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, 2012 (fiscal 2011). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2012. The impact of exchange rate fluctuations is calculated by taking the average exchange rates in fiscal 2010 for the U.S. Dollar, Euro and British pound and applying them to foreign currency-denominated transactions in fiscal 2011.

1. Analysis of Results

Business Environment

In the global economy during fiscal 2011, the increasingly serious government debt problems in Europe had an adverse impact on the real economy, including a negative growth rate. In the United States, despite signs of improvement in employment and consumer spending, the economy has yet to reach full-fledged recovery. In emerging markets, previously high growth rates fell slightly as exports declined in the face of fiscal austerity measures and the economic slowdown in Europe.

In Japan, the supply chain was restored quicker than expected from the stalled condition that followed the Great East Japan Earthquake, but the economy became sluggish again by the slowdown in the global economy, the decline in exports due to the strong yen, and the damage caused by the flooding in Thailand. Signs of improvement were seen in the fourth quarter, however, as exchange rates moved toward a weakening of the yen, and companies recovered from the Thailand flood damage.

With regard to investment in information and communication technology (ICT), despite signs of recovery in certain sectors, on the whole companies maintained a cautious stance toward investment, deterring a full-fledged recovery.

Net Sales

Consolidated net sales for fiscal 2011 amounted to ¥4,467.5 billion ($54,483 million), a decline of 1.3% from fiscal 2010. On a constant currency basis, however, sales were on a par with the prior fiscal year.

Condensed Consolidated Income Statements (Unit: billion yen)

Years ended March 31	2011	**2012**	YoY Change	Change (%)
Net sales	4,528.4	**4,467.5**	(60.8)	(1.3)
Cost of sales	3,270.9	**3,232.1**	(38.7)	(1.2)
Gross profit	1,257.4	**1,235.4**	(22.0)	(1.8)
Selling, general and administrative expenses	1,124.8	**1,130.1**	5.2	0.5
Operating income	132.5	**105.3**	(27.2)	(20.6)
Other income (expenses)	(30.3)	**(38.5)**	(8.2)	–
Income before income taxes and minority interests	102.2	**66.7**	(35.5)	(34.7)
Income taxes	48.1	**29.9**	(18.1)	(37.7)
Minority interests in income (loss) of consolidated subsidiaries	(1.0)	**(5.9)**	(4.9)	–
Net income (loss)	55.0	**42.7**	(12.3)	(22.5)

Reference: Financial Indicators (Unit: billion yen)

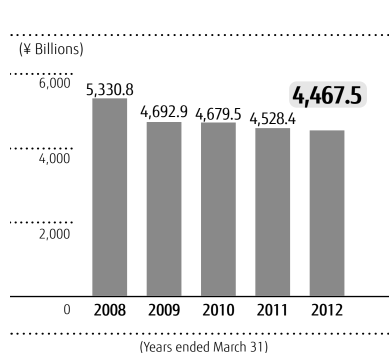
Years ended March 31	2011	**2012**	YoY Change
Net sales	4,528.4	**4,467.5**	(60.8)
Sales outside Japan	[1,587.3]	**[1,506.0]**	[(81.2)]
Ratio of sales outside Japan	[35.1%]	**[33.7%]**	[(1.4%)]
Gross profit margin	27.8%	**27.7%**	(0.1%)
Operating income margin	2.9%	**2.4%**	(0.5%)
Return on equity	6.8%	**5.1%**	(1.7%)

Notes: Owners' equity: Net assets – Subscription rights to shares – Minority interests
Return on equity (ROE): Net income ÷ {(Owners' equity at beginning of period + Owners' equity at end of period) ÷ 2}

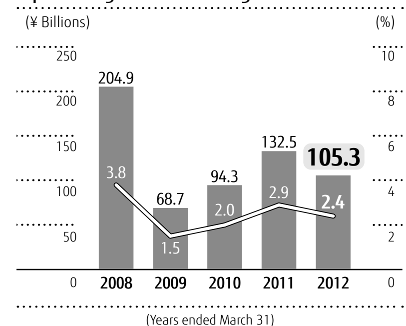
Reference: Quarterly Breakdown of Net Sales and Operating Income (Unit: billion yen)

Year ended March 31, 2012	1Q	2Q	3Q	4Q	Full Year
Net sales	986.0	1,106.2	1,079.7	1,295.5	4,467.5
YoY change	(61.1)	6.0	(16.7)	11.0	(60.8)
Operating income	(17.1)	24.1	3.1	95.0	105.3
YoY change	(27.1)	(12.9)	(18.1)	30.9	(27.2)

Net Sales



Operating Income and Operating Income Margin



Sales in Japan were essentially unchanged from fiscal 2010. The decline in sales due to customers' production adjustments precipitated by the flooding in Thailand mainly impacted products such as car audio and navigation systems, and LSI devices. In addition to the slowdown in demand for LSI devices and electronic components, server-related revenues also declined due to reductions in project proposals for large-scale systems. However, sales increased for mobile phones and for network products such as mobile phone base stations with the widespread adoption of smartphones. Sales outside Japan decreased 5.1% year on year, but on a constant currency basis were essentially unchanged from the previous fiscal year. Revenue declined for electronic components and UNIX servers, but PC sales rose in emerging economies such as Turkey, Middle Eastern countries and Russia.

The ratio of sales outside Japan was 33.7%, a decrease of 1.4 percentage points compared to the previous fiscal year. This was due to the impact from currency exchange rates, as well as a decline in sales of UNIX servers in the Americas region.

In fiscal 2011, the average yen exchange rates against the U.S. Dollar, the Euro, and the British pound were ¥79, ¥109, and ¥126, respectively, representing a year-on-year appreciation of ¥7 against the U.S. Dollar, ¥4 against the Euro, and ¥7 against the British pound. Exchange rate fluctuations versus the U.S. Dollar, Euro, and British pound caused a reduction in net sales of approximately ¥40.0 billion, ¥20.0 billion, and ¥20.0 billion respectively. As a result, currency exchange rate fluctuations had a negative impact of approximately ¥80.0 billion on net sales for fiscal 2011.

Cost of Sales, Selling, General & Administrative Expenses, and Operating Income

The cost of sales totaled ¥3,232.1 billion ($39,416 million), with gross profit of ¥1,235.4 billion ($15,066 million), for a gross profit margin of 27.7%. Gross profit decreased ¥22.0 billion compared to the previous fiscal year, due mainly to revenue declines in LSI devices and electronic components. The gross profit margin was on a par with that of the previous year.

Selling, general and administrative, (SG&A) expenses were ¥1,130.1 billion ($13,782 million), an increase of ¥5.2 billion from the previous year. Among SG&A expenses, research and development spending amounted to ¥238.3 billion ($2,907 million), an increase of ¥2.1 billion. The Group continued to make upfront investments in such areas as networks and cloud services. The ratio of R&D expenses to sales was essentially unchanged from the previous fiscal year at 5.3%.

As a result, operating income amounted to ¥105.3 billion ($1,284 million), a decrease of ¥27.2 billion compared to fiscal 2010. The operating income margin was 2.4%, a decline of 0.5 percentage points. Along with impacts from natural disasters and sluggish economic conditions, this performance reflected the continuing effect of upfront investment.

The Group is striving to quickly achieve a consolidated operating income margin of over 5% as a measure of performance. For fiscal 2012, which will serve as an intermediate step in this direction, we are targeting net sales of ¥4,550.0 billion ($55,488 million), operating income of ¥135.0 billion ($1,646 million), and an operating income margin of 3.0%. As structural reforms to realize an assertive posture for new growth, we are bolstering customer contact capabilities, bolstering system engineering (SE) capabilities, and bolstering technical capabilities. To build the base to carry these reforms forward, on April 1, 2012 our companywide formation was reconfigured into a matrix organization composed of customer and business axes. In addition to further clarifying the account sales structure, thereby heightening sales specialization, we intend to enhance customer contact capabilities in terms of both quality and volume through tying up field innovators and sector consultants—visualization professionals who make on-site operations more transparent. In SE, efforts since fiscal 2004 to integrate sales divisions and curb unprofitable projects have yielded some success. Nevertheless, to transform ourselves into an organization offering globally competitive technology, quality, and cost, we opted to move from a sector-vertical sales and SE framework and once again spin off SE to establish a new System Integration unit. In parallel, a new Software Integration unit was established to spur a shift to a software-centric business structure offering products along an integrated vertical model from a services/solutions perspective. Through these changes, the Group is offering up high-value-added solutions that bring together software, infrastructure services and systems integration, while taking advantage of its strengths in the value chain with products to put a structure in place for offering one-stop solutions on a global basis.

Operating income fluctuated considerably by quarter during fiscal 2011 amid the lag in a full-fledged recovery in ICT investment, and the impact from natural disasters. During the first quarter, the Group posted an operating loss of ¥17.1 billion ($209 million) due to the extensive impact from the Great East Japan Earthquake, centered mainly on car audio and navigation systems, mobile phones, and LSI devices. In the second quarter, the effects of the earthquake disaster had for the most part abated, and the Group recorded operating income of ¥24.1 billion ($295 million). However, compared to the same period of the previous fiscal year this represented a decline of ¥12.9 billion, due mainly to deteriorating market conditions for LSI devices and electronic components. In the third quarter, the market downturn for LSI devices and electronic components and the flooding in Thailand adversely impacted, and the Group managed operating income of just ¥3.1 billion ($39 million), a decrease of ¥18.1 billion compared to the same period of the previous fiscal year. In the fourth quarter, however, the Company posted operating income of ¥95.0 billion ($1,159 million), up ¥30.9 billion from the same period of the previous fiscal year, due mainly to successful efforts to enhance profitability management in services businesses outside Japan, greater sales of network products and mobile phones, and a return to profitability for LSI devices and electronic components.

The Group strives to minimize the impact of currency exchange rate fluctuations on earnings. During fiscal 2011, performance was negatively impacted by the appreciation of the yen against the U.S.

Dollar and the Euro, but because of the weakening of the U.S. Dollar against the Euro, the Group's European subsidiaries were able to lower dollar-denominated purchasing costs for parts and materials. As a result, the impact on operating income from currency fluctuations during fiscal 2011 was minimal overall. For fiscal 2011, a one yen (¥1) fluctuation in the currency exchange rate translated into an impact on operating income of approximately ¥0.6 billion for the U.S. Dollar, ¥0.3 billion for the Euro, and ¥0.0 billion for the British pound.

Other Income (Expenses), Net Income and Comprehensive Income

Other income (expenses) amounted to a net loss of ¥38.5 billion ($470 million), an increase of ¥8.2 billion from the previous fiscal year. Although foreign exchange losses improved and the financial balance (interest income plus dividend income minus interest charges) improved from fiscal 2010 due to a decline in interest-bearing debt, the Group recorded ¥15.1 billion ($185 million) in business restructuring costs as other expenses. The business restructuring costs were for the LSI devices, car audio and navigation systems, and services businesses outside Japan. In LSI devices, as part of the restructuring program to optimize manufacturing capabilities, the Company decided to transfer the Iwate Plant, one of its front-end manufacturing centers, to Denso Corporation, recording ¥5.9 billion ($73 million) in impairment losses on plant disposal and one-time costs for the relocation of employees. In car audio and navigation systems, the Group spent ¥5.2 billion ($64 million) for reassigning employees at plants in Japan as part of a reorganization of production operations to enhance cost competitiveness, while in services outside Japan, the Group recorded ¥3.9 billion ($48 million) in expenses related to personnel rationalization, mainly in Europe and North America. In addition, the Group recorded ¥7.5 billion ($92 million) for fixed costs as other expenses associated with the suspension of operations at factories affected by customer-related factors and factories damaged by aftershocks from the Great East Japan Earthquake.

Consolidated net income amounted to ¥42.7 billion ($521 million), a decrease of ¥12.3 billion from the previous fiscal year. Income before income taxes and minority interests fell ¥35.5 billion to ¥66.7 billion ($814 million), mainly as a result of the decline in operating income, along with the recording of business restructuring costs and other expenses. Income taxes decreased ¥18.1 billion year-on-year to ¥29.9 billion ($366 million). The ratio of income taxes to income before income taxes and minority interests was 45%, compared with 47% in fiscal 2010. Although income tax expenses increased due to adjustments in deferred tax assets stemming from revisions to Japan's tax code, this was offset by lower tax expenses arising from decision of the liquidation of the Company's European subsidiary Fujitsu International Finance (Netherlands) B.V. during the second quarter, and a stock transfer executed in line with group reorganization. Minority interests totaled a loss of ¥5.9 billion ($73 million), an increase of ¥4.9 billion resulting from deteriorating financial performance at the Company's car audio and navigation equipment joint venture, and a listed components subsidiary.

The Group views profitability and efficiency of invested capital in businesses as important management indicators. For fiscal 2011, the return on equity, calculated by dividing net income by average owners' equity, was 5.1%, a decline of 1.7 percentage points from the previous fiscal year.

Other comprehensive income totaled a loss of ¥2.4 billion ($29 million), primarily as a result of a foreign currency translation adjustment loss stemming from the ongoing appreciation of the yen. Because the Group's global business development primarily revolves around service businesses, foreign currency fluctuations in the value of the net assets of subsidiaries outside Japan are recorded in other comprehensive income. The impact of stock price fluctuations on the unrealized gain and loss on securities, net of taxes, is limited.

Comprehensive income, representing the total of other comprehensive income and income before minority interests, was ¥34.3 billion ($418 million).

2. Segment Information

Information by Operating Segment

Sales and Operating Income by Segment

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.

Sales (including intersegment sales) and operating income by segment for fiscal 2011 are shown on the following pages.

(Unit: billion yen)

Years ended March 31		2011	**2012**	YoY Change	Change (%)
Technology Solutions	Net sales	3,014.3	**2,934.9**	(79.4)	(2.6)
	Operating income	162.8	**171.2**	8.4	5.2
	[Operating income margin]	[5.4%]	**[5.8%]**	[0.4%]	
Ubiquitous Solutions	Net sales	1,125.6	**1,154.2**	28.6	2.5
	Operating income	22.6	**19.9**	(2.7)	(12.1)
	[Operating income margin]	[2.0%]	**[1.7%]**	[(0.3%)]	
Device Solutions	Net sales	630.6	**584.7**	(45.9)	(7.3)
	Operating income	20.9	**(10.1)**	(31.1)	–
	[Operating income margin]	[3.3%]	**[(1.7%)]**	[(5.0%)]	
Other Operations/ Elimination & Corporate	Net sales	(242.2)	**(206.3)**	35.9	–
	Operating income	(73.9)	**(75.7)**	(1.8)	–
Consolidated	Net sales	4,528.4	**4,467.5**	(60.8)	(1.3)
	Operating income	132.5	**105.3**	(27.2)	(20.6)
	[Operating income margin]	[2.9%]	**[2.4%]**	[(0.5%)]	

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/Systems Integration, which are services for the construction of information and communication systems, Infrastructure Services, which are primarily outsourcing and maintenance services, System Products, which covers 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.

Consolidated segment net sales totaled ¥2,934.9 billion ($35,792 million), a year-on-year decline of 2.6%. Sales in Japan decreased 1.5%. Server-related sales declined mainly due to the impact from high-volume production in fiscal 2010 of dedicated servers for Japan's Next-Generation Supercomputer system. Revenue from infrastructure services also fell as a result of the shift in the network services' ISP*[1] business from packaged services that include connection fees to stand-alone services. ICT investment is recovering in the manufacturing, retail and health care sectors, but a decline in business proposals for large-scale projects in the financial and public sectors had an impact on performance. Although we anticipate a full-scale recovery in domestic ICT investment from the second half of the next fiscal year, Japanese mobile carriers are stepping up investment to handle the greater network traffic stemming from the widespread adoption of smartphones, and sales rose for network products such as mobile phone base stations. Sales outside Japan declined 4.6%, but on a constant currency basis were roughly on a par with the prior fiscal year. Sales declined for UNIX servers to the US and Europe, and growth was sluggish for optical transmission systems and other network products as a result of curbs on investment by North American carriers. However, revenue from infrastructure services increased in such regions as Australia and Scandinavia.

Segment operating income amounted to ¥171.2 billion ($2,089 million), an increase of ¥8.4 billion compared to fiscal 2010. In Japan, despite a boost from greater sales of mobile phone base stations and cost reductions for PC servers, earnings declined mainly as a result of a decrease in project proposals for large-scale systems in the solutions/SI and server-related fields, and ongoing upfront investments in cloud services. Outside Japan, despite a fall in sales of UNIX servers, a revenue drop for optical transmission systems, and an increase in upfront development spending, earnings rose on gradually improving profitability in the services business in Europe.

*[1] Internet Service Provider business. This refers to the provision of value-added services in the domain of services supporting safe, secure and trouble-free internet usage, and includes the provision of Internet connectivity services, security, and troubleshooting support via phone or onsite visits.

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 society that enjoys the benefits of the value generated by ICT without requiring anyone to be conscious of the technological complexities involved).

Net sales in this segment totaled ¥1,154.2 billion ($14,077 million), an increase of 2.5% from the previous fiscal year. Sales in Japan increased 3.9%. PC sales, despite business deals with corporations for bulk purchases, were on the whole unchanged from the prior year due to falling retail prices in the consumer market, and difficulties procuring HDDs as a result of the flooding in Thailand. Mobile phone sales rose on the boost from the merger with Toshiba Corporation's mobile phone business, and expansion of the smartphone market. Sales of mobilewear sub-segment's car audio and navigation systems decreased, mainly as a result of the suspension of automobile manufacturing due to the Great East Japan Earthquake and the flooding in Thailand. Sales outside Japan declined 1.7%, but rose 3.0% on a constant currency basis. Mobilewear device sales declined as a result of the suspension of automobile production overseas, while PC unit sales increased, centered on Europe.

Segment operating income amounted to ¥19.9 billion ($243 million), a decrease of ¥2.7 billion compared to fiscal 2010. In Japan, in response to falling retail prices for PCs and rising procurement costs for HDDs, the Company took steps to utilize the strong yen to lower procurement costs. In mobile phones, while the rise in sales boosted earnings, the Company stepped up investment in smartphone development. The decline in mobilewear sales had an impact on performance, and overall earnings were roughly on a par with the previous fiscal year. Outside Japan, earnings were affected by rising procurement costs for PC HDDs, and the revenue decline in mobilewear.

The earthquake disaster in Japan and flooding in Thailand had a considerable impact on the car audio and navigation business. The Company, in order to enhance cost competitiveness that will allow the business to adapt to the global business expansion of its clients, strengthened overseas production capacity and reorganized the Japanese production structure to which it is linked.

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.

Net sales in this segment totaled ¥584.7 billion ($7,130 million), a decrease of 7.3% from the previous fiscal year. Sales in Japan fell 5.1%. Sales of LSI devices decreased due to the completion in the first quarter of shipments of CPUs for Japan's Next-Generation Supercomputer system, which were produced in high volume in fiscal 2010, as well as to the impact from the earthquake disaster in the first quarter. Another factor was the decline for digital AV systems as a result of the flooding in Thailand. Electronic components sales also fell on slack demand for semiconductor packages. Sales outside Japan decreased 10.2%, or 4% on a constant currency basis. In LSIs,

sales rose for image processing LSIs used in smartphones. In electronic components, sales of semiconductor packages and LCD modules declined, centered in Asia, but signs of a partial recovery in demand began to appear in the fourth quarter.

The segment posted an operating loss for the period of ¥10.1 billion ($124 million), representing a deterioration of ¥31.1 billion from fiscal 2010. In Japan, LSI earnings were affected by the revenue decline, and the decrease in capacity utilization of manufacturing lines in response to the decline in demand. Electronic components earnings were affected by lower sales and rising prices for certain materials. Outside Japan, earnings from electronic components were impacted by falling sales and exchange rates.

In April 2012, with the aim of streamlining production capacity in the LSI business, the Group concluded an agreement with Denso Corporation for the transfer of the Iwate Plant (transfer scheduled for October 1, 2012). In accordance with this transfer, the Company recorded ¥5.9 billion ($73 million) in business restructuring costs for impairment losses on disposal of property, plant and equipment, and expenses for the relocation of employees.

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 development expenses, as well as group management shared expenses incurred by the Company.

The category posted an operating loss of ¥75.7 billion ($924 million), representing a deterioration of ¥1.8 billion over fiscal 2010. This was due mainly to upfront investments for new business development.

The K computer, which is being jointly developed by Japan's Institute of Physical and Chemical Research (RIKEN) and the Company, incorporates CPUs developed by the Group and other technologies of the Group. The system has reached 93% of the target calculation speed of 10 petaflops per second, and for the second consecutive term achieved the No. 1 ranking on the TOP500 list of most powerful supercomputers, announced in November 2011. The manufacturing of more than 800 computing racks has been completed, and development has entered the final stage. The system is expected to be made available for use by researchers and other scientists in November 2012.

Geographic Information

One of the Group's management priorities is to increase sales 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.

(Unit: billion yen)

Years ended March 31		2011	**2012**	YoY Change	Change (%)
Japan	Net sales	3,389.2	**3,396.2**	6.9	0.2
	Operating income	215.7	**177.8**	(37.9)	(17.6)
	[Operating income margin]	[6.4%]	**[5.2%]**	[(1.2%)]	
Europe, Middle East, Africa (EMEA)	Net sales	849.5	**817.5**	(32.0)	(3.8)
	Operating income	(18.4)	**(0.0)**	18.4	–
	[Operating income margin]	[(2.2%)]	**[(0.0%)]**	[2.2%]	
The Americas	Net sales	298.4	**277.5**	(20.8)	(7.0)
	Operating income	2.6	**0.4**	(2.1)	(81.7)
	[Operating income margin]	[0.9%]	**[0.2%]**	[(0.7%)]	
Asia-Pacific (APAC) & China	Net sales	405.1	**421.9**	16.7	4.1
	Operating income	11.0	**7.6**	(3.4)	(31.0)
	[Operating income margin]	[2.7%]	**[1.8%]**	[(0.9%)]	
Elimination & Corporate	Net sales	(414.0)	**(445.7)**	(31.7)	–
	Operating income	(78.3)	**(80.6)**	(2.2)	–
Consolidated	Net sales	4,528.4	**4,467.5**	(60.8)	(1.3)
	Operating income	132.5	**105.3**	(27.2)	(20.6)
	[Operating income margin]	[2.9%]	**[2.4%]**	[(0.5%)]	

Japan

Net sales amounted to ¥3,396.2 billion ($41,418 million), roughly on a par with fiscal 2010. Production adjustments among customers due to the flooding in Thailand had a negative impact on sales, leading to revenue declines for car audio and navigation systems and LSI devices, as well as server products and electronic components. However, sales rose for mobile phones, as well as network products, centered on mobile phone base stations. Operating income in Japan totaled ¥177.8 billion ($2,169 million), a year-on-year decrease of ¥37.9 billion. Earnings were boosted by greater revenue from network products, but declined overall as a result of the drop in sales for LSI devices and electronic components, as well as upfront R&D investment in network and cloud services.

EMEA

Net sales amounted to ¥817.5 billion ($9,971 million), a decline of 3.8% from fiscal 2010, but roughly on a par with the previous fiscal year on a constant currency basis. PC sales expanded in emerging economies such as Turkey, Middle Eastern countries and Russia, and revenue rose in the services businesses in Scandinavia and UK private sector, though sales were down in UK public sector and in continental Europe. Operating income in EMEA was essentially at break-even point, improving by ¥18.4 billion from the loss in the previous fiscal year. The operating loss in fiscal 2010 was due mainly to the one-time recognition of initial costs and other expenses associated with the cancellation of certain long-term services contracts.

The Americas

Net sales amounted to ¥277.5 billion ($3,385 million), a decrease of 7.0% from fiscal 2010. Revenue declined for car audio and navigation systems and LSI devices, with sales also sluggish in the services business, centered on the United States. Sales of optical transmission systems were positive during the first half of the fiscal year, but slowed briefly during the second half, ending flat for the full fiscal year. Operating income for the region totaled ¥0.4 billion ($6 million), a decline of ¥2.1 billion from fiscal 2010. This was due mainly to upfront investments in development for optical transmissions systems.

APAC & China

Net sales amounted to ¥421.9 billion ($5,146 million), a year-on-year increase of 4.1%. Sales decreased for car audio and navigation systems, while sales rose for LSI device. Operating income for the region totaled ¥7.6 billion ($93 million), a decrease of ¥3.4 billion over fiscal 2010. This was due mainly to the decline in sales of car audio and navigation systems.

3. Analysis of Capital Resources and Liquidity

Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets (Unit: billion yen)

As of March 31	2011	**2012**	YoY Change
Assets			
Current assets	1,760.6	**1,701.7**	(58.8)
Investments and long-term loans	372.8	**372.4**	(0.3)
Property, plant and equipment	638.6	**640.9**	2.3
Intangible assets	251.9	**230.2**	(21.6)
Total assets	3,024.0	**2,945.5**	(78.5)
Liabilities			
Current liabilities	1,507.8	**1,417.4**	(90.3)
Long-term liabilities	562.5	**561.4**	(1.0)
Total liabilities	2,070.3	**1,978.9**	(91.4)
Net assets			
Shareholders' equity	903.9	**926.0**	22.1
Accumulated other comprehensive income	(82.6)	**(85.0)**	(2.3)
Minority interests in consolidated subsidiaries	132.4	**125.4**	(6.9)
Total net assets	953.7	**966.5**	12.8
Total liabilities and net assets	3,024.0	**2,945.5**	(78.5)
Cash and cash equivalents at end of year	358.5	**266.6**	(91.8)
Interest-bearing loans	470.8	**381.1**	(89.6)
Net interest-bearing loans	112.2	**114.4**	2.2
Owners' equity	821.2	**841.0**	19.7

Notes: Year-end balance of interest-bearing loans: Short-term borrowings and current portion of bonds payable (Current liabilities) + Long-term borrowings and bonds payable (Non-current liabilities)
Net debt: (Interest-bearing loans – cash and cash equivalents)
Owners' equity: Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries

Reference: Financial Indicators (Unit: billion yen)

Years ended March 31	2011	**2012**	YoY Change
Inventories	341.4	**334.1**	(7.3)
[Inventory turnover ratio]	[13.65]	**[13.23]**	[(0.42)]
[Monthly inventory turnover rate]	[1.02]	**[1.01]**	[(0.01)]
Shareholders' equity ratio	29.9%	**31.4%**	1.5%
Owners' equity ratio	27.2%	**28.6%**	1.4%
D/E ratio (times)	0.57	**0.45**	(0.12)
Net D/E ratio (times)	0.14	**0.14**	–

Notes: Inventory turnover ratio: Net sales ÷ {(Beginning balance of inventories + year-end balance of inventories) ÷ 2}
Monthly inventory turnover: Net sales ÷ Average inventories during period* ÷ 12
Shareholders' equity ratio: Shareholders' equity ÷ Total assets
Owners' equity ratio: (Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries) ÷ Total assets
D/E ratio: Interest-bearing loans ÷ Owners' equity
Net D/E ratio: Net debt (Interest-bearing loans – cash and cash equivalents) ÷ Owners' equity
* Average inventories during period are calculated as the average of the ending balance of inventories for each of the four quarters of the fiscal year.

Consolidated total assets at the end of fiscal 2011 amounted to ¥2,945.5 billion ($35,921 million), a decrease of ¥78.5 billion compared to the end of fiscal 2010. Current assets totaled ¥1,701.7 billion ($20,753 million), a decrease of ¥58.8 billion. Cash and cash equivalents decreased ¥91.8 billion, used mainly to redeem convertible bonds at maturity and for repayment of debt. Trade receivables increased ¥24.2 billion, due mainly to a rise in fourth quarter sales (Jan-Mar 2012) compared to the same period of the previous fiscal year. Inventories totaled ¥334.1 billion ($4,075 million), a decrease of ¥7.3 billion from a year earlier. Following the Great East Japan Earthquake and flooding in Thailand, the Group had increased its inventory holdings of parts and materials to prepare for unforeseen circumstances, although steady progress was achieved in the delivery of the Japan's Next-Generation Supercomputer system. The monthly inventory turnover ratio, an indicator of asset utilization efficiency, was 1.01 times, essentially unchanged from the previous fiscal year. Fixed assets totaled ¥1,243.7 billion ($15,167 million), a decline of ¥19.7 billion. Intangible assets decreased ¥21.6 billion, due mainly to the amortization of goodwill.

Total liabilities amounted to ¥1,978.9 billion ($24,133 million), a decrease of ¥91.4 billion from the end of fiscal 2010. The balance of interest-bearing loans was ¥381.1 billion ($4,648 million), a decrease of ¥89.6 billion. This was due mainly to efforts to repay debt, along with the redemption of ¥100.0 billion of convertible bonds at maturity. For the redemption of the convertible bonds, together with an allocation of cash on hand, the Company issued ¥50.0 billion in straight bonds with maturity periods of three and five years. As a result, the D/E ratio was 0.45 times, an improvement of 0.12 percentage points compared to the end of fiscal 2010, with the net D/E ratio at 0.14 times, the same level as the end of the previous fiscal year. The figures for both the D/E ratio and the net D/E ratio are record lows for the Group.

Net assets amounted to ¥966.5 billion ($11,788 million), an increase of ¥12.8 billion from the end of fiscal 2010. This was due mainly to shareholders' equity of ¥926.0 billion ($11,293 million), an increase of ¥22.1 billion, because of the net income recorded in fiscal 2011. Accumulated other comprehensive income, centered on foreign currency translation adjustments and unrealized gain and loss on securities, net of taxes, amounted to negative ¥85.0 billion ($1,037 million), roughly on a par with the previous fiscal year. Exchange rates and share prices fluctuated considerably during fiscal 2011, but were roughly equivalent in an end-of-year comparison. The owners' equity ratio was 28.6%, an increase of 1.4 percentage points over the end of fiscal 2010.

The unrecognized obligation for retirement benefits*[2] was ¥400.9 billion ($ 48,893 million). The level in Japan decreased by ¥23.2 billion year on year, to ¥292.0 billion ($3,561 million) at the end of fiscal 2011. Outside Japan, the level increased by ¥34.5 billion to ¥108.9 billion ($1,328 million), due mainly to an increase in retirement benefit obligations stemming from a drop in the discount rate*[3] used by a UK subsidiary. The future minimum lease payment required under non-cancelable operating leases at the end of fiscal 2011 amounted to ¥79.6 billion ($972 million). In addition, commitments outstanding at March 31, 2012 for purchases of property, plant and equipment and intangible assets were ¥6.7 billion ($82 million), and contingent liabilities for guarantee contracts amounted to ¥2.2 billion ($27 million).

*[2] Unrecognized obligations consist primarily of unrecognized actuarial losses. "Actuarial losses" refer to disparities that occur chiefly as the result of differences between expected and actual returns from pension plan assets differences between the estimates used for the actuarial calculation of retirement benefit obligations and actual obligations, and changes in estimates. Of these differences, those that have not yet been expensed are referred to as "unrecognized actuarial losses." The Group expenses actuarial losses that arise over the average remaining service period of its employees. Up to June 25, 2012, the filing date of the Annual Securities Report, accounting standards for retirement benefits were revised. Net assets are expected to decrease when the Group adopts the revised accounting standards. The details are noted in "Notes to Consolidated Financial Statements, 1. Significant Accounting Policies, (u) Accounting standards issued but not yet effective."

*[3] Refers to the rate used to discount to present value the amount of expected retirement benefits deemed to be incurred for each projected retirement period incurred by the fiscal year-end. The rate is decided with reference to interest on high-quality corporate bonds as of the balance-sheet date.

Cash Flows

Condensed Consolidated Statements of Cash Flows

(Unit: billion yen)

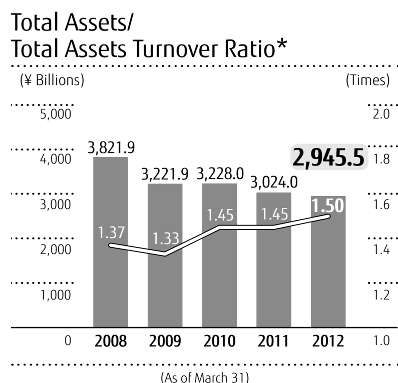
Years ended March 31	2011	**2012**	YoY Change
I Cash flows from operating activities	255.5	**240.0**	(15.5)
II Cash flows from investing activities	(142.1)	**(190.8)**	(48.7)
I+II Free cash flow	113.4	**49.1**	(64.2)
[Excluding one-time items]	[73.3]	**[43.5]**	[(29.8)]
III Cash flows from financing activities	(166.9)	**(138.9)**	27.9
IV Cash and cash equivalents at end of year	358.5	**266.6**	(91.8)

Note: "Free cash flow excluding one-time items" refers to free cash flow excluding proceeds from sales of investment securities, as well as proceeds from acquisition of subsidiaries' stock resulting in change in scope of consolidation and transfer of businesses.

Net cash provided by operating activities during fiscal 2011 amounted to ¥240.0 billion ($2,927 million), a decrease of ¥15.5 billion from the previous fiscal year. This was due mainly to deterioration in income before income taxes and minority interests, stemming from such factors as the flooding in Thailand, slack demand for LSI devices and electronic components, and a decrease in project proposals for large-scale systems.

Net cash used in investing activities amounted to ¥190.8 billion ($2,327 million), an increase of ¥48.7 billion from the previous fiscal year. Purchases of property, plant and equipment totaled ¥137.7 billion ($1,680 million), mainly for capital expenditures centered on data centers, while purchases of intangible assets totaled ¥57.5 billion ($702 million), mainly for software. During fiscal 2010, there was an inflow of ¥35.1 billion in proceeds from sales of investment securities.

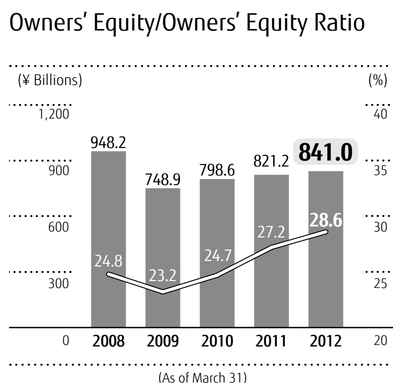
Total Assets/
Total Assets Turnover Ratio*



■ Total Assets (Left Scale)
▭ Total Assets Turnover Ratio (Right Scale)

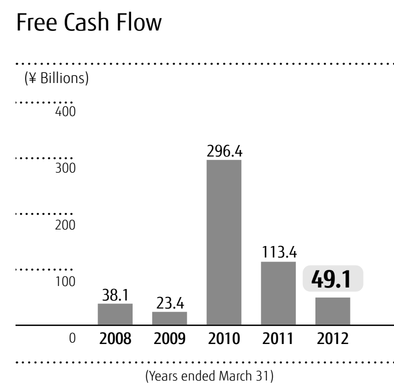
* Net Sales divided by Average Total Assets

Owners' Equity/Owners' Equity Ratio



■ Owners' Equity (Left Scale)
▭ Owners' Equity Ratio (Right Scale)

Free Cash Flow



Free cash flow (the sum of cash flows from operating and investing activities) was positive ¥49.1 billion ($600 million), representing a decrease of ¥64.2 billion year on year. Excluding one-time items, such as proceeds from sales of investment securities, free cash flow was a positive ¥43.5 billion ($531 million), representing a decrease of ¥29.8 billion year on year.

Net cash used in financing activities amounted to ¥138.9 billion ($1,695 million), a decrease of ¥27.9 billion from the previous fiscal year. Along with repayment of debt, the Company redeemed ¥100.0 billion in convertible bonds at maturity. For the redemption of the convertible bonds, together with an allocation of cash on hand, the Company issued ¥50.0 billion in straight bonds with maturity periods of three and five years. During fiscal 2010, there was an expenditure for the acquisition of shares from minority shareholders in conjunction with the conversion of PFU Limited into a wholly owned subsidiary.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2011 totaled ¥266.6 billion ($3,252 million), down ¥91.8 billion from a year earlier.

To ensure efficient funding when the need for funds arises, the Company 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, 2012, the Group had liquidity of ¥464.2 billion ($5,662 million), of which ¥266.6 billion ($3,252 million) was cash and cash equivalents and ¥197.5 billion ($2,409 million) was the yen value of 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, 2012, the Company had bond ratings (long-term/short-term) of A3 (long-term) from Moody's, A- (long-term) from S&P, and A+ (long-term) and a-1 (short-term) from R&I.

4. Capital Expenditure

In fiscal 2011, capital expenditure totaled ¥140.6 billion ($1,715 million), an increase of 8.0% from ¥130.2 billion spent in the previous fiscal year. In the Technology Solutions segment, capital expenditures totaled ¥73.4 billion ($895 million) for expansion of datacenters in Japan, along with datacenters in Australia, Europe and other regions. In the Ubiquitous Solutions segment, the Group spent ¥15.6 billion ($191 million), mainly for new models of PCs and mobile phones, along with manufacturing facilities for car audio and navigation systems. In the Device Solutions segment, expenditures totaled ¥47.2 billion ($576 million), mainly for LSI device manufacturing facilities and facilities to increase production of electronic components.

5. Consolidated Subsidiaries

At the end of fiscal 2011, the number of consolidated subsidiaries in Japan totaled 199, and the number outside Japan totaled 339, for a total of 538 subsidiaries. This represents a net gain of three subsidiaries from 535 at the end of fiscal 2010, comprising 23 subsidiaries added through acquisition or establishment, and 20 subsidiaries removed through liquidation or sale. Fujitsu International Finance (Netherlands) B.V., which had been a consolidated subsidiary until fiscal 2010, was liquidated because it concluded its financing role for the Fujitsu Group in Europe.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 18, three more than a year earlier.

6. Critical Accounting Policies and Estimates

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles and practices generally accepted in Japan and the regulations under the Financial Instruments and Exchange Law of Japan. The preparation of the consolidated financial statements requires management to make assumptions and estimates that affect the amount of the assets, liabilities, contingent assets and contingent liabilities reported at the end of the fiscal year, as well as the amount of revenue and expenses recognized during that term. Actual results may differ from these estimates.
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.

Revenue Recognition

Revenue from sales of ICT systems and products, excluding customized software under development contracts, is recognized upon acceptance by the customers, whereas revenue from sales of personal computers, other peripheral equipment and electronic devices is recognized when the products are delivered to the customers. Revenue from customized software under development contracts is recognized on a percentage-of-completion basis.

The Group stringently assesses the potential revenue recoverable on projects for which estimated costs have exceeded estimated revenue, and recognizes the amounts assessed as non-recoverable as losses. If the estimated costs relating to such contracts increase further in the future, additional losses may be recognized.

Inventories

Inventories are carried at the acquisition cost. However, should the net realizable value ("NRV") at the fiscal year-end fall below that of the acquisition cost, inventories are subsequently measured based on the NRV, with the difference in value between the acquisition cost and the NRV, in principle, booked as cost of sales. Inventories 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 compared to forecasts.

Property, Plant and Equipment

Depreciation for property, plant and equipment is computed principally 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 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.

Software

Computer software for sale is amortized by a method based on projected sales volume over the estimated life. Computer software for internal use is amortized by the straight-line method over the useful life. Should actual sales volumes fail to meet initial projected volumes, or should actual useful life in the future be less than the original estimate, there is a risk that amortization expenses may increase.

Goodwill

Goodwill arising from the acquisition of a business, including those purchased by consolidated subsidiaries, is amortized by the straight-line method over the period corresponding to the premium of the acquired business. Losses may be recognized if the profitability of the acquired business decreases, or if the Group withdraws from or sells the business during the period the Group expected the return.

Investment Securities

Held-to-maturity investments are stated at amortized cost, while available-for-sale securities with market value are carried at fair market value as of the balance sheet date. Available-for-sale securities without market value are carried at cost based on the moving-average method. Fluctuations in the value of available-for-sale securities with market value cause fluctuations in the carrying value of investment securities, resulting in increases or decreases in net assets. Impairment loss is recognized on available-for-sale securities when the market value or the net worth falls significantly and is considered to be unrecoverable. If a significant decline in market value or net worth occurs and is expected to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

The Group records an appropriate balance of deferred tax assets against losses carried forward and temporary differences. Future increases or decreases in the balance of deferred tax assets may occur if projected taxable income decreases or increases as a result of trends in future business results. In addition, changes in the effective tax rate due to future revisions to taxation systems could result in increases or decreases of deferred tax assets.

Provision for Product Warranties

Some of the Group's products are covered by contracts that require the Group to repair or exchange them free of charge during a set period of time. Based on past records, the Group recognizes a provision for estimated repair and exchange expenses at the time of sale. 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.

Provision for Construction Contract Losses

The Group records provisions for projected losses on customized software under development contracts and construction contracts that show an acute deterioration in profitability as of the fiscal year-end. 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 a project (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.

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, mortality rates, and the expected rate of return on the plan assets. In the event an actuarial loss arises, it is amortized using a straight-line method over employees' average remaining service period. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected. In cases in which revised accounting standards pertaining to retirement benefits are applied, net assets and retirement benefit expenses are most likely to be impacted.

Provision for Loss on Repurchase of Computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. (JECC) and other leasing companies. Contracts with these companies require the buyback of the computers once lease contracts are terminated. An estimated amount for the loss arising from such buybacks is provided at the time of sale and is recorded as a provision. Any future changes in the usage trends of end-users may result in changes to the provision.