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 and equity method associates (together, the "Group") for the year ended March 31, 2020. Forward-looking statements in this section are based on management's understanding and best judgments as of March 31, 2020.

1. Issues and Initiatives

Aiming to transform itself from an IT company to a DX company, the Group has positioned the digital field—which includes the DX business and modernization aimed at the DX business, the analysis and visualization of data, and more efficient system operation—as its driver of growth and will capture the growth of the market to expand its business. At the same time, we will maintain our existing level of business in the conventional IT field, centered on building large-scale mission-critical systems that are related to companies' principal areas of business and providing operation services for those systems, by leveraging the robust customer base we have established thus far and further strengthening profitability. We have set out the achievement of revenue of ¥3,500 billion and an operating profit margin of 10% in Technology Solutions,*1 our core business, for the year ending March 31, 2023 as the Group's medium-term management target.

*1 This figure incorporates the Technology Solutions segment and Other Operations/Elimination and Corporate.

At the beginning of the year ended March 31, 2020, the Company projected revenue of ¥3,150.0 billion, operating profit excluding special items, such as business model transformation expenses, of ¥145.0 billion, and an operating margin of 4.6% for Technology Solutions.*1 The segment posted revenue of ¥3,163.2 billion, operating profit of ¥187.8 billion, and an operating margin of 5.9%, successfully exceeding all projections. We achieved solid revenue growth and improved profitability in core businesses as a result of promoting the concentration of management resources in Technology Solutions. We are advancing the establishment of a sound financial foundation from a cash flow and balance sheet perspective, and our ability to respond to changes in the business environment has been reinforced. Thus, we were able to get off to a favorable start in the year ended March 31, 2020, the first year for achieving our medium-term management targets.

The Company believes that its services business in Japan is the key driver for enhancing profitability. We are maintaining and strengthening our robust customer base to further expand our market share while, at the same time, reducing costs. Global Delivery Centers (GDCs), our offshore development bases, are vital to further improving the competitiveness of service delivery. By leveraging GDCs, we will further reduce development and operational costs in the services business. Furthermore, by consolidating the Group's expertise, we are enhancing GDCs as the center of excellence in our global business to provide added value, rather than simply utilizing them as low cost development centers. We will increase the number of employees at GDCs to 20,000 by 2022 and are moving ahead with efforts to expand their operational scope, which has focused on application development in the past, to encompass the entire lifecycle of an IT system, including the design and operation phases. Moreover, we are overhauling the development and operations work that was traditionally assigned to system engineers by unifying the process and promoting automation through the leveraging of artificial intelligence (AI) and robotic process automation (RPA).

In our network business, we have focused on fifth-generation mobile communication system (5G) networks that support the IT infrastructure for DX. We promptly commenced supply of base-station control equipment and wireless equipment for telecommunications carriers in Japan and constructed a collaboration laboratory at our own facility for verifying 5G solutions with our customers and partners.

We are also proceeding with organizational transformation. In order to transform into a structure that enables the leveraging of talent from a global perspective, we have introduced position-based human resource management that offers cross-border growth opportunities transcending national and organizational lines. In tandem with these efforts, we are also expanding a compensation plan for highly talented professionals aimed at acquiring expert talent by flexibly drafting compensation packages according to an individual's market value.

In our infrastructure services business outside Japan, where improving profitability has become a priority matter, we unified our service delivery structure in Europe with our GDCs at the core. We also implemented business model transformation in Europe and North America. In Europe, we are moving ahead with procedures to end production in September 2020 at the Augsburg site in Germany, which manufactures PCs, servers, and other products necessary for service operation. These procedures include transferring the functions of the Augsburg site to an external contract manufacturing company. At the same time, we have almost completed our withdrawal from countries and regions with low profitability. In North America, we made decisions aimed at increasing profitability by strengthening our services business. This involved withdrawing from the products business, which has low profitability, and eliminating overlaps within the Group in the retail business.

As a new endeavor to promote growth in the digital field, we have established Ridgelinez Limited to realize digital transformation for customers. Ridgelinez will seek to resolve intrinsic and fundamental issues, such as the customer's management and business issues, from the customer's standpoint while supporting digital transformation using optimal technology via partner alliances with a wide range of companies in Japan and overseas, not limited to the Group's products and services.

In addition, we have established a new company, Fujitsu Future Studies Center (FFSC), as a think tank to bolster the formulation and execution of the Group's medium- to long-term strategy. FFSC will support the formulation and execution of the Group's medium- to long-term strategy by conducting multi-disciplinary surveys and analyses of international conditions and utilizing the cutting-edge technology necessary for global growth while the Group provides state-of-the-art services to customers.

Furthermore, in order to strengthen business in the domestic market, an area in which the Group has expertise, we plan to establish a new company to build a dominant position in the Japanese market. The new company will address issues related to increasingly sophisticated ICT faced by customers and regional social issues, targeting local governments and medical and educational institutions throughout Japan, as well as second-tier, medium-sized, and small- to medium-sized companies in the private sector.

The effect on the business in connection with COVID-19 in the year ended March 31, 2020, amounted to negative impacts of approximately ¥16.0 billion on revenue and approximately ¥5.0 billion on operating income. Centered on manufacturing and delivery, we saw delivery delays due to a halt in logistics activity in Asia, in addition to the difficulties in procurement in the network business and system product business under the Technology Solutions segment.

Although it is unclear when the COVID-19 pandemic will end, the Company assumes that global economic activities will recover moderately from the second half of the year ending March 31, 2021. Nevertheless, as the impact of COVID-19 differs by country and region as well as industry and business sector, the Company believes that it is extremely difficult at the present time to reasonably estimate the financial impact on the Group's business results.

With liquidity on hand at a level of approximately ¥500.0 billion, the Group has sufficient solvency to address urgent demands for funds, when including its capacity to raise additional funds. Moreover, with an owners' equity ratio of approximately 40%, the Group has sufficient owners' equity. Based on these sound financial foundations, the Group believes that it will not experience any significant problems over the short term or medium to long term, such as in financing its operations, as a consequence of COVID-19.

2. Analysis of Results for the Year Ended March 31, 2020

Summarized Consolidated Statement of Profit or Loss

(Billions of yen)

Years ended March 31	2019	**2020**	YoY change	Change (%)
Revenue	3,952.4	**3,857.7**	(94.6)	(2.4)
Cost of sales	(2,879.8)	**(2,748.4)**	131.4	(4.6)
Gross profit	1,072.5	**1,109.3**	36.7	3.4
Selling, general and administrative expenses	(933.3)	**(864.6)**	68.6	(7.4)
Other income (expenses)	(8.9)	**(33.1)**	(24.1)	270.0
Operating profit	130.2	**211.4**	81.2	62.4
Financial income (expenses)	8.9	**2.2**	(6.6)	(74.4)
Income from investments accounted for using the equity method, net	22.6	**14.7**	(7.8)	(34.6)
Profit before income taxes	161.7	**228.5**	66.7	41.3
Income tax expenses	(51.0)	**(68.2)**	(17.1)	33.6
Profit for the year attributable to non-controlling interests	6.1	**0.2**	(5.8)	(95.4)
Profit for the year attributable to owners of the parent	104.5	**160.0**	55.4	53.1

Reference: Financial Indicators

(Billions of yen)

	2019	**2020**	YoY change
Gross profit margin	27.1%	**28.8%**	1.7 ppt
Operating profit margin	3.3%	**5.5%**	2.2 ppt
Return on equity attributable to owners of the parent (ROE)*	9.4%	**13.5%**	4.1 ppt

* 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 Rates

	2019	**2020**	YoY change
US dollar/Yen	¥111	**¥109**	¥(2)
Euro/Yen	¥128	**¥121**	¥(7)
British pound/Yen	¥146	**¥138**	¥(8)
Euro/US dollar	$1.16	**$1.11**	$(0.05)

(1) Revenue

Consolidated revenue for the year ended March 31, 2020 was ¥3,857.7 billion, a decrease of ¥94.6 billion, or 2.4%, compared with the year ended March 31, 2019. Reorganization, including reorganization in the Device Solutions segment, where the Mie semiconductor plant was removed from the scope of consolidation, placed downward pressure on earnings to the extent of approximately ¥182.0 billion. In addition, yen appreciation against the US dollar, the euro, and the British pound had a negative impact on earnings of ¥47.7 billion. On an actual business basis, excluding these factors, consolidated revenue for the year ended March 31, 2020 increased ¥135.2 billion, or 3.6%. Revenue increased in Technology Solutions, the Company's core business, as the segment performed solidly throughout the year, continuing from the fourth quarter of the previous fiscal year, centered on domestic services. The manufacturing and distribution industries saw continued growth, the local government and healthcare fields performed steadily, and large-scale projects for the national government exceeded the level of the previous fiscal year. Further, there was an increase in projects related to large-scale mainframes, and revenue was up in the network business following the strengthening of mobile phone base stations and optical transmission networks due to the full-scale development of the 5G business. Revenue was also up in the PC business due to replacement demand following the end of the support period for Windows 7.

For the year ended March 31, 2020, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥109, ¥121, and ¥138, respectively, representing year-on-year appreciation of ¥2 against the dollar, ¥7 against the euro, and ¥8 against the British pound. Currency exchange rate fluctuations had a negative impact on revenue of ¥47.7 billion year on year. Fluctuations versus the US dollar, the euro, and the British pound led to decreases in revenue of ¥7.4 billion, ¥25.7 billion, and ¥14.5 billion, respectively.

The overseas revenue ratio decreased by 4.5 percentage points, to 31.8%, year on year.

This decrease was due to the impact of the closure of bases with low profitability in Europe, in addition to yen appreciation.

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

For the year ended March 31, 2020, cost of sales totaled ¥2,748.4 billion; gross profit was ¥1,109.3 billion; and the gross profit margin was 28.8%, up 1.7 percentage points year on year.

Selling, general and administrative (SG&A) expenses were ¥864.6 billion, a decrease of ¥68.6 billion year on year, due to a reduction in fixed costs from resource shifts carried out at the end of the previous fiscal year and the impact of the removal of a semiconductor sales subsidiary and a manufacturing subsidiary from the scope of consolidation. These factors led to decreases of approximately ¥20.0 billion and ¥27.0 billion, respectively. R&D spending amounted to ¥123.3 billion, a decrease of ¥11.6 billion year on year, due to the completion of the development of the next-generation supercomputer, *Fugaku*, and the transition to a mass production phase. The ratio of R&D expenses to revenue was 3.2%.

Other expenses totaled ¥33.1 billion, worsening ¥24.1 billion year on year. The Company posted a one-time loss of ¥13.7 billion related to business restructuring. Although the Company recorded ¥23.4 billion in business model transformation expenses, it also recorded a gain of ¥9.6 billion related to the transfer of a business. For the breakdown of these business model transformation expenses, the Group recorded expenses of ¥15.2 billion related to the reorganization of plants in Japan, including the reorganization of the electronic components business and efforts to enhance the efficiency of the production structure in the system products business. The Group also recorded expenses of ¥8.2 billion related to strengthening of the services business and withdrawing from the products business as well as reorganization of the retail business in North America. A gain due to an earnout clause related to the transfer of the PC business in the previous fiscal year and a gain related to the transfer of the Mie Plant are included in gains related to business transfers. In addition, impairment losses, including property, plant and equipment, were recorded in other income and expenses. The Company determined its policy on the reorganization of the domestic plants of the system products business and reorganization of the North American business and recorded a loss allowance in the year ended March 31, 2020. Actual business restructuring will be implemented in the year ending March 31, 2021, and the Company expects to reap the effects from the year ending March 31, 2022 onward. In addition, business model transformation in Europe is proceeding according to plan. We are advancing various programs, including withdrawal from countries with low profitability and the closure of the Augsburg site, in an effort to complete them in the second half of the year ending March 31, 2021 and with expectations to reap the benefits thereafter.

As a result, operating profit amounted to ¥211.4 billion, an increase of ¥81.2 billion year on year. The operating profit margin was 5.5%, an increase of 2.2 percentage points year on year. This marked the first time that the operating profit margin has exceeded 5% since the year ended March 31, 1996. On a basis that excludes special items such as business model transformation expenses, operating profit increased ¥84.9 billion year on year. This increase was owing to the impact of a ¥37.5 billion increase in revenue in the domestic business, ¥32.4 billion from an improvement in profitability, and a gain of ¥15.0 billion resulting from increased cost effectiveness. There was an improvement in profitability centered on an increase in development efficiency in Solutions/SI, an increase in maintenance and operation support efficiency in infrastructure services in Japan, and the impact of a reduction in costs due to a decline in the price of key devices in Ubiquitous Solutions. In addition, although there was a negative impact from exchange rates, the effect of a reduction in fixed costs stemming from resource shifts of indirect personnel contributed to the improvement in profitability.

The impact of exchange rate volatility on operating profit was minimal, amounting to a negative impact of about ¥3.8 billion year on year. Although procurement costs for US dollar-denominated components for PCs, servers, and other products declined due to yen appreciation, US dollar-denominated export sales of electronic components decreased, nearly offsetting the impact of foreign exchange fluctuations. For the year ended March 31, 2020, the effect on operating profit of a fluctuation of ¥1 in the exchange rate for foreign currency would be a positive effect of approximately ¥1.2 billion for the US dollar and a negative effect of approximately ¥0.1 billion for the euro. There would be no effect for the British pound. 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, 2020, the euro/US dollar pair traded at 1.11 euros, down 0.05 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 effect on the business in connection with COVID-19 in the year ended March 31, 2020, amounted to negative impacts of approximately ¥16.0 billion on revenue and approximately ¥5.0 billion on operating income. Centered on the network business, we saw delivery delays due to a halt in logistics activity in Asia, in addition to difficulties in the procurement of system platform components.

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

Net financial income amounted to ¥2.2 billion, declining ¥6.6 billion from the year ended March 31, 2019. Income from investments accounted for using the equity method, net, was ¥14.7 billion, a worsening of ¥7.8 billion year on year. Income declined due to the impact of the absence of one-time profits of ¥11.6 billion recorded in the year ended March 31, 2019, in relation to the transfer of the PC business.

As a result, profit before income taxes was ¥228.5 billion, an increase of ¥66.7 billion year on year, primarily reflecting the increase in operating profit.

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

Profit for the year came to ¥160.3 billion, an increase of ¥49.6 billion year on year. Of profit for the year, profit for the year attributable to owners of the parent came to ¥160.0 billion, up ¥55.4 billion year on year. Profit attributable to non-controlling interests was ¥0.2 billion, declining ¥5.8 billion year on year. Income tax expenses were ¥68.2 billion, up ¥17.1 billion year on year due to an increase in taxable income. The tax burden on profit before income taxes decreased from 31.6% in the year ended March 31, 2019 to 29.9% in the year ended March 31, 2020.

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 13.5%, up 4.1 percentage points year on year due to the increase in profit for the year attributable to owners of the parent.

Profit attributable to owners of the parent for the year ended March 31, 2020 came to ¥160.0 billion. Based on an improvement in its financial condition, including an increase in profits and cash flow, and comprehensively taking into account considerations such as the business environment, the Company set the annual dividend for the year ended March 31, 2020 at ¥180 per share, up ¥30*[2] from the year ended March 31, 2019, with the aim of increasing shareholder returns and improving capital efficiency. At the same time, the Company set a maximum allowance of ¥50.0 billion for acquisition of treasury stock and acquired ¥29.9 billion of treasury stock. As a result, the total return ratio, which is based on the sum of dividends and treasury stock acquisitions, was 41.5%.

*2 The Company conducted a share consolidation of its common shares with a ratio of ten (10) shares to one (1) share effective October 1, 2018. The increasing amount of dividends from the year ended March 31, 2019 has been calculated assuming the share consolidation was conducted.

(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 ¥9.9 billion. Total comprehensive income for the year, which combines profit for the year and other comprehensive income after taxes, came to ¥170.3 billion. Of total comprehensive income, total comprehensive income attributable to owners of the parent came to ¥171.3 billion, and total comprehensive income attributable to non-controlling interests was negative ¥1.0 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 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, and facility services and the development of information systems for Group companies. Revenue (including intersegment revenue) and operating profit by segment for the year ended March 31, 2020 are shown as follows.

(Billions of yen)

Years ended March 31		2019	**2020**	YoY change	Change (%)
Technology Solutions	Revenue	3,123.7	**3,163.2**	39.5	1.3
	Operating profit	187.9	**248.5**	60.5	32.2
	[Operating profit margin]	[6.0%]	**[7.9%]**	[1.9 ppt]	
Ubiquitous Solutions	Revenue	509.9	**547.8**	37.9	7.4
	Operating profit (loss)	(20.4)	**31.1**	51.6	–
	[Operating profit margin]	[(4.0%)]	**[5.7%]**	[9.7 ppt]	
Device Solutions	Revenue	487.0	**317.0**	(169.9)	(34.9)
	Operating profit (loss)	4.5	**(3.4)**	(7.9)	–
	[Operating profit margin]	[0.9%]	**[(1.1%)]**	[(2.0 ppt)]	
Other Operations/ Elimination & Corporate	Revenue	(168.2)	**(170.3)**	(2.1)	–
	Operating profit (loss)	(41.7)	**(64.7)**	(22.9)	–
Consolidated	Revenue	3,952.4	**3,857.7**	(94.6)	(2.4)
	Operating profit	130.2	**211.4**	81.2	62.4
	[Operating profit margin]	[3.3%]	**[5.5%]**	[2.2 ppt]	

Reference: Technology Solutions*[1]

(Billions of yen)

Years ended March 31	2019	**2020**	YoY change	Change (%)
Revenue	3,123.7	**3,163.2**	39.5	1.3
Operating profit excluding special items*[2]	137.5	**187.8**	50.3	36.7
[Operating profit margin]	[4.4%]	**[5.9%]**	[1.5 ppt]	

*1 This figure incorporates the Technology Solutions segment and Other Operations/Elimination and Corporate.
*2 Excludes special items such as business model transformation expenses

(a) Technology Solutions

The Technology Solutions segment delivers software, services, and products 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 ¥3,163.2 billion, up 1.3% from the year ended March 31, 2019. On a basis that excludes the impact of exchange rates, the increase was 2.5%. Revenue in Japan increased 6.9%. In the Solutions/SI business, the manufacturing and distribution industries saw ongoing growth, the local government and healthcare fields performed steadily, and large-scale projects for the national government exceeded the level of the previous fiscal year. As a result, the Solutions/SI business recorded record-high sales, in continuation from the previous fiscal year. In the system products business, revenue was up due to an increase in projects related to large-scale mainframes and the commencement of shipments of *Fugaku*, the next-generation supercomputer. The network products business saw an increase in projects for the strengthening of mobile phone base stations and optical transmission networks due to the full-scale development of the 5G business. Meanwhile, revenue outside Japan was down 10.5%. Revenue declined year on year due to the impact of the withdrawal from countries and regions in Europe with low profitability, the unfavorable performance of infrastructure services in the United States and Oceania, and the impact of yen appreciation against the British pound and the euro.

The segment posted operating profit of ¥248.5 billion, an increase of ¥60.5 billion from the year ended March 31, 2019. In addition to the impact of increased sales of Solutions/SI and system products in Japan, operating profit grew thanks to a reduction in the cost of maintenance parts and improvement in profitability by promoting the sharing of operation support in infrastructure services, as well as the impact of a reduction in costs due to a decline in the price of key devices in system products. The Company recorded business model transformation expenses of ¥13.7 billion for the year ended March 31, 2020. These expenses were related to revision of the portfolio and reinforcement of the shift to a services business in the North American business as well as the steady execution of the transition to a services business in Japan, through efforts including the reorganization of system products plants and improvement of the efficiency of the production structure. As a result, business model transformation expenses decreased ¥33.6 billion year on year.

(b) Ubiquitous Solutions

The Ubiquitous Solutions segment contains ubiquitousware, including personal computers and 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 a "Human Centric Intelligent Society" (a safer, more prosperous, and sustainable society built by the power of technology).

Revenue came to ¥547.8 billion, up 7.4% from the year ended March 31, 2019. Revenue in Japan increased 13.5%. Revenue increased due to significant sales of PCs stemming from the impact of the end of support for Windows 7. Revenue increased in the first half of the fiscal year due in part to the impact of the consumption tax hike. Although we had anticipated a decline in revenue year on year in the second half of the year due to the absence of that impact, revenue overall in the second half of the fiscal year also exceeded that of the previous fiscal year. Meanwhile, revenue outside Japan decreased by 6.7% due in part to the continued yen appreciation against the euro.

Operating profit amounted to ¥31.1 billion, a turnaround of ¥51.6 billion from an operating loss in the year ended March 31, 2019. In addition to the increase in revenue from the PC business, operating profit increased thanks to an improvement in profitability due to lower prices for key devices such as memory and the absence of business model transformation expenses recorded in the previous fiscal year.

(c) Device Solutions

The Device Solutions segment comprises electronic components such as semiconductor packages and batteries as well as LSI devices.

Revenue amounted to ¥317.0 billion, down 34.9% from the year ended March 31, 2019. Revenue declined from the previous fiscal year due to the impact of the LSI business restructuring. In addition to the transfer of a sales subsidiary in the fourth quarter of the previous fiscal year, the transfer of the Mie Plant to United Microelectronics Corporation in the third quarter of the year ended March 31, 2020 resulted in a decline in revenue of ¥175.0 billion. These transfers mean that restructuring of the LSI business is almost complete. Excluding these special items, revenue in this segment increased slightly year on year following an increase in demand for electronic components.

The segment recorded an operating loss of ¥3.4 billion, a turnaround of ¥7.9 billion from operating profit in the previous fiscal year. The Company recorded an operating loss in the year ended March 31, 2020, as a result of posting business model transformation expenses of ¥10.0 billion in connection with restructuring of the electronic components business. Excluding this impact, operating profit was up ¥3.2 billion year on year due to an increase in demand for electronic components.

(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, and facility services and the development of information systems for Group companies.

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 ¥64.7 billion, a worsening of ¥22.9 billion from the loss recorded in the year ended March 31, 2019. This worsening was due to the impact of factors including the absence of the gain resulting from the change in the retirement benefit plan recorded in the previous fiscal year. Excluding this impact, the operating loss improved as a result of the effect of fixed cost reductions stemming from resource shifts of indirect personnel and the reduction in indirect expenses. Regarding expenses related to upfront investments, we have a project that transitioned from the investment to the recovery phase, and we strengthened and improved profitability management for each project. Furthermore, we posted gains from business transfers of ¥9.6 billion in this segment, including a gain due to an earnout clause related to the transfer of the PC business in the previous fiscal year and a gain related to the transfer of the Mie Plant.

(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		2019	**2020**	YoY change	Change (%)
Japan	Revenue	2,972.7	**3,013.9**	41.2	1.4
	Operating profit	210.3	**275.8**	65.5	31.1
	[Operating profit margin]	[7.1%]	**[9.2%]**	[2.1 ppt]	
EMEIA (Europe, the Middle East, India, and Africa)	Revenue	792.9	**701.7**	(91.1)	(11.5)
	Operating profit (loss)	(43.9)	**21.1**	65.1	–
	[Operating profit margin]	[(5.5%)]	**[3.0%]**	[8.5 ppt]	
The Americas	Revenue	247.9	**201.1**	(46.8)	(18.9)
	Operating profit (loss)	(4.8)	**(17.9)**	(13.0)	–
	[Operating profit margin]	[(2.0%)]	**[(8.9%)]**	[(6.9 ppt)]	
Asia	Revenue	270.4	**180.0**	(90.3)	(33.4)
	Operating profit	3.9	**2.3**	(1.6)	(41.1)
	[Operating profit margin]	[1.5%]	**[1.3%]**	[(0.2 ppt)]	
Oceania	Revenue	87.0	**75.2**	(11.8)	(13.6)
	Operating profit	2.8	**2.0**	(0.8)	(28.4)
	[Operating profit margin]	[3.3%]	**[2.7%]**	[(0.6 ppt)]	
Elimination & Corporate	Revenue	(418.6)	**(314.3)**	104.2	–
	Operating profit (loss)	(38.1)	**(72.0)**	(33.8)	–
Consolidated	Revenue	3,952.4	**3,857.7**	(94.6)	(2.4)
	Operating profit	130.2	**211.4**	81.2	62.4
	[Operating profit margin]	[3.3%]	**[5.5%]**	[2.2 ppt]	

(a) Japan

Revenue came to ¥3,013.9 billion, an increase of 1.4% from the year ended March 31, 2019. While there was a decrease in revenue due to reorganization of the LSI businesses, revenue increased overall as manufacturing and distribution industries and large-scale projects for the public sector in Solutions/SI continued to perform favorably, while the PC business saw growth. Operating profit was ¥275.8 billion, a year-on-year improvement of ¥65.5 billion, attributable to the impact of increased sales in Solutions/SI and the PC business and an increase in profitability in infrastructure services and system products.

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

Revenue came to ¥701.7 billion, a decrease of 11.5% year on year. In addition to a decrease in revenue due to the withdrawal from unprofitable countries and regions accompanying the restructuring of the European business, this decrease was due to the continued yen appreciation against the euro and the British pound. Operating profit was ¥21.1 billion, a turnaround of ¥65.1 billion from an operating loss in the year ended March 31, 2019. This turnaround was attributable to the absence of business model transformation expenses posted in the previous fiscal year due to the closure of the manufacturing site in Germany, the withdrawal from countries with low profitability, and efforts to reform indirect departments. We are moving ahead with business model transformation as planned. We expect to see the impact of these efforts from the second half of the year ending March 31, 2021 and to fully reap the benefits from the year ending March 31, 2022 onward. We have split the European business into two regions, Northern & Western Europe (NWE) centered on the UK and Ireland, which has a robust services business, and Central & Eastern Europe (CEE), centered on Germany, where we are promoting a shift to services from a business focused on conventional hardware sales. We have stationed executives in these regions and established a structure to flexibly develop our business there.

(c) Americas

Revenue totaled ¥201.1 billion, a decrease of 18.9% year on year. This decrease reflected the sluggish performance of the services business and the products business. The Americas business posted an operating loss of ¥17.9 billion, a worsening of ¥13.0 billion year on year. In the North American business, we determined to increase the profitability of the services business by revising our business portfolio as we withdrew from the product business and addressed overlaps within the Group in the retail business. We will implement actual business restructuring in the year ending March 31, 2021 and expect to reap the benefits from the year ending March 31, 2022 onward.

(d) Asia

Revenue amounted to ¥180.0 billion, a year-on-year decrease of 33.4%. The decrease in revenue came mainly from LSI devices and electronic components. Operating profit was ¥2.3 billion, down ¥1.6 billion from the year ended March 31, 2019, following the decrease in revenue.

(e) Oceania

Revenue came to ¥75.2 billion, down 13.6% year on year, due mainly to a decrease in revenue from infrastructure services. Operating profit was ¥2.0 billion, a decrease of ¥0.8 billion, following the decrease in revenue.

3. Assets, Liabilities, and Equity

Summarized Consolidated Statement of Financial Position

(Billions of yen)

At March 31	2019	**2020**	YoY change
Assets			
Current assets	1,959.3	**1,891.1**	(68.2)
Non-current assets	1,145.4	**1,296.3**	150.8
Total assets	3,104.8	**3,187.4**	82.6
Liabilities			
Current liabilities	1,364.9	**1,365.6**	0.7
Non-current liabilities	486.3	**473.4**	(12.9)
Total liabilities	1,851.2	**1,839.0**	(12.2)
Equity			
Total equity attributable to owners of the parent (Owners' equity)	1,132.0	**1,240.9**	108.9
Equity attributable to non-controlling interests	121.5	**107.4**	(14.0)
Total equity	1,253.6	**1,348.4**	94.8
Total liabilities and equity	3,104.8	**3,187.4**	82.6
Cash and cash equivalents	416.6	**451.8**	35.1
Interest-bearing loans	316.2	**405.5**	89.3
Net interest-bearing loans	(100.4)	**(46.2)**	54.1

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

At March 31	2019	**2020**	YoY change
Equity attributable to owners of the parent ratio (Owners' equity ratio)	36.5%	**38.9%**	2.4 ppt
D/E ratio (Times)	0.28	**0.33**	0.05
Net D/E ratio (Times)	(0.09)	**(0.04)**	(0.05)

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)

Consolidated total assets as of March 31, 2020 stood at ¥3,187.4 billion, an increase of ¥82.6 billion from March 31, 2019. Current assets decreased ¥68.2 billion compared with March 31, 2019, to ¥1,891.1 billion. Assets held for sale decreased due to the sale of the Mie Plant and the progress made in the collection of trade receivables. Cash and cash equivalents were up ¥35.1 billion from March 31, 2019, to ¥451.8 billion. Inventories increased ¥12.0 billion, to ¥238.0 billion. The monthly inventory turnover rate, an indicator of asset efficiency, was 1.13 times, declining 0.09 percentage point from March 31, 2019. The increase in inventories was the result of the rise in inventories of *Fugaku*, manufacturing of which has commenced following the completion of its development, started in 2014. Non-current assets increased ¥150.8 billion year on year, to ¥1,296.3 billion. Property, plant and equipment, net of accumulated depreciation, increased ¥131.0 billion. From the year ended March 31, 2020, the Group has adopted IFRS 16 Leases (hereinafter referred to as "IFRS 16"). Assets relating to leases increased due to the recognition of right-of-use assets based on the lease term at the lease commencement date, which were previously expensed as operating leases at the time of payment and were off balance sheet.

Total liabilities amounted to ¥1,839.0 billion, a decrease of ¥12.2 billion from March 31, 2019. Current liabilities came to ¥1,365.6 billion, up ¥0.7 billion compared with March 31, 2019. Non-current liabilities came to ¥473.4 billion, a decrease of ¥12.9 billion. Interest-bearing loans, which consist of current liabilities and non-current liabilities, corporate bonds, borrowings, and lease obligations, totaled ¥405.5 billion. Interest-bearing loans increased ¥89.3 billion from March 31, 2019, due to an increase in lease obligations at the beginning of the year ended March 31, 2020, as a result of the adoption of IFRS 16, despite the Company proceeding to repay debt and partially redeemed bonds. As a result, the D/E ratio was 0.33 times, an increase of 0.05 of a point compared with March 31, 2019. The Company maintained its net cash position with a balance of net interest-bearing loans, representing interest-bearing loans minus cash and cash equivalents, reported at negative ¥46.2 billion.

Total equity was ¥1,348.4 billion, an increase of ¥94.8 billion from March 31, 2019. Retained earnings was ¥735.9 billion, an increase of ¥159.0 billion compared with March 31, 2019. This increase resulted in part from the recording of ¥160.0 billion in profit for the year attributable to owners of the parent. Other components of equity decreased ¥22.3 billion compared with March 31, 2019, to ¥2.3 billion. This was due to a decrease in the foreign currency translation adjustments of subsidiaries outside Japan because of yen appreciation and the sale of shares held via cross-shareholdings. Treasury stock was negative ¥59.6 billion. Holdings increased due to the acquisition of ¥29.9 billion of treasury stock in the year ended March 31, 2020 from a maximum allowance of ¥50 billion announced in January 2020 as a shareholder return measure. As a result, total equity attributable to owners of the parent (owners' equity) was ¥1,240.9 billion and the equity attributable to owners of the parent (owners' equity) ratio was 38.9%, an increase of 2.4 percentage points compared with March 31, 2019. With its sights set on ensuring financial soundness appropriate for a company supporting social infrastructure, the Company has fortified its financial position in recent years. To minimize the impact of market volatility, the Company has succeeded in improving its financial stability by promoting measures that include a change in its retirement benefit plan and the transfer of shares held via cross-shareholdings, in addition to accumulating retained earnings.

As an off-balance liability not recorded on the consolidated statement of financial position, the contracted commitment stipulated to acquire assets under IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets was ¥77.6 billion.

Reference: Status of Retirement Benefit Plans

(Billions of yen)

At March 31	2019	**2020**	YoY change
a. Defined benefit obligation	(1,611.8)	**(1,455.8)**	155.9
b. Plan assets	1,502.6	**1,391.0**	(111.5)
c. Defined benefit obligation in excess of plan assets (a)+(b) . .	(109.2)	**(64.8)**	44.3

The defined benefit obligation of the employee defined benefit plans was ¥1,455.8 billion, down ¥155.9 billion from March 31, 2019. Plan assets stood at ¥1,391.0 billion, down ¥111.5 billion from March 31, 2019. As a result, the funded status of employee defined benefit plans (defined benefit obligation in excess of plan assets) was a shortage of ¥64.8 billion, representing an improvement of ¥44.3 billion compared with March 31, 2019.

The funded status of employee retirement benefit plans in Japan worsened by ¥24.8 billion from March 31, 2019, as pension assets decreased due to the decline in share prices as of March 31, 2020. The funded status of employee retirement benefit plans overseas improved by ¥69.1 billion as of March 31, 2020 compared with March 31, 2019, due to an increase in pension assets as a result of a rise in bond prices following the decline in interest rates and a decrease in the defined benefit obligation because of a decline in the inflation rate.

4. Cash Flows

Summarized Consolidated Statement of Cash Flows

(Billions of yen)

Years ended March 31	2019	**2020**	YoY change
I Cash flows from operating activities. .	99.4	**347.2**	247.8
II Cash flows from investing activities . .	4.1	**(114.2)**	(118.3)
I+II Free cash flow	103.5	**233.0**	129.4
III Cash flows from financing activities . .	(136.6)	**(193.1)**	(56.5)
IV Cash and cash equivalents at end of year	416.7	**453.0**	36.2

Net cash provided by operating activities in the year ended March 31, 2020 amounted to ¥347.2 billion, representing an increase in cash inflows of ¥247.8 billion compared with the year ended March 31, 2019. Even on the basis of excluding ¥57.8 billion, the impact of the adoption of IFRS 16 Leases from the year ended March 31, 2020, net cash provided by operating activities improved compared with the year ended March 31, 2019. Factors included an increase in profit before income taxes due to the solid performance of core businesses and progress in the collection of accounts receivable.

Net cash used in investing activities was ¥114.2 billion, a turnaround of ¥118.3 billion from net cash provided by investing activities in the year ended March 31, 2019. We are moving forward with the sale of shares held via cross-shareholdings, as planned, and there was a cash inflow of ¥19.1 billion from proceeds from sales of investment securities in the year ended March 31, 2020. In addition, a cash inflow of ¥40.5 billion was recorded from the sale of a business, following the transfer of the Mie Plant in the year ended March 31, 2020. In the year ended March 31, 2019, there was a cash inflow of ¥77.9 billion from proceeds from sales of investment securities as well as ¥43.7 billion from the transfer of a business due to business model transformation and collection of loans receivable. Cash outflows from acquisitions of property, plant and equipment and intangible assets increased ¥12.3 billion from the year ended March 31, 2019, to ¥132.9 billion in the year ended March 31, 2020, mainly as a result of the acquisitions of datacenter equipment, cloud service equipment, semiconductor package manufacturing facilities and intangible assets, and software. In addition, there was a net outflow of ¥33.7 billion from short-term investments such as time deposits.

Free cash flow, the sum of cash flows from operating and investing activities, was ¥233.0 billion, representing a substantial increase in net cash inflows of ¥129.4 billion compared with the year ended March 31, 2019.

Net cash used in financing activities was ¥193.1 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 ¥56.5 billion from the year ended March 31, 2019.

As a result of the above, cash and cash equivalents as of March 31, 2020 stood at ¥453.0 billion, an increase of ¥36.2 billion compared with March 31, 2019.

The Group has to date concentrated management resources on Technology Solutions, its core business, while working to fortify its financial structure. Going forward, in accelerating our transformation into a DX company, we will allocate cash by striking the right balance between strategic investments for growth and stable shareholder returns as we seek to continuously increase corporate value, based on a sound financial foundation.

The Group will strengthen the capacity to generate cash by sustainable growth and improving profitability of core businesses, and proceed with the recycling of assets currently held, such as shares held via cross-shareholdings and non-core businesses.

The Group will allocate the cash generated by striking the right balance between ensuring financial soundness, strategic investments for growth, and stable shareholder returns.

A certain level of financial soundness has been ensured and for further improvement, the Group will continue to make efforts to improve asset efficiency in the future.

The Group will proceed with strategic investment for growth proactively because it is directly linked to the sustainable growth of businesses and improvement of profitability. In order to achieve growth in the digital field, such as AI and DX, the Group will carry out investments including service-offering investment, the expansion of consulting services through M&As, alliances with leading companies, and venture investments. Moreover, with the goal of accelerating internal DX, we will conduct investments that encourage our own transformation, such as the acquisition of highly talented professionals, the bolstering of internal systems, sustainability, and the promotion of environmental, social, and governance (ESG)-related areas.

Regarding shareholder returns, the Company has been increasing dividends for four consecutive years, and it aims to implement stable dividends over the medium to long term that are commensurate with the growth levels of its business and profit. In addition, the Company will flexibly buy back its own shares, considering the demand for funds and ensuring financial soundness.

As of March 31, 2020, the Group had cash and cash equivalents of ¥451.8 billion. In order to address urgent demands for funds, the Group maintains liquidity at a level equivalent to approximately several months' worth of sales. The Group cancelled the commitment lines established with multiple financial institutions due to the transformation of its business model, given that it is establishing a financial position that will continuously generate cash going forward, that it holds a certain amount of highly liquid short-term investments, and that it has adequate liquidity at the present time.

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, 2020, 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, 2019.

Taking into account the characteristics and risks of each business, country, and region, the Group calculates the cost of raising funds as the weighted average of the cost of shareholders' equity and the cost of borrowing. The Group uses this approach as a guideline when making investment decisions and assessing the recoverability of investments in each business. The Group will concentrate management resources in the DX business, where demand will continue to rise, and achieve high levels of profitability over the medium to long term. Through these efforts, we believe that we will be able to realize returns that are higher than the cost of raising funds.

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, 2020 is presented in Note "6. Segment Information."

6. Significant Accounting Policies and Estimates

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.

With regard to key estimates and judgments that have a significant effect on the amounts recognized in the consolidated financial statements, please refer to Note "4. Use of Accounting Estimates and Judgments."