MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") for the year ended March 31, 2014 (fiscal 2013). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2014.

The Company's consolidated subsidiaries outside Japan prepare their financial statements in accordance with IFRS (International Financial Reporting Standards). The effect of a revision to IAS 19 "Employee Benefits" is retrospectively reflected to the Group's consolidated financial statements for fiscal 2012. As a result, compared to the amounts prior to the retrospective application, the fiscal 2012 amounts for operating income, income before income taxes and minority interests, and net income have all been reduced by ¥7.0 billion. Other comprehensive income has decreased by ¥40.6 billion and comprehensive income has decreased by ¥47.6 billion. Also, as a result of bringing the unrecognized obligation for retirement benefits for plans at consolidated subsidiaries outside Japan on the balance sheet, total assets as of March 31, 2013 were reduced by ¥128.7 billion, while total liabilities increased by ¥28.6 billion and total net assets were reduced by ¥157.3 billion (comprising reductions of ¥7.0 billion in retained earnings and ¥150.3 billion in accumulated other comprehensive income). For details, please see "4. Retrospective revisions due to changes in accounting standards."

The impact of exchange rate fluctuations is calculated by taking the average exchange rates in fiscal 2012 for the US dollar, euro, and British pound and applying them to foreign currency-denominated transactions in fiscal 2013.

1. Analysis of Results

Business Environment

The global economy during fiscal 2013 continued to experience a moderate recovery. In Europe, there was a resumption of economic growth and signs of an economic recovery, particularly in Germany and the UK. In the US, uncertainties over the federal government's fiscal policies eased, and the economy continued to recover, especially consumer spending and corporate capital investment.

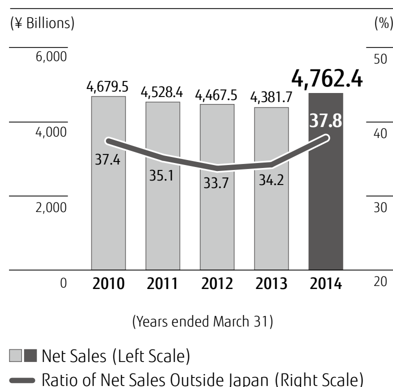
In Japan, due to a stock market rally and yen depreciation spurred on by the government's economic policy and monetary easing by the Bank of Japan, the economy is undergoing a moderate recovery. Consumer spending rose, in part spurred by a demand for purchases prior to an increase in the consumption tax rate. There has been a moderate recovery in exports resulting from an improved economic environment owing to the weaker yen and recovery in markets outside Japan.

ICT (Information and Communication Technology) investment in Japan is gradually increasing on signs of a rebound in corporate capital investment resulting from a recovery in corporate earnings.

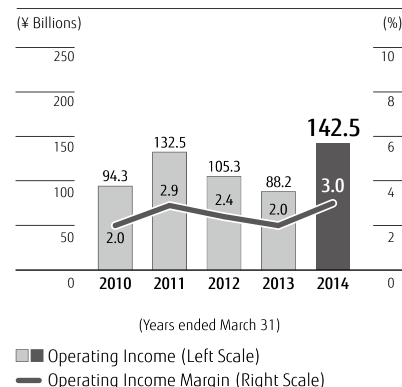
Condensed Consolidated Income Statements (Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change	Change (%)
Net sales	4,381.7	**4,762.4**	380.7	8.7
Cost of sales	3,177.9	**3,493.2**	315.2	9.9
Gross profit	1,203.7	**1,269.1**	65.4	5.4
Selling, general and administrative expenses	1,115.4	**1,126.6**	11.1	1.0
Operating income	88.2	**142.5**	54.2	61.5
Other income (expenses)	(140.3)	**(49.6)**	90.7	–
Income (loss) before income taxes and minority interests	(52.1)	**92.9**	145.0	–
Income taxes	24.2	**37.0**	12.8	52.8
Minority interests in income (loss) of consolidated subsidiaries	3.5	**7.2**	3.7	105.2
Net income (loss)	(79.9)	**48.6**	128.5	–

Net Sales and Ratio of Net Sales Outside Japan



Operating Income and Operating Income Margin



Reference: Financial Indicators (Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change
Net sales	4,381.7	**4,762.4**	380.7
Sales outside Japan	[1,498.2]	**[1,801.4]**	[303.2]
Ratio of sales outside Japan	[34.2%]	**[37.8%]**	[3.6%]
Gross profit margin	27.5%	**26.7%**	(0.8%)
Operating income margin	2.0%	**3.0%**	1.0%
Return on equity (ROE)	(11.8%)	**8.1%**	19.9%

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

Reference: Quarterly Breakdown of Net Sales and Operating Income for the year ended March 31, 2014 (Unit: billion yen)

Consolidated	1Q	2Q	3Q	4Q	Full Year
Net sales	999.2	1,152.3	1,200.7	1,410.1	4,762.4
YoY Change	41.8	37.9	152.4	148.4	380.7
Operating income	(22.8)	33.6	26.1	105.5	142.5
YoY Change	3.9	2.5	32.0	15.7	54.2

Breakdown by Main Business Segment (Unit: billion yen)

Technology Solutions	1Q	2Q	3Q	4Q	Full Year
Net sales	677.5	785.3	786.3	993.7	3,243.0
YoY Change	50.4	72.0	85.7	92.4	300.6
Operating income	2.5	55.7	44.4	106.3	209.1
YoY Change	3.4	11.1	22.6	(2.0)	35.1

Ubiquitous Solutions	1Q	2Q	3Q	4Q	Full Year
Net sales	215.9	262.7	321.2	325.4	1,125.4
YoY Change	(18.6)	(52.0)	54.7	51.1	35.2
Operating income	(17.1)	(11.6)	(5.4)	12.0	(22.1)
YoY Change	(15.1)	(24.0)	(3.3)	10.8	(31.7)

Device Solutions	1Q	2Q	3Q	4Q	Full Year
Net sales	145.3	159.0	146.0	149.7	600.2
YoY Change	15.0	20.7	16.5	7.5	59.9
Operating income	7.6	10.4	4.2	6.1	28.3
YoY Change	11.2	13.8	13.5	3.9	42.6

Net Sales

Consolidated net sales for fiscal 2013 were ¥4,762.4 billion ($46,237 million), an increase of 8.7% from fiscal 2012. Excluding the impact of foreign exchange fluctuations, sales were up by 2%. Net sales in Japan increased by 2.7%. Sales of mobile phones were down sharply, in the first half, but sales of system integration services increased, mainly to the public sector and financial institutions, as did sales of PCs and network products. Outside Japan, sales were up 20.2% from the previous fiscal year, and on a constant currency basis, increased by 1%. Sales of car audio and navigation equipment and optical transmission systems in North America were higher than fiscal 2012.

On a Group-wide basis, net sales increased year on year in every quarter, but sales performance by operating segment was mixed. In the Technology Solutions segment, which comprises the Group's core businesses, including services, server-related, and network products businesses, consolidated segment net sales increased at an ever faster pace quarter after quarter, with sales growth of over ¥50 billion in the first quarter, over ¥70 billion in the second quarter, over ¥80 billion in the third quarter, and over ¥90 billion in the fourth quarter. Consolidated segment net sales increased year on year, mainly around the services businesses in Japan, with steady performance from infrastructure services throughout the year, in addition to strong sales in Systems Integration as customers expanded their investment spending. The Ubiquitous Solutions segment, which involves PCs, mobile phones and so forth, saw sales decline sharply in the first half of the fiscal year, but double-digit sales growth was attained in the second half, with sales increasing year on year on a full-year basis. Mobile phone sales volume fell sharply in the first half of the fiscal year due to a revision of smartphone sales strategies by telecommunications carriers, but recovered in the second half, returning to mostly the same level as the previous fiscal year. In addition, there was a significant increase in enterprise PC sales from the second quarter onward on higher demand for replacements on the end of support for an operating system product. The Device Solutions segment saw the core LSI device business post higher sales year on year in each quarter.

In fiscal 2013, the average yen exchange rates against the US dollar, the euro, and the British pound were ¥100, ¥134, and ¥159, respectively, representing a year-on-year depreciation of ¥17 against the US dollar, ¥27 against the euro, and ¥28 against the British pound. Exchange rate fluctuations versus the US dollar, euro, and British pound caused an increase in net sales of approximately ¥100.0 billion, ¥110.0 billion, and ¥70.0 billion, respectively. As a result, currency exchange rate fluctuations had a positive impact of approximately ¥280.0 billion on net sales for fiscal 2013, lifting the overseas sales ratio by 3.6 percentage points to 37.8%.

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

The cost of sales totaled ¥3,493.2 billion ($33,915 million), with gross profit of ¥1,269.1 billion ($12,322 million), representing net sales minus cost of sales, for a gross profit margin of 26.7%. Gross profit increased ¥65.4 billion compared to the previous fiscal year, due mainly to foreign exchange movements and the beneficial effect of initiatives for improving profitability, although there was a decline in mobile phone sales. The gross profit margin declined 0.8 of a percentage point compared to the previous fiscal year, primarily the result of deteriorating profitability in mobile phones.

Selling, general and administrative (SG&A) expenses were ¥1,126.6 billion ($10,938 million), an increase of ¥11.1 billion from the previous year, attributable to foreign exchange effects and other factors. The Company made progress in generating Group-wide cost efficiencies, and SG&A expenses declined on a constant-currency basis. Among SG&A expenses, R&D spending amounted to ¥221.3

billion ($2,149 million), a decrease of ¥9.6 billion compared to the previous year. The decrease was primarily a result of increased development efficiency in mobile phones and the effects of selling the microcontroller and analog device businesses in the LSI device business. R&D spending increased in the Technology Solutions segment, with a primary focus on network products. The ratio of R&D expenses to net sales was 4.6%.

As a result, operating income amounted to ¥142.5 billion ($1,384 million), an increase of ¥54.2 billion compared to fiscal 2012. The operating income margin was 3.0%, a rise of 1.0 percentage point, mainly because of profit margin improvements due to lower fixed costs in the LSI device business and higher Systems Integration sales.

Operating income in the Technology Solutions segment increased continuously from the first to third quarters, but declined in the fourth quarter due to measures to enhance products for the next fiscal year and declining profitability in certain projects in services businesses outside Japan. The Technology Solutions segment posted operating income of more than ¥200.0 billion for fiscal 2013, an increase of more than 20% from the previous fiscal year. Meanwhile, the Ubiquitous Solutions segment, which involves PCs, mobile phones and so forth, recorded successive operating losses up until the third quarter, due to a sharp decline in mobile phone sales volume and cost outlays for quality improvement measures. However, the Ubiquitous Solutions segment returned to profitability in the fourth quarter atop an increase in enterprise PC sales on higher demand for replacements as a consequence of the ending of support for an operating system product. Since returning to profitability in the fourth quarter of the previous fiscal year, the Device Solutions segment was profitable in each quarter of fiscal 2013, delivering higher operating income year on year.

The Group strives to minimize the impact of currency exchange rate fluctuations on earnings. During fiscal 2013, fluctuations in currency exchange rates had the effect of raising operating income by approximately ¥5.0 billion relative to the previous year. Losses in the LSI device and electronic components businesses improved as the yen weakened against the US dollar; however, profitability was negatively impacted in the PC, mobile phone, server, and other businesses that procure US dollar-denominated materials. Furthermore, the depreciation of the yen against the euro had the effect of increasing the profits of European subsidiaries when translated into Japanese yen, while the appreciation of the euro against the US dollar reduced the procurement cost of US dollar-denominated materials at European subsidiaries. For fiscal 2013, an appreciation of one yen (¥1) in the currency exchange rate translated into an impact on operating income of approximately ¥0.3 billion for the US dollar, negative ¥0.2 billion for the euro, and ¥0.0 billion for the British pound.

Other Income (Expenses), Net Income and Comprehensive Income

Other income (expenses) amounted to a net loss of ¥49.6 billion ($482 million), an improvement of ¥90.7 billion from the previous fiscal year. Fujitsu recorded a ¥6.8 billion gain on sales primarily of available-for-sale securities and a ¥4.7 billion gain on sales of property, plant and equipment and intangible assets. The Company recorded restructuring charges of ¥31.1 billion, a loss on the reversal of foreign currency translation adjustments of ¥21.6 billion, which stemmed from the liquidation of US subsidiary Fujitsu Management Services of America, Inc., and an impairment loss of ¥6.4 billion recorded under other expenses, relating to operational assets of manufacturing subsidiaries.

The restructuring charges mainly consisted of ¥21.0 billion ($204 million) for the LSI device business, ¥4.9 billion ($48 million) for the mobile phone business, and ¥4.2 billion ($41 million) for business outside Japan. In the LSI device business, the charges were mainly attributable to the system LSI (SoC: System on a Chip) business, which is scheduled to be integrated, and consisted of the costs for settling retirement benefit liabilities and losses on the disposal of assets. There were also charges stemming from the cost of restructuring the production lines for standard logic devices as well as losses on the disposal of assets. In the mobile phone business, the charges stemmed from losses on the disposal of assets in the process of integrating production sites as well as expenses incurred in reallocating personnel. The charges for businesses outside of Japan were primarily in the Nordic region and consisted of workforce rationalization expenses.

Consolidated net income for fiscal 2013 was ¥48.6 billion ($472 million), representing a year-on-year improvement of ¥128.5 billion. Income before income taxes and minority interests amounted to ¥92.9 billion ($902 million), an improvement of ¥145.0 billion compared to the previous fiscal year. However, income taxes increased ¥12.8 billion year on year to ¥37.0 billion. The ratio of income taxes to income before income taxes and minority interests was 39.9%. The Group's tax burden was higher than the standard effective income tax rate, mainly because of the amortization of goodwill for which tax effects cannot be recognized, and the inclusion in income before income taxes of the amortization of unrecognized obligation for retirement benefits at overseas consolidated subsidiaries, for which the recording of deferred tax assets is restricted. Income taxes included a reduction of approximately ¥13.0 billion in the company's tax burden in connection with the liquidation of US subsidiary Fujitsu Management Services of America, Inc., and a one-time increase in tax expenses of approximately ¥4.0 billion due to the early termination of the Special Reconstruction Corporation Tax. In addition, minority interests in income of consolidated subsidiaries was ¥7.2 billion ($71 million), a year-on-year improvement of ¥3.7 billion, as there was a rebound in the financial performance of a listed subsidiary in the electronic components business.

The Group views profitability and efficiency of invested capital in businesses as important management indicators. For fiscal 2013, the return on equity, calculated by dividing net income by average owners' equity, was positive 8.1%, a change from negative 11.8% in the previous fiscal year.

Other comprehensive income totaled ¥49.0 billion ($476 million), primarily as a result of an improvement in foreign currency translation adjustment stemming from the ongoing depreciation of the yen. There

was also the impact of the balance reversal on the liquidation of US subsidiary Fujitsu Management Services of America, Inc. Unrealized gain and loss on securities had a positive impact due to a rise in stock prices. For pension plans outside of Japan that were reflected on the Company's balance at the beginning of fiscal 2013, the impact of the increased liability caused by the weaker yen is included in remeasurements of defined benefit plans, net of taxes.

Comprehensive income, representing the total of other comprehensive income and income before minority interests, was ¥104.9 billion ($1,019 million).

2. Segment Information

Information by Operating Segment

Sales and Operating Income by Segment

The reportable segments were consolidated into the three segments of "Technology Solutions," "Ubiquitous Solutions," and "Device Solutions," based on organizational structure, the characteristics of the products and services, and the similarities in sales markets. The "Other Operations" segment includes operations not included in the reportable segments, such as Japan's Next-Generation Supercomputer project, facility services and the development of information systems for Group companies, and welfare benefits for Group employees.

Sales (including intersegment sales) and operating income by segment for fiscal 2013 are shown as follows:

(Unit: billion yen)

Years ended March 31		2013	**2014**	YoY Change	Change (%)
Technology Solutions	Net sales	2,942.3	**3,243.0**	300.6	10.2
	Operating income	173.9	**209.1**	35.1	20.2
	[Operating income margin]	[5.9%]	**[6.4%]**	[0.5%]	
Ubiquitous Solutions	Net sales	1,090.2	**1,125.4**	35.2	3.2
	Operating income	9.6	**(22.1)**	(31.7)	–
	[Operating income margin]	[0.9%]	**[(2.0%)]**	[(2.9%)]	
Device Solutions	Net sales	540.3	**600.2**	59.9	11.1
	Operating income	(14.2)	**28.3**	42.6	–
	[Operating income margin]	[(2.6%)]	**[4.7%]**	[7.3%]	
Other Operations/ Elimination & Corporate	Net sales	(191.2)	**(206.3)**	(15.0)	–
	Operating income	(81.0)	**(72.8)**	8.2	–
Consolidated	Net sales	4,381.7	**4,762.4**	380.7	8.7
	Operating income	88.2	**142.5**	54.2	61.5
	[Operating income margin]	[2.0%]	**[3.0%]**	[1.0%]	

Technology Solutions

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

Consolidated segment net sales amounted to ¥3,243.0 billion ($31,486 million), up 10.2% from fiscal 2012. Sales in Japan increased 6.1%. In system integration services, sales increased, primarily in the public sector and financial services sector, as customers expanded their investment spending. In network products, while demand for 3G communications equipment to deal with the larger volume of communications traffic has passed its peak, overall sales increased on spending by telecommunications carriers to expand LTE*[1] service area coverage and increase transmission speeds. Server-related sales rose due to the contribution of large-scale systems deals in the public sector. In infrastructure services, although sales of outsourcing services remained steady, sales were adversely impacted by a shift from packaged products that include connection fees to stand-alone products in the ISP*[2] business, along with a greater emphasis on profitability that resulted in a loss of subscribers. Sales outside Japan increased 18.2% but were essentially unchanged on a constant-currency basis. Sales of optical transmission systems increased in North America as investment by telecommunications carriers rebounded, but sales of the new UNIX server model were weak.

Segment operating income amounted to ¥209.1 billion ($2,030 million), up ¥35.1 billion compared to fiscal 2012. In Japan, despite a higher burden of upfront development expenditures in network products and the effect of higher server-related procurement costs due to the weaker yen, operating income rose on increased sales of system integration services and network products, in addition to the impact of workforce-related measures. Outside Japan, although profitability deteriorated for certain projects in Australia, operating income benefited from the impact of structural reforms in Europe, higher sales of optical transmission systems in North America, and lower amortization expenses for goodwill.

Outside Japan, a series of workforce-related measures have been implemented to strengthen management fundamentals. In fiscal 2012, these measures were primarily implemented in Fujitsu's hardware business on the European continent, whereas in fiscal 2013 they were mainly undertaken at the services businesses in the Nordic region, the Americas, and Australia.

*[1] LTE: An abbreviation for Long Term Evolution, a standard for high-speed mobile communications which improves upon the third-generation (3G) standard.

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

Ubiquitous Solutions

The Ubiquitous Solutions segment contains ubiquitous terminals or sensors–including personal computers and mobile phones, as well as car audio and navigation systems, mobile communication equipment, and automotive electronic equipment–that collect and utilize various information and knowledge generated from the behavioral

patterns of people and organizations needed to achieve the Group's vision of a "Human Centric Intelligent Society" (a society that enjoys the benefits of the value generated by ICT without requiring anyone to be conscious of the technological complexities involved).

Net sales in this segment were ¥1,125.4 billion ($10,927 million), an increase of 3.2% from fiscal 2012. Sales in Japan were down by 3.5%. There was a significant increase in enterprise PC sales on higher demand for replacements as a consequence of the ending of support for an operating system product. Unit sales of consumer PCs declined due to the shrinking market, although the value of sales was essentially unchanged from fiscal 2012. This was due to the impact of the weaker yen being passed on to higher sales prices, and higher demand for purchases in the fourth quarter prior to an increase in consumption tax. In mobile phones, sales in the first half of the fiscal year fell sharply on the impact of the revised smartphone sales strategies of telecommunications carriers, but recovered in the second half as one of Fujitsu's smartphones was selected by a telecommunications carrier as a recommended model, resulting in year-on-year sales being essentially unchanged from fiscal 2012. Sales of the Mobilewear sub-segment's car audio and navigation systems had been sluggish in the wake of the conclusion of the government's subsidy program for eco-friendly vehicles, but rose on a rebound in the number of new vehicles sold and on the impact of higher demand prior to the increase in the consumption tax. Sales outside Japan increased 23.9%. On a constant-currency basis, sales increased 7%. Unit sales of PCs in Europe declined due to a shift in the sales strategy to emphasize profitability, but Mobilewear sales rose, primarily in North America.

The segment posted an operating loss of ¥22.1 billion ($215 million), a deterioration of ¥31.7 billion from fiscal 2012. In Japan, operating income for mobile phones was adversely impacted by the sharp decline in unit sales, as well as by higher costs due to quality enhancement measures. Operating income in PCs benefited from higher sales. Although there was an increase in procurement costs as a result of the weaker yen, progress was made in passing these on in higher sales prices. Sales in the Mobilewear sub-segment also increased, although they were adversely impacted by higher development expenses. Outside of Japan, euro weakness against the dollar in the previous year caused dollar-denominated parts procurement costs to rise for PCs in Europe, but there was a temporary reduction in the estimated expenses from copyright levies imposed on PCs in Germany as a result of a settlement with a copyright organization. In addition, operating income benefited from the rise in sales of the Mobilewear sub-segment.

In its mobile phone business, in April 2014, Fujitsu integrated the production facilities of two of its mobile phone manufacturing subsidiaries, Fujitsu Mobile-phone Products Limited (Tochigi Prefecture) and Fujitsu Peripherals Limited (Hyogo Prefecture), with volume production capacity consolidated into Fujitsu Peripherals Limited. The Group aims to increase productivity and create a highly flexible production facility agile enough to withstand volume fluctuations. For product development, the Group aims to streamline operations through a shared development model, enabling staff to be reallocated to new business areas, such as enterprise solutions and automotive-related businesses.

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.

Net sales in this segment totaled ¥600.2 billion ($5,828 million), an increase of 11.1% compared to fiscal 2012. Sales in Japan fell 1.3%. Sales of LSI devices used in smartphones increased, but those used in digital audio-visual equipment and IT equipment decreased, among others. In electronic components, while sales of semiconductor packages and batteries declined, sales of optical transceiver modules for telecommunications equipment increased, resulting in overall sales of Electronic Components being essentially unchanged from fiscal 2012. Sales outside Japan increased 26.1%. On a constant-currency basis, sales increased by 5%. Sales of LSI devices, primarily those used in smartphones, increased.

The segment recorded operating income of ¥28.3 billion ($276 million), representing an improvement of ¥42.6 billion from fiscal 2012. In Japan, operating income benefited from lower overhead expenses owing to an early retirement incentive plan and other factors in the LSI device business. High capacity utilization rates were maintained in the Mie Plant's 300 mm line on higher demand for use in smartphones, but low capacity utilization rates continued in the production lines for standard logic devices such as its 200 mm line. The Group is working to consolidate its standard logic device production lines in Japan's Aizu-Wakamatsu region to enhance capacity utilization. Outside Japan, results were bolstered by higher demand for LSI devices and Electronic Components as well as by the impact of higher sales because of the weaker yen.

In accordance with a restructuring plan decided in February 2013, the Group made progress on the structural transformation of its LSI device business. In August 2013, it sold its microcontroller and analog device business to the Spansion Group of the US, and in February 2014 it integrated its gallium-nitride (GaN) power device business with that of Transphorm, Inc., also of the US. In April 2014, the Company signed a memorandum of understanding with Panasonic Corporation and Development Bank of Japan (DBJ), in which it has agreed to integrate its system LSI (SoC) business with that of Panasonic in a new fabless company to be established, to which DBJ will provide equity capital and debt financing. A final agreement is expected to be reached by the end of the first quarter of fiscal 2014, and it is expected in the third quarter that the integration will be completed and the new company will start business. It is expected that Fujitsu will hold a 40.0% share of voting rights in the new company, which is to be operated as an independent business with the aim of making an initial public offering in a few years' time.

Losses of ¥21.0 billion were recorded in relation to the structural reforms of the LSI device business (of which extraordinary losses of ¥7.0 billion were recorded on the sale and integration of businesses, and ¥14.0 billion from the restructuring of the 200 mm line and

other standard logic device production facilities of the Mie Plant and facilities in the Aizu-Wakamatsu region). The loss on the sale and integration of businesses primarily consists of expenses to cover the settlement of retirement benefit obligations and losses on the disposal of assets for the system LSI (SoC) business. The loss associated with the restructuring of the standard logic device production facilities primarily consists of expenses for consolidating the 200 mm production lines and losses on the disposal of assets.

Other Operations/Elimination and Corporate

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

This category also includes expenses which are not classified into an operating segment. The expenses consist of strategic expenses such as basic research and development expenses, as well as group management shared expenses incurred by the Company.

The category posted an operating loss of ¥72.8 billion ($707 million), representing an improvement of ¥8.2 billion over fiscal 2012, mainly due to Company-wide cost efficiency improvements.

Geographic Information

One of the Group's management priorities is to increase sales and raise profitability of its business in growing markets outside Japan. Geographic financial information is important to the Group's business management and is useful for shareholders and investors in understanding the Group's financial overview.

(Unit: billion yen)

Years ended March 31		2013	**2014**	YoY Change	Change (%)
Japan	Net sales	3,306.4	**3,465.1**	158.6	4.8
	Operating income	178.4	**202.8**	24.3	13.6
	[Operating income margin]	[5.4%]	**[5.9%]**	[0.5%]	
Europe, Middle East, Africa (EMEA)	Net sales	785.2	**937.3**	152.1	19.4
	Operating income	(19.2)	**2.6**	21.9	–
	[Operating income margin]	[(2.5%)]	**[0.3%]**	[2.8%]	
The Americas	Net sales	273.7	**386.0**	112.3	41.1
	Operating income	(2.3)	**6.6**	9.0	–
	[Operating income margin]	[(0.9%)]	**[1.7%]**	[2.6%]	
APAC (Asia-Pacific) & China	Net sales	468.7	**542.1**	73.3	15.6
	Operating income	10.4	**8.9**	(1.5)	(15.0)
	[Operating income margin]	[2.2%]	**[1.6%]**	[(0.6%)]	
Elimination & Corporate	Net sales	(452.4)	**(568.2)**	(115.7)	–
	Operating income	(79.0)	**(78.5)**	0.5	–
Consolidated	Net sales	4,381.7	**4,762.4**	380.7	8.7
	Operating income	88.2	**142.5**	54.2	61.5
	[Operating income margin]	[2.0%]	**[3.0%]**	[1.0%]	

Japan

Net sales amounted to ¥3,465.1 billion ($33,642 million), an increase of 4.8% compared to fiscal 2012. Sales of mobile phones were down sharply, but sales of systems integration services, mainly to public-sector and financial institutions, increased, as did sales of PCs and network products. Operating income in Japan was ¥202.8 billion ($1,969 million), a year-on-year increase of ¥24.3 billion. Despite deteriorating profitability in mobile phones, operating income increased on the impact of workforce-related measures as well the restructuring of the LSI device business, in addition to the benefits of higher sales of systems integration services.

EMEA (Europe, Middle East, Africa)

Net sales amounted to ¥937.3 billion ($9,100 million), an increase of 19.4% from fiscal 2012, although, on a constant-currency basis, sales fell by 2%. The sales strategy for PCs switched to an emphasis on profitability over volume and sales declined, primarily in emerging markets. Operating income was ¥2.6 billion ($25 million), representing an improvement of ¥21.9 billion from fiscal 2012. In Germany, in addition to improved profitability in PCs, there was also a temporary reduction in the estimated expenses from copyright levies imposed on PCs at a European subsidiary as a result of a settlement with a copyright organization. Operating income for infrastructure services improved owing to structural reforms. It should also be noted that, to adjust for differences in accounting between Japanese accounting standards and IFRS, fiscal 2013 operating income reflects approximately ¥5.0 billion in amortization expenses for goodwill and approximately ¥17.0 billion in amortization expenses for retirement benefits.

The Americas

Net sales amounted to ¥386.0 billion ($3,748 million), an increase of 41.1% from fiscal 2012. On a constant currency basis, sales increased 25%. Sales rose for car audio and navigation equipment and optical transmission systems. Operating income for the region amounted to ¥6.6 billion ($64 million), an improvement of ¥9.0 billion from fiscal 2012. In addition to the effects of higher sales, lower amortization expenses for goodwill and improved profitability in infrastructure services contributed to the improvement of operating income.

APAC (Asia Pacific) & China

Net sales amounted to ¥542.1 billion ($5,263 million), a year-on-year increase of 15.6%. Sales of car audio and navigation systems and infrastructure services increased. Operating income was ¥8.9 billion ($86 million), a decrease of ¥1.5 billion from fiscal 2012. Despite higher sales, operating income was adversely affected by the deteriorating profitability of certain Infrastructure Services projects in Australia.

3. Analysis of Capital Resources and Liquidity

Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets (Unit: billion yen)

As of March 31	2013	**2014**	YoY Change
Assets			
Current assets	1,722.2	**1,866.4**	144.1
Property, plant and equipment	618.4	**619.6**	1.1
Intangible assets	187.3	**186.2**	(1.0)
Investments and other non-current assets	392.2	**407.2**	14.9
Total assets	2,920.3	**3,079.5**	159.2
Liabilities			
Current liabilities	1,568.5	**1,462.3**	(106.1)
Long-term liabilities	599.3	**914.7**	315.3
Total liabilities	2,167.8	**2,377.0**	209.1
Net assets			
Shareholders' equity	825.5	**874.2**	48.6
Accumulated other comprehensive income	(201.5)	**(301.0)**	(99.5)
Minority interests in consolidated subsidiaries	128.3	**129.1**	0.8
Total net assets	752.4	**702.4**	(49.9)
Total liabilities and net assets	2,920.3	**3,079.5**	159.2
Cash and cash equivalents at end of year	286.6	**301.1**	14.5
Interest-bearing loans	534.9	**519.6**	(15.3)
Net interest-bearing loans	248.3	**218.4**	(29.8)
Owners' equity	624.0	**573.2**	(50.8)

Notes: Year-end balance of interest-bearing loans: Short-term borrowings and current portion of bonds payable (Current liabilities) + Long-term borrowings and bonds payable (Long-term liabilities)*
Net interest-bearing loans: Interest-bearing loans – Cash and cash equivalents
Owners' equity: Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries
* ¥284.5 billion of cash and cash equivalents in consolidated statements of cash flows as of the end of the previous fiscal year is calculated by deducting ¥2.0 billion of overdrafts, which is categorized within short-term borrowings in current liabilities, from cash and cash equivalents in the consolidated balance sheets.

Reference: Financial Indicators (Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change
Inventories	323.0	**330.2**	7.1
[Inventory turnover ratio]	[13.33]	**[14.58]**	[1.25]
[Monthly inventory turnover rate]	[1.00]	**[1.07]**	[0.07]
Shareholders' equity ratio	28.3%	**28.4%**	0.1%
Owners' equity ratio	21.4%	**18.6%**	(2.8%)
D/E ratio (times)	0.86	**0.91**	0.05
Net D/E ratio (times)	0.40	**0.38**	(0.02)

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

Reference: Status of Retirement Benefit Plans (Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change
a. Projected benefit obligation	(2,151.1)	**(2,248.4)**	(97.2)
b. Plan assets	1,686.9	**1,865.1**	178.1
c. Projected benefit obligation in excess of plan assets (a)+(b)	(464.2)	**(383.3)**	80.8
(Net assets)			
Remeasurements of defined benefit plans, net of taxes	(149.7)	**(321.5)**	(171.8)
In Japan	–	**(146.7)**	(146.7)
Outside Japan	(149.7)	**(174.8)**	(25.0)
Unrecognized Obligation for Retirement Benefits for Plans in Japan	(308.7)	**(212.6)**	96.1
(Assumptions used in accounting for the plans)			
Discount Rates			
In Japan	1.7%	**1.7%**	–%
Outside Japan (Mainly in the UK)	mainly 4.4%	**mainly 4.4%**	–%

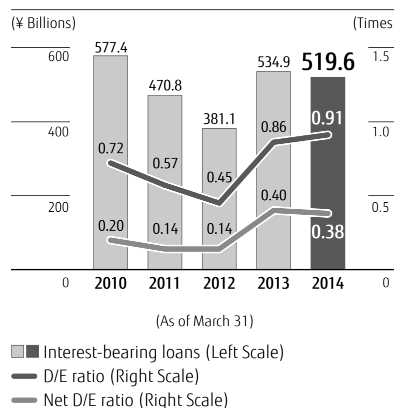
Consolidated total assets at the end of fiscal 2013 amounted to ¥3,079.5 billion ($29,898 million), an increase of ¥159.2 billion from the end of fiscal 2012. This represented an increase of approximately ¥120.0 billion as a result of the yen's depreciation. Current assets increased by ¥144.1 billion compared with the end of fiscal 2012, to ¥1,866.4 billion ($18,121 million). Notes and accounts receivable, trade increased by ¥95.0 billion as sales in the fourth quarter (January to March) of fiscal 2013 were higher than in the same period of fiscal 2012. Inventories at the end of fiscal 2013 increased to ¥330.2 billion ($3,206 million), up ¥7.1 billion from the ending balance of fiscal 2012, mainly due to the effects of the weaker yen. The monthly inventory turnover ratio, which is an indication of asset utilization efficiency, was 1.07 times, an improvement of 0.07 times from the end of fiscal 2012. In addition to more efficient management of inventories, particularly in PCs and LSI devices, the sale of the microcontroller and analog device business also had an impact. Fixed assets increased by ¥15.0 billion from the end of fiscal 2012, to ¥1,213.0 billion ($11,777 million). Investments and other noncurrent assets were ¥407.2 billion, up ¥14.9 billion from the end of fiscal 2012, mainly due to an increase in the value of available-for-sale securities attendant on the rise in stock prices. Moreover, as a result of a revision in the accounting standard for retirement benefits, the balance of unrecognized obligation for retirement benefits, such as actuarial gains and losses, is now to be recorded on the balance sheet as a defined benefit liability, offset with a defined benefit asset, together with the associated deferred tax asset.

Total liabilities amounted to ¥2,377.0 billion ($23,078 million), an increase of ¥209.1 billion compared to the end of fiscal 2012, mainly because unrecognized obligation for retirement benefits was recorded in accordance with a revision in the accounting standard for retirement benefits. Trade notes and accounts payable increased because of the impact of the weaker yen, whereas the provision for restructuring charges decreased on account of the payment of business structure improvement expenses for the LSI device business and businesses outside Japan. The balance of interest-bearing loans was ¥519.6 billion ($5,045 million), a decrease of ¥15.3 billion from the end of fiscal 2012. The Company issued ¥80.0 billion in straight bonds to cover the redemption of straight bonds and repay short-term borrowings and also made progress in paying down borrowings. As a result, the D/E ratio was 0.91 times, an increase of 0.05 of a percentage point compared to the end of fiscal 2012, and the net D/E ratio was 0.38 times, an increase of 0.02 of a percentage point compared to the end of fiscal 2012.

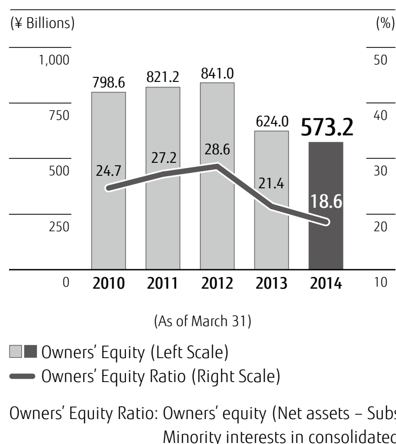
Net assets amounted to ¥702.4 billion ($6,820 million), a decrease of ¥49.9 billion from the end of fiscal 2012. Shareholders' equity increased, but accumulated other comprehensive income decreased. Shareholders' equity increased by ¥48.6 billion to ¥874.2 billion because of the net income being recorded in fiscal 2013. Accumulated other comprehensive income decreased by ¥99.5 billion compared to the end of fiscal 2012 to negative ¥301.0 billion, as a result of the reflection on the balance sheet of the unrecognized obligation for retirement benefits for plans in Japan, including actuarial gains and losses*[3], in accordance with a revision in the accounting standard for retirement benefits. Foreign currency translation adjustments was negative ¥17.7 billion compared to negative ¥79.4 billion at the end of fiscal 2012, on a reversal stemming from the liquidation of US subsidiary Fujitsu Management Services of America, Inc., and on the depreciation of the yen against the British pound. Unrealized gain and loss on securities increased ¥10.7 billion to ¥35.7 billion with a rise in stock prices. Consequently, consolidated owners' equity fell to ¥573.2 billion ($5,565 million), with an owners' equity ratio of 18.6%, representing a decline of 2.8 percentage points compared to the end of fiscal 2012.

With respect to the unrecognized obligation for retirement benefits, including actuarial gains and losses, of ¥387.2 billion for retirement benefits for plans in and outside Japan resulting from a revision in the accounting standard for retirement benefits, the ending balance of ¥321.5 billion on an after-tax basis has been fully recognized in remeasurements of define benefit plants, net of taxes under accumulated other comprehensive income as of the end of fiscal 2013, and has been deducted from net assets.

Interest-Bearing Loans, D/E Ratio and Net D/E Ratio



Owners' Equity/Owners' Equity Ratio



Owners' Equity Ratio: Owners' equity (Net assets − Subscription rights to shares − Minority interests in consolidated subsidiaries) ÷ Total assets

The unrecognized obligation for retirement benefits for plans in Japan improved by ¥96.1 billion from ¥308.7 billion at the end of fiscal 2012 to ¥212.6 billion ($2,064 million) at the end of fiscal 2013, mainly as a result of improvements in pension asset management. Following a revision in the accounting standard for retirement benefits, with regard to the ending balance of unrecognized obligation for retirement benefits of ¥212.6 billion, a post-tax amount of ¥146.7 billion has been deducted from remeasurements of defined benefit plans, net of taxes.

Meanwhile, the unrecognized obligation for retirement benefits relating to plans outside of Japan increased by ¥24.8 billion from ¥149.7 billion at the end of fiscal 2012 to ¥174.6 billion ($1,695 million), mainly because of the depreciation of the yen against the British pound. In accordance with a revision in "Employee Benefits" (IAS 19) applied at overseas consolidated subsidiaries, the amounts of unrecognized obligations for retirement benefits at the end of each fiscal year have been retrospectively revised, with deductions made from remeasurements of defined benefit plans, net of taxes in the amounts of ¥149.7 billion at the end of fiscal 2012 and ¥174.8 billion at the end of fiscal 2013.

Moreover, among operating lease transactions at the end of fiscal 2013, the minimum lease payment required under non-cancelable operating leases amounted to ¥94.4 billion ($917 million). In addition, commitments outstanding at March 31, 2014 for purchases of property, plant and equipment and intangible assets were ¥6.6 billion ($64 million), and contingent liabilities for guarantee contracts amounted to ¥1.2 billion ($11 million).

*3 "Actuarial gains and losses" refer to disparities that occur chiefly as the result of differences between expected and actual returns from pension plan assets, differences between the estimates used for the actuarial calculation of retirement benefit obligations and actual obligations, and changes in estimates. Of these differences, those that have not yet been expensed are referred to as "unrecognized actuarial gains and losses." The Group expenses actuarial gains and losses over the average remaining service period of its employees.

Under the Japanese Companies Act, the entire amount paid for new shares is required to be designated as common stock in principal. However, a company may designate a maximum 50% of the amount of the new shares as capital reserve, which is included in capital surplus. The Companies Act also requires that an amount equal to 10% of dividends must be appropriated as a legal reserve, which is included in retained earnings, or as a capital reserve, which is included in capital surplus, until the aggregated amount of legal reserve and capital reserve equals 25% of common stock. The Companies Act also requires that legal reserve, capital reserve, other capital surplus and other retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

Capital surplus in the consolidated financial statements includes capital reserve and other capital surplus of non-consolidated financial statements, and retained earnings in the consolidated financial statements includes legal reserve and other retained earnings of non-consolidated financial statements. The maximum amount that a company can distribute as dividends is calculated based on the Companies Act and its non-consolidated financial statements in accordance with the Generally Accepted Accounting Principles in Japan.

Non-consolidated net assets of the Company were ¥604.2 billion ($5,866 million), up ¥193.8 billion from the end of the previous fiscal year. Shareholders' equity in the non-consolidated financial statements as of March 31, 2014 was ¥570.7 billion ($5,541 million) and consisted of common stock of ¥324.6 billion ($3,152 million), capital reserve of ¥166.2 billion ($1,615 million), legal reserve of ¥10.1 billion ($98 million) and other retained earnings of ¥70.1 billion ($681 million). Other retained earnings returned to a positive result at the end of fiscal 2013, after turning negative at the end of the previous fiscal year due to recording large impairment losses on subsidiaries' stock relating to LSI device business and business outside Japan.

In fiscal 2012, the Company posted negative other retained earnings. Accordingly, the Company did not pay a year-end dividend for fiscal 2012 or an interim dividend in fiscal 2013. However, because of the implementation of a variety of measures, for fiscal 2013, the Company's financial condition on a non-consolidated basis has recovered to a level at which dividend payments can be resumed. In consideration of the future sustainability of dividend payments, the Company has decided to pay a year-end dividend of ¥8.2 billion ($80 million), or ¥4 ($0.04) per share. The Company did not pay dividends from surplus during fiscal 2013.

Adding the Company's non-consolidated other retained earnings and other capital surplus together, the funds allocable for distribution amounted to ¥236.0 billion ($2,291 million), an increase of ¥183.7 billion from the end of the previous fiscal year. The unrecognized obligation for retirement benefits, in accordance with a revision in the accounting standard for retirement benefits, is not applied to balance sheet reporting for non-consolidated financial results. As of the end of fiscal 2013, the balance of the unrecognized obligation for retirement benefits for the non-consolidated financial statements was ¥147.2 billion ($1,429 million), with a reduction of ¥47.6 billion compared to the end of fiscal 2012, because of an improvement in the investment return on plan assets stemming from the increase in stock prices.

Cash Flows

Condensed Consolidated Statements of Cash Flows

(Unit: billion yen)

Years ended March 31	2013	**2014**	YoY Change
I Cash flows from operating activities	71.0	**175.5**	104.5
II Cash flows from investing activities	(161.4)	**(128.8)**	32.6
I+II Free cash flow	(90.4)	**46.6**	137.1
[Excluding one-time items]	[8.4]	**[14.4]**	[6.0]
III Cash flows from financing activities	100.3	**(44.7)**	(145.1)
IV Cash and cash equivalents at end of year	284.5	**301.1**	16.6

Note: "Free cash flow excluding one-time items" refers to free cash flow excluding the following:
- Proceeds from sales of available-for-sale securities;
- Proceeds from business transfers; and
- A special contribution (¥114.3 billion) during the year ended March 31, 2013 into pension schemes of the Company's UK subsidiary.

Net cash provided by operating activities during fiscal 2013 amounted to ¥175.5 billion ($1,704 million), a year-on-year increase of ¥104.5 billion. Contributing factors include an outflow of approximately ¥50.0 billion ($485 million) for the payment of restructuring charges relating to the LSI device business and business outside Japan, as well as approximately ¥26.0 billion ($252 million) in outflows for the payment of income tax withheld in relation to dividends received from subsidiaries in Japan in the fourth quarter of the fiscal year. On the other hand, income before income taxes and minority interests improved this fiscal year, and, in fiscal 2012, there was a one-time outflow of ¥114.3 billion ($1,110 million) for a special payment to the pension fund held by a UK subsidiary.

Net cash used in investing activities was ¥128.8 billion ($1,251 million). Outflows mainly consisted of capital expenditure for purchases of property, plant and equipment amounting to ¥114.1 billion ($1,108 million), primarily related to datacenters, and purchases of intangible assets amounting to ¥64.8 billion ($630 million), primarily software. There was an inflow of cash from the sale of investment securities and an inflow of cash from the maturity of a time deposit that had been held for fund management purposes. Compared to fiscal 2012, net outflows decreased by ¥32.6 billion.

Free cash flow, the sum of cash flows from operating and investing activities, was positive ¥46.6 billion ($453 million), representing an increase in net cash inflows of ¥137.1 billion compared to the previous fiscal year. Inflows from the sales of investment securities and the sale of a business, excluding one-time items such as the special contribution in the previous fiscal year to the pension fund held by the Company's UK subsidiary, resulted in increased cash inflows of ¥6.0 billion in fiscal 2013, largely unchanged from the previous fiscal year.

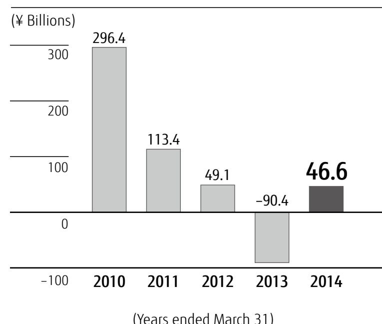
Net cash used in financing activities was ¥44.7 billion ($435 million). Short-term borrowings in the previous fiscal year that were used to finance a special contribution to the pension fund held by the Company's UK subsidiary were repaid and replaced by straight bonds and other long-term borrowings. This led to a decrease in net cash inflows of ¥145.1 billion compared to fiscal 2012.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2013 were ¥301.1 billion ($2,924 million), an increase of ¥16.6 billion compared to the end of fiscal 2012.

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, 2014, the Group had liquidity of ¥498.8 billion ($4,843 million), of which ¥301.1 billion ($2,924 million) was cash and cash equivalents and ¥197.7 billion ($1,919 million) was the yen value of unused commitment lines.

To raise funds from global capital markets, the Group has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2014, 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 previous fiscal year end.

Free Cash Flow



(Years ended March 31)

4. Restatements to Reflect Accounting Standard Revisions

The Company's consolidated subsidiaries outside Japan prepare their financial statements in accordance with IFRS (International Financial Reporting Standards) and have adopted the revised IAS 19 "Employee Benefits" from the beginning of fiscal 2013. In line with this change, financial figures for the previous fiscal year have been retrospectively revised for comparison purposes. The revised accounting standards and the impact on the Group's consolidated financial statements for the previous fiscal year are outlined as follows:

(1) Outline of revisions to accounting standards

a. The unrecognized obligation for retirement benefits will be brought on the balance sheet upon accrual after adjusting for tax effects.

b. Amortization of actuarial gains and losses (differences between expected and actual returns from pension plan assets, etc.) has been abolished.

However, amortization is required in consolidation procedures based on Japanese accounting standards. Because consolidated subsidiaries outside Japan had previously applied the corridor approach for amortizing actuarial gains and losses, the corridor component of amortization expenses that was previously not recognized will be an increase.

c. Net interest cost has been introduced to replace interest cost and expected return on plan assets. The cost burden will increase because the expected return on plan assets will be calculated by applying the discount rate.

(2) Retrospective revision of previous year's figure

Condensed Consolidated Balance Sheets (Unit: billion yen)

	Before revision 2013	Retrospective revision	**After revision 2013**
Total assets	3,049.0	(128.7)	**2,920.3**
Total liabilities	2,139.2	28.6	**2,167.8**
Net assets	909.8	(157.3)	**752.4**
Owners' equity	781.4	(157.3)	**624.0**
Owners' equity ratio	25.6%	(4.2%)	**21.4%**

Condensed Consolidated Income Statements (Unit: billion yen)

	Before revision 2013	Retrospective revision	**After revision 2013**
Net sales	4,381.7	–	**4,381.7**
Operating income	95.2	(7.0)	**88.2**
Income before income taxes and minority interests	(45.1)	(7.0)	**(52.1)**
Net income	(72.9)	(7.0)	**(79.9)**
<Breakdown of operating income by segment>			
Technology Solutions	180.9	(7.0)	**173.9**
Ubiquitous Solutions	9.6	–	**9.6**
Device Solutions	(14.2)	–	**(14.2)**

5. Capital Expenditure

In fiscal 2013, capital expenditure totaled ¥122.2 billion ($1,187 million), essentially unchanged from the previous fiscal year. In the Technology Solutions segment, capital expenditures totaled ¥69.5 billion ($676 million), up 16.8% year on year, for expansion of datacenters in Japan and overseas, along with spending on development facilities for network products, among other items. In the Ubiquitous Solutions segment, the Group spent ¥14.9 billion ($145 million), essentially unchanged from the previous year, mainly for manufacturing facilities for car audio and navigation systems. In the Device Solutions segment, expenditures totaled ¥33.9 billion ($330 million), down 16.1% year on year, mainly for facilities needed to increase production of semiconductor packages, among electronic components. In areas other than the abovementioned segments, capital expenditures were ¥3.7 billion ($37 million).

6. Consolidated Subsidiaries

At the end of fiscal 2013, the number of consolidated subsidiaries in Japan totaled 194, and the number outside Japan totaled 318, for a total of 512 subsidiaries. This represents a net decrease of 2 subsidiaries from 514 at the end of fiscal 2012, comprising 14 subsidiaries added through acquisition or establishment and 16 subsidiaries removed through merger, liquidation, or sale.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 24. This represents a net decrease of 2 companies from 26 at the end of fiscal 2012, comprising 1 company added and 3 companies removed.

7. Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Inventories

Inventories are carried at the acquisition cost. However, should the net realizable value ("NRV") at the fiscal year-end fall below that of the acquisition cost, inventories are subsequently measured based on the NRV, with the difference in value between the acquisition cost and the NRV, in principle, booked as cost of sales. Inventories outside the normal operating cycle are calculated at an NRV that reflects future demand and market trends. The Group may experience substantial losses in cases where the NRV drops dramatically as a result of deterioration in the market environment compared to forecasts.

Property, Plant and Equipment

Depreciation for property, plant and equipment is computed by the straight-line method at rates based on the estimated useful lives of the respective assets, reflecting the likely period over which the value of the assets can be realized under normal business conditions. In the future, some equipment and facilities may become obsolete or may be repurposed as a result of technical innovation or other factors. In such cases, their actual useful lives may be reduced to shorter than their originally estimated useful lives. As such, there is a risk that depreciation expenses may increase.

In addition, impairment losses may be recognized in cases in which there is a decline in expected future cash flows from assets due to production facilities becoming idle and a decrease in the capacity utilization rate, associated with rapid changes in the operating environment or other factors, and business realignment.

Software

Computer software for sale is amortized by a method based on projected sales volume over the estimated life. Computer software for internal use is amortized by the straight-line method over the useful life. Should actual sales volumes fail to meet initial projected volumes 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 may increase.

Goodwill

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

Investment Securities

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

Deferred Tax Assets

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

Provision for Product Warranties

Some of the Group's products are covered by contracts that require the Group to repair or exchange them free of charge during a set period of time. Based on past records, the Group recognizes a provision for estimated repair and exchange expenses at the time of sale. The Group is taking steps to strengthen quality management during the product development, manufacturing and procurement stages. However, should product defects or other problems occur at a level in excess of that covered by the estimated expenses, additional expenses may be incurred.

Provision for Construction Contract Losses

The Group records provisions for projected losses on customized software under development contracts and construction contracts that show an acute deterioration in profitability as of the fiscal year-end. The Group is taking steps to curtail the emergence of new, unprofitable projects by moving ahead with the standardization of its business processes, establishing a check system as a dedicated organizational component, and conducting risk management throughout the entire progression of a project (beginning with business negotiations). Notwithstanding these efforts, the Group may incur additional losses in the event of an increase in estimated project costs in the future.

Retirement Benefit Obligation

Defined benefit liability and defined benefit expenses for employees are determined based on certain actuarial assumptions which include discount rates, employee turnover rates and mortality rates. When actual results differ from the assumptions or when the assumptions are changed, the defined benefit liability and defined benefit expenses can be affected.

(Reference) Measures for the Future

(1) Fiscal 2014 New Medium-Term Management Plan

On May 29, 2014, the Group announced a new medium-term management plan running through fiscal 2016.

The Group returned owners' equity to a self-sustaining path to recovery by achieving favorable results in Technology Solutions, which comprises the Group's core businesses and includes services, server-related and network products businesses, and by taking workforce-related measures and other efforts to streamline operations. This came after owners' equity had been significantly diminished as a result of structural reforms in the underperforming semiconductor business and overseas businesses and on account of retirement benefit obligations posted to the balance sheet. Starting in fiscal 2014, the Group is switching from a defensive posture to go on the offense, and will expand investment to achieve new growth. Moreover, the Group will strengthen its global delivery functions to meet customer needs, while enhancing its common products and services globally. Dividing the customers axes into the five regions of Japan, EMEIA (Europe, Middle East, India, and Africa), the Americas, Asia, and Oceania, the Group will adopt a matrix management structure in which the common operational axes of the Global Delivery, Integration Services, and Service Platform businesses are intersected with each other in order to further advance global collaboration.

The Group is targeting operating profit of ¥250.0 billion, profit for the year of at least ¥150.0 billion and free cash flow of at least ¥130.0 billion in fiscal 2016*.

* Forward-looking statements regarding the medium-term management plan are future projections calculated based on a variety of judgments, estimates and assumptions. These statements reflect predictions based on management's judgment and objectives, as well as conditions and assumptions up to June 23, 2014, the date of submission of the Annual Securities Report, regulated by the Financial Instruments and Exchange Law of Japan, and do not constitute a guarantee of future results. Furthermore, the financial targets of the new medium-term management plan have been determined based on IFRS.

(2) Voluntary Adoption of IFRS

The Group passed a resolution at a meeting of the Board of Directors held on April 30, 2014 to voluntarily adopt IFRS for its consolidated financial statements starting in fiscal 2014.

Outside of Japan, the Group has expanded its business across the globe to regions such as Europe, the Americas, and Asia. As the importance of its business outside of Japan grows year by year, the adoption of IFRS as a single, uniform accounting standard will enable coherent business management for Group companies both in and outside of Japan. Moreover, by implementing IFRS-based business management for the management platform as a truly global company, the Group will pursue greater efficiency to promote global growth and to increase its corporate value. In adopting IFRS, the Group also seeks to facilitate international comparisons of its financial information in global capital markets.

The impact of the voluntary adoption of IFRS on the consolidated income statements and balance sheets is outlined below. The voluntary adoption of IFRS will have no impact on the non-consolidated financial statements.

Consolidated Income Statements

- Net sales: No difference.
- Operating profit and profit for the year will increase mainly due to changes in the method of expensing retirement benefits and goodwill. Under IFRS, the Group will no longer incur amortization expenses for actuarial gains and losses such as pension fund shortfalls with respect to retirement benefits. Under Japanese accounting standards, actuarial gains and losses are amortized over the average remaining service period of employees from the subsequent fiscal year after they arise. Under IFRS, actuarial gains and losses are reflected immediately in retained earnings instead of being periodically amortized. Furthermore, there is no periodic amortization of goodwill under IFRS.

  Upon adoption of IFRS, items that are not financial income and expenses, net or equity in earnings of affiliates, net, such as expenses for the structural reform of businesses and impairment losses, will be included in operating profit. Previously, these items were included in other income (expenses).

Consolidated Balance Sheets

- There is no significant impact on assets and liabilities.
- There is a change in presentation of the components of net assets. The impact of pension fund shortfalls on reducing net assets will be reclassified to retained earnings from accumulated other comprehensive income. This will have the effect of reducing retained earnings.