5. Notes to Financial Statements

1. Changes to a Retirement Benefit Plan

As its retirement benefit plan for employees, the Fujitsu Group has defined benefit plans in Japan, the UK, Germany, and elsewhere. In addition, Fujitsu and some of its subsidiaries in Japan have retirement benefit trusts. In the UK, Japan, Australia, and other countries, it has also established defined contribution plans. The major defined benefit plan in Japan, in which Fujitsu and some of its subsidiaries in Japan participate, is the funded pension plan and retirement benefit plan managed by the Fujitsu Corporate Pension Fund.

On June 21, 2018, for current employees participating in the Fujitsu Corporate Pension Fund's pension plan, the Fujitsu Group introduced a point system reflecting the degree of employee contribution to the company, including years of service, and also introduced a risk-sharing corporate pension plan (For corporate pension plans established in accordance with Japan's Defined Benefit Corporate Pension Plan Act (2001:50), as stipulated by Article 1, Paragraph 3 of the Implementation Regulations for the Defined Benefit Corporate Pension Plan Act (2002. MHLW, No. 22)). This plan shares the risk between the company and plan participants. The company accepts a certain level of risk by making a fixed contribution, including a risk reserve contribution, and the plan participants also accept a certain level of risk, as their benefits will be adjusted if the balance between plan assets and plan obligations becomes skewed. Under the previous defined benefit plan, the company was required to make additional contributions if a shortfall arose in plan assets in relation to plan liabilities. In a risk-sharing corporate pension plan, however, the potential risks that could occur in the future are measured in advance, and a contribution (risk reserve contribution) is made by the company as a level contribution within the scope agreed by the company and plan participants.

In accordance with the shift to a risk-sharing corporate pension plan, to address the shortfall in plan assets at the time of the shift, the total amount of the special contribution, as specified by the fund's terms, is to be contributed in equal installments over three years from the date of the shift to the new plan. At the same time, at the time the shift is made, an assessment is made of the amount of potential future shortfalls to determine the amount of the risk reserve contribution, and this contribution is to be made at a constant rate over four years from the date of the shift to the new plan. Once these contributions are completed, there will be no additional contributions.

In terms of the accounting treatment for retirement benefits, for the risk-sharing corporate pension plan, the portion for which the company effectively has no further obligation for additional contributions is classified as a defined contribution plan. For this reason, for the portion of the risk-sharing corporate pension plan for which it has been determined that the company and some of its subsidiaries in Japan effectively have no further obligation for additional contributions, at the time of the shift to the new plan, gains and losses on settlements are recognized, which arise primarily from recognition in profit or loss for the difference between the retirement benefit liabilities related to the portion that is transferred and the amount of assets transferred to the plan related to the corresponding decrease in the liabilities, and from recognition as liabilities for the total amount corresponding to special contributions stipulated by the fund terms.

As a result, in the Quarterly Consolidated Statement of Financial Position, at the end of this first quarter, retirement benefit liabilities were reduced by 156,493 million yen, and equity increased by 67,147 million yen. In addition, in the Quarterly Consolidated Statement of Profit or Loss for the first quarter, a settlement gain of 91,996 million yen from the shift is recognized in other income (expenses). In accordance with the shift to the new plan, the defined benefit trust assets allocated to the risk-sharing corporate pension plan were returned to the company. As a result, cash and cash equivalents increased by 31,744 million yen, other investments increased by 28,041 million yen, and retirement benefit liabilities increased by 59,785 million yen.

With respect to the impact on profit or loss in the consolidated financial results in the second quarter of fiscal 2018 and beyond, while there will be an increase in retirement benefit expenses from the risk reserve contribution, the impact is expected to be insignificant.

2. Changes in accounting policies

Excluding the changes stated below, the major accounting policies that were applied to this first quarter's consolidated financial statements are the same policies that were applied to the previous fiscal year.

Starting from this first quarter of fiscal 2018, the following standards are being applied.

Standard		Outline of new or amended standards
IFRS 15	Revenue from contracts with customers	Amendments pertaining to accounting treatment and disclosure (such as identification of performance obligations, accounting for variable consideration, and disclosure of remaining performance obligations)
IFRS 9	Financial instruments	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)

(1) Adoption of IFRS 15 — Revenue from Contracts with Customers

Starting from this first quarter, the Fujitsu Group has adopted IFRS 15 Revenue from Contracts with Customers (issued May 2014) and Clarifications to IFRS 15 (issued April 2016) (hereafter collectively referred to as "IFRS 15"). With the adoption of this standard, the company chose the method of recognizing the cumulative effect of application as of the initial application date, which is one of the transition methods permitted.

In accordance with the adoption of this standard, for some transactions, the company has changed the timing of recognizing revenue by identifying performance obligations under contracts with customers. In addition, with respect to sales incentives, previously, a reduction in revenue was recognized at the time of settlement. Starting from this first quarter, however, the company has estimated incentive payments in advance and recognized them as reductions to revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

As a result of recognizing, at the beginning of this first quarter, the amount of the cumulative effect of the adoption of this standard, trade receivables were reduced by 70 million yen, inventories were increased by 1,948 million yen, other current liabilities were increased by 2, 145 million yen, and retained earnings were reduced by 267 million yen.

In this first quarter, the impact on assets, liabilities, and equity, as well as the impact on operating profit and profit for the quarter, is negligible.

In accordance with the adoption of this standard, starting from this first quarter, the company has changed its method of presentation of unbilled receivables, which had been included in trade receivables, so that they are now included in other current assets.

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(2) Adoption of IFRS 9 — Financial Instruments

Starting from this first quarter, the Fujitsu Group has adopted IFRS 9 Financial Instruments (final version issued July 2014) (hereafter referred to as “IFRS 9”). In adopting this standard, in accordance with the transition requirements, the company has not restated the comparative information with regard to the classifications and measurements of financial instruments.

Equity instruments that were classified as available-for-sale financial assets under the previous standard, IAS 39 “Financial Instruments,” are in accordance with the adoption of this standard, designated as financial assets measured at fair value through other comprehensive income. Subsequent changes in the fair value of equity instruments are presented in other comprehensive income, and impairment treatment that transfers cumulative losses recognized in other comprehensive income to profit or loss, when its fair value significantly declines, is abolished. Also, gains or losses on the sale of equity instruments are not recognized in profit or loss.

As a result of recognizing, at the beginning of this first quarter, the amount of the cumulative effect of the adoption of this standard, retained earnings were increased by 20,467 million yen, and other components of equity were reduced by 20,467 million yen. This primarily is the result of the reclassification of the cumulative amount of impairment losses recognized in previous fiscal years from retained earnings to other components of equity within equity.
In this first quarter, the impact on assets, liabilities, and equity, as well as the impact on operating profit and profit for the quarter, is negligible.

In accordance with the adoption of this standard, in cash flows from investing activities, the company is changing its method of presentation from “proceeds from sale of available-for-sale financial assets” to “proceeds from sale of investment securities.”

3. Cautionary Note Regarding Assumptions of a Going Concern

None.