion, up ¥4.5 billion from the year ended March 31, 2016. Despite the impact of lower revenue from the services sub-segment outside Japan, operating profit increased, primarily due to the effects of higher revenue in the services sub-segment in Japan and, owing to the impact of a strong yen, cost reductions in system products stemming from the lower cost of purchasing US dollar-denominated components. Business model transformation expenses for the year ended March 31, 2017 were ¥36.2 billion, essentially unchanged from the year ended March 31, 2016. Business model transformation expenses for the services business were ¥33.6 billion, ¥14.4 billion more than the year ended March 31, 2016, and system products and network products were ¥2.6 billion, a decrease of ¥14.0 billion year on year. Structural reform expenses had been recorded to strengthen product operations, and for services for the overall overseas business in the year ended March 31, 2016, and in the year ended March 31, 2017 structural reform expenses were recorded to enhance efficiency and shift to digitalization at the overseas services business, as well as for the cost of restructuring aging and unprofitable data centers in Japan.

In July 2016, the Company's wholly owned North American subsidiary Fujitsu Network Communications Inc. (headquarters: Texas, United States, hereinafter FNC) acquired TrueNet Communications, Inc. (headquarters: Florida, United States, hereinafter TrueNet), a leading national communications infrastructure engineering contractor. The acquisition combines FNC's expertise in base network construction, notably for telecommunications carriers and data centers, with TrueNet's expertise in outdoor network construction involving broadband and wireless networks to enable one-stop delivery of services from infrastructure planning and design to building, operation, and maintenance.

(b) Ubiquitous Solutions

The Ubiquitous Solutions segment contains ubiquitous terminals or sensors, including personal computers and mobile phones, as well as car audio and navigation systems, mobile communication equipment, and automotive electronic equipment, that collect and utilize 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).

Revenue was ¥1,025.7 billion, down 1.5% from the year ended March 31, 2016. Revenue in Japan rose by 1.8%. Growth occurred in the enterprise PC sales and car audio and navigation systems. The volume of shipments for mobile phones declined. This was a result of the decision to reduce the replacement cycle for high-end smartphone models from twice yearly to winter only due to weak growth in the smartphone market. Revenue outside Japan fell 7.6%. The continued strong yen versus the US dollar and euro had an adverse effect.

Operating profit was ¥28.7 billion, an improvement of ¥36.4 billion over the year ended March 31, 2016. There were significant improvements in both PCs and mobile phones, as operations in both product areas returned to profitability. In addition to the beneficial effects of higher revenues from enterprise PCs and car audio and navigation systems in Japan, both PCs and mobile phones benefited from cost reductions and further progress in cost efficiencies. In addition to lower procurement prices for components, the cost reductions also included the impact of lower procurement costs because of the stronger yen. Business model transformation expenses for the year ended March 31, 2017, were ¥4.3 billion, ¥1.2 billion less year on year. These were mostly recorded for restructuring costs used for overseas production bases.

(c) Device Solutions

The Device Solutions segment provides cutting-edge technology products, such as LSI devices used in digital home appliances, automobiles, mobile phones, and servers, as well as electronic components consisting chiefly of semiconductor packages and batteries.

Revenue amounted to ¥544.3 billion, down 9.9% from the year ended March 31, 2016. Revenue in Japan decreased by 14.6%. Sluggish demand for LSI devices had an effect. Revenue from overseas decreased by 5.5%. There was the impact of lower revenue from export sales of LSI devices and electronic components as a result of the continuing strength of the yen against the US dollar.

The segment posted an operating profit of ¥4.2 billion, down ¥26.1 billion year on year. In addition to the impact of sluggish demand for LSI devices, there was a decrease of almost ¥20.0 billion in export sales as a result of the continuing strength of the yen against the US dollar. In addition, ¥4.0 billion was posted for business model transformation expenses, up ¥4.0 billion year on year, in electronic components for production facilities both in and outside of Japan.

(d) Other Operations/Elimination and Corporate

This category includes operations not included in the reportable segments, such as Japan's Next-Generation Supercomputer project, next-generation cloud business, facility services and the development of information systems for Group companies, and welfare benefits for Group employees.

This category also includes expenses that are not classified under an operating segment. The expenses consist of strategic expenses such as basic research and development expenses and IT strategic investment, as well as Group management shared expenses incurred by the Company.

This segment recorded an operating loss of ¥94.9 billion, representing a deterioration of ¥6.5 billion from the year ended March 31, 2016. High-level investments continued in this area, with over ¥70.0 billion allocated to strategic investments, primarily in next-generation cloud technology, next-generation supercomputers and expenses for basic testing and research, and strategic IT investments. Investment also continued from the previous fiscal year in next-generation cloud platforms as the foundation for IoT utilization.

(7) Geographic information

One of the Group's management priorities is to increase revenue and raise profitability of its business in growing markets outside Japan.

Geographic financial information is important to the Group's business management and is useful for shareholders and investors in understanding the Group's financial overview.

(Billions of yen)

Years ended March 31		2016	**2017**	YoY change	Change (%)
Japan	Revenue	3,366.5	**3,358.7**	(7.7)	(0.2)
	Operating profit	202.8	**225.8**	22.9	11.3
	[Operating profit margin]	[6.0%]	**[6.7%]**	[0.7%]	
EMEIA (Europe, the Middle East, India, and Africa)	Revenue	963.5	**791.5**	(172.0)	(17.9)
	Operating profit	(1.5)	**(9.3)**	(7.8)	–
	[Operating profit margin]	[(0.2%)]	**[(1.2%)]**	[(1.0%)]	
Americas	Revenue	421.9	**382.8**	(39.0)	(9.2)
	Operating profit	(1.3)	**4.6**	5.9	–
	[Operating profit margin]	[(0.3%)]	**[1.2%]**	[1.5%]	
Asia	Revenue	466.3	**398.7**	(67.5)	(14.5)
	Operating profit	9.5	**1.6**	(7.8)	(82.3)
	[Operating profit margin]	[2.0%]	**[0.4%]**	[(1.6%)]	
Oceania	Revenue	103.9	**96.7**	(7.1)	(6.8)
	Operating profit	2.6	**3.5**	0.8	33.2
	[Operating profit margin]	[2.5%]	**[3.6%]**	[1.1%]	
Elimination & Corporate	Revenue	(583.0)	**(519.1)**	63.9	–
	Operating profit	(91.5)	**(97.4)**	(5.9)	–
Consolidated	Revenue	4,739.2	**4,509.6**	(229.6)	(4.8)
	Operating profit	120.6	**128.8**	8.2	6.8
	[Operating profit margin]	[2.5%]	**[2.9%]**	[0.4%]	

(a) Japan

Revenue amounted to ¥3,358.7 billion, virtually unchanged compared to the year ended March 31, 2016. Weak demand for LSI for smartphones caused a significant decrease in revenue, but increased revenue came mainly from steady performance by infrastructure services centered on outsourcing and car audio and navigation systems. Revenue from system integration services grew from a wide variety of domains, including telecommunication carriers, in addition to the manufacturing and service industries, countering a decrease in revenue resulting from having exceeded the development peak period in a large-scale project in the financial domain and business deals in the public sector initiated by the Social Security and Tax Number System. Operating profit was ¥225.8 billion, a year-on-year increase of ¥22.9 billion. Contributing to the growth were increased income from infrastructure services, system integration and car audio and navigation systems, the cheaper price of procuring components for PCs and mobile phones, and lower procurement costs caused by the strong yen versus the US dollar, and raised cost efficiencies.

(b) EMEIA (Europe, the Middle East, India, and Africa)

Revenue came to ¥791.5 billion, a decrease of 17.9% from the year ended March 31, 2016. There was an impact from the continued appreciation of the yen against the British pound and the euro. Revenue decreased in product-related businesses such as PCs, along with lower revenue from having been unable to cover for the loss of large-scale public business deals in infrastructure services in the year ended March 31, 2016. The operating loss was ¥9.3 billion, a deterioration of ¥7.8 billion from the year ended March 31, 2016. The Group continued to record business model transformation expenses in the year ended March 31, 2017, which had an impact despite the effects of cutting fixed costs through raising efficiencies at production and logistics bases, coupled with the closure of development bases in the year ended March 31, 2016. Business model transformation expenses were ¥32.2 billion, an increase of ¥10.5 billion year on year. In the year ended March 31, 2016, product operations were enhanced and service provision functions across all of EMEIA were strengthened in line with the business model shift to services. In the year ended March 31, 2017, the digital transformation of the services business moved ahead with the goal of strengthening the competitiveness of existing IT services, while launching and growing the digital services business.

(c) Americas

Revenue came to ¥382.8 billion, a decrease of 9.2% from the year ended March 31, 2016. The decrease was attributable to the continued strength of the yen against the US dollar and the effect of revenue decline in optical transmission systems due to the impact of a renewal period. The operating profit for the region was ¥4.6 billion, an increase of ¥5.9 billion year on year. Infrastructure services improved their profit margin, and business model transformation expenses recorded for the year ended March 31, 2016, due to an impairment loss for infrastructure services-related equipment, were absent. In the infrastructure services business, the Group moved steadily ahead as the results of business model transformation became visible, with business focus shifting from conventional managed services, in which customer IT assets are held at data centers, to cloud services, in which new cloud platforms developed and provided by the Group and consulting services are managed and provided together.

(d) Asia

Revenue amounted to ¥398.7 billion, a year-on-year decrease of 14.5%. The decrease in revenue came mainly from a production shift in car audio and navigation systems and reduced revenues in mechanical components and LSI devices. Operating profit was ¥1.6 billion, a decrease of ¥7.8 billion from the year ended March 31, 2016, due to reduced revenue and recording business model transformation expenses resulting from restructuring the production bases for the electronic components business and the car audio and navigation systems business.

(e) Oceania

Revenue came to ¥96.7 billion, a decline of 6.8% from the year ended March 31, 2016. The decrease was mainly due to the continued appreciation of the yen against the Australian dollar. On the basis of excluding currency exchange effects, however, the year-on-year performance was essentially unchanged. Operating profit was ¥3.5 billion, up ¥0.8 billion year on year. An improvement in the profit margin was the result of an increase in managed infrastructure services sales against a decrease in sales in the product-related business.

4. Analysis of Capital Resources and Liquidity

(1) Assets, liabilities, and equity

Summarized Consolidated Statement of Financial Position

(Billions of yen)

Years ended March 31	2016	**2017**	YoY change
Assets			
Current assets	1,843.8	**1,842.4**	(1.4)
Non-current assets	1,382.4	**1,349.0**	(33.3)
Total assets	3,226.3	**3,191.4**	(34.8)
Liabilities			
Current liabilities	1,447.0	**1,431.9**	(15.0)
Non-current liabilities	853.0	**740.3**	(112.7)
Total liabilities	2,300.0	**2,172.2**	(127.7)
Equity			
Total equity attributable to owners of the parent (Owners' equity)	782.7	**881.2**	98.5
Retained earnings	155.9	**265.8**	109.9
Other components of equity	68.9	**71.6**	2.6
Total equity	926.2	**1,019.2**	92.9
Total liabilities and equity	3,226.3	**3,191.4**	(34.8)
Cash and cash equivalents	380.8	**380.6**	(0.1)
Interest-bearing loans	534.9	**486.7**	(48.1)
Net interest-bearing loans	154.1	**106.0**	(48.0)

Notes: 1. Interest-bearing loans include bonds, borrowings, and lease obligations.
2. Net interest-bearing loans = Interest-bearing loans − Cash and cash equivalents

Reference: Financial Indicators

Years ended March 31	2016	**2017**	YoY change
Equity attributable to owners of the parent ratio (Owners' equity ratio)	24.3%	**27.6%**	3.3%
D/E ratio (Times)	0.68	**0.55**	(0.13)
Net D/E ratio (Times)	0.20	**0.12**	(0.08)

Notes: 1. Owners' equity ratio = Total equity attributable to owners of the parent (Owners' equity) ÷ Total assets
2. D/E ratio = Interest-bearing loans ÷ Total equity attributable to owners of the parent (Owners' equity)
3. Net D/E ratio = (Interest-bearing loans − Cash and cash equivalents) ÷ Total equity attributable to owners of the parent (Owners' equity)

Reference: Status of Retirement Benefit Plans

(Billions of yen)

Years ended March 31	2016	**2017**	YoY change
a. Defined benefit obligation	(2,434.2)	**(2,438.9)**	(4.6)
b. Plan assets	2,074.5	**2,150.9**	76.3
c. Defined benefit obligation in excess of plan assets (a)+(b)	(359.6)	**(288.0)**	71.6
[In Japan]	[(279.6)]	**[(207.9)]**	[71.6]
[Outside Japan]	[(80.0)]	**[(80.0)]**	[–]
(Assumptions used in accounting for the plans)			
Discount rates			
In Japan	0.30%	**0.59%**	0.29%
Outside Japan	mainly 3.35%	**mainly 2.45%**	(0.90%)

Consolidated total assets at March 31, 2017 amounted to ¥3,191.4 billion, a decrease of ¥34.8 billion from March 31, 2016. Current assets decreased by ¥1.4 billion compared to March 31, 2016, to ¥1,842.4 billion. Inventories were ¥293.1 billion, down ¥5.6 billion from March 31, 2016. The monthly inventory turnover rate, an indicator of asset efficiency, was 1.15 times, an improvement of 0.03 times compared to March 31, 2016, largely due to mobile phones and PCs. Non-current assets decreased by ¥33.3 billion compared to March 31, 2016, to ¥1,349.0 billion. Due to rising stock prices, retirement benefit plan management was favorable, and the funded status (unfunded obligations) of employee defined benefit plans improved, and as a result deferred tax assets decreased by ¥30.2 billion. In other investments, the rising stock prices drove up the appraised value of strategic shareholdings by ¥26.9 billion compared to March 31, 2016, but due to currency exchange and the sale of common property with lowered operating rates, tangible and intangible assets decreased by ¥19.8 billion and ¥10.3 billion, respectively, compared to March 31, 2016.

Total liabilities amounted to ¥2,172.2 billion, a decrease of ¥127.7 billion compared to the year ended March 31, 2016. Current liabilities came to ¥1,431.9 billion, a decline of ¥15.0 billion. Corporate bonds, borrowings, and lease obligations decreased by ¥13.8 billion compared to the year ended March 31, 2016. Non-current liabilities came to ¥740.3 billion, a decrease of ¥112.7 billion compared to March 31, 2016. In addition to a decrease of ¥33.5 billion in corporate bonds, borrowings, and lease obligations compared to March 31, 2016, the retirement benefit liabilities decreased as the funded status (unfunded liabilities) of employee defined benefit plans improved, causing liabilities related to defined benefit pension plans to decrease by ¥74.9 billion. Interest-bearing loans, which consists of current liabilities and non-current liabilities, corporate bonds, borrowings, and lease obligations, was ¥486.7 billion, a decrease of ¥48.1 billion compared to March 31, 2016, as the Company partially redeemed straight bonds. As a result, the D/E ratio was 0.55 times, a decrease of 0.13 of a point compared to March 31, 2016, and the net D/E ratio was 0.12 times, a decrease of 0.08 of a point compared to March 31, 2016.

Total equity was ¥1,019.2 billion, an increase of ¥92.9 billion from March 31, 2016. Retained earnings was ¥265.8 billion at March 31, 2017, an increase of ¥109.9 billion from March 31, 2016. In addition to the recording of ¥88.4 billion in profit for the year attributable to owners of the parent, improvement in the funded status of defined benefit plans had a positive impact of ¥38.0 billion. In addition, other components of equity increased by ¥2.6 billion compared to March 31, 2016, to ¥71.6 billion. This was due to a decrease in foreign currency translation adjustments among foreign operations, as a result of the ongoing appreciation of the yen against the British pound, along with an increase in earnings from available-for-sale financial assets caused by rising stock prices. Treasury stock was a negative ¥12.5 billion, an increase of ¥11.8 billion in holdings compared to March 31, 2016. The Company and Fuji Electric Co., Ltd. each held over 10% of the total number of issued and outstanding shares (excluding treasury stock) of the other company, but both companies decided to review cross-shareholdings from the perspective of capital efficiency and shareholder benefit. In February 2017, Fuji Electric sold Fujitsu shares, and The Company responded by acquiring ¥11.8 billion in treasury stock from the point of view of minimizing the impact on existing shareholders. As a result, total equity attributable to owners of the parent (owners' equity) was ¥881.2 billion and the equity attributable to owners of the parent ratio (owners' equity ratio) was 27.6%, an increase of 3.3 percentage points compared to March 31, 2016.

The Group sets an owners' equity ratio of 40% as a management target to achieve. The deduction from owners' equity of ¥311.8 billion for the unfunded obligation with tax effects pertaining to the employee defined benefit plans held owners' equity lower. We will strengthen our financial soundness by carrying out business model transformation and achieving sufficient owners' equity.

As an off-balance liability not recorded on the consolidated statement of financial position, the future minimum lease payments related to noncancelable operating leases as designated under IAS 17—Leases were ¥103.0 billion, and the contracted commitment stipulated to acquire assets under IAS 16—Property, Plant and Equipment and IAS 38—Intangible Assets was ¥15.0 billion.

The defined benefit obligation of the employee defined benefit plans was ¥2,438.9 billion, up ¥4.6 billion from March 31, 2016. Plan assets stood at ¥2,150.9 billion, up ¥76.3 billion from March 31, 2016. As a result, the funded status of employee defined benefit plans (defined benefit obligation less plan assets) was a shortage of ¥288.0 billion, representing an improvement of ¥71.6 billion compared to March 31, 2016. The funded status of employee defined benefit plans in Japan saw the operation of pension assets turn favorable as stock prices rose and defined benefit obligation decreased due to a rise in discount rates. The funded status of employee defined benefit plans overseas was essentially unchanged from March 31, 2016. Under the UK defined benefit plan, the main defined benefit plan overseas, the Group invests in a portfolio centered on bonds so that the change of defined benefit obligation is matched with that of pension asset operations, hedging the risk of the proportion of funded plan assets against defined benefit obligation being too low. The funded status of employee defined benefit plans is, when remeasured, recognized in other comprehensive income, with tax effects, and immediately classified from other components of equity to retained earnings. The amount deducted from retained earnings decreased by ¥38.0 billion compared to March 31, 2016.

(2) Cash flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

Years ended March 31	2016	**2017**	YoY change
I Cash flows from operating activities	253.0	**250.3**	(2.7)
II Cash flows from investing activities	(164.3)	**(145.4)**	18.8
I+II Free cash flow	88.7	**104.8**	16.0
III Cash flows from financing activities	(67.7)	**(98.8)**	(31.1)
IV Cash and cash equivalents at end of year	380.8	**383.9**	3.1

Reference: Financial Indicators

Year ended March 31	2016	**2017**	YoY change
Interest-bearing loans to cash flows ratio (Years)	2.1	**1.9**	(0.2)
Interest coverage ratio (Times)	48.3	**54.2**	5.9

Notes: 1. Interest-bearing loans to cash flows ratio = Interest-bearing loans ÷ Cash flows from operating activities
2. Interest coverage ratio = Cash flows from operating activities ÷ Interest charges

Net cash provided by operating activities in the year ended March 31, 2017 amounted to ¥250.3 billion. This represents a decrease in cash inflows of ¥2.7 billion compared to the year ended March 31, 2016. While there was an improvement in profit before income taxes, personnel expenses related to the business model transformation in the year ended March 31, 2016 had to be paid.

Net cash used in investing activities was ¥145.4 billion. Net outflows of ¥198.4 billion came from the acquisition of property, plant and equipment, focused on data center-related facilities and intangible asset acquisition centered on software. There was an inflow of proceeds of ¥25.0 billion from the sale of NIFTY Corporation's consumer business centered on ISP. Consequently, there was a decline in net outflows of ¥18.8 billion compared to the year ended March 31, 2016. (Date of receipt of transfer proceeds: Friday, March 31, 2017; date of contractual share transfer: Saturday, April 1, 2017)

Free cash flow, the sum of cash flows from operating and investing activities, was ¥104.8 billion, representing an increase in net cash inflows of ¥16.0 billion compared with the year ended March 31, 2016.

Net cash used in financing activities was ¥98.8 billion. In addition to the ¥60.0 billion redemption of corporate bonds, there were outflows of ¥11.3 billion for the tender offer of shares of NIFTY Corporation, with the aim of turning the listed company into a wholly owned subsidiary, and ¥11.8 billion used in the acquisition of treasury stock. The increase in net cash outflows was ¥31.1 billion compared with the year ended March 31, 2016.

As a result of the above factors, cash and cash equivalents at March 31, 2017 were ¥383.9 billion, an increase of ¥3.1 billion compared to March 31, 2016.

To ensure efficient funding when the need for funds arises, the Group views the maintenance of an appropriate level of liquidity as an important policy with respect to its financing activities. "Liquidity" refers to cash and cash equivalents and the total unused balance of financing frameworks based on commitment lines established with multiple financial institutions. As of March 31, 2017, the Group had liquidity of ¥558.3 billion, of which ¥383.9 billion was cash and cash equivalents and ¥174.4 billion was unused commitment lines.

To raise funds from global capital markets, the Group has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2017, the Company had bond ratings (long-term/short-term) of A3 (long-term) from Moody's, BBB+ (long-term) from S&P, and A (long-term) and a-1 (short-term) from R&I, all unchanged from the year ended March 31, 2016.

(3) Capital expenditures (property, plant and equipment)

For the year ended March 31, 2017, capital expenditures totaled ¥128.5 billion, a decrease of 17.6% compared to the year ended March 31, 2016. In the Technology Solutions segment, capital expenditures totaled ¥62.6 billion, down 22.4% year on year, mainly for investment in data centers in Japan and overseas and cloud service equipment. Construction in the previous year of a new wing at the Tatebayashi Datacenter (Tatebayashi, Gunma Prefecture) as the Group's central base for accelerating IoT mainly caused a decrease of ¥18.1 billion. In the Ubiquitous Solutions segment, the Group invested ¥12.6 billion, up 32.7% year on year, mainly for PC and mobile phone manufacturing and design development facilities, in addition to ¥7.9 billion invested in car audio and navigation system manufacturing facilities. In the Device Solutions segment, capital expenditures totaled ¥43.8 billion, down 21.1% year on year, mainly for LSI manufacturing facilities and semiconductor package manufacturing facilities within electronic components. In areas other than the aforementioned segments, capital expenditures were ¥9.3 billion.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Fujitsu Limited and Consolidated Subsidiaries

At March 31	Notes	2016	2017
		(Millions of yen)	
Assets			
Current assets			
Cash and cash equivalents	16	¥ 380,810	¥ 380,695
Trade receivables	15	984,630	999,238
Other receivables	15	93,963	66,849
Inventories	14	298,849	293,163
Others		79,876	79,052
Subtotal		1,838,128	1,818,997
Assets held for sale	17	5,735	23,408
Total current assets		1,843,863	1,842,405
Non-current assets			
Property, plant and equipment, net of accumulated depreciation	8, 27	616,474	596,649
Goodwill	9, 27	40,255	41,237
Intangible assets	9, 27	164,292	153,974
Investments accounted for using the equity method	11	106,026	109,854
Other investments	12	155,010	181,970
Deferred tax assets	13	162,812	132,591
Others		137,571	132,818
Total non-current assets		1,382,440	1,349,093
Total Assets		¥3,226,303	¥3,191,498

(Millions of yen)

At March 31	Notes	2016	2017
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	24	¥ 622,334	¥ 617,706
Other payables	24	422,672	382,894
Short-term borrowings, current portion of long-term debt and lease obligations	20	144,667	130,788
Accrued income taxes		18,772	21,740
Provisions	23	57,319	75,047
Others		181,279	191,803
Subtotal		1,447,043	1,419,978
Liabilities directly associated with assets held for sale	17	–	12,014
Total current liabilities		1,447,043	1,431,992
Non-current liabilities			
Long-term debt and lease obligations	20	387,882	354,304
Retirement benefit liabilities	21	383,978	309,031
Provisions	23	33,353	31,363
Deferred tax liabilities	13	5,224	4,788
Others		42,583	40,818
Total non-current liabilities		853,020	740,304
Total Liabilities		2,300,063	2,172,296
Equity			
Share capital	18	324,625	324,625
Capital surplus	18	233,896	231,640
Treasury stock, at cost	18	(627)	(12,502)
Retained earnings	18	155,930	265,893
Other components of equity	18	68,958	71,636
Total equity attributable to owners of the parent		782,782	881,292
Non-controlling interests	10	143,458	137,910
Total Equity		926,240	1,019,202
Total Liabilities and Equity		¥3,226,303	¥3,191,498

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Fujitsu Limited and Consolidated Subsidiaries

Consolidated Statement of Profit or Loss

(Millions of yen, except per share data)

Years ended March 31	Notes	2016	2017
Revenue	6, 25	¥ 4,739,294	¥ 4,509,694
Cost of sales	14	(3,487,830)	(3,292,690)
Gross profit		1,251,464	1,217,004
Selling, general and administrative expenses		(1,087,122)	(1,051,522)
Other income (expenses)	26	(43,730)	(36,621)
Operating Profit	6	120,612	128,861
Financial income	29	7,673	6,559
Financial expenses	29	(14,925)	(7,227)
Income from investments accounted for using the equity method, net	11	18,462	6,954
Profit before Income Taxes		131,822	135,147
Income tax expenses	13	(41,401)	(39,830)
Profit for the Year		90,421	95,317
Profit for the year attributable to:			
Owners of the parent		86,763	88,489
Non-controlling interests		3,658	6,828
Total		¥ 90,421	¥ 95,317
Earnings per share			
Basic earnings per share (Yen)	31	¥41.94	¥42.83
Diluted earnings per share (Yen)	31	41.93	42.83

Consolidated Statement of Comprehensive Income

(Millions of yen)

Years ended March 31	Notes	2016	2017
Profit for the Year		¥ 90,421	¥ 95,317
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	18, 21	(48,913)	39,975
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation adjustments	18	(18,787)	(15,515)
Cash flow hedges	18	(256)	315
Available-for-sale financial assets	18	(13,587)	18,577
Share of other comprehensive income of investments accounted for using the equity method	18	(3,348)	(1,582)
		(35,978)	1,795
Total Other Comprehensive Income for the Year, Net of Taxes		(84,891)	41,770
Total Comprehensive Income for the Year		¥ 5,530	¥137,087
Total comprehensive income for the year attributable to:			
Owners of the parent		8,860	129,191
Non-controlling interests		(3,330)	7,896
Total		¥ 5,530	¥137,087

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Fujitsu Limited and Consolidated Subsidiaries

(Millions of yen)

		Equity attributable to owners of the parent							
	Notes	Share capital	Capital surplus	Treasury stock, at cost	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance at April 1, 2015		¥324,625	¥233,432	¥ (547)	¥130,741	¥101,838	¥790,089	¥144,308	¥ 934,397
Profit for the year					86,763		86,763	3,658	90,421
Other comprehensive income	18					(77,903)	(77,903)	(6,988)	(84,891)
Total comprehensive income for the year		–	–	–	86,763	(77,903)	8,860	(3,330)	5,530
Purchase of treasury stock	18			(83)			(83)		(83)
Disposal of treasury stock	18			3			3		3
Dividends paid	19				(16,551)		(16,551)	(3,052)	(19,603)
Transfer to retained earnings					(45,023)	45,023	–		–
Acquisition (disposal) of non-controlling interests	10		464				464	5,344	5,808
Changes in ownership interests in subsidiaries							–	188	188
Balance at March 31, 2016		324,625	233,896	(627)	155,930	68,958	782,782	143,458	926,240
Profit for the year					88,489		88,489	6,828	95,317
Other comprehensive income	18					40,702	40,702	1,068	41,770
Total comprehensive income for the year		–	–	–	88,489	40,702	129,191	7,896	137,087
Purchase of treasury stock	18		(5)	(11,877)			(11,882)	(2)	(11,884)
Disposal of treasury stock	18			2			2		2
Dividends paid	19				(16,550)		(16,550)	(2,851)	(19,401)
Transfer to retained earnings					38,024	(38,024)	–		–
Acquisition (disposal) of non-controlling interests	10		(2,251)				(2,251)	(10,544)	(12,795)
Changes in ownership interests in subsidiaries							–	(47)	(47)
Balance at March 31, 2017		¥324,625	¥231,640	¥(12,502)	¥265,893	¥ 71,636	¥881,292	¥137,910	¥1,019,202

CONSOLIDATED STATEMENT OF CASH FLOWS

Fujitsu Limited and Consolidated Subsidiaries

		(Millions of yen)	
Years ended March 31	Notes	2016	2017
Cash Flows from Operating Activities			
Profit before income taxes		¥ 131,822	¥ 135,147
Depreciation, amortization and impairment loss		203,123	188,297
Increase (decrease) in provisions		(7,684)	15,158
Increase (decrease) in net defined benefit liability		(7,063)	(9,370)
Interest and dividend income		(5,446)	(5,125)
Interest charges		5,245	4,615
Equity in earnings of affiliates, net		(18,462)	(6,954)
(Increase) decrease in trade receivables		30,342	(38,443)
(Increase) decrease in inventories		11,520	(715)
Increase (decrease) in trade payables		(27,141)	12,205
Other, net		(26,089)	(9,491)
Cash generated from operations		290,167	285,324
Interest received		1,611	1,584
Dividends received		5,184	5,488
Interest paid		(5,347)	(4,695)
Income taxes paid		(38,523)	(37,370)
Net Cash Provided by Operating Activities		253,092	250,331
Cash Flows from Investing Activities			
Purchases of property, plant, equipment, and intangible assets		(189,770)	(198,497)
Proceeds from sale of available-for-sale financial assets		7,477	2,524
Net proceeds from sale of subsidiaries and business		–	25,185
Other, net		17,976	25,309
Net Cash Used in Investing Activities		(164,317)	(145,479)
Cash Flows from Financing Activities			
Increase (decrease) in short-term borrowings		(26,407)	33,962
Proceeds from long-term debt and issuance of bonds	20	97,124	42,975
Repayment of long-term debt and bonds	20	(108,206)	(117,520)
Payment of lease obligations		(15,673)	(14,168)
Purchase of treasury stock		(83)	(11,877)
Dividends paid to owners of the parent	19	(16,551)	(16,550)
Acquisition of non-controlling interests		(228)	(12,939)
Other, net		2,283	(2,779)
Net Cash Used in Financing Activities		(67,741)	(98,896)
Net Increase (Decrease) in Cash and Cash Equivalents		21,034	5,956
Cash and Cash Equivalents at Beginning of Year		362,028	380,810
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(2,252)	(2,797)
Cash and Cash Equivalents at End of Year	16	¥ 380,810	¥ 383,969

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

(Millions of yen)

	Reportable segments						
Years ended March 31	Technology Solutions	Ubiquitous Solutions	Device Solutions	Subtotal	Other	Elimination and Corporate	Consolidated
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

(Millions of yen)

Years ended March 31	2016	2017
Technology Solutions		
Services*[1]	¥2,728,436	¥2,579,727
System Platforms*[2]	494,209	486,598
Ubiquitous Solutions		
PCs/Mobile phones	534,199	497,211
Mobilewear*[3]	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	¥4,739,294	¥4,509,694

*[1] 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)

*[2] 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

*[3] Car audio and navigation systems, mobile communication equipment, automotive electronics, and others

(4) Geographical information

(a) Revenue to external customers

(Millions of yen)

Years ended March 31	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	¥4,739,294	¥4,509,694

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)

(Millions of yen)

At March 31	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	¥821,021	¥791,860

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*[3]	¥105,803	¥271,226	¥226,365	¥ 32,095	¥ 635,489
Additions*[1]	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*[2]	(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*[3]	93,553	257,079	215,844	49,998	616,474
Additions*[1]	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*[2]	(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*[3]	¥ 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

*[1] 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.

*[2] 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.

*[3] 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)	
At March 31	2016	2017
Buildings	¥ 3,648	¥ 2,909
Machinery and equipment, tools, fixtures and fittings	22,580	18,860
Total	¥26,228	¥21,769

9. Goodwill and Intangible Assets

Carrying amount

				(Millions of yen)
		Intangible assets*1		
	Goodwill	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	40,255	138,249	26,043	164,292
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	¥41,237	¥126,535	¥27,439	¥153,974

Cost

				(Millions of yen)
		Intangible assets*1		
	Goodwill	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)
		Intangible assets*1		
	Goodwill	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.

	(Millions of yen)	
Years ended March 31	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*[1]	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.*[2]	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

*[1] Fujitsu Systems East Limited, Fujitsu Sytems West Limited and Fujitsu Mission Critical Systems Limited merged with the Company and were dissolved on November 1, 2016.
*[2] 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.

	(Millions of yen)	
Years ended March 31	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

(Millions of yen)

Years ended March 31	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

(Millions of yen)

At March 31	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

(Millions of yen)

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

(d) Summarized financial information

(i) Summarized consolidated statement of financial position

(Millions of yen)

At March 31	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

(Millions of yen)

Years ended March 31	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

(Millions of yen)

Years ended March 31	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

(Millions of yen)

Years ended March 31	2016	2017
Dividends received from Fujitsu General Limited	¥876	¥1,014

(b) Summarized consolidated financial information

(i) Summarized consolidated statement of financial position

(Millions of yen)

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

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

(Millions of yen)

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

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.

(Millions of yen)

At March 31	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)
Carrying amount of the Group's investment in the equity method associate	¥37,271	¥ 40,728
Fair value of the Group's investment in the equity method associate	¥80,112	¥101,466

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

(Millions of yen)

At March 31	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.

(Millions of yen)

At March 31	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

(Millions of yen)

Years ended March 31	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

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

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

(Millions of yen)		
At March 31	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	¥153,038	¥157,145

* 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

(Millions of yen)		
Years ended March 31	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	2,496	(1,745)
Total income tax expense	¥41,401	¥39,830

* 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	31.4%	29.5%

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

(Millions of yen)

At March 31	2016	2017
Finished goods	¥135,780	¥134,989
Work in progress	84,229	80,324
Raw materials and supplies	78,840	77,850
Total	¥298,849	¥293,163

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

(Millions of yen)

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

* 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

(Millions of yen)

At March 31	2016	2017
Accounts receivable–other	¥88,136	¥60,442
Others	5,827	6,407
Total	¥93,963	¥66,849

16. Cash and Cash Equivalents

(Millions of yen)

At March 31	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	¥380,810	¥380,695

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.

(Millions of yen)

At March 31	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	¥380,810	¥383,969

17. Assets Held for Sale

At March 31	2016	2017
	(Millions of yen)	
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

(Units: Thousands of shares, Millions of yen)

At March 31	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

(Units: Thousands of shares, Millions of yen)

At March 31	Number of shares	Amount
2016	1,189	¥ 627
Acquisitions	18,356	11,877
Disposals	(5)	(2)
2017	19,540	¥12,502

(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

(Millions of yen)

Years ended March 31	2016	2017
Foreign currency translation adjustments		
Opening balance	¥ 30,496	¥ 11,308
Other comprehensive income	(19,188)	(16,437)
Others	–	–
Closing balance	¥ 11,308	¥ (5,129)
Cash flow hedges		
Opening balance	¥ (38)	¥ (386)
Other comprehensive income	(348)	404
Others	–	–
Closing balance	¥ (386)	¥ 18
Available-for-sale financial assets		
Opening balance	¥ 71,380	¥ 58,036
Other comprehensive income	(13,344)	18,711
Others	–	–
Closing balance	¥ 58,036	¥ 76,747
Remeasurements of defined benefit plans		
Opening balance	¥ –	¥ –
Other comprehensive income	(45,023)	38,024
Others	45,023	(38,024)
Closing balance	¥ –	¥ –
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	¥ 68,958	¥ 71,636

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

(Millions of yen)

Years ended March 31	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	¥(6,988)	¥1,068

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

(Millions of yen)

Years ended March 31	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	¥(18,787)	¥(15,515)
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	¥ (256)	¥ 315
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	¥(13,587)	¥ 18,577
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	¥(48,913)	¥ 39,975
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	¥ (3,348)	¥ (1,582)
Total other comprehensive income		
Amount after related income tax effects	¥(84,891)	¥ 41,770

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)				
At March 31	2016	2017	Average interest rate (2016) (%)*1	Average interest rate (2017) (%)*1	Repayment due date
Current portion of bonds*2	¥ 60,278	¥ 19,992	–	–	–
Bonds*2	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			

*1 Average interest rates are the weighted average interest rates for the balance at March 31, 2016 and 2017.

*2 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) 2016	2017	Interest rate (%)	Collateral	Maturity
The Company						
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
Total		¥259,846	¥199,695	0.832%		

(2) Minimum lease payments

At March 31	2016 Undiscounted	2016 Present value	2017 Undiscounted	2017 Present value
				(Millions of yen)
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
Total	43,643	38,103	37,422	32,588
Less: future financial expenses	(5,540)	–	(4,834)	–
Total present value	¥38,103	¥38,103	¥32,588	¥32,588

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

(Millions of yen)

At March 31	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	¥ (359,698)	¥ (288,044)
Retirement benefit assets*[2]	¥ 24,280	¥ 20,987
Retirement benefit liabilities	(383,978)	(309,031)
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	¥ (359,698)	¥ (288,044)

*[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

(Millions of yen)

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

*3 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

(Millions of yen)

Present value of defined benefit obligation	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	¥(2,434,277)	¥(2,438,975)

(Millions of yen)

Fair value of plan assets	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	¥2,074,579	¥2,151,124

(iv) Components of fair value of plan assets

(Millions of yen)

	2016		2017	
	Market price in an active market		Market price in an active market	
At March 31	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

	2016		2017	
At March 31	Plans in Japan	Plans outside Japan*[1]	Plans in Japan	Plans outside Japan*[1]
Discount rate	0.30%	3.35%	0.59%	2.45%
Life expectancy*[2]	23.3 years	23.1 years	23.3 years	22.8 years
Inflation rate	–	2.9%	–	3.15%

*[1] Assumptions for plans outside Japan represent the assumptions for the defined benefit plan provided by a UK subsidiary.

*[2] 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.

(Millions of yen)

At March 31		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	¥33,942	¥18,983	¥ 12,079	¥16,338	¥25,068	¥106,410

(Millions of yen)

At March 31	2016	2017
Current liabilities	¥57,319	¥ 75,047
Non-current liabilities	33,353	31,363
Total	¥90,672	¥106,410

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	¥622,334	¥617,706

Other payables

(Millions of yen)

At March 31	2016	2017
Accrued expenses	¥324,523	¥315,249
Accounts payable–other	98,149	67,645
Total	¥422,672	¥382,894

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	¥4,739,294	¥4,509,694

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.

(Millions of yen)

Years ended March 31	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

(Millions of yen)

Years ended March 31	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	¥1,484,802	¥1,416,966

29. Financial Income and Financial Expenses

Financial income

(Millions of yen)

Years ended March 31	2016	2017
Interest income	¥1,621	¥1,579
Dividend income	3,825	3,546
Others	2,227	1,434
Total	¥7,673	¥6,559

Financial expenses

(Millions of yen)

Years ended March 31	2016	2017
Interest expense	¥ 5,245	¥4,615
Foreign exchange losses, net	5,960	1,296
Others	3,720	1,316
Total	¥14,925	¥7,227

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

	(Millions of yen)	
Years ended March 31	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.

(Millions of yen)

			Overdue amounts					
At March 31	Total	Within due date	Total	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 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."

(Millions of yen)

At March 31	Carrying amount	Contractual cash flow	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
2016								
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
2017								
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.

(Millions of yen)

At March 31	2016	2017
Commitment lines		
Used	¥ –	¥ –
Unused	198,200	174,400
Total	¥198,200	¥174,400

(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.

	(Millions of yen)	
Years ended March 31	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.

	(Millions of yen)	
Years ended March 31	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

	(Millions of yen)	
At March 31	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	¥209	¥602

(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

(Millions of yen)

		Fair value			
At March 31	Carrying amount	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

(Millions of yen)

		Fair value			
At March 31	Carrying amount	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

(Millions of yen)

At March 31	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

(Millions of yen)		
At March 31	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	¥106,250	¥103,000

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

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

37. Commitments

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

38. Contingencies

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

OTHER INFORMATION

Quarterly information (accumulated total) for the year ended March 31, 2017

(Millions of yen)

	Q1	First Half	Nine Months	Full-Year
Revenue	¥986,553	¥2,085,077	¥3,200,548	¥4,509,694
Profit before income taxes	(13,228)	26,020	68,193	135,147
Profit for the year attributable to owners of the parent	(14,054)	11,861	32,237	88,489
Basic earnings per share (Yen)	(6.79)	5.73	15.58	42.83

Quarterly information for the year ended March 31, 2017

(Yen)

	Q1	Q2	Q3	Q4
Basic earnings per share	¥(6.79)	¥12.53	¥9.85	¥27.34

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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Independent Auditor's Report

The Board of Directors
Fujitsu Limited

We have audited the accompanying consolidated financial statements of Fujitsu Limited and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended and notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fujitsu Limited and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Ernst & Young ShinNihon LLC

June 26, 2017
Tokyo, Japan

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Legibility

We have reviewed this report using our ColorSelector tool to choose a highly accessible color combination so that the text and figures will be as legible as possible to the widest range of readers.

Consideration for the Environment

- This report has been printed using waterless printing, which reduces the amount of harmful materials used and emitted.
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