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

Overview of Status of Operations and 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") and equity method associates for the year ended March 31, 2019. Forward-looking statements in this section are based on management's understanding and best judgments as of March 31, 2019.

1. Issues and Initiatives

In all kinds of situations throughout the world today, digital transformation that dramatically transforms business frameworks is accelerating, as the latest digital technologies are incorporated into the operational processes that form the core of business. It is expected that cutting-edge technologies such as AI and the Internet of Things (IoT) will make our lives and our world even better.

Fujitsu calls it Connected Services that, based on a secure ICT foundation, process and visualize the massive amount of data created from all things connected to a network and help customers make better decisions through the use of AI. These services strengthen our customers' businesses and provide value by spurring new innovation. In addition, we are leveraging our Connected Services to realize co-creation with organizations that share our vision and understand the value we wish to provide. This in turn helps us accelerate the establishment of new business models.

In October 2015, we formulated the Management Direction, under which we adopted the following as medium-term key performance indicators (KPIs): (1) consolidated operating profit margin of over 10%; (2) free cash flow of over ¥150 billion; (3) owners' equity ratio of 40% or more; and (4) percentage of sales outside Japan of over 50%. At the same time, we pushed forward with dramatic changes to our business structure with the aim of transforming our business model. These changes have focused primarily on two kinds of transformations. The first is "business structure transformation," which entails transitioning from a vertically integrated structure that spans the three business fields of Technology Solutions, Ubiquitous Solutions, and Device Solutions, to a structure that is centered mainly on Technology Solutions. The second is "growth strategy transformation," which aims to expand Connected Services based on our digital technologies.

Looking back on our efforts to achieve these changes over the past three years, we have made steady progress in terms of business structure transformation. This has included transitioning main businesses within the Ubiquitous Solutions and Device Solutions segments into competitive independent businesses. In particular, in fiscal 2018 we spun off the PC business and decided to transfer the shares of the Mie Plant and a sales company within the Large Scale Integration (LSI) business, thereby finally establishing a structure in which we can focus Groupwide efforts on the Technology Solutions segment. In this way, we believe we are taking a significant step forward with our business structure transformation. On the other hand, we have not been making progress at the pace we expected in regard to growth strategy transformation and have yet to see sufficient results from our efforts toward transitioning our digital business into a growth driver. It was for this reason that we hammered out new initiatives for growth in October 2018 and revised our projected timeline for achieving a consolidated operating profit margin of 10%, which we adopted as a KPI. At the same time, we have excluded our target for percentage of sales outside Japan as a KPI for the time being, in order to prioritize the shift to a more robust profit structure over the pursuit of increased sales volumes.

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

In May 2018, Fujitsu, Lenovo Group Limited, and the Development Bank of Japan Inc. established a joint venture undertaking research and development, design, manufacturing, and sales of PCs and related products for the global market. The investment ratio of the three companies in this new joint venture is 44%, 51%, and 5%, respectively. In conjunction with Technology Solutions, Fujitsu will continue to offer high-quality, innovative, and highly reliable Fujitsu brand PC products and support services to global corporate customers, assisting them in their digital transformation.

In June 2018, Fujitsu Semiconductor Limited (FSL), a semiconductor manufacturing subsidiary, decided to transfer all of its shares in Mie Fujitsu Semiconductor Limited (MIFS) to United Microelectronics Corporation (UMC). MIFS is a joint venture between FSL and UMC that manufactures 300mm semiconductors. In addition to the 15.9% of MIFS shares currently owned by UMC, FSL will transfer the remaining 84.1% of its shares in MIFS to UMC, making MIFS a wholly owned subsidiary of the Taiwan-based UMC. Furthermore, in January 2019 FSL transferred 70% of its shares in Fujitsu Electronics Inc. (FEI), a company selling semiconductors, to Kaga Electronics Co., Ltd. (Kaga Electronics). FSL will transfer the remaining 30% of its shares in FEI to Kaga Electronics by the end of 2021.

In January 2019, Fujitsu Component Limited (FCL), an electronic components subsidiary, changed its capital structure. FCL accepted an infusion of capital from a company affiliated with the Longreach Group, an independent investment company. Furthermore, Fujitsu decided to accept an offer from FCL to buy back its own shares of stock from Fujitsu, resulting in equity interests of 25% for Fujitsu and 75% for the Longreach Group. This change of capital structure will strengthen FCL's financial foundation while increasing its independence and enhancing its ability to grow.

In April 2019, Fujitsu integrated the datacenter service business of Fujitsu FIP Corporation by an absorption-type company split. With the growth of cloud services in recent years, customers have a greater need for digital services that demand more advanced expertise, such as multi-cloud and Hybrid IT.*1 To address this need, Fujitsu is strengthening a structure for the timely delivery of services, with datacenters as a common platform.

*1 Hybrid IT is a system that connects the differing ICT environments of on-premises hardware and hybrid and private clouds.

Initiatives for Accelerating "Growth Strategy Transformation"

The growth initiatives that we announced in October 2018 aim to change our approach to customers by establishing new relationships with them as their partner. Until now, we provided services only after customers requested them. However, going forward, we will consider the management and business strategies of customers from the upstream stage and examine issues together with customers as we transition to a proposal-focused way of providing services. "Transformation of sales in Japan" and "strengthening businesses" are two specific measures aimed at achieving this goal.

In "transformation of sales in Japan," we will reform our sales structure as we strive to further strengthen our domestic businesses. We will also raise the level of expertise and readiness of our sales division. The Fujitsu Group's current sales staff in Japan consists of over 10,000 employees. However, these talented personnel are dispersed across the entire Group. Rethinking this setup, we will shift these employees to our digital business, the Company's priority field. We will also expand our sales operations to include not only our more conventional, industry-specific account sales but also specialized sales, which will respond to various needs in the line of business,*2 digital technologies, and cross-industry fields.

We are implementing various efforts under our "strengthening business" strategy in accordance with the following four policies: "global product development based on unified strategy," "stop 'not invented here' syndrome," "rapid delivery of services that meet market needs," and "acquire and foster globally competitive talent." In terms of specific measures based on these policies, we are working to strengthen our service integration business, increase our global product competitiveness, bolster the network business, and also bolster our overseas business, particularly the reorganization and consolidation of our EMEIA business.

*2 The line of business refers to operating divisions and other frontline divisions of a company, which differ from a company's indirect functions.

Shifting Resources toward Growth

In addition to reinforcing our sales and delivery divisions, we are shifting approximately 5,000 personnel from our indirect and support divisions, which currently have approximately 16,000 employees when including our Group companies. From the perspective of placing the optimal personnel in the optimal location as a service-oriented company, we are shifting human resources in our indirect divisions that have an abundance of knowledge applicable to consultation and specialized sales. In conjunction with this reshuffling, we are enhancing training courses that strengthen employee skills and promote a change in mindset and are encouraging employees to attend such courses. Additionally, we are enhancing the efficiency of Group management by consolidating the indirect and support functions of Group companies into our headquarters. Furthermore, as part of these policies, we are providing certain support for 2,850 employees who wish to pursue a change in career path outside the Group.

Changes to Management Structure

With the goal of accelerating management decision making and execution, we have halved the number of executive officers by limiting executive officers to executive vice presidents and above, thereby clarifying business responsibility. Also, by integrating several business divisions into the Technology Solutions Division, we will simplify the chain of command and work to generate synergies that overcome the frameworks of our conventional divisions. Furthermore, by having the officers of Fujitsu itself serve concurrently as the presidents of certain major subsidiaries, we will accelerate reforms to our Group formation from the perspective of overall optimization, thereby further enhancing the Group's governance.

To maintain a high level of growth and competitiveness in the digital era and win against fierce global competition, Fujitsu will complete its business model transformation. Going forward, as a service-oriented company we will create a cycle that further generates co-creation from the business success achieved through digital transformation based on our Connected Services. Through such a cycle, we will enhance the value we offer both our customers and society and realize sustainable growth.

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

Years ended March 31	2018	**2019**	YoY change	Change (%)
Revenue	4,098.3	**3,952.4**	(145.9)	(3.6)
Cost of sales	(2,966.5)	**(2,879.8)**	86.6	(2.9)
Gross profit	1,131.7	**1,072.5**	(59.2)	(5.2)
Selling, general and administrative expenses	(1,009.5)	**(933.3)**	76.2	(7.5)
Other income (expenses)	60.2	**(8.9)**	(69.2)	–
Operating profit	182.4	**130.2**	(52.2)	(28.6)
Financial income (expenses)	47.8	**8.9**	(38.8)	(81.3)
Income from investments accounted for using the equity method, net	12.1	**22.6**	10.4	85.9
Profit for the year from continuing operations before income taxes	242.4	**161.7**	(80.7)	(33.3)
Income tax expenses	(74.4)	**(51.0)**	23.3	(31.4)
Profit for the year from discontinued operations	9.2	**–**	(9.2)	–
Profit for the year attributable to non-controlling interests	7.9	**6.1**	(1.7)	(22.2)
Profit for the year attributable to owners of the parent	169.3	**104.5**	(64.7)	(38.3)

Reference: Financial Indicators

(Billions of yen)

	2018	**2019**	YoY change
Ratio of revenue outside Japan	36.8%	**36.3%**	(0.5 ppt)
EMEIA*1	799.6	**789.9**	(9.7)
Americas	276.8	**248.6**	(28.1)
Asia	332.1	**312.2**	(19.9)
Oceania	98.1	**84.6**	(13.5)
Revenue outside Japan by locations of customers	1,506.8	**1,435.4**	(71.4)
Gross profit margin	27.6%	**27.1%**	(0.5 ppt)
Operating profit margin	4.5%	**3.3%**	(1.2 ppt)
Return on equity attributable to owners of the parent (ROE)*2	17.2%	**9.4%**	(7.8 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

	2018	**2019**	YoY change
US dollar/Yen	¥111	**¥111**	–
Euro/Yen	¥130	**¥128**	¥(2)
British pound/Yen	¥147	**¥146**	¥(1)
Euro/US dollar	$1.17	**$1.16**	$(0.01)

2. Analysis of Results for the Year Ended March 31, 2019

(1) Revenue

Consolidated revenue for the year ended March 31, 2019 was ¥3,952.4 billion, a decrease of ¥145.9 billion, or 3.6%, compared with the year ended March 31, 2018. Due to the transfer of the mobile phone business and the reorganization of the PC business, sales of PCs for individual customers have been removed from the scope of consolidated revenue. This placed downward pressure on earnings to the extent of approximately ¥160.0 billion. In addition, the removal of a semiconductor sales subsidiary and an electronic components subsidiary from the scope of consolidation had a negative impact on earnings of roughly ¥50.0 billion. Revenue in Japan decreased 2.9%. Sales of system integration services grew to record-high levels driven by the strong performance in the public sector and the manufacturing and distribution industries. Also, revenue in the system products business grew significantly. However, revenue from sales of LSI devices and network products decreased. Demand for LSI devices geared toward smartphones was sluggish, while demand from mobile phone base stations in Japan was weak due to a drop-off in investment by telecommunications carriers. Revenue outside Japan decreased 4.7%. In addition to a sluggish performance of infrastructure services in the United States and Oceania, sales of LSI devices and network products were down. Also, performance outside Japan was impacted by yen appreciation.

For the year ended March 31, 2019, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥111, ¥128, and ¥146, respectively, representing year-on-year appreciation of ¥2 against the euro and ¥1 against the British pound. Exchange rate fluctuations versus the euro and the British pound led to decreases in revenue of approximately ¥6.0 billion and ¥3.0 billion, respectively.

As a result, currency exchange rate fluctuations had a negative impact of approximately ¥9.0 billion on revenue in the year ended March 31, 2019. The overseas revenue ratio decreased by 0.5 of a percentage point, to 36.3%, year on year.

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

For the year ended March 31, 2019, cost of sales totaled ¥2,879.8 billion; gross profit was ¥1,072.5 billion; and the gross profit margin was 27.1%, down 0.5 of a percentage point year on year.

Selling, general and administrative (SG&A) expenses were ¥933.3 billion, a decrease of ¥76.2 billion year on year, due mainly to the transfer of the mobile phone business and the reorganization of the PC business. R&D spending amounted to ¥134.9 billion, a decrease of ¥23.7 billion year on year, mainly in the reorganized PC business and mobile phone business. The ratio of R&D expenses to revenue was 3.4%.

Other expenses totaled ¥8.9 billion, worsening ¥69.2 billion from net other income in the year ended March 31, 2018. This reflected the recording of ¥117.5 billion in business model transformation expenses, which offset temporary profit following a change in retirement benefit plan of ¥91.9 billion and the gain on transfer of the PC and electronic components businesses of ¥16.0 billion. For the breakdown of these business model transformation expenses, the Group recorded expenses of ¥63.8 billion related to the reorganization of the EMEIA business, which included the closing of the site in Germany, the withdrawal of management resources from countries with low profitability and the subsequent concentration of management resources in more profitable countries, and efforts to revise and further enhance the efficiency of indirect departments. The Group also recorded expenses of ¥45.8 billion related to support for employees who wish to pursue a career outside the Group as part of its shift of resources toward growth. In addition, the Group recorded expenses of ¥7.8 billion related to the revisions of its manufacturing structure and the change in the direction of the cloud business.

As a result, operating profit amounted to ¥130.2 billion, a decrease of ¥52.2 billion year on year. The absence of profit from special items recorded in the previous fiscal year, primarily temporary profit from business transfers, had an impact of ¥52.7 billion on this result. Furthermore, the recording of special items for the year had a negative impact of ¥12.2 billion, and the restructuring of the Ubiquitous Solutions and Device Solutions segments, which removed certain subsidiaries from the scope of consolidation, had a negative impact of ¥21.4 billion. On a basis that excludes special items and the impact of business restructuring, operating profit was up ¥34.1 billion, centered on the major increase in profits from domestic services. The operating profit margin was 3.3%, declining 1.2 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 ¥2.0 billion year on year. Procurement costs for US dollar-denominated components for PCs and other products were at about the same level as US dollar-denominated export sales of LSI devices and electronic components. In addition, exchange rate fluctuations were relatively small throughout the fiscal year. For the year ended March 31, 2019, the effect on operating profit of a fluctuation of ¥1 in the exchange rate for foreign currency would be approximately ¥0.15 billion, ¥0.32 billion, and ¥0.01 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, 2019, the euro/US dollar pair traded at 1.16 euros, down 0.01 euro year on year. As the fluctuation in the exchange rate for the euro was minimal, the impact of exchange rate fluctuations on profits was limited. The Group will continue working diligently to minimize the impact of foreign exchange fluctuations on profits as much as possible 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 ¥8.9 billion, declining ¥38.8 billion from the year ended March 31, 2018. This result was due in part to the absence of the gain on sale of shares of ¥27.3 billion after the Group reviewed its cross-shareholding relationship with Fuji Electric Co., Ltd. Meanwhile, income from investments accounted for using the equity method, net, was ¥22.6 billion, an increase of ¥10.4 billion year on year.

As a result, profit before income taxes was ¥161.7 billion, a decrease of ¥80.7 billion year on year, primarily reflecting a decrease in 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 ¥110.7 billion, a decrease of ¥66.5 billion year on year. Of profit for the year, profit for the year attributable to owners of the parent came to ¥104.5 billion and profit attributable to non-controlling interests was ¥6.1 billion, for decreases of ¥64.7 billion and ¥1.7 billion year on year, respectively. Income tax expenses were ¥51.0 billion, down ¥23.3 billion year on year. The tax burden on profit before income taxes increased from 30.7% in the year ended March 31, 2018 to 31.6% in the year ended March 31, 2019.

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 9.4%, down 7.8 percentage points year on year due to a decrease in profit for the year attributable to owners of the parent.

Profit attributable to owners of the parent for the year ended March 31, 2019 came to ¥104.5 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, 2019 has been set at ¥150 per share, up ¥40 from the year ended March 31, 2018. Furthermore, the Company acquired ¥10.0 billion of treasury stock in May 2018 and also acquired treasury stock in November 2018 and March 2019, which totaled ¥12.3 billion of treasury stock.

(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 negative ¥15.2 billion, owing mainly to the impact of the sale of shares held via cross-shareholdings.

Total comprehensive income for the year, which combines profit for the year and other comprehensive income after taxes, came to ¥95.5 billion. Of total comprehensive income, total comprehensive income attributable to owners of the parent came to ¥89.3 billion and total comprehensive income attributable to non-controlling interests was ¥6.2 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, 2019 are shown as follows.

(Billions of yen)

Years ended March 31		2018	**2019**	YoY change	Change (%)
Technology Solutions	Revenue	3,052.7	**3,123.7**	71.0	2.3
	Operating profit	189.3	**187.9**	(1.4)	(0.8)
	[Operating profit margin]	[6.2%]	**[6.0%]**	[(0.2 ppt)]	
Ubiquitous Solutions	Revenue	663.9	**509.9**	(153.9)	(23.2)
	Operating profit (loss)	11.3	**(20.4)**	(31.7)	–
	[Operating profit margin]	[1.7%]	**[(4.0%)]**	[(5.7 ppt)]	
Device Solutions	Revenue	560.0	**487.0**	(73.0)	(13.0)
	Operating profit	13.6	**4.5**	(9.1)	(66.9)
	[Operating profit margin]	[2.4%]	**[0.9%]**	[(1.5 ppt)]	
Other Operations/ Elimination & Corporate	Revenue	(178.2)	**(168.2)**	10.0	–
	Operating profit (loss)	(31.8)	**(41.7)**	(9.8)	–
Consolidated	Revenue	4,098.3	**3,952.4**	(145.9)	(3.6)
	Operating profit	182.4	**130.2**	(52.2)	(28.6)
	[Operating profit margin]	[4.5%]	**[3.3%]**	[(1.2 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 ¥3,123.7 billion, up 2.3% from the year ended March 31, 2018. Revenue in Japan increased 5.6%. While revenue from network products decreased due to sluggish investment in mobile phone base stations by telecommunications carriers, revenue from system integration services grew significantly in the public sector, which saw a steady increase of not only major projects but also minor and semi-major business deals. Performance of these services continued to be solid in the manufacturing and distribution industries as well. In addition, revenue was up from infrastructure services, IA servers, and software. Meanwhile, revenue outside Japan was down 3.9%, due mainly to the unfavorable performance of infrastructure services in the United States and Oceania as well as the impact of yen appreciation on foreign exchange rates.

The segment posted operating profit of ¥187.9 billion, down ¥1.4 billion from the year ended March 31, 2018. The Company recorded business model transformation expenses of ¥47.4 billion, up ¥39.0 billion year on year. These expenses were related to the reorganization of the EMEIA business, which included efforts to revise and further enhance efficiency of indirect departments, as well as the closing of the site in Germany and the withdrawal of management resources from countries with low profitability and the subsequent concentration of management resources in more profitable countries. Excluding the impact of these expenses, operating profit in the segment increased ¥37.6 billion. While there was a decrease in revenue from infrastructure services overseas, operating profit grew significantly year on year thanks to the impacts of increased sales of system integration and infrastructure services in Japan and the reduction of losses from unprofitable projects.

(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 came to ¥509.9 billion, down 23.2% from the year ended March 31, 2018. Revenue in Japan decreased 28.8%. This result was impacted by the transfer of the mobile phone business and the removal of sales of PCs for individual customers from the scope of revenue following the reorganization of the PC business. Revenue from overseas fell 5.9%. This decrease was due to the impact of a decrease in revenue in the PC business in Europe.

The segment recorded an operating loss of ¥20.4 billion. On a basis that excludes the ¥20.3 billion in business model transformation expenses related to the reorganization of the EMEIA business, the Ubiquitous Solutions segment essentially broke even at the operating profit level. The turnaround of ¥31.7 billion from operating profit in the year ended March 31, 2018, was due not only to the recording of business model transformation expenses but also to the transfer of the mobile phone business and the removal of sales of PCs for individual customers from the scope of revenue following the reorganization of the PC business.

(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 ¥487.0 billion, down 13.0% from the year ended March 31, 2018. Revenue in Japan decreased 18.5%. This decrease resulted from the negative impact on revenue that followed the transfer of a semiconductor sales subsidiary and the reorganization of an electronic components subsidiary. The decrease was also a result of the sluggish demand for LSI devices for smartphones. Revenue from overseas decreased 8.0%, with a decrease in overall demand for LSI devices.

The segment posted operating profit of ¥4.5 billion, down ¥9.1 billion from the year ended March 31, 2018, due to the decrease in revenue.

(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 category posted an operating loss of ¥41.7 billion, worsening ¥9.8 billion from the loss recorded in the year ended March 31, 2018. The Group 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 AI and IT investments. Also, the Group recorded a temporary gain of ¥91.9 billion resulting from change in retirement benefit plan for the Fujitsu Corporate Pension Fund. The Group also recorded expenses of ¥45.8 billion related to support for employees who wish to pursue a career outside the Group as part of its shift of resources in Japan.

(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		2018	**2019**	YoY change	Change (%)
Japan	Revenue	3,005.7	**2,972.7**	(32.9)	(1.1)
	Operating profit	182.5	**210.3**	27.8	15.3
	[Operating profit margin]	[6.1%]	**[7.1%]**	[1.0 ppt]	
EMEIA (Europe, the Middle East, India, and Africa)	Revenue	810.1	**792.9**	(17.2)	(2.1)
	Operating profit (loss)	9.0	**(43.9)**	(52.9)	–
	[Operating profit margin]	[1.1%]	**[(5.5%)]**	[(6.6 ppt)]	
The Americas	Revenue	280.7	**247.9**	(32.7)	(11.7)
	Operating profit (loss)	6.5	**(4.8)**	(11.3)	–
	[Operating profit margin]	[2.3%]	**[(2.0%)]**	[(4.3 ppt)]	
Asia	Revenue	277.1	**270.4**	(6.7)	(2.4)
	Operating profit	4.8	**3.9**	(0.8)	(17.8)
	[Operating profit margin]	[1.7%]	**[1.5%]**	[(0.2 ppt)]	
Oceania	Revenue	100.5	**87.0**	(13.4)	(13.4)
	Operating profit	4.0	**2.8**	(1.2)	(30.1)
	[Operating profit margin]	[4.1%]	**[3.3%]**	[(0.8 ppt)]	
Elimination & Corporate	Revenue	(375.9)	**(418.6)**	(42.7)	–
	Operating profit (loss)	(24.5)	**(38.1)**	(13.6)	–
Consolidated	Revenue	4,098.3	**3,952.4**	(145.9)	(3.6)
	Operating profit	182.4	**130.2**	(52.2)	(28.6)
	[Operating profit margin]	[4.5%]	**[3.3%]**	[(1.2 ppt)]	

(a) Japan

Revenue came to ¥2,972.7 billion, a decrease of 1.1% from the year ended March 31, 2018. Sales of system integration services expanded to record-high levels driven by the strong performance in the public sector and the manufacturing and distribution industries. However, the revenue was impacted negatively by the transfer of the mobile phone business and the removal of sales of PCs for individual customers following the reorganization of the PC business. Revenue was also adversely impacted by the removal of a semiconductor sales subsidiary and an electronic components subsidiary from the scope of consolidation. Operating profit was ¥210.3 billion, a year-on-year improvement of ¥27.8 billion, as a result of the increase in revenue from system integration services and infrastructure services as well as the reduction of losses from unprofitable projects.

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

Revenue came to ¥792.9 billion, a decrease of 2.1% year on year. In addition to a decrease in revenue in the PC business, this decrease was due to the progression of continued yen appreciation against the euro and the British pound. The EMEIA business posted an operating loss of ¥43.9 billion, a turnaround of ¥52.9 billion from operating profit in the year ended March 31, 2018. The Company recorded business model transformation expenses of ¥63.8 billion during the year ended March 31, 2019. These expenses were related to the closing of the site in Germany, the withdrawal of management resources from countries with low profitability and the subsequent concentration of management resources in more profitable countries, and efforts to revise and further enhance the efficiency of indirect departments.

(c) Americas

Revenue totaled ¥247.9 billion, a decrease of 11.7% year on year. This decrease reflected revenue decreases in infrastructure services and the network business. The Americas business posted an operating loss of ¥4.8 billion, a turnaround of ¥11.3 billion from operating profit in the year ended March 31, 2018. This loss was due mainly to the decreased revenue in infrastructure services.

(d) Asia

Revenue amounted to ¥270.4 billion, a year-on-year decrease of 2.4%. The decrease in revenue came mainly from LSI devices and electronic components. Operating profit was ¥3.9 billion, down ¥0.8 billion from the year ended March 31, 2018, following the decrease in revenue.

(e) Oceania

Revenue came to ¥87.0 billion, down 13.4% year on year, due mainly to a decrease in revenues from infrastructure services and other services. Operating profit was ¥2.8 billion, a decrease of ¥1.2 billion, following the decrease in revenue.

3. Assets, Liabilities, and Equity

Summarized Consolidated Statement of Financial Position

(Billions of yen)

Years ended March 31	2018	**2019**	YoY change
Assets			
Current assets	1,867.2	**1,959.3**	92.0
Non-current assets	1,254.2	**1,145.4**	(108.7)
Total assets	3,121.5	**3,104.8**	(16.6)
Liabilities			
Current liabilities	1,322.6	**1,364.9**	42.2
Non-current liabilities	593.9	**486.3**	(107.6)
Total liabilities	1,916.6	**1,851.2**	(65.4)
Equity			
Total equity attributable to owners of the parent (Owners' equity)	1,087.7	**1,132.0**	44.2
Equity attributable to non-controlling interests	117.1	**121.5**	4.4
Total equity	1,204.9	**1,253.6**	48.7
Total liabilities and equity	3,121.5	**3,104.8**	(16.6)
Cash and cash equivalents	452.5	**416.6**	(35.8)
Interest-bearing loans	402.2	**316.2**	(86.0)
Net interest-bearing loans	(50.2)	**(100.4)**	(50.2)

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	2018	**2019**	YoY change
Equity attributable to owners of the parent ratio (Owners' equity ratio)	34.8%	**36.5%**	1.7ppt
D/E ratio (Times)	0.37	**0.28**	(0.09)
Net D/E ratio (Times)	(0.05)	**(0.09)**	(0.04)

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	2018	**2019**	YoY change
a. Defined benefit obligation	(2,413.7)	**(1,611.8)**	801.8
b. Plan assets	2,198.4	**1,502.6**	(695.8)
c. Defined benefit obligation in excess of plan assets (a)+(b)	(215.2)	**(109.2)**	106.0

Consolidated total assets as of March 31, 2019 stood at ¥3,104.8 billion, a decrease of ¥16.6 billion from March 31, 2018. Current assets increased ¥92.0 billion compared with March 31, 2018, to ¥1,959.3 billion. This increase was the result of the rise in trade receivables and others that followed the increase in domestic service sales. Cash and cash equivalents were down ¥35.8 billion from March 31, 2018, to ¥416.6 billion. This was due in part to the Company's efforts to redeem corporate bonds and repay debt. Inventories decreased ¥15.5 billion, to ¥226.0 billion. The monthly inventory turnover rate, an indicator of asset efficiency, was 1.22 times, which was relatively unchanged from March 31, 2018. Non-current assets decreased ¥108.7 billion, to ¥1,145.4 billion. Property, plant and equipment, net of accumulated depreciation, decreased ¥86.5 billion. This decrease was partly the result of replacing the property, plant and equipment held by MIFS, a 300mm wafer foundry joint venture, with assets held for the purpose of sale following the transfer of shares of MIFS to the Taiwan-based UMC.

Total liabilities amounted to ¥1,851.2 billion, a decrease of ¥65.4 billion from March 31, 2018. Current liabilities came to ¥1,364.9 billion, up ¥42.2 billion compared with March 31, 2018. Other payables increased ¥63.3 billion compared with March 31, 2018, mainly due to the recording of accounts payable—other related to support for employees in indirect and support departments who wish to pursue a career outside the Group. Non-current liabilities came to ¥486.3 billion, a decrease of ¥107.6 billion. In addition to a decrease of ¥81.1 billion in corporate bonds, borrowings, and lease obligations, retirement benefit liabilities were down ¥76.7 billion following the revision of the Fujitsu Corporate Pension Fund. Interest-bearing loans, which consist of current liabilities and non-current liabilities, corporate bonds, borrowings, and lease obligations, totaled ¥316.2 billion, a decrease of ¥86.0 billion compared with March 31, 2018, as the Company proceeded to repay debt and partially redeemed straight bonds. As a result, the D/E ratio was 0.28 times, a decrease of 0.09 of a point compared with March 31, 2018. 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 ¥100.4 billion, an improvement of ¥50.2 billion from March 31, 2018, and an expansion in the Company's net cash position.

Total equity was ¥1,253.6 billion, an increase of ¥48.7 billion from March 31, 2018. Retained earnings was ¥576.8 billion, an increase of ¥97.0 billion compared with March 31, 2018. This increase resulted in part from the recording of ¥104.5 billion in profit for the year attributable to owners of the parent. Other components of equity decreased ¥32.0 billion compared with March 31, 2018, to ¥24.6 billion. This was due to the adoption of IFRS 9 (financial instruments) and the sale of shares held via cross-shareholdings. Treasury stock was negative ¥29.5 billion, an increase of ¥22.3 billion in holdings compared with March 31, 2018, reflecting the Company's progress in acquiring treasury stock. As a result, total equity attributable to owners of the parent (owners' equity) was ¥1,132.0 billion and the equity attributable to owners of the parent ratio was 36.5%, an increase of 1.7 percentage points compared with March 31, 2018.

Fujitsu sets an owners' equity ratio of 40% or higher as a medium-term KPI. Going forward, the Company will enhance owners' equity and strengthen its 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 non-cancellable operating leases as designated under IAS 17—Leases were ¥149.1 billion, and the contracted commitment stipulated to acquire assets under IAS 16—Property, Plant and Equipment and IAS 38—Intangible Assets was ¥37.8 billion.

The defined benefit obligation of the employee defined benefit plans was ¥1,611.8 billion, down ¥801.8 billion from March 31, 2018. Plan assets stood at ¥1,502.6 billion, down ¥695.8 billion from March 31, 2018. As a result, the funded status of employee defined benefit plans (defined benefit obligation less plan assets) was a shortage of ¥109.2 billion, representing an improvement of ¥106.0 billion compared with March 31, 2018. The funded status of employee retirement benefit plans in Japan improved ¥85.3 billion from March 31, 2018, resulting from the revision of the Fujitsu Corporate Pension Fund. The funded status of employee retirement benefit plans overseas improved ¥20.7 billion from March 31, 2018, partly due to a decrease in employee retirement benefit obligation.

4. Cash Flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

Years ended March 31	2018	**2019**	YoY change
I Cash flows from operating activities. .	200.4	**99.4**	(100.9)
II Cash flows from investing activities . .	(22.5)	**4.1**	26.7
I+II Free cash flow	177.8	**103.5**	(74.2)
III Cash flows from financing activities . .	(112.4)	**(136.6)**	(24.1)
IV Cash and cash equivalents at end of year	452.6	**416.7**	(35.9)

Net cash provided by operating activities in the year ended March 31, 2019 amounted to ¥99.4 billion, representing a decrease in cash inflows of ¥100.9 billion compared with the year ended March 31, 2018. Factors included a decrease in profit before income taxes and an increase in income taxes paid.

Net cash provided by investing activities was ¥4.1 billion, a turnaround of ¥26.7 billion from net cash used in investing activities in the year ended March 31, 2018. Cash outflows came to ¥120.6 billion due to the acquisition of property, plant and equipment, including services and electronic component-related facilities, and the acquisition of intangible assets, centered on software. On the other hand, there was a cash inflow of ¥77.9 billion from proceeds from sales of investment securities, which resulted partly from the sale of shares held via cross-shareholdings. In addition, proceeds from business transfers related to business model transformation and the collection of loans receivable resulted in cash inflows of ¥43.7 billion.

Free cash flow, the sum of cash flows from operating and investing activities, was ¥103.5 billion, representing a decrease in net cash inflows of ¥74.2 billion compared with the year ended March 31, 2018.

Net cash used in financing activities was ¥136.6 billion. The Company made progress in repaying debt and redeeming corporate bonds. In addition, there were cash outflows for the acquisition of treasury stock. Accordingly, net cash outflows increased ¥24.1 billion from the year ended March 31, 2018.

As a result of the above, cash and cash equivalents as of March 31, 2019 stood at ¥416.7 billion, a decrease of ¥35.9 billion compared with March 31, 2018.

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, 2019, the Group had liquidity of ¥541.4 billion, of which ¥416.7 billion was cash and cash equivalents and ¥124.7 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, 2019, 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, 2018.

For the year ended March 31, 2019, capital expenditures totaled ¥83.5 billion, a decrease of 11.2% compared with the year ended March 31, 2018. In the Technology Solutions segment, capital expenditures totaled ¥49.3 billion, up 6.8% year on year, mainly for investment in datacenters in Japan and overseas and cloud service equipment. In the Ubiquitous Solutions segment, the Group invested ¥1.2 billion, down 83.6% year on year. This decrease resulted from the transfer of the mobile phone business and the reorganization of the PC business. In the Device Solutions segment, capital expenditures totaled ¥26.4 billion, a decrease of 19.7% 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 ¥6.5 billion.

5. Status of Production, Orders Received, and Sales

The Group's production and sales items are wide-ranging and diverse, and, within the Group's management, the scale of production and orders received in monetary amount or volume are not presented by segment. Sales performance by segment for the year ended March 31, 2019 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 decrease 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 defined benefit, risk-sharing, 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.