# Part II. Explanation of Financial Results

## (1) Overview of FY 2008 Full-Year Consolidated Financial Results

### Business Environment

During fiscal 2008 (April 1, 2008 – March 31, 2009), the business environment in which the Fujitsu Group operated was characterized by a deepening worldwide economic recession. As the impact of the financial crisis spread, creating a downward spiral of credit contraction and deteriorating real economic conditions on a global scale, Europe and the United States fell into an economic recession, while even growth in Asia, especially China and India, which had been consistently high, sharply decelerated. In Japan, conditions in the corporate sector, in particular, significantly deteriorated as the sharp decline in exports resulted in a prolongation of the recession, with the economy contracting at a double-digit rate for the two consecutive quarters of the second half of the fiscal year. As the earnings and employment conditions quickly deteriorated, even consumer spending fell.

With respect to IT investment, while trends in the first half of the fiscal year were strong, the spending environment has become more cautious since the start of the second half as a result of the global economic recession, with a steep fall-off in spending on IT hardware and much more selective investments in software. In today's challenging environment, the importance of corporate social responsibility and comprehensive risk management is increasing. IT spending to enhance corporate compliance and security remains solid, as is spending on upfront strategic investments to strengthen competitiveness in global markets.

**FY 2008 Full-Year Financial Results** (Billion Yen)

| | **FY 2008** *4/1/08-3/31/09* | | FY 2007 *4/1/07-3/31/08* | | Change | |
|---|---|---|---|---|---|---|
| | | % of Sales | | % of Sales | | Change (%) |
| Net Sales | 4,692.9 | 100.0 | 5,330.8 | 100.0 | -637.8 | -12.0 |
| Cost of Sales | 3,491.5 | 74.4 | 3,959.5 | 74.3 | -468.0 | -11.8 |
| Gross Profit | 1,201.4 | 25.6 | 1,371.3 | 25.7 | -169.8 | -12.4 |
| Selling, General and Administrative Expenses | 1,132.7 | 24.1 | 1,166.3 | 21.9 | -33.6 | -2.9 |
| Operating Income | 68.7 | 1.5 | 204.9 | 3.8 | -136.2 | -66.5 |
| Other Income | 35.0 | 0.7 | 63.6 | 1.2 | -28.6 | - |
| Other Expenses | 217.1 | 4.6 | 159.2 | 3.0 | 57.9 | - |
| Income Before Taxes | -113.3 | -2.4 | 109.4 | 2.1 | -222.7 | - |
| Net Income | -112.3 | -2.4 | 48.1 | 0.9 | -160.4 | - |

**FY 2008 Quarterly Breakdown of Operating Income** (Billion Yen)

| | | 1Q | 2Q | 3Q | 4Q | Full-Year |
|---|---|---|---|---|---|---|
| Consolidated | FY 2008 | 5.8 | 32.7 | -25.1 | 55.4 | 68.7 |
| | Change from FY 2007 | 2.8 | -8.2 | -71.8 | -58.9 | -136.2 |

**Operating Income by Business Segment**

| | | | | | | |
|---|---|---|---|---|---|---|
| Technology Solutions | FY 2008 | 8.2 | 49.1 | 20.2 | 111.1 | 188.7 |
| | Change from FY 2007 | 4.3 | 14.3 | -14.0 | 3.9 | 8.5 |
| Ubiquitous Product Solutions | FY 2008 | 9.9 | -1.0 | -11.5 | 3.1 | 0.5 |
| | Change from FY 2007 | -2.4 | -10.5 | -25.0 | -14.0 | -52.0 |
| Device Solutions | FY 2008 | -4.7 | -2.5 | -21.1 | -43.4 | -71.9 |
| | Change from FY 2007 | -1.1 | -12.2 | -30.5 | -46.1 | -90.2 |

**Consolidated Results by Business Segment** (Billion Yen)

| | | **Full-Year FY 2008** *4/1/08-3/31/09* | Full-Year FY 2007 *4/1/07-3/31/08* | Change | % | Adjusted change % |
|---|---|---|---|---|---|---|
| Technology Solutions | Net Sales | 3,077.0 | 3,272.2 | -195.1 | -6.0 | 1 |
| | Operating Income | 188.7 | 180.1 | 8.5 | 4.7 | |
| | [Operating Income Margin] | [6.1%] | [5.5%] | [0.6%] | | |
| Ubiquitous Product Solutions | Net Sales | 949.1 | 1,188.9 | -239.8 | -20.2 | -17 |
| | Operating Income | 0.5 | 52.5 | -52.0 | -98.9 | |
| | [Operating Income Margin] | [0.1%] | [4.4%] | [-4.3%] | | |
| Device Solutions | Net Sales | 587.6 | 796.7 | -209.0 | -26.2 | -23 |
| | Operating Income | -71.9 | 18.2 | - 90.2 | - | |
| | [Operating Income Margin] | [-12.2%] | [2.3%] | [- 14.5%] | | |
| Other Operations | Net Sales | 446.2 | 526.8 | -80.5 | -15.3 | -13 |
| | Operating Income | 4.1 | 14.2 | -10.1 | -71.1 | |
| | [Operating Income Margin] | [0.9%] | [2.7%] | [-1.8%] | | |
| Consolidated Total | Net Sales | 4,692.9 | 5,330.8 | -637.8 | -12.0 | -6 |
| | Japan | 3,193.1 | 3,407.2 | -214.1 | -6.3 | -6 |
| | Overseas | 1,499.8 | 1,923.6 | -423.7 | -22.0 | -6 |
| | Operating Income | 68.7 | 204.9 | -136.2 | -66.5 | |
| | [Operating Income Margin] | [1.5%] | [3.8%] | [-2.3%] | | |

**Consolidated Results by Geographic Segment** (Billion Yen)

| | | **Full-Year FY 2008** *4/1/08-3/31/09* | Full-Year FY 2007 *4/1/07-3/31/08* | Change | % | % excluding currency impact |
|---|---|---|---|---|---|---|
| Japan | Net Sales | 3,789.9 | 4,229.7 | -439.7 | -10.4 | -10 |
| | Operating Income | 106.4 | 240.9 | -134.4 | -55.8 | |
| | [Op. Income Margin] | [2.8%] | [5.7%] | [-2.9%] | | |
| Overseas | Net Sales | 1,634.1 | 2,095.0 | -460.9 | -22.0 | -9 |
| | Operating Income | 17.2 | 24.8 | -7.5 | -30.6 | |
| | [Op. Income Margin] | [1.1%] | [1.2%] | [- 0.1%] | | |

**Notes:**

1. Net sales include intersegment sales.
2. Adjusted change excludes the impact of currency exchange fluctuation by using the US dollar, euro, British pound, Australian dollar and Korean won foreign exchange rates for fiscal 2007 to translate the fiscal 2008 sales outside Japan into yen.
3. The main products and services of each segment are listed below.

(1)Technology Solutions: Primarily systems integration services, consulting, front-end technology (ATMs, POS systems, etc.), outsourcing services, network services, system support services, security solutions, servers, storage systems, software, network control systems, optical transmission systems, and mobile phone base stations

(2)Ubiquitous Product Solutions: Personal computers, mobile phones, hard disk drives, and optical modules

(3) Device Solutions: LSI devices, electronic components, relays and connectors, etc.

(4) Other Operations: Audio and navigation equipment, electronic equipment for automobile control and printed circuit boards

**Major Items in Other Expenses** (Billion Yen)

| | FY2008 (April 1, 2008 – March 31, 2009) | Forecast as of February 2009 |
|---|---|---|
| **Business Restructuring Expenses** | 54.1 | 9.1 |
| Related to HDD business transfer | 37.0 | 2.0 |
| Related to LSI manufacturing facility reorganization (standard technology logic lines) | 11.3 | 1.3 |
| Related to business outside Japan/components business, etc. | 5.8 | 5.8 |
| **Impairment Losses** | 58.9 | 56.8 |
| Related to LSI business, Mie Plant 300mm Fab No. 2 | 49.9 | 49.9 |
| Related to optical transmission system, components business, etc. | 8.9 | 6.8 |
| **Investment Securities Revaluation Losses** | 18.7 | 12.3 |

**For Reference: Major Financial Indices**

(Billion Yen, except for ratio and period items)

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|
| Net Sales | 4,762.7 | 4,791.4 | 5,100.1 | 5,330.8 | 4,692.9 |
| Sales Outside of Japan | 1,422.0 | 1,591.5 | 1,825.2 | 1,923.6 | 1,499.8 |
| [Ratio of Sales Outside of Japan to Total Sales] | [29.9%] | [33.2%] | [35.8%] | [36.1%] | [32.0%] |
| Operating Income Margin | 3.4% | 3.8% | 3.6% | 3.8% | 1.5% |
| Inventories | 478.5 | 408.7 | 412.3 | 383.1 | 306.4 |
| [Inventory Turnover Ratio] | [9.53] | [10.80] | [12.42] | [13.40] | [13.61] |
| [Monthly Inventory Turnover] | [0.71 times] | [0.88 times] | [0.93 times] | [1.03 times] | [0.98 times] |
| Total Assets | 3,640.1 | 3,807.1 | 3,943.7 | 3,821.9 | 3,221.9 |
| [Total Assets Turnover Ratio] | [1.27] | [1.29] | [1.32] | [1.37] | [1.33] |
| Shareholders' Equity | 813.4 | 780.6 | 875.0 | 911.6 | 782.9 |
| [Shareholders' Equity Ratio] | [22.3%] | [20.5%] | [22.2%] | [23.9%] | [24.3%] |
| Owners' Equity | 856.9 | 917.0 | 969.5 | 948.2 | 748.9 |
| [Owners' Equity Ratio] | [23.5%] | [24.1%] | [24.6%] | [24.8%] | [23.3%] |
| Market Value-based Shareholders' Equity Ratio | 36.6% | 53.9% | 41.2% | 35.3% | 23.4% |
| Interest-Bearing Loans | 1,082.7 | 928.6 | 745.8 | 887.3 | 883.4 |
| Net Interest-Bearing Loans | 628.2 | 507.7 | 297.1 | 339.4 | 355.3 |
| D/E Ratio | 1.26 | 1.01 | 0.77 | 0.94 | 1.18 |
| Net D/E Ratio | 0.73 | 0.55 | 0.31 | 0.36 | 0.47 |
| Cash Flows From Operating Activities | 277.2 | 405.5 | 408.7 | 322.0 | 248.0 |
| Free Cash Flow | 262.1 | 170.8 | 257.6 | 38.1 | 23.4 |
| Loans / Cash Flows from Operating Activities | 3.9 years | 2.3 years | 1.8 years | 2.8 years | 3.6 years |
| Interest Coverage Ratio | 15.2 | 21.3 | 22.2 | 15.1 | 14.2 |

*Note:*

| | |
|---|---|
| *Inventory Turnover Ratio:* | *Net Sales ÷ {(Beginning Balance of Inventories + Ending Balance of Inventories) ÷ 2}* |
| *Monthly Inventory Turnover:* | *Net Sales ÷ Average Inventories during Period* ÷ 12* |
| *Total Assets Turnover Ratio:* | *Net Sales ÷ {(Beginning Balance of Total Assets + Ending Balance of Total Assets) ÷ 2}* |
| *Shareholders' Equity Ratio:* | *Shareholders' Equity ÷ Total Assets* |
| *Owners' Equity Ratio:* | *(Net Assets – Share Warrants - Minority Interests) ÷ Total Assets* |
| *Market Value-based Shareholders' Equity Ratio:* | *Market Capitalization ÷ Total Assets* |
| *Net Interest-Bearing Loans:* | *Interest-Bearing Loans – Cash Equivalents* |
| *D/E Ratio:* | *Interest-Bearing Loans ÷ Owners' Equity* |
| *Net D/E Ratio:* | *(Interest-bearing Loans - Cash Equivalents) ÷ Owners' Equity* |

| | |
|---|---|
| *Loans / Cash Flows from Operating Activities:* | *Interest-Bearing Loans ÷ Cash Flows from Operating Activities* |
| *Interest Coverage Ratio:* | *Cash Flows from Operating Activities ÷ Interest Expense* |

*Average inventories during period are calculated as the average of the ending balance of inventories for each of the four quarters of fiscal 2008.

## Issues and Initiatives in FY 2008

Fiscal 2008 marked the second year of the Fujitsu Group's medium-term management plan, in which we have set the goals of achieving, by fiscal 2009, a consolidated operating income margin of more than 5% overall and more than 7% in the Technology Solutions segment, as well as having sales outside of Japan account for more than 40% of overall sales. Under our new president, in order to enhance our customer-centric management approach, we are focused on achieving transformations in three areas in order to strengthen our organization: customer-centric management, by focusing on our customer's customers; global expansion, by "thinking global and acting local;" and sustainability, by helping customers reduce their environmental footprint.

Fujitsu initially planned to achieve higher profitability in fiscal 2008 even if sales were essentially no higher than in fiscal 2007. Overall, we projected net sales of 5,350 billion yen (an increase of 0.4% over fiscal 2007, with sales outside Japan contributing 35% of the total) and operating income of 220 billion yen (an increase of about 15 billion yen over fiscal 2007), factoring in the negative impact of a stronger yen (which we projected would reduce net sales by approximately 200 billion yen and operating income by approximately 20 billion yen) as well as the impact of higher retirement benefit expenses (approximately 20 billion yen impact over fiscal 2007). We assumed that 210 billion yen in operating income would come from our Technology Solutions segment (an increase of 29.8 billion yen over fiscal 2007, with an operating income margin of 6.4%).

Our actual performance fell short of these initial projections. Net sales in fiscal 2008 were 4,692.9 billion yen (down 12% from the prior year, with a negative impact of approximately 300 billion yen from currency movements, and sales outside Japan contributing 32% of total sales) and operating income was 68.7 billion yen (down 136.2 billion yen from the prior year). In addition, factors that we could not have predicted when we made our medium-term plan, such as the deterioration in the market environment, exchange rate movements, and business restructuring initiatives, will make it difficult for us to achieve our medium-term goals in fiscal 2009, but we will strive to achieve them as quickly as possible.

Starting from the third quarter, however, as a result of the sharp deterioration in market conditions and the appreciation of the yen, our PC, HDD, LSI, and electronic component businesses all experienced a severe decline in sales. Operating income in our Ubiquitous Product Solutions and Device Solutions segments combined was 141.3 billion yen lower than our initial projection, increasing the need to quickly implement restructuring initiatives to strengthen the corporation. In April 2009 we finalized agreements with Toshiba Corporation and Showa Denko KK on the transfer of our HDD business and finalized these agreements in April (transfer scheduled for July 2009). In addition, in our LSI business, which was reorganized into a subsidiary in fiscal 2007, in January, as part of the reforms, we decided to implement a phased consolidation of our standard logic device production lines and reassign affected employees to other businesses within the Fujitsu Group. We have also entered into a preliminary agreement to outsource the production of advanced 40nm generation devices to outside foundries. Because of the delay in the LSI market recovery and because our facilities utilization plans have changed, we have posted impairment losses on buildings and equipment at the Mie Plant's 300mm wafer Fab No. 2. We have also transferred our capacitor business as well as our shares in Eudyna Devices Inc. to third parties and reorganized our optical module business into a subsidiary. Because of losses sustained as a result of deteriorating business performance and restructuring initiatives, equity-method affiliate FDK Corporation's liabilities exceeded its assets at the end of fiscal 2008, so Fujitsu will subscribe to an 11-billion-yen private placement in May, converting FDK into a consolidated subsidiary to ensure the company successfully implements structural reforms.

Operating income in the Technology Solutions segment was 188.7 billion yen, an 8.5 billion yen increase over the prior year. We fell short of our initial projections by 21.3 billion yen and achieved an operating income margin of 6.1%, which was 0.3 percentage points below our target. The failure to meet our targets was due to weak demand outside Japan for servers and optical transmission systems resulting from the economic recession as well as the impact of weaker currencies in Europe. To strengthen our business outside Japan, we consolidated authority over four regions, which had been run separately, under one corporate executive officer and established a global steering committee to facilitate quick decision-making and a unified strategy. In October 2008 we integrated three solutions subsidiaries in the North America under one company, and in April 2009 we acquired all of Siemens's shares in Fujitsu Siemens Computers, our joint venture that had been an equity-method affiliate, converting it to a consolidated subsidiary and changing its name to Fujitsu Technology Solutions. The Group has set a new target of selling 500,000 units of IA servers in fiscal 2010. To achieve this target, we will reform our development and production activities from a global perspective and strengthen our sales channels. For our UK optical transmission business, we have transferred manufacturing to North America, dedicating the UK operation to sales and services. In Australia, we reached an agreement to acquire IT services company KAZ Group. In fiscal 2009, we expect 38% of sales to come from outside Japan.

The monthly inventory turnover ratio in fiscal 2008 was 0.98 times, a deterioration of 0.05 times compared to the prior fiscal year, stemming from the decline in sales as a result of the sharp reduction in demand and the higher yen. We are aiming to generate further efficiencies to achieve the medium-term goal of an inventory turnover rate of 2.0 times.

As a result of the business restructuring charges and impairment losses recorded in fiscal 2008, Fujitsu posted a net loss of 112.3 billion yen, resulting in a shareholders' equity ratio of 24.3%, 0.4 percentage points below the prior fiscal year's level. Free cash flow stood at 23.4 billion yen. To prepare for a corporate bond redemption in the first quarter of fiscal 2009 and raise a portion of the funds required for acquisitions, interest-bearing debt was 883.4 billion yen and the debt/equity ratio exceeded 1.0, increasing to 1.18, and net interest-bearing debt minus cash and cash equivalents was 355.3 billion yen and the net debt/equity ratio was 0.47.