

## Part II. Explanation of Financial Results

### 1. Overview of FY 2007 Consolidated Financial Results

#### Business Environment

During fiscal 2007 ended March 31, 2008, the business environment in which the Fujitsu Group operated was characterized by a continuation of firm economic trends. Despite the slowdown in the US economy, caused by rising raw material and energy prices, instability in the financial markets stemming from the sub-prime mortgage crisis and other factors, along with growing uncertainty regarding the European economy, strong growth in Asia—particularly China and India—bolstered the global economy. In Japan, too, despite signs of economic weakness resulting from sharp currency swings in the second half of the fiscal year, soaring prices for raw materials, sluggish consumer demand and lower stock prices, overall trends were solid, led by a continuing moderate recovery in the corporate sector, which is expanding exports to rapidly growing emerging markets.

With respect to IT investment, while there were causes for concern due to the economic slowdown in the US and other factors, corporations continued to post stronger earnings and improve their balance sheets, and they continued to make capital investments aimed at expanding their global operations, raising competitiveness, and enhancing their internal controls and corporate governance systems. On the whole, therefore, IT investment has remained solid.

Fiscal 2007 was the first year of a new medium-term plan for the Fujitsu Group aimed at expanding our growth and profits. Based upon our “Field Innovation” approach, we are broadening our offerings from “IT solutions” to “business solutions” to become more closely involved with our customers’ businesses. In addition, we are pursuing Group-wide structural and organizational reforms to our business and accelerating the globalization of our business. Through the implementation of Field Innovation, the Fujitsu Group will continually strive to innovate in order to contribute to the creation of a networked society that is rewarding and secure, bringing about a prosperous future that fulfills the dreams of people throughout the world.

#### FY 2007 Full-Year Financial Results

	(Billion Yen)			(Billion Yen)	
	<b>Full-Year FY 2007</b>	Full-Year FY 2006	Change	FY 2007 Breakdown	
	<i>4/1/07- 3/31/08</i>	<i>4/1/06- 3/31/07</i>		Impact of change in accounting policies	Excluding impact of change in accounting policies
Net Sales	5,330.8	5,100.1	230.7	-5.7	5,336.6
[% Change vs. Prior Fiscal Year]	[4.5%]	[6.4%]			[4.6%]
Operating Income	204.9	182.0	22.9	-0.5	205.5
(Operating Income Margin)	[3.8%]	[3.6%]	[0.2%]		[3.9%]
Net Income	48.1	102.4	-54.3	-13.1	61.2

## Consolidated Results by Business Segment

(Billion Yen)

		<b>Full-Year FY 2007</b> 4/1/07-3/31/08	Full-Year FY 2006 4/1/06-3/31/07	Change
Technology Solutions	Net Sales	3,272.2	3,157.0	115.2
	Operating Income	180.1	163.6	16.5
	[Operating Income Margin]	[5.5%]	[5.2%]	[0.3%]
Ubiquitous Product Solutions	Net Sales	1,188.9	1,118.3	70.6
	Operating Income	52.5	41.6	10.9
	[Operating Income Margin]	[4.4%]	[3.7%]	[0.7%]
Device Solutions	Net Sales	796.7	762.6	34.0
	Operating Income	18.2	19.0	- 0.7
	[Operating Income Margin]	[2.3%]	[2.5%]	[- 0.2%]
Other Operations	Net Sales	526.8	490.3	36.4
	Operating Income	14.2	10.5	3.7
	[Operating Income Margin]	[2.7%]	[2.2%]	[0.5%]

Total	Net Sales	5,330.8	5,100.1	230.7
	Japan	[63.9%] 3,407.2	[64.2%] 3,274.9	[-0.3%] 132.3
	Overseas	[36.1%] 1,923.6	[35.8%] 1,825.2	[0.3%] 98.3
	Operating Income	204.9	182.0	22.9
	[Operating Income Margin]	[3.8%]	[3.6%]	[0.2%]

Notes: Net sales include intersegment sales.

For Total, the percentages inside brackets reflect proportion of total sales.

## Consolidated Results by Geographic Segment

(Billion Yen)

		<b>Full-Year FY 2007</b> 4/1/07-3/31/08	Full-Year FY 2006 4/1/06-3/31/07	Change
Japan	Net Sales	4,229.7	4,077.1	152.5
	Operating Income	240.9	191.8	49.0
	[Operating Income Margin]	[5.7%]	[4.7%]	[1.0%]
Overseas	Net Sales	2,095.0	1,985.8	109.1
	Operating Income	24.8	44.2	-19.4
	[Operating Income Margin]	[1.2%]	[2.2%]	[- 1.0%]

Note: Net sales include intersegment sales.

## Major Consolidated Financial Indices

(Billion Yen)

	<b>FY 2007</b>	FY 2006	Change
Shareholders' Equity	911.6	875.0	36.6
[Shareholders' Equity Ratio]	[23.9%]	[22.2%]	[1.7%]
Owners' Equity	948.2	969.5	-21.3
[Owners' Equity Ratio]	[24.8%]	[24.6%]	[0.2%]
Interest-Bearing Debt	887.3	745.8	141.5
Net Interest-Bearing Debt	339.4	297.1	42.3
D/E Ratio	0.94	0.77	0.17
Net D/E Ratio	0.36	0.31	0.05
Free Cash Flow	38.1	257.6	-219.5
[From Business Operations]	[147.7]	[148.0]	[-0.3]

<b>For Reference: Major Financial Indices</b>		<b>(Billion Yen, except for ratio and period items)</b>				
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
Net Sales	4,766.8	4,762.7	4,791.4	5,100.1	5,330.8	
(Net sales outside Japan)	(1,388.6)	(1,422.0)	(1,591.5)	(1,825.2)	(1,923.6)	
(Sales portion outside Japan)	(29.1%)	(29.9%)	(33.2%)	(35.8%)	(36.1%)	
Operating Income Margin	3.2%	3.4%	3.8%	3.6%	3.8%	
Inventories	521.1	478.5	408.7	412.3	383.1	
(Inventory Turnover Ratio)	(8.53 times)	(9.53 times)	(10.80 times)	(12.42 times)	(13.40 times)	
(Monthly Inventory Turnover Ratio)	(0.64 times)	(0.71 times)	(0.88 times)	(0.93 times)	(1.03 times)	
Total Assets	3,865.5	3,640.1	3,807.1	3,943.7	3,821.9	
(Total Assets Turnover Ratio)	(1.18 times)	(1.27 times)	(1.29 times)	(1.32 times)	(1.37 times)	
Shareholders' Equity	743.9	813.4	780.6	875.0	911.6	
(Shareholders' Equity Ratio)	(19.2%)	(22.3%)	(20.5%)	(22.2%)	(23.9%)	
Owners' Equity	827.1	856.9	917.0	969.5	948.2	
(Owners' Equity Ratio)	(21.4%)	(23.5%)	(24.1%)	(24.6%)	(24.8%)	
Market Value-based Primary Capital Ratio	34.4%	36.6%	53.9%	41.2%	35.3%	
Interest-Bearing Loans	1,277.1	1,082.7	928.6	745.8	887.3	
Net Interest-Bearing Loans	863.2	628.2	507.7	297.1	339.4	
D/E Ratio	1.54	1.26	1.01	0.77	0.94	
Net D/E Ratio	1.04	0.73	0.55	0.31	0.36	
Cash Flows From Operating Activities	304.0	277.2	405.5	408.7	322.0	
Free Cash Flow	371.4	262.1	170.8	257.6	38.1	
Loans / Cash Flows from Operating Activities	4.2 years	3.9 years	2.3 years	1.8 years	2.8 years	
Interest Coverage Ratio	13.0	15.2	21.3	22.2	15.1	
<b>Note:</b>						
Inventory Turnover Ratio:	Net Sales ÷ {(Beginning Balance of Inventories + Ending Balance of Inventories) ÷ 2}					
Monthly Inventory Turnover Ratio:	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 and 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					
* Previously cash and time deposits were subtracted from the balance of interest-bearing debt, but in accordance with revisions to the “Practical Guidance on Accounting for Financial Products” (Accounting System Committee Report No. 14, Accounting Standards Board of Japan), we have changed the method of calculation. For comparative purposes, figures from prior years are presented using the revised calculation method.						

## Issues and Initiatives in FY 2007

In fiscal 2007, we set a new medium-term plan extending through fiscal 2009 and began to pursue a new set of four key challenges: to strengthen our management, improve our product and service offerings, enhance our frontline operational capabilities, and empower our people. By further reinforcing our strengths through positive structural reforms, and broadening our offerings from “IT solutions” to “business solutions,” we will strive to expand our growth and profits. Our goals for fiscal 2009 are to achieve a consolidated operating income margin of more than 5% overall and more than 7% in the Technology Solutions segment, and have sales outside of Japan account for more than 40% of overall sales. In addition, as a medium-term target, we will strive to achieve a monthly inventory turnover ratio of over 2.0 times.

Net sales in fiscal 2007 increased by 4.5% over the previous year, and we posted operating income of 204.9 billion yen, an increase of 22.9 billion yen over the previous year, exceeding the 190-billion-yen target (\*) we had set at the start of the fiscal year. Operating income margin was 3.8%, an improvement of 0.2 percentage point from the previous year. Continuous price declines, increased goodwill amortization expenses from acquisitions, higher upfront development expenditures and the recognition of an unprofitable project outside Japan were offset by higher sales from newly launched products and manufacturing innovation initiatives to continuously reduce costs and improve efficiency, enabling us to exceed our profit target.

\* Operating income was projected at 200.0 billion in January 2008 (an increase of 10.0 billion yen over the initial projection, taking into consideration a 5.0 billion yen improvement expected from the change in accounting policies as of July 2007 (actual result was -0.5 billion yen) and a 5.0 billion yen improvement expected from improvement in business as of January 2008.)

Consolidated net income was impacted by other expenses, including other expenses from the restructuring of the LSI device operations, revaluation losses on listed equities resulting from the deterioration in the stock market, and inventory valuation losses at the start of the period resulting from the adoption of new accounting policies. On the other hand, other income was recorded because approximately 18.0 billion yen of the valuation allowance was returned on deferred tax assets booked in or before fiscal 2004. This resulted from an increase in the number of companies subject to consolidated corporate taxation, which increased the amount of recoverable allowance.

Operating income in the Technology Solutions segment was 180.1 billion yen, an increase of 16.5 billion yen over the prior year. In the services business in Japan, we began training our first class of “Field Innovators,” responsible for leading our Field Innovation program. We also consolidated consulting functions and systems engineers involved in infrastructure installation into a subsidiary and expanded our data center facilities in the Tokyo metropolitan area to meet rising demand. In the services business outside of Japan, following on an acquisition the previous fiscal year in Germany, we made acquisitions in Scandinavia, New Zealand, Canada and other countries. In the System Platforms sub-segment, while we continued to make upfront development expenditures in new products for next-generation networks in the Network Products area, in System Products we began global sales of the SPARC Enterprise UNIX servers developed in collaboration with Sun Microsystems, Inc.

Operating income in the Ubiquitous Product Solutions segment was 52.5 billion yen, an increase of 10.9 billion yen over the previous year. Amid severe price competition, we will differentiate our products on quality, technology, and functionality, as well as enhance our global operations.

Operating income in Device Solutions was 18.2 billion yen, roughly equal to results from the previous year. In addition to the impact of adopting a new depreciation method that is better suited to our actual business conditions, in the LSI device business, there was a delay in the market recovery for standard logic devices. In addition to converting our listed sales subsidiary into a wholly owned subsidiary, now called Fujitsu Electronics, through a stock swap and consolidating Fujitsu's electronic devices sales division into it to promote closer collaboration between sales and manufacturing divisions, and in March we also converted the LSI device business into a wholly owned subsidiary to promote greater speed in management decision-making. To enhance the LSI device business, at the Mie Plant we started operations at Fab No. 2 of 300mm wafer production using 65nm process technology. The development work and mass production prototyping functions of the Akiruno Technology Center have been transferred to the Mie Plant.

Sales outside of Japan increased by 5.4% to 1,923.6 billion yen, accounting for 36.1% of consolidated sales, an increase of 0.3 percentage points from the previous year.

The monthly inventory turnover ratio was 1.03 times, an improvement of 0.10 from the prior year.

We achieved a significant improvement in our financial position. Our shareholders' equity ratio increased to 23.9%, an improvement of 1.7 percentage points compared to the previous year. Free cash flow was 38.1 billion yen. Excluding the impact of the last day of fiscal 2006 falling on a holiday, there was a substantial free cash flow of 147.7 billion yen. Interest-bearing debt was 887.3 billion yen at fiscal year-end, increasing as a result of the issuance of corporate bonds to cover maturing liabilities, and net interest-bearing debt, calculated by subtracting cash and cash equivalents, was 339.4 billion yen. The D/E ratio declined to 0.94 times, and the net D/E ratio was 0.36 times.

#### **Initiatives to Conform with International Financial Reporting Standards (IFRS)**

The European stock exchanges on which Fujitsu's shares are listed require that companies from outside the European Union present their financial statements in accordance with International Financial Reporting Standards (IFRS) starting from the 2009 fiscal year. The company is making progress in meeting this requirement.

Starting with Fujitsu Services in the UK in fiscal 2005, several consolidated subsidiaries outside of Japan have already adopted IFRS, including subsidiaries in Australia and Singapore, and all remaining subsidiaries outside of Japan will adopt IFRS in fiscal 2008. In Japan, Fujitsu has aligned its financial accounting with IFRS to the extent permitted under Japanese accounting standards. For details on changes in accounting policies, please see "Change in Accounting Policies in the Current Consolidated Reporting Period."