THE POSSIBILITIES ARE INFINITE

FUJITSU

Gearing Up for Growth

FUJITSU LIMITED

Annual Report 2006

Contents

Forward-looking Statements

* This annual report may contain forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results may differ materially from those projected or implied in the forward-looking statements due to, without limitation, the following factors: general economic and market conditions in key markets (particularly in Japan, North America and Europe); rapid changes in the high-technology market (particularly semiconductors, PCs, etc.); fluctuations in exchange rates or interest rates; fluctuations in capital markets; intensifying price competition; changes in market positioning due to competition in R&D; changes in the environment for the procurement of parts and components; changes in competitive relationships relating to collaborations, alliances and technical provisions; potential emergence of unprofitable projects; and, changes in accounting policies.

Financial Highlights

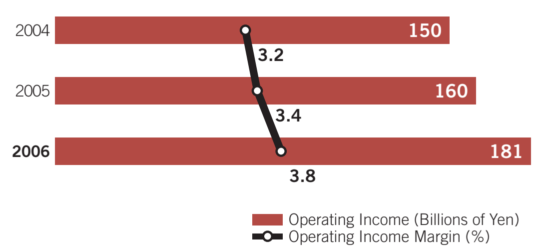
Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	2004	2005	Yen (millions) 2006	U.S. Dollars (thousands) 2006
			(excluding inventory turnover ratio, D/E ratio)	
Net sales	¥4,766,888	¥4,762,759	¥4,791,416	$40,605,220
Operating income	150,342	160,191	181,488	1,538,034
Income before income taxes and minority interests	157,018	223,526	118,084	1,000,712
Net income	49,704	31,907	68,545	580,890
Total assets	¥3,865,589	¥3,640,198	¥3,807,131	$32,263,822
Shareholders' equity	827,177	856,990	917,045	7,771,568
Inventories	521,126	478,510	408,710	3,463,644
Inventory turnover ratio	8.53	9.53	10.80	
Interest-bearing loans	¥1,277,121	¥1,082,788	¥ 928,613	$ 7,869,601
D/E ratio (times)	1.54	1.26	1.01	

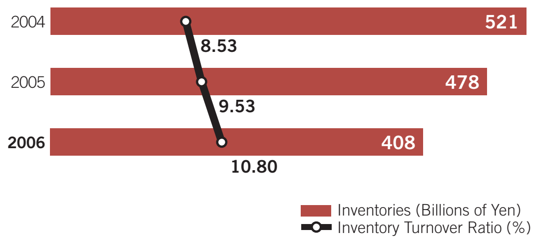
Note: The U.S. dollar amounts stated above and elsewhere in this report have been translated from yen, for readers' convenience only, at the rate of ¥118 = US$1, which was the approximate rate on the Tokyo Foreign Exchange Market at March 31, 2006.

Net Sales

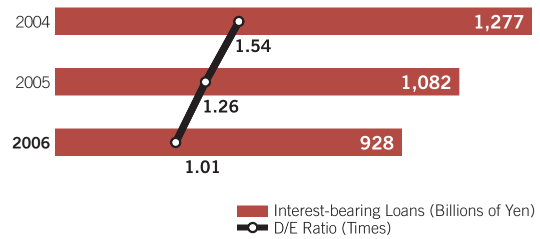
Operating Income and Operating Income Margin



Inventories and Inventory Turnover Ratio



Interest-bearing Loans and D/E Ratio



A Message from Management

The information technology market is undergoing a sea change—as technologies converge and become increasingly complex, and services become more diverse—while at the same time expanding on a global scale. Of course it is continual advances in technology that will drive further growth in this market. This will revolutionize companies, society, and indeed all our lives. We are proud that Fujitsu is one of only a handful of companies capable of offering solutions that can convert IT-enabled innovation into business value for customers worldwide.

In the current fiscal year, ending in March 2007, our overarching objective is to deliver sustained growth by transforming Fujitsu into a truly powerful company. To achieve this, we will work even harder to meet the four key challenges we focused on in fiscal 2005: strengthening our existing businesses, creating and cultivating new businesses, reforming our organization and approach, and reforming our management systems.

Naoyuki Akikusa Hiroaki Kurokawa

Left: Naoyuki Akikusa
Chairman

Right: Hiroaki Kurokawa
President

A Conversation with the President

What prompted the change to Fujitsu's business segments in fiscal 2005?

Our operations were previously categorized under Software & Services, Platforms, and Electronic Devices, in other words, from the producer's perspective. We decided to change these business segment classifications to make them more customer-centric and ensure they better reflect the nature of our businesses. We have also added the term "solutions" to each segment to clearly emphasize our business objective at Fujitsu—provide solutions that convert technology into business value for our customers.

First, I'd like to talk about our Technology Solutions segment. IT systems only begin to generate value once they are in operation and actually being utilized. But if we just talk to customers about IT services or servers, they see them as nothing more than structural elements of their IT operations. With IT becoming increasingly complex, we have decided to focus on providing value by helping to weave together these various elements for customers. So, aiming to link technology with actual usage as our business objective, we have brought together Services and System Platforms under the same Technology Solutions segment.

Next is our Device Solutions segment. Electronic devices are central to our technology, and in this area we have nearly completed our shift in focus to logic LSI devices. Going forward, we plan to leverage our strengths in software and verification and analysis technologies to offer customers solutions that deliver even greater added value.

Our other main segment is Ubiquitous Product Solutions. Hard disk drives (HDDs), personal computers (PCs) and mobile phones are unique markets in their own right and are characterized by intensifying global competition. Focusing on achieving even greater sophistication in our supply chain management and in manufacturing innovation, we created this new segment in order to pursue further advances in these operations as independent businesses.

How would you assess Fujitsu's performance in fiscal 2005?

Consolidated net sales in fiscal 2005 grew just 0.6% year on year to ¥4,791.4 billion. This primarily reflected strong growth in overseas sales, particularly in optical transmission systems in North America and outsourcing services in the UK, as opposed to Japan, where sales of servers and in some other businesses were sluggish. Buoyed by higher revenues from overseas business, as well as success in enhancing manufacturing innovation to cut costs, and reducing losses from loss-generating systems integration projects in Japan, we reported an increase in operating income of 13.3%, to ¥181.4 billion.

One thing is very clear in my mind: Fujitsu must become a company capable of consistently generating profits. I believe this is the foundation for realizing growth. Increasing sales remains an important issue that we have to tackle, but I think our results for fiscal 2005 show that we are steadily becoming a company that can deliver stable profits.

Another feature of our performance in fiscal 2005 was the progress we made in strengthening our financial position, as illustrated by improvements in our inventory turnover and D/E ratios. I think this shows that our efforts to transform Fujitsu into a truly powerful company are starting to bear fruit.

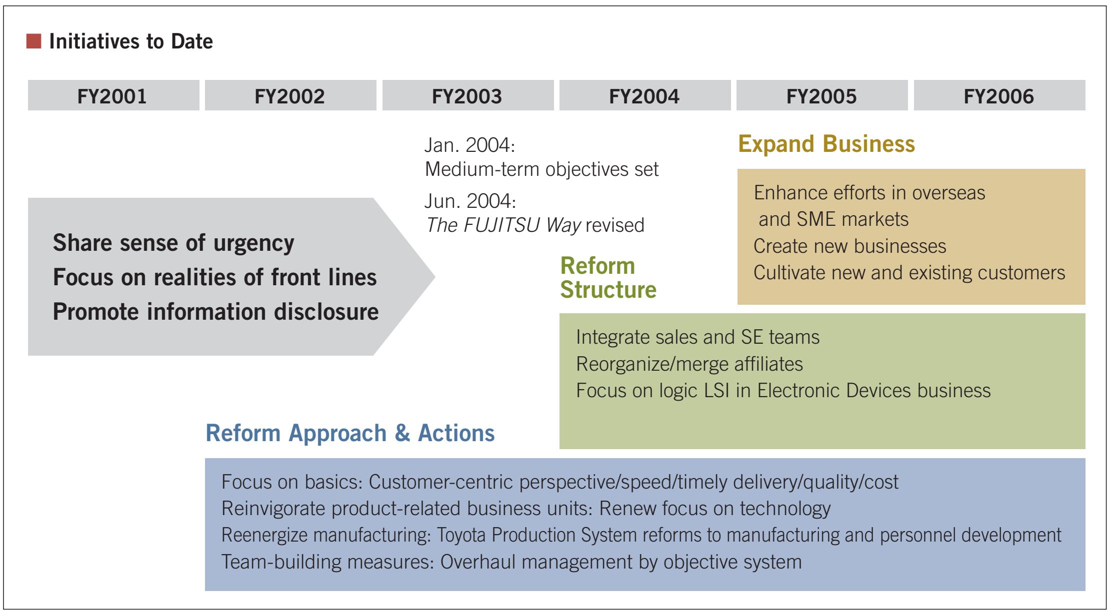
What were the reasons behind Fujitsu's growth overseas and its relatively weak performance in Japan?

Our approach of implementing strategies tailored to each market resulted in sales and earnings growth in each of our key overseas geographies. In North America, our optical transmission systems business aimed at communications carriers and our services business performed strongly. In Europe, we posted robust growth in sales of PRIMEPOWER UNIX servers and other server-related products, while in services we achieved steady growth in sales and earnings, particularly in the UK, by continuing our success in winning new large-scale outsourcing contracts. This is an area where we have continued high expectations going forward.

The picture was different in Japan, where sales of server-related products and PCs declined, and services were impacted by sluggish corporate IT investment. However, our server-related business regained some strength in the second half of the fiscal year as we rolled out initiatives to boost sales centered on PC servers. With respect to services in Japan, I believe there are still plenty of opportunities to increase earnings by reinforcing our high-margin outsourcing services, and by targeting markets with potential for growth, such as the small and medium-size enterprise sector.

Please tell us about initiatives to realize your medium-term vision.

Since announcing a medium-term vision for Fujitsu in 2004, we have been vigorously pursuing four key challenges: strengthening our existing businesses, creating and cultivating new businesses, reforming our organization and approach, and reforming our management systems. In the first area, we have been striving to realize a virtuous cycle of management anchored by efforts to reduce costs. Specifically, we have worked to reduce costs by thoroughly improving our design and development, production, and procurement processes, and enhancing productivity in software development. Profits generated through these reforms are then reinvested in design and development to create a virtuous cycle. In this way, we are striving to be an invaluable partner to customers. Based on this thinking, we have sought to transform our whole approach to how we do business, and backed this up with structural reforms. In fiscal 2006 we plan to complete the challenges we set forth in this medium-term vision, striving to realize further business expansion by focusing on aggressively developing our business outside Japan, creating new businesses and other measures.



How do you plan to grow the services business in Japan going forward?

I think that IT investment in Japan is generally on a recovery trend, particularly in the industrial, retail and financial services sectors. It is important that we tap into this trend, but I also want to build an earnings structure that is resilient to external factors. Specifically, we will work to raise profitability in our systems integration business, which accounts for around 60% of our services business in Japan, and to increase the ratio of high-margin packaged services and operational services in our services business by making new proposals to clients. Through these and other measures, we will strive to increase profit margins across our services business.

In systems integration, we will continue to bolster our project management capabilities. In recent years we have had to tackle the issue of loss-generating projects. Compared to the previous two years we have been able to achieve a marked reduction in such projects by reinforcing our systems integration assurance capabilities to ensure rigorous project risk management. Other initiatives have included upgrading project management using web-based tools, among other methods, and concluding customer contracts based on percentage-of-completion standards. These measures have allowed both Fujitsu and our customers to visualize project progress and clearly delineate our respective responsibilities.

In fiscal 2005, we experienced some painful incidents related to the operation of Fujitsu systems. With the benefit of hindsight, I think we can see now that we tended to place too much emphasis on system design and development at the expense of operation, and we have reflected seriously on this issue. With any IT system, value starts with operational stability. We therefore must reaffirm the importance of system operations and work to raise operational quality by enhancing training for our personnel, improving business processes, and implementing design and development from the operational standpoint.

What are you doing to expand Fujitsu's business globally?

We eschew a one-size-fits-all global business approach and pursue instead business development strategies tailored to specific regional markets. Strategies for our key geographic markets are discussed on pages 10 and 11.

What initiatives are you taking to strengthen sales in System Platforms?

I'd like to answer the question in two parts by talking first about System Products, which includes our range of servers, and then Network Products, which covers network equipment.

Our System Products business in Japan is currently battling a tough business climate of falling prices, particularly in the server market, where price competition is increasingly fierce. Especially for PC servers, it is essential that we further strengthen sales, and we will strive to do so by working with partners to enhance our sales channels and by using the internet to expand direct sales to customers.

Outside Japan, our high-quality, high-performance servers are selling well, particularly in Europe and North America, where they have won a strong reputation among customers in the financial services and communications sectors. We plan to build on this success by working to boost sales further. In fiscal 2005, we concluded a deal with Electronic Data Systems Corporation (EDS) of the US, the world's second biggest IT services vendor, under which EDS will utilize our PRIMEQUEST mission-critical IA server as part of its solutions infrastructure. In addition, we have been steadily opening Platform Solution Centers in various locations around the world. These centers act as one-stop pre-verification and evaluation sites providing a whole range of customer support, from consulting to actual system verification and performance testing.

Building a Global PSC* Network

Providing comprehensive support close to customer operating sites

2002:	Germany
Nov. 2004:	UK
Dec. 2004:	Japan (Tokyo)
May 2005:	Singapore, US (California)
Sep. 2005:	South Korea
Apr. 2006:	China (Shanghai)
Jun. 2006:	China (Hong Kong)

* Platform Solution Center

In Network Products, in addition to steady expansion of our business in North America, in Europe we signed an agreement with BT Group plc as a preferred supplier for its 21st Century Network program. Looking ahead, we intend to offer the world's most advanced technologies as a partner to leading communications carriers in Japan, the US and Europe.

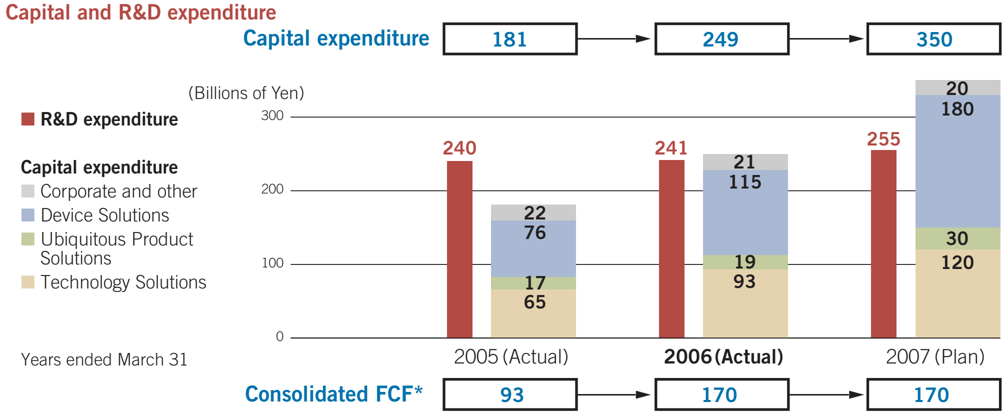
Please explain Fujitsu's investment strategy in fiscal 2006.

We are forecasting an 8.5% increase in sales in fiscal 2006, driven by further expansion of our overseas business and initiatives to tap into recovering IT spending in Japan. In recent years, our emphasis has been on enhancing operational efficiency. Now, we intend to aggressively invest in growth fields to achieve sustained profitable growth. In fiscal 2006, we are budgeting ¥350.0 billion in capital expenditure, focused primarily in Device Solutions and Technology Solutions. This represents a year-on-year increase of 40.1%. Still, we are committed to posting higher earnings and are targeting an increase in operating income to ¥190.0 billion.

In Device Solutions, we are channeling resources into logic LSI products. In our world-class advanced logic LSI business, we are front-loading investment to meet surging demand from existing customers. In fiscal 2006, we plan to invest ¥180.0 billion, primarily in 300mm wafer semiconductor production facilities (Fab No. 1 and Fab No. 2) at our Mie Plant. In Technology Solutions, we will invest a total of ¥120.0 billion to bolster our domestic and international outsourcing, server, and next-generation network businesses, while in Ubiquitous Product Solutions we will invest ¥30.0 billion in our HDD, PC and mobile phone operations.

Investing for Growth

Capital and R&D expenditure



* Free cash flow for business operations, excluding sales of shareholdings and other items

Could you please close with a few words for shareholders, including your thinking on shareholder value?

Fujitsu is gearing up for a new stage of growth driven by global expansion of our business and other measures. It goes without saying that our shareholders are a vitally important stakeholder group and that we are constantly seeking to raise shareholder value. We believe that improvement in shareholder value is fundamentally derived from sustained growth in earnings. With respect to profits generated by this growth, along with generating stable returns for shareholders, we will strive to secure sufficient internal reserves to strengthen our financial position and to support active business development for further growth and improved profitability in the medium to long term.

A string of corporate scandals in recent years has highlighted the importance of corporate ethics. We have formulated *The FUJITSU Way*, a common set of principles guiding the individual actions of every employee in the Fujitsu Group. We practice these principles in all our business activities. Guided by *The FUJITSU Way* and all that it stands for, I will sincerely work to ensure sound management while striving to realize sustained profitable growth. Please look forward to great things from Fujitsu as we move back on the path to growth.

The FUJITSU Way: Turning Dreams into Reality

Our Mission

Fujitsu continually seeks to create new value by providing customers with comprehensive solutions comprising highly reliable high-performance products and services based on powerful technologies. Through this, we aim to grow, realize profits and foster mutually beneficial relationships in our communities worldwide.

Our Values

Customers	Employees	Quality	Environment	Profits & Growth
Our dream is to make our customers' dreams come true	Every one of us has a leading role to play	We aim to earn customers' trust in Fujitsu	We consider environmental impact in all that we do	We strive to meet the expectations of customers, employees and shareholders

Code of Conduct

Respect human rights	Protect intellectual property
Comply with laws and regulations	Reject unethical behavior
Maintain confidentiality	Act with fairness in our business dealings

Company-wide Activities
Manufacturing innovation, environmental initiatives, etc.

Business Policy
President's management direction

Business Plan
Formulated at business unit level

Feature Section

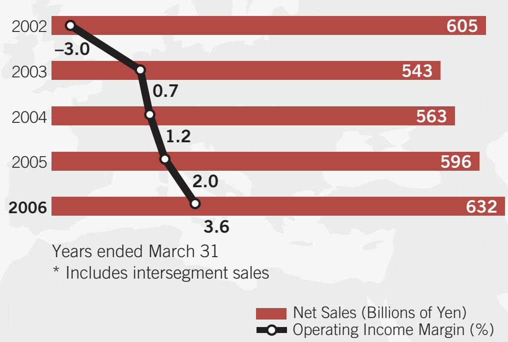
Growth through Global

Rolling out strategies tailored to each region

Asia, Australia and Other Regions

In Asia and Australia, we will develop solutions businesses carefully tailored to the characteristics of individual country markets. In China, we will provide support to Japanese automakers, consumer electronics manufacturers and other customers as they roll out their strategies in the country. This will give us a foothold in the market to support future business expansion.

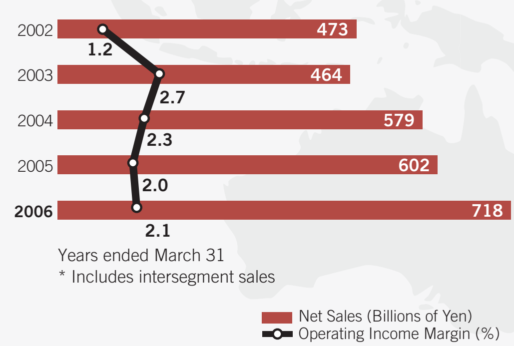
■ Net Sales* and Operating Income Margin (Europe)



Europe

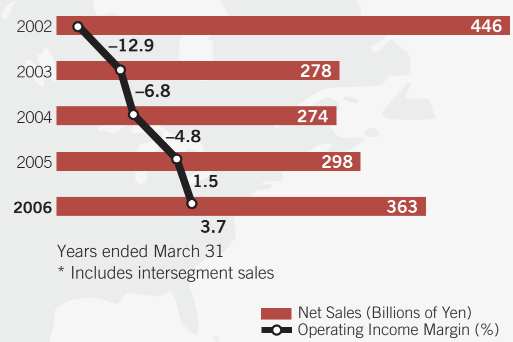
We will work to accelerate the growth of Fujitsu Services, mainly focused on outsourcing services, and Fujitsu Siemens Computers, which primarily handles a range of servers and PCs. In addition to maintaining and enhancing its position in the UK public sector, Fujitsu Services is striving to capture a larger share of private-sector demand. Fujitsu Siemens Computers, having acquired the product support division of Siemens Business Services, a Siemens AG subsidiary, now has an integrated global support framework extending from product supply to maintenance services.

■ Net Sales* and Operating Income Margin (Asia, Australia and Other Regions)



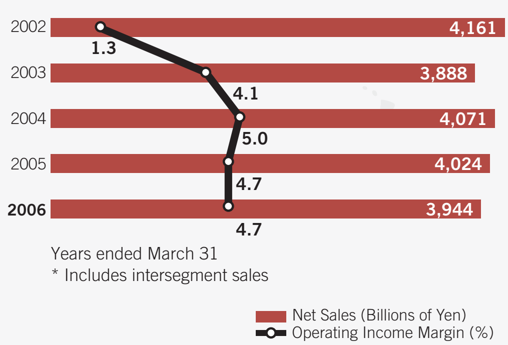
Business Expansion

■ Net Sales* and Operating Income Margin (The Americas)



Years ended March 31
* Includes intersegment sales

■ Net Sales* and Operating Income Margin (Japan)



Years ended March 31
* Includes intersegment sales

Japan

We plan to shift from our existing focus on systems integration toward greater emphasis on expanding operations-oriented outsourcing services. In so doing, we will strive to cultivate even deeper relationships with customers while also improving the earnings capabilities of our services. In the small and medium-size enterprise sector, where we see real opportunities for growth, we plan to build a stronger presence by offering a broader range of products and services.

The Americas

In North America, the world's largest IT services market, leading IT firms have struggled to dominate in the face of market specialization and segmentation. Our strategy will be to shift from a product-centric approach to operations based on joint sales activities and the provision of integrated IT solutions. We will also target growth through alliances, mergers and acquisitions involving Fujitsu Consulting, our principal services company in North America.

Seeking to Grow Together with Customers Worldwide as an Indispensable Partner

Japan

We constructed a delivery truck dispatch and routing system for Seven-Eleven Japan. This has helped our client to enhance safety and realize delivery operations with less environmental impact by reducing fuel consumption and CO_2 emissions.

Fujitsu and Mitsukoshi jointly tested an inventory management system using jeans equipped with electronic tags*. With this system, stock data is shown on "smart shelf" displays, allowing customers to check availability themselves.

Enhancing safety and economy with a new delivery truck dispatch and routing system

—Seven-Eleven Japan Co., Ltd.—

We constructed a delivery truck dispatch and routing system for Seven-Eleven Japan, a convenience store operator and one of Japan's biggest retailing companies. The system takes fleet management to another level: instead of simply managing delivery data, the new enhanced system can analyze individual driver patterns and provide instructions to them on the move. The system even recognizes habits that drivers themselves may not be aware of, giving our client the tools to enhance driving safety as well as reduce environmental impact by lowering fuel consumption and CO_2 emissions.

Seven-Eleven Japan's delivery trucks have been fitted with a GPS-equipped onboard terminal, enabling the real-time management of fleet position and road condition information. Using this data, Seven-Eleven Japan's logistics center can immediately respond to traffic jams and other situations by providing alternative route information, thereby ensuring the safe and reliable delivery of goods to its convenience stores.

Helping to create the department store of the future

—Mitsukoshi, Ltd.—

Working closely with Mitsukoshi, one of Japan's leading department stores, to create more convenient and comfortable retail environments, we jointly tested an inventory management system for jeans that uses electronic tags. The test was carried out in conjunction with the Ministry of Economy, Trade and Industry's Japan Future Store Project. With this system, tagged jeans were placed on "smart shelves" equipped with electronic paper displays that continuously showed updated stock data, allowing customers to check product availability themselves.

The pilot test confirmed that as well as enhancing convenience for customers, the system helped to prevent lost sales opportunities, thereby contributing to increased sales. Based on the outcome of the test, Mitsukoshi is deploying a real-time inventory management system using electronic tags.

* Electronic tags are contactless IC devices fitted with an antenna that hold read-write data. Different than conventional barcodes, they allow users to retrieve information from a distance of up to a few meters.

Tamura has adopted Fujitsu glovia.com, a suite of extended ERP solutions to integrate the management of orders, sales and costs at 11 overseas sites. The suite allows Tamura to monitor costs and profits for individual products manufactured at each site in real time.

With a large number of employees always on the move, Osaka Gas needed to create a ubiquitous office environment to give its staff the same kind of access to information as they would have in their regular office. Fujitsu Mobile Centrex Service helped realize this environment.

Deploying an integrated global system to manage manufacturing and sales costs for individual products

—Tamura Corporation—

Tamura, a leading global manufacturer of electronic components, has deployed our enterprise resource planning (ERP*) package, glovia.com, in its group-wide back office system, enabling the integrated management of 11 manufacturing and sales sites around the world. All data related to orders, sales, costs, procurement and manufacturing received from systems at each of these sites is now stored and managed on an integrated basis using a database at Tamura's head office in Japan, allowing the client to monitor costs and profits for individual products in real time. This information gives Tamura the power to make rapid and precise decisions about which products to prioritize. By supplying and quickly installing advanced ERP packages optimized to support global operations, we are helping clients to realize dramatic efficiency gains in their operations worldwide.

* Enterprise resource planning: An approach designed to improve management efficiency by integrating the planning and management of a company's resources (personnel, assets, finances, time and data) into a single unified system.

Making the ubiquitous office a reality

—Osaka Gas Co., Ltd.—

Osaka Gas, the second biggest firm in the domestic gas industry, has adopted our Mobile Centrex Service to create a ubiquitous office environment that allows its employees to perform work anytime, anywhere, just as they would if they were in the office. By using PCs and mobile devices, information can be rapidly and reliably transmitted to and from personnel who are often out of the office or in meetings, thereby helping to realize a dramatic improvement in employee productivity. This advanced ubiquitous office system, developed in conjunction with NTT West, OGIS Research Institute and Osaka Gas Business Create, also offers the possibility of annual savings of ¥480 million through reduced capital expenditure in telecommunications equipment and lower communications costs. Through a whole host of innovative solutions that realize consistent sound quality and efficient communications, Fujitsu is at the forefront of a revolution in work styles.

The Americas

Fujitsu's industry-leading, high-performance PRIMEPOWER UNIX servers have helped the CBOE to boost its peak order processing capabilities from 2,000 to 50,000 trades per second with close to 100 percent uptime.

By deploying Fujitsu FLASHWAVE optical transmission products, Duquesne has built a network with added redundancy and capacity connecting head office and each local service center.

Helping CBOE stay ahead of huge volume growth and fend off competition

—The Chicago Board Options Exchange (CBOE)—

CBOE is the world's largest options exchange. In the face of increased competition and tremendous growth in volume, CBOE needed a technology infrastructure that could not only handle more quotes and trades, but one that could process them faster than any of its competitors.

To meet this challenge, CBOE turned to Fujitsu to deliver servers with benchmark-leading performance backed by superior service and support. Fujitsu PRIMEPOWER servers have enabled CBOE to build a rock-solid infrastructure that can handle vastly greater numbers of transactions without latency. Over a three-year period, CBOE went from peaking at 2,000 quotes per second to peaking at 50,000 per second—all with close to 100 percent uptime.

The power of Fujitsu has also extended to the trading floor. Though traders are not required to use Fujitsu Stylistic ST5000 Tablet PCs, these compact pen-based devices have become the de facto standard for more than 800 market makers on the floor.

"We have worked with Fujitsu for 14 years and knew it has a superior product roadmap," said Curt Schumacher, Chief Technology Officer, System Operations, CBOE. "We also knew Fujitsu could deliver price, performance and power to meet our current and future needs."

Delivering network solutions to meet enhanced security and data transmission needs

—Duquesne Light Company—

As a leader in the transmission and distribution of electric energy, Duquesne Light Company provides superior customer service and reliability to more than half a million customers in southwestern Pennsylvania. In 1995, Duquesne purchased Fujitsu SONET equipment, and as the utility's network evolved, we updated it to include our industry-leading FLASHWAVE products. After 9/11, the US federal government required electric utilities to perform complete data backup at secure locations. In February 2002, Duquesne asked Fujitsu to design a fully redundant network to meet its new security and data transmission needs.

Fujitsu was also instrumental in the installation and turn-up services at two major nodes. In the initial build, the FLASHWAVE 4300 platform and OC-48 optics were installed to replace some of the FLM 2400 add/drop multiplexers. Later, FLASHWAVE 4100 was added to replace the rest of the FLM 2400 equipment. FLASHWAVE 4500 with OC-192 optics was added to increase redundancy and network capacity for Gigabit Ethernet over SONET. Duquesne Light's network has grown to 18 nodes and has a NETSMART 1500 management system. As a long-term partner with the Pittsburgh utility, we managed the entire process from design to maintenance and training.

After an urgent request from FEMA to handle calls from victims of Hurricane Katrina, Fujitsu set up a disaster relief call center in a very tight time frame to help the authorities provide assistance to those affected.

Rapidly establishing temporary disaster relief call centers

—US Federal Emergency Management Agency (FEMA)—

Fujitsu has extensive experience in call center, data recovery and other operations, and has assisted many customers to deal with unfortunate events. Thus, when FEMA called, we were able to respond quickly because of our extensive experience in helping other customers in such situations.

In September 2005, FEMA faced an unprecedented challenge following the devastation caused by Hurricane Katrina, and later, Hurricane Rita. Hundreds of thousands of people were displaced and property damage along more than 1,000 miles of coastline from Florida to Texas was in the billions of dollars.

FEMA needed to immediately deploy temporary disaster relief call centers to handle the massive volume of calls expected from the many victims. Responding to an urgent request from FEMA, we offered our state-of-the-art call center in Dallas, Texas. On September 6, eight days after Katrina's landfall, FEMA awarded Fujitsu a contract to begin handling incoming calls by September 9 and be fully operational with 1,000 staff by September 22.

Two days later, on September 8, the call center had begun operation and by September 9, 150 agents had been trained and were taking calls. The call center was fully staffed by September 18, well ahead of FEMA's deadline.

Making a call center of this scale operational on such short notice required exceptional planning, preparation and responsiveness. The Fujitsu Call Center Operations team was proud to make it happen. At its peak, the Fujitsu call center employed 1,200 staff, operated 16 hours per day, seven days a week, and responded to more than one million calls from hurricane victims throughout the affected areas.

A change of direction for the UK Home Office

—UK Home Office—

The UK Home Office has had a challenging year, in which it has had to deal with the London bombings, policing and immigration issues, and a major HQ relocation. These challenges have increased the focus on the organization's use of IT, and therefore its relationship with Fujitsu Services.

Our relationship is long-standing, but had run into difficulties after a series of unacceptable IT outages. Our response was to work closely with the customer to realign our contract and processes with their needs and future plans.

The result was a new commercial approach that now enables the Home Office to achieve rapid change at a reasonable price. Fujitsu Services now scores 8/10 for service, as against 4/10 in early 2005, while our service desk receives half as many problem calls as it did 12 months ago. On the basis of our improved relationship, we are also jointly developing a new shared services approach to IT with potential for deployment across the Home Office organization.

U-Scan self-checkout establishes foothold among European retailers

—S.A. Cora—

Created and refined in US and Canadian grocery chains, self-checkout technology has gained such popularity and acceptance among consumers that European retailers are now taking notice. Cora began the first European pilot of an integrated self-checkout solution in May, when the company installed Fujitsu U-Scan systems at two hypermarkets in Belgium and France.

Jérôme Soblet, Store Director and Corporate SCO Project Manager at Cora says, "Our main goal with U-Scan is to improve customer service. Self-checkout lets customers scan, price-check and pay for their products at their own pace, and it gives them greater control over their purchases—with the assistance of a supervisor who handles an island of four self-service lanes. We are confident that the system will shorten queues at the cash registers appreciably."

Following successful pilot projects, U-Scan will be installed at 59 Cora locations in France, as well as nine stores in Belgium and two in Luxembourg.

"Fujitsu was the only provider willing to commit itself to providing a totally integrated solution within the time frame we set," added Cora's Soblet. "The relationship that we've had with Fujitsu goes back a number of years, and its self-checkout client list is an impressive one."

Europe

Fujitsu is working closely with the UK Home Office to implement a new shared services approach to IT across the client's entire organization.

Fujitsu has helped Cora to install Europe's first-ever integrated self-service supermarket checkout system. The client now plans to extend its use to other sites across France, Belgium, and Luxembourg.

Asia, Australia and Other Regions

Our new CAD system is helping Nissan Techno Vietnam to design exciting new cars. Post-installation operation and maintenance is handled by Fujitsu based on an outsourcing arrangement.

Fujitsu has secured a contract with Australia's Northern Territory Government to provide services and support for desktop computers using regular flights to remote areas.

Helping automakers to boost efficiency in new car development

—Nissan Techno Vietnam Co., Ltd.—

In Vietnam, where economic growth continues to drive commercial development, Nissan Techno Vietnam employs skilled young designers to help develop new Nissan models. Aiming to create a steady stream of exciting cars, the client asked Fujitsu to install systems to support an increase in the share of work done in Vietnam and related expansion in the design team.

The new CAD system that we deployed incorporates network-attached storage for high-speed processing that realizes greater productivity, as well as the flexibility to respond smoothly to any rapid increase in users in line with business expansion. Post-installation operation and maintenance is handled entirely by Fujitsu based on an outsourcing arrangement, thereby ensuring system reliability. Leveraging our global network, we will support Nissan Techno as it moves into other regions.

Flying technology doctors service remote regions of Australia

—Northern Territory Government—

The Northern Territory in Australia is one of the most sparsely populated regions in the world. With a land mass the equivalent of France, Italy and Spain combined and a population of just 200,000, servicing remote areas has always been a major challenge for the Northern Territory Government. It was this challenge that Fujitsu faced head on when we bid and were awarded a four-year, AU$150 million desktop and contract services contract with the Northern Territory Government in March 2006.

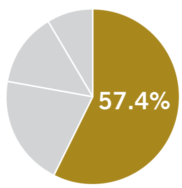
Responding to the Northern Territory Government's request for improved service delivery to rural and remote areas of the territory, Fujitsu and local business partners, including CSG Services and Territory Technology Solutions, provided a unique level of service and support by using aircraft to service remote sites. This was facilitated through the introduction of monthly or bimonthly scheduled site visits to remote regions and a fly-in response to meet incident resolution service level agreements. We also worked to improve the effectiveness of the Northern Territory Government desktop environment for users and significantly reduce downtime through the use of zero touch provisioning and a centralized redundant file and print server solution.

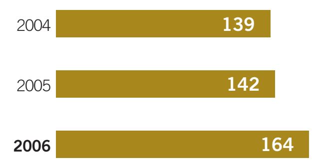
Business Overview

Years ended March 31

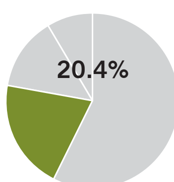
■ Breakdown of Net Sales	■ Net Sales* (Billions of Yen)	■ Operating Income (Billions of Yen)

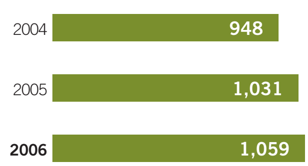
Technology Solutions



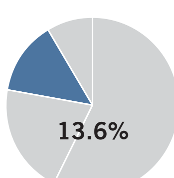


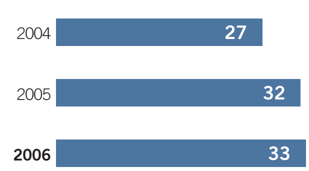
Ubiquitous Product Solutions





Device Solutions





* Including intersegment sales

Business Overview

Underpinned by a range of highly reliable, high-performance IT system platforms employing cutting-edge technologies, we provide best-fit services for individual client operations and solutions that span the entire IT system lifecycle.

Main Products & Services

System Platforms: Full range of servers (mainframe, UNIX, mission-critical IA, PC), storage systems, various types of software (operating system, middleware), optical transmission systems, and mobile phone base stations

Services: Consulting, systems integration, outsourcing services, network services, system support services, information system installation and network construction, and dedicated terminal systems and equipment (ATMs, POS systems)

Left: Fujitsu PRIMEQUEST mission-critical IA server offers mainframe-class performance and reliability. **Center:** Fujitsu and Cisco Carrier Routing System (CRS-1), jointly developed with Cisco Systems, Inc. **Right:** Materials Explorer molecular dynamics software supporting nanoscale materials development.

Emphasizing speed-to-market and price-competitiveness through highly efficient manufacturing activities, our PCs, mobile phones, and hard disk drives are vital to the realization of a ubiquitous networked world.

Main Products & Services

PCs, mobile phones, storage equipment (hard disk drives, magneto-optical disk drives), optical transmitter and receiver modules and other products

Left: Our FMV-DESKPOWER Series of PCs lets users enjoy high-definition TV broadcasts. **Center:** The FOMA® F902iS mobile phone is also a full-fledged music player. **Right:** Fujitsu large-capacity hard disk drives offer high levels of quality and reliability.

Logic LSI chips and related electronic components are core technologies that we provide to customers inside and outside the Group as part of highly optimized solutions that help to enhance the competitiveness of their products.

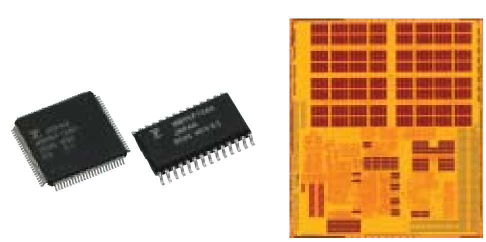
Main Products & Services

Logic LSI devices (system LSI, ASICs, microcontrollers, FRAM[*1]–embedded logic), system memory devices (flash memory, FCRAM[*2]), semiconductor packages, SAW[*3] devices, and other electronic components

*1 Ferroelectric random access memory: A nonvolatile memory characterized by low power consumption, fast write times and numerous read-write cycles. (FRAM is a trademark of Ramtron International Corporation.)

*2 Fast-cycle random access memory: High-speed DRAM that incorporates our original pipeline operation technology to accelerate memory read-write cycles.

*3 SAW devices boost the performance of mobile phones and other mobile devices and also help to reduce size and power consumption.



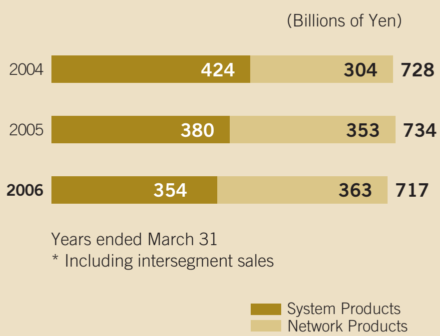
Left: The FR family of 32-bit microcontrollers for consumer electronics products. **Right:** CPU for our PRIMEPOWER UNIX servers.

Operational Review and Outlook

Technology Solutions—System Platforms

System Products
Grounded on our high-performance, highly reliable mainframe technologies, our PRIMEPOWER UNIX servers (left), PRIMEQUEST mission-critical IA servers (center) and ETERNUS storage systems (right) are capable of meeting a wide range of customers' operational needs.

Sub-segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

Business Overview

The Technology Solutions business segment comprises products and services primarily for corporate and government customers and, within this, the System Platforms sub-segment encompasses development, manufacture and sales of server-related systems, network equipment and other products. System Platforms is divided into two categories: System Products, covering mainframes and open-standard servers including UNIX, mission-critical Intel Architecture (IA) and PC servers, and storage systems; and Network Products, including optical transmission systems and mobile phone base stations.

Operating Environment and Performance

The worldwide server market continues to grow, paced by increasing demand for open-standard servers. In Japan, despite some signs of recovery in IT spending, conditions remained challenging due to intensifying competition and the impact of the shift from mainframe to open-standard servers.

In this business climate, System Platforms reported a 2.2% year-on-year drop in sales to ¥717.6 billion (US$6,082 million). This reflected lower sales of System Products, which, despite relatively robust sales of PC servers and stronger demand for UNIX servers overseas, faced a highly competitive operating environment in Japan. Network Products sales rose, thanks to firm demand from communications carriers in North America for optical transmission systems.

Operating income for the System Platforms sub-segment declined ¥18.9 billion, to ¥26.2 billion (US$223 million). This was mainly attributable to sluggish growth in domestic server-related sales, more intense price competition and higher expenses related to the development of next-generation servers and network equipment, which outweighed the positive impact of higher sales of optical transmission systems.

Initiatives

In System Products, we launched our PRIMEQUEST mission-critical IA server worldwide in April 2005. In a related development, we concluded a technology alliance agreement with Electronic Data Systems Corporation (EDS), one of the world's leading IT services companies. Under this agreement,

Network Products
The jointly developed Fujitsu and Cisco CRS-1 high-end routing system for communications carriers (left) and our FLASHWAVE optical transmission system (right) are being used to build broadband internet and other next-generation communications networks.

Platform Solution Center (Shanghai, China)
A one-stop support site providing everything from system consulting to verification and performance testing using actual equipment.

PRIMEQUEST has become part of the solution infrastructure for hosting services, legacy migration and other solutions provided by EDS. In addition, to further expand business related to our TRIOLE IT infrastructure optimization model on a global basis, we opened new open-standard system verification sites called Platform Solution Centers in Singapore, South Korea, and Hong Kong and Shanghai, China to support customers' system construction. These centers complement existing facilities in Japan, the UK, Germany and California in the US.

In Network Products, we steadily expanded our business in North America by leveraging our track record as the region's market leader in the next-generation synchronous optical network (SONET) segment. In the UK, Fujitsu was selected by the BT Group plc, a world leader in next-generation network deployment, as a preferred supplier in the access domain for the company's 21st Century Network program. This deal recognizes our capabilities and track record in the communications equipment field. Finally, mobile phone base stations recorded firm growth during the year, supported by a steady rise in 3G subscribers in Japan.

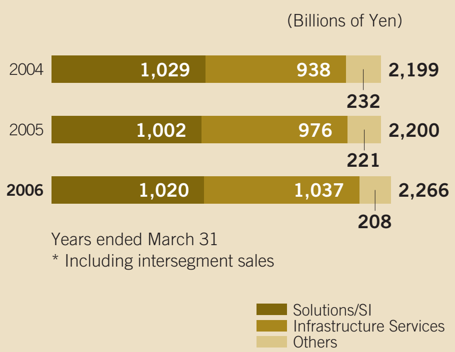
Issues to Be Addressed

In System Products, amid the continuing trend toward server consolidation, we will develop our business globally by leveraging our strengths in mission-critical technology, network technology and superior quality. Key products in this endeavor will be our PRIMEQUEST mission-critical IA servers, which offer mainframe-class performance and reliability on an open-standard platform, and our unified product line of PRIMEPOWER UNIX servers offered in conjunction with partner Sun Microsystems, Inc. Strengthening sales of these system products overseas will be a key theme. We plan to do this by working closely with our Group companies in North America and Europe and by leveraging our strategic alliance with EDS.

In Network Products, we will pursue opportunities in fields that require leading-edge technologies. To break into new businesses we will focus particular attention on optical access networks, which are becoming increasingly common, and actively respond to opportunities in WiMAX and other broadband wireless access fields.

Technology Solutions—Services

Sub-segment Sales* by Main Product



Bedside Medical Terminals
These terminals, attached to patient beds, display electronic patient chart data to help doctors and nurses provide medical care. They also improve the quality of patient care by displaying information and messages from the hospital.

Business Overview

The Technology Solutions business segment comprises products and services primarily for corporate and government customers and, within this, the Services sub-segment includes systems integration, outsourcing and other services. The Services sub-segment is further divided into three categories: Solutions/SI, centered on systems integration; Infrastructure Services, which encompasses outsourcing services, network services and system support services; and Others, which includes the installation of ATMs, contactless palm vein pattern authentication systems and IT systems.

Operating Environment and Performance

In fiscal 2005, the global IT market continued to expand on strong corporate IT investment. In Japan, the IT market gradually recovered overall, although there were differences between industry sectors—IT investment picked up among forward-looking companies in the manufacturing and retail industries, as well as certain areas in the financial services and telecommunications fields.

Under these conditions, Services posted sales of ¥2,266.2 billion (US$19,206 million), up 3.0% from the previous year, or an increase of 2.7% excluding the impact of change in accounting policies. The major factors supporting this growth were brisk demand for outsourcing services in the UK and sharply higher sales driven by business expansion in North America. This more than compensated for sluggish IT investment in Japan and a fallback in special demand generated by the redesign of Japanese banknotes in fiscal 2004. Operating income rose ¥41.0 billion to ¥137.9 billion (US$1,169 million), mainly reflecting a substantial decline in losses related to loss-generating projects, growth in outsourcing services in the UK, and change in accounting policies.

UBWALL Interactive Displays
Installed in shopping malls or other sites that attract large numbers of people, UBWALL displays information tailored to individual consumer interests. When users hold up IC card-enabled mobile phones to the screen, the display shows recommended restaurants, products and store locations.

Food Product Traceability
Fitting electronic tags to individual food products enables management of traceability data (product origin, distribution history) so that customers can check the origin of products and other information, helping them to purchase safe produce with greater confidence.

Initiatives

In Solutions/SI, we reduced the number of loss-generating projects to a normal level. This was the result of ongoing efforts by a dedicated unit formed to strengthen assurance and business support systems, realignment of sales and system engineering groups into integrated units along customer lines, and improvements to the project management framework. Additionally, aiming to drive full-scale expansion overseas, consolidated subsidiary Fujitsu Consulting acquired Rapidigm, Inc., an IT consulting firm based in the US with around 2,000 consultants in North America and India. This move has given us an even stronger business base in the North American market.

In Infrastructure Services, Fujitsu Services of the UK, building on its successes of fiscal 2004, captured new large-scale IT outsourcing projects to support further business growth. New deals included a central government business process outsourcing (BPO) contract with Northern Ireland's Department of Finance and Personnel.

Issues to Be Addressed

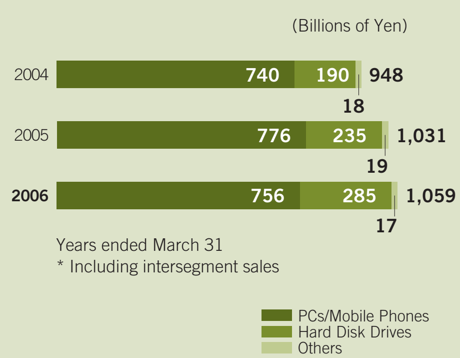
In our services business in Japan, we will focus on enhancing our earnings capabilities by deploying our System Development Architecture & Support (SDAS) and other tools to boost systems development efficiency, and working to further reduce the number of loss-generating projects. We will also aggressively pursue business growth in six fields positioned as key for the future: infrastructure optimization, IT operational improvement, security, internal control and the environment, utilization of integrated enterprise resource planning (ERP), and ubiquitous networking.

Based on our belief that overseas expansion will drive growth, we also intend to aggressively pursue expansion centered on North American operations and European outsourcing services.

Ubiquitous Product Solutions

FMV-DESKPOWER TX Series of PCs
TX series PCs come with 37-inch full-spec, wide-screen LCD screens that allow users to enjoy impressive high-definition video in their own living rooms. At the heart of the TX series is a hybrid Dixel filter that faithfully reproduces vivid high-definition pictures.

Segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

Business Overview

The Ubiquitous Product Solutions business segment comprises mainly products sold in high volumes, such as personal computers (PCs), mobile phones and hard disk drives (HDDs).

Operating Environment and Performance

In fiscal 2005, the global PC market grew, paced by overseas demand for notebook PCs. In HDDs, the markets for 3.5-inch drives for servers and 2.5-inch drives for notebook PCs also expanded. The 2.5-inch HDD market saw particularly strong growth thanks to healthy demand for notebook PCs and the emergence of new markets in the digital consumer electronics field.

In this business climate, the Ubiquitous Product Solutions segment posted an increase in sales of 2.8% over the previous fiscal year to ¥1,059.9 billion (US$8,982 million). The main reason for this rise was robust HDD sales, which grew more than 20% compared to a year earlier. Although PC sales were higher overseas, competition in Japan intensified, resulting in a decline in PC sales overall. In mobile phones, universal design handsets proved popular with consumers.

Operating income rose ¥3.1 billion to ¥34.4 billion (US$292 million). Increased component procurement costs due to the weaker yen were more than offset by cost reductions and savings from quality improvements yielded by manufacturing innovation initiatives, as well as higher earnings in HDDs.

Initiatives

During fiscal 2005, we worked to reduce costs and raise quality through company-wide manufacturing innovation initiatives. Specific steps included improving coordination among production sites, increasing use of automated testing to boost quality, and further extending the implementation of Toyota Production System reforms to drive down total operation costs.

In PCs, we leveraged our technological advantages to create more distinctive products with upgraded security functions and enhanced audio-visual capabilities, striving to develop and launch these differentiated products in a timelier manner. In

FOMA® F902iS Mobile Phone
The FOMA® F902iS mobile phone is a full-fledged music player that allows users to download and listen to WMA music files from the internet. The phone also incorporates a fingerprint sensor for added security.

Hard Disk Drives
Our hard disk drives are used in PCs, servers and storage systems. Fujitsu was the first company in the world to develop and launch a 200GB 2.5-inch HDD compatible with serial ATA interfaces.

mobile phones, we focused on developing original products and moving to standardized platforms, aiming to achieve a more stable operating base. Finally, in HDDs, we realized higher levels of quality by bringing the production of elemental technologies and core components in house. This helped us to capture the number two ranking worldwide in both 3.5-inch HDDs for servers and 2.5-inch HDDs for notebook PCs.

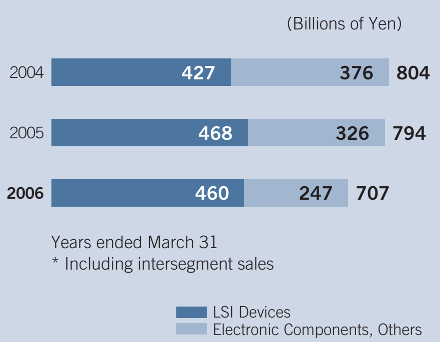
Issues to Be Addressed

In our domestic PC business, we will place emphasis on delivering high-value-added products that are compatible with terrestrial digital broadcasting and have larger screens and enhanced security features. Overseas, where continued growth is expected, we plan to expand our business focusing on notebook PCs. In mobile phones, although significant growth in unit sales cannot be expected due to the already high diffusion rate in Japan, we will continue to develop original products, primarily universal design handsets, while also pursuing development alliances and further enhancing manufacturing reforms in a determined effort to boost earnings. In HDDs, we will upgrade and expand our product lineup, with a particular focus on 2.5-inch HDDs for notebook PCs and digital consumer electronics, both markets where rapid growth is forecast. In addition, we will enter the promising growth market for 1.8-inch HDDs used in mobile device applications, developing the products in partnership with Cornice Inc. In addition to promoting vertical integration by manufacturing elemental technologies and core components in house, we will forge a hybrid business model through strategic alliances. This, together with the development and manufacturing of products that incorporate sophisticated perpendicular magnetic recording technology, will underpin our efforts to build a more powerful HDD business.

Device Solutions

Mie Plant for Advanced Logic LSI Production
Onstream since April 2005, the Mie Plant produces logic LSI devices on 300mm wafers. The plant will boast world-class production capacity in advanced logic LSI devices when a second fab scheduled for construction at the site becomes operational.

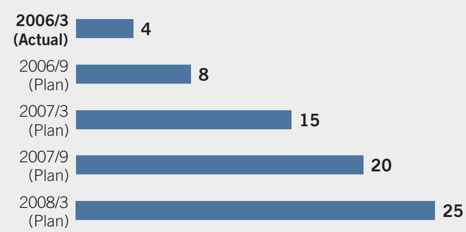
Segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

Increasing 300mm Wafer Production Capacity (90nm/65nm process technology)

(thousands of wafers per month)



Business Overview

The Device Solutions business segment is comprised of two sub-segments: LSI Devices, centered on logic LSI devices and including system memory products; and Electronic Components, Others, including semiconductor packages, SAW devices and a range of other electronic components.

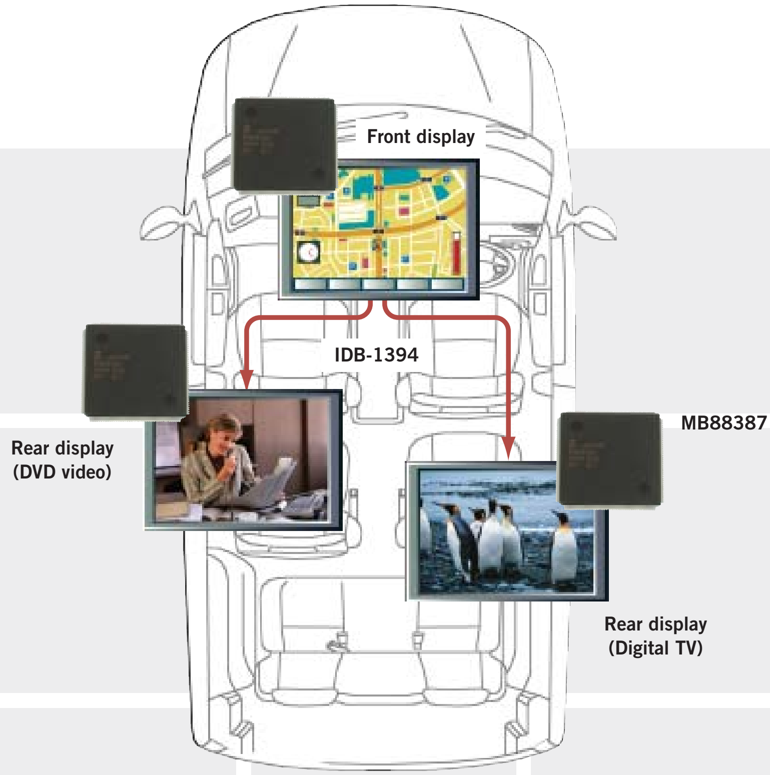
Operating Environment and Performance

In the first quarter of fiscal 2005, the logic LSI device market experienced a downturn as manufacturers, particularly in the digital consumer electronics and mobile phone sectors, continued to reduce inventories. From July onwards, however, demand expanded, centered on digital AV products, mobile phones and automotive applications. Prices for logic LSI devices continued to decline during the year, in parallel with falling prices for finished digital AV products and mobile phones. There was a similar picture in the system memory products market, with shipments increasing, primarily for digital AV and mobile phone applications, but prices continuing to decline.

In this business climate, Device Solutions posted sales of ¥707.5 billion (US$5,996 million), down 11.0% compared to a year earlier. However, excluding the impact of the transfer of our flat panel display businesses, sales on a continuing operations basis increased by 0.5%. In LSI Devices, sales of system memory products decreased due to declining market prices, but the market for logic LSI devices recovered in the latter half of the fiscal year, especially for devices used in mobile phones and digital AV products. The start of volume production of advanced logic LSI devices also contributed to sales. The combination of these factors supported a slight overall rise in sales of LSI devices, mostly from overseas sales, compared to fiscal 2004.

Operating income totaled ¥33.3 billion (US$282 million), an increase of ¥0.7 billion compared to the previous fiscal year. Although operating income in the LSI Devices sub-segment declined due to a weaker market during the first half of the fiscal year, as well as the impact of expenses relating to the start-up of the 300mm wafer facility at our Mie Plant, the Electronic Components, Others sub-segment continued to post strong results, and losses associated with the flat panel dis-

Large-diameter 300mm Wafers
Corporate Senior Executive Vice President Toshihiko Ono holds one of the Mie Plant's 300mm wafers, which employs 90nm process technology, at an electronic device strategy briefing in February 2006.



MB88387 LSI Devices Compatible with IDB-1394 In-Vehicle Network Standard
Our electronic devices enable the rapid transmission of digital content inside vehicles, heralding the development of cars where passengers can enjoy high-definition DVDs and other digital content on seat-back screens.

play businesses were eliminated. These factors supported the slight increase in operating income compared to fiscal 2004.

Initiatives

At the end of the previous fiscal year, we transferred our PDP business to Hitachi, Ltd. Then, early in fiscal 2004, we transferred our LCD operations to Sharp Corporation. These moves were taken to shift resources into the logic LSI business. In conjunction with this strategy, we plan to drive a significant increase in sales by focusing on advanced 90nm technology and beyond as future growth drivers. As part of this approach to grow our semiconductor operations by adopting cutting-edge technologies, we brought a new 300mm wafer semiconductor fabrication facility at our Mie Plant (Fab No. 1) onstream in April 2005. This facility, which can utilize 90/65nm process technology for logic LSI devices, began volume production in September 2005. Subsequently, in January 2006, we made the decision to construct a second 300mm-facility (Fab No. 2) at the same plant. When operational, this facility will give us world-leading levels of output for advanced logic devices.

Issues to Be Addressed

In the LSI field, we will continue to channel resources into our logic LSI business. Along with fully leveraging our 300mm wafer capacity at Mie and expanding our lineup of cutting-edge growth-driver products, we will further strengthen our standard product offerings. Pursuing a balanced LSI business in this way will help us to enhance our overall earnings capabilities.

Additionally, by utilizing our strengths in the imaging, wireless, security and other fields, we will roll out ASSPs*[1] in global markets, and reinforce our New IDM business model, which balances COT*[2] and SoC*[3] approaches. This strategy will underpin efforts to boost profitability and enhance our market presence.

*[1] Application-specific standard products: Standardized LSI products designed for power supply, file management, image processing and HDTV applications in PCs, mobile devices, communications networks and other products. They can be sold to multiple users.
*[2] Customer-owned tooling: The manufacture of LSI devices (masks, wafers, etc.) based on design and development carried out by the user.
*[3] System on a chip: The integration of microprocessors, chipsets, video chips, memory and other functions on a single chip.

Research & Development

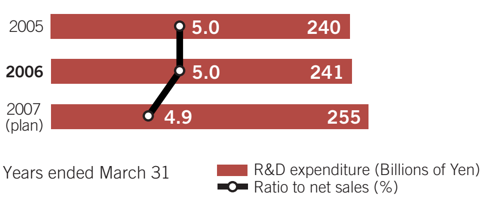
Our Mission in R&D

Aiming to contribute to Fujitsu's technology value chain, we carry out cutting-edge research and development in fields ranging from IT services to computing and telecommunications systems, as well as in supporting fields such as electronic devices and materials technology.

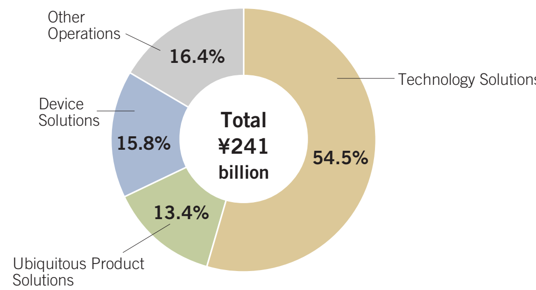
- **Foster the creation of new businesses**
- **Create and accumulate advanced technologies**
- **Extend our value chain globally**
- **Fulfill our social responsibilities**

Major Achievements in Fiscal 2005

R&D Expenditure



Fiscal 2005 R&D Expenditure by Segment



Organic storage technology

We have developed organic storage technology that utilizes autonomic clusters of hard disk drives to enable large volumes of data to be securely stored and quickly retrieved when needed. The hard disk drives can be hot-swapped with new-generation drives without service interruption, thereby maintaining high levels of reliability and performance. Using this technology, we launched the world's first organic storage service as an outsourcing arrangement. This service enables superior information management in terms of both security and cost performance in response to customers' actual utilization needs, including for documents that are compliant with Japan's e-Document Law and electronic medical records.

High image quality processing technology for PCs and mobile phones

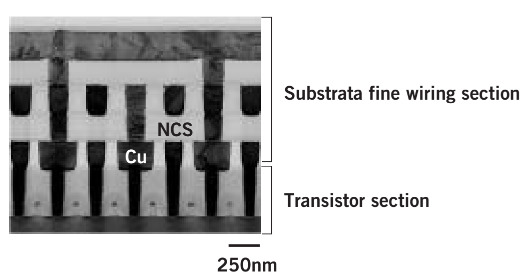
Developed jointly with the NHK Science & Technical Research Laboratories, our encoder technology enables high-quality broadcast services even at low bit rates of around 100 kilobits per second that are suitable for mobile phones and other mobile devices. Compliant with the latest video encoding format, AVC/H.264, this technology, which we hope to develop into the de facto industry standard, is also becoming increasingly important in enabling the high-speed encoding of data-heavy video for large-screen TVs.

Our Dixel filter makes possible high-resolution, high-quality images on PCs equipped with TV tuners. We have also developed a secure chip that employs original encryption technology to safeguard against the hacking of digital broadcast content, thereby allowing broadcasts of Hi-Vision quality sound and images to PCs while ensuring proper copyright protection. These technologies are now incorporated in our products.

CMOS multilayer wiring technology for 45nm-generation devices

Fujitsu has been a pioneer in 90nm and 65nm process technologies, which deliver faster processing speeds and reduced power consumption in advanced LSI devices used in various fields, including servers, digital AV equipment, and mobile phones. With the increasing miniaturization of LSI devices, wiring intervals are projected to become even narrower in the years ahead, meaning the use of conventional high-conductivity insulating film would result in diminished chip operating speeds. To resolve this problem, we have developed multilayer wiring technology using copper and a low-k, high-strength polysilica-type nano-clustering silica (NCS) insulating material developed in-house. The technology will enable us to achieve high processing speed and low power consumption in 45nm-generation chips.

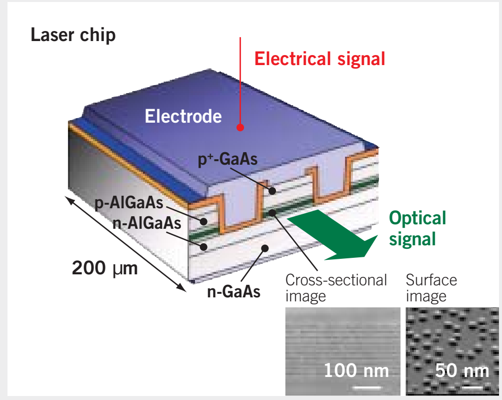
Electron microscope cross-sectional image of copper/NCS multilayer wiring

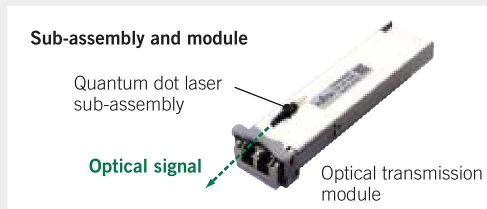


■ Strides toward practical application of quantum dot lasers—a key optical transmission technology

We have teamed up with Mitsui & Co., Ltd. to establish QD Laser, Inc. (QDL), an optical device venture focusing on the practical application of quantum dot* laser technology. The quantum dot laser is an epoch-making laser that outstrips conventional semiconductor lasers in terms of temperature-independent operation, low power consumption, long-distance transmission, and high speed. As such, it is seen as a core enabling technology for high-performance light sources in the field of optical telecommunications, where data traffic is growing dramatically. Through growth in QDL's operations, we plan to advance the practical application of world-class quantum dot laser technology. This will support efforts to enhance our competitive position in the medium- and long-haul optical transmission equipment market, where we are already among the market leaders in Japan and the US, as well as the optical access market, which is projected to expand globally.

* Quantum dots are semiconductor particles measuring a single nanometer (one billionth of a meter) in size, which were developed through cooperation between Fujitsu Limited, Fujitsu Laboratories and the University of Tokyo's Arakawa Laboratory.





Strategic Direction in Fiscal 2006

■ Develop new solutions leveraging our technology value chain

We will advance R&D efforts to create high-value-added solutions that leverage and combine our wide array of cutting-edge technologies in IT services, computers, networks, electronic devices and other areas.

■ Key research themes in fiscal 2006

- Upstream software & services technologies
- Next-generation computing platforms
  Next-generation TRIOLE (automation/virtualization/integration)
- Next-generation networks (NGN)
  Convergent fixed-mobile network technologies
- High-density perpendicular magnetic recording technology
- Verification of CMOS technology for 45nm-generation devices

■ R&D in emerging new fields to support future businesses

We are focusing on R&D in emerging new fields to support future businesses, including:

- Peta-scale computing (next-generation supercomputer)
- Next-generation mobile communications technology
- Nanotechnology
- Intelligent Transport System (ITS) technology to improve safety and security
- Humanoid robots with artificial intelligence
- IT that supports lifestyles in an aging society

■ Promoting joint research to identify new possibilities in technology and products

We will aggressively pursue joint research with universities, research institutes and corporations worldwide.

Intellectual Property

The Importance of Intellectual Property

Protecting intellectual property rights is clearly articulated in the Code of Conduct of *The FUJITSU Way*, the core set of principles guiding the corporate and individual actions of the Fujitsu Group. Consequently, all our employees recognize intellectual property as a key corporate asset supporting our business activities. Highly aware of the legal implications related to intellectual property rights, we strive to acquire, protect, and utilize such rights, taking steps to safeguard our own rights, while respecting the intellectual property of other companies. Specifically, we:

- **Implement strict data protection measures, including initiatives to prevent unintended leaks**
- **Create a culture that values and protects intangible assets (intellectual property)**
- **Take an uncompromising stance on infringement of intellectual property rights**

Intellectual Property Strategy

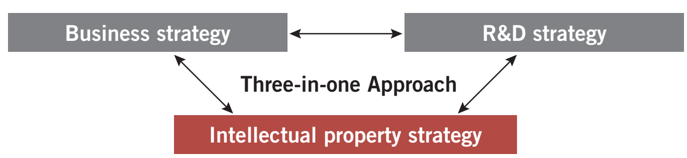
We are pursuing the following five specific measures to promote an intellectual property strategy closely integrated with our business operations and R&D activities.

1) Secure, maintain, manage and utilize strategic rights (industrial property rights, patents, trade secrets, etc.)
2) Respect intellectual property rights (avoid infringing on other companies' patents)
3) Rigorously manage information (enhance internal rules, conduct training and implement periodic checks)
4) Participate in external activities related to public policy making (i.e., Japan Federation of Economic Organizations (*Keidanren*), Japan Electronics and Information Technology Industries Association and other bodies)
5) Educate and train strategic personnel

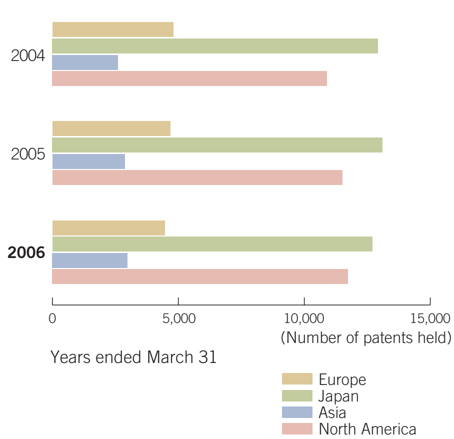
Maintain Superior Competitiveness
Actively secure and utilize intellectual property to more effectively differentiate our products and services.

Ensure Business Flexibility
Work to develop a strong intellectual property portfolio to ensure and enhance business flexibility and obtain more favorable terms in collaboration agreements with other companies.

Secure Business Profitability
Use specialist divisions to aggressively market our technologies, including efforts to generate revenue from licensing fees.



Our Global Patent Portfolio



Patent Applications in Japan in 2005

1	Matsushita Electric Industrial Co., Ltd.	3,913
2	Toshiba Corporation	2,874
3	Canon Inc.	2,389
4	Seiko Epson Corporation	2,236
5	Hitachi, Ltd.	2,084
6	Mitsubishi Electric Corporation	1,938
7	Nissan Motor Co., Ltd.	1,906
8	Sharp Corporation	1,784
9	Sony Corporation	1,694
10	Ricoh Company, Ltd.	1,674
11	SANYO Electric Co., Ltd.	1,544
12	**Fujitsu Limited**	**1,511**
13	Honda Motor Co., Ltd.	1,463
14	DENSO Corporation	1,418
15	Toyota Motor Corporation	1,411
16	Matsushita Electric Works, Ltd.	1,197
17	NTT Corporation	1,146
18	Mitsubishi Heavy Industries, Ltd.	1,060
19	NEC Corporation	991
20	Fuji Photo Film Co., Ltd.	934

Source: Fujitsu survey based on Japan Patent Office data (Number of issued patents)

Patent Applications in the US in 2005

1	IBM Corporation	2,972
2	Canon Inc.	1,837
3	Hewlett-Packard Development Company, L.P.	1,801
4	Matsushita Electric Industrial Co., Ltd.	1,720
5	Samsung Electronics Co., Ltd.	1,645
6	Micron Technology, Inc.	1,561
7	Intel Corporation	1,551
8	Hitachi, Ltd.	1,293
9	Toshiba Corporation	1,288
10	**Fujitsu Limited**	**1,168**
11	Sony Corporation	1,149
12	General Electric Company	906
13	Seiko Epson Corporation	888
14	Infineon Technologies AG	804
15	Koninklijke Philips Electronics N.V.	767
16	Robert Bosch GmbH	758
17	Fuji Photo Film Co., Ltd.	755
18	Microsoft Corporation	746
19	Texas Instruments Incorporated	736
20	Honda Motor Co., Ltd.	730

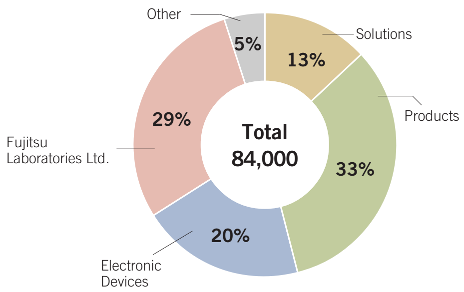
Source: IFI CLAIMS Patent Services (Number of issued patents)

1. Patent Rights

(1) Global Patent Portfolio and Promotion Organization

Centered on Japan, and including not only Europe and the US but elsewhere in Asia, particularly China, South Korea and Taiwan, we are working to secure effective patents on a global basis. Outside Japan we are actively working to create new inventions at our development bases in the US, Europe, China, and elsewhere, thereby strengthening our global patent portfolio.

■ Registered Patents by Business Group (Fiscal 2005)



■ Principal Patent Results in Fiscal 2005

Mission-critical Servers (PRIMEQUEST/ PRIMEPOWER)
We filed more than 600 domestic and international patents, primarily relating to the processor and bus architecture.

Optical Transmission Systems
We filed more than 250 domestic and international patents relating to cutting-edge WDM technology (all optical switching) and next-generation ultra high-speed transmission technology (40G).

Next-generation Networks (WiMAX, 3.5G and others)
We are consolidating our technologies in areas that leverage our strengths, such as telecommunications and semiconductors, and working toward standardization. We filed more than 100 domestic and international patents.

Semiconductor Miniaturization Technology (45nm and beyond)
Focusing on securing rights for technologies that increase speed and lower power consumption, as well as wiring and process technologies, we filed approximately 60 patents.

PRIMEQUEST mission-critical IA server

FLASHWAVE optical transmission system

(2) Key Themes Driving Patent Acquisition Activities

We are striving to strengthen our patent portfolio guided by key themes in each of our business areas. Using our patent data search system (ATMS/IR.net), which we also provide to external customers as an ASP service, we are working to strategically secure patents by closely monitoring the latest technology trends, creating patent maps and taking other steps.

(3) Licensing

We conclude cross-licensing agreements aimed at preserving a high degree of business latitude, and make technologies publicly available in various forms where we believe this will foster broader use of our technology compared with commercializing it on our own. We currently have more than 500 licensing agreements.

2. Respecting Other Companies' Rights

The impact of infringing upon the rights of other companies goes beyond having to pay significant fees. In the worst case, it could have a major economic impact on our company due to the loss of business opportunities and other issues. In addition, it could prevent us from providing products and services, thereby severely inconveniencing our customers. We are fostering a culture at Fujitsu that respects the patent rights of other companies, as well as creating an environment that allows all our technicians to utilize the ATMS/IR.net system to research patents held by other companies.

3. Protecting the Fujitsu Brand

We work to protect and maintain the value of the Fujitsu name as a brand trusted by customers. As part of this effort, we have established clear and uniform usage rules for all Group companies, and we have trademarked our name in more than 150 countries worldwide to eliminate any obstacles to our global business expansion. In 2005, unauthorized use of the Fujitsu name was discovered in China. We are taking necessary measures to protect our brand and resolve this kind of issue.

For further details, please see "Fujitsu's Intellectual Property Strategy" at: http://www.fujitsu.com/global/about/ir/topics/2006/

Social and Environmental Activities

Giving Back to the Community

Seeking to coexist and prosper alongside local communities and global society as a good corporate citizen, we use our unique position as an IT company to contribute to society in a variety of ways. Our goal is to fulfill our responsibility to the sustainable development of society and generate benefits for all our stakeholders, while at the same time realizing the growth of the Fujitsu Group. Below are just some of the activities we were involved in during fiscal 2005.

Japan-America Institute of Management Science (JAIMS)

Established by Fujitsu in 1972, JAIMS is a not-for-profit postgraduate educational institute whose mission is to cultivate leaders who can fulfill their potential on the global stage. Over 20,000 people from more than 50 countries have already benefited from JAIMS courses. Thanks to the language abilities, business skills and global contacts they acquired through their JAIMS education, many alumni are now actively contributing to the development of the global economy in countries worldwide.

Mathematical Olympiad Foundation of Japan and the Informatics Olympiad Japan Committee

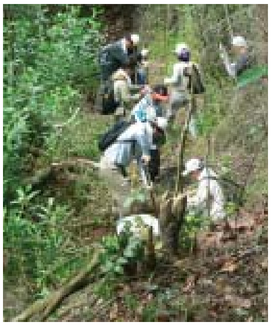
We continue to support the activities of the Mathematical Olympiad Foundation of Japan and the Informatics Olympiad Japan Committee, which seek to discover and foster young talent who can play a key role in developing society in the future. The Mathematical Olympiad Foundation of Japan selects and supports Japan's representatives for the International Mathematical Olympiad, while the Informatics Olympiad Japan Committee works to promote education in mathematical information science, primarily by selecting and sending Japanese representatives to the International Olympiad in Informatics (IOI), a computer programming contest for junior and senior high school students.

Reforestation activities overseas

Since 1997, the Fujitsu Group has carried out reforestation activities that have encompassed the planting of 1 million trees across 500 hectares in Thailand, Vietnam and Malaysia. One hallmark of this project is the role of employees, who provide donations and travel as volunteers to target sites to participate in the reforestation work. In November 2005, for example, volunteers helped plant dipterocarp trees at the Fujitsu Group Malaysia Eco-Forest Park in the state of Sabah. We plan to continue activities at the same site in 2006.

Students at the Japan-America Institute of Management Science (JAIMS)


Japan's representatives at the International Mathematical Olympiad


Overseas tree-planting activities

Environmental Activities

The Fujitsu Group recognizes that environmental protection is a vitally important business issue. By utilizing our technological expertise in the IT industry and our creative talents, we seek to contribute to the promotion of sustainable development. In addition, while observing all environmental regulations in our business operations, we are actively pursuing environmental protection activities on our own initiative. Through our individual and collective actions, we will continuously strive to safeguard a rich natural environment for future generations. Below are just some of the steps we took to help protect the environment in fiscal 2005.

■ Global warming countermeasures (reducing greenhouse gas emissions)

We have established and are steadily working to achieve fiscal 2010 targets for the reduction of greenhouse gas emissions generated by the business activities of the Fujitsu Group. We are also taking steps to cut CO_2 emissions in product distribution operations through the promotion of modal shift and other measures. Moreover, through the development of environmentally friendly products based on our Super Green Product criteria, and the provision of Green Solutions comprising software and IT services that effectively help to reduce environmental load, we are also helping customers to save energy and reduce emissions of greenhouse gases.

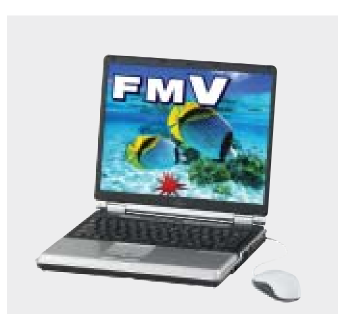
■ Expanding the lineup of environmentally friendly products

In January 2005, we launched the world's first notebook PC with the main housing made from environmentally friendly bio-based plastic. In fiscal 2005, we built on this success by extending the use of bio-based plastic to other products, including point-of-sale (POS) terminals, automated teller machines (ATMs), contactless palm vein authentication systems, image scanners and other products.

■ Worldwide integrated ISO 14001 certification

Environmental regulations for products are becoming increasingly strict in Europe and other regions worldwide. In response to this trend, and due to the international nature of our business, we have built a global environmental management system (EMS) to provide a common framework for the entire Fujitsu Group. In the year under review, the Fujitsu Group received worldwide integrated ISO 14001 certification for this system, which is among the largest of any major Japanese electronics company.

CO_2 emissions were cut by around 15% at the Aizu-Wakamatsu Plant in fiscal 2005



The world's first notebook PC with the main housing made from environmentally friendly bio-based plastic

Fujitsu obtained worldwide integrated ISO 14001 certification

Management

Board of Directors

Representative Directors

Naoyuki Akikusa
Chairman

Hiroaki Kurokawa*
President

Masamichi Ogura*
Corporate Senior Executive Vice President

Toshihiko Ono*
Corporate Senior Executive Vice President

Chiaki Ito*
Corporate Senior Executive Vice President

Michiyoshi Mazuka*
Corporate Senior Executive Vice President

Directors

Akira Takashima
Vice Chairman

Kunihiko Sawa
Advisor
Fuji Electric Holdings Co., Ltd.

Hiroshi Oura
Director and Senior Executive Advisor
Advantest Corporation

Ikujiro Nonaka
Professor Emeritus
Hitotsubashi University

* Concurrently serve as corporate executive officers

Statutory Auditors

Standing Auditors

Takashi Takaya
Hirohisa Yabuuchi

Auditors

Yoshiharu Inaba
(President and CEO, Fanuc Ltd.)

Tamiki Ishihara
(Chairman, Seiwa Sogo Tatemono Co., Ltd.)

Megumi Yamamuro
(Professor, University of Tokyo Graduate Schools for Law and Politics)

Corporate Executive Officers

Corporate First Senior Vice Presidents

Hideaki Yumiba
Takashi Igarashi
Haruki Okada
Yoshiyuki Tanakura
Hiromichi Hirata

Corporate Senior Vice Presidents

Ichiro Komura
Tetsuo Urano
Koichi Hironishi
Kimihisa Ito
Kuniaki Nozoe
Kazuhiko Kato
Kyung-soo Ahn
Shigeru Fujii
Takumi Nakamura
Junichi Murashima
Kazuo Ishida
Terumi Chikama
Takashi Harima

Corporate Vice Presidents

Takashi Aoki
Makoto Matsubara
Yoshifumi Mita
Fujio Ohara
Akira Yamanaka
Tsuneaki Ohara
Masanobu Katoh
Kazuo Miyata
Jirou Sugawara
Kiyonobu Ishida
Masami Yamamoto
Tatsuo Tomita
Toshio Morohoshi
Koichi Ishizaka
Hirokazu Uejima
Takashi Moriya
Seiji Nakagawa
Toshiyuki Kuwahara
Akira Furukawa
Kenji Ikegai
Makoto Murakami
Haruyoshi Yagi
Masatoshi Kambe
Tsuneo Kawatsuma
Masaaki Hamaba
Haruyuki Iida
Kazuhiko Hanaoka
Susumu Ishikawa
Masami Fujita

Corporate Governance

1. Basic Stance on Corporate Governance

We believe that pursuing management efficiency while effectively managing business risks is essential to achieving sustainable improvement in corporate value. Recognizing that stronger corporate governance is vital to realizing this goal, we have been active in appointing outside directors to help ensure sound and transparent management. At the same time, by separating management oversight and operational execution functions, we have promoted faster decision-making while further clarifying management responsibilities. The clear separation of these functions is designed to further improve management transparency and efficiency.

We manage our Group companies based on clear distinction between 1) companies that perform an assigned function in our business; and 2) companies that pursue a synergistic relationship with us based on a shared corporate strategy.

2. Status of Corporate Governance-related Policy Implementation

(I) Management Control Organization with Respect to Business Decisions, Operational Execution and Oversight, and Other Corporate Governance Structures

(i) Institutional Structure and Internal Control

The Board of Directors is responsible for management oversight, supervising the operational execution functions of two executive organs under its authority, the Management Strategy Council and the Management Council.

The Management Strategy Council discusses and decides upon fundamental policies and strategy regarding business management. The Management Council makes decisions on important matters regarding operational execution. Issues discussed by the two councils and a summary of their discussions are reported to the Board of Directors, which makes decisions on items of particular importance. The Management Strategy Council generally meets once a month, while the Management Council generally meets three times a month, but meetings for either body can be convened whenever necessary.

The auditing function is carried out by statutory auditors (Board of Statutory Auditors), who review the Board of Directors as well as operational execution functions, and attend important meetings, including meetings of the Board of Directors as well as the Management Strategy Council and Management Council.

In addition, the 10-member Board of Directors consists of eight internal directors and two outside directors, while the five-member Board of Statutory Auditors consists of two internal auditors and three external auditors. To further clarify the management responsibility of directors, the term of directors was reduced from two years to one year under a resolution adopted at the Annual Shareholders' Meeting convened on June 23, 2006.

(ii) Basic Stance on Internal Control Framework and Status of Implementation

At a meeting of the Board of Directors on May 25, 2006, the following basic stance was adopted with respect to enhancement of the Company's internal control system based on Article 362, Paragraph 5 and Paragraph 4, Section 6 of the Company Law, as well as Article 100, Paragraphs 1 and 3 of the Company Law Enforcement Regulations.

1. Objective

The FUJITSU Way, the core set of principles guiding the Fujitsu Group, sets forth our goal of helping to solve customers' problems and contributing to society through the provision of high-quality products and services based on leading-edge technology, as well as our determination to fulfill our corporate responsibilities to stakeholders, including: customers, employees*, shareholders and investors, suppliers, business partners, local communities and broader global society.

We believe that the concurrent pursuit of efficient management and the proper control of business risks are essential to achieving sustainable improvement in the corporate value of the Fujitsu Group. Recognizing that stronger corporate governance is vital to realizing this goal, we are constantly working to implement and advance the policies outlined below.

2. Framework to Ensure the Propriety of Fujitsu Limited and Fujitsu Group Business Activities

(1) System to Ensure Efficient Execution of Duties by the Board of Directors

① Management oversight functions and operational execution functions are separated at Fujitsu. The Board of Directors supervises the Management Strategy Council, Management Council and other executive organs charged with operational execution functions. Among these executive organs, the Management Strategy Council discusses and makes decisions on fundamental matters of business direction and strategy. The Management Council makes decisions about important matters relating to operational execution. Issues discussed by the two councils and a summary of their discussions are reported to the Board of Directors, which makes decisions on matters of particular importance.

② In order to strengthen management oversight functions, we actively appoint outside directors and auditors.

③ The Board of Directors clarifies matters relating to the duties of directors with assigned business responsibilities, corporate executive officers, and other executive-level managers (all referred to hereafter as "senior managers"), as well as the authority of other executive bodies, and sees to it that duties are executed in accordance with the responsibilities of each position.

④ Senior managers shall make decisions regarding execution of their duties based on appropriate decision-making procedures in accordance with "Board of Directors Regulations," "Management Strategy Council Regulations," "Management Council Regulations," "*Ringi* Regulations," and other relevant regulations.

⑤ Senior managers are expected to thoroughly familiarize employees with management direction and other strategy directives, and, in order to achieve business goals, to set and achieve concrete objectives.

⑥ In order to pursue greater operational efficiency, senior managers are expected to continuously promote the development and full implementation of internal control systems as well as the improvement of business processes.

⑦ The Board of Directors monitors and directs progress in the achievement of business objectives by arranging for monthly reports on financial results and business operations from senior managers and other executive organizations with business execution duties.

(2) System to Ensure that Execution of Duties by Directors and Employees Complies with Laws, Regulations and the Articles of Incorporation

① Senior managers are expected not only to uphold *The FUJITSU Way*, which includes the basic principles of compliance with laws, regulations and the Articles of Incorporation, but to also actively promote compliance by the Fujitsu Group as a whole in accordance with their ethical obligations as senior managers.

② Senior managers shall, by carrying out ongoing educational programs and other measures, strive to ensure that employees rigorously adhere to the basic principles of *The FUJITSU Way*, and thereby promote compliance by the Fujitsu Group as a whole.

③ Senior managers shall clarify legal regulations and other rules regarding the business activities of the Fujitsu Group, as well as institute and enforce the necessary rules, training, and monitoring systems to promote compliance by the Fujitsu Group as a whole.

④ In the event that senior managers or employees become aware of the possibility of a serious operations-related compliance violation, they are to immediately inform the Board of Directors and/or the Board of Statutory Auditors through regular operational reporting lines.

⑤ In order to enable the early discovery of potential compliance problems and their proper handling through information channels separate from regular operational reporting lines, senior managers shall establish and maintain an internal notification system that includes a structure and procedures for protecting those who raise compliance issues.

⑥ The Board of Directors shall receive on a periodic basis reports on the state of operations from those charged with executing them as well as confirm that there are no compliance violations in connection with execution of business duties.

(3) Regulations and Other Structures for Managing the Risk of Losses

① Senior managers strive to realize the continuity of Group businesses, growth in corporate value and the sustainable development of corporate activities. In order to deal with risks that might constitute obstacles to achieving these goals, they shall establish jurisdictions for various types of risks and put in place administrative systems to deal with them in an appropriate manner.

② Senior managers shall regularly assess and verify risks that might result in losses to the Group and report significant issues to the Board of Directors.

③ In regard to the kind of risks identified in the preceding item, as well as other risks that might be envisioned to arise in the course of carrying out business activities, senior managers shall establish preventative and other measures to control risks and carry out activities to minimize possible losses. In addition, in order to minimize losses resulting from the elicitation of incidences of risk, along with establishing a Risk Management Committee and implementing other necessary measures, incidences of risk shall be analyzed on a periodic basis and reported to the Board of Directors, and other activities shall be carried out to prevent similar risks from arising.

④ In order to gather the kind of risk information that cannot be captured through the measures referred to above, senior managers shall put in place and maintain an internal notification system that includes protection for those who come forward with information.

(4) Systems for Retaining and Managing Information Relating to Execution of Directors' Duties

① Based on company policies, senior managers shall delegate persons with the responsibility for retaining and managing the following documents (including in digital form) and other important information relating to the execution of directors' duties:

- Minutes of Annual Shareholders' meetings and related materials
- Minutes of Board of Directors' meetings and related materials
- Minutes of other meetings involving important decision-making bodies along with related materials
- Documents and related materials authorized by senior managers
- Other important documents relating to management execution by senior managers

② In order for directors or statutory auditors to verify the status of issues relating to operational execution of duties, they shall have access as needed to the documents listed in the previous item, and the persons responsible for retaining and managing these documents shall put systems in place to ensure that directors and statutory auditors can have access to them when they are requested.

(5) Systems for Ensuring the Propriety of Fujitsu Group Business Activities

① In order to continuously improve the corporate value of the Fujitsu Group, the Company shall, in accordance with *The FUJITSU Way*, provide guidance and support to Fujitsu Group company senior managers to ensure that proper systems are in place throughout the Group to efficiently and properly adhere to points (1)–(4).

② Specifically, in regard to the issues mentioned in the previous item, we shall prepare a set of Fujitsu Group Management Regulations that specify each company's role, responsibilities, lines of authority, decision-making procedures, and other matters.

③ Senior managers from Fujitsu Limited and Fujitsu Group companies shall meet regularly for updates on the Group's management direction and to address issues relating to achieving business performance targets. In addition, the statutory auditors of Fujitsu Group companies shall meet to address issues facing the Fujitsu Group from an audit perspective.

④ Senior managers from Fujitsu Limited and each Group company shall formulate policies to resolve any obstacles relating to meeting business performance targets identified in the previous item, and implement appropriate policies after a thorough discussion of the issues. If necessary, Fujitsu Limited shall receive reports or applications for approval as shall be specified separately in the Fujitsu Group Management Regulations.

⑤ The Company's internal audit division shall coordinate with each Group company's internal audit division to perform internal audits of the entire Fujitsu Group. Findings shall be regularly reported to the boards of directors and/or statutory auditors of Fujitsu Limited and the Group company concerned. Important matters relating to Fujitsu Group companies are reported to Fujitsu's Board of Directors and Board of Statutory Auditors.

(6) Systems for Ensuring the Propriety of Audits by Statutory Auditors

<Provisions to Ensure Independence>

① The Company shall staff the Statutory Auditors' Office with employees to help the statutory auditors perform their duties. Employees selected for this purpose shall have the capabilities and knowledge needed to meet the requirements of the statutory auditors.

② To ensure the independence of the employees assigned to the Statutory Auditors' Office, senior managers shall consult in advance with the statutory auditors regarding personnel issues for these employees, including appointments, transfers, and compensation.

③ As a general principle, senior managers shall not have employees assigned to the Statutory Auditors' Office assume concurrent responsibilities with other units. If, however, the statutory auditors request the assistance of employees with specialized expertise, necessitating concurrent responsibilities for those employees, the provisions in the preceding item ensuring independence shall apply to those employees.

<Provisions for Reporting>

① Senior managers from Fujitsu Limited and each Group company shall provide opportunities for statutory auditors to attend important meetings.

② Senior managers and employees from Fujitsu Limited and each Group company shall immediately notify the statutory auditors of any incidences of risk that impact management or financial performance, or if they become aware of evidence of major compliance violations relating to the conduct of business activities.

③ Senior managers and employees from Fujitsu Limited and each Group company shall make periodic reports to the statutory auditors on issues relating to the execution of business operations.

<Provisions to Ensure Effectiveness>

① Senior managers from Fujitsu Limited and each Group company shall regularly exchange information with the statutory auditors.

② The Corporate Internal Audit Division shall regularly report its findings to the statutory auditors.

③ The statutory auditors shall, on an as-needed basis, receive presentations or reports from the accounting auditors on their accounting audit findings and shall, on a regular basis, exchange information.

* In *The FUJITSU Way*, the term 'employees' refers to employees of the Fujitsu Group. The same usage is applied in these basic policies.

(iii) Status of Audits by Statutory Auditors, Internal Audits, and Accounting Audits

Fujitsu has adopted a statutory auditor system. Auditors attend important management meetings, including those held by the Board of Directors, the Management Strategy Council, and the Management Council, to audit the Board of Directors and operational execution bodies. In addition, the Corporate Internal Audit Division has been established so serve as an internal audit group. This division audits the internal affairs of the Company and its affiliates, proposes improvement in their business practices, and regularly reports its audit findings to the Management Council.

Accounting audits are carried out by Ernst & Young ShinNihon, which reports to the Board of Statutory Auditors on the auditing plan and auditing results, and when necessary, exchanges opinions and conducts joint audits with the statutory auditors. Accounting audit work is carried out by four certified public accountants at Ernst & Young ShinNihon. They are Yoji Suzuki (22 continuous years auditing the financial statements of Fujitsu*), Yuichi Mochinaga (9 years*), Noriyuki Tsunoda, and Hideaki Karaki. Other Ernst & Young ShinNihon employees that assist with the audits are 21 certified public accountants, 25 assistant certified public accountants, and 5 accounting staff members.

* Ernst & Young ShinNihon has introduced a rotation system for employees engaged in accounting audits. This move was voluntarily taken prior to the enactment of regulations based on the Certified Public Accountant Law and the implementation of self-imposed rules by the Japanese Institute of Certified Public Accountants. Ernst & Young ShinNihon plans to implement this system from the current consolidated fiscal year.

(iv) Personal, Capital and Business Relationships and Other Interests between the Company and Outside Directors and Outside Auditors

1. Interests between the Company and Outside Directors and Outside Auditors

The Company's outside directors and outside auditors, listed below, have no special interests in the Company.
Outside directors: Kunihiko Sawa, Ikujiro Nonaka
Outside auditors: Yoshiharu Inaba, Tamiki Ishihara, Megumi Yamamuro

2. Interests between the Company and Companies at which Outside Directors and Outside Auditors are Employed as Directors or Auditors

Director Kunihiko Sawa is an advisor to Fuji Electric Holdings Co., Ltd., the holding company of the Fuji Electric Group. Fuji Electric Holdings holds 4.74% of Fujitsu stock and holds another 6.68% through trust accounts for employee retirement benefits. Additionally, as of June 28, 2006, an advisor to Fujitsu Limited was serving as a director of Fuji Electric Holdings, in which Fujitsu has a 9.96% stake. Fujitsu Limited and Fuji Electric Holdings have a business relationship.

Auditor Yoshiharu Inaba is President and CEO of Fanuc, Ltd., in which Fujitsu holds a 7.78% stake. As of June 28, 2006, a representative director of Fujitsu Limited was serving as an auditor of Fanuc. Fujitsu Limited and Fanuc have a business relationship.

Auditor Tamiki Ishihara is Chairman and Representative Director of Seiwa Sogo Tatemono Co., Ltd., which holds a 0.04% stake in Fujitsu Limited. The Fujitsu Group and Seiwa Sogo Tatemono have a business relationship.

Though not meeting the legal definition of an outside director under Japan's Company Law, Fujitsu Limited director Hiroshi Oura serves as a director and senior executive advisor of Advantest Corporation, in which Fujitsu holds a 10.09% stake through trust accounts for employee retirement benefits. As of June 28, 2006, a representative director and an auditor of Fujitsu Limited were serving as a director and an auditor of Advantest, respectively. Fujitsu Limited and Advantest have a business relationship.

(v) Status of Company's Initiatives to Enhance Corporate Governance

<Basic Stance>

Comprising our mission, values, and code of conduct, *The FUJITSU Way* is the core set of principles guiding the corporate and individual actions of the Fujitsu Group.

We pursue the sound and efficient execution of our business activities by striving to accelerate the penetration and implementation of *The FUJITSU Way* and to promote structures and procedures to ensure propriety throughout the Group in our business dealings.

<Status of Implementation>

To accelerate the penetration and implementation of *The FUJITSU Way*, in July 2004 we established *The FUJITSU Way* Promotion Council, as a body reporting directly to the Management Council, and a Compliance Committee. In addition, we realigned the Risk Management Committee and Environmental Committee, which had both previously operated independently, under *The FUJITSU Way* Promotion Council.

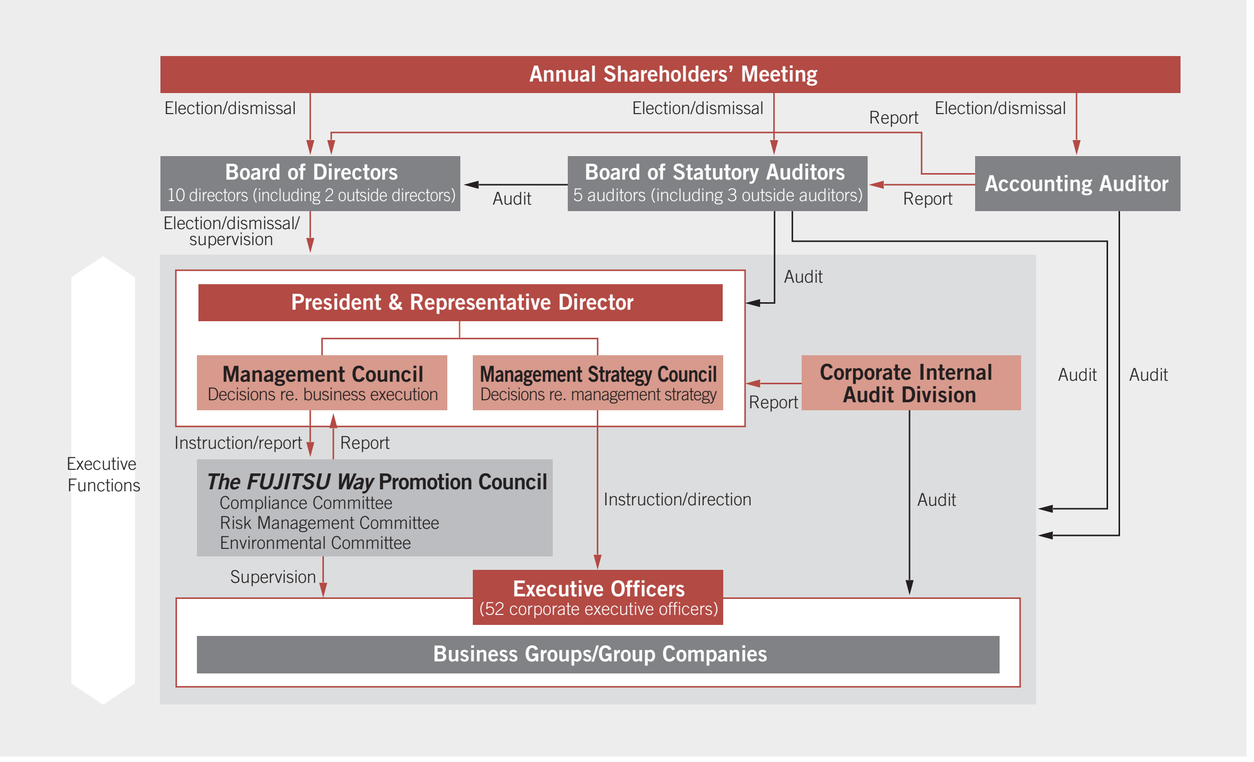
To promote risk management, *The FUJITSU Way* Promotion Council continuously monitors the implementation of risk prevention measures by working to raise awareness of risks and by gathering information on specific risks, including potential ones. Moreover, in anticipation of the enactment of Japan's version of Sarbanes-Oxley legislation, in the second half of fiscal 2005 we launched a project to construct an internal control system that will ensure the validity and credibility of our financial reports. Along with establishing a promotion organization dedicated to this endeavor, we have been working to extend it across the Group, including domestic and overseas subsidiaries, by building up our promotion organization, accumulating know-how and cultivating personnel. The goals of the project also include achieving greater efficiency through the pursuit of business process reforms across the Group.

The functions of the committees aligned under *The FUJITSU Way* Promotion Council are as follows:

- Compliance Committee: This committee is responsible for promoting structures and systems to ensure strict compliance with external as well as internal rules, regulations and norms of behavior. To support these efforts, since September 2004 we have put in place a "helpline" system to serve as a confidential liaison for receiving reports from employees and providing guidance to them on matters of conduct.
- Risk Management Committee: This committee takes measures to obtain information regarding specific incidences of risk and minimize the impact of risk incidences on customers and the Fujitsu Group. Serious issues are reported to the Management Council or Board of Directors for discussion and response. Through these measures, risk issues and countermeasures are disseminated throughout the Fujitsu Group, strengthening our overall risk management posture.
- Environmental Committee: This committee is responsible for promoting and strengthening the environmental protection activities of the Fujitsu Group, which are based on The Fujitsu Group Environmental Policy and The Fujitsu Group Environmental Protection Program.

We are taking into consideration the opinions of our accounting auditors as we implement the project to construct an internal control system that will ensure the validity and reliability of our financial reports.

(vi) Our Corporate Governance System



(II) Directors' Compensation

Compensation paid to directors and auditors during the fiscal year under review is described below.

(Millions of yen)

	Fixed compensation		Bonuses		Retirement Allowances	
	People	Total Amount	People	Total Amount	People	Total Amount
Directors	12	245	0	0	2	45
Of which, outside	2	9	–	–	–	–
Auditors	7	54	0	0	2	15
Total	19	299	0	0	4	60

Notes: 1. By resolutions passed at the Annual Shareholders' Meeting, the upper limits of compensation for all directors and all auditors, respectively, were as follows:

Directors: ¥60 million per month (Resolution passed at the Annual Shareholders' Meeting in 1991.)

Auditors: ¥5 million per month (Resolution passed at the Annual Shareholders' Meeting in 1989.)

The upper limits were amended by a resolution passed at the Annual Shareholders' Meeting held on June 23, 2006, as follows:

Directors: ¥600 million per month

Auditors: ¥100 million per month

2. The numbers of directors and auditors in the table above include directors and statutory auditors who resigned in June 2005.

(III) Compensation Paid to Accounting Auditors

Total compensation to be paid by the Company and its consolidated subsidiaries to Ernst & Young ShinNihon: ¥682 million. Of this amount, the sum to be paid as compensation for performing the audit under Article 2.1 of the Certified Public Accountants Law (Act No. 103, 1947): ¥597 million.

Of this amount, the sum to be paid by the Company as compensation to the accounting auditors: ¥224 million.

The Company does not clearly differentiate the amounts of compensation for an audit under the former Law for Special Exceptions to the Commercial Code Concerning Auditors of Kabushiki Kaisha (Act No. 22 in 1974) from an audit under the Securities and Exchange Law (Act No. 25 of 1948), and the amount stated above thus includes the compensation for the audit under the Securities and Exchange Law.

Business and Other Risks

Listed below are the principal business and other risks affecting the Fujitsu Group (Fujitsu Limited and its consolidated subsidiaries) that we believe may influence investors' decisions. With a view to proactively disclosing information to investors, we have also included items that may not necessarily have significant bearing on such decisions. We are aware of these risks and are making efforts to prevent them from arising, avoid potential risks altogether and immediately confront risks should they occur. Among the risks listed below are some items related to future developments, but the list only includes items that the Group deems necessary to publicly disclose as of June 28, 2006.

1. Economic and Financial Market Trends

Economic and financial market trends have an impact on the Group's business results, financial base and other aspects of its operations. Examples of such risks are listed below.

1) Economic Trends in Key Markets

The Fujitsu Group provides IT products and services, telecommunications infrastructure equipment, as well as semiconductors, hard disk drives (HDDs) and other components, to corporate and institutional clients and consumers in every region of the globe. Hence, sales and income generated from these operations are greatly affected by economic conditions in each respective market. This is particularly true of Japan, North America, and Europe, key markets where economic trends can significantly impact Fujitsu Group operations.

2) Hi-tech Market Volatility

The IT sector is periodically subject to dramatic changes in the balance of supply and demand that exceed the scope of normal cyclical market variations. This tendency is particularly evident with regard to semiconductors, PCs and other general-purpose products.

The Fujitsu Group gives ample consideration to market cycles and volatility when deciding to launch new products, initiate volume production, or scale back production, among other actions. Nonetheless, we may fail to accurately forecast market changes, or changes in market conditions could exceed our forecasts. Accordingly, there is a risk that we may be unable to recoup investment costs, as well as the risk of opportunity losses.

Further, the Group continuously implements structural reforms in a bid to respond to market changes. However, drastic market changes could force us to enact structural reforms on a far greater scale than initially expected, resulting in a temporary increase in related expenses.

3) Exchange Rates

The Fujitsu Group imports a substantial amount of components and materials and exports various products. While import and export costs tend to roughly balance out over the course of a given year, sudden fluctuations in exchange rates and other factors could force the Group to incur losses on foreign currency translation. In addition, with respect to overseas assets held by the Group, as well as liabilities, there is the possibility that exchange rate fluctuations could lead to depreciation of assets and/or appreciation of liabilities.

4) Interest Rates

The Fujitsu Group has interest-bearing loans with a balance in excess of 900 billion yen, including items that are directly impacted by interest rate fluctuations. Consequently, rising interest rates could increase capital procurement costs.

5) Capital Markets

Stock market trends in Japan and overseas have a substantial effect on the value of Group stockholdings in other companies and the management of pension assets. Weak stock market performance could thus force us to incur losses on the devaluation of marketable securities held or a reduction in pension assets, exposing the Group to the risk of higher losses.

2. Customers

Fujitsu Group operations are highly influenced by the business trends of strategic key customers. Examples of potential risks are described below.

1) Changes in Customers' IT Investment Trends

A large proportion of our IT systems and services business, as well as communications infrastructure and other business, is with telecommunications carriers, financial institutions, and large manufacturers. The business environment within these industries, including shifting market trends and structural reforms, could lead to changes in customers' IT investment trends having a significant impact on Group sales and profitability. In semiconductors, HDDs and other operations where the Group provides components and other products, both demand and prices are impacted to a large extent by customers' sales of PCs, digital home electronics, mobile phones, automobiles and other products in which these parts are used. Accordingly, soft demand and falling prices for customers' products, or a decline in customers' market share, could negatively impact Group sales and earnings.

Alongside corporate clients, national and local governments represent another important customer base for the Fujitsu Group. In the UK, for example, government-related projects are an especially important part of our business. Accordingly, changes in the approach to e-Government and other national-level IT utilization policies being promoted in Japan and elsewhere could impact sales and profitability.

2) Ability to Maintain Lasting Ties with Customers

The Fujitsu Group is committed to bolstering ties with customers, striving to serve as a business partner and provide solutions across the full IT system lifecycle. For semiconductors, HDDs and other operations where the Group provides components and other products, business stability hinges on maintaining lasting ties with customers that represent key sources of demand for our products. An inability to secure repeat business with such customers could therefore affect sales and profitability.

3. Competitors/Industry

The IT sector is characterized by intense competition and fast-paced technological innovation. Events within the industry or actions by competitors could therefore have a substantial impact on our business results. Examples of such potential risks are listed below.

1) Price Competition

Intensifying competition is directly linked to declining prices for products and services. Anticipating such technology- and competition-driven price erosion, we are pursuing a variety of measures to reduce costs, including the introduction of Toyota Production System reforms, standardization of system development methodologies, and software modularization, as well as efforts to expand sales of new products and services. Despite these steps, the Group still faces the risk of larger-than-expected declines in prices, as well as the risk of being unable to achieve sufficient cost reductions and sales growth due to fluctuations in the price of semiconductors and other components, either of which could negatively impact Group sales and profitability.

2) Competition from New Market Entrants and Others

In addition to challenges posed by existing industry peers, competition from new market entrants continues to intensify in the IT sector. Today, new entrants continue to emerge in market areas where the Fujitsu Group wields a competitive advantage, thus entailing the risk that we may lose our competitive edge, or fail to secure a clear competitive advantage in future business operations.

3) Competition in Technology Development

Technological advancement in the IT sector occurs at an extremely fast pace, leading to rapid obsolescence of products and technologies. In this context, remaining competitive requires the continuous development of state-of-the-art technology. While the Fujitsu Group does its utmost to maintain highly competitive technologies, a loss in competitiveness versus other companies in the race to develop innovative technologies could lead to a decline in the Group's market share and profitability, which would negatively impact sales and earnings. Further, sales and profitability could be affected by the development of groundbreaking technologies and other actions by competitors that would severely compromise the value of the Group's products and services.

4. Suppliers, Alliances, etc.

In the course of its operations, the Fujitsu Group conducts business with a range of different companies, including suppliers and alliance partners. Accordingly, any significant changes in relationships with these and other business partners could affect Group operations.

1) Procurement

The Fujitsu Group utilizes sophisticated technologies to produce a range of products. There is therefore a risk that we may encounter difficulties in procuring a stable supply of certain key components or, in cases where regular supply channels are unavailable, that we may be unable to secure alternative procurement sources. There is also the risk that the Group may be unable to sufficiently procure certain parts in the large volumes required. Moreover, natural disasters, accidents and other events, as well as any deterioration in business conditions at suppliers, could hinder the ability of business partners to provide the Group with a stable supply of required components. These and other events could cause delays in product shipments, resulting in postponement in the delivery of products to customers and opportunity losses, among other problems. In respect to component procurement, foreign exchange rate fluctuations, tight supply and demand conditions, and other pressures could drive procurement costs higher than initial estimates, leading to diminished returns on products, as well as lower sales due to the need to raise product prices. Additionally, while we make every effort to ensure the quality of procured components, we cannot guarantee that all components purchased will be free of defects. The discovery of such issues could result in processing delays, as well as defective products, opportunity losses, repair costs, and disposal costs for defective goods, plus the potential obligation to pay damages to customers.

2) Collaborations, Alliances and Technology Licensing

To enhance competitiveness, the Fujitsu Group works with a large number of companies through technology collaborations, joint ventures and other means, a practice that we intend to continue. If, however, as a result of managerial, financial, or other causes, it becomes difficult to establish or maintain such collaborative ties or to gain sufficient results from them, the Group's business could be adversely affected. Moreover, many of our products and services employ other companies' patents, technologies, software, and trademarks with the consent of their owners. However, there is no guarantee that other companies will continue to grant or license the right to use their property under terms acceptable to the Fujitsu Group.

5. Public Regulations, Public Policy, and Tax Matters

The business operations of the Fujitsu Group are impacted by a variety of public regulations and trends in public policy, as well as laws pertaining to taxation. Specifically, wherever it operates, the Group must comply with a variety of regulations, such as authorizations for business or investment, import/export regulations and restrictions, as well as laws pertaining to antimonopoly policies, intellectual property rights, consumers, the environment and recycling, labor conditions, and taxation. Earnings might be affected by increased compliance costs associated with measures to make stricter or otherwise revise such laws and regulations. We also provide solutions in certain fields and business domains such as healthcare and communications that are subject to other public regulations, meaning that regulatory trends in these sectors may potentially impact Group businesses.

6. Other Operational Risks

The Fujitsu Group makes every effort to eliminate known risks but can offer no guarantee of its ability to always achieve every desired outcome in the course of executing business operations. Some of the specific risks faced in this respect are detailed below.

1) Deficiencies or Flaws in Products and Services

Quality is a core value of the Fujitsu Group. We are committed to improving quality at the design and development stages as well as in manufacturing. We are also promoting stricter quality control when purchasing components from external suppliers. These efforts notwithstanding, it is impossible to totally eliminate the possibility of deficiencies or flaws occurring in products, including software. While the Group is also promoting software modularization, standardization of development work, and enhanced security measures in order to improve the quality of system development and other services, the possibility of defects arising cannot be excluded. In the event that such deficiencies or flaws occur, the Group may have to initiate product recalls or repairs, engage in system recovery work, pay damages to customers or suffer opportunity losses, all of which would negatively impact Group sales and profitability.

Following incidents involving system troubles at the Tokyo Stock Exchange, in November 2005 we initiated comprehensive inspections of customer systems that play an important role in supporting the societal infrastructure. In cooperation with our customers, we have been checking for any potential problems in these systems, including the operating environment, software and hardware.

2) Project Management

Due to such factors as the increasing scale of systems and more rigorous demands from customers, as well as the advance of open system environments, system development work is becoming increasingly complex. At the same time, greater competition is leading to increasingly intense pricing pressures. In the fiscal year ended March 2004, the emergence of certain loss-generating projects prompted the Group to implement extensive risk management measures, including standardized guidelines for projects of a set scale and above, the introduction of the percentage-of-completion method, and other measures to help prevent the occurrence and enhance the early identification of such projects. In the fiscal year ended March 2005, we strengthened these efforts by establishing a new organization to screen projects at the contract negotiation phase and curtail the occurrence of projects with deteriorating profitability. Additionally, in April 2005 we established the Systems Integration Assurance Unit, a body with enhanced powers that reports directly to the president. In this way, along with revising our approach to making contracts with customers, and advancing the standardization of sales and system engineering business processes, we are working to manage risk from the business negotiation stage through actual project implementation and thereby prevent new incidences of loss-generating projects. Along with these measures, the Group continues to maintain reserves for losses as necessary. Nevertheless, in spite of these measures, there is a possibility that we may be unable to completely prevent the occurrence of loss-generating projects.

3) Investment Decisions

In the IT industry, large investments in R&D and facilities and equipment are necessary to maintain competitiveness. Accordingly, the success or failure of investment choices has a profound effect on the business results of the Fujitsu Group. When making such investment decisions, we give ample consideration to a range of factors such as market trends, customer needs, the superiority of Group technologies and our business portfolio. There is, however, the risk that promising markets and technologies identified by the Group may fail to grow as anticipated, or that supply and demand imbalances or price erosion may be more severe than expected. Investment in semiconductor facilities and equipment represents one such area with a high degree of risk. In addition to substantial funding requirements, this field is characterized in particular by short product cycles, major changes in the market landscape and stiff competition from other companies. The Group takes a number of steps to mitigate this risk, including responding to these inherent fluctuations by dividing investment into multiple phases and forging agreements with customers prior to investment. Nonetheless, there is no guarantee that the Group can generate sufficient returns on such investments.

4) Intellectual Property Rights

The Fujitsu Group has accumulated technologies and expertise that help distinguish its products from those of other companies. Legal restrictions in certain regions, however, may impair our ability to fully protect some of the Group's proprietary technologies, with the result that we could be unable to effectively prevent the manufacture and sale of similar products developed by third parties using the Group's own intellectual property. Moreover, the creation of comparable or superior technologies by other companies could erode the value of the Group's intellectual property. The Group has instituted internal policies, including stringent clearance procedures prior to launching new products and services, to ensure that no infringement of other companies' intellectual property occurs. However, there is the possibility that the Group's products or technologies may be found to infringe on other companies' intellectual property, and that earnings may be impacted by such consequences as the need to pay for usage rights or cover costs associated with having to modify designs. In addition, the Group has previously instituted a program to compensate employees for innovations that they make in the course of their work, and will continue to implement this program in the future in accordance with the revision of Japan's patent laws. Nevertheless, the Group faces potential risk from lawsuits initiated by employees in regard to compensation for innovation created in the workplace.

5) Human Resources

The growth and profitability of the Fujitsu Group depends heavily on human resources. As such, a major issue for the Group is the ability to recruit and foster talented researchers, system engineers, managers and other key personnel; the inability to do so could negatively impact Group growth and profitability.

6) Environmental Pollution

While committed to minimizing environmental burden in accordance with *The FUJITSU Way* and the Fujitsu Group Environmental Policy, the Group cannot guarantee that environmental pollution will not occur as a result of its operations. Moreover, although we monitor soil and wastewater as well as engage in cleanup activities at former factory sites, this does not mean that pollution will not be found at such sites in the future. In the event that environmental pollution were to occur or be identified, cleanup and other costs could be incurred that adversely affect Group earnings.

7) Information Management

In order to safeguard the personal and confidential information of customers and business partners, the Group has taken such measures as establishing strict regulations, instituting training programs for employees, and providing consultation to business subcontractors. Nevertheless, the Group cannot absolutely guarantee that information will not be leaked. In the unlikely event that this should occur, trust in the Fujitsu Group could decline and the Group may be obligated to pay damages to customers.

8) Credit Ratings and Other Factors that Affect Trust in the Group

In addition to having a major influence on capital procurement, credit ratings by outside institutions serve as reliable sources of information when conducting transactions with business partners. Lower credit ratings caused by failure to meet earnings targets, deteriorating financial conditions and other reasons could influence our ability to procure needed funds, and place the Group at a disadvantage in bidding for projects and in other business dealings.

7. Natural Disasters and Unforeseen Incidents

Natural disasters and other unforeseen situations could have a major impact on the business results and financial standing of the Fujitsu Group. Examples of the potential risks posed are found below.

1) Damage from Earthquakes, Other Natural Disasters and Accidents

The Group has taken measures to make its business sites more resistant to earthquakes and conducts regular inspections and disaster readiness drills. Nevertheless, there is a possibility that the Group may be prevented from continuing operations due to damage to facilities and equipment or interruptions in the supply of electricity or water as a result of earthquakes or other natural disasters and accidents. Such occurrences could interrupt shipments to customers or disrupt shipments of parts for the Group's internal use, thereby affecting factory production at other Group business sites. Semiconductor fabs and other plants where high-precision processing is carried out are particularly susceptible to the effects of earthquakes and similar events. In the wake of such incidents, some time may be required to resume normal operations due to the array of highly specialized equipment and devices used at these sites. Damage caused by natural disasters may also hinder our ability to provide information system support for Group customers, which could interrupt their business activities.

We have a well-developed system in place to ensure the integrity and stable operation of critical in-house networks, which are a key element of our business infrastructure. However, the Group cannot guarantee its ability to prevent invasive computer viruses and other disruptions from impeding network operations.

2) Geopolitical Risk

Conflicts, political instability, currency crises, natural disasters, epidemics or other events in nations or regions where the Fujitsu Group operates could have a significant impact on its businesses.

Financial Section

Contents

Five-Year Summary

Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	Yen (millions) 2002	2003	2004	2005	2006	U.S. Dollars (thousands) 2006
	(excluding per share data, D/E ratio, and number of employees)					
Net sales	¥5,006,977	¥4,617,580	¥4,766,888	¥4,762,759	**¥4,791,416**	**$40,605,220**
Operating income (loss)	(74,426)	100,427	150,342	160,191	**181,488**	**1,538,034**
Income (loss) before income taxes and minority interests	(594,733)	(147,606)	157,018	223,526	**118,084**	**1,000,712**
Net income (loss)	(382,542)	(122,066)	49,704	31,907	**68,545**	**580,890**
Total assets	¥4,595,804	¥4,225,361	¥3,865,589	¥3,640,198	**¥3,807,131**	**$32,263,822**
Shareholders' equity	853,756	702,390	827,177	856,990	**917,045**	**7,771,568**
Amounts per share of common stock (Yen and U.S. dollars):						
Earnings (loss)						
Basic	¥ (192.98)	¥ (61.29)	¥ 24.55	¥ 15.42	**¥ 32.83**	**$ 0.278**
Diluted	(192.98)	(61.29)	22.24	13.86	**29.54**	**0.250**
Cash dividends	5.00	–	3.00	6.00	**6.00**	**0.051**
Shareholders' equity	426.52	350.84	413.22	414.18	**443.20**	**3.756**
Interest-bearing loans	¥1,760,626	¥1,763,769	¥1,277,121	¥1,082,788	**¥ 928,613**	**$ 7,869,601**
D/E ratio (times)	2.06	2.51	1.54	1.26	**1.01**	
Free cash flow	(102,892)	53,382	371,434	262,103	**170,895**	**1,448,263**
R&D expenses	¥ 349,855	¥ 285,735	¥ 250,910	¥ 240,222	**¥ 241,566**	**$ 2,047,169**
Capital expenditure	306,966	147,620	159,795	181,402	**249,999**	**2,118,636**
Number of employees	170,111	157,044	156,169	150,970	**158,491**	
Net sales by customers' geographic location:						
Japan	¥3,460,915	¥3,280,665	¥3,378,265	¥3,340,664	**¥3,199,842**	**$27,117,305**
Europe	643,260	568,763	605,051	633,243	**689,774**	**5,845,542**
The Americas	542,144	390,482	324,269	320,971	**388,131**	**3,289,246**
Others	360,658	377,670	459,303	467,881	**513,669**	**4,353,127**
Total	¥5,006,977	¥4,617,580	¥4,766,888	¥4,762,759	**¥4,791,416**	**$40,605,220**

Notes: 1. See Note 17 of Notes to Consolidated Financial Statements for specific calculation of basic and diluted earnings per share.
2. The U.S. dollar amounts stated above and in the following Management's Discussion and Analysis of Operations have been translated from yen, for readers' convenience only, at the rate of ¥118 = US$1, which was the approximate rate on the Tokyo Foreign Exchange Market at March 31, 2006.
3. Cash dividends per share of common stock for the year ended March 31, 2006 are the total of interim and year-end dividends approved by the Company's board of directors on October 27, 2005 and at the Annual Shareholder's Meeting on June 23, 2006, respectively.
4. The capital expenditure stated above excludes intangible assets.

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, 2006 (fiscal 2005). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2006.

1. Analysis of Results

Business Environment

Compared to previous years, the business environment in which the Fujitsu Group operates was relatively stable during fiscal 2005. While soaring crude oil prices and higher prices for raw materials, as well as rising interest rates in the US, were cause for concern, the global economy was boosted by growth in the US and Asia, especially China. Japan's economy also shifted to a firmer footing, helped by rising equity markets, a recovery in corporate earnings resulting from solid export growth, and an upturn in household spending.

With respect to IT investment, there was continued robustness in overseas markets, and even within Japan, which had been seen as lagging other markets, there was evidence of more aggressive spending on the part of corporations seeking to ensure their future competitiveness, particularly companies in the telecommunications and financial services industries.

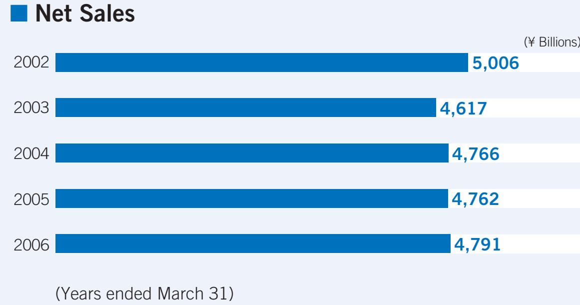
Corporations are now broadening their objectives for employing IT systems. While in the past the focus was on boosting management and operational efficiency, IT systems are increasingly being used to support innovation on the front lines of sales and marketing, product development, manufacturing, procurement and distribution. In line with the broader role IT systems are playing in corporate management, there is now greater emphasis being placed on addressing the rising need for security and business continuity, as well as on strengthening internal control in light of corporate regulatory reforms. In daily life as well, the expansion of IT networks into the fabric of society is enhancing services in such areas as medical and nursing care, education, and entertainment.

Recognizing the central role Fujitsu plays in supporting the infrastructures that underpin our customers' businesses, as well as society as a whole, we are very conscious of the important responsibility we bear in maintaining the reliability of IT and in proposing new related applications. Going forward, along with placing even further emphasis on ensuring stable systems operation, we will seek to take the lead in demonstrating new uses of IT in our own operations. In addition, all of our employees are committed to conducting themselves in a manner deserving of customers' trust and that meets their high expectations. Seeking to serve as a valued and indispensable partner in the operation and management of our customers' businesses, we will strive to continuously provide the most advanced and efficient solutions based on superior technology and sophisticated services.

Net Sales

Consolidated net sales for fiscal 2005 were ¥4,791.4 billion (US$40,605 million), an increase of 0.6% over the previous fiscal year. Excluding the impact of a change in accounting policies from this fiscal year and the transfer of our flat panel display businesses last fiscal year, net sales increased by 2.4%. In Japan, sales of server-related products and PCs declined, but optical transmission systems in North America, outsourcing services in the UK, consulting services in North America, and HDDs for overseas markets all posted significantly higher sales.

■ Net Sales

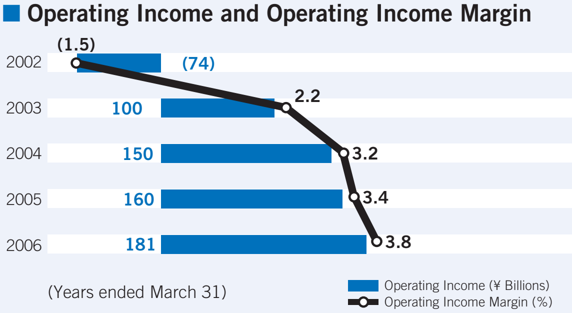


Cost of Sales, Selling, General & Administrative Expenses, and Operating Income

In fiscal 2005, the cost of sales was ¥3,523.4 billion (US$29,860 million), while selling, general and administrative (SG&A) expenses were ¥1,086.5 billion (US$9,208 million). The cost of sales ratio and the ratio of SG&A expenses to net sales improved by 0.3 and 0.1 of a percentage point, respectively, to 73.5% and 22.7%.

Consolidated operating income was ¥181.4 billion (US$1,538 million), an increase of ¥21.2 billion over the previous fiscal year. Excluding a positive impact of ¥4.8 billion stemming from the change in accounting policies this fiscal year, operating income increased by ¥16.4 billion. Income was affected by factors such as intensified competition in server-related markets in Japan and overseas, as well as forward-looking investments including accelerated development expenses for certain products and expenses related to start-up of the 300mm wafer semiconductor production facility (Fab No. 1) at our Mie Plant. However, this was offset by higher sales of optical transmission systems, outsourcing services, and HDDs, as well as by cost reductions stemming from enhanced initiatives in manufacturing innovation, significantly lower losses from loss-generating projects in our domestic systems integration business, and the effect of restructuring our flat panel display business, together enabling us to post higher profits.

Operating Income and Operating Income Margin



Other Income (Expenses) and Net Income

Other expenses, net totaled ¥63.4 billion (US$537 million). Net interest, comprising interest and dividend income and interest charges, was negative ¥8.5 billion (US$73 million), an improvement of ¥1.0 billion compared to a year earlier and reflecting a decrease in interest-bearing loans and other factors. Equity in earnings of affiliates, net was a loss of ¥1.4 billion (US$13 million). Separately, we booked a loss on change in interest of ¥8.4 billion (US$71 million) related to the initial public offering of Spansion Inc. Amortization of unrecognized obligation for retirement benefits was ¥28.2 billion (US$239 million), an improvement of ¥11.0 billion, due to revisions in the Company's pension system in Japan. With effect from the fiscal year under review, we began booking a provision for prior product warranties as an expense under other income (expenses). This is related to the provision to cover warranty-related costs for products sold in prior fiscal years and totaled ¥7.4 billion (US$63 million) in the year under review. In addition, we booked a settlement gain of ¥15.9 billion (US$135 million) related to the reconciliation of litigation brought against component vendors and other parties in fiscal 2001 with respect to our HDD business. In addition, there was a gain on business transfer of ¥3.4 billion (US$29 million) related to the transfer of LCD panel operations.

We recognized ¥37.0 billion (US$314 million) as income taxes, which combines current and deferred income taxes, against ¥118.0 billion (US$1,001 million) of income before income taxes and minority interests. This represented a significant decrease in taxes over fiscal 2004, when the tax burden was higher due to the booking of a large valuation allowance on deferred tax assets. Net income for fiscal 2005 was ¥68.5 billion (US$581 million), an increase of ¥36.6 billion compared to a year earlier.

2. Segment Information

Business Segment Information

The following section provides information on net sales (including intersegment sales) and operating income in each of our principal business segments. Business segment classifications were changed with effect from the year under review, and year-on-year comparisons are based on figures adjusted to reflect this change.

Technology Solutions

Consolidated net sales in this segment were ¥2,983.9 billion (US$25,288 million), up 1.7% over fiscal 2004. Although sales of servers and related products declined in Japan due to sluggish IT investment and the absence of special demand generated by the redesign of Japanese bank notes in the previous fiscal year, overall sales for the segment increased, thanks to the continued strength of our UNIX server business outside Japan, our North American optical transmission systems business, and our outsourcing services business in the UK, as well as the expansion of our consulting services business in North America.

Operating income for the segment was ¥164.2 billion (US$1,392 million), an increase of ¥22.1 billion over the previous year. Despite intensified competition in the server and related markets both inside and outside Japan, and the effect of accelerating development expenses for next-generation models of mobile phone base stations, optical transmission systems and server-related products, the segment posted a marked increase in operating income due to a large reduction in losses from loss-generating projects and continued strong performance by our outsourcing services business in the UK.

In November 2005, we signed a global technology alliance agreement with Electronic Data Systems Corporation that includes the supply of our PRIMEQUEST mission-critical IA servers. This agreement, along with joint development alliances with other companies, is designed to strengthen our sales capabilities and methods. In addition, to further expand business related to our TRIOLE IT infrastructure optimization model on a global basis, we opened new system verification centers in Singapore, Korea and Shanghai, China, where we provide customers with comprehensive verification and evaluation support for platform products in open-standard system environments. The new centers complement existing facilities in Japan, the UK, Germany, and California in the US.

Also, in March 2006 we signed an agreement with BT Group plc under which we have been designated as a preferred supplier to BT's 21st Century Network program. Going forward, we will provide BT with infrastructure products for next-generation networks utilizing the most advanced technology.

In our systems integration business in Japan, we were able to reduce the occurrence of loss-generating projects to an acceptable level as a result of measures including the establishment of an organizational unit dedicated to bolstering project auditing and assurance, the integration of sales and system engineering groups into teams organized along customer lines, and the institution of a real-time project progress management system. Moreover, we are endeavoring to further improve productivity by configuring products in accordance with the TRIOLE concept and utilizing development tools such as our System Development Architecture and Support (SDAS) framework.

In addition, we are working to accelerate the expansion of our business outside Japan, for example, through development of such new businesses as palm vein authentication security systems and automated self-checkout machines for retailers, and through the acquisition of Rapidigm, Inc., an IT consulting and integration firm with about 2,000 consultants in North America and India.

Ubiquitous Product Solutions

Net sales in the Ubiquitous Product Solutions segment were ¥1,059.9 billion (US$8,982 million) an increase of 2.8% over fiscal 2004. Although sales of PCs increased overseas, they declined overall due to intensified competition in Japan. Continued strong growth in HDD sales, however, enabled the segment as a whole to achieve an increase in sales.

Operating income for Ubiquitous Product Solutions was ¥34.4 billion (US$292 million), an increase of ¥3.1 billion compared to the previous fiscal year. Although the decline in the value of the yen against other currencies led to an increase in component costs, this impact was offset by cost efficiencies and quality improvements generated by manufacturing innovation initiatives, as well as higher HDD sales, resulting in an overall increase in operating income.

To strengthen our HDD business, in addition to expanding the range of models and production capacity for our 2.5" HDDs, we will also enter the 1.8" HDD market for mobile devices, where demand is expected to grow. Looking ahead, we will continue our commitment to product quality, focus our resources on promising growth markets, and seek to further strengthen growth opportunities worldwide by entering into strategic alliances with other companies.

Device Solutions

Net sales of Device Solutions were ¥707.5 billion (US$5,996 million), a decrease of 11.0% compared to fiscal 2004. Excluding the impact of the transfer of our flat panel display businesses, sales on a continuing operations basis increased by 0.5%. In the LSI Devices sub-segment, memory sales decreased as a result of a decline in market prices, but the market for logic chips recovered in the latter half of the fiscal year, especially for devices used in mobile phone and digital consumer electronics applications. The start of volume production at our new 300mm wafer semiconductor fabrication facility also contributed to sales. The combination of these factors contributed to a slight overall increase in logic device sales, mostly from overseas sales, compared to the prior fiscal year.

Operating income for Device Solutions was ¥33.3 billion (US$282 million), an increase of ¥0.7 billion compared to the previous fiscal year. Although operating income in the LSI Devices sub-segment declined as a result of the weakness of the market during the first half of the fiscal year, as well as the impact of expenses relating to start-up of the 300mm wafer production facility at our Mie Plant that began operation in April 2005, the Electronic Components, Others sub-segment continued to post strong results, and losses associated with the flat panel display businesses were eliminated. As a result of these factors, overall operating income improved slightly over fiscal 2004.

The new 300mm wafer semiconductor fabrication facility at our Mie Plant (Fab No. 1) commenced volume shipments as scheduled from September 2005. Moreover, in order to meet the growing demand for leading-edge technology products, we decided in January 2006 to build an additional 300mm wafer facility (Fab No. 2) at the Mie Plant. Going forward, we will concentrate our resources in logic LSI devices and work to further strengthen this business while striking a balance between advanced technology products to drive future growth and standard products that support our existing business. In December 2005, Spansion, Inc., our joint venture with Advanced Micro Devices, Inc. in the flash memory business, issued new shares in tandem with its initial public offering. As a result, our ownership share changed from 40.0% to 25.2%.

Net Sales and Operating Income by Business Segment

(including intersegment)

(¥ Billions)

Years ended March 31	2005	2006	Increase (Decrease) Rate (%)
Net sales			
Technology Solutions	¥2,934	**¥2,983**	1.7
Ubiquitous Product Solutions	1,031	**1,059**	2.8
Device Solutions	794	**707**	(11.0)
Other Operations	377	**447**	18.6
Intersegment elimination	(375)	**(407)**	
Consolidated net sales	¥4,762	**¥4,791**	0.6

Years ended March 31	2005	2006	Increase (Decrease)
Operating income (loss)			
Technology Solutions	¥142	**¥164**	¥22
Ubiquitous Product Solutions	31	**34**	3
Device Solutions	32	**33**	0
Other Operations	9	**7**	(1)
Unallocated operating costs and expenses/ intersegment elimination	(54)	**(58)**	(3)
Consolidated operating income	¥160	**¥181**	¥21

Geographic Segment Information

Net sales (including intersegment sales) and operating income were generally level with the previous fiscal year in Japan. However, sales and income increased in Europe, the Americas and Others (Asia, Australia and other regions).

Japan

Net sales were ¥3,944.4 billion (US$33,427 million), down 2.0% over fiscal 2004, but roughly level if the impact of the transfer of flat panel display operations is excluded.

Operating income was ¥185.8 billion (US$1,575 million), a decline of ¥1.9 billion compared to a year earlier, but level after excluding the impact of change in accounting policies. On the one hand, this largely unchanged result reflected the absence of loss-making flat panel display businesses following their transfer and a significant drop in losses from loss-generating projects in the domestic systems integration business. However, sluggish sales of server-related products in Japan, costs related to accelerated development of next-generation mobile phone base stations, optical transmission systems and server-related products, and expenses associated with start up the new 300mm wafer semiconductor fabrication facility at our Mie Plant (Fab No. 1), all weighed on earnings.

Europe

Net sales were ¥632.5 billion (US$5,361 million), up 6.0% year on year. Despite the impact of the transfer of flat panel display businesses, sales grew primarily due to a strong performance by our outsourcing business in the UK.

Operating income was ¥22.9 billion (US$194 million), an increase of ¥11.2 billion compared to fiscal 2004. This reflected the benefits of higher sales from Fujitsu Services, as well as the impact of change in accounting policies.

The Americas

Net sales were ¥363.4 billion (US$3,080 million), up 21.6% year on year. Operating income increased by ¥9.2 billion to ¥13.5 billion (US$115 million). This growth in sales and income was mainly attributable to strong sales of optical transmission systems, as well as expansion in the UNIX server and consulting businesses in North America.

Others

Net sales were ¥718.8 billion (US$6,092 million), an increase of 19.2% compared to a year earlier. Operating income rose ¥2.7 billion to ¥14.9 billion (US$126 million). Stronger sales of HDDs were the primary reason for the overall increase in sales and income.

Net Sales and Operating Income by Geographic Segment

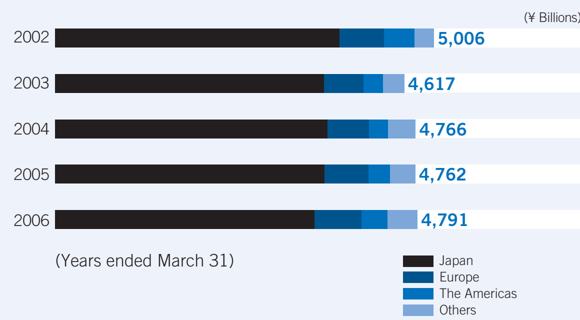
(including intersegment)

(¥ Billions)

Years ended March 31	2005	2006	Increase (Decrease) Rate (%)
Net sales			
Japan	¥4,024	**¥3,944**	(2.0)
Europe	596	**632**	6.0
The Americas	298	**363**	21.6
Others	602	**718**	19.2
Intersegment elimination	(760)	**(867)**	
Consolidated net sales	¥4,762	**¥4,791**	0.6

Years ended March 31	2005	2006	Increase (Decrease)
Operating income (loss)			
Japan	¥187	**¥185**	¥ (1)
Europe	11	**22**	11
The Americas	4	**13**	9
Others	12	**14**	2
Unallocated operating costs and expenses/ intersegment elimination	(55)	**(55)**	0
Consolidated operating income	¥160	**¥181**	¥21

For reference: Net Sales by Customers' Geographic Location



3. Capital Resources and Liquidity

Improvement in Financial Condition

Since fiscal 2003, in response to a significant deterioration in the Group's financial condition as a result of the collapse of the IT bubble, we have made progress in improving the soundness of our financial position. Specifically, in the year under review, operating cash flow improved due to a recovery in earnings from business operations and greater efficiency in utilizing working capital, and we used this to reduce interest-bearing loans. As of March 31, 2006, the balance of interest-bearing loans was ¥928.6 billion (US$7,870 million), below our target of ¥1,000 billion. Likewise, the D/E ratio was reduced to 1.01, close to our medium-term goal of 1.0. In addition, during fiscal 2005, the Fujitsu Welfare Pension Fund (the "Plan"), in which the Company and its consolidated subsidiaries in Japan participate, received approval from the government for revisions to the pension system and for the return of the past substitutional portion of the Plan. As a result of significant improvement in the financial markets during the second half of the fiscal year, the unrecognized obligation for retirement benefits at March 31, 2006 was dissolved.

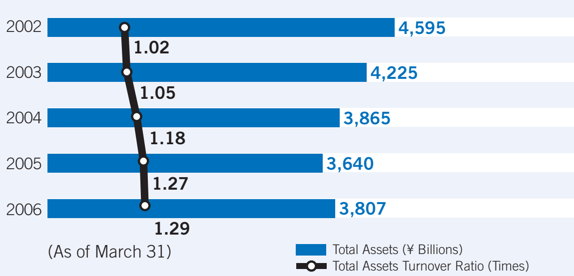
Assets, Liabilities and Shareholders' Equity

Total assets at the end of fiscal 2005 were ¥3,807.1 billion (US$32,264 million), an increase of ¥166.9 billion from the end of the previous fiscal year. Total current assets were ¥1,932.7 billion (US$16,379 million), a decrease of ¥48.7 billion from the end of the last fiscal year as a result of greater efficiency in utilizing working capital. Total fixed assets increased to ¥1,874.3 billion (US$15,885 million), up ¥215.7 billion compared to the end of the last fiscal year. This was primarily due to an increase in property, plant and equipment less accumulated depreciation from capital expenditures and an increase in the market value of marketable securities.

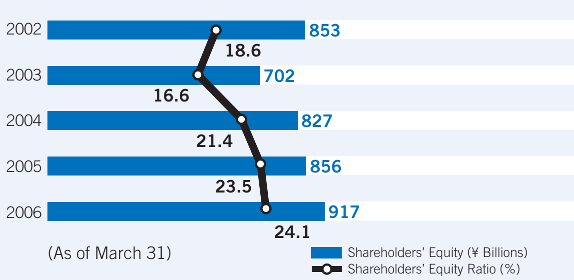
Total liabilities were ¥2,717.0 billion (US$23,026 million), an increase of ¥98.0 billion compared to the end of the previous fiscal year. There was a large one-time increase in accrued severance benefit associated with the change in pension accounting for our UK subsidiaries, whereby unrecognized pension obligations were recorded as liabilities. The balance of interest-bearing loans totaled ¥928.6 billion (US$7,870 million) at fiscal year-end, achieving the target of ¥1,000 billion or less as a result of loan repayments.

Total shareholders' equity was ¥917.0 billion (US$7,772 million), an increase of ¥60.0 billion over the end of fiscal 2004. The increase was primarily attributable to increased profits and unrealized gains on marketable securities as a result of the rise in the stock market. As a result of the foregoing, the D/E ratio nearly reached our medium-range target level of 1.0 and the shareholders' equity ratio rose to 24.1%, reflecting the continuing improvement in the Company's overall financial condition.

Total Assets/Total Assets Turnover Ratio



Shareholders' Equity/Shareholders' Equity Ratio



Summary of Cash Flows

Net cash provided by operating activities during fiscal 2005 was ¥405.5 billion (US$3,437 million), exceeding ¥400.0 billion for the first time in five years. This represented an increase of ¥128.3 billion compared with the previous fiscal year, resulting from an increase in internal reserve due to the recovery in principal business operations, and greater efficiency in the use of assets through an improvement in working capital.

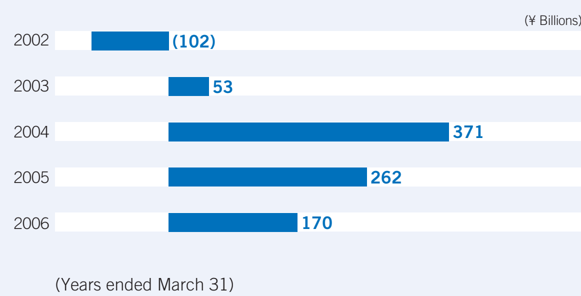
Net cash used in investing activities was ¥234.6 billion (US$1,989 million), an increase in outflows of ¥219.5 billion compared with the previous fiscal year. Excluding the impact of the sale of marketable securities in fiscal 2004, outflows increased by ¥51.2 billion. The increase was primarily attributable to higher capital expenditures, including for the 300mm wafer semiconductor production facility (Fab No. 1) at the Mie Plant.

Free cash flow, the sum of operating and investment cash flows, was positive ¥170.8 billion (US$1,448 million). Excluding the impact of the sale of marketable securities in fiscal 2004, this represented an increase in free cash flow of ¥77.1 billion over fiscal 2004.

Net cash used in financing activities was ¥207.8 billion (US$1,761 million), as free cash flow was used to repay borrowings.

As a result of the above factors, cash and cash equivalents at the end of the fiscal year totaled ¥420.8 billion (US$3,567 million).

Free Cash Flow



4. Capital Expenditure

In fiscal 2005, capital expenditure, which was targeted at the most promising growth sectors such as outsourcing services and LSI-related operations, and was used to prepare for future business development, totaled ¥249.9 billion (US$2,119 million). By business segment, capital expenditure was ¥93.1 billion (US$790 million) in Technology Solutions, ¥19.4 billion (US$165 million) in Ubiquitous Product Solutions, ¥115.5 billion (US$979 million) in Device Solutions, and ¥21.8 billion (US$185 million) for general corporate and other areas.

Capital Expenditure (¥ Billions)

Years ended March 31	2005	2006	Increase (Decrease) Rate (%)
Technology Solutions	¥ 65	**¥ 93**	41.4
Ubiquitous Product Solutions	17	**19**	12.7
Device Solutions	76	**115**	51.7
Corporate and others*	22	**21**	(1.3)
Total	¥181	**¥249**	37.8
Japan	142	**190**	34.0
Overseas	39	**59**	51.9

* Non-allocable capital expenditure for shared R&D and parent company management divisions

5. Consolidated Subsidiaries

At the end of fiscal 2005, the Company had 392 consolidated subsidiaries, 121 in Japan and 271 overseas, representing a decrease of 11 from last year's total of 403. Although there was significant M&A activity by our services subsidiary in North America, restructuring of our domestic development firms and liquidation of overseas subsidiaries resulted in the overall decrease. The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 28, six fewer than a year earlier.

6. Critical Accounting Policies and Estimates

Accounting Principles and Practices

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 Securities and Exchange Law of Japan. The accounting principles and practices adopted by consolidated subsidiaries outside Japan conform to those of their respective countries.

The preparation of the consolidated financial statements requires management to make estimates and assumptions 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 Group is discussing the requirements for the adoption of International Financial Reporting Standards (IFRS). When these standards are adopted, it is possible that differences may arise from financial statements prepared under Japanese standards.

Revenue Recognition

Revenue from sales of IT systems and products, excluding software development contracts, is recognized upon acceptance by the customers, whereas revenue from sales of personal computers, other equipment and electronic devices is recognized when the products are shipped. Revenue from software development contracts is recognized on a percentage of completion basis.

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function. In the future, some equipment and facilities may become obsolete as a result of technical innovation or other factors, and some equipment and facilities may no longer be required as the result of withdrawal from certain businesses, in which case their actual useful lives may be recognized as shorter than their originally estimated useful lives. Losses may occur as a result.

We adopted asset impairment accounting from fiscal 2005. Impairment losses may be recognized in cases in which there is a decline in the anticipated amount of future cash flows as a result of deterioration in the projected results of a business unit.

Intangible Assets

Computer software for sale is amortized based on projected unit sales volume during the period for which the projections are made. The projected unit sales volume is estimated based on a feasible sales plan, but one-time losses may occur if anticipated unit sales fall short of the original sales plan. Computer software for internal use is amortized by the straight-line method over its estimated useful life. Losses may occur if the actual useful life falls short of the initially estimated useful life.

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 when the business is withdrawn or sold by the Group, or when the profitability of the acquired business decreases during the period the Group expected the return.

Marketable Securities

Held-to-maturity investments, which are the debt securities which the Group has the positive intent and ability to hold to maturity, are stated at amortized cost, adjusted for the amortization of premium or discount to maturity. Available-for-sale securities, which are "equity securities" or "debt securities not classified as held-to-maturity," are carried at fair market value as of the balance sheet date of the fiscal year if a market price is available. If no market price is available, they are carried at cost based on the moving average method. Fluctuations in the market value of available-for-sale securities for which market prices are available cause fluctuations in the carrying value of marketable securities, resulting in increases or decreases in shareholders' equity. Impairment losses are recognized on available-for-sale securities when the market value or the net worth falls significantly and is proved to be unrecoverable. If a significant decline in market value occurs and is proved to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

We record 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 Company's products are covered by contracts that require us to repair or exchange them free of charge during a set period of time. Based on past experience, we record 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.

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, mortality rates, and the expected rate of return on the plan assets. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected. In the event an actuarial loss arises, the actuarial loss is amortized using a straight-line method over employees' average remaining service period. Furthermore, revisions to accounting standards in countries where overseas subsidiaries are located and in Japan could potentially impact the Company's retirement benefit costs and obligations, as well as shareholders' equity.

Provision for Loss on Repurchase of Computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. (JECC) and other leasing companies. Contracts with these companies require the buyback of the computers if lease contracts are terminated. An estimated amount for the loss arising from such buybacks is provided at the time of sale and is recorded as a provision. Any future changes in the usage trends of end-users may result in additions or reductions to the provision.

Consolidated Balance Sheets

Fujitsu Limited and Consolidated Subsidiaries

At March 31	2005	2006	2006
	Yen (millions)		U.S. Dollars (thousands) (Note 3)
Assets			
Current assets:			
Cash and cash equivalents	¥ 454,516	**¥ 420,894**	**$ 3,566,898**
Short-term investments (Note 4)	2,672	**2,369**	**20,076**
Receivables, trade (Note 16)	824,992	**885,300**	**7,502,542**
Allowance for doubtful accounts	(6,586)	**(6,781)**	**(57,466)**
Inventories (Note 5)	478,510	**408,710**	**3,463,644**
Other current assets (Note 11)	227,433	**222,256**	**1,883,526**
Total current assets	1,981,537	**1,932,748**	**16,379,220**
Investments and long-term loans:			
Affiliates (Note 6)	175,844	**172,933**	**1,465,534**
Other investments and long-term loans (Notes 4, 6, 10 and 11)	530,622	**688,570**	**5,835,339**
Total investments and long-term loans	706,466	**861,503**	**7,300,873**
Property, plant and equipment (Notes 7, 9 and 15):			
Land	130,913	**113,061**	**958,144**
Buildings	720,449	**707,586**	**5,996,492**
Machinery and equipment	1,795,784	**1,700,069**	**14,407,364**
Construction in progress	29,991	**35,673**	**302,313**
	2,677,137	**2,556,389**	**21,664,313**
Less accumulated depreciation	(1,949,237)	**(1,779,413)**	**(15,079,771)**
Property, plant and equipment, net	727,900	**776,976**	**6,584,542**
Intangible assets (Note 15):			
Software	133,847	**127,471**	**1,080,263**
Goodwill (Note 8)	81,569	**85,250**	**722,458**
Other intangible assets	8,879	**23,183**	**196,466**
Total intangible assets	224,295	**235,904**	**1,999,187**
Total assets	¥ 3,640,198	**¥ 3,807,131**	**$ 32,263,822**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) (Note 3) 2006
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term borrowings (Note 9)	¥ 102,079	**¥ 63,820**	**$ 540,847**
Current portion of long-term debt (Note 9)	107,474	**171,028**	**1,449,390**
Payables, trade (Note 16)	735,981	**757,006**	**6,415,305**
Accrued expenses	323,473	**351,176**	**2,976,068**
Customers' advances	34,956	**38,912**	**329,763**
Accrued income taxes	29,602	**27,307**	**231,415**
Other current liabilities (Notes 11, 15 and 16)	157,952	**193,256**	**1,637,763**
Total current liabilities	1,491,517	**1,602,505**	**13,580,551**
Long-term liabilities:			
Long-term debt (Note 9)	873,235	**693,765**	**5,879,364**
Accrued retirement benefits (Note 10)	85,747	**201,727**	**1,709,551**
Provision for loss on repurchase of computers	56,467	**43,371**	**367,551**
Other long-term liabilities (Notes 11 and 15)	112,035	**175,688**	**1,488,881**
Total long-term liabilities	1,127,484	**1,114,551**	**9,445,347**
Minority interests in consolidated subsidiaries	164,207	**173,030**	**1,466,356**
Shareholders' equity:			
Common stock (Note 12)			
Authorized—5,000,000,000 shares			
Issued			
2005—2,070,018,213 shares	324,625		
2006—2,070,018,213 shares		**324,625**	**2,751,059**
Capital surplus	497,882	**498,019**	**4,220,500**
Retained earnings (Deficit)	(7,823)	**(40,485)**	**(343,093)**
Unrealized gains on securities, net of taxes	98,076	**179,714**	**1,523,000**
Revaluation surplus on land, net of taxes	3,453	**2,504**	**21,220**
Foreign currency translation adjustments	(57,980)	**(45,867)**	**(388,703)**
Treasury stock, at cost	(1,243)	**(1,465)**	**(12,415)**
Total shareholders' equity	856,990	**917,045**	**7,771,568**
Commitments and contingent liabilities (Note 13)			
Total liabilities, minority interests and shareholders' equity	¥3,640,198	**¥3,807,131**	**$32,263,822**

Consolidated Statements of Operations

Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	2004	2005	Yen (millions) 2006	U.S. Dollars (thousands) (Note 3) 2006
Net sales	¥4,766,888	¥4,762,759	**¥4,791,416**	**$40,605,220**
Operating costs and expenses:				
Cost of sales	3,460,932	3,512,552	**3,523,421**	**29,859,500**
Selling, general and administrative expenses (Note 18)	1,155,614	1,090,016	**1,086,507**	**9,207,686**
	4,616,546	4,602,568	**4,609,928**	**39,067,186**
Operating income	150,342	160,191	**181,488**	**1,538,034**
Other income (expenses):				
Interest and dividend income	6,668	8,643	**10,495**	**88,941**
Equity in earnings of affiliates, net	(862)	3,691	**(1,478)**	**(12,525)**
Interest charges	(23,331)	(18,247)	**(19,084)**	**(161,729)**
Other, net (Note 18)	24,201	69,248	**(53,337)**	**(452,009)**
	6,676	63,335	**(63,404)**	**(537,322)**
Income before income taxes and minority interests	157,018	223,526	**118,084**	**1,000,712**
Income taxes (Note 11):				
Current	34,125	32,422	**36,831**	**312,127**
Deferred	58,085	153,131	**196**	**1,661**
	92,210	185,553	**37,027**	**313,788**
Income before minority interests	64,808	37,973	**81,057**	**686,924**
Minority interests in income of consolidated subsidiaries	(15,104)	(6,066)	**(12,512)**	**(106,034)**
Net income	¥ 49,704	¥ 31,907	**¥ 68,545**	**$ 580,890**

			Yen	U.S. Dollars (Note 3)
Amounts per share of common stock:				
Basic earnings (Note 17)	¥ 24.55	¥ 15.42	**¥ 32.83**	**$ 0.278**
Diluted earnings (Note 17)	22.24	13.86	**29.54**	**0.250**
Cash dividends	3.00	6.00	**6.00**	**0.051**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	2004	2005	Yen (millions) 2006	U.S. Dollars (thousands) (Note 3) 2006
Common stock:				
Balance at beginning of year	¥324,624	¥324,624	**¥324,625**	**$2,751,059**
Conversion of bonds	—	1	**—**	**—**
Balance at end of year	¥324,624	¥324,625	**¥324,625**	**$2,751,059**
Capital surplus:				
Balance at beginning of year	¥519,720	¥455,963	**¥497,882**	**$4,219,339**
Increase as a result of business acquisition	—	—	**183**	**1,551**
Gain on sales of treasury stocks	16	12	**7**	**59**
Increase as a result of stock exchange	—	50,156	**6**	**51**
Decrease as a result of deconsolidation of consolidated subsidiaries	—	—	**(59)**	**(500)**
Decrease as a result of deconsolidation of equity method affiliates	(63,773)	(8,249)	**—**	**—**
Balance at end of year	¥455,963	¥497,882	**¥498,019**	**$4,220,500**
Retained earnings (Deficit):				
Balance at beginning of year	¥ (60,718)	¥ (35,734)	**¥ (7,823)**	**$ (66,297)**
Net income	49,704	31,907	**68,545**	**580,890**
Decrease as a result of changes in accounting principles and practices in UK subsidiaries (Note 1)	—	—	**(85,980)**	**(728,644)**
Cash dividends paid	—	(12,001)	**(12,408)**	**(105,153)**
Bonuses to directors and statutory auditors	(620)	(620)	**(596)**	**(5,051)**
Increase as a result of deconsolidation of equity method affiliates	—	7,961	**—**	**—**
Decrease as a result of deconsolidation of equity method affiliates	(27,706)	—	**—**	**—**
Other, net	3,606	664	**(2,223)**	**18,838**
Balance at end of year	¥ (35,734)	¥ (7,823)	**¥ (40,485)**	**$ (343,093)**
Unrealized gains on securities, net of taxes:				
Balance at beginning of year	¥ 2,152	¥149,629	**¥ 98,076**	**$ 831,153**
Increase (decrease)	147,477	(51,553)	**81,638**	**691,847**
Balance at end of year	¥149,629	¥ 98,076	**¥179,714**	**$1,523,000**
Revaluation surplus on land, net of taxes:				
Balance at beginning of year	¥ 3,938	¥ 3,453	**¥ 3,453**	**$ 29,263**
Increase (decrease)	(485)	—	**(949)**	**(8,043)**
Balance at end of year	¥ 3,453	¥ 3,453	**¥ 2,504**	**$ 21,220**
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (86,517)	¥ (69,901)	**¥ (57,980)**	**$ (491,356)**
Change during the period	16,616	11,921	**12,113**	**102,653**
Balance at end of year	¥ (69,901)	¥ (57,980)	**¥ (45,867)**	**$ (388,703)**
Treasury stock:				
Balance at beginning of year	¥ (809)	¥ (857)	**¥ (1,243)**	**$ (10,534)**
(Increase) decrease	(48)	(386)	**(222)**	**(1,881)**
Balance at end of year	¥ (857)	¥ (1,243)	**¥ (1,465)**	**$ (12,415)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Fujitsu Limited and Consolidated Subsidiaries

			Yen (millions)	U.S. Dollars (thousands) (Note 3)
Years ended March 31	2004	2005	2006	2006
Cash flows from operating activities (A):				
Income before income taxes and minority interests	¥ 157,018	¥ 223,526	¥ 118,084	$ 1,000,712
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization, including goodwill amortization	292,949	232,118	242,376	2,054,034
Accrual (payments) for retirement benefits	22,923	7,269	4,906	41,576
Provision for loss on repurchase of computers	33,329	21,746	27,003	228,839
Reversal of provision for loss on repurchase of computers	(40,161)	(33,494)	(40,099)	(339,822)
Interest and dividend income	(6,668)	(8,643)	(10,495)	(88,941)
Interest charges	23,331	18,247	19,084	161,729
Equity in earnings of affiliates, net	862	(3,691)	1,478	12,525
Disposal of non-current assets	30,714	39,765	28,625	242,585
Gain on transfer of substitutional portion of employees' pension funds	(146,532)	—	—	—
Gain on sales of marketable securities	(134,624)	(133,299)	—	—
(Increase) decrease in receivables, trade	(101,803)	(26,320)	10,719	90,839
(Increase) decrease in inventories	42,637	37,965	5,746	48,695
(Increase) decrease in other current assets	6,628	13,808	(836)	(7,085)
Increase (decrease) in payables, trade	158,327	(47,859)	21,196	179,627
Increase (decrease) in other current liabilities	13,608	10,956	37,001	313,568
Other, net	3,865	(35,757)	(9,914)	(84,017)
Cash generated from operations	356,403	316,337	454,874	3,854,864
Interest received	2,763	4,638	5,814	49,271
Dividends received	6,358	4,694	4,589	38,890
Interest paid	(24,142)	(18,858)	(20,302)	(172,051)
Income taxes paid	(37,337)	(29,579)	(39,396)	(333,864)
Net cash provided by (used in) operating activities	304,045	277,232	405,579	3,437,110
Cash flows from investing activities (B):				
Purchases of property, plant and equipment	(141,596)	(151,862)	(221,100)	(1,873,729)
Proceeds from sales of property, plant and equipment	47,841	14,283	50,710	429,746
Purchases of intangible assets	(59,423)	(47,677)	(62,173)	(526,890)
Purchases of investment securities	(47,205)	(23,239)	(70,981)	(601,534)
Proceeds from sales of investment securities	269,110	161,047	22,353	189,432
Other, net	(1,338)	32,319	46,507	394,128
Net cash provided by (used in) investing activities	67,389	(15,129)	(234,684)	(1,988,847)
A+B (*)	371,434	262,103	170,895	1,448,263
Cash flows from financing activities:				
Proceeds from long-term debt	57,150	126,179	38,477	326,076
Repayment of long-term debt	(197,876)	(240,293)	(150,628)	(1,276,508)
Increase (decrease) in short-term borrowings	(76,741)	(48,816)	(44,503)	(377,144)
Increase (decrease) in minority interests	10,700	(1,024)	(3,250)	(27,542)
Dividends paid	—	(12,001)	(12,408)	(105,153)
Other, net	(33,135)	(36,079)	(35,528)	(301,085)
Net cash provided by (used in) financing activities	(239,902)	(212,034)	(207,840)	(1,761,356)
Effect of exchange rate changes on cash and cash equivalents	(3,199)	1,661	3,323	28,161
Net increase (decrease) in cash and cash equivalents	128,333	51,730	(33,622)	(284,932)
Cash and cash equivalents at beginning of year	282,333	413,826	454,516	3,851,830
Cash and cash equivalents of newly consolidated subsidiaries	3,160	947	—	—
Cash and cash equivalents of deconsolidated subsidiaries	—	(11,987)	—	—
Cash and cash equivalents at end of year	¥ 413,826	¥ 454,516	¥ 420,894	$ 3,566,898
Non-cash investing and financing activities:				
Acquisition of assets under finance leases	¥ 32,084	¥ 33,273	¥ 55,149	$ 467,364
Increase in capital surplus as a result of stock exchange	—	50,156	6	51
Contribution of assets to an affiliated company	63,949	—	—	—

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.
(*) This is referred to as "free cash flow" in Management's Discussion and Analysis of Operations.

Notes to Consolidated Financial Statements

Fujitsu Limited and Consolidated Subsidiaries

1. *Significant Accounting Policies*

(a) Basis of presenting consolidated financial statements and the principles of consolidation

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the regulations under the Securities and Exchange Law of Japan and accounting principles and practices generally accepted in Japan. The consolidated subsidiaries outside Japan have adopted the accounting principles and practices in their respective countries. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan.

Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards ("IFRS") and accounting principles and practices in other countries in certain respects as to applications and disclosure requirements. The differences between the accounting principles and practices adopted by the Group and those prescribed by IFRS are set forth in Note 2.

The consolidated financial statements include the accounts of the Company and, with minor exceptions, those of its majority-owned subsidiaries.

The acquisition of companies is accounted for by the purchase method. Goodwill represents the excess of the acquisition cost over the fair value of the net assets of the acquired companies.

Investments in affiliates, with minor exceptions, are accounted for by the equity method.

<Changes in accounting principles and practices for the year ended March 31, 2006>

For the year ended March 31, 2006, Fujitsu Services Holdings PLC, a UK subsidiary, and its consolidated subsidiaries ("FS") have voluntarily adopted IFRS in line with listed companies in the EU. Prior to the adoption of IFRS, FS had been applying the accounting principles and practices generally accepted in the UK. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

The adoption of IFRS had the effect to decrease net sales by ¥5,032 million ($42,644 thousand) and increased operating income and income before income taxes and minority interests by ¥6,109 million ($51,771 thousand) and ¥5,192 million ($44,000 thousand), respectively. The impact of this change to the segment information is set forth in Note 19.

For the year ended March 31, 2006, Fujitsu Telecommunications Europe Limited, another UK subsidiary recognized pension obligation which had not been recognized before in conformity with the new UK accounting standard for the retirement benefits (Financial Reporting Standard 17). The adoption of this standard, however, did not have a material impact on net income for the year ended March 31, 2006.

As a result of the above changes, cumulative effect as of April 1, 2005 of ¥85,980 million ($728,644 thousand) had been charged to retained earnings (deficit).

(b) Cash equivalents

Cash equivalents are considered to be short-term highly liquid investments with a maturity of three months or less from the date of acquisition and an insignificant risk of fluctuation in value.

(c) Translation of foreign currency accounts

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign currency exchange rates in effect at the respective balance sheet dates.

The assets and liabilities accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Income and expense accounts are translated at the average exchange rate during the year. The resulting translation adjustments are recorded in a separate component of shareholders' equity as "foreign currency translation adjustments."

(d) Revenue recognition

Revenue from sales of IT systems and products excluding customized software under development contracts (the "customized software") is recognized upon acceptance by the customers, whereas, revenue from sales of personal computers, other equipment and electronic devices is recognized when the products are shipped.

Revenue from sales of the customized software is recognized by reference to the percentage-of-completion method.

<Changes in accounting principles and practices for the year ended March 31, 2006>

The Group changed the revenue recognition of the customized software from recognition at the time of acceptance by the customers to the percentage-of-completion method for the year ended March 31, 2006. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

As a result of this change, sales and cost of sales increased ¥10,399 million ($88,127 thousand) and ¥8,833 million ($74,856 thousand), respectively; operating income and income before income taxes and minority interests both increased ¥1,566 million ($13,271 thousand). The impact of this change to the segment information is set forth in Note 19.

(e) Marketable securities

Marketable securities included in "short-term investments" and "investments and long-term loans" are classified as either held-to-maturity investments, which are the debt securities which the Group has the positive intent and ability to hold to maturity, or available-for-sale securities, which are "equity securities" or "debt securities not classified as held-to-maturity."

Held-to-maturity investments are stated at amortized cost, adjusted for the amortization of premium or accretion of discounts to maturity. The cost of available-for-sale securities sold is calculated by the moving average method.

Available-for-sale securities are carried at fair market value, with the unrealized gains or losses, net of taxes, reported in a separate component of shareholders' equity.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount deemed sufficient to cover estimated future losses.

(g) Inventories

Finished goods are mainly stated at cost determined by the moving average method.

Work in process is mainly stated at cost determined by the specific identification method or the average cost method.

Raw materials are mainly stated at cost determined by the moving average method or the most recent purchase price method.

(h) Property, plant and equipment and depreciation

Property, plant and equipment, including renewals and additions, are carried at cost. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed principally by the declining balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function.

Certain property, plant and equipment are impaired based on consideration of their future usefulness. Accumulated impairment loss is subtracted directly from each asset.

<Changes in accounting principles and practices for the year ended March 31, 2006>

In Japan, the Group has adopted a new accounting standard, effective April 1, 2005, for impairment of non-current assets. The adoption of this standard, however, did not have a material impact on net income for the year ended March 31, 2006.

(i) Intangible assets

Goodwill is amortized by the straight-line method over periods not exceeding 20 years. In the consolidated financial statements, the Group consistently amortizes goodwill acquired by consolidated subsidiaries outside Japan where goodwill is not amortized in accordance with the accounting principles and practices in their respective countries.

Computer software for sale is amortized based on the current year sales units to the projected total products' sales units. Computer software for internal use is amortized by the straight-line method over the estimated useful lives.

Other intangible assets are amortized by the straight-line method at the rates based on the estimated useful lives of the respective assets.

(j) Leases

Assets acquired by lessees in finance lease transactions are recorded in the corresponding asset accounts.

(k) Provision for product warranties

Provision for product warranties is provided at the time of sales of the products at an amount which represents the estimated cost, based on past experience, to repair or exchange certain products within the warranty period.

<Changes in accounting principles and practices for the year ended March 31, 2006>

For the year ended March 31, 2006, the Group has started to provide for product warranties as noted above in connection with increased sales of products under warranty and the increase in warranty related costs. Prior to and for the year ended March 31, 2005, the Group had charged costs for repair or exchange under warranty to selling, general and administrative expenses at the time the warranty costs were incurred. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

In comparison with previous methods, the adoption of this policy represents a reduction in operating income of ¥3,029 million ($25,670 thousand) and, as a result of recording provision for prior product warranties of ¥7,413 million ($62,822 thousand) as an expense in "other income (expenses)," a reduction of ¥10,442 million ($88,492 thousand) in income before income taxes and minority interests. The impact of this change to the segment information is set forth in Note 19.

(l) Retirement benefits

The Company and the majority of the consolidated subsidiaries have retirement benefit plans.

Under the significant defined benefit plans, the actuarial valuation used to determine the pension costs is the projected unit credit method.

<Changes in accounting principles and practices for the year ended March 31, 2006>
Certain consolidated subsidiaries outside Japan changed their accounting principles and practices on retirement benefits, for the year ended March 31, 2006. Details of this change are described in (a) Basis of presenting consolidated financial statements and the principles of consolidation and in Note 10.

(m) Provision for loss on repurchase of computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. ("JECC") and other leasing companies for leasing to ultimate users under contracts which require the Group to repurchase the computers if they are returned by the users after a certain period. Based on past experience, an estimated amount for the loss arising from such repurchases is provided at the point of sales and is charged to income.

(n) Income taxes

The Group has adopted the asset and liability method of tax effect accounting in order to recognize income tax effect of all temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes.

(o) Earnings per share

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stocks issuable upon the exercise of warrants and the conversion of convertible bonds.

(p) Derivative financial instruments

The Group uses derivative financial instruments for the purpose of hedging against the risk of fluctuations in interest rates and foreign exchange rates on receivables and payables denominated in foreign currencies.

All derivative financial instruments are stated at fair market value.

The Group defers gain or loss on changes in the fair market values of the derivative financial instruments on the balance sheet until gain or loss on the hedged items are recognized.

2. *Differences with International Financial Reporting Standards*

A brief description of the material differences between IFRS and Japanese GAAP relevant to the Group is set out below. The Group has not completed the assessment to identify or quantify the impact of all such differences. The description below is therefore prepared based on the Group's current assessment and consideration at March 31, 2006. Additionally, the Group has not made any attempts to identify or quantify any differences between IFRS and Japanese GAAP, which may result from changes in both or either accounting principles and practices in the future.

This note is out of scope of the audit.

Inventories

Under IAS 2, inventories should be stated at the lower of their historical cost or net realizable value. The Group evaluates inventories mainly at cost as indicated in Note 1. (g) Inventories. The effects on the aggregate value of inventories based on IAS 2 are not calculated. However, the Group takes into consideration the recoverability of inventories based on future business environments.

Goodwill

Under IFRS 3 "Business Combinations," goodwill should not be amortized and IAS 36 "Impairment of Assets" should be applied. The Group amortizes goodwill by the straight-line method over periods not exceeding 20 years as indicated in Note 1. (i) Intangible assets.

Retirement benefits

Under IAS 19, the unrecognized net obligation upon the application of new accounting principles and practices should be recognized immediately. The accounting principles and practices for this obligation are indicated in Note 10.

Scope of consolidation

Under IAS 27 and its interpretations SIC 12, Special Purpose Entities (SPEs) should be consolidated when the substance of the relationship between an entity and an SPE indicates that the entity controls the SPE.

The Company and its consolidated subsidiaries in Japan have not consolidated certain qualifying SPEs in conformity with Japanese GAAP.

Uniformity of accounting policies

Under IAS 27, unification of accounting policies for consolidated accounts is required. Under IAS 28, uniformity of accounting policies for affiliates is required as well.

Under Japanese GAAP, uniformity of accounting policies is required for similar transactions and events under similar circumstances, in principle. However, it is permitted to use financial statements prepared in accordance with local GAAP of foreign subsidiaries, unless the difference in accounting principles and practices will lead to unreasonable consequences. The consolidated subsidiaries within the Group outside Japan have adopted the accounting principles and practices in their respective countries as indicated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation while some subsidiaries have adopted IFRS in countries where IFRS can be applied.

As a result of future revisions of IFRS or other effects, there is a possibility that certain differences may arise for the accounting principles and practices that are not discussed above.

3. *U.S. Dollar Amounts*

The Company and its consolidated subsidiaries in Japan maintain their books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into U.S. dollars at ¥118 = US$1, the approximate exchange rate at March 31, 2006.

The U.S. dollar amounts are presented solely for the convenience of readers and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in U.S. dollars at the above or any other rate.

4. *Marketable Securities*

At March 31, 2005 and 2006, marketable securities included in "short-term investments" and "other investments and long-term loans" were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Held-to-maturity investments			
Carrying value (Amortized cost)	¥ 1,414	**¥ 901**	**$ 7,635**
Market value	1,436	**892**	**7,559**
Net unrealized gain (loss)	¥ 22	**¥ (9)**	**$ (76)**
Available-for-sale securities			
Acquisition costs	¥ 62,158	**¥ 65,323**	**$ 553,585**
Carrying value (Market value)	228,429	**369,039**	**3,127,449**
Net unrealized gain (loss)	¥166,271	**¥303,716**	**$2,573,864**

5. *Inventories*

Inventories at March 31, 2005 and 2006 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Finished goods	¥186,555	**¥180,656**	**$1,530,983**
Work in process	211,090	**142,673**	**1,209,093**
Raw materials	80,865	**85,381**	**723,568**
	¥478,510	**¥408,710**	**$3,463,644**

6. *Investments in Affiliates*

The Company accounts for investments in affiliates by the equity method with minor exceptions.

A summary of the financial information of the affiliates accounted for by the equity method is presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Current assets	¥585,081	**¥ 813,649**	**$ 6,895,330**
Non-current assets	392,281	**598,677**	**5,073,534**
	977,362	**1,412,326**	**11,968,864**
Current liabilities	604,384	**778,905**	**6,600,890**
Long-term liabilities	224,153	**238,405**	**2,020,381**
Net assets	¥148,825	**¥ 395,016**	**$ 3,347,593**

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Net sales	¥1,393,351	¥1,603,931	**¥1,774,230**	**$15,035,847**
Net income (loss)	39,994	45,934	**(16,235)**	**(137,585)**

Decrease in net income (loss) for the year ended March 31, 2006 mainly consisted of the deconsolidation of Advantest Corporation due to sales of its shares for the year ended March 31, 2005, and the expansion of net loss of Spansion Inc. for the year ended March 31, 2006.

The carrying and market values of the shares of the publicly listed equity method affiliates at March 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Carrying value	¥ 9,838	**¥65,261**	**$553,059**
Market value	30,465	**88,286**	**748,186**

Carrying value and Market value at March 31, 2006, mainly consisted of increase due to the listing of Spansion Inc. on the NASDAQ exchange.

After the shares in Advantest Corporation were sold for the year ended March 31, 2005, Advantest Corporation was no longer treated as an equity method affiliate.

At March 31, 2005 and 2006, the amount of ¥19,373 million ($164,178 thousand) representing the Company's 29.49% investment in JECC was included in "other investments and long-term loans." The Company does not regard JECC as an affiliate as it is unable to exercise significant influence over JECC's affairs. JECC's principal business is the leasing of computers and peripherals purchased from its six shareholders. At March 31, 2005 and 2006, JECC's issued share capital was ¥65,700 million ($556,780 thousand). Its net sales for the years ended March 31, 2004, 2005 and 2006 amounted to ¥303,285 million, ¥304,482 million and ¥299,993 million ($2,542,314 thousand), respectively.

7. Property, Plant and Equipment

Changes in property, plant and equipment resulted from the following:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Land			
Balance at beginning of year, net	¥134,217	**¥115,606**	**$ 979,712**
Additions	32	**276**	**2,339**
Translation differences	113	**414**	**3,508**
Other, net	(18,756)	**(3,235)**	**(27,415)**
Balance at end of year, net	¥115,606	**¥113,061**	**$ 958,144**
Buildings			
Balance at beginning of year, net	¥276,259	**¥254,677**	**$2,158,280**
Additions	16,487	**43,348**	**367,356**
Depreciation	24,531	**26,258**	**222,526**
Translation differences	707	**2,277**	**19,297**
Other, net	(14,245)	**(2,621)**	**(22,212)**
Balance at end of year, net	¥254,677	**¥271,423**	**$2,300,195**

"Other, net" for the year ended March 31, 2005 mainly consisted of decrease due to the transfer of our plasma display panel business and the shifting of compound semiconductor device business subsidiaries from consolidated subsidiaries to equity method affiliates.

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Machinery and equipment			
Balance at beginning of year, net	¥372,679	**¥327,626**	**$2,776,491**
Additions	159,816	**199,530**	**1,690,932**
Depreciation	146,699	**147,587**	**1,250,737**
Translation differences	1,608	**2,570**	**21,780**
Other, net	(59,778)	**(25,320)**	**(214,576)**
Balance at end of year, net	¥327,626	**¥356,819**	**$3,023,890**

"Other, net" for the year ended March 31, 2005 mainly consisted of decrease due to the transfer of our plasma display panel business and the shifting of compound semiconductor device business subsidiaries from consolidated subsidiaries to equity method affiliates.

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Construction in progress			
Balance at beginning of year, net	¥ 19,868	**¥ 29,991**	**$ 254,161**
Additions	121,599	**175,689**	**1,488,890**
Translation differences	13	**12**	**101**
Transfers	(111,489)	**(170,019)**	**(1,440,839)**
Balance at end of year, net	¥ 29,991	**¥ 35,673**	**$ 302,313**

8. *Goodwill*

An analysis of goodwill is presented below:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Balance at beginning of year	¥66,045	**¥81,569**	**$691,263**
Additions	25,564	**18,776**	**159,119**
Amortization	11,626	**15,372**	**130,271**
Translation differences	1,586	**277**	**2,347**
Balance at end of year	¥81,569	**¥85,250**	**$722,458**

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2005 and 2006 consisted of the following:

At March 31	2005	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Loans, principally from banks, with weighted average interest rates of 1.27% at March 31, 2005 and 2.07% at March 31, 2006:			
Secured	¥ 600	¥ 760	$ 6,440
Unsecured	101,479	63,060	534,407
	¥102,079	¥63,820	$540,847

Long-term debt at March 31, 2005 and 2006 consisted of the following:

At March 31	2005	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Loans, principally from banks and insurance companies, due 2005 to 2020 with the weighted average interest rate of 1.81% at March 31, 2005 and due 2006 to 2020 with the weighted average interest rate of 1.85% at March 31, 2006:			
Secured	¥ 662	¥ 462	$ 3,915
Unsecured	173,522	84,131	712,974
Bonds and notes issued by the Company:			
Zero coupon unsecured convertible bonds due 2009	250,000	250,000	2,118,644
2.875% unsecured bonds due 2006	50,000	50,000	423,729
3.15% unsecured bonds due 2009	50,000	50,000	423,729
2.3% unsecured bonds due 2007	50,000	50,000	423,729
2.325% unsecured bonds due 2008	50,000	50,000	423,729
3.0% unsecured bonds due 2018	30,000	30,000	254,237
2.175% unsecured bonds due 2008	50,000	50,000	423,729
2.15% unsecured bonds due 2008	50,000	50,000	423,729
0.64% unsecured bonds due 2006	100,000	100,000	847,457
0.42% unsecured bonds due 2007	50,000	50,000	423,729
1.05% unsecured bonds due 2010	50,000	50,000	423,729
Bonds and notes issued by consolidated subsidiaries, due 2005 to 2006 with the weighted average interest rate of 1.35% at March 31, 2005 and due 2011 with the weighted average interest rate of 2.00% at March 31, 2006:			
Unsecured	26,525	200	1,695
Less amounts due within one year	(107,474)	(171,028)	(1,449,390)
	¥ 873,235	¥ 693,765	$ 5,879,364

At March 31, 2006, the Group had committed line contracts with banks aggregating ¥207,850 million ($1,761,441 thousand). Of the total credit limit, ¥32,773 million ($277,737 thousand) was used as the above short-term and long-term borrowings and the rest, ¥175,077 million ($1,483,704 thousand), was unused.

The current conversion price of the zero coupon convertible bonds issued by the Company is ¥1,201.00 per share. Each conversion price is subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 2006, the convertible bonds were convertible into approximately 208 million shares of common stock.

Certain outstanding convertible bonds and notes can be repurchased at any time and may be redeemed at the option of the Company, in whole or in part, at 100% of their principal amounts.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Years ending March 31	Yen (millions)	U.S. Dollars (thousands)
2007	¥171,028	$1,449,390
2008	186,352	1,579,254
2009	102,067	864,975
2010	303,379	2,571,008
2011 and thereafter	101,967	864,127

Convertible bonds are treated solely as liabilities and value inherent in their conversion feature is not recognized as equity in accordance with accounting principles and practices generally accepted in Japan. The total amount of the convertible bonds has been included in "long-term debt."

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2005 and 2006 are principally presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Property, plant and equipment, net	¥3,057	**¥2,790**	**$23,644**

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the banks, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the banks concerned. These general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by default, to offset deposits at the banks against the indebtedness due to the banks.

10. *Retirement Benefits*

The Company and the majority of the consolidated subsidiaries in Japan have unfunded lump-sum retirement plans which, in general, cover all employees who retire before a retirement age prescribed in their internal codes. The employees are entitled to the benefits primarily based on their length of service and basic salary as of the retirement date.

In addition, the Company and the majority of the consolidated subsidiaries in Japan participate in contributory defined benefit plans which cover substantially all employees. The major contributory defined benefit plan (the "Plan"), which is referred to as the Fujitsu Corporate Pension Fund, entitles employees upon retirement at the normal retirement age to either a lump-sum payment or pension annuity payments for life commencing at age 60, or a combination of both based on their length of service, basic salary as of the retirement date and the number of years of participation in the Plan. The contributions of the Company and the subsidiaries covered by the Plan and their employees are made to the Fujitsu Corporate Pension Fund which is an external organization.

The Fujitsu Welfare Pension Fund, which the Company and certain consolidated subsidiaries in Japan participated in, received approval of an elimination of the future benefit obligations of the substitutional portion on March 23, 2004, and then received approval of transfer of past benefit obligation of the substitutional portion on September 1, 2005, from the Minister of Health, Labour and Welfare. Accordingly, Fujitsu Welfare Pension Fund changed to the Defined Benefit Corporate Plan based on the Japanese Defined Benefit Corporate Pension Law, from the Japanese Welfare Pension Plan based on the Japanese Welfare Pension Insurance Law, and concurrently a part of the pension system was revised.

The majority of the consolidated subsidiaries outside Japan have defined benefit plans and/or defined contribution plans covering substantially all their employees. The major defined benefit pension plan provided outside Japan is the plan that Fujitsu Services Holdings PLC (including its consolidated subsidiaries, "FS") provides. The plan entitles employees payments based on their length of service and salary. The defined benefit section of the plan was closed to new entrants on August 31, 2000. New employees are, however, eligible for membership of the defined contribution section.

The balances of the "projected benefit obligation and plan assets" and the "components of net periodic benefit cost" in the plans in both Japan and outside Japan are summarized as follows:

<In Japan>

Projected benefit obligation and plan assets

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Projected benefit obligation	¥(1,247,141)	**¥(1,054,075)**	**$(8,932,839)**
Plan assets	876,758	**1,122,751**	**9,514,839**
Projected benefit obligation in excess of plan assets	(370,383)	**68,676**	**582,000**
Unrecognized net obligation at transition	81,653	**65,264**	**553,085**
Unrecognized actuarial loss	314,353	**47,585**	**403,263**
Unrecognized prior service cost (reduced obligation)	(593)	**(176,712)**	**(1,497,560)**
Prepaid pension cost	(110,777)	**(89,847)**	**(761,415)**
Accrued retirement benefits	¥ (85,747)	**¥ (85,034)**	**$ (720,627)**

As a result of pension system revisions, Fujitsu Corporate Pension Fund which the Company and certain consolidated subsidiaries participate in reported unrecognized prior service cost (reduced obligation) at September 1, 2005.

Components of net periodic benefit cost

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Service cost	¥ 53,613	¥ 49,892	**¥ 40,751**	**$ 345,347**
Interest cost	48,004	29,511	**28,133**	**238,415**
Expected return on plan assets	(36,125)	(30,733)	**(28,419)**	**(240,839)**
Amortization of unrecognized obligation for retirement benefits:				
Amortization of net obligation at transition	25,435	16,691	**16,228**	**137,526**
Amortization of actuarial loss	39,578	22,609	**22,943**	**194,432**
Amortization of prior service cost	(8,070)	(5)	**(10,957)**	**(92,856)**
Net periodic benefit cost	¥ 122,435	¥ 87,965	**¥ 68,679**	**$ 582,025**
Gain on transfer of substitutional portion of employees' pension funds	(146,532)	—	**—**	**—**
Total	¥ (24,097)	¥ 87,965	**¥ 68,679**	**$ 582,025**

Applying the transitional provisions as prescribed in paragraph 47-2 of "Practical Guidelines of Accounting and Retirement Benefits-Interim Report" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants), the Company and certain consolidated subsidiaries in Japan accounted for the elimination of the future and past benefit obligations of the substitutional portion as well as the related government-specified portion of the employees' pension plan assets at the date of the approval made in the year ended March 31, 2004.

The assumptions used in accounting for the plans

At March 31	2005	**2006**
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.8%	**3.2%**
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period	**Straight-line method over the employees' average remaining service period**
Method of allocating prior service cost	Straight-line method over 10 years	**Straight-line method over 10 years**
Amortization period for net obligation at transition	10 years	**10 years**

For the year ended March 31, 2001, the Company fully recognized in income its portion of the unrecognized net obligation at transition. For additional plan assets to cover the unrecognized net obligation at transition, the Company placed its holding of marketable securities in trust which was solely established for the retirement benefit plan.

<Outside Japan>

FS adopted International Financial Reporting Standards ("IFRS") for the year ended March 31, 2006, and accounts for retirement benefits in accordance with IAS 19 "Employee Benefits." For this change in accounting principles and practices, FS adopted IFRS 1 "First-time Adoption of International Financial Reporting Standards," and recognized the projected benefit obligation in excess of plan assets as of April 1, 2004 which is the beginning of the prior year of the IFRS adoption. FS recognized actuarial gain or loss over future periods after the adoption of IFRS 1.

From the year ended March 31, 2006, Fujitsu Telecommunications Europe Limited ("FTEL"), a consolidated subsidiary in the UK, recognized the full value of the unrecognized obligation immediately as accrued retirement benefits, in accordance with a new UK accounting standard for the retirement benefits (Financial Reporting Standard 17).

(NOTE) Guidelines of changes in accounting principles and practices in FS and FTEL are set previously in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation.

Projected benefit obligation and plan assets

At March 31	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Projected benefit obligation	¥(597,236)	$(5,061,322)
Plan assets	448,619	3,801,856
Projected benefit obligation in excess of plan assets	(148,617)	(1,259,466)
Unrecognized actuarial loss	31,924	270,542
Accrued retirement benefits	¥(116,693)	$ (988,924)

Components of net periodic benefit cost

Year ended March 31	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Service cost	¥ 8,205	$ 69,534
Interest cost	27,436	232,509
Expected return on plan assets	(25,370)	(215,000)
Amortization of the unrecognized obligation for retirement benefit:		
Amortization of actuarial loss	81	686
Net periodic benefit cost	¥ 10,352	$ 87,729

FS applied the "corridor" approach to amortization of actuarial loss.

The assumptions used in accounting for the plans

At March 31	2006
Discount rate	Mainly 5.1%
Expected rate of return on plan assets	Mainly 7.3%
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period

11. *Income Taxes*

The Group is subject to a number of different income taxes. The statutory tax rates in the aggregate in Japan were approximately 42.0% for the year ended March 31, 2004, and approximately 40.6% for the years ended March 31, 2005 and 2006.

The components of income taxes are as follows:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Current	¥34,125	¥ 32,422	**¥36,831**	**$312,127**
Deferred	58,085	153,131	**196**	**1,661**
Income taxes	¥92,210	¥185,553	**¥37,027**	**$313,788**

The reconciliations between the applicable statutory income tax rate and the effective income tax rate for the years ended March 31, 2004, 2005 and 2006 are as follows:

Years ended March 31	2004	2005	**2006**
Statutory income tax rate	42.0%	40.6%	**40.6%**
Increase (Decrease) in tax rate:			
Tax effect on prior losses on investments in equity method affiliates	—	—	**(9.4%)**
Amortization of goodwill	8.1%	2.1%	**5.3%**
Valuation allowance for deferred tax assets	53.2%	45.7%	**(3.4%)**
Non-deductible expenses for tax purposes	1.7%	1.3%	**2.3%**
Non-taxable income	(0.6%)	(0.5%)	**(0.8%)**
Tax effect on equity in earnings of affiliates, net	(1.1%)	(1.7%)	**0.5%**
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	26.6%	(2.3%)	**—**
Tax effect on prior losses on investments in subsidiaries	(72.5%)	—	**—**
Other	1.3%	(2.2%)	**(3.7%)**
Effective income tax rate	58.7%	83.0%	**31.4%**

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

		Yen (millions)	U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Deferred tax assets:			
Tax loss carryforwards	¥ 271,554	**¥ 231,784**	**$ 1,964,271**
Accrued retirement benefits	139,585	**169,908**	**1,439,898**
Accrued bonus	36,854	**40,265**	**341,229**
Provision for loss on repurchase of computers	17,607	**14,186**	**120,220**
Intercompany profit on inventory and property, plant and equipment	6,417	**5,452**	**46,204**
Other	67,811	**67,179**	**569,314**
Gross deferred tax assets	539,828	**528,774**	**4,481,136**
Less: Valuation allowance	(289,910)	**(243,463)**	**(2,063,246)**
Total deferred tax assets	249,918	**285,311**	**2,417,890**
Deferred tax liabilities:			
Unrealized gains on securities	¥ (67,457)	**¥(123,270)**	**$(1,044,661)**
Gains from establishment of stock holding trust for retirement benefit plan	(110,617)	**(110,617)**	**(937,432)**
Retained earnings appropriated for tax allowable reserves	(8,942)	**(8,523)**	**(72,229)**
Other	(548)	**(578)**	**(4,899)**
Total deferred tax liabilities	(187,564)	**(242,988)**	**(2,059,221)**
Net deferred tax assets	¥ 62,354	**¥ 42,323**	**$ 358,669**

Net deferred tax assets were included in the consolidated balance sheets as follows:

		Yen (millions)	U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Other current assets	¥ 75,515	**¥ 79,244**	**$ 671,559**
Other investments and long-term loans	40,085	**63,400**	**537,288**
Other current liabilities	(690)	**(520)**	**(4,407)**
Other long-term liabilities	(52,556)	**(99,801)**	**(845,771)**
Net deferred tax assets	¥ 62,354	**¥ 42,323**	**$ 358,669**

The Company and the wholly owned subsidiaries in Japan have adopted the consolidated tax return system of Japan.

Tax losses can be carried forward up to 7 years in Japan, 20 years in the United States, and indefinitely in the United Kingdom. Realization depends on the abilities of the companies to generate sufficient taxable income prior to the expiration of the tax loss carryforwards. With respect to deferred tax assets, we recorded a valuation allowance to cover the amount in excess of what we are likely to recover in the future.

Deferred tax liabilities have not been provided on the undistributed profit of affiliates, as it is deemed that any distributions will not give rise to tax liabilities.

12. *Shareholders' Equity*

The changes in the number of issued shares of common stock for the years ended March 31, 2004, 2005 and 2006 were as follows:

			Number of shares
Years ended March 31	2004	2005	**2006**
Balance at beginning of year	2,001,962,672	2,001,962,672	**2,070,018,213**
Conversion of convertible bonds	—	1,141	**—**
Increase as a result of stock exchange	—	68,054,400	**—**
Balance at end of year	2,001,962,672	2,070,018,213	**2,070,018,213**

An increase as a result of stock exchange for the year ended March 31, 2005 reflected the issuance of shares in October 2004 by which the Company turned Fujitsu Support and Service Inc. into a wholly owned subsidiary.

13. *Commitments and Contingent Liabilities*

Commitments outstanding at March 31, 2006 for purchases of property, plant and equipment were approximately ¥15,496 million ($131,322 thousand).

Contingent liabilities for guarantee contracts amounted to ¥40,092 million ($339,763 thousand) at March 31, 2006. Of the total contingent liabilities, guarantees given mainly for bank loans taken by FDK Corporation, an equity method affiliate of the Company, were ¥13,300 million ($112,712 thousand) and for employees' housing loans were ¥8,219 million ($69,653 thousand).

14. *Derivative Financial Instruments*

Purpose of Derivative Trading

The Group enters into derivative transactions related to foreign currency exchange rates and interest rates in order to reduce risk exposure arising from fluctuations in these rates, to reduce the cost of the funds financed, and to improve return on invested funds.

Basic Policies for Derivative Trading

The Group basically enters into derivative transactions only to cover actual requirements for the effective management of receivables/liabilities, and not for speculative or dealing purposes.

The Group, in principle, has no intention to use derivative financial instruments that would increase market risks. Furthermore, the counterparties to the derivative transactions are thoroughly assessed in terms of their credit risks. Therefore, the Group believes that its derivative financial instruments entail minimal market and credit risks.

Control of Derivative Trading

The Group enters into derivative transactions based on regulations established by the Company, and controls the risk of the transaction by assessing the efficiency of its hedging.

Hedge Accounting

The Group adopts hedge accounting for its derivative transactions.

Gains or losses on changes in the fair market values of the hedging instruments, which consist of forward exchange, option and swap contracts and related complex contracts, are recognized in income when the relating hedged items are reflected in income.

Fair Value of Derivative Financial Instruments:

At March 31, 2005 and 2006, all derivative financial instruments were stated at fair market value and recorded on the balance sheets.

15. *Leases*

The following is a summary of equivalent amounts of acquisition cost, accumulated depreciation, book value of leased assets, and minimum lease payments required under finance leases, which were recorded in the corresponding asset accounts, at March 31, 2005 and 2006.

		Yen (millions)	U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Equivalent amounts of acquisition cost	¥163,712	**¥198,400**	**$1,681,356**
Accumulated depreciation	102,974	**117,607**	**996,670**
Book value of leased assets	60,738	**80,793**	**684,686**
Minimum lease payments required			
Within one year	23,486	**29,623**	**251,042**
Over one year but within five years	42,002	**60,545**	**513,093**
Over five years	2,133	**16,355**	**138,602**
Total	¥ 67,621	**¥106,523**	**$ 902,737**

The following is a summary of future minimum lease payments required under non-cancelable operating leases in the aggregate and for each of the following periods.

		Yen (millions)	U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Within one year	¥10,766	**¥ 9,554**	**$ 80,966**
Over one year but within five years	28,961	**23,730**	**201,102**
Over five years	18,843	**14,415**	**122,161**
Total	¥58,570	**¥47,699**	**$404,229**

16. Supplementary Information to the Consolidated Balance Sheets

Receivables, trade from and payables, trade to affiliates at March 31, 2005 and 2006 were as follows:

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Receivables, trade	¥36,847	**¥42,816**	**$362,847**
Payables, trade	64,038	**85,332**	**723,153**

Provision for product warranties included in "Other current liabilities" at March 31, 2005 and 2006 were as follows:

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Provision for product warranties	¥6,456	**¥16,993**	**$144,008**

Provision for product warranties at March 31, 2005 was related to certain products of consolidated subsidiaries.

17. Earnings Per Share

Years ended March 31	2004	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Net income	¥49,704	¥31,907	**¥68,545**	**$580,890**
Bonuses to directors and statutory auditors from retained earnings (deficit)	(596)	(548)	**(658)**	**(5,576)**
Net income for common stock shareholders	49,108	31,359	**67,887**	**575,314**
Effect of dilutive securities	(1)	29	**(648)**	**(5,492)**
Diluted net income	¥49,107	¥31,388	**¥67,239**	**$569,822**

	2004	2005	thousands 2006
Weighted average number of shares	2,000,366	2,034,114	**2,067,787**
Effect of dilutive securities	208,159	230,778	**208,159**
Diluted weighted average number of shares	2,208,525	2,264,892	**2,275,946**

	2004	2005	Yen 2006	U.S. Dollars 2006
Basic earnings per share	¥24.55	¥15.42	**¥32.83**	**$0.278**
Diluted earnings per share	22.24	13.86	**29.54**	**0.250**

18. *Supplementary Information to the Consolidated Statements of Operations*

Research and development expenses charged to "selling, general and administrative expenses" for the years ended March 31, 2004, 2005 and 2006 were ¥250,910 million, ¥240,222 million and ¥241,566 million ($2,047,169 thousand), respectively.

"Other income (expenses)—other, net" for the years ended March 31, 2004, 2005 and 2006 consisted of the following:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Settlement gain	¥ —	¥ —	**¥ 15,957**	**$ 135,229**
Gain on business transfer	—	36,534	**3,455**	**29,280**
Gain on sales of marketable securities	134,624	133,299	**—**	**—**
Gain on transfer of substitutional portion of employees' pension funds	146,532	—	**—**	**—**
Gain on sales of property, plant and equipment	13,649	—	**—**	**—**
Amortization of unrecognized obligation for retirement benefits	(56,943)	(39,295)	**(28,214)**	**(239,102)**
Restructuring charges	(164,202)	(20,085)	**(11,559)**	**(97,958)**
Loss on disposal of property, plant and equipment	(7,142)	(7,668)	**(7,229)**	**(61,263)**
Loss on change in interest	—	—	**(8,413)**	**(71,297)**
Provision for prior product warranties	—	—	**(7,413)**	**(62,822)**
Real estate valuation losses	—	(15,274)	**—**	**—**
HDD litigation-related expenses	(10,220)	—	**—**	**—**
Casualty loss	(4,700)	—	**—**	**—**
Foreign exchange gains (losses), net	(6,972)	2,174	**5,803**	**49,178**
Other, net	(20,425)	(20,437)	**(15,724)**	**(133,254)**
	¥ 24,201	¥ 69,248	**¥(53,337)**	**$(452,009)**

Settlement gain

Settlement gain for the year ended March 31, 2006 related to the reconciliation of HDD litigation.

Gain on business transfer

Gain on business transfer for the year ended March 31, 2005 related to the transfer of the plasma display panel business.

Gain on business transfer for the year ended March 31, 2006 related to the transfer of LCD panel operations.

Gain on sales of marketable securities

Gain on sales of marketable securities for the year ended March 31, 2004 related mainly to the sales of shares in Fanuc Ltd.

Gain on sales of marketable securities for the year ended March 31, 2005 related mainly to the sales of shares in Fanuc Ltd. and Advantest Corporation.

Gain on transfer of substitutional portion of employees' pension funds

Please refer to Note 10 for "gain on transfer of substitutional portion of employees' pension funds" for the year ended March 31, 2004.

Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the year ended March 31, 2004 related to securitization of the land and buildings of Fujitsu Solution Square (located in Kamata, Tokyo), and the sales of other properties that had been used for employees' welfare.

Amortization of unrecognized obligation for retirement benefits

Amortization of unrecognized obligation for retirement benefits related mainly to amortization of actuarial loss in Japan and net obligation at transition for the consolidated subsidiaries in Japan.

Restructuring charges

Restructuring charges for the year ended March 31, 2004 related to the cost of ¥75,775 million for reduction in force, disposal of assets and one-time amortization of goodwill with regard to global restructuring focusing on North America, the expected loss of ¥68,316 million based on strict analysis of predicted future returns with regard to fundamental reform of the Software & Services business in Japan, and other costs of ¥20,111 million for reduction in force and disposal of assets with regard to restructuring of subsidiaries.

Restructuring charges for the year ended March 31, 2005 were recorded as expenses relating to reductions and relocation of personnel and disposition of assets primarily at domestic manufacturing subsidiaries.

Restructuring charges for the year ended March 31, 2006 related to expenses of restructuring to improve business profitability and asset efficiency, realignment of business location, etc.

Loss on change in interest

Loss on change in interest for the year ended March 31, 2006 refers to loss relating to allocation of new shares of affiliate (Spansion Inc.) to third parties.

Provision for prior product warranties

Provision for prior product warranties for the year ended March 31, 2006 is related to provision to cover warranty-related costs for products sold in prior fiscal years.

Real estate valuation losses

Real estate valuation losses for the year ended March 31, 2005 related to the devaluation on idle property holdings.

HDD litigation-related expenses

HDD litigation-related expenses for the year ended March 31, 2004 included expenses related to the settlement of a class-action lawsuit in the United States regarding certain Fujitsu-manufactured magnetic hard disk drives, as well as other litigation-related expenses and expenses for corrective measures for customers.

Casualty loss

Casualty loss for the year ended March 31, 2004 related to repair expenses incurred to cover damage to property as a result of the earthquake that occurred off the coast of Miyagi Prefecture, Japan, on May 26, 2003.

19. *Segment Information*

Business Segment Information

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						Yen (millions)
2004						
Sales						
Unaffiliated customers	¥2,847,798	¥ 834,256	¥734,320	¥350,514	¥ —	¥4,766,888
Intersegment	80,522	114,239	70,365	115,598	(380,724)	—
Total sales	2,928,320	948,495	804,685	466,112	(380,724)	4,766,888
Operating costs and expenses	2,789,314	916,552	777,147	453,708	(320,175)	4,616,546
Operating income (loss)	139,006	31,943	27,538	12,404	(60,549)	150,342
Total assets	1,828,260	328,865	749,552	480,133	478,779	3,865,589
Depreciation	123,191	27,631	84,924	14,335	11,724	261,805
Capital expenditure (including intangible assets)	120,020	16,411	62,793	10,023	9,235	218,482
2005						
Sales						
Unaffiliated customers	¥2,860,359	¥ 899,000	¥733,866	¥269,534	¥ —	¥4,762,759
Intersegment	74,059	132,415	60,931	107,693	(375,098)	—
Total sales	2,934,418	1,031,415	794,797	377,227	(375,098)	4,762,759
Operating costs and expenses	2,792,336	1,000,088	762,215	368,181	(320,252)	4,602,568
Operating income (loss)	142,082	31,327	32,582	9,046	(54,846)	160,191
Total assets	1,808,630	338,585	672,146	498,557	322,280	3,640,198
Depreciation	104,324	23,300	69,686	11,029	12,153	220,492
Capital expenditure (including intangible assets)	104,261	21,031	80,367	16,763	9,502	231,924
2006						
Sales						
Unaffiliated customers	**¥2,903,651**	**¥ 926,417**	**¥655,139**	**¥306,209**	**¥ —**	**¥4,791,416**
Intersegment	**80,291**	**133,506**	**52,398**	**141,147**	**(407,342)**	**—**
Total sales	**2,983,942**	**1,059,923**	**707,537**	**447,356**	**(407,342)**	**4,791,416**
Operating costs and expenses	**2,819,717**	**1,025,461**	**674,237**	**439,647**	**(349,134)**	**4,609,928**
Operating income (loss)	**164,225**	**34,462**	**33,300**	**7,709**	**(58,208)**	**181,488**
Total assets	**1,811,796**	**335,548**	**670,832**	**471,283**	**517,672**	**3,807,131**
Depreciation	**113,525**	**21,539**	**68,124**	**12,141**	**11,675**	**227,004**
Capital expenditure (including intangible assets)	**154,935**	**23,482**	**120,234**	**15,066**	**12,123**	**325,840**

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						U.S. Dollars (thousands)
2006 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$24,607,212**	**$7,850,991**	**$5,552,025**	**$2,594,992**	**$ —**	**$40,605,220**
Intersegment	**680,432**	**1,131,407**	**444,051**	**1,196,161**	**(3,452,051)**	**—**
Total sales	**25,287,644**	**8,982,398**	**5,996,076**	**3,791,153**	**(3,452,051)**	**40,605,220**
Operating costs and expenses	**23,895,907**	**8,690,347**	**5,713,873**	**3,725,822**	**(2,958,763)**	**39,067,186**
Operating income (loss)	**1,391,737**	**292,051**	**282,203**	**65,331**	**(493,288)**	**1,538,034**
Total assets	**15,354,203**	**2,843,627**	**5,685,017**	**3,993,924**	**4,387,051**	**32,263,822**
Depreciation	**962,076**	**182,534**	**577,322**	**102,890**	**98,941**	**1,923,763**
Capital expenditure (including intangible assets)	**1,313,009**	**199,000**	**1,018,932**	**127,678**	**102,737**	**2,761,356**

1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. Changes in business segments
   The Group has been integrating its sales and system engineering groups and pursuing other organizational reforms to make its structure more efficient, since the year ended March 31, 2005.
   In light of the development of these ongoing organizational reforms, the Group has reclassified its business segments as: Technology Solutions, Ubiquitous Product Solutions, Device Solutions, and Other Operations, in consideration of the similarities in particular product and service offerings and sales methods, from the year ended March 31, 2006.
   Segment information prior to and for the year ended March 31, 2005 has been restated.
3. The principal products and services of business segments are as follows:
   (1) Technology Solutions .... Servers (mainframes, UNIX servers, mission-critical IA servers, PC servers), storage system, software (OS, middleware), network control system, optical transmission systems, mobile base station, consulting, system integration services (system construction), outsourcing services (one-stop information system operational management), network services (network environments and networking-related services for information systems), system support (information system and network maintenance and monitoring services), information system installation, network construction, custom terminal installation (ATMs, POS systems)
   (2) Ubiquitous Product Solutions ... Personal computers, mobile phones, HDD (compact magnetic drives), magneto-optical drives, optical modules
   (3) Device Solutions .... LSI (logic LSI devices, flash memory), electronic components (semiconductor packages, SAW devices), mechanical components (relays, connectors, etc)
   (4) Other Operations .... Audio/navigation equipment, automotive electronic devices
4. Unallocated operating costs and expenses included in “Elimination & Corporate” for the years ended March 31, 2004, 2005 and 2006 were ¥61,032 million, ¥58,324 million and ¥56,150 million ($475,847 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
5. Corporate assets included in “Elimination & Corporate” at March 31, 2004, 2005 and 2006 amounted to ¥955,034 million, ¥927,300 million and ¥932,190 million ($7,899,915 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.
6. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, sales to unaffiliated customers and operating income for “Technology Solutions” increased by ¥5,367 million ($45,483 thousand) and ¥7,785 million ($65,975 thousand), respectively, and operating income for “Ubiquitous Product Solutions” decreased by ¥2,977 million ($25,229 thousand).

Geographic Segment Information

Years ended March 31	Japan	Europe	The Americas	Others	Elimination & Corporate	Consolidated
						Yen (millions)
2004						
Sales						
Unaffiliated customers	¥3,605,665	¥544,593	¥254,488	¥362,142	¥ —	¥4,766,888
Intersegment	465,811	18,768	20,210	217,037	(721,826)	—
Total sales	4,071,476	563,361	274,698	579,179	(721,826)	4,766,888
Operating costs and expenses	3,867,743	556,675	287,859	565,675	(661,406)	4,616,546
Operating income (loss)	203,733	6,686	(13,161)	13,504	(60,420)	150,342
Total assets	2,411,533	347,871	226,122	206,993	673,070	3,865,589
2005						
Sales						
Unaffiliated customers	¥3,560,925	¥585,138	¥281,959	¥334,737	¥ —	¥4,762,759
Intersegment	463,593	11,764	16,959	268,154	(760,470)	—
Total sales	4,024,518	596,902	298,918	602,891	(760,470)	4,762,759
Operating costs and expenses	3,836,679	585,199	294,565	590,749	(704,624)	4,602,568
Operating income (loss)	187,839	11,703	4,353	12,142	(55,846)	160,191
Total assets	2,178,392	357,883	177,941	215,058	710,924	3,640,198
2006						
Sales						
Unaffiliated customers	**¥3,430,442**	**¥623,344**	**¥344,094**	**¥393,536**	**¥ —**	**¥4,791,416**
Intersegment	**513,959**	**9,198**	**19,382**	**325,314**	**(867,853)**	**—**
Total sales	**3,944,401**	**632,542**	**363,476**	**718,850**	**(867,853)**	**4,791,416**
Operating costs and expenses	**3,758,559**	**609,592**	**349,901**	**703,931**	**(812,055)**	**4,609,928**
Operating income (loss)	**185,842**	**22,950**	**13,575**	**14,919**	**(55,798)**	**181,488**
Total assets	**2,303,223**	**378,108**	**163,144**	**249,534**	**713,122**	**3,807,131**
						U.S. Dollars (thousands)
2006 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$29,071,542**	**$5,282,576**	**$2,916,051**	**$3,335,051**	**$ —**	**$40,605,220**
Intersegment	**4,355,585**	**77,949**	**164,254**	**2,756,898**	**(7,354,686)**	**—**
Total sales	**33,427,127**	**5,360,525**	**3,080,305**	**6,091,949**	**(7,354,686)**	**40,605,220**
Operating costs and expenses	**31,852,195**	**5,166,033**	**2,965,263**	**5,965,517**	**(6,881,822)**	**39,067,186**
Operating income (loss)	**1,574,932**	**194,492**	**115,042**	**126,432**	**(472,864)**	**1,538,034**
Total assets	**19,518,839**	**3,204,305**	**1,382,576**	**2,114,695**	**6,043,407**	**32,263,822**

1. Classification of the geographic segments is determined by geographical location.
2. The principal countries and regions belonging to geographic segments other than Japan are as follows:
   (1) Europe .... U.K., Spain, Germany, Finland, the Netherlands
   (2) The Americas .... U.S.A., Canada
   (3) Others .... China, Thailand, Vietnam, the Philippines, Singapore, Korea, Taiwan, Australia
3. Unallocated operating costs and expenses included in “Elimination & Corporate” for the years ended March 31, 2004, 2005 and 2006 were ¥61,032 million, ¥58,324 million and ¥56,150 million ($475,847 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
4. Corporate assets included in “Elimination & Corporate” at March 31, 2004, 2005 and 2006 amounted to ¥955,034 million, ¥927,300 million and ¥932,190 million ($7,899,915 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.
5. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, sales to unaffiliated customers increased by ¥10,399 million ($88,127 thousand), operating income decreased by ¥1,463 million ($12,398 thousand) in “Japan,” and sales to unaffiliated customers decreased by ¥5,032 million ($42,644 thousand), operating income increased by ¥6,271 million ($53,144 thousand) in “Europe.”

Independent Auditors' Report

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1191
Fax : 03 3503 1277

Independent Auditors' Report

The Board of Directors
FUJITSU LIMITED

We have audited the accompanying consolidated balance sheets of Fujitsu Limited and consolidated subsidiaries (the "Group") as of March 31, 2005 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in yen. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly, in all material respects, the consolidated financial position of the Group at March 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 1 to the consolidated financial statements, the Group changed its accounting policies for provision for product warranties and revenue recognition, and certain consolidated subsidiaries in the United Kingdom adopted International Financial Reporting Standards and another consolidated subsidiary in the United Kingdom adopted a new accounting standard for the retirement benefits for the year ended March 31, 2006. Also, as described in Note 19 to the consolidated financial statements, the Group changed the classification of its business segments for the year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 23, 2006 Ernst & Young ShinNihon

A MEMBER OF ERNST & YOUNG GLOBAL

Principal Subsidiaries and Affiliates

Consolidated Subsidiaries

JAPAN

Listed

Shinko Electric Industries Co., Ltd.
Fujitsu Business Systems Ltd.
Fujitsu Frontech Ltd.
Fujitsu Access Ltd.
Fujitsu Devices Inc.
Fujitsu Component Ltd.
Fujitsu Broad Solution & Consulting Inc.

Unlisted

Fujitsu Laboratories Ltd.
Fujitsu TEN Limited
PFU Limited
Fujitsu Support and Service Inc.
Fujitsu Network Solutions Limited
Fujitsu Media Devices Limited
Fujitsu FIP Corporation
NIFTY Corporation
Fujitsu IT Products Ltd.

*Fujitsu Display Technologies Corporation is no longer classified as a consolidated subsidiary or an equity-method affiliate following the transfer of business in June 2005.

THE AMERICAS

Unlisted

Fujitsu Computer Systems Corporation
Fujitsu Network Communications, Inc.
Fujitsu Consulting Holdings, Inc.

EUROPE

Unlisted

Fujitsu Services Holdings PLC
Fujitsu Telecommunications Europe Ltd.

Equity-method Affiliates

JAPAN

Listed

Fujitsu General Ltd.
FDK Corporation

Unlisted

Fujitsu Leasing Co., Ltd.
Eudyna Devices Inc.

THE AMERICAS

Listed

Spansion Inc.

EUROPE

Unlisted

Fujitsu Siemens Computers (Holding) B.V.

Shareholders' Data

(As of March 31, 2006)

Capital: ¥324,625 million
Common Stock: Authorized: 5,000,000,000 shares
Issued: 2,070,018,213 shares
Number of Shareholders: 228,350

Principal Shareholders	Number of shares held (thousands)	Percentage of total shares outstanding (%)
The Master Trust Bank of Japan, Ltd. (for trust)	188,609	9.11
Japan Trustee Services Bank, Ltd. (for trust)	109,159	5.27
Fuji Electric Holdings Co., Ltd.	94,663	4.57
Fuji Electric Systems Co., Ltd.	64,908	3.14
Asahi Mutual Life Insurance Company	40,299	1.95
Fuji Electric FA Components & Systems Co., Ltd.	36,886	1.78
Mizuho Corporate Bank, Ltd.	32,654	1.58
State Street Bank and Trust Company (Standing proxy, Mizuho Corporate Bank, Ltd. Kabutocho Custody & Proxy Department)	31,314	1.51
Trust & Custody Services Bank, Ltd. (Trust Account B)	27,522	1.33
Fujitsu Limited Employee Shareholding Association	21,698	1.05

Notes:
1. Shares held by The Master Trust Bank of Japan, Ltd. (for trust), Japan Trustee Services Bank, Ltd. (for trust), and Trust & Custody Services Bank, Ltd. (Trust Account B), are for the trust services of these banks.
2. Of the shares held by Fuji Electric Holdings Co., Ltd., Fuji Electric Systems Co., Ltd. and Fuji Electric FA Components & Systems Co., Ltd., 1,962 thousand, 64,487 thousand and 36,506 thousand shares, respectively, are trust assets that were entrusted to Mizuho Trust & Banking Co., Ltd. for retirement benefit trusts, and then re-entrusted to Trust & Custody Services Bank, Ltd. Voting rights for these shares are exercised in accordance with the directions of the respective companies who own the shares. Including the above, the number of Fujitsu shares held by the Fuji Electric Group as retirement benefit trust assets total 138,242 thousand shares (representing 6.68% of total shares outstanding).
3. Of the shares held by Mizuho Corporate Bank, Ltd., 212 thousand shares are trust assets that were entrusted to Mizuho Trust & Banking Co., Ltd. for retirement benefit trusts, and then re-entrusted to Trust & Custody Services Bank, Ltd. Voting rights for these shares are exercised in accordance with the directions of Mizuho Corporate Bank, Ltd.
4. Fujitsu received a large holding report (change in shareholding) dated January 1, 2006 from Barclays Global Investors Japan Trust & Banking, Ltd. containing the following information accurate as of October 31, 2005. Because Fujitsu is currently unable to verify the effective holding of Barclays Global Investors Japan Trust & Banking, the company has not been included in the above list of principal shareholders. The details of the large holding report (change in shareholding) are as follows:
   Significant shareholder (joint shareholding): Barclays Global Investors Japan Trust & Banking, Ltd. and 11 other companies
   Number of shares held: 111,475,042
   Percentage of total shares outstanding: 5.39%
5. Fujitsu received a large holding report (change in shareholding) dated April 14, 2006 from Fidelity Investments Japan Limited containing the following information accurate as of March 31, 2006. Because Fujitsu is currently unable to verify the effective holding of Fidelity Investments Japan, the company has not been included in the above list of principal shareholders. The details of the large holding report (change in shareholding) are as follows:
   Significant shareholder: Fidelity Investments Japan Limited
   Number of shares held: 82,838,000
   Percentage of total shares outstanding: 4.00%

Corporate Headquarters

Shiodome City Center
1-5-2 Higashi-Shimbashi,
Minato-ku, Tokyo 105-7123, Japan
Telephone: +81-3-6252-2220

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan

Stock Exchange Listings

Japan: Tokyo, Osaka, Nagoya
Overseas: Frankfurt, London, Swiss

Independent Auditors

Ernst & Young ShinNihon

Shareholder Information

For further information,
please contact:
Fujitsu Limited
Public & Investor Relations
Telephone: +81-3-6252-2173
Facsimile: +81-3-6252-2783
http://www.fujitsu.com/global/about/ir/

FUJITSU LIMITED

Shiodome City Center, 1-5-2 Higashi-Shimbashi,
Minato-ku, Tokyo 105-7123, JAPAN
Tel. +81-3-6252-2220

www.fujitsu.com

Printed in Japan BA0027-1AP
This report is printed on 100% recycled paper with ink containing less than 15% oil-based solvent.