MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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

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

1. Issues and Initiatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Consolidated operating profit

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

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

2. Significant Accounting Policies and Estimates

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

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and assumptions are reviewed by management on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Assumptions about the current situation and future prospects could change depending on the changes in the market or other circumstances that are out of the control of the Group. The assumptions are revised when such changes occur. The following assumptions and estimates based on the application of accounting principles are those that the management believes may have a material impact on the consolidated financial statements.

(1) Property, plant and equipment

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

(2) Goodwill

Goodwill is tested for impairment both annually and when there is an indication of impairment. An impairment loss is recognized if the recoverable amount of a cash-generating unit (CGU) to which the goodwill is allocated is less than its carrying amount. The recoverable amount of a CGU is in most cases measured at the value in use. The value in use of a CGU is calculated using the discounted cash flow model with assumptions such as future cash flow, growth rate, and discount rate. Future cash flow is based on the business plan. The discount rate is calculated based on the weighted average cost of capital of the Group company to which each CGU belongs.

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

(3) Intangible assets

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

(4) Deferred tax assets

Reasonable estimates and judgments about various factors are necessary in the calculation of income taxes. Such factors include interpretation of tax regulations and revision of tax laws in the jurisdictions where the Group operates as well as the amount and timing of taxable income. A deferred tax asset is recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The amount of and the timing when the taxable profit occurs could be affected by uncertain changes in economic terms in the future. In addition, the carrying amount of a deferred tax asset could fluctuate if an effective tax rate changes as a result of an amendment to tax laws.

(5) Defined benefit plans

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

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

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

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

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

Reference: Financial Indicators

(Billions of yen)

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

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

Reference: Exchange Rate

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

(1) Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Segment information

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

(Billions of yen)

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

(a) Technology Solutions

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

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

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

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

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

(b) Ubiquitous Solutions

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

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

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

(c) Device Solutions

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

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

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

(d) Other Operations/Elimination and Corporate

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

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

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

(7) Geographic information

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

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

(Billions of yen)

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

(a) Japan

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

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

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

(c) Americas

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

(d) Asia

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

(e) Oceania

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

4. Analysis of Capital Resources and Liquidity

(1) Assets, liabilities, and equity

Summarized Consolidated Statement of Financial Position

(Billions of yen)

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

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

Reference: Financial Indicators

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

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

Reference: Status of Retirement Benefit Plans

(Billions of yen)

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

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

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

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

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

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

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

(2) Cash flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

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

Reference: Financial Indicators

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

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

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

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

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

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

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

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

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

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

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