4. Financial Condition

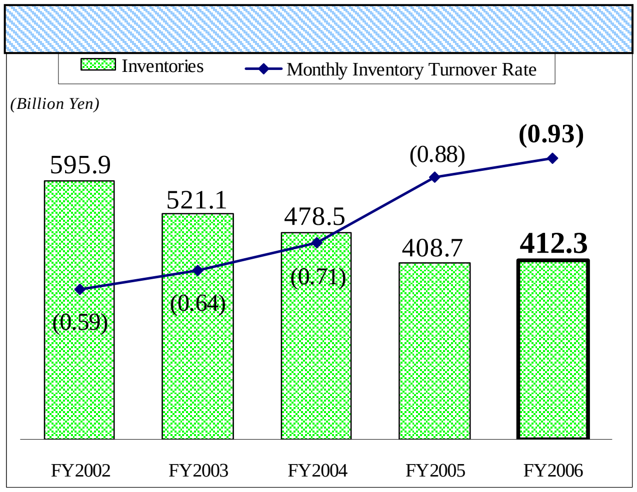
Assets, Liabilities and Net Assets

(Billion Yen, except for D/E Ratio)

	FY 2006	Change from FY 2005
Total Assets [Inventories]	3,943.7 [412.3]	136.5 [3.6]
Interest-Bearing Loans [Net Interest-Bearing Loans]	745.8 [300.8]	- 182.7 [- 206.4]
Net Assets [Shareholders' Equity]	1,160.7 [875.0]	70.6 [94.3]

D/E Ratio [Net D/E Ratio]	0.77 [-0.31]	- 0.24 [- 0.24]

Total assets at the end of fiscal 2006 were 3,943.7 billion yen, an increase of 136.5 billion yen from the end of the previous fiscal year. This was due in large part to the increase in current assets, primarily trade receivables, resulting from increased sales. Although inventories totaled 412.3 billion yen, exceeding our target of reducing them to below 400 billion yen, the monthly inventory turnover rate rose to 0.93 times, an improvement of 0.05 times, as asset utilization efficiency continued to steadily improve. Although property, plant and equipment increased as a result of the investment in capacity expansion at the Mie Plant, there was a large decrease in marketable securities held for investment resulting from the sales of shares in Fanuc Ltd. and other companies.



Total liabilities were 2,783.0 billion yen, an increase of 65.9 billion yen compared to the end of the previous fiscal year. However, excluding the impact of the last day of the fiscal year being a business holiday, there was a decrease of 61.9 billion yen. Interest-bearing loans totaled 754.8 billion yen, a decrease of 182.7 billion yen compared to the end of the previous fiscal year. Subtracting cash and cash equivalents, net interest-bearing loans were 300.8 billion yen. As a result of bond redemptions and loan repayments, the debt equity ratio improved to 0.77 times, well within the target level of 1.0.

Net assets were 1,160.7 billion yen, up 70.6 billion yen compared to the end of the previous fiscal year. Consolidated retained earnings, which had been negative each year since fiscal 2002, achieved a positive balance. As a result, the shareholders' equity ratio rose to 22.2%, an increase of 1.7 percentage points compared to the end of the previous fiscal year.

Summary of Cash Flows

(Billion Yen)

	FY 2006	Change from FY 2005	*One-time benefit due to non-trading days*
Cash flows from operating activities	408.7	3.1	*Approx. 75.0*
Cash flows from investing activities	-151.0	83.6	*Approx. 35.0*
Free cash flow	257.6	86.7	*Approx. 110.0*
[From business operations]	[152.8]	[-18.0]	
Cash flows from financing activities	- 234.9	- 27.1	

Net cash flow provided by operating activities was 408.7 billion yen. However, as the last day of the fiscal year was a business holiday, this number includes 75 billion yen in trade payables, the payment of which slipped into the following fiscal year. Although there was an increase in trade receivables, this was offset by the increase in earnings from businesses operations, in addition to the impact of the last day of the fiscal year being a holiday, leaving overall net cash flow from operating activities roughly equivalent to the level of the prior fiscal year.

Net cash used in investing activities was 151.0 billion yen. Although outflows increased due to capital expenditures primarily for the increase in production capacity at the Mie Plant, as a result of the impact of the sales of shares in Fanuc Ltd., NIFTY Corporation and Spansion Inc., together with an impact of approximately 35.0 billion yen attributable to the last day of the fiscal year being a holiday, there was overall a decrease in cash outflows of 83.6 billion compared with the previous fiscal year.

Free cash flow, the sum of operating and investment cash flows, was positive 257.6 billion yen, an increase in free cash flow of 86.7 billion yen over fiscal 2005. Excluding the impact of sales of marketable securities, this represents an increase in free cash flow of 152.8 billion yen, falling short of the target of 170 billion yen.

Net cash used in financing activities was 234.9 billion yen.

As a result of the above factors, cash and cash equivalents at the end of the fiscal year totaled 448.7 billion yen, an increase of 27.8 billion yen compared to end of the previous fiscal year.

For Reference: Major Financial Indices

(Billion Yen, except for ratio and period items)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Net Sales	4,617.5	4,766.8	4,762.7	4,791.4	5,100.1
Operating Income Margin	2.2%	3.2%	3.4%	3.8%	3.6%
Inventories (Inventory Turnover Rate) (Monthly Inventory Turnover)	595.9 (7.50) (0.59 times)	521.1 (8.53) (0.64 times)	478.5 (9.53) (0.71 times)	408.7 (10.80) (0.88 times)	412.3 (12.42) (0.93 times)
Total Assets (Total Assets Turnover Ratio)	4,225.3 (1.05)	3,865.5 (1.18)	3,640.1 (1.27)	3,807.1 (1.29)	3,943.7 (1.32)
Shareholders' Equity (Shareholders' Equity Ratio)	782.8 (18.5%)	743.9 (19.2%)	813.4 (22.3%)	780.6 (20.5%)	875.0 (22.2%)
Net Assets (Owners' Equity Ratio)	702.3 (16.6%)	827.1 (21.4%)	856.9 (23.5%)	917.0 (24.1%)	969.5 (24.6%)
Market Value-based Shareholders' Equity Ratio	15.2%	34.4%	36.6%	53.9%	41.2%

Interest-Bearing Loans	1,763.7	1,277.1	1,082.7	928.6	745.8
Net Interest-Bearing Loans	1,500.5	861.2	628.0	507.2	300.8
D/E Ratio	2.51	1.54	1.26	1.01	0.77
Net D/E Ratio	2.14	1.04	0.73	0.55	0.31

Cash Flows From Operating Activities	117.7	304.0	277.2	405.5	408.7
Free Cash Flow	53.3	371.4	262.1	170.8	257.6

Loans / Cash Flows from Operating Activities	15.0 years	4.2 years	3.9 years	2.3 years	1.8 years
Interest Coverage Ratio	3.9	13.0	15.2	21.3	22.2

Note:

Inventory Turnover Rate:	*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 – Minority Interests) ÷ Total Assets*
Market Value-based Primary Capital Ratio:	*Market Capitalization ÷ Total Assets*
Net Interest-Bearing Loans:	*Interest-Bearing Loans – Cash Equivalents*
D/E Ratio:	*Interest-Bearing Loans ÷(Net Assets – Minority Interests)*
Net D/E Ratio:	*(Interest-Bearing Loans – Cash Equivalents) ÷ (Net Assets – Minority Interests)*
Loans / Cash Flows from Operating Activities	*Interest-Bearing Loans ÷ Cash Flows from Operating Activities*
Interest Coverage Ratio:	*Cash Flows from Operating Activities ÷ Interest Expense*

Principal Changes in Basis of Presenting Consolidated Financial Statements

1) Change resulting from revisions in accounting standards

1. Accounting Standard for Directors' Bonuses

Beginning with fiscal 2006 we are applying the "Accounting Standard for Directors' Bonuses" (Financial Accounting Standard No. 4, November 29, 2005). The application of this standard had an insignificant impact on operating income and income before income taxes and minority interests. The impact of this change on segment information is also insignificant.

2. Accounting Standard for Presentation of Net Assets in the Balance Sheet

Beginning with fiscal 2006 we are applying the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Financial Accounting Standard No. 5, December 9, 2005) and the "Implementation Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Financial Accounting Standard Implementation Guidance No. 8, December 9, 2005).

The total amount of shareholders' equity would be 969,396 million yen if the above accounting standard and accounting standard implementation guidance had not been applied.

2) Changes in the allocation of operating expenses

Beginning with fiscal 2006 we have changed the method of allocating operating expenses. Details are shown on page 28.

Notes to Consolidated Financial Statements

1) Lease Transactions
   1. Finance Lease Transactions (Lessee)
      a) Lease Transaction Treatment Method
         Treated as a purchase and sales transaction.
      b) Content of Lease Transactions
         Primarily leases of logic LSI production equipment and equipment used in outsourcing services.
      c) Depreciation Method
         Calculated primarily by the declining balance method, based on useful life estimated by categorization, structure or function of applicable assets.

   2. Operating Lease Transactions (Lessee)
      Omitted due to lack of importance.

2) Marketable Securities

Market Value of Marketable Securities

(Billion Yen)

TYPE	FY 2006 (End of March 2007)			FY 2005 (End of March 2006)		
	Acquisition Price	Market Value (recorded on balance sheet)	Difference	Acquisition Price	Market Value (recorded on balance sheet)	Difference
Other Marketable Securities						
Shareholdings	82.1	290.0	207.9	53.9	357.5	303.6
Bonds and Other	8.3	8.6	0.2	11.3	11.4	0.0
Total	90.4	298.6	208.2	65.3	369.0	303.7

Notes to Consolidated Financial Statements continue on next page.

3) Consolidated Tax Effect Accounting

Significant Components of Deferred Tax Assets and Liabilities

		Yen (billions)	
		March 31 2007	March 31 2006
Deferred tax assets:			
Tax loss carryforwards	**Y**	**204.7**	231.7
Accrued retirement benefits		**155.0**	169.9
Accrued bonus		**41.9**	40.2
Provision for loss on repurchase of computers		**12.7**	14.1
Other		**80.2**	72.6
Gross deferred tax assets		**494.8**	528.7
Valuation allowance		**(253.1)**	(243.4)
Total deferred tax assets		**241.7**	285.3
Deferred tax liabilities:			
Gains from establishment of stock holding trust for retirement benefit plan		**(110.6)**	(110.6)
Unrealized gains on securities		**(84.6)**	(123.2)
Other		**(7.5)**	(9.1)
Total deferred tax liabilities		**(202.7)**	(242.9)
Net deferred tax assets		**38.9**	42.3

4) Retirement Benefit Plan

a. Japan

(1) Itemization of Projected Benefit Obligation, etc.

	Yen (billions) March 31 2006 (Actual)	Yen (billions) **March 31 2007 (Estimate)**	Change (Estimate)
i. Projected benefit obligation	(1,105.0)	**(1,054.0)**	-50.9
ii. Plan assets	1,125.0	**1,122.7**	+2.2
iii. Projected benefit obligation in excess of plan assets …(i)+(ii)	20.0	**68.6**	-48.6
iv. Unrecognized net obligation at transition	50.0	**65.2**	-15.2
v. Unrecognized actuarial loss	105.0	**47.5**	+57.4
vi. Unrecognized prior service cost (reduced obligation)*	(160.0)	**(176.7)**	+16.7
vii. Prepaid pension cost	(90.0)	**(89.8)**	-0.1
viii. Accrued severance benefit …(iii)+(iv)+(v)+(vi)+(vii)	(75.0)	**(85.0)**	+10.0

(2) Basis for Tabulating Projected Benefit Obligation

i. Discount rate	2.5% (at March 31, 2006) 2.5% (at March 31, 2007)
ii. Amortization period for net obligation at transition	Straight-line method over 10 years (one-time amortization for parent company)
iii. Method of allocating actuarial loss	Straight-line method over employees' average remaining employment period starting from next period
iv. Method of allocating prior service cost	Straight-line method over 10 years

b. Overseas

(1) Itemization of Projected Benefit Obligation, etc.

	Yen (billions) March 31 2006 (Actual)	Yen (billions) **March 31 2007 (Estimate)**	Change (Estimate)
i. Projected benefit obligation	(680.0)	**(597.2)**	-82.7
ii. Plan assets	545.0	**448.6**	+96.3
iii. Projected benefit obligation in excess of plan assets …(i)+(ii)	(135.0)	**(148.6)**	+136.0
iv. Unrecognized actuarial loss**	15.0	**31.9**	-16.9
v. Accrued severance benefit …(iii)+(iv)	(120.0)	**(116.6)**	-3.3

(2) Basis for Tabulating Projected Benefit Obligation

i. Discount rate	Mainly 5.1% (at March 31, 2006) Mainly 5.5% (at March 31, 2007)
ii. Method of allocating actuarial loss	Straight-line method over employees' average remaining employment period starting from next period

Notes:

* With respect to the Fujitsu Welfare Pension Plan in which Fujitsu and its consolidated domestic subsidiaries participate, due to a partial revision of the company’s pension system in September 2005, prior service costs (reduction of obligation) have arisen.

** The major defined benefit plan outside Japan is the plan that Fujitsu Services Holdings PLC (FS) provides. FS has adopted the International Financial Reporting Standards, and accounted for retirement benefits in accordance with IAS 19"Employee Benefits." FS applied the "corridor" approach to amortization of acturial gain and loss.

5) Consolidated Per Share Data

		Yen	
		FY 2006 (4/1/06-3/31/07)	FY 2005 (4/1/05-3/31/06)
Earnings per share	**Y**	**49.54**	32.83
Diluted earnings per share		**44.95**	29.54
Owners' equity per share	**Y**	**469.02**	443.20

[Basis for calculation]

(1) Earnings Per Share and Diluted Earnings Per Share

		Yen (millions)	
		FY 2006 (4/1/06-3/31/07)	FY 2005 (4/1/05-3/31/06)
Earnings per share			
Net income (loss)	**Y**	**102,415**	68,545
Deduction from net income		**-**	658
[Bonuses to directors and statutory auditors from retained earnings (deficit)]		**[-]**	[658]
Net income for common share		**102,415**	67,887
Average number of shares outstanding (thousand shares)		**2,067,369**	2,067,787
Diluted earnings per share			
Adjustment for net income		**(131)**	(648)
[Adjustment related to dilutive securities issued by subsidiaries and affiliates]	**Y**	**[(133)]**	[(649)]
Increase in number of common shares (thousand shares)		**208,159**	208,159
[Share warrants (thousand shares)]		**[208,159]**	[208,159]

(2) Book Value Per Share

		Yen (millions)	
		March 31 2007	March 31 2006
Net assets	**Y**	**1,160,719**	1,090,075
Deduction from net assets		**191,197**	173,688
[Minority interests]		**[191,197]**	[173,030]
Net assets for common shares	**Y**	**969,522**	916,387
Number of common shares issued (thousand shares)		**2,070,018**	2,070,018
Treasury stock (thousand shares)		**2,913**	2,380
Number of shares used to calculate Owners' equity per share (thousand shares)		**2,067,104**	2,067,637