MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS, AND STATUS OF CASH FLOWS

Overview of Status of Operations and Management's Analysis and Discussion 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") and equity method associates for the year ended March 31, 2018. Forward-looking statements in this section are based on management's understanding and best judgments as of March 31, 2018.

1. Issues and Initiatives

Initiatives for turning Information and Communication Technology (ICT) into 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. The Group will generate new value through digital co-creation by combining its ICT capabilities with customers' expertise or with know-how in other sectors of society. In these efforts, we will provide customers with Connected Services, which we realize by using digital technologies to turn ICT into services. The Group will provide secure ICT platforms throughout customers' value chains. Then, we will organize and visualize the huge amounts of data that accumulate when all aspects of customers' operations are interconnected. Finally, we will use AI to enable customers to increase the sophistication of their decision making. The aforementioned measures will strengthen the operations of customers and support their innovations. Moreover, the resulting growth of customers and society will spur reinvestment of the benefits in digital innovation. In this way, we will establish virtuous cycles that create value of ever greater magnitude. In other words, our goal is to continue growing with all stakeholders.

In October 2015, the Company formulated the Management Direction, which aims to further ensure the expansion of Connected Services and demonstrate its global competitive capabilities as a service-oriented company providing value in the form of services that connect accumulated technologies and knowledge.

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 medium-term management targets.

The Company is pursuing "business model transformation" to achieve "business structure transformation" and "growth strategy transformation." 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 start-up, and other advanced features; mobile phones, including the "arrows" and "STYLISTIC" brands of smartphones and tablets in addition to traditional feature phones; and mobility IoT, which involves front-end systems that utilize ICT integrated platforms covering everything from the IoT to cloud computing and AI sensor technologies for the automotive and other fields.

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.

The Company has made reasonable progress on its "business structure transformation" initiative in relation to its business portfolio. However, the results of its efforts in "growth strategy transformation" were unsatisfactory, and through the course of the year ended March 31, 2018, the Company clearly identified three issues to be addressed: 1) obtaining a sufficient return on the aggressive upfront investments that have been made to date, including in businesses overseas; 2) responding swiftly and adequately to changes in the business environment in the network business; and 3) controlling losses from unprofitable projects. The Company will move decisively to address these issues by focusing its investments more rigorously on future growth and strengthening its structure in business fields where transformation is needed. To address unprofitable projects, we have already started expanding our solution and service business assurance functions.

The Management Direction formulated in 2015 presented a clear plan to complete the business model transformation by the year ended March 31, 2017, and then concentrate investment of management resources in Connected Services and use the results to increase the profit margin from the year ended March 31, 2018 and onward. However, in light of the results for the past three years, we have decided to revise the timeframe for achieving our stated medium-term management targets. We will therefore formulate new milestones for reaching our management targets and present these to our shareholders, investors, and other stakeholders at the Management Direction progress review and report meeting scheduled for October 2018. The Company will continue striving to transform the Group to the point where the realization of its vision is clearly achievable.

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

On November 1, 2017, the Company transferred a portion of the shares of Fujitsu TEN Limited, a car electronics manufacturing subsidiary (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.

In November 2017, the Company reached an agreement with Lenovo Group Limited (headquarters: Hong Kong, China, hereinafter "Lenovo") and Development Bank of Japan Inc. (headquarters: Chiyoda-ku, Tokyo, hereinafter "DBJ") on a strategic alliance for establishing a joint venture to conduct research and development, design, manufacturing, and sales of PCs and related products for the global PC market. In May 2018, the Company sold a 51% stake of its wholly owned subsidiary Fujitsu Client Computing Limited (headquarters: Kawasaki, Kanagawa, hereinafter "FCCL") to Lenovo and a 5% stake to DBJ, making FCCL a joint venture of the Company, Lenovo, and DBJ. Through this strategic collaboration, Fujitsu and Lenovo aim to drive further growth, scale, and competitiveness in the PC businesses both in Japan and worldwide by leveraging Lenovo's global scale and presence. The Company will continue to offer a high-quality, innovative, secure, and reliable Fujitsu-branded portfolio of client computing devices (CCDs) and support services to its corporate customers worldwide, contributing to their digital transformation journey, and co-creating the workplace of the future by integrating PC offerings with Technology Solutions.

In January 2018, the Company concluded a share transfer agreement with Polaris Capital Group Co., Ltd. (headquarters: Chiyoda-ku, Tokyo, hereinafter "Polaris"), for the reorganization of Fujitsu's mobile device business. In March, the Company transferred the shares of its wholly owned subsidiary Fujitsu Connected Technologies Limited (headquarters: Kawasaki, Kanagawa) as well as shares in a new company that took over the mobile device business of Fujitsu Peripherals Limited (headquarters: Kato, Hyogo) to a new company established by Polaris.

In October 2017, semiconductor development, manufacturing, and sales subsidiary Fujitsu Semiconductor Limited (headquarters: Yokohama, Kanagawa, hereinafter "FSL") and ON Semiconductor (headquarters: Phoenix, Arizona, United States) agreed that ON Semiconductor would purchase a 30% incremental share of Fujitsu's 200mm wafer lab, Aizu Fujitsu Semiconductor (hereinafter "Aizu 200mm lab"). In April 2018, ON Semiconductor purchased an incremental share, increasing its ownership of Aizu 200mm lab to 40%. ON Semiconductor plans to increase its ownership further to 60% in the second half of 2018 and 100% in the first half of 2020.

Progress in "Growth Strategy Transformation" (expansion of Connected Services underpinned by digital technology)

In July 2016, NIFTY Corporation (headquarters: Shinjuku, Tokyo, hereinafter "NIFTY"), a listed subsidiary engaged in the consumer Internet service provider (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 the 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.

The Group is moving ahead with efforts to strengthen its frameworks for expanding the digital and global businesses, forecast for growth. In its efforts to date, it has 1) established the Digital Services Business, which brought together all of the Group's technology, planning, development, and manufacturing relating to the IoT, AI, and cloud dispersed among Group companies; 2) created the Global Services Integration Business 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; 3) integrated its system engineering resources, which help guide customers' transformations, by absorbing its three system engineering subsidiaries; and 4) established the Digital Transformation Business Group, which specializes in helping customers digitize, within Global Services Integration, which is responsible for service delivery. In April 2017, we established the Global Cyber Security Business with a view to forming a strategy for globally integrated services and expanding the security business. Furthermore, in April 2018 we established the Co-creation Business Group within the sales division by integrating the new businesses and innovation-type businesses, which had been strongly independent, into a single organization. This organization will promote the swift start-up of co-created businesses with customers and partners and the global development of advanced technologies. In other initiatives, in the AI business we merged the consulting division and AI infrastructure, and in the IoT business we further strengthened our infrastructure provision functions to support customers' business transformation through the use of data.

Personnel allocation is also advancing in the shift to digital services. The Company will continue to expand its Global Delivery Centers, which are IT service delivery sites for offshore provision of human resources, tools, and services to global markets. At the same time, we will meet customers' needs for digitizing by training more people in agile development, enabling them to rapidly develop and release products and services while meeting security and other requirements. In this way, we will encourage customers not only to undertake projects in the systems of engagement (SoE) field, which utilizes the IoT and AI in so-called digital business, but also to undertake system integration of systems of record (SoR) and SoE as well as modernizing their existing systems.

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

Years ended March 31	2017	**2018**	YoY change	Change (%)
Revenue	4,132.9	**4,098.3**	(34.5)	(0.8)
Cost of sales	(2,968.1)	**(2,966.5)**	1.5	(0.1)
Gross profit	1,164.8	**1,131.7**	(33.0)	(2.8)
Selling, general and administrative expenses	(1,013.6)	**(1,009.5)**	4.0	(0.4)
Other income (expenses)	(33.7)	**60.2**	94.0	–
Operating profit	117.4	**182.4**	65.0	55.4
Financial income (expenses)	(0.2)	**47.8**	48.0	–
Income from investments accounted for using the equity method, net	6.9	**12.1**	5.2	75.2
Profit for the year from continuing operations before income taxes	124.1	**242.4**	118.3	95.3
Income tax expenses	(31.1)	**(74.4)**	(43.2)	138.7
Profit for the year from discontinued operations	2.3	**9.2**	6.8	292.6
Profit for the year attributable to non-controlling interests	6.8	**7.9**	1.0	15.9
Profit for the year attributable to owners of the parent	88.4	**169.3**	80.8	91.4

Note: The Company transferred a portion of the shares of its car electronics manufacturing subsidiary Fujitsu TEN to DENSO. Accordingly, from the year ended March 31, 2018 this business has been classified under discontinued operations, and the profit from discontinued operations has therefore been presented separately from that of continuing operations. Revenue and operating profit state the amounts for continuing operations, and the results for the year ended March 31, 2017 have been re-presented accordingly.

Reference: Financial Indicators

(Billions of yen)

	2017	**2018**	YoY change
Ratio of revenue outside Japan	35.4%	**36.8%**	1.4 ppt
EMEIA*1	747.9	**799.6**	51.7
Americas	288.2	**276.8**	(11.3)
Asia	335.3	**332.1**	(3.1)
Oceania	89.8	**98.1**	8.3
Revenue outside Japan by locations of customers	1,461.2	**1,506.8**	45.5
Gross profit margin	28.2%	**27.6%**	(0.6 ppt)
Operating profit margin	2.8%	**4.5%**	1.7 ppt
Return on equity attributable to owners of the parent (ROE)*2	10.6%	**17.2%**	6.6 ppt

*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

	2017	**2018**	YoY change
US dollar/Yen	¥108	**¥111**	¥ 3
Euro/Yen	¥119	**¥130**	¥11
British pound/Yen	¥142	**¥147**	¥ 5
Euro/US dollar	$1.10	**$1.17**	$0.07

2. Analysis of Results for the Year Ended March 31, 2018

(1) Revenue

Consolidated revenue for the year ended March 31, 2018 was ¥4,098.3 billion, a decrease of ¥34.5 billion, or 0.8%, compared with the year ended March 31, 2017. The sale of the consumer business of NIFTY Corporation in April 2017 had a negative impact on earnings of approximately ¥52.0 billion. Revenue in Japan decreased by 3.0%. System integration services performed steadily, and revenue increased in PCs and LSI devices, but revenue in the network products business declined sharply. The decline reflected a dramatic curtailment of investment in mobile phone base stations by telecommunications carriers and an increasingly competitive environment. Outside Japan, revenue increased by 3.1%. Infrastructure services and PCs saw an increase in revenue, especially in Europe, which was assisted by foreign currency effects.

For the year ended March 31, 2018, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥111, ¥130, and ¥147, respectively, representing a year-on-year depreciation of ¥3 against the US dollar, ¥11 against the euro, and ¥5 against the British pound. Exchange rate fluctuations versus the US dollar, the euro, and the British pound generated increases in revenue of approximately ¥11 billion, ¥40 billion, and ¥12 billion, respectively.

As a result, currency exchange rate fluctuations had a positive impact of approximately ¥63.0 billion on revenue for the year ended March 31, 2018, boosting the overseas revenue ratio by 1.4 percentage points, to 36.8%.

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

For the year ended March 31, 2018, cost of sales totaled ¥2,966.5 billion; gross profit was ¥1,131.7 billion; and the gross profit margin was 27.6%, down 0.6 of a percentage point year on year.

Selling, general and administrative (SG&A) expenses were ¥1,009.5 billion, a decrease of ¥4.0 billion year on year. R&D spending amounted to ¥158.6 billion, a decrease of ¥11.3 billion year on year, mainly in network products. The ratio of R&D expenses to revenue was 3.9%.

Other income totaled ¥60.2 billion, an improvement of ¥94.0 billion from net other expenses in the year ended March 31, 2017. This mainly reflected gains of ¥54.4 billion for the sale of the mobile device business and ¥16.9 billion for the sale of the consumer business of NIFTY, which were partially offset by the recording of losses totalling ¥10.3 billion associated with a legal dispute involving an overseas subsidiary. The Company also recorded business model transformation expenses of ¥8.3 billion for the year ended March 31, 2018. In the year ended March 31, 2017, the Group recorded business model transformation expenses of ¥42.0 billion, mainly for personnel reduction in its European business. In the year ended March 31, 2018, the Group has continued its measures to enhance efficiency and respond to digitization in Europe; made investments to increase the offshore workforce and enhance efficiency, such as through automation initiatives; and further invested to expand new fields.

As a result, operating profit amounted to ¥182.4 billion, an increase of ¥65.0 billion year on year; but on a regular basis excluding special items included in other income (expenses), it declined by ¥29.0 billion. Profits declined sharply in network products as a result of the dramatic curtailment of investment by telecommunications carriers in Japan, while the number of unprofitable projects increased as well as expenses in fields where the Company is making upfront investments. The operating profit margin was 4.5%, rising 1.7 percentage points year on year.

The impacts of exchange rate volatility on operating profit were as follows. For bases in Japan, where the Japanese yen is used, the US dollar, the euro, and the British pound had a minimal effect on operating profit, amounting to about ¥3.0 billion year on year. While the yen's depreciation led to higher procurement costs for US dollar-denominated components for PCs, mobile phones, and other products, this was largely negated by an increase in US dollar-denominated export sales of LSI devices and electronic components. For the year ended March 31, 2018, the effect on operating profit of a fluctuation of ¥1 in the exchange rate for foreign currency would be approximately ¥0.31 billion, ¥0.06 billion, and ¥0.04 billion for the US dollar, the euro, and the British pound, respectively. In the case of certain European bases, fluctuations in the value of the euro versus the US dollar cause fluctuations in procurement costs for components and materials denominated in US dollars. For the year ended March 31, 2018, the euro/US dollar pair traded at 1.17 euros, up 0.07 euro year on year. Although the appreciation of the euro slightly reduced component procurement costs, the beneficial effect on operating profit was limited by a reduction in product sales prices amid increased competition with other companies. The Group will continue working diligently to minimize the impact of foreign exchange fluctuations on profits by reducing costs and taking 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 income amounted to ¥47.8 billion, an improvement of ¥48.0 billion from net financial expenses in the year ended March 31, 2017. Income from investments accounted for using the equity method, net, was ¥12.1 billion, an increase of ¥5.2 billion year on year. The Group recorded a gain on sale of shares of ¥27.3 billion after reviewing its cross-shareholding relationship with Fuji Electric Co., Ltd. and a gain on valuation of ¥26.3 billion associated with a change in classification of shares held in a Chinese affiliate (from shares of an affiliate to ordinary shares as the Company's equity interest declined due to the affiliate's private placement of shares to increase capital, prompting a valuation of the shares at fair value).

As a result, profit before income taxes was ¥242.4 billion, an increase of ¥118.3 billion year on year, primarily reflecting higher operating profit and financial income.

(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 ¥177.2 billion, an increase of ¥81.9 billion year on year. Of profit for the year, profit for the year attributable to owners of the parent came to ¥169.3 billion and profit attributable to non-controlling interests was ¥7.9 billion, for increases of ¥80.8 billion and ¥1.0 billion year on year, respectively. Income tax expenses were ¥74.4 billion, up ¥43.2 billion year on year. The tax burden on profit before income taxes increased from 25.1% in the year ended March 31, 2017 to 30.7% in the year ended March 31, 2018. The change reflects the impact of amendments to tax laws, such as a reduction in the corporate tax rate in the US and restrictions on the use of loss carryforwards in the UK, in addition to which the Company reversed some of its deferred tax assets following a deterioration in performance in its European business.

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 17.2%, up 6.6 percentage points year on year due to an increase in profit for the year attributable to owners of the parent.

The Group made steady progress on its "business structure transformation" initiative in relation to its business portfolio, and profit attributable to owners of the parent for the year ended March 31, 2018 reached a new record high of ¥169.3 billion. In response, the Company has been strengthening its financial structure, and based on the forecast for continued stable free cash flow it has decided to increase the return to shareholders. The annual dividend for the year ended March 31, 2018 has been set at ¥11 per share, up ¥2 from the year ended March 31, 2017. Furthermore, in light of the dramatic increase in net profit due to non-recurring factors such as gain on the sale of business and gain on the sale of shares, the Company also acquired ¥10.0 billion of treasury stock in May 2018 as a way of returning these profits to shareholders. The total return ratio including both the dividend and the acquisition of treasury stock was 19.3%.

(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, was ¥52.3 billion. Available-for-sale financial assets were negative ¥9 billion due to transfers associated with the sale of shares of Fuji Electric Co., Ltd., but rising stock prices converted pension fund operations toward a favorable cycle, and remeasurements of defined benefit plans generated a positive ¥66.7 billion.

Total comprehensive income for the year, which combines profit for the year and other comprehensive income after taxes, was ¥229.5 billion. Of total comprehensive income, total comprehensive income attributable to owners of the parent came to ¥219.8 billion, and total comprehensive income attributable to non-controlling interests was ¥9.7 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, 2018 are shown as follows.

(Billions of yen)

Years ended March 31		2017	**2018**	YoY change	Change (%)
Technology Solutions	Revenue	3,126.6	**3,052.7**	(73.9)	(2.4)
	Operating profit	190.7	**189.3**	(1.3)	(0.7)
	[Operating profit margin]	[6.1%]	**[6.2%]**	[0.1 ppt]	
Ubiquitous Solutions	Revenue	645.5	**663.9**	18.3	2.8
	Operating profit	17.3	**11.3**	(6.0)	(34.7)
	[Operating profit margin]	[2.7%]	**[1.7%]**	[(1.0 ppt)]	
Device Solutions	Revenue	544.3	**560.0**	15.6	2.9
	Operating profit	4.2	**13.6**	9.3	220.8
	[Operating profit margin]	[0.8%]	**[2.4%]**	[1.6 ppt]	
Other Operations/ Elimination & Corporate	Revenue	(183.5)	**(178.2)**	5.2	–
	Operating profit	(94.9)	**(31.8)**	63.0	–
Consolidated	Revenue	4,132.9	**4,098.3**	(34.5)	(0.8)
	Operating profit	117.4	**182.4**	65.0	55.4
	[Operating profit margin]	[2.8%]	**[4.5%]**	[1.7 ppt]	

(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 was ¥3,052.7 billion, down 2.4% from the year ended March 31, 2017. Revenue in Japan declined by 5.4%. The decline reflects the impact of the sale of the consumer business of NIFTY Corporation, and a sharp decline in revenue from network products on the domestic business. The Company felt the impact from a dramatic curtailment of investment in mobile phone base stations by telecommunications carriers, and the competitive environment grew more intense. Revenue from system integration services was solid overall, as continued strong performance in the manufacturing and distribution industries absorbed a fallback from strong performance in the hardware-integrated solutions business in the year ended March 31, 2017 and a decline in revenues in the financial and public sectors due to a gap between major projects.

Meanwhile, revenue outside Japan increased 4.0%. The increase reflected the impact of the yen's depreciation, mainly in infrastructure services. Excluding foreign currency impacts, revenue outside Japan was level year on year.

The segment posted an operating profit of ¥189.3 billion, down ¥1.3 billion from the year ended March 31, 2017. Despite the impacts of a sharp decrease in revenues from network products and a legal dispute involving an overseas subsidiary, business model transformation expenses eased. Profitability in the service business made steady gains; however, the impact of certain unprofitable projects held overall profit at the same level as the year ended March 31, 2017.

In the year ended March 31, 2018, the Company encountered unprofitable projects in both systems integration and infrastructure construction-related services. Recently there has been an increase in infrastructure construction projects that combine solutions such as networks with security to add higher value than simple infrastructure construction projects, with a corresponding increase in complexity. In the past, the infrastructure services domain tended not to experience large-scale unprofitable projects in Japan and had little involvement from the Solution & Service Business Assurance Unit. However, to prevent a recurrence, we are now working to enhance our solution and service business assurance functions in this field as well.

The Company also recorded business model transformation expenses of ¥8.3 billion for the year ended March 31, 2018. In the year ended March 31, 2017, the Group recorded business model transformation expenses, mainly for personnel reduction in its European business. In the year ended March 31, 2018, the Group has continued its activities to enhance efficiency and response to digitization in Europe, made investments to increase the offshore workforce and enhance efficiency, such as through automation initiatives, and invested to expand new fields.

(b) Ubiquitous Solutions

The Ubiquitous Solutions segment contains ubiquitous terminals or sensors, including personal computers and mobile phones, as well as mobility IoT and human-centric IoT, 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 ¥663.9 billion, up 2.8% from the year ended March 31, 2017. Revenue in Japan increased by 1.2%. Mobile phone revenues declined due to a sharp drop in the number of feature phones shipped in the Raku-Raku Phone series, but revenue in enterprise PCs grew. Revenue from overseas increased by 8.3%. The increase was partly due to the effect of the yen's depreciation.

Operating profit was ¥11.3 billion, a decrease of ¥6.0 billion from the year ended March 31, 2017. The decrease was due to the impacts of the decline in revenues from mobile phones, an increase in procurement prices for memory and other components in PCs and mobile phones, and progress in upfront investments and strategic business talks in the IoT field, mainly related to mobilewear.

(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 ¥560.0 billion, up 2.9% from the year ended March 31, 2017. Revenue in Japan increased by 9.6%. Revenue grew in LSI devices for smartphones. Revenue from overseas decreased by 2.7%. Export sales of electronic components and LSI devices were buoyed by the continued depreciation of the yen against the US dollar, but the overall decline reflected a continued slump in demand.

The segment posted an operating profit of ¥13.6 billion, up ¥9.3 billion year on year. In addition to the absence of business model transformation expenses posted in the year ended March 31, 2017, the segment also benefitted from higher export sales resulting from the continued depreciation of the yen against the US dollar.

(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 ¥31.8 billion, an improvement of ¥63.0 billion from the year ended March 31, 2017. The segment continued to pursue high-level investments in this area, including strategic investments—primarily in next-generation cloud technology, next-generation supercomputers, and related expenses for basic testing and research—and strategic IT investments. The Group also recorded gains of ¥54.4 billion for the sale of the mobile device business and ¥16.9 billion for the sale of the consumer business of NIFTY, in the year ended March 31, 2018.

(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		2017	**2018**	YoY change	Change (%)
Japan	Revenue	3,108.1	**3,005.7**	(102.3)	(3.3)
	Operating profit	221.4	**182.5**	(38.8)	(17.6)
	[Operating profit margin]	[7.1%]	**[6.1%]**	[(1.0 ppt)]	
EMEIA (Europe, the Middle East, India, and Africa)	Revenue	756.7	**810.1**	53.4	7.1
	Operating profit	(12.6)	**9.0**	21.6	–
	[Operating profit margin]	[(1.7%)]	**[1.1%]**	[2.8 ppt]	
The Americas	Revenue	284.7	**280.7**	(4.0)	(1.4)
	Operating profit	2.1	**6.5**	4.3	198.7
	[Operating profit margin]	[0.8%]	**[2.3%]**	[1.5 ppt]	
Asia	Revenue	285.6	**277.1**	(8.4)	(3.0)
	Operating profit	(0.2)	**4.8**	5.0	–
	[Operating profit margin]	[(0.1%)]	**[1.7%]**	[1.8 ppt]	
Oceania	Revenue	92.5	**100.5**	7.9	8.6
	Operating profit	3.4	**4.0**	0.6	17.6
	[Operating profit margin]	[3.8%]	**[4.1%]**	[0.3 ppt]	
Elimination & Corporate	Revenue	(394.8)	**(375.9)**	18.8	–
	Operating profit	(96.7)	**(24.5)**	72.2	–
Consolidated	Revenue	4,132.9	**4,098.3**	(34.5)	(0.8)
	Operating profit	117.4	**182.4**	65.0	55.4
	[Operating profit margin]	[2.8%]	**[4.5%]**	[1.7 ppt]	

(a) Japan

Revenue amounted to ¥3,005.7 billion, a 3.3% decrease from the year ended March 31, 2017. Revenue was impacted by a decline from the sale of the consumer business of NIFTY as well as a sharp decrease in revenue from network products, as telecommunications carriers curtailed their investment in mobile base stations. Revenue from system integration services trended firmly overall, with strong performance in the manufacturing and distribution industries offsetting a fallback in revenue from all-in-one hardware solutions, which performed well in the year ended March 31, 2017, and a decline in revenue from the financial and public sectors in the period between big projects. Operating profit was ¥182.5 billion, a year-on-year decrease of ¥38.8 billion. The decrease reflects the impacts of lower revenues from network products and certain unprofitable projects, an increase in procurement prices for memory and other components in PCs and mobile phones, and progress in upfront investments and strategic business talks in the IoT field, mainly related to mobilewear.

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

Revenue came to ¥810.1 billion, an increase of 7.1% from the year ended March 31, 2017. A contributing factor to this increase was the continued depreciation of the yen against the euro and the British pound, mainly in infrastructure services. Excluding foreign currency effects, revenue was level year on year. Operating profit was ¥9.0 billion, an improvement of ¥21.6 billion from an operating loss in the year ended March 31, 2017. Despite the impact of a legal dispute involving an overseas subsidiary, operating profit improved due to the impact of a reduction in fixed costs, such as personnel reductions carried out in the previous fiscal years, and easing of business model transformation expenses, which came to ¥7.1 billion in the year ended March 31, 2018. The Company continued its activities to enhance efficiency and response to digitization in Europe. These included making investments to increase the offshore workforce and enhance efficiency, such as through automation initiatives, and investing further to expand new fields.

(c) Americas

Revenue came to ¥280.7 billion, a decrease of 1.4% from the year ended March 31, 2017. Despite the effects of the yen's continued depreciation against the US dollar, the decrease reflected revenue declines in infrastructure services, electronic components, and other areas. The operating profit for the region was ¥6.5 billion, an increase of ¥4.3 billion year on year, mainly reflecting improved profit margins in infrastructure services.

(d) Asia

Revenue amounted to ¥277.1 billion, a year-on-year decrease of 3.0%. The decrease in revenue came mainly from decreases in LSI devices and electronic components. Operating profit was ¥4.8 billion, an improvement of ¥5.0 billion from the year ended March 31, 2017. The improvement reflects the recording of business model transformation expenses in the year ended March 31, 2017 resulting from restructuring the production bases for the electronic components business and the car audio and navigation systems business, in addition to improvements in profitability.

(e) Oceania

Revenue came to ¥100.5 billion, an increase of 8.6% from the year ended March 31, 2017. The increase was mainly due to continued depreciation of the yen against the Australian dollar. Operating profit was ¥4.0 billion, an increase of ¥0.6 billion year on year. This mainly reflected increased revenue in infrastructure services.

3. Assets, Liabilities, and Equity

Summarized Consolidated Statement of Financial Position

(Billions of yen)

Years ended March 31	2017	**2018**	YoY change
Assets			
Current assets	1,842.4	**1,867.2**	24.8
Non-current assets	1,349.0	**1,254.2**	(94.8)
Total assets	3,191.4	**3,121.5**	(69.9)
Liabilities			
Current liabilities	1,431.9	**1,322.6**	(109.3)
Non-current liabilities	740.3	**593.9**	(146.3)
Total liabilities	2,172.2	**1,916.6**	(255.6)
Equity			
Total equity attributable to owners of the parent (Owners' equity)	881.2	**1,087.7**	206.5
Equity attributable to non-controlling interests	137.9	**117.1**	(20.8)
Total equity	1,019.2	**1,204.9**	185.7
Total liabilities and equity	3,191.4	**3,121.5**	(69.9)
Cash and cash equivalents	380.6	**452.5**	71.8
Interest-bearing loans	486.7	**402.2**	(84.4)
Net interest-bearing loans	106.0	**(50.2)**	(156.2)

Notes: 1. Owner's equity = Total equity attributable to owners of the parent
2. Interest-bearing loans include bonds, borrowings, and lease obligations.
3. Net interest-bearing loans = Interest-bearing loans − Cash and cash equivalents

Reference: Financial Indicators

Years ended March 31	2017	**2018**	YoY change
Equity attributable to owners of the parent ratio (Owners' equity ratio)	27.6%	**34.8%**	7.2 ppt
D/E ratio (Times)	0.55	**0.37**	(0.18)
Net D/E ratio (Times)	0.12	**(0.05)**	(0.17)

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	2017	**2018**	YoY change
a. Defined benefit obligation	(2,438.9)	**(2,413.7)**	25.2
b. Plan assets	2,150.9	**2,198.4**	47.5
c. Defined benefit obligation in excess of plan assets (a)+(b)	(288.0)	**(215.2)**	72.7

Consolidated total assets at March 31, 2018 amounted to ¥3,121.5 billion, a decrease of ¥69.9 billion from March 31, 2017. Current assets increased by ¥24.8 billion compared with March 31, 2017, to ¥1,867.2 billion. Cash and cash equivalents were up ¥71.8 billion from March 31, 2017, to ¥452.5 billion. This was mainly due to income from the sale of the mobile phone business at the end of March 2018. Inventories were down ¥51.5 billion from March 31, 2017, to ¥241.6 billion. The monthly inventory turnover rate, an indicator of asset efficiency, was 1.21 times, an improvement of 0.06 times compared with March 31, 2017. Non-current assets decreased by ¥94.8 billion compared with March 31, 2017, to ¥1,254.2 billion. Tangible and intangible assets decreased by ¥71.0 billion and ¥23.2 billion, respectively, compared with March 31, 2017, mainly due to the impacts of the sale of car electronics manufacturing subsidiary Fujitsu TEN to DENSO and further depreciation and amortization.

Total liabilities amounted to ¥1,916.6 billion, a decrease of ¥255.6 billion compared with the year ended March 31, 2017. Current liabilities came to ¥1,322.6 billion, a decline of ¥109.3 billion compared with March 31, 2017. Other payables decreased by ¥76.7 billion compared with March 31, 2017, mainly due to the sale of Fujitsu TEN. Non-current liabilities came to ¥593.9 billion, a decrease of ¥146.3 billion compared with March 31, 2017. In addition to a decrease of ¥87.8 billion in corporate bonds, borrowings, and lease obligations compared with March 31, 2017, the funded status (unfunded liabilities) of employee defined benefit plans improved due to strong performance in pension asset management with higher stock prices, causing liabilities related to defined benefit pension plans to decrease by ¥51.0 billion. Interest-bearing loans, which consists of current liabilities and non-current liabilities, corporate bonds, borrowings, and lease obligations, was ¥402.2 billion, a decrease of ¥84.4 billion compared with March 31, 2017, as the Company proceeded to repay debt and partially redeemed straight bonds. As a result, the D/E ratio was 0.37 times, a decrease of 0.18 of a point compared with March 31, 2017. The Company made significant progress in improving its financial position, with a balance of net interest-bearing loans, representing interest-bearing loans minus cash and cash equivalents, reported at negative ¥50.2 billion, an improvement of ¥156.2 billion compared with March 31, 2017, and a turnaround in the Company's net cash position.

Total equity was ¥1,204.9 billion, an increase of ¥185.7 billion from March 31, 2017. Retained earnings was ¥479.7 billion at March 31, 2018, an increase of ¥213.8 billion from March 31, 2017. In addition to the recording of ¥169.3 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 ¥65.4 billion. Other components of equity decreased by ¥14.9 billion compared with March 31, 2017, to ¥56.6 billion. This was due to transfers to

retained earnings associated with the sale of Fuji Electric Co., Ltd. Treasury stock was negative ¥7.2 billion, a decrease of ¥5.2 billion in holdings compared with March 31, 2017, associated with a share exchange for making Fujitsu Broad Solution & Consulting Inc. a wholly owned subsidiary. As a result, total equity attributable to owners of the parent (owners' equity) was ¥1,087.7 billion and the equity attributable to owners of the parent ratio (owners' equity ratio) was 34.8%, an increase of 7.2 percentage points compared with March 31, 2017.

Fujitsu sets an owners' equity ratio of 40% or higher as a management target. Due to a deduction from owners' equity of ¥246.4 billion for the unfunded obligation with tax effects pertaining to the employee defined benefit plans, owners' equity did not reach a satisfactory level. Going forward, however, we will enhance owners' equity and strengthen our financial soundness by carrying out business model transformation and increasing profitability.

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 ¥104.5 billion, and the contracted commitment stipulated to acquire assets under IAS 16—Property, Plant and Equipment and IAS 38—Intangible Assets was ¥14.0 billion.

The defined benefit obligation of the employee defined benefit plans was ¥2,413.7 billion, down ¥25.2 billion from March 31, 2017. Plan assets stood at ¥2,198.4 billion, up ¥47.5 billion from March 31, 2017. As a result, the funded status of employee defined benefit plans (defined benefit obligation less plan assets) was a shortage of ¥215.2 billion, representing an improvement of ¥72.7 billion compared with March 31, 2017. The funded status of employee defined benefit plans in Japan improved by ¥56.3 billion from March 31, 2017, due to strong performance in the operation of pension assets as stock prices rose. The funded status of employee defined benefit plans overseas improved by ¥16.4 billion from March 31, 2017, partly due to a decline in defined benefit obligation. 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 in 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 ¥65.4 billion compared with March 31, 2017.

In June 2018, the Group transferred a part of the pension plans of current employees in Japan participating in the Fujitsu Corporate Pension Fund into risk-sharing corporate pension plans. Known as a third corporate pension, these plans divide the risk of asset management and so forth between companies and their employees to achieve a sounder, more sustainable defined benefit plan. In conjunction with this, the Company revised its portfolio to further reduce plan asset management risk and reduced the ratio of shares in the plan.

4. Cash Flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

Years ended March 31	2017	**2018**	YoY change
I Cash flows from operating activities	250.3	**200.4**	(49.9)
II Cash flows from investing activities	(145.4)	**(22.5)**	122.9
I+II Free cash flow	104.8	**177.8**	72.9
III Cash flows from financing activities	(98.8)	**(112.4)**	(13.6)
IV Cash and cash equivalents at end of year	383.9	**452.6**	68.7

Net cash provided by operating activities in the year ended March 31, 2018 amounted to ¥200.4 billion. This represents a decrease in cash inflows of ¥49.9 billion compared with the year ended March 31, 2017. Factors included payment of personnel expenses related to the business model transformation, for which an allowance was recorded in the year ended March 31, 2017.

Net cash used in investing activities was ¥22.5 billion. Net outflows of ¥135.0 billion came from the acquisition of property, plant and equipment, focused on services and electronic component-related facilities and intangible asset acquisition centered on software. There was a decline in net outflows of ¥122.9 billion compared with the year ended March 31, 2017, due to revenues from the sales of the mobile phone business and the car electronics manufacturing subsidiary Fujitsu TEN, and revenues from the sale of shares of Fuji Electric Co., Ltd.

Free cash flow, the sum of cash flows from operating and investing activities, was ¥177.8 billion, representing an increase in net cash inflows of ¥72.9 billion compared with the year ended March 31, 2017. The results of the Company's initiatives for "business structure transformation" as part of business model transformation are evident.

Net cash used in financing activities was ¥112.4 billion. The Company made progress in repaying debt and redeeming corporate bonds. The increase in net cash outflows was ¥13.6 billion compared with the year ended March 31, 2017.

As a result of the above factors, cash and cash equivalents at March 31, 2018 were ¥452.6 billion, an increase of ¥68.7 billion compared with March 31, 2017.

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, 2018, the Group had liquidity of ¥604.8 billion, of which ¥452.6 billion was cash and cash equivalents and ¥152.2 billion was unused commitment lines.

To raise funds from global capital markets, the Group has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2018, 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, 2017.

For the year ended March 31, 2018, capital expenditures totaled ¥94.0 billion, a decrease of 22.1% compared with the year ended March 31, 2017. In the Technology Solutions segment, capital expenditures totaled ¥46.1 billion, down 26.3% year on year, mainly for investment in data centers in Japan and overseas and cloud service equipment. The capital investment cycle for data centers in Japan reached the end, with investment declining by ¥16.4 billion year on year. In the Ubiquitous Solutions segment, the Group invested ¥7.4 billion, up 57.0% year on year, mainly for PC and mobile phone manufacturing and design development facilities. In the Device Solutions segment, capital expenditures totaled ¥32.9 billion, down 24.9% 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 ¥7.4 billion.

5. Status of Production, Orders Received, and Sales

The Group's production and sales items are wide-ranging and diverse, and the scale of production and orders received in monetary amount or volume is not presented by segment. Sales performance by segment for the year ended March 31, 2018 is presented in Note "6. Segment Information."

6. 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 carryforward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The amount 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.