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, 2016.

Forward-looking statements in this section are based on management's understanding and best judgments as of March 31, 2016.

1. Issues and Initiatives

(1) Mid-term targets

In the field of Information and Communication Technology (ICT), the Group provides a full range of services coupled with a total solutions business, encompassing the development, manufacture, sale, maintenance and operation of cutting-edge, high-performance, and high-quality hardware and software that support such services.

The Group's business environment has, on the one hand, seen projections of stable growth driven by a robust ICT market particularly in Japan, along with enormous business opportunities brought on by the spread of digital technology. At the same time, intensifying competition with global players in Europe, United States, and newly rising countries is now unavoidable.

Until recently, the Group pursued a vertically integrated business centered on three business segments—Technology Solutions, Ubiquitous Solutions, and Device Solutions (see Note 1). However, in order to sharpen the Group's competitive edge globally in the evolving IoT (see Note 2) market, we announced a new management direction in October 2015, which saw the decision to concentrate management resources in Technology Solutions, where the Group enjoys a competitive advantage.

To this end, the Group is shifting to "connected services," an integrated one-stop services model combining (1) expertise amassed in system integration, outsourcing, and maintenance services; (2) a wealth of software, including cloud and middleware; and (3) softwarenized core hardware such as servers, storage, and networks (see Note 3). In parallel, the Group is striving for growth in both "digital innovation," a field enabled by ICT, and "global presence," which makes innovation on a global scale possible, thereby pursuing "business model transformation," focused on sustainable growth. While deepening ties with customers and fostering in-house the sophisticated IoT technologies essential for sustainable growth, we will transition to a structure where we allow businesses requiring more flexibility, such as Ubiquitous Solutions and Device Solutions, to be independent Group companies that can individually develop products and pursue business in ways that enable them to outlast the competition.

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.

Note 3: Controlling and providing via software the makeup and functions of hardware that allow services and systems to respond faster and more flexibly to changes in the operating environment.

In October 2015, we set management targets of (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%. The Group will, by implementing business model transformation, convert its shape and characteristics toward a true service company to ensure further growth.

(2) Initiatives during the year ended March 31, 2016

For the year ended March 31, 2016, as part of business model transformation and for expansion of business globally, the Group focused on reviewing and enhancing the formation not only of businesses in EMEIA (Europe, the Middle East, India, and Africa), North America, and other operations outside Japan, but also of the network business and the PC and mobile phone businesses.

(a) Business structure reorganization and enhancement

In October 2015, the Group launched the "One Asia" framework integrating Japan and Asia under a single sales structure, with the purpose of leveraging Japan's powerful delivery capabilities to accelerate growth in its Asia business. In a bid to further advance the global matrix organization started in 2014, we are making progress in upgrading and enhancing our Global Delivery Centers (GDCs). To allow each region to flexibly utilize GDC resources, and to greatly improve cost efficiency, we will increase the scale of personnel at our GDCs from their current 5,000 people to 18,000 by the year ending March 31, 2018.

In April 2016, we established the Digital Services Business, a unit that consolidated business divisions related to our core technology fields of IoT, cloud, mobile, and big data, to promote business expansion in the new growth domain of digital innovation. In addition, to leverage Japan-based IP/service assets—our biggest assets in the services business—to maximum effect on a global scale, we integrated and reorganized the Integration Services Business and the Global Delivery Business to establish the Global Services Integration Business.

(b) Business outside Japan

The EMEIA business, which sits at the center of the Group's business outside Japan, is aiming for additional profit growth by transitioning to a service-driven business model. To this end, the Group is striving for structural enhancement in the area of the business shift to services and product operation.

To promote the business model shift to services, we integrated the service provision framework across the whole of EMEIA. EMEIA was previously divided into four geographical sub-regions—"UK&I," "Central Europe," "Nordic," and "Western Europe, the Middle East, India, and Africa"—but these were integrated and reorganized to align with marketing, services, and platforms. In tandem, efforts to augment the service-specialized sales team and boost the efficiency of common divisions in EMEIA in preparation for ongoing digitization are gaining momentum.

Where the EMEIA product business is concerned, tracking the advancement and normalization of a high-valued US dollar and an undervalued euro, the business has been severely impacted by exchange rates, most notably for materials denominated in US dollars. Transforming the business structure is essential to minimizing this effect. Further, in the markets such as PC servers, the ongoing move to cloud systems is triggering more intense competition led by new competitors. To meet this challenge, it was urgent that we shift to a concentrated R&D framework focused more on global efficiency and consistency. In this climate, we shifted our focus to strengthening cost competitiveness and raising profit margins. As a step to consolidate our core R&D bases in Japan, we proceeded with the closure of an R&D base in Europe, while working to enhance manufacturing and logistics bases efficiency from the standpoint of reducing fixed costs.

(c) Network business

While the Group is recording stable profits in the network business, the business environment is undergoing significant change, where communications carriers shift their investment to services and the move to network automation (softwarenization) is also gaining speed. In this climate, the Group is advancing the reorganization of the business structure from one previously delineated by product to a structure now determined based on function. This change is designed to accelerate efforts to strengthen cost competitiveness from the concentration of functions, spur further developments in network virtualization, and create new services that answer the diversifying needs of network users heading into the IoT era.

In October 2015, the once-dispersed sales and product development functions in the network business were integrated under the Company to reinforce both product development capabilities that leverage advanced technology in network infrastructure and the provision of high-value-added network solutions. We also integrated manufacturing functions in order to further improve productivity and investment efficiency, opting for a manufacturing structure that positions the Oyama Plant (Oyama City, Tochigi Prefecture) as the mother plant.

(d) PCs/mobile phones

With the decision to make this business independent, in February 2016 PC and mobile phone business operations were spun off as two separate, independent companies, clarifying management responsibility to enable the pursuit of faster management decision making and more thorough efforts to enhance efficiency. With differentiation becoming more difficult as these products become more commoditized each year, we are seeking to strengthen the structure of the Ubiquitous Solutions business as competition with rising global vendors intensifies. In line with this spin-off, to bolster IoT-related business, where future market expansion is anticipated, we integrated mobility IoT such as telematics along with ubiquitous IoT such as sensing and other IoT-related technologies and human resources under the newly established Digital Services Business.

(e) Infrastructure services in Japan

From May to June 2016, the Group conducted a takeover bid for publicly listed subsidiary NIFTY Corporation (headquarters: Shinjuku, Tokyo, hereinafter "NIFTY") to convert the company into a wholly owned subsidiary. With smart devices and broadband services now mainstream, customer needs are moving to Internet usage regardless of location. At the same time, the ongoing transformation of related services into commodities, among other issues, has created an adverse business environment for NIFTY. For these reasons, the takeover of NIFTY is designed to quickly streamline its business framework, and to swiftly restructure both its organization and management strategies.

Following conversion to a wholly owned subsidiary, operations will be established as two independent companies, one business focused on cloud and digital services businesses for enterprises, and the other focused primarily on ISP business for consumers. With this step, we will swiftly advance strategies tailored to the characteristics of each business. In the business for enterprises, the aim is to expand further the business base through close collaboration with the Company. In the consumer business, while continuing to effectively utilize management resources between the Company and NIFTY, we will pursue profitability and aim for service improvements by enacting sweeping reforms, including collaborations and alliances with outside partners who have insights pertaining to this business.

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, 2016

In the following section, "for the year ended March 31, 2015" and "for the year ended March 31, 2016" are shown as "2015" and "2016," respectively.

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

Years ended March 31	2015	**2016**	YoY change	Change (%)
Revenue	4,753.2	**4,739.2**	(13.9)	(0.3)
Cost of sales	(3,471.7)	**(3,487.8)**	(16.1)	0.5
Gross profit	1,281.4	**1,251.4**	(30.0)	(2.3)
Selling, general and administrative expenses	(1,101.4)	**(1,087.1)**	14.3	(1.3)
Other income (expenses)	(1.3)	**(43.7)**	(42.3)	–
Operating profit	178.6	**120.6**	(58.0)	(32.5)
Financial income (expenses)	11.7	**(7.2)**	(18.9)	–
Income from investments accounted for using the equity method, net	8.4	**18.4**	9.9	117.3
Profit before income taxes	198.8	**131.8**	(67.0)	(33.7)
Income tax expenses	(53.8)	**(41.4)**	12.4	(23.1)
Profit for the year	145.0	**90.4**	(54.5)	(37.6)
Profit for the year attributable to:				
Owners of the parent	140.0	**86.7**	(53.2)	(38.0)
Non-controlling interests	4.9	**3.6**	(1.3)	(26.6)

Reference: Financial Indicators

(Billions of yen)

	2015	**2016**	YoY change
Ratio of revenue outside Japan	39.6%	**40.0%**	0.4%
EMEIA*1	990.6	**952.0**	(38.6)
Americas	392.0	**420.4**	28.3
Asia	387.1	**421.0**	33.9
Oceania	110.0	**100.6**	(9.4)
Revenue outside Japan by locations of customers	1,879.9	**1,894.2**	14.2
Gross profit margin	27.0%	**26.4%**	(0.6%)
Operating profit margin	3.8%	**2.5%**	(1.3%)
Return on equity attributable to owners of the parent (ROE)*2	20.6%	**11.0%**	(9.6%)

*1 EMEIA: Europe, 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

	2015	**2016**	YoY change
US dollar/Yen	¥110	**¥120**	¥10
Euro/Yen	¥139	**¥133**	¥ (6)
British pound/Yen	¥177	**¥181**	¥ 4
Euro/US dollar	$1.28	**$1.11**	$(0.17)

(1) Revenue

Consolidated revenue for the year ended March 31, 2016 was ¥4,739.2 billion, essentially unchanged compared to the year ended March 31, 2015. While system integration experienced growth in Japan, revenue from network products and PCs was lower both in and outside Japan. In Japan, system integration reported growth in the financial sector, particularly in services for megabanks and credit leases, as well as public sector growth from encouraging business negotiations initiated by the Social Security and Tax Number System in Japan. Firm growth was also noted in the industrial and healthcare sectors. By contrast, in network products, business for communications carriers continued to face adversity in and outside Japan. Similarly in PCs, replacement demand among corporate customers remained weak and revenue declined on a global basis with sales volume falling by roughly 15% year on year, to 4 million units.

For the year ended March 31, 2016, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥120, ¥133, and ¥181, respectively, representing a year-on-year depreciation of ¥10 against the US dollar and ¥4 against the British pound, while a year-on-year appreciation of ¥6 against the euro. Exchange rate fluctuations versus the US dollar and British pound caused increases in revenue of approximately ¥63 billion and ¥8 billion, respectively, while the euro caused decreases in revenue of approximately ¥26 billion.

As a result, currency exchange rate fluctuations had a positive impact of approximately ¥45.0 billion on revenue for the year ended March 31, 2016, lifting the overseas revenue ratio by 0.4 of a percentage point to 40.0%.

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

For the year ended March 31, 2016, cost of sales totaled ¥3,487.8 billion, gross profit was ¥1,251.4 billion, and the gross profit margin was 26.4%, down 0.6 of a percentage point year on year.

Selling, general and administrative (SG&A) expenses were ¥1,087.1 billion, a decrease of ¥14.3 billion year on year. R&D spending amounted to ¥179.8 billion, a decrease of ¥22.8 billion year on year. Along with the cycle of development for next-generation network products and server-related device models having peaked, this result reflected the impact of more narrowly focused mobile phone model development and the transfer of system LSI (SoC: System on a Chip) design and development operations to affiliate Socionext Inc. (head office: Yokohama, Kanagawa Prefecture). The ratio of R&D expenses to revenue was 3.8%.

Other expenses totaled ¥43.7 billion, an increase of ¥42.3 billion year on year. This was largely the result of business model transformation expenses during the year ended March 31, 2016, notably related to the reorganization of both businesses in regions outside Japan such as EMEIA (Europe, Middle East, India, and Africa) and North America and network products.

As a result, operating profit amounted to ¥120.6 billion, a decrease of ¥58.0 billion compared to the year ended March 31, 2015. This included a decrease of ¥10.0 billion from the transfer of system LSI (SoC: System on a Chip) design and development operations to an affiliated company, a decrease of ¥41.5 billion for business model transformation expenses, and a decrease of ¥20.0 billion in foreign exchange effects from the euro's progressive devaluation, particularly versus the US dollar. Excluding these items, profit from business operations increased ¥13.5 billion year on year. While performance in network products faltered, profit benefited from revenue growth and improved profitability in system integration, coupled with lower costs in PCs and mobile phones, for year-on-year improvement overall.

The operating profit margin was 2.5%, declining by 1.3 percentage points year on year.

Compared to the year ended March 31, 2015, exchange rate volatility caused operating profit to decrease by roughly ¥20.0 billion for the year ended March 31, 2016. For bases in Japan, where the Japanese yen is used, the US dollar, euro, and British pound had a minimal effect on operating profit. While an undervalued yen led to higher procurement costs for US dollar-denominated components for PCs, mobile phones, and other products, this was largely negated by an increase in US dollar-denominated export sales of LSI devices and electronic components, for a minimal impact overall. For the year ended March 31, 2016, the effect on operating profit of a fluctuation of ¥1 in the exchange rate for foreign currency would be approximately ¥0.1 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, 2016, a fluctuation of 0.01 in the euro/US dollar exchange rate would have an impact of roughly ¥1.5 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 ¥7.2 billion, a deterioration of ¥18.9 billion from net financial income in the year ended March 31, 2015. This was mainly the result of a net loss on foreign exchange accompanying a swift rise in the yen's value at the end of the year. Income from investments accounted for using the equity method, net, was ¥18.4 billion, an increase of ¥9.9 billion year on year. The Company's system LSI (SoC: System on a Chip) device design and development business was transferred to an affiliate. In addition, the Company recorded a dilution gain from changes in equity interest stemming from an offering of shares of an affiliate on China's Shenzhen Stock Exchange.

As a result, profit before income taxes was ¥131.8 billion, a decrease of ¥67.0 billion year on year, primarily reflecting lower 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 ¥90.4 billion, a decrease of ¥54.5 billion year on year. Of profit for the year, profit for the year attributable to owners of the parent came to a record ¥86.7 billion, a ¥53.2 billion decrease year on year. Income tax expenses were ¥41.4 billion, down ¥12.4 billion year on year. In addition, the amount of profit for the year attributable to non-controlling interests was ¥3.6 billion, a decrease of ¥1.3 billion year on year.

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 11.0%.

Although profit attributable to owners of the parent was considerably lower year on year, the deduction from owners' equity of ¥349.8 billion with tax effects for the unfunded obligation pertaining to the employee defined benefit plans held owners' equity lower, helping ROE to remain above the 10% level.

(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 a loss of ¥84.8 billion. One element of this loss was a negative ¥48.9 billion for remeasurements of defined benefit plans, reflecting the impact of an increase in defined benefit-type retirement benefit liabilities due to a lower discount rate caused by an interest rate decrease. Others were a negative ¥18.7 billion in foreign currency translation adjustments for foreign operations due to the yen's ongoing appreciation against the British pound and the US dollar, and a negative ¥13.5 billion from available-for-sale financial assets due to lower stock prices.

Total comprehensive income for the year, which combines profit for the year and other comprehensive income after taxes, was ¥5.5 billion. Of total comprehensive income, total comprehensive income attributable to owners of the parent came to ¥8.8 billion, and total comprehensive income attributable to non-controlling interests was negative ¥3.3 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, 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, 2016 are shown as follows.

(Billions of yen)

Years ended March 31		2015	**2016**	YoY change	Expenses to transform business model/ realignment	Foreign exchange effects	Special factors excluding foreign exchange effects
Technology Solutions	Revenue	3,302.8	**3,283.3**	(19.4)	–	13.0	(32.4)
	Operating profit	222.4	**186.2**	(36.2)	(35.9)	(10.0)	9.7
	[Operating profit margin]	[6.7%]	**[5.7%]**	[(1.0%)]			
Ubiquitous Solutions	Revenue	1,062.8	**1,040.9**	(21.9)	–	4.0	(25.9)
	Operating profit	8.7	**(7.6)**	(16.4)	(5.6)	(27.0)	16.2
	[Operating profit margin]	[0.8%]	**[(0.7%)]**	[(1.5%)]			
Device Solutions	Revenue	595.6	**603.9**	8.3	–	28.0	(19.7)
	Operating profit	36.9	**30.3**	(6.5)	(10.0)	17.0	(13.5)
	[Operating profit margin]	[6.2%]	**[5.0%]**	[(1.2%)]			
Other Operations/ Elimination & Corporate	Revenue	(208.0)	**(188.8)**	19.1	–	–	19.1
	Operating profit	(89.5)	**(88.3)**	1.1	–	–	1.1
Consolidated	Revenue	4,753.2	**4,739.2**	(13.9)	–	45.0	(58.9)
	Operating profit	178.6	**120.6**	(58.0)	(51.5)	(20.0)	13.5
	[Operating profit margin]	[3.8%]	**[2.5%]**	[(1.3%)]			

(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 construction; 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.

Revenue in the Technology Solutions segment amounted to ¥3,283.3 billion, a decrease of 0.6% compared to the year ended March 31, 2015. Revenue in Japan was essentially unchanged. Revenue from system integration services rose on increased investment mainly by customers in the financial sector and public services sector, and revenue from infrastructure services was also higher, largely due to outsourcing. However, revenue from network products declined as investments by telecommunications carriers remained restrained, leading to lower revenue from mobile phone base stations as well as optical transmission systems. Similarly, server-related revenue fell compared to the year ended March 31, 2015, as mainframe-related revenue in particular declined due to fewer large-scale systems deals, overshadowing growth in x86 servers. Revenue outside Japan decreased 1.9%. Despite growth in x86 servers for Europe, revenue for optical transmission systems in North America declined as communications carriers continued to restrain investments with regard to relevant segments of the Group's business. For infrastructure services, in addition to an off-demand period for large-scale business negotiations in the UK, revenue in the US was weak.

The segment posted an operating profit of ¥186.2 billion, a decline of ¥36.2 billion compared to the year ended March 31, 2015. Contributing factors included the posting of ¥35.9 billion in business model transformation expenses (¥30.7 billion related to business in EMEIA (Europe, Middle East, India, and Africa), North America, and other regions outside Japan, and ¥5.1 billion for network-related reorganization), as well as ¥10.0 billion from rising costs for components, mainly at bases in Europe due to progressive devaluation of the euro against the US dollar. As a baseline, excluding the impact of business model transformation expenses and foreign exchange, operating profit increased by roughly ¥10.0 billion year on year. Although impacted by lower revenue from network products, the segment saw benefits from higher revenue and improved profitability from system integration.

In April 2015, the Company and Fujitsu FIP Corporation (FIP) undertook organizational integration and restructuring with the aim of streamlining the data center business and improving operational quality. The service delivery functions and service and tool development functions were integrated into FIP and the facility planning and management functions were integrated into the Company. Until then, those functions had been carried out separately by each company. While working toward optimal resource placement and cost reductions, we switched to a business model that provides the data center business as a single platform, including facilities, networks, ICT equipment, and infrastructure operation that had previously been separately operated by the Company and FIP.

(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 in the Ubiquitous Solutions segment was ¥1,040.9 billion, down 2.1% compared to the year ended March 31, 2015. Revenue in Japan was down by 3.8%. For PCs, revenue declined on weak replacement demand from the corporate sector. For mobile phones, although the number of units shipped, particularly smartphone models, rose year on year, revenue was largely unchanged due to changes in the product mix and other factors. Revenue outside Japan increased 1.4%. As in Japan, although there was a decline in revenue from PCs due to weak demand from the corporate sector, revenue from the Mobileware sub-segment increased in Europe and North America.

The Ubiquitous Solutions segment posted an operating loss of ¥7.6 billion, a deterioration of ¥16.4 billion compared to the year ended March 31, 2015. For PCs, in addition to the impact of lower revenue, profit deteriorated dramatically due to higher component costs, mainly at bases in Europe stemming from the weakness in the euro against the US dollar. In mobile phones, while steps were taken to offset the burden of expenses stemming from defects that arose in a certain model in the first half of the year and higher component procurement costs by boosting development efficiency and promoting cost reductions, these were unable to fully absorb the impact, resulting in a slight loss. The segment also posted ¥5.6 billion in business model transformation expenses related to PCs and mobile phone businesses.

(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 in the Device Solutions segment amounted to ¥603.9 billion, an increase of 1.4% compared to the year ended March 31, 2015. Although the segment was adversely affected by the transfer of system LSI (SoC: System on a Chip) design and development operations to an affiliate, and also hit by lower demand for LSI devices used in smartphones, PCs and other devices, the revenue was positively impacted by an increase in sales denominated in US dollars due to the weakness of the yen against the US dollar.

The segment posted an operating profit of ¥30.3 billion, a decrease of ¥6.5 billion from the year ended March 31, 2015. Profit was affected by the transfer of system LSI design and development operations to an affiliate.

As per initial plans, in December 2015 United Microelectronics Corporation (UMC) of Taiwan carried out additional equity investment in pure-play foundry Mie Fujitsu Semiconductor Limited. With this investment, UMC has now acquired an equity stake of 15.9% in the foundry. Going forward, the Group will deepen its relationship with this strategic partner to enhance cost competitiveness and promote stability of the business.

(d) Other Operations/Elimination and Corporate

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

This category also includes expenses which are not classified into an operating segment. The expenses consist of strategic expenses such as basic research and developed expenses, as well as Group management shared expenses incurred by the Company.

This segment recorded an operating loss of ¥88.3 billion, an improvement of ¥1.1 billion compared to the year ended March 31, 2015. While there was expansion in strategic investments centered on next-generation cloud technology to serve as IoT (Internet of Things) utilization platforms, this was partially offset by progress in raising cost efficiency, along with a temporary reduction in estimated expenses due to the settlement of litigation.

(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		2015	2016	YoY change	Change (%)
Japan	Revenue	3,370.4	**3,366.5**	(3.8)	(0.1)
	Operating profit	235.0	**202.8**	(32.1)	(13.7)
	[Operating profit margin]	[7.0%]	**[6.0%]**	[(1.0%)]	
EMEIA (Europe, Middle East, India, and Africa)	Revenue	989.2	**963.5**	(25.6)	(2.6)
	Operating profit	24.4	**(1.5)**	(25.9)	–
	[Operating profit margin]	[2.5%]	**[(0.2%)]**	[(2.7%)]	
Americas	Revenue	404.7	**421.9**	17.1	4.2
	Operating profit	4.8	**(1.3)**	(6.2)	–
	[Operating profit margin]	[1.2%]	**[(0.3%)]**	[(1.5%)]	
Asia	Revenue	429.4	**466.3**	36.8	8.6
	Operating profit	7.4	**9.5**	2.0	27.7
	[Operating profit margin]	[1.7%]	**[2.0%]**	[0.3%]	
Oceania	Revenue	113.3	**103.9**	(9.4)	(8.3)
	Operating profit	3.0	**2.6**	(0.4)	(13.5)
	[Operating profit margin]	[2.7%]	**[2.5%]**	[(0.2%)]	
Elimination & Corporate	Revenue	(554.0)	**(583.0)**	(28.9)	–
	Operating profit	(96.1)	**(91.5)**	4.6	–
Consolidated	Revenue	4,753.2	**4,739.2**	(13.9)	(0.3)
	Operating profit	178.6	**120.6**	(58.0)	(32.5)
	[Operating profit margin]	[3.8%]	**[2.5%]**	[(1.3%)]	

(a) Japan

Revenue amounted to ¥3,366.5 billion, virtually unchanged compared to the year ended March 31, 2015. Revenue from system integration services grew atop expanded investment by customers, especially in the financial and public sectors. Revenue was also higher for infrastructure services. However, revenue from network products declined as communications carriers continued to restrain investment, with revenue from PCs and mobile phones also lower. Operating profit was ¥202.8 billion, a year-on-year decrease of ¥32.1 billion. Contributing to the decrease was lower revenue from network products and PCs, as well as the posting of business model transformation expenses related to network, PCs and mobile phone businesses, despite benefits from higher revenue and improved profit margins from system integration services.

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

Revenue came to ¥963.5 billion, a decrease of 2.6% from the year ended March 31, 2015. In addition to lower revenue from an off-demand period for large-scale business negotiations in the UK, the decline was mainly due to lower PC sales volume at bases in Europe. The operating loss was ¥1.5 billion, a deterioration of ¥25.9 billion from the year ended March 31, 2015. The Group posted business model transformation expenses of ¥21.7 billion, for a shift to a service-ready structure for the overall EMEIA sales and delivery framework and for enhancing cost competitiveness for product business. The operating loss was also adversely affected by rising US dollar-denominated parts procurement costs accompanied by the weakening euro, particularly in PCs.

(c) Americas

Revenue came to ¥421.9 billion, an increase of 4.2% from the year ended March 31, 2015. The increase was attributable to revenue from audio and navigation systems and foreign currency effects, despite the negative impact that restrained customer investments had on optical transmission systems. The operating loss for the region was ¥1.3 billion, a deterioration of ¥6.2 billion year on year. Business model transformation expenses of ¥9.6 billion contributed to the loss, which included an impairment loss for Managed Infrastructure Services-related equipment. In the Managed Infrastructure Services business in North America, the Group moved ahead with business model transformation aimed at boosting both growth potential and efficiency by moving from a conventional managed services model, in which customer IT assets are held at data centers, to a cloud services model, in which new cloud platforms developed and provided by the Group and consulting services are managed and provided together.

(d) Asia

Revenue amounted to ¥466.3 billion, a year-on-year increase of 8.6%. The increased revenue was mainly from infrastructure services. Operating profit was ¥9.5 billion, an increase of ¥2.0 billion from the year ended March 31, 2015, due to higher revenue and other factors.

(e) Oceania

Revenue came to ¥103.9 billion, a decline of 8.3% compared to the year ended March 31, 2015. The decrease was mainly in infrastructure services. Operating profit was ¥2.6 billion, down ¥0.4 billion year on year, mainly due to decreased revenue.

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	2015	**2016**	YoY change
Assets			
Current assets	1,887.6	**1,843.8**	(43.8)
Non-current assets	1,383.4	**1,382.4**	(1.0)
Total assets	3,271.1	**3,226.3**	(44.8)
Liabilities			
Current liabilities	1,523.3	**1,447.0**	(76.2)
Non-current liabilities	813.3	**853.0**	39.6
Total liabilities	2,336.7	**2,300.0**	(36.6)
Equity			
Total equity attributable to owners of the parent (Owners' equity)	790.0	**782.7**	(7.3)
Retained earnings	130.7	**155.9**	25.1
Other components of equity	101.8	**68.9**	(32.8)
Total equity	934.3	**926.2**	(8.1)
Total liabilities and equity	3,271.1	**3,226.3**	(44.8)
Cash and cash equivalents	362.0	**380.8**	18.7
Interest-bearing loans	578.4	**534.9**	(43.5)
Net interest-bearing loans	216.4	**154.1**	(62.3)

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	2015	**2016**	YoY change
Equity attributable to owners of the parent ratio (Owners' equity ratio)	24.2%	**24.3%**	0.1%
D/E ratio (Times)	0.73	**0.68**	(0.05)
Net D/E ratio (Times)	0.27	**0.20**	(0.07)

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	2015	**2016**	YoY change
a. Defined benefit obligation	(2,484.3)	**(2,434.2)**	50.1
b. Plan assets	2,180.8	**2,074.5**	(106.2)
c. Defined benefit obligation in excess of plan assets (a)+(b)	(303.5)	**(359.6)**	(56.1)
[In Japan]	[(198.4)]	**[(279.6)]**	[(81.1)]
[Outside Japan]	[(105.1)]	**[(80.0)]**	[25.0]
(Assumptions used in accounting for the plans)			
Discount rates			
In Japan	0.7%	**0.3%**	(0.4%)
Outside Japan	mainly 3.4%	**mainly 3.4%**	–

Consolidated total assets at March 31, 2016 amounted to ¥3,226.3 billion, a decrease of ¥44.8 billion from March 31, 2015. Current assets decreased by ¥43.8 billion compared to March 31, 2015, to ¥1,843.8 billion. Trade receivables decreased due to lower fourth-quarter revenue year on year. Inventories were ¥298.8 billion, down ¥15.0 billion from March 31, 2015. The decrease was concentrated mainly in PCs and mobile phones, and in the infrastructure services business outside Japan. Non-current assets decreased by ¥1.0 billion compared to March 31, 2015, to ¥1,382.4 billion. Due to a lower discount rate stemming from falling interest rates, defined benefit-type retirement benefit liabilities increased and thus the funded status (unfunded obligations) of employee defined benefit plans deteriorated, and deferred tax assets pertaining to the unfunded obligations increased. On the other hand, property, plant and equipment decreased, mainly owing to the posting of an impairment loss of ¥9.6 billion for equipment related to managed infrastructure services in North America as part of business model transformation.

Total liabilities amounted to ¥2,300.0 billion, a decrease of ¥36.6 billion compared to March 31, 2015. Current liabilities came to ¥1,447.0 billion, a decline of ¥76.2 billion. Along with a decrease in trade payables, this reflected the repayment of short-term borrowings by North American subsidiaries due to a shift in financing within the Group from Europe to North America. Non-current liabilities came to ¥853.0 billion, an increase of ¥39.6 billion compared to March 31, 2015. The defined benefit liability increased as the funded status of employee defined benefit plans deteriorated due to a lower discount rate stemming from falling interest rates. Interest-bearing debt, which consists of corporate bonds, borrowings, and lease obligations, was ¥534.9 billion, a decrease of ¥43.5 billion compared to March 31, 2015. While the Company redeemed ¥70.0 billion in straight bonds, it issued ¥30.0 billion in straight bonds to be allocated in part for the redemption. As a result, the D/E ratio was 0.68 times, a decrease of 0.05 of a point compared to March 31, 2015 and the net D/E ratio was 0.20 times, a decrease of 0.07 of a point compared to March 31, 2015.

Total equity was ¥926.2 billion, a decrease of ¥8.1 billion from March 31, 2015. Retained earnings was ¥155.9 billion at March 31, 2016, an increase of ¥25.1 billion from March 31, 2015. Despite the posting of ¥86.7 billion in net income, deterioration in the funded status of defined benefit plans had a negative impact of ¥45.0 billion. In addition, other components of equity decreased by ¥32.8 billion compared to March 31, 2015, to ¥68.9 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 and US dollar, along with a decrease in earnings from available-for-sale financial assets caused by falling stock prices. Total equity attributable to owners of the parent (owners' equity) was ¥782.7 billion and the equity attributable to owners of the parent ratio (owners' equity ratio) was 24.3%, an increase of 0.1 of a percentage point compared to March 31, 2015. The Group views an owners' equity ratio that demonstrates its financial soundness as a vital management indicator. The deduction from owners' equity of ¥349.8 billion for the unfunded obligation with tax effects pertaining to the employee defined benefit plans held owners' equity lower. The Group sets an owners' equity ratio of 40% as a mid-term target to achieve. We will strengthen our financial structure by carrying out business model transformation and achieving sufficient owners' equity.

The defined benefit liability of the employee defined benefit plans was ¥2,434.2 billion, down ¥50.1 billion from the year ended March 31, 2015. While the liability increased in step with a decline in the discount rate in Japan, the defined benefit liability in the UK was lower due to the depreciation of the British pound against the yen. In addition, some Group companies in Japan transitioned to a defined contribution-based (DC) plan. Plan assets stood at ¥2,074.5 billion at March 31, 2016, a decline of ¥106.2 billion from the year ended March 31, 2015. This outcome was the result of a decline in plan assets in the UK due to the depreciation of the British pound against the yen, coupled with the negative impact of a weak return on plan assets in Japan. As a result, the funded status of employee defined benefit plans (defined benefit obligation less plan assets) was a shortage of ¥359.6 billion, representing a deterioration of ¥56.1 billion compared to March 31, 2015. The funded status of employee defined benefit plans are, 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 increased by ¥45.0 billion compared to March 31, 2015.

(2) Cash flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

Years ended March 31	2015	**2016**	YoY change
I Cash flows from operating activities. .	280.1	**253.0**	(27.0)
II Cash flows from investing activities . .	(200.5)	**(164.3)**	36.1
I+II Free cash flow	79.6	**88.7**	9.1
III Cash flows from financing activities . .	(17.3)	**(67.7)**	(50.4)
IV Cash and cash equivalents at end of year	362.0	**380.8**	18.7

Reference: Financial Indicators

Year ended March 31	2015	**2016**	YoY change
Interest-bearing loans to cash flows ratio (Years).	2.1	**2.1**	–
Interest coverage ratio (Times).	46.9	**48.3**	1.4

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, 2016 amounted to ¥253.0 billion. This represents a decrease in cash inflows of ¥27.0 billion compared to the year ended March 31, 2015. While working capital improved, there was a deterioration in profit before income taxes, coupled with the absence of a refund in income tax withheld of approximately ¥26.0 billion relating to dividends received from subsidiaries in Japan recorded in the year ended March 31, 2015.

Net cash used in investing activities was ¥164.3 billion, representing a cash outflow of ¥189.7 billion from purchases of property, plant and equipment, capital investment pertaining mainly to data centers, and purchases of intangible assets, primarily software. Net cash used declined ¥36.1 billion from March 31, 2015, primarily due to proceeds from the maturity of time deposits used for working capital and the sale of certain assets.

Free cash flow was ¥88.7 billion, representing an increase in cash inflows of ¥9.1 billion compared to the year ended March 31, 2015.

Net cash used in financing activities was ¥67.7 billion. While the Company redeemed ¥70.0 billion in corporate bonds, it issued ¥30.0 billion in straight bonds to be partially allocated for redemption. In addition to ¥16.5 billion in dividends paid to owners of the parent, ¥15.6 billion was allotted for payment of lease obligations. Compared to the year ended March 31, 2015, cash outflows increased by ¥50.4 billion, mainly due to the redemption of corporate bonds.

As a result of the above factors, cash and cash equivalents at March 31, 2016 were ¥380.8 billion, an increase of ¥18.7 billion compared to March 31, 2015.

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, 2016, the Group had liquidity of ¥579.0 billion, of which ¥380.8 billion was cash and cash equivalents and ¥198.2 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, 2016, 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, 2015.

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

For the year ended March 31, 2016, capital expenditures totaled ¥156.0 billion, an increase of ¥15.3 billion from the year ended March 31, 2015. In the Technology Solutions segment, capital expenditures totaled ¥80.8 billion, up 19.6% year on year, notably for the construction of a new wing at the Group's mainstay Tatebayashi Datacenter (Tatebayashi, Gunma Prefecture). This data center is the Group's central base for accelerating IoT (Internet of Things) and cloud technologies. In the Ubiquitous Solutions segment, the Group spent ¥9.5 billion, down 20.3% year on year, mainly for augmenting manufacturing and design and development facilities for mobileware. In the Device Solutions segment, capital expenditures totaled ¥55.6 billion, down 0.3% year on year, mainly for LSI manufacturing facilities and facilities to manufacture semiconductor packages within electronic components. In areas other than the aforementioned segments, capital expenditures were ¥10.0 billion.