THE POSSIBILITIES ARE INFINITE

FUJITSU LIMITED

Annual Report
2004

Annual Report 2004

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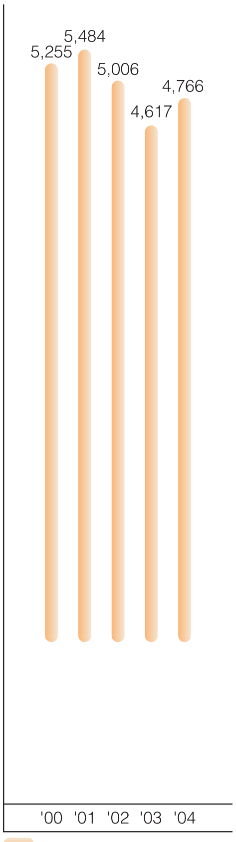
Cautionary Statement

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. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions which indicate future events and trends identify forward-looking 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 the major geographic markets for Fujitsu's services and products, which are the United States, EU, Japan and elsewhere in Asia, particularly as such conditions may affect customer spending; rapid technological change, fluctuations in customer demand and intensifying price competition in the IT, telecommunications, and microelectronics markets in which Fujitsu competes; Fujitsu's ability to dispose of non-core businesses and related assets through strategic alliances and sales on commercially reasonable terms, and the effect of realization of losses which may result from such transactions; uncertainty as to Fujitsu's access to, or protection for, certain intellectual property rights; uncertainty as to the performance of Fujitsu's strategic business partners; declines in the market prices of Japanese and foreign equity securities held by Fujitsu which could cause Fujitsu to recognize significant losses in the value of its holdings and require Fujitsu to make significant additional contributions to its pension funds in order to make up shortfalls in minimum reserve requirements resulting from such declines; poor operating results, inability to access financing on commercially reasonable terms, insolvency or bankruptcy of Fujitsu's customers, any of which factors could adversely affect or preclude these customers' ability to timely pay accounts receivables owed to Fujitsu; and fluctuations in rates of exchange for the yen and other currencies in which Fujitsu makes significant sales or in which Fujitsu's assets and liabilities are denominated, particularly between the yen and the British pound and U.S. dollar, respectively.

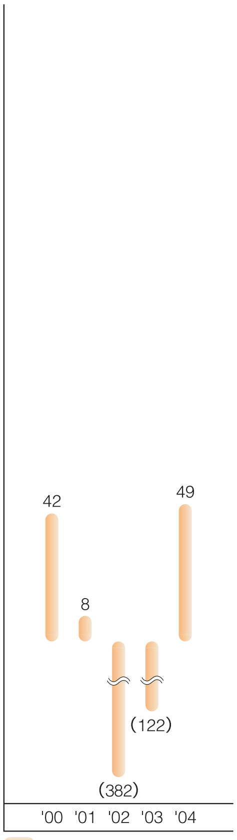
Consolidated Financial Highlights

Fujitsu Limited and Consolidated Subsidiaries Years ended March 31		Yen (millions) (except per share data)	U.S. Dollars (millions) (except per share data)
	2003	2004	2004
For the year:			
Net sales	¥ 4,617,580	¥ **4,766,888**	$ ***44,971***
Operating income	100,427	**150,342**	***1,418***
Income (loss) before income taxes and minority interests	(147,606)	**157,018**	***1,481***
Net income (loss)	(122,066)	**49,704**	***469***
Cash flows from operating activities	117,797	**304,045**	***2,868***
Per share (Yen and U.S. dollars):			
Earnings (loss)			
Basic	¥ (61.3)	¥ **24.5**	$ ***0.231***
Diluted	(61.3)	**22.2**	***0.209***
Cash flows from operating activities	58.9	**152.0**	***1.434***
Cash dividends	—	**3.0**	***0.028***
Cash dividends to face value	—	**6%**	**6%**
At year-end:			
Shareholders' equity	¥ 702,390	¥ **827,177**	$ ***7,804***
Total assets	4,225,361	**3,865,589**	***36,468***

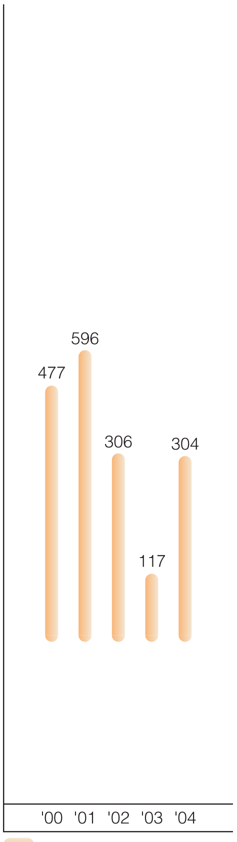
Note: See Note 17 of Notes to Consolidated Financial Statements with respect to the calculation of basic and diluted earnings per share.
The U.S. dollar amounts above have been translated from yen, for convenience only, at the rate of ¥106 = US$1, the approximate Tokyo foreign exchange market rate on March 31, 2004.



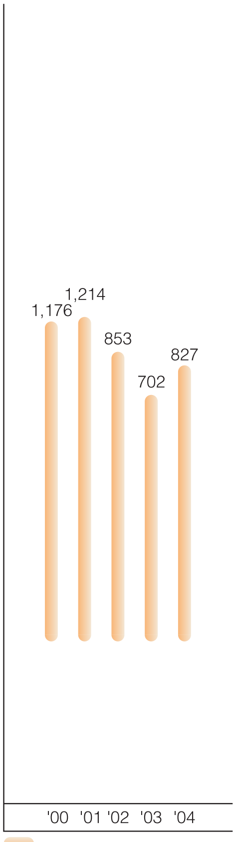
Net Sales (¥ Billion)
(Years ended March 31)



Net Income (Loss) (¥ Billion)
(Years ended March 31)



Cash Flows from Operating Activities (¥ Billion)
(Years ended March 31)



Shareholders' Equity (¥ Billion)
(Years ended March 31)

To Our Shareholders

During fiscal 2003 the US economy regained some of its strength, and there was a clear trend toward economic recovery in many parts of the world. There were brighter signs in Japan, as well, with a mild upturn supported by stronger exports and consumer spending in areas such as digital audio-visual equipment.

Against this backdrop, Fujitsu reported consolidated operating income of ¥150.3 billion and unconsolidated operating income of ¥32.9 billion, as earnings from business operations rose significantly from the prior year. We recorded consolidated net income of ¥49.7 billion and unconsolidated net income of ¥17.0 billion.

Our fundamental thinking with respect to distribution of profits is to provide shareholders with a stable return and to secure sufficient internal reserves to strengthen our financial position for future business growth and higher profitability in the mid- to long-term. However, we have made no dividend payments since the midterm of fiscal 2002, and for that we must apologize and thank you for your forbearance. The recovery in our business operations in fiscal 2003 enabled us to post a net profit for the period, and we have also made strides in improving our financial strength. As a result, we have decided to issue a dividend of 3 yen per share.

Looking ahead, we believe the IT market will continue to face a difficult business environment, including further declines in prices for products and services. At the same time, however, we are convinced that an era in which anyone can exchange information anytime and anywhere – the era of ubiquitous networking – is emerging.

As a leader in the IT industry that is central to the realization of ubiquitous networking, Fujitsu aims to serve as a trusted partner to our customers and to contribute to the growth and prosperity of their businesses. Putting special emphasis on customer-centric thinking, quality and timely delivery, and speed, we will continue to work to improve profitability and fortify our financial position in order to build a strong Fujitsu.

We thank you for your continuing support.

Naoyuki Akikusa
Naoyuki Akikusa
Chairman

Hiroaki Kurokawa
Hiroaki Kurokawa
President

From left: Naoyuki Akikusa, Hiroaki Kurokawa

Overview of Fiscal 2003

About one year has passed since I assumed the role of president on June 24, 2003, and since that time I have repeatedly stressed the importance of customer-centric thinking, quality and timely delivery, and speed. I have met with numerous customers, spent a lot of time at the frontlines of our operations, and worked to bring about a change in the attitudes and conduct of everyone in the company, from senior management on down.

In addition, early on I set forth certain immediate management priorities: improving the profitability of our business operations, restoring financial soundness, and continuous reform of our operating structure. Our dedicated efforts in these areas enabled us to largely achieve the consolidated financial performance targets that we set at the beginning of the fiscal year.

	Target	Actual
Net sales	¥4,800 billion	¥4,766.8 billion
Operating income	¥150.0 billion	¥150.3 billion
Net income	¥30.0 billion	¥49.7 billion
Interest-bearing loans	¥1,500 billion or under	¥1,277.1 billion *at end of FY 2003

Considering the harsh market conditions we continued to face, I thought these goals would be difficult to achieve, but we were able to do so thanks to the support of our shareholders and customers, as well as the strong determination of everyone at Fujitsu to keep our promises.

On the other hand, we also posted some significant extraordinary losses relating to global restructuring measures focusing on North America and fundamental reforms to our domestic software and services business. These initiatives were intended to aggressively promote overseas business expansion for future growth and to ensure the health and continued strong growth of our software and services business, and we felt it was important to deal with potential problems swiftly and decisively. We were able to offset these losses by generating gains through asset sales and transferring the substitutional portion of our employees' pension funds to the government system.

In fiscal 2003 my goal was to make Fujitsu a sound and healthy company again. Building on the results of the past year, my goal for fiscal 2004 and beyond is to make Fujitsu a truly strong company. Achieving our fiscal 2003 targets was merely the first step toward the larger goal of becoming a strong company.

Looking forward, I have no intention of letting up. I am determined that we move steadily forward by continuing to act from the customer's perspective, maintaining our commitment to quality and timely delivery, and continuing to increase our institutional speed.

Principal Restructuring Initiatives in Fiscal 2003

Strengthened business through operational partnerships

Jul. 2003 Integrated Flash memory operations with AMD

Sep. 2003 Fujitsu Leasing received investment from Tokyo Leasing (20% share)

Apr. 2004 Integrated compound semiconductor operations of Fujitsu Quantum Devices and Sumitomo Electric

Restructured global operations

Oct. 2003 Restructured US platforms business
—— Fujitsu Technology Solutions and Fujitsu PC merged into Fujitsu Computer Systems

Nov. 2003 Established Fujitsu (China) Holdings
—— Merger of four China-based IT operating companies

Apr. 2004 Realigned overseas services business
—— Alignment of Americas operations under Fujitsu Consulting, European operations under Fujitsu Services, and Australasian operations under Fujitsu Australia

Realigned group companies
(net reduction of 32 consolidated subsidiaries)

Oct. 2003 Fujitsu Microelectronics Solutions
—— Merger of two communications companies for semiconductor development

Oct. 2003 Fujitsu Integrated Microtechnology
—— Merger of four semiconductor assembly companies

Oct. 2003 Fujitsu Network Technologies
—— Merger of four communications development companies

Apr. 2004 Fujitsu Applications
—— Three software development companies merged into two

Future Management Direction

My goal in fiscal 2004 is to move beyond the restoration of our financial health and make Fujitsu a strong company for the benefit of customers, employees and shareholders.

A strong Fujitsu will be able to provide solutions worldwide that are optimized for each customer's situation; it will be a company in which others can put their trust for their important IT needs; it will be a company that can reward employees for their efforts; and it will be a company that can deliver solid returns to shareholders.

To achieve this, I believe there are three important things we need to do:

1. Secure steady profitable growth,
2. Demonstrate leadership in products and technologies,
3. Cultivate excellence in human resources and management.

In addition, I have set forth four key challenges we must meet in order to make Fujitsu a strong company.

1. Strengthen our existing businesses

We will work to strengthen the competitiveness of our products, reform our business processes and reevaluate our operational and product structures to ensure that we are able to generate profits even amidst a harsh business environment.

2. Create and cultivate new businesses

We will step up our efforts in three key areas with future growth potential: markets related to ubiquitous networking, the small and mid-sized enterprise market, and overseas markets.

3. Reform our organization and approach

Based on the following, we will work to reform the overall structure of the Fujitsu Group.

1. Create an organization that is easy for customers to understand.
2. Accelerate responsiveness to customers.
3. Provide seamless support throughout the customer's IT system lifecycle.
4. Eliminate overlap and competition among business operations and functions.

Two examples of these reforms are the agreement reached with Fujitsu Support and Service Inc. to make it a wholly owned subsidiary in order to strengthen our support and operational services businesses, and the realignment of our sales and systems engineering groups in order to create an organization that is closer to the customer.

4. Reform our management systems

To better deal with a constantly evolving market and rapidly changing customer needs, we will reform our management systems, including changing traditional ways of doing things and organization, as well as enhancing our own IT systems.

In order to implement these measures, it is essential that Fujitsu employees the world over share a common mindset and sense of purpose. Toward that end, we have established *The FUJITSU Way* as our basic set of principles. I believe that abiding by these principles – both as a corporation and as individual employees – is fundamental to forming a strong company.

The FUJITSU Way

'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.

'Values'

Customers	People	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 our 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'

1. Respect human rights
2. Comply with laws and regulations
3. Maintain confidentiality
4. Protect intellectual property
5. Reject unethical behavior
6. Act with fairness in our business dealings

【Group-wide Activities】
Environmental activities,
Manufacturing innovation,etc.

Business Principles
(President's management principles)

Business Plan
Established at business division level

Corporate Governance

Our Fundamental Thinking on Corporate Governance

We believe that ensuring the transparency and efficiency of corporate management for shareholders and other stakeholders is essential for good corporate governance. In order to do so, we have actively appointed outside directors. In addition, we have separated management oversight and operational execution functions based on the belief that this separation helps to improve management transparency and efficiency.

Management Organization Regarding Business Decisions, Operational Execution and Oversight

Management Oversight: The Board of Directors carries out a management oversight function, supervising the execution functions of the Management Strategy Council and the Management Council under its authority.

Operational Execution: 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. The Board of Directors makes decisions on items of particular importance on the agendas of the two councils.

Risk Management

The Risk Management Committee monitors on an ongoing basis the variety of risks to which the company is exposed and develops strategies to mitigate them. The Committee reports serious risk-related issues to the Management Council and to the Board of Directors so that countermeasures can be thoroughly considered. Through these and other measures, we are working to strengthen the risk management structure for the entire Fujitsu Group.

Software & Services

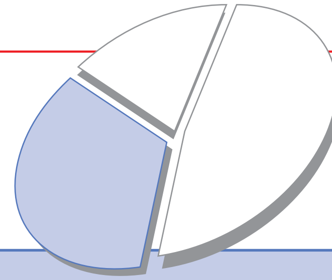
FY 2003 Net Sales:
¥2,094.2 billion

Solutions/Systems Integration

Consulting	Strategic, business, and IT consulting services to support customers as their trusted business partner.
Systems Integration	Speedy system development and construction with provision of optimal software and hardware.
Application Packages & Solutions Industry-specific Solutions Business Solutions (CRM, SCM, ERP, etc.)	Solutions to meet customers' industry-specific and business needs.

Infrastructure Services

Outsourcing Services	Broad array of services for operation, administration and maintenance of customers' IT systems.
Network Services	Wide range of network services from internal corporate networks to the Internet.
Support and Maintenance Services	Providing business continuity through provision of system support, security and other services.
Software	Software to support system construction and operations management.

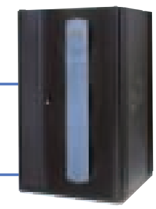


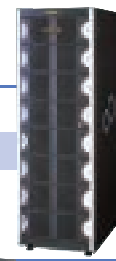
Platforms

FY 2003 Net Sales:
¥1,608.1 billion

Server-related

Servers	Mainframes: Mission-critical systems for high-speed processing of large volumes of data. UNIX Servers: Highly reliable and flexible servers with world-class performance. IA Servers: Cost-effective, stable operation based on Intel architecture.	GS Series PRIMEFORCE PRIMEPOWER PRIMERGY
Storage Systems	Large-capacity, high-performance, highly reliable storage systems for secure management of customers' data assets.	ETERNUS
Others	Printers and other high-performance products for business use.	





Mobile/IP Networks

Mobile Communications Infrastructure	Base stations for 3G mobile communications systems.	
IP Networks & Others	Internet Protocol-based high-speed, high-volume routers and other products.	GeoStream Series

Transmission Systems

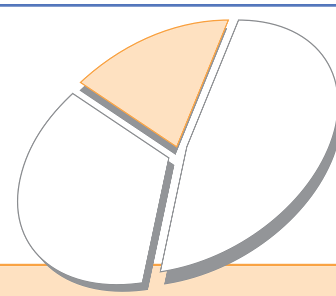
SONET	High-speed fiber-optic transmission systems for metropolitan area networks.	FLASHWAVE
WDM Systems	Wavelength division multiplexing systems for large-volume, high-speed transmission over wide areas.	FLASHWAVE

PCs & Mobile Phones

Personal Computers	Consumer PCs	Equipped with advanced home entertainment features.	FMV-DESKPOWER FMV-BIBLO FMV-BIBLO LOOX
	Business PCs	Sophisticated security features and functionality to support business needs.	FMV-DESKTOP FMV-LIFEBOOK FMV-STYLISTIC
	PDAs	Long operating life for comfortable and convenient mobility.	Pocket LOOX (PDA)
Mobile Phones		Broad product lineup to meet variety of users' needs.	NTT DoCoMo FOMA Series — mova Series

Others

Hard Disk Drives	Leading-edge technology and high reliability in small-form-factor HDDs for servers and notebook PCs.

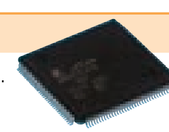


Electronic Devices

FY 2003 Net Sales:
¥734.3 billion

Semiconductors

Logic Chips	Microcontollers, digital signal processors and other semiconductors for automotive, digital home appliance and other applications.
System Memory	Devices including Flash memory for mobile phones and FRAM for smartcards.
System LSI (SoC)	High-performance single-chip devices incorporating multiple functional blocks such as microcontroller and memory functions.
Compound Semiconductors	Semiconductor devices made from two or more elements and used for mobile phones and other products.



Others

Plasma Display Panels (PDPs)	Thin-profile, lightweight high-resolution PDP displays for television and other applications.
Liquid Crystal Displays (LCDs)	Liquid crystal displays employing our own high-resolution technology for use in PCs and other devices.
Media Devices	Compact, low-power-consumption devices for high-function mobile phones and other mobile equipment.
Components	Telecommunications relays, connectors, keyboards, thermal printers and other products to meet a variety of needs.

Customer Solution Profiles

The following profiles offer a glimpse at how some of our IT systems and solutions are benefiting businesses, institutions and people in their everyday lives.

Riken

Japan's Highest Performance Linux Cluster System Powers Biotech Research

Along with the diffusion and increasing performance of Linux servers in recent years, Linux cluster systems – multiple Linux servers linked in a single high-speed network – have been adopted by universities and research institutions throughout Japan and abroad for use as supercomputers.

Since March of 2004, Japan's Institute of Physical and Chemical Research, known as Riken, has begun operating a supercomputer system that uses as its core a Linux cluster system built by Fujitsu. This is the highest performance Linux cluster system in Japan and represents the first adoption by a large-scale Japanese computing center of a Linux cluster core for its main system. It is considered a model case and has received considerable attention both in Japan and abroad.

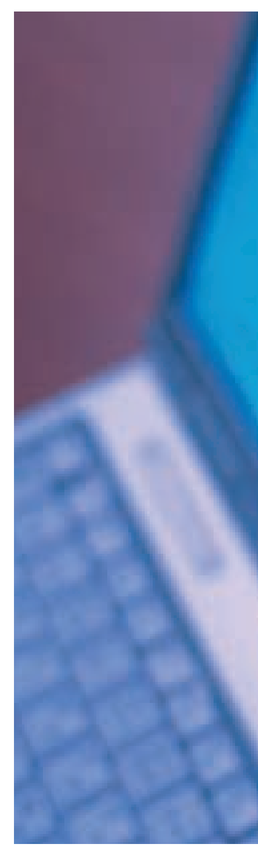
Slated for use in the analysis of the structures and functions of genes and proteins in biotechnology, the system is expected to make major contributions to advanced research and development and support Japan's position as leading innovator in science and technology.

Tokai University School of Medicine

World's Fastest Quantum Chemical Computational Techniques and Software Speed Drug Development

Genomic drug design can be described as the process of discovering target molecules – and therefore new drug candidates – that control the abnormal behavior of proteins related to diseases. Traditionally, this process of discovery involved an enormous amount of time and sacrifice, requiring the use of actual tissues and cells, or numerous test animals.

Seeking to help new drug developers overcome these hurdles, we developed new techniques and software enabling the world's fastest quantum chemical computations based on the molecular orbital method. Working together with Tokai University's



Japan's highest performance Linux cluster system is powering biotech research.

School of Medicine, we succeeded in proving the validity of our efficient computer-based calculation of the mechanisms for specific AIDS drug treatments and their associated proteins currently being used in clinical practice. Instead of employing animal experiments and other traditional methods, the experiment was carried out with just one PC, successfully performing a simulation analysis in an effective time of about 3 hours and 40 minutes.

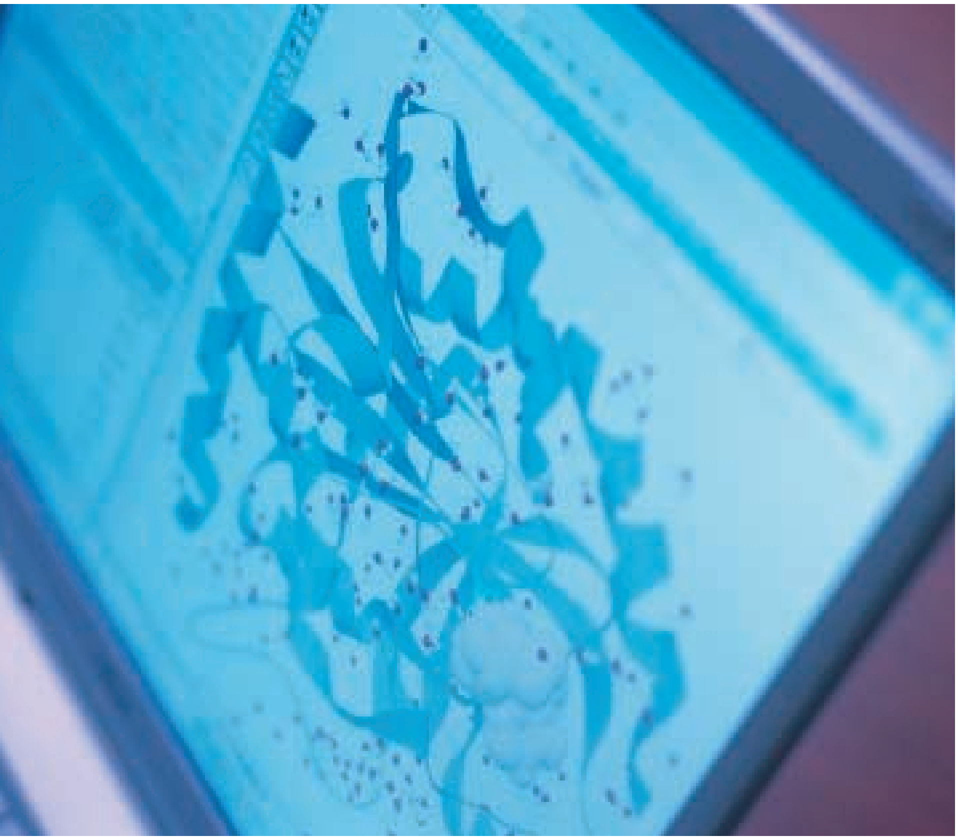
In addition to reducing the time and expense required for drug development, it is expected that this technology will be used as a preventative tool for predicting issues such as potential adverse side effects, and will help open the way toward exciting new possibilities in genomic drug design.

Tokyo Mitsubishi Bank and Suruga Bank
First Deployments of Palm Vein Pattern Authentication Technology for Secure Banking

Responding to growing needs for identity verification in business and other settings, we developed the world's first contactless palm vein pattern biometric authentication technology. This technology is able to verify a person's identity by reading – without physical contact – the pattern of blood veins in the individual's palm and comparing it to a pre-registered pattern. Since there is no contact with sensor equipment, this method is advantageous in terms of public hygiene, and because it is based on internal biometric information, it offers superior protection against identity theft.

In the world's first deployments of this technology, Suruga Bank will use it at its teller windows, and Tokyo Mitsubishi Bank will use at its teller windows as well as in its ATMs. Tokyo Mitsubishi Bank is also planning to utilize the biometric technology together with its multi-function IC cards starting this fall.

We aim to deploy the technology in a broad range of applications, particularly in public places where concerns for hygiene are particularly important.



World's fastest quantum chemical computational techniques and software are helping to speed drug development.

New ATMs incorporate pioneering palm vein pattern authentication technology.

Shizuoka Cancer Center
Electronic Medical Record System Enhances Patient Care and Efficiency

At Shizuoka Cancer Center, medical and nursing staff are using Fujitsu's Electronic Medical Record solution in concert with advanced medical equipment and facilities to provide superlative patient care. The solution enables doctors, nurses and other caregivers to instantaneously access all relevant medical information on a patient, including diagnostic imagery. Not only has this improved the business efficiency of information exchange within the Center, but it has facilitated higher quality care by enabling medical staff to establish closer connections with their patients.

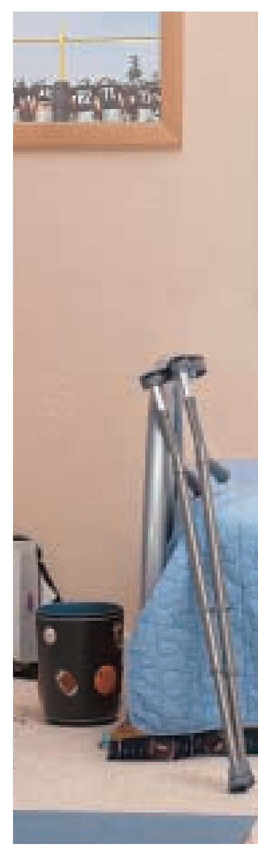
In addition, because the system can extend to include regional medical institutions or family doctors in other areas via Internet connection, the Center can offer patients greater peace of mind knowing that they have access to a comprehensive healthcare environment.

Visiting Nurse Service of New York
Bringing the Caring Home – with Tablet PCs

"We Bring the Caring Home." That's the motto of the Visiting Nurse Service of New York, a non-profit organization that provides home healthcare services to over 24,000 patients a day. By equipping its visiting nurses and field clinicians with Fujitsu's Tablet PCs, the organization has enabled them to spend more time providing care in patients' homes and less time filling out paperwork.

Now, as the nurses make their daily rounds to patients' homes, they have all the information they need right at their fingertips. Patient records, including medical and care history, medications, and insurance information, are just a few clicks away. Nurses can go online for information on drug efficacy and side effects, enabling them to give clear explanations to their patients. And they can input detailed descriptions of changes in a patient's symptoms to

Our Electronic Medical Record solution is helping to enhance patient care and efficiency.



send to doctors.

"Our people want to spend as much time as possible with their patients," says Carol Raphael, the organization's president and CEO. "Fujitsu's Tablet PCs make it easy for them to update patient records, and having access to better patient information helps us to deliver better treatment." Lightweight and wireless, but tough enough for the streets of New York, Fujitsu's Tablet PCs have provided the right prescription for bringing home better care.

HM Customs and Excise

Secure and Reliable IT Infrastructure Supports Vital Government Services

HM Customs and Excise (HMCE) is responsible for collecting over 40% of UK Central Government tax revenue, enforcing the UK's import and export restrictions and capturing UK trade statistics.

Over 22,000 HMCE staff depend on Fujitsu to provide a secure and reliable IT infrastructure. HMCE has over 200 offices in the UK and the ability to share and exploit information effectively is clearly of critical importance. Apart from delivering a first-class infrastructure service, Fujitsu is also working with HMCE to implement innovative e-business solutions to transform key business processes for the future.

With Fujitsu's help, HMCE has recently established a national contact center for its staff, replacing 15 regional centers that ran on different databases, some with ageing technology and paper-based information systems. The national co-ordination center now provides a 24/7 service, assisting HMCE staff by phone, radio, email, fax and post and improving efficiency by providing a one-stop streamlined service.

Fujitsu's 10-year PFI contract with HMCE, signed in 1999, reflects the style of working between the two organizations, a style based on an understanding of mutual business objectives and a long-term commitment to partnership.

Our tablet PCs are helping visiting nurses in New York "bring the caring home."

We're providing secure and reliable IT infrastructure to support vital government services.

Software & Services

Business Strategy

While we project moderate recovery in demand for our software and services in fiscal 2004, we expect that competition for new business will intensify significantly going forward. To meet this challenge and grow, we will build on the core value of our software and services business, including a vast customer base encompassing approximately 170,000 customers in Japan alone (4,000 of which are mainframe users) and 10 trillion yen in customers' application assets, as well as our accumulated knowledge, know-how and record of success in systems construction.

To strengthen our business, we will pursue the following measures: 1) leverage our consulting services to expand our systems integration and outsourcing businesses, 2) strengthen our open system migration and system optimization services, and 3) enhance our services for small and medium-sized enterprises. In systems integration, we will make a special effort to renovate and widely implement our SDAS (Systems Development Architecture and Support) comprehensive systems development methodology in order to shorten development time and improve quality. In addition, to reform our business practices and increase profitability, we are establishing a system to monitor business risk and improve project transparency and management. We are also putting emphasis on developing business in the growing e-government/e-municipality and healthcare markets, as well as on creating new markets and business opportunities utilizing our cutting-edge work in such areas as ubiquitous networking, Linux and grid computing.

Overseas, through the realignment of our operations in Europe, North America, Australasia, China and elsewhere, we are putting in place a new organizational structure that will lay the foundation for increased profitability. We will also work to reinforce our worldwide support structure and expand our overseas business with an emphasis on infrastructure services and our TRIOLE* model for optimizing IT infrastructure. Through these and other measures, we will strive to capitalize on our global structure and comprehensive strengths to provide solutions to customers around the world.

* TRIOLE: A highly reliable IT infrastructure model that brings together pre-verified combinations of servers, storage systems, networking and other equipment. Meets the requirements of enterprises and organizations to support business expansion, speed operational development, deliver stable operations and reduce TCO.

Fujitsu Solution Square

Key Product and Service Strategies

- We will provide a full range of consulting services tightly focused to meet specific customer needs, from business planning to underlying areas such as business transformation, CRM*1 strategy, SCM*2 strategy, network procurement, and even environmental management. Beyond the consulting stage, we will offer everything from system development to operations and outsourcing, providing customers with one-stop consistent solutions.

- In the Solutions/Systems Integration segment, we will enhance our industry-specific service offerings geared to customers' particular businesses. In the public sector, we aim to grow our systems integration business by taking advantage of opportunities arising from the trend towards consolidation of adjoining municipalities in Japan, as well as in the e-government field in general. We will also provide stable, reliable and low-cost system migration – including to open systems environments – while ensuring that customers can make the most effective use of existing assets. We see the Japanese manufacturing companies that are accelerating overseas expansion and small and medium-sized enterprises as significant new growth markets. To serve the full range of their needs – from planning to system development and operation – we will further enhance our wide range of competitive solutions, such as our GLOVIA ERP*3, CRM and SCM offerings.

- We aim to maintain and increase our share in the outsourcing market by offering services best suited to meet customers' needs. In addition to existing IT outsourcing and Web services, we will strengthen our capabilities in such new areas as strategic outsourcing, business process outsourcing (BPO), application portfolio management (APM), on-demand outsourcing and on-site outsourcing. Outside Japan, we have won several large-scale contracts, particularly in the UK public sector, and we are aiming to expand our private sector business going forward.

- As key elements in our TRIOLE IT optimization model, we will also place particular emphasis on promoting our middleware offerings for total systems management and specific services (applications) deployment, including Interstage, for real-time collaborative business integration, and Systemwalker, for comprehensive operational management.

*1 CRM: (Customer Relationship Management)	Solution that supports business strategy by utilizing a variety of information generated from contacts with customers.
*2 SCM: (Supply Chain Management)	Solution that improves the efficiency of and optimizes an enterprise's entire supply chain, from procurement to production, sales and marketing, logistics and delivery.
*3 ERP: (Enterprise Resource Planning)	Package software supporting greater efficiency for customers' various business processes, such as accounting and production management.


Tatebayashi System Center's integrated control room


Tatebayashi System Center


Akashi System Center


Tokyo System Center

Platforms

Business Strategy

Highly reliable, high-performance and easy-to-use platform products are essential to bringing about an era of ubiquitous networking and sophisticated services. In 2002 we introduced our TRIOLE concept to resolve IT infrastructure issues necessary to realize such an era, and since then we have been focusing our energies on developing products under this model. Going forward, we will work to grow our platforms business based on the following course of action.

Automated printed circuit board assembly equipment at our Shimane Fujitsu factory

1. Enhancement and Global Expansion of TRIOLE
   Seeking to reduce IT complexity and TCO for our customers and deliver IT infrastructure they can use with confidence, we will enhance individual products as well as expand and refine platform integration templates of pre-verified product combinations. We will also advance the use of these templates by our overseas affiliates and thus promote the global expansion of TRIOLE.

2. Manufacturing Innovation
   We will improve productivity and achieve significant cost savings by taking into consideration production floor cost and quality factors from the earliest stages of design.

3. Bolstering Our Telecommunications Business
   We will strengthen our telecommunications business by developing products that fuse information and communications, as well as boost efficiency through business alliances.

4. Seizing Opportunities in Ubiquitous Networking
   We plan to seize new business opportunities by opening up a new business area centering on innovative mobile terminals that meld PCs and mobile phones. At the same time, we will introduce products that enable customers to utilize high-end information technology at any location.

Mainframe (Global Server)

UNIX Server (PRIMEPOWER)

Blade-type IA Server (PRIMERGY)

Storage System (ETERNUS)

Key Product Strategies

We will not only offer highly competitive individual products but will leverage TRIOLE to develop our overall platforms business. By grouping together highly compatible individual products – including servers, storage systems, network equipment and middleware – in platform integration templates optimized for specific IT functionalities, and verifying the compatibility of these product combinations in advance, we will quickly and efficiently construct highly reliable IT infrastructures for our customers.

- In our server business, we will offer world-class mainframe-, UNIX-, Windows- and Linux-based systems. Regarding UNIX servers, we are expanding our partnership with Sun Microsystems and will jointly develop future generation Solaris and SPARC-based systems, targeting market launch in mid-2006. As a result of this expanded partnership with Sun, we will be able to maintain and strengthen our competitive advantage in UNIX servers and increase sales globally. In Intel Architecture (IA) servers, in collaboration with Intel we are moving ahead with development of a next-generation mission-critical IA server to run on Windows and Linux, which we plan to ship beginning in fiscal 2005. We will also work to strengthen our business in high-capacity enterprise storage systems for large-volume data management and backup as a key element of TRIOLE.

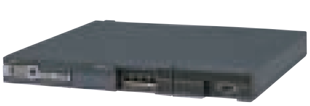
- In our IP network business, as key products fusing information processing and communications functions, and consistent with TRIOLE, we will enhance our telecommunications server and high-performance router offerings for telecommunications carriers.

- In the optical transport sector, we already claim a high market share in North America and Asia-Pacific. Going forward we will seek to promote this business worldwide, capitalizing on our strong photonic technologies.

- In mobile communications, centering on 3G communications infrastructure, we will continue to focus on our business with NTT DoCoMo in Japan, while at the same time leveraging Evolium (our joint venture with Alcatel) to expand our business in emerging 3G markets overseas.

- In personal computers, we will continue to use supply chain management and precise demand forecasting to maximize operational efficiency, while offering products that are easier to use and provide added value through improved AV functions such as very high-resolution displays.

- We will also work to expand our mobile phones business, focusing our resources on handsets for NTT DoCoMo’s FOMA service. In order to accelerate the development and commercial introduction of FOMA handsets with significant advances in functionality, we are discussing possible collaborative development with Mitsubishi Electric.


Network Server (IPCOM)

Desktop PC (FMV-DESKPOWER)


Mobile Phone (FOMA F900iT)

Electronic Devices

Akiruno Technology Center

Business Strategy

Building on market growth from last year, our goal in fiscal 2004 is to increase profitability in both mainstay and leading-edge products, with logic chips as our core business. Fujitsu holds a leadership position in advanced technologies, and we will place emphasis on expanding our business with partners such as Transmeta Corporation and Lattice Semiconductor Corporation. In addition, we will further enhance our competitiveness as a new Integrated Device Manufacturer able to integrate manufacturing, sales and technology in one entity.

Key Product Strategies

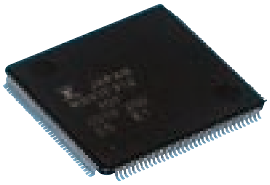
- During the second half of fiscal 2003 we began volume production of advanced logic chips using our leading-edge 90nm CMOS process*. In response to increasing customer demand, we developed plans to build a 300mm fab at our Mie Plant, targeting start-up of volume production from April 2005. We aim to significantly increase profitability by implementing a new business model that focuses on advanced products and features close collaboration with internal and external partners at every stage – from development to design and production – as well as introduction of a production system tightly linked to customer demand. At the same time, we will move ahead with the development of cutting-edge technologies to ensure the continued competitiveness of our servers, network equipment and other platform products.

- In order to further strengthen our Flash memory business, we joined forces with longtime partner AMD to establish a new company, FASL LLC (subsequently renamed Spansion LLC), which carries out everything from R&D to production, test & assembly and marketing. In addition to bolstering the Flash memory business in this way, we are continuing product sales and support activity as a pillar of our LSI business.

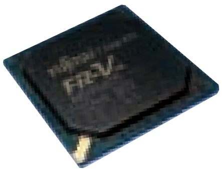
- In compound semiconductors, we established a joint venture, Eudyna Devices, Inc., with Sumitomo Electric Industries, Ltd. This operational consolidation will help to increase our competitiveness and presence in the microwave devices segment and other compound semiconductor markets, while enabling us to provide customers with the most competitively priced and highest quality products.

- Seeking to capitalize on the expanding market for PDPs, we plan to expand monthly production capacity to 100,000 units from January 2005 and to a maximum of 250,000 units in 2007. While competition is expected to become even more intense, we intend to prevail on the strength of our superior technology and cost performance, maintaining our top market share in the industry.

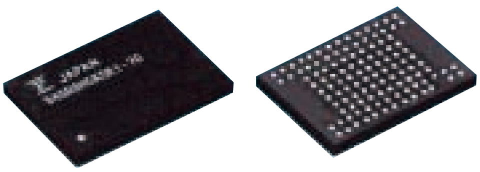
*90nm CMOS process: Semiconductor material and miniaturization process technology to realize high speed, low power consumption and high density. A nanometer (nm) is one-billionth of a meter.



Microcontroller



FR-V Processor



MCP

Plasma Display Panel

Research & Development

As we move toward a new era of ubiquitous networking, demand for new ways to use information technology is expanding. To provide the foundation for the products and services that will give shape to this new era, Fujitsu Laboratories is carrying 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 technologies.

Mobile phone with fingerprint-based authentication technology

Organic Server

Major Research Accomplishments in Fiscal 2003

Protecting Privacy and Maintaining Data Security

We developed fingerprint-based biometric authentication technology for protecting personal data stored in mobile telephones. Utilizing a small sensor that can be built into a mobile handset, the technology is a highly practical solution for accurate and fast personal identification. We have applied it in some of the mobile phones we produce.

Stable IT Systems

We developed utility computing technology that allocates system resources according to user demand and system load conditions, ensuring stable uninterrupted service even when unanticipated huge spikes in access demand occur. We also developed a single-chip Ethernet switch that can instantaneously send and receive data at 10 gigabits per second, enabling very high-speed transmission of large volumes of data between servers, storage systems and other IT equipment. We are incorporating this device in our next-generation organic servers with autonomic operation.

Ultra-Fast, High-Capacity Networks of the Future

In collaboration with Germany's Heinrich Hertz Institute, we developed ultra-high-speed regeneration technology that can restore optical signals whose quality has degraded as a result of long-distance transmission without having to first convert them to digital signals. Using this technology, we successfully achieved transmission speeds of 160 gigabits per second in an optical 3R regeneration transmission trial – a new world record.

Technology for Stable Mass Production of High-Performance Logic Chips

We were the first in the world to develop and apply cutting-edge 90nm CMOS technology for stable mass production of logic chips. Through the integrated coordination and control of multiple processes – enabling any errors occurring in one process to be corrected in another process – we were able to raise yield rates. Going forward, we will leverage this advanced technology in volume production using large-sized wafers.

Key Research Areas Going Forward

We will place particular emphasis on the following key areas in our R&D activities:

① Technologies relating to ubiquitous networking, including pervasive data access and security
② Data center technologies for core IT infrastructure
③ Software development technologies to reduce software development time and improve quality
④ Cross-area technologies spanning such fields as electronic devices, advanced materials, manufacturing innovation, and environmental protection

Intellectual Property

1. Importance of Intellectual Property

Fujitsu pursues research and development aimed at creating value. Through the appropriate protection and use of intellectual property, we can raise the value of our technology and provide products and services that deliver a high level of customer satisfaction. Our technology is also a key source of our competitive strength within the industry. Based on the belief that intellectual property is a vital business asset supporting our strong technologies, we strive to secure and effectively utilize intellectual property in every phase of our business.

2. Intellectual Property Strategy

(1) Objectives

Maintaining Superior Competitiveness

Differentiating our products and services from those of our competitors is essential to being able to maintain business leadership. At every stage – from the development of technology to its application – we actively strive to secure intellectual property and to utilize it to more effectively differentiate our products and services.

Assuring Business Flexibility

A strong intellectual property portfolio plays an important role in securing business flexibility. Technology is becoming increasingly sophisticated and complex, and a variety of technologies is often required in a single product or service. In order to freely develop business opportunities, entering into technical tie-ups or cross-licensing agreements with other companies is often an important option to consider. We are therefore working to develop a strong intellectual property portfolio to assure business flexibility and obtain more favorable terms in collaboration agreements.

Securing Business Profitability

In recent years, revenues from licensing or transfers of patent rights to other companies have become an important source of company earnings. In line with our business strategy, we engage in licensing or transfer agreements in instances where we determine that licensing a particular technology will generate higher overall earnings than keeping it only for our own use, or in cases in which the intellectual property is associated with a business that we have chosen to discontinue as part of a business restructuring.

(2) Promotion Structure

The Intellectual Property Group, a corporate division, is responsible for planning and proposing strategies regarding intellectual property from the perspective of the entire company. It is also responsible for implementing these strategies in accordance with the business plans of each business unit and in coordination with their intellectual property promotion departments.

(3) Patent Rights

Patent rights are an important form of intellectual property supporting technologies. We are strengthening and building our patent portfolio by establishing priorities and medium-range to long-term plans for patent filings in each business sector.

Software & Services

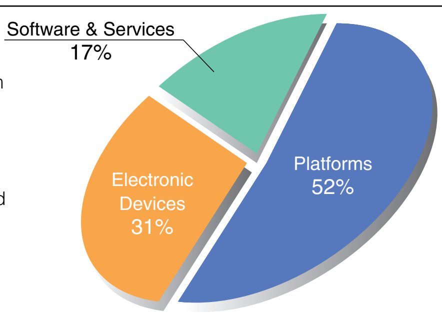
Customer-oriented solutions covering the full IT system lifecycle, from planning to system construction and operations

Platforms

Infrastructure-related technologies for the ubiquitous networking era; computers and other product technologies

Electronic Devices

System-on-chip and other logic technologies; advanced process technologies



Distribution of Patents by Business Group

① Patent Portfolio

As of April 2004, Fujitsu had registered and holds approximately 32,000 patents worldwide.

② Emphasis on "Quality" in Patent Filings

Obtaining patents contributes to our ability to maintain competitive leadership in our businesses. We are working to elevate the quality of our patents by securing patents for technologies that others have no choice but to use.

Obtaining High-Quality Patents

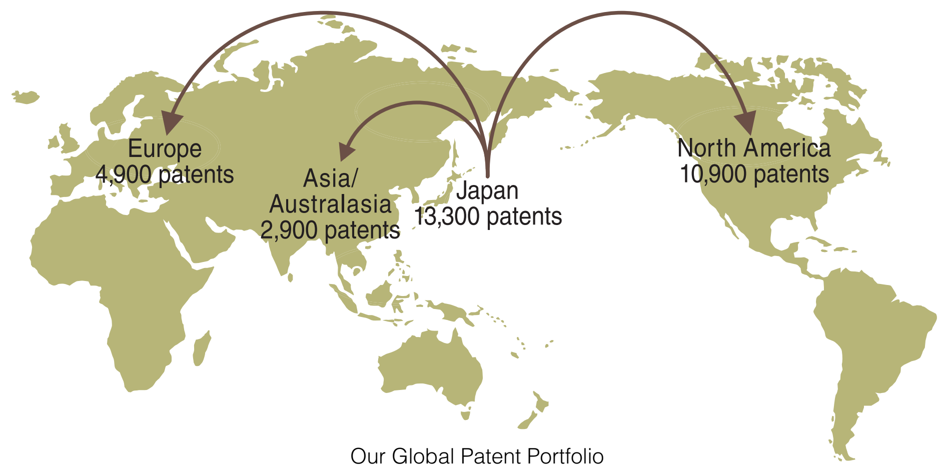
In order to acquire high-quality patents, it is essential that there be an objective evaluation of our own discoveries in relation to the patents and technologies of other companies. We are putting into place a structure that brings together inventors and the Intellectual Property Group for this purpose.

A Global Patent Portfolio

In keeping with the globalization of our business, we are building a broad international patent portfolio by securing patents in Europe and the US, as well as in other countries in Asia.

Involvement in Standardization

In order to play a leading role in the standardization of technologies, we are actively participating in various standardization organizations. We also take into consideration future standardization implications when seeking to obtain patents.



Our Global Patent Portfolio

③ Respecting Other Companies' Patents

Infringing on the patent rights of other companies would result not only in problems for us but also cause tremendous difficulties for our customers. At every stage – from R&D through commercialization – we take exhaustive precautions to prevent any potential infringement of the patent rights of other companies. At the same time, we take appropriate measures to deal with any infringement of Fujitsu's patent rights by third parties.

(4) Trademarks

Along with seeking to cultivate a corporate brand in which customers can place their trust, we are working to maintain and increase the value of the FUJITSU brand. We have established rules for the use of the Fujitsu brand name by both domestic and overseas affiliates in order to maintain consistency. In addition, we have registered and are working to protect this trademark in over 150 countries to ensure that no trademark-related problems impede our international business.

(5) Copyrights

As a basic principle, we seek to secure copyright protection for the software we develop. Protection of these copyrights is not only essential from the perspective of maintaining competitive advantage but also is important in terms of improving quality and speeding delivery, thus making it possible to provide customers with better products and services. With respect to the use of other companies' software, we have established an internal monitoring unit and taken other measures to assure that we do not infringe on other companies' copyrights.

3. Leveraging Intellectual Property

Today, thanks to the high-quality patents that we have secured and the rights that they provide, we are able to deal with other companies from a position of strength. A notable example is the very significant licensing revenue contributed by the patents we hold for our pioneering developments in plasma display panel and SAW (Surface Acoustic Wave) filter technologies.

Environmental Involvement

Fujitsu considers protection of the environment to be an important business issue. Utilizing our technological and creative capabilities as an IT leader, we strive to contribute to sustainable economic development. Noteworthy initiatives and accomplishments in fiscal 2003 included the following.

Top Ranking on Sustainability Index for Five Years Running

In recognition of our many initiatives promoting environmental protection, for the fifth year in a row Fujitsu has received a top ranking in the environment dimension of the Dow Jones Sustainability Index, which tracks 2,500 companies in 34 countries.

*Launched in 1999 and updated annually, the Dow Jones Sustainability Indexes track the financial performance of the leading sustainability-driven companies worldwide.

04 Member of Dow Jones Sustainability Indexes

Inclusion in the FTSE4Good Global Index

Fujitsu has also been included in the “FTSE4Good Global Index” of the FTSE indices compiled by FTSE International Ltd. of the UK. In addition to environmental efforts, we were also recognized for our corporate responsibility in the economic and social spheres.

FTSE4Good Index Series

Among the Largest Recipients of Company-Wide ISO 14001 Certification

In March 2004 we became one of the largest companies in Japan to receive ISO 14001 certification covering all our domestic operations. We are now in the process of creating a unified environmental management system that will encompass the entire group.

Full Implementation of “Green Products” Policy

As of the end of fiscal 2003, we were able to achieve our aggressive objective of applying stringent “green products” standards to all newly developed products. These standards ensure environmental soundness throughout the entire product lifecycle.

- **ETERNUS Storage System**

  Employing our innovative VPS/Eco Design computer-aided design tool in the development of our new ETERNUS storage system model, we were able to significantly reduce the number of parts, including a 50% reduction in the number of screws needed. This enabled us to greatly reduce the time required for disassembly, use less metal, and improve ease of recycling. Moreover, because it is easier to assemble, less energy is used in the manufacturing process, thereby contributing to overall resource conservation.

VPS

ETERNUS Storage System

- **First Paper LCD for Contactless Smartcards (Fujitsu Frontech)**

  This superthin display panel incorporates a cholesteric liquid crystal capable of continuous display without an electric source. We were able to achieve semipermanent memory color display with low electric power consumption of $6\mu W$ or less (excluding the drive circuits). In addition, the display’s accelerated write speed makes it suitable for use in contactless smartcards for mass transit and other applications.

Paper LCD

Social Contribution Activities

Based on the principles embodied in *The FUJITSU Way*, we contribute to society through various activities in our business operations and as good corporate citizens.

Universal Design

With the expansion of Internet access, we now live in a world where information can be sent or received anytime and anywhere. At Fujitsu, we are working to make it possible for more and more people to enjoy easy access to information. Based on the concept of universal design, our aim is to provide products and services that can be easily used by anyone, regardless of age or physical attributes.

● Fujitsu Web Site Receives Good Design Award

Marshalling the efforts of the entire Fujitsu Group, we're applying universal design to all 34 of our country and regional portal sites in order to better serve customers and have a web site that is easy for anyone to use. In fiscal 2003 our efforts earned the Good Design Award from the Japan Industrial Design Promotion Organization.

● Top Spot on Nikkei Personal Computer's Corporate Web Site Usability Ranking

Fujitsu was ranked number one in a survey carried out by Nikkei Personal Computer of the easiest-to-use websites of major corporations in Japan. Among the many user-friendly characteristics of our site receiving particular mention were the home page, graphics and audio features. We are working every day to thoroughly build customer considerations into every aspect of the site.

Reforestation Activities Overseas

Since fiscal 1988 we have been carrying out reforestation activities in Southeast Asia, including Thailand, Vietnam and Malaysia. In Malaysia, where in 2002 we established an "Eco Forest Park" and launched a three-year reforestation plan, we have planted a total of 40,000 trees – including dipterocarp and others – covering an area of about 70 hectares. In January 2004, as part of the third phase of the program, Fujitsu employees participated as volunteers. In fiscal 2004 the park will be turned over to the country's Sabah State Forest Development Corporation to be used for such purposes as environmental training and eco tourism.

Fujitsu volunteers in Malaysia

Fujitsu Thailand has continued tree-planting and post-planting environmental protection activities in that country. In fiscal 2003 these efforts received official commendation from the Kingdom of Thailand.

Fujitsu Thailand is presented with commemorative award at Thailand Royal Golden Jubilee Award Ceremony.

Management

Board of Directors


Naoyuki Akikusa
Chairman


Hiroaki Kurokawa
President


Kunihiko Sawa
President and Representative Director
Fuji Electric Holdings Co., Ltd.


Hiroshi Oura
Chairman and CEO
Advantest Corporation


Ikujiro Nonaka
Professor of Hitotsubashi University
Graduate School of International
Corporate Strategy


Akira Takashima
Vice Chairman


Hiroya Madarame
Corporate Executive Vice President


Kuniaki Suzuki
Corporate Executive Vice President


Masamichi Ogura
Corporate Executive Vice President


Toshihiko Ono
Corporate Executive Vice President


Chiaki Ito
Corporate Executive Vice President

Auditors

Standing Auditors

Takashi Takaya
Hiromasa Inagaki

Auditors

Takeo Kato	(Chairman and Director, Fuji Electric Holdings Co., Ltd.)
Katsuhiko Kondo	(Honorary Advisor, Mizuho Financial Group)
Yoshiharu Inaba	(President and CEO, Fanuc Ltd.)

Corporate Executive Officers

President

Hiroaki Kurokawa

Corporate Executive Vice Presidents

Hiroya Madarame
Kuniaki Suzuki
Masamichi Ogura
Toshihiko Ono
Chiaki Ito

Corporate Senior Vice Presidents

Hirohisa Yabuuchi
Michiyoshi Mazuka
Hideaki Yumiba
Ichiro Komura
Tetsuo Urano
Takashi Igarashi
Haruki Okada
Nobuo Nagaya

Corporate Vice Presidents

Michio Atarashi	Yoshiyuki Tanakura	Hideo Sekine	Hirosada Tone
Takashi Aoki	Kyung-soo Ahn	Junichi Murashima	Fujio Ohara
Kazuhiko Kato	Kimihisa Ito	Shinichi Hasegawa	Akira Yamanaka
Kuniaki Nozoe	Shigeru Fujii	Hiromichi Hirata	Tsuneaki Ohara
Nobutake Matsumura	Yasuaki Ara	Makoto Matsubara	Masanobu Katoh
Takashi Nakamura	Kazuya Wada	Shinichi Kuruma	Kazuo Miyata
Yoshihisa Nagano	Takumi Nakamura	Yoshifumi Mita	Terumi Chikama
Yasuo Koike	Akikazu Yajima	Kazuo Ishida	

FINANCIAL SECTION **CONTENTS**

Years ended March 31	2000	2001	2002	2003	2004	*2004*
	Yen (millions) (excluding per share data, D/E ratio, and number of employees)					*U.S. Dollars (thousands)*
Net sales	¥5,255,102	¥5,484,426	¥5,006,977	¥4,617,580	**¥4,766,888**	***$44,970,642***
Operating income (loss)	149,974	244,026	(74,426)	100,427	**150,342**	***1,418,321***
Income (loss) before income taxes and minority interests	74,857	157,564	(594,733)	(147,606)	**157,018**	***1,481,302***
Net income (loss)	42,734	8,521	(382,542)	(122,066)	**49,704**	***468,906***
Total assets	¥5,019,744	¥5,200,071	¥4,595,804	¥4,225,361	**¥3,865,589**	***$36,467,821***
Shareholders' equity	1,176,528	1,214,383	853,756	702,390	**827,177**	***7,803,557***
Amounts per share of common stock (Yen and U.S. dollars):						
Earnings (loss)						
Basic	¥ 22.1	¥ 4.3	¥ (193.0)	¥ (61.3)	**¥ 24.5**	***$ 0.231***
Diluted	21.5	4.3	(193.0)	(61.3)	**22.2**	***0.209***
Cash dividends	10.0	10.0	5.0	—	**3.0**	***0.028***
Shareholders' equity	599.4	614.2	426.5	350.8	**413.2**	***3.898***
Interest-bearing loans	¥1,725,075	¥1,636,224	¥1,760,626	¥1,763,769	**¥1,277,121**	***$12,048,311***
D/E ratio (times)	1.47	1.35	2.06	2.51	**1.54**	
Free cash flow	128,754	129,653	(102,892)	53,382	**371,434**	***3,504,094***
R&D expenditure	¥ 401,057	¥ 403,405	¥ 349,855	¥ 285,735	**¥ 250,910**	***$ 2,367,075***
Capital expenditure	325,706	438,043	306,966	147,620	**159,795**	***1,507,500***
Number of employees	188,053	187,399	170,111	157,044	**156,169**	
Net sales by business segment (excluding intersegment sales):						
Software & Services	¥1,969,038	¥2,014,375	¥2,085,863	¥2,025,790	**¥2,094,261**	***$19,757,179***
Platforms	2,384,192	2,349,854	2,015,226	1,612,016	**1,608,178**	***15,171,491***
Electronic Devices	568,159	759,723	546,555	618,632	**734,320**	***6,927,547***
Financing	113,070	107,246	114,472	119,279	**50,391**	***475,387***
Other operations	220,643	253,228	244,861	241,863	**279,738**	***2,639,038***
Total	¥5,255,102	¥5,484,426	¥5,006,977	¥4,617,580	**¥4,766,888**	***$44,970,642***
Net sales by customers' geographic location:						
Japan	¥3,352,837	¥3,590,282	¥3,460,915	¥3,280,665	**¥3,378,265**	***$31,870,425***
Europe	819,082	725,756	643,260	568,763	**605,051**	***5,708,028***
The Americas	688,179	765,288	542,144	390,482	**324,269**	***3,059,142***
Asia & Australasia	371,458	383,560	346,425	369,022	**452,853**	***4,272,198***
Africa & the Middle East	23,546	19,540	14,233	8,648	**6,450**	***60,849***
Total	¥5,255,102	¥5,484,426	¥5,006,977	¥4,617,580	**¥4,766,888**	***$44,970,642***

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 above and in the following Management's Discussion and Analysis of Operations have been translated from yen, for convenience only, at the rate of ¥106 = US$1, which was the approximate Tokyo foreign exchange market rate at March 31, 2004.
3. Cash dividends per share of common stock for the year ended March 31, 2004 was the year-end dividend approved at the Annual Shareholders' Meeting on June 23, 2004.

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, 2004 (fiscal 2003). Forward-looking statements in this section are based on management's understanding and best judgment as of June 28, 2004.

1. Analysis of Results

Business Environment

Although the Iraq War and SARS epidemic temporarily slowed the global economy at the beginning of the fiscal year, from the second half there was continuing growth in demand for third-generation (3G) and other mobile telephones and significant expansion of broadband communication networks, as well as solidifying demand for new digital AV equipment, signaling the dawn of an era of ubiquitous networking. US and other stock markets around the world began to recover, and by the fourth quarter overall economic conditions were showing steady signs of improvement.

Led by a strong recovery in the US economy, other regions also began to show gradual improvement. In Japan, which has benefited the most from the rapid growth in demand for digital AV equipment, corporate results improved, supported by strong exports by the manufacturing sector. Along with considerable recovery in the Japanese stock markets, the value of the yen continued to rise against other currencies. Similarly, China and other countries in Asia have benefited from a rise in new demand, and economies throughout the world are generally on a path towards recovery.

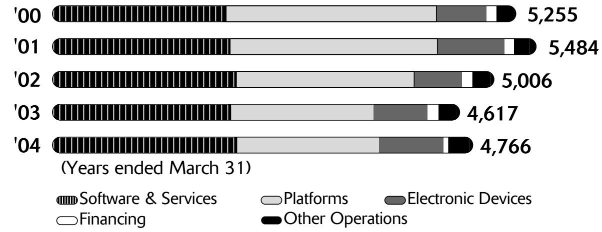
At the same time, corporate capital investment began to rebound on a global basis, and since the end of 2003 Japanese corporate investment in IT has begun to recover strength. As a result, we are seeing considerable activity in business orders.

Net Sales

Fiscal 2003 consolidated net sales were ¥4,766.8 billion ($44,971 million), with the growth rate compared to the prior year improving progressively in each quarter and a full-year increase of 3.2%. Overall, it was the first year-on-year increase in net sales since fiscal 2000. Sales rose by only a small margin in Software & Services, but Platforms sales finally rebounded to a level of parity with the previous year, and Electronic Devices sales jumped by nearly 20% both in Japan and overseas.

In addition to major gains in sales of logic chips, the fundamental technology driving advances in popular digital AV equipment, sales of other electronic devices supporting the digital revolution – including plasma display panels (PDPs), liquid crystal displays (LCDs) and hard disk drives (HDDs) – enjoyed strong growth. In mobile communications, the shift toward 3G solidified. In Japan, although firm corporate demand for IT-enabled services contributed to growth in services income, there was a decline in large-scale systems projects, which, together with intensifying price competition and other factors, led to sluggish domestic sales of servers, PCs and other hardware products. There was clear recovery during the second half of the fiscal year in the sales of transmission systems for North American carriers, but investment by Japanese telecommunications carriers continued to be restrained.

Net Sales by Business Segment (excluding intersegment sales)
(¥ Billions)

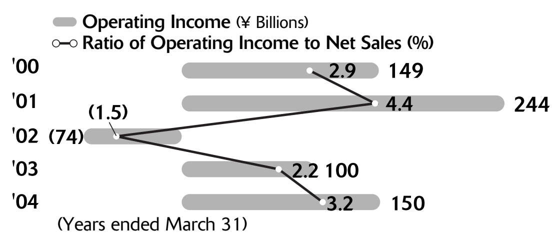


Cost of Sales, Selling, General & Administrative Expenses and Operating Income

The cost of sales increased by 4.0% compared to the previous year, to ¥3,460.9 billion ($32,650 million), but because of increasingly intense price competition, costs increased at a faster rate than sales, resulting in the cost of sales ratio climbing 0.5% from the previous year, to 72.6%. Gross profit on sales (net sales minus the cost of sales) was ¥1,305.9 billion ($12,320 million), an increase of 1.3% compared to the previous year. Despite higher net sales, selling, general and administrative expenses declined 2.8% from the prior year, to ¥1,155.6 billion ($10.902 million), as a result of efforts to streamline expenses.

Operating income increased by ¥49.9 billion over the previous year, or approximately 50%, to ¥150.3 billion ($1,418 million).

By business segment, Electronic Devices, which had suffered a major loss in the previous year, returned to profitability with a ¥59.1 billion improvement in operating income. In the Platforms segment, although intensified competition reduced profits in PCs and mobile phones, in transmission systems and HDDs, two areas that had suffered large losses the previous year, there were major improvements in operating income. Moreover, in the fourth quarter, there was unique demand in Japan for financial terminals able to accommodate new banknotes. These and other factors resulted in an improvement in the operating income of the Platforms segment of ¥28.2 billion. These improvements offset the ¥37.7 billion decline in operating income in Software & Services, which suffered from deterioration in the profitability of some projects. Thus, overall, we were able to achieve the 150 billion yen operating income level we had targeted at the beginning of the fiscal year.



Other Income (Expenses) and Net Income

Other income (expenses) totaled ¥6.6 billion ($63 million). We posted a loss of ¥0.8 billion ($8 million) in net equity in earnings of affiliates, compared to income of about ¥0.5 billion in the previous year. This was because our investment in Fanuc Ltd. became no longer subject to equity method accounting as a result of our sales of Fanuc shares during the fiscal year. Interest charges were ¥23.3 billion ($220 million), a decrease of ¥6.5 billion from the previous year, reflecting the continuing redemption of corporate bonds that contributed to the reduction in interest-bearing loans.

Also with respect to other income (expenses), we recorded gains on sales of marketable securities and the transfer of the substitutional portion of our employees' pension funds to the Japanese government, and losses from restructuring charges and other items. Further details are provided in the "Explanation of Extraordinary Items in Other Income (Expenses)" section below.

The amortization of unrecognized obligation for retirement benefits was ¥56.9 billion ($537 million), an increase of ¥13.0 billion compared to the prior year. This occurred because weakness in equity markets during the prior fiscal year resulted in a larger actuarial variance. After factoring in these items, income before income taxes and minority interests was ¥157.0 billion ($1,481 million).

Income taxes were ¥92.2 billion ($870 million), and the effective tax rate with respect to income before income taxes and minority interests was 58.7%. Because of differences in consolidated and non-consolidated capital gains recorded on the sales of Fanuc shares, this exceeded the statutory income tax rate. Current income tax in fiscal 2003 amounted to ¥34.1 billion ($322 million) and was primarily recorded for domestic subsidiaries in the Software & Services segment. Deferred income tax was ¥58.0 billion ($548 million), mostly reflecting the reversal of deferred tax assets for the Company and its consolidated domestic subsidiaries.

Minority interests were ¥15.1 billion ($142 million), an increase of ¥11.8 billion over the prior year. This was due mainly to the increase in profits of such publicly listed domestic companies as Fujitsu Support and Service Inc., Fujitsu Business Systems Ltd., and Shinko Electric Industries Co., Ltd., as well as of Fujitsu TEN Limited.

Consolidated net income for the year was ¥49.7 billion ($469 million), representing the first net profit posted since fiscal 2000.

Explanation of Extraordinary Items in Other Income (Expenses)

During fiscal 2003, in addition to aggressive sales of assets aimed at improving our financial strength, we transferred the substitutional portion of our employees' pension funds in order to reduce the unrecognized obligation of retirement benefits and lower the asset management risk related to pension assets.

· Gain on Sales of Marketable Securities
....¥134.6 billion ($1,270 million)

At the request of Fanuc, we sold approximately 37 million shares of our shareholdings in the company. The proceeds from the sales were ¥217.5 billion ($2,052 million), and the gains realized were ¥117.0 billion ($1,104 million). As a result of the sales, our ownership interest in Fanuc was reduced to 18.64% (including shares held in our pension trust account), and we therefore no longer treated it as an equity method affiliate. Because the capital gains on these sales were taxable on a non-consolidated basis, the contribution of the sales proceeds to consolidated net income in the fiscal year was limited to ¥28.1 billion ($265 million). Including gains from the sales of Fanuc shares, total gains on the sales of marketable securities were ¥134.6 billion ($1,270 million).

· Gain on Sales of Property, Plant and Equipment
....¥13.6 billion ($129 million)

In addition to securitizing the land and buildings of newly constructed Fujitsu Solution Square (located in Kamata, Tokyo), we aggressively sold properties, including those that had been used for employee recreation, realizing sales proceeds of ¥29.3 billion ($276 million).

· Gain on Transfer of Substitutional Portion of Employees' Pension Funds ....¥146.5 billion ($1,382 million)

We applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the employees' pension funds in which the Company and our domestic subsidiaries participate. On March 23, 2004, we received the approval for the exemption from the Minister of Health, Labour and Welfare. Accordingly, as of the date of approval, we recognized the elimination of both the employee retirement obligations and pension assets corresponding to the substitutional portion, reporting the resulting gain in other income (expenses).

In order to strengthen the profitability of our global business and our software and services business in Japan, we implemented various measures to improve our business structure, resulting in the following restructuring charges.

· Restructuring Charges ....¥164.2 billion ($1,549 million)

· Global Restructuring Focusing on North America.................¥75.7 billion ($715 million)

To better serve customers expanding their business on a global basis, we are enhancing our ability to offer leading-edge hardware and software worldwide under a unified presence (our "One FUJITSU" initiative), and to continually provide high-quality one-stop solutions in each region.

We merged two computer hardware sales operations in the US, Fujitsu PC Corporation (focusing on PCs), and Fujitsu Technology Solutions Inc. (focusing on servers), a subsidiary of Fujitsu IT Holdings, Inc. ("FIH," formerly Amdahl), integrating them into the newly established Fujitsu Computer Systems Corporation. This merger created a unified organization for hardware offerings and enabled a reduction in overlapping functions and personnel, as well as the disposal of assets.

In software and services, we realigned the operations of Fujitsu Consulting Holdings, Inc. (the former DMR), which had been a subsidiary of FIH, to focus on the North American market. In conjunction with this, Fujitsu Consulting's operations in Spain were sold to a third party, and other European operations were merged into Fujitsu Services Holdings PLC (the former ICL). Operations in Australasia were merged into Fujitsu Australia Limited. These moves also enabled a reduction in overlapping functions and personnel, and the elimination of assets.

The scope of the personnel reductions from these measures, primarily in North America and Europe, was approximately 1,000 employees globally.

Thus, in North America, Fujitsu Computer Systems and Fujitsu Consulting were made direct subsidiaries of Fujitsu Limited, and FIH is being liquidated. Along with these measures, we took a one-time charge for the amortization of goodwill associated with the acquisition of Amdahl, the predecessor of FIH, as well as for currency translation adjustments on past investments.

The breakdown of the recognized losses was ¥28.9 billion ($273 million) for charges related to personnel reductions and disposal of assets, and ¥46.8 billion ($442 million) for the one-time amortization of goodwill (including currency translation adjustments on investments). Going forward, under a new global business model, we will develop our business worldwide, with closer coordination among operations in each region, including those in Japan.

· Fundamental Reform of Software & Services Business in Japan................¥68.3 billion ($644 million)

In fiscal 2003, we recognized losses to cover potentially uncollectible accounts related to projects expected to be completed or delivered in fiscal 2004 and 2005. This represented our estimates of the future expected losses from projects whose deterioration in profitability had already become apparent, as well as estimates based on a comprehensive review of potential future collections with respect to projects under development, including work not yet completed. Losses related to projects completed in fiscal 2003 were recognized as operating losses for the period.

These problematic projects were those in which, during the development stage, the scope of the work and the amount of manpower required escalated far above what had been initially foreseen, a situation not uncommon when dealing with long-term contracts for large-scale, cutting-edge systems. While this was in part a result of the difficulties encountered in the rapid switchover of systems to open standards, we also believe that it reflected the effects of a sudden expansion of business orders in the past.

In order to ensure that such losses do not occur again, we put in place a system for thoroughly managing project risk for all major contracts above a certain size. We are also strongly promoting the utilization of our innovative technologies, such as those relating to TRIOLE* and SDAS**, for handling the growing shift toward open standards. In order to improve the future profitability of our software and services business, we are also working to stringently implement rules for the immediate recognition of losses based on the percentage-of-completion method and bring enhanced clarity to project management, including work performed by outside contractors.

*TRIOLE: A highly reliable IT infrastructure model that brings together pre-verified combinations of servers, storage systems, networking and other equipment.

**SDAS (Systems Development Architecture & Support): A comprehensive application development framework covering all aspects of information system operations.

· Other Restructuring Charges ....¥20.1 billion ($190 million)

We also recognized losses resulting from the restructuring measures carried out by publicly listed and other domestic subsidiaries. This included ¥5.6 billion ($53 million) for FDK Corporation, ¥4.1 billion ($39 million) for Fujitsu Support and Service, and ¥2.0 billion ($19 million) for Shinko Electric Industries.

2. Segment Information

"Net sales" below refer to sales to unaffiliated customers.

Business Segment Information

Looking at fiscal 2003 operating income by business segment, although Software & Services showed a decline in income compared to the previous year, Electronic Devices – which last year had an operating loss – returned to profitability and, for the first time in three years, all three principal business segments recorded profits.

Software & Services

Consolidated net sales increased 3.4% from the prior fiscal year to ¥2,094.2 billion ($19,757 million). In Japan the increase was 4.9%, primarily as a result of demand from Japanese manufacturers pursuing global business expansion and from the public and healthcare sectors in conjunction with the e-Japan initiative.

Overseas, net sales decreased 1.1% due to the impact from the sale of some European operations. Excluding that impact, however, revenues actually saw a healthy increase of 2.5%. In the UK in particular, we won a series of major outsourcing orders from government agencies, including the Inland Revenue and the National Health Service. We also formed an IT services partnership with Siemens Business Services GmbH & Co. OHG of Germany to provide reciprocal support in the IT services field in Europe and Asia. Through restructuring and realigning of overseas operations, in particular our North American services subsidiaries, we worked to strengthen our ability to support customers' global business growth.

Consolidated operating income in this segment declined by ¥37.7 billion from the previous year, to ¥138.7 billion ($1,309 million). The decline stemmed from a deterioration of profitability in certain projects in the solutions/systems integration business and increased forward-looking investment in Linux and other technologies key to opening up new markets.

Going forward, we will strive to reduce development times through the deployment of our renewed SDAS comprehensive systems development framework. We will also work to simplify the introduction and operation of new systems, reduce the occurrence of system errors, and bring about significant cost reductions by using pre-verified combinations of hardware and middleware under our TRIOLE model.

Last November we completed construction of Fujitsu Solution Square in Kamata, Tokyo, bringing together in one location 4,000 solutions experts from the greater Tokyo-Yokohama metropolitan area. We are leveraging real-time knowledge shared across the worldwide Fujitsu Group to provide higher value-added solutions to meet customers' needs in a timely manner. Going forward, as the only Japanese vendor that is truly a global player, we will strive to strengthen and expand our global business and work to increase the profitability of our software and services business.

Platforms

Consolidated net sales were roughly flat compared with the previous year, amounting to ¥1,608.1 billion ($15,171 million). First-quarter sales were markedly lower than in the comparable period in fiscal 2002, but with the improvement in economic conditions toward the end of the fiscal year, sales of 3G mobile phones and base stations, PCs and HDDs picked up, and full-year sales recovered to about the same level of the prior year.

In Japan, sales of transmission systems and servers declined. In PCs, the impact of price erosion was offset by gains in unit shipments, and sales were held to roughly the same level as in the previous year. Sales of mobile phones and systems increased with the progressive switchover to 3G technology, and sales were also higher for financial terminals accommodating new banknotes. As a result, overall sales in Japan for the Platforms segment finished at about the same level as the previous year.

Overseas, sales of UNIX servers, PCs and HDDs increased, particularly in Europe and North America, resulting in sales growth of 1.2% over the previous year. Sales of transmission systems for the full fiscal year decreased, but significant recovery could be seen in the second half.

Consolidated operating income was ¥29.2 billion ($276 million), an increase of ¥28.2 billion over the previous year. Profitability benefited from the effects of restructuring carried out over the previous two years and the impact of cost reduction measures in conjunction with continuing efforts to improve manufacturing innovation and efficiency. It was further bolstered by the beginning of full-scale recovery in IT demand, which had been sluggish.

Profitability increased in HDDs used in notebook PCs, as well as in financial terminals due to the sudden increase in demand for models accommodating new banknotes in Japan. In addition, thanks to the recovery in demand by North American telecommunications carriers and the impact of previous restructuring, losses in transmission systems were greatly reduced. Although we were able to minimize the impact of intense price competition on profitability in PCs, we incurred greater costs in equipping mobile phones with high-level functionality, and profitability for mobile phones deteriorated.

We have been developing our server and PC businesses in four key regional markets: Japan, North America, Europe and Asia. In fiscal 2003, our highly reliable high-performance UNIX servers received much favorable attention in the market, particularly in Europe and the US, and sales of these systems by Fujitsu Siemens Computers (Holding) B.V. in Europe, Fujitsu Computer Systems in North America and group companies in other areas increased. In PCs, as well, solidifying our organizational ability to supply products globally and on very short timeframes, we enjoyed a large increase in overseas unit sales, particularly in Europe. Going forward, we intend to further strengthen our structure for developing and delivering leading-edge products to the global market.

Electronic Devices

Consolidated net sales totaled ¥734.3 billion ($6,928 million), an increase of 18.7% over the previous year. In semiconductors, driven by especially strong demand for use in digital AV equipment and mobile phones, sales of logic chips rose by nearly 30%. Flash memory sales recorded a 1.7% decline. This decline, however, was attributable to the shift of our Flash memory operation to equity method affiliate in conjunction with the establishment of a new joint venture company with Advanced Micro Devices, Inc. (AMD) at the end of June 2003. As a result, sales to AMD by the manufacturing subsidiary in Japan were removed from our consolidated accounts. Excluding the effect of this removal, on the basis of continuing operations, Flash memory sales would actually have risen by 66% over fiscal 2002.

In addition, robust demand for PDPs and LCDs led to year-on-year sales increases of over 50% in both segments.

Consolidated operating income made a significant turnaround, reaching ¥27.5 billion ($260 million), an improvement of ¥59.1 billion yen from the loss recorded in the previous year. Although there was a short-term slowdown in operations caused by an earthquake in May 2003 that damaged our Iwate Plant, buoyant demand significantly increased capacity utilization at all of our production facilities, resulting in improved profitability. In addition, PDP operations returned to profitability on a full-year basis, and profits in all key segments within Electronic Devices improved.

Besides our joint venture with AMD in the Flash memory business, we also established a new joint venture with Sumitomo Electric Industries, Ltd. for compound semiconductors, which commenced operations in April 2004. In October 2003, we merged four back-end semiconductor assembly companies into a single company, achieving greater production efficiency and reducing costs.

In addition, we decided to build a new fab at our Mie Plant to mass-produce chips using our advanced 90nm process technology on 300mm wafers. By sharing the risk with strategic partners and undertaking phased investment in accordance with changes in demand, we expect to greatly increase profits.

In the PDP business, as well, with the goal of increasing production capacity to meet rising demand, we decided to invest in the construction of a new facility at the Miyazaki Plant of Fujitsu Hitachi Plasma Display Limited. By investing aggressively to increase production, we expect to reap even greater profits in PDPs.

Financing and Other

In May 2003, we transferred to a third party all of our shares in Kanda Tsushin Kogyo Co., Ltd., previously an equity method affiliate. Also, in September 2003, in a move aimed at strengthening our leasing business, we transferred a portion of the shares of Fujitsu Leasing Co., Ltd. to a third party. And in March 2004, FDK Corporation, which is primarily involved in the manufacture and sales of hybrid modules and batteries, received equity capital from a third party, entailing a switch to equity method affiliate as well.

As a result of making the leasing company an equity method affiliate, from the third quarter of fiscal 2003 we eliminated the Financing segment from our financial statements.

Net Sales and Operating Income by Business Segment (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Software & Services	¥2,097	**¥2,146**	2.3%
Platforms	1,843	**1,832**	(0.6)
Electronic Devices	687	**804**	17.1
Financing	128	**54**	(57.6)
Other	378	**418**	10.4
Intersegment elimination	(518)	**(489)**	
Consolidated net sales	¥4,617	**¥4,766**	3.2%

	2003	2004	Increase (Decrease)
Operating Income			
Software & Services	¥176	**¥138**	¥(37)
Platforms	0	**29**	28
Electronic Devices	(31)	**27**	59
Financing	4	**2**	(2)
Other	10	**13**	3
Unallocated operating costs and expenses/intersegment elimination	(59)	**(60)**	(1)
Consolidated operating income	¥100	**¥150**	¥ 49

Geographic Segment Information

Japan

Net sales were ¥3,605.6 billion ($34,016 million), an improvement of 1.4% compared to the previous fiscal year. Sales of electronic devices, particularly those used in digital equipment, were strong. In Software & Services, there were increased sales to manufacturers undertaking global expansion, and the spread of the e-Japan initiative also helped boost sales, particularly to the public and healthcare sectors.

Operating income was ¥203.7 billion ($1,922 million), up by ¥42.8 billion over the previous year. The increase was attributable to the improvement in profitability for the Electronic Devices segment driven by sales growth, as well as to reductions in operating expenses and other factors.

Europe

Net sales were ¥544.5 billion ($5,138 million), an increase of 3.7% compared to the previous year. Although the selling off of certain business operations reduced sales in the Software &

Services segment, strong results by our electronic devices sales company and higher sales to telecommunications carriers led to an increase in overall sales in Europe.

Operating income was ¥6.6 billion ($63 million), an improvement of ¥3.0 billion compared to the prior year, largely related to strong performance in Electronic Devices.

The Americas

Net sales were ¥254.4 billion ($2,401 million), a decline of 1.2% compared to the previous year. This was primarily because of decreased revenue from the FIH group, lower sales of transmission systems, and lower sales of HDDs for servers due to price declines.

The operating loss amounted to ¥13.1 billion ($124 million). Although, the FIH group still ended with a loss, restructuring initiatives completed in fiscal 2002 in transmission systems helped to reduce losses in that sector by ¥5.6 billion compared to the previous year.

Other

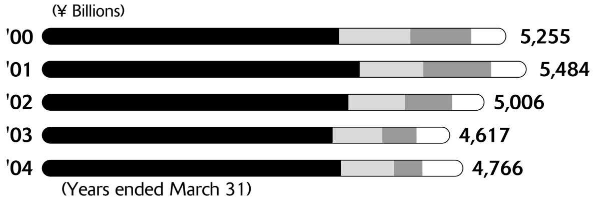
Sales in other regions, including Asia and Australia, totaled ¥362.1 billion ($3,416 million), an increase of 30.0% over the previous year. The increase related primarily to higher sales of electronic devices used in digital equipment and HDDs used in notebook PCs.

Operating income improved by ¥0.7 billion yen, to ¥13.5 billion ($127 million).

Net Sales and Operating Income by Geographic Segment (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Japan	¥3,888	**¥4,071**	4.7%
Europe	543	**563**	3.7
The Americas	278	**274**	(1.2)
Other	464	**579**	24.8
Intersegment elimination	(556)	**(721)**	
Consolidated net sales	¥4,617	**¥4,766**	3.2%
			Increase (Decrease)
Operating income (loss)			
Japan	¥160	**¥203**	¥42
Europe	3	**6**	3
The Americas	(18)	**(13)**	5
Other	12	**13**	0
Unallocated operating costs and expenses/intersegment elimination	(58)	**(60)**	(2)
Consolidated operating income	¥100	**¥150**	¥49

For reference:
Net Sales by Customers' Geographic Location
(¥ Billions)



3. Capital Resources and Liquidity

Improvement in Financial Strength

As a result of the deterioration of performance following the collapse of the IT boom and the large charges stemming from restructuring initiatives, there had been significant deterioration in the company's financial condition. In fiscal 2003, in addition to working to improve the profitability of our business operations, we took various steps to restore our financial strength, such as selling marketable securities in order to raise the efficiency of asset utilization and converting our Flash memory business, leasing business, and FDK into equity method affiliates.

We also continued efforts to reduce inventories to a target level of 500 billion yen, a reduction by half from their peak level of approximately 1,000 billion yen. At the end of fiscal 2003, inventories had been reduced to ¥521.1 billion ($4,916 million), just shy of our target. Going forward, we will accelerate the implementation of Toyota-style manufacturing innovation throughout the Group and establish new targets in line with progress in applying the percentage-of-completion method in our software and services business.

Shareholders' equity reached ¥827.1 billion ($7,804 million), and the shareholders' equity ratio rebounded to 21.4%. This increase was a reflection of recovery in earnings from our business operations, gains on sales of marketable securities, transfer of the substitutional portion of the employees' pension funds, and the effect of Fanuc shares not being accounted for as an equity method affiliate but revaluated at fair market value.

We achieved the target we set at the beginning of the fiscal year to reduce interest-bearing loans to 1,500 billion yen or below, ending the year with a balance of ¥1,277.1 billion ($12,048 million). The D/E ratio also improved to 1.54 from 2.51 in the prior fiscal year.

Going forward, we will strive to attain a D/E ratio below 1.0, and continue to pursue higher earnings from our business operations and generate stronger cash flow.

Assets, Liabilities, and Shareholders' Equity

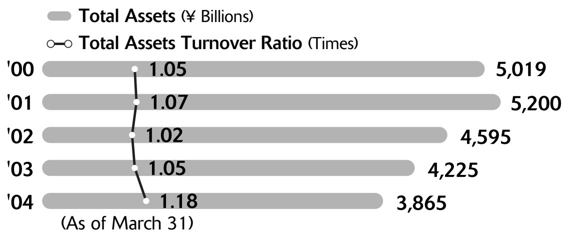
Total assets at the end of fiscal 2003 were ¥3,865.5 billion ($36,468 million), a reduction of ¥359.7 billion from the end of the previous year. This was attributable to the shift of our Flash memory operation, leasing operation and FDK to equity method affiliates, as well as to sales of marketable securities and other measures that we pursued to improve asset efficiency.

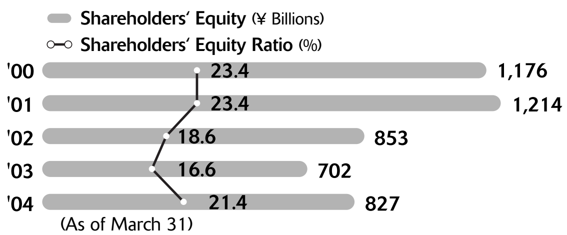
We reduced total current assets by ¥56.0 billion from the end of the previous year. Although cash and cash equivalents increased, inventories shrank and, as a result of shifting the leasing business to an equity method affiliate, lease receivables also declined.

Investments and long-term loans declined by ¥74.5 billion from the end of the prior fiscal year, primarily as a result of such factors as the sales of Fanuc shares and the shift to equity method affiliate for the leasing operation. Property, plant and equipment less accumulated depreciation decreased by ¥187.5 billion, due to the shift to equity method affiliate for the Flash memory business and selectivity in new capital expenditure.

Combining current and long-term liabilities, total liabilities amounted to ¥2,847.9 billion ($26,867 million), a reduction of ¥460.4 billion compared to the end of the prior fiscal year. The reduction of ¥486.6 billion in interest-bearing loans was accomplished as a result of restored profitability in business operations, sales of marketable securities, and the shift to equity method affiliate for the leasing operation.

Total shareholders' equity was ¥827.1 billion ($7,804 million), and the shareholders' equity ratio increased to 21.4%. This increase was attributable to such factors as increased profits in our business operations, sales of marketable securities, and gain on transfer of the substitutional portion of the employees' pension funds, as well as revaluation at fair market value for holdings in Fanuc, which from the third quarter was no longer treated as an equity method affiliate.





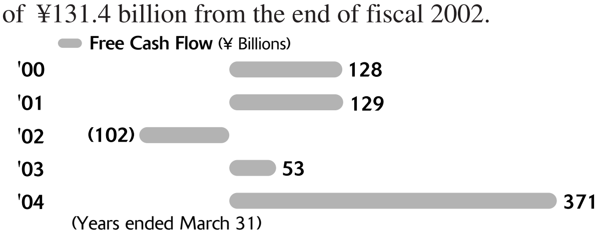
Summary of Cash Flows

Net cash provided by operating activities during the fiscal year was ¥304.0 billion ($2,868 million). The earnings recovery in our business operations pushed operating cash flow back above the 300 billion yen level, an improvement of ¥186.2 billion compared to the prior fiscal year.

Net cash provided by investing activities was ¥67.3 billion ($636 million). In addition to reducing the outflow of funds from investing activities due to greater selectivity in capital expenditure, we had an inflow of funds from the sale of marketable securities and property, plant and equipment.

Adding together cash flows from operating activities and cash flows from investing activities, free cash flow was strongly positive, at ¥371.4 billion ($3,504 million). A portion of this was used to redeem corporate bonds and repay borrowings. Net cash used in financing activities was ¥239.9 billion ($2,263 million).

As a result, cash and cash equivalents stood at ¥413.8 billion ($3,904 million) at the end of fiscal 2003, an increase of ¥131.4 billion from the end of fiscal 2002.



4. Capital Expenditure

In fiscal 2003, capital expenditure, which was targeted at the most promising growth sectors and held within the same range as depreciation expenses, totaled ¥159.7 billion ($1,508 million). Broken out by business segment, capital expenditure was ¥54.0 billion ($509 million) in Software & Services, ¥32.4 billion ($306 million) in Platforms, ¥59.3 billion ($559 million) in Electronic Devices (of which ¥30.1 billion ($284 million) was for semiconductors), and ¥13.9 billion ($131 million) for general corporate and other areas.

Capital Expenditure (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Software & Services	¥ 38	**¥ 54**	39.2%
Platforms	36	**32**	(11.7)
Electronic Devices	60	**59**	(2.6)
[Semiconductor production]	[38]	**[30]**	[(20.8)]
Corporate and others*	11	**13**	25.3
Total	¥147	**¥159**	8.2%
Japan	125	**135**	7.7
Overseas	21	**24**	11.5

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

5. Consolidated Subsidiaries

At the end of fiscal 2003, the Company had 455 consolidated subsidiaries, 136 in Japan and 319 overseas, representing a decrease of 32 from last year's total of 487. Our Flash memory business, leasing business and FDK became equity method affiliates. In addition, we consolidated and reorganized our domestic semiconductor back-end assembly and testing operations as well as our network development companies, and we restructured our global operations, particularly in North America. This resulted in a decrease in the total number of subsidiary companies. From fiscal 2003, we newly consolidated the subsidiaries of Fujitsu TEN.

The number of affiliated companies accounted for by the equity method increased by three, to 32. This included FDK, Fujitsu Leasing, and FASL LLC (which was renamed Spansion LLC on June 28, 2004), while Fanuc was no longer accounted for by the equity method.

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 the consolidated subsidiaries outside of 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/IAS). 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, including 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.

Going forward, we plan to introduce the percentage-of-completion method to thoroughly improve the visibility of project management for software development contracts, beginning with the initial customer contract and including work performed by outside contractors. Based on this premise, in fiscal 2003 we undertook a stringent assessment of the potential revenue recoverable on those projects for which estimated costs had exceeded estimated revenue, and we recognized as losses the amounts assessed as non-recoverable. If the estimated costs relating to those 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 become less than their originally estimated useful lives. Losses may occur as a result.

We are not adopting in advance the impairment accounting standard that will become mandatory in fiscal 2005 in Japan. Accordingly, at the time that standard is applied, losses may have to be recognized in cases in which there is a decline in the anticipated amount of future cash flows and a corresponding decline in the amounts judged to be recoverable 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 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 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

In fiscal 2001 and 2002, the Group posted large losses as a result of a deterioration in operating performance and related business restructuring charges. With respect to the timing difference on tax loss carryforwards and others, an estimate has been made of the amount of the deferred tax assets within the extent of which the Group judges to be recoverable over the next five years. By recording a valuation allowance for the amount exceeding the projected recoverable amount, an appropriate level of deferred tax assets is recorded. Future increases or decreases in the valuation allowance may be made if projected taxable income decreases or increases as a result of trends in future results. The deferred tax asset is recognized based on the statutory tax rate. Future revisions in the tax rate would result in increases or decreases of the deferred tax asset.

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, death rates, and the expected rate of return on the plan assets. The discount rate for the company and its domestic subsidiaries is estimated based on the market rate of return in Japan for long-term corporate bonds of a certain rating. The expected rate of return is estimated based on the weighted average of the expected rates of return for each type of asset in which the pension funds are invested. 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.

Overseas subsidiaries recognize retirement benefit costs and obligations in conformity with the accounting principles and standards generally accepted in their respective countries. Any future revisions to these accounting standards could impact the retirement benefit costs and obligations recognized by these subsidiaries.

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 the ultimate users under contracts that require the repurchase of 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 sale and is recorded as a provision. If there are future changes in the usage trends of the ultimate users, there may need to be additions or reductions to the provision.

At March 31	Yen (millions) 2003	Yen (millions) 2004	*U.S. Dollars (thousands) (Note 3)* *2004*
Assets			
Current assets:			
Cash and cash equivalents	¥ 282,333	**¥ 413,826**	***$ 3,904,019***
Short-term investments (Note 4)	1,652	**3,103**	***29,274***
Receivables, trade (Note 16)	840,408	**810,469**	***7,645,934***
Allowance for doubtful accounts	(7,615)	**(5,931)**	***(55,953)***
Inventories (Note 5)	595,984	**521,126**	***4,916,283***
Current portion of lease receivables (Note 15)	61,951	**—**	***—***
Other current assets (Note 11)	296,927	**272,981**	***2,575,292***
Total current assets	2,071,640	**2,015,574**	***19,014,849***
Investments and long-term loans:			
Affiliates (Note 6)	285,837	**163,889**	***1,546,123***
Lease receivables (Note 15)	115,392	**—**	***—***
Other investments and long-term loans (Notes 4, 6, 10 and 11)	500,358	**663,174**	***6,256,358***
Total investments and long-term loans	901,587	**827,063**	***7,802,481***
Property, plant and equipment (Notes 7 and 9)**:**			
Land	133,806	**134,217**	***1,266,198***
Buildings	793,800	**727,812**	***6,866,151***
Machinery and equipment	2,246,576	**1,882,066**	***17,755,340***
Construction in progress	28,597	**19,868**	***187,434***
	3,202,779	**2,763,963**	***26,075,123***
Less accumulated depreciation	(2,212,227)	**(1,960,940)**	***(18,499,434)***
Property, plant and equipment, net	990,552	**803,023**	***7,575,689***
Intangible assets:			
Software	150,681	**142,530**	***1,344,623***
Goodwill (Note 8)	97,937	**66,045**	***623,066***
Other intangible assets	12,964	**11,354**	***107,113***
Total intangible assets	261,582	**219,929**	***2,074,802***
Total assets	¥4,225,361	**¥3,865,589**	***$36,467,821***

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

	Yen (millions) 2003	Yen (millions) 2004	U.S. Dollars (thousands) (Note 3) 2004
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term borrowings (Note 9)	¥ 302,666	**¥ 178,382**	***$ 1,682,849***
Current portion of long-term debt (Note 9)	203,425	**204,367**	***1,927,991***
Payables, trade (Note 16)	716,842	**796,915**	***7,518,066***
Accrued expenses	331,485	**316,404**	***2,984,943***
Customers' advances	31,665	**29,960**	***282,642***
Accrued income taxes	30,880	**26,744**	***252,302***
Other current liabilities (Note 11)	148,261	**165,290**	***1,559,339***
Total current liabilities	1,765,224	**1,718,062**	***16,208,132***
Long-term liabilities:			
Long-term debt (Note 9)	1,257,678	**894,372**	***8,437,472***
Accrued retirement benefits (Note 10)	125,475	**79,200**	***747,170***
Provision for loss on repurchase of computers	75,047	**68,214**	***643,528***
Other long-term liabilities (Note 11)	84,991	**88,104**	***831,170***
Total long-term liabilities	1,543,191	**1,129,890**	***10,659,340***
Minority interests in consolidated subsidiaries	214,556	**190,460**	***1,796,792***
Shareholders' equity:			
Common stock (Note 12)			
Authorized—5,000,000,000 shares			
Issued			
2003—2,001,962,672 shares	324,624		
2004—2,001,962,672 shares		**324,624**	***3,062,491***
Capital surplus	519,720	**455,963**	***4,301,538***
Retained earnings (Deficit)	(60,718)	**(35,734)**	***(337,113)***
Unrealized gains on securities, net of taxes	2,152	**149,629**	***1,411,594***
Revaluation surplus on land, net of taxes	3,938	**3,453**	***32,575***
Foreign currency translation adjustments	(86,517)	**(69,901)**	***(659,443)***
Treasury stock, at cost	(809)	**(857)**	***(8,085)***
Total shareholders' equity	702,390	**827,177**	***7,803,557***
Commitments and contingent liabilities (Note 13)			
Total liabilities, minority interests and shareholders' equity	¥4,225,361	**¥3,865,589**	***$36,467,821***

Years ended March 31	2002	2003	Yen (millions) 2004	U.S. Dollars (thousands) (Note 3) 2004
Net sales	¥5,006,977	¥4,617,580	**¥4,766,888**	***$44,970,642***
Operating costs and expenses:				
Cost of sales	3,731,257	3,328,261	**3,460,932**	***32,650,302***
Selling, general and administrative expenses (Note 18)	1,350,146	1,188,892	**1,155,614**	***10,902,019***
	5,081,403	4,517,153	**4,616,546**	***43,552,321***
Operating income (loss)	(74,426)	100,427	**150,342**	***1,418,321***
Other income (expenses):				
Interest and dividend income	10,480	8,495	**6,668**	***62,906***
Equity in earnings of affiliates, net	2,676	570	**(862)**	***(8,132)***
Interest charges	(43,126)	(29,913)	**(23,331)**	***(220,104)***
Other, net (Note 18)	(490,337)	(227,185)	**24,201**	***228,311***
	(520,307)	(248,033)	**6,676**	***62,981***
Income (loss) before income taxes and minority interests	(594,733)	(147,606)	**157,018**	***1,481,302***
Income taxes (Note 11)**:**				
Current	35,122	36,188	**34,125**	***321,934***
Deferred	(234,542)	(64,977)	**58,085**	***547,972***
	(199,420)	(28,789)	**92,210**	***869,906***
Income (loss) before minority interests	(395,313)	(118,817)	**64,808**	***611,396***
Minority interests in (income) loss of consolidated subsidiaries	12,771	(3,249)	**(15,104)**	***(142,490)***
Net income (loss)	¥ (382,542)	¥ (122,066)	**¥ 49,704**	***$ 468,906***

			Yen	U.S. Dollars (Note 3)
Amounts per share of common stock:				
Basic earnings (loss) (Note 17)	¥(193.0)	¥(61.3)	**¥24.5**	***$0.231***
Diluted earnings (loss) (Note 17)	(193.0)	(61.3)	**22.2**	***0.209***
Cash dividends	5.0	—	**3.0**	***0.028***

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

Years ended March 31	2002	2003	Yen (millions) 2004	U.S. Dollars (thousands) (Note 3) 2004
Common stock:				
Balance at beginning of year	¥ 314,652	¥ 324,624	**¥ 324,624**	***$3,062,491***
Conversion of bonds	9,707	—	**—**	***—***
Increase as a result of stock exchange	265	—	**—**	***—***
Balance at end of year	¥ 324,624	¥ 324,624	**¥ 324,624**	***$3,062,491***
Capital surplus:				
Balance at beginning of year	¥ 505,449	¥ 519,720	**¥ 519,720**	***$4,903,019***
Conversion of bonds	9,707	—	**—**	***—***
Increase as a result of stock exchange	4,564	—	**—**	***—***
Gain on sales of treasury stocks	—	—	**16**	***151***
Decrease as a result of deconsolidation of equity method affiliates	—	—	**(63,773)**	***(601,632)***
Balance at end of year	¥ 519,720	¥ 519,720	**¥ 455,963**	***$4,301,538***
Retained earnings (Deficit):				
Balance at beginning of year	¥ 483,709	¥ 76,176	**¥ (60,718)**	***$ (572,811)***
Net income (loss)	(382,542)	(122,066)	**49,704**	***468,906***
Cash dividends paid	(14,842)	(5,005)	**—**	***—***
Bonuses to directors and statutory auditors	(998)	(598)	**(620)**	***(5,849)***
Decrease as a result of deconsolidation of equity method affiliates	—	—	**(27,706)**	***(261,378)***
Other, net	(9,151)	(9,225)	**3,606**	***34,019***
Balance at end of year	¥ 76,176	¥ (60,718)	**¥ (35,734)**	***$ (337,113)***
Unrealized gains on securities, net of taxes:				
Balance at beginning of year	¥ 19,035	¥ 10,417	**¥ 2,152**	***$ 20,302***
Increase (decrease)	(8,618)	(8,265)	**147,477**	***1,391,292***
Balance at end of year	¥ 10,417	¥ 2,152	**¥ 149,629**	***$1,411,594***
Revaluation surplus on land, net of taxes:				
Balance at beginning of year	¥ —	¥ 4,311	**¥ 3,938**	***$ 37,151***
Increase (decrease)	4,311	(373)	**(485)**	***(4,576)***
Balance at end of year	¥ 4,311	¥ 3,938	**¥ 3,453**	***$ 32,575***
Foreign currency translation adjustments:				
Balance at beginning of year	¥(108,451)	¥ (81,323)	**¥ (86,517)**	***$ (816,198)***
Change during the period	27,128	(5,194)	**16,616**	***156,755***
Balance at end of year	¥ (81,323)	¥ (86,517)	**¥ (69,901)**	***$ (659,443)***
Treasury stock:				
Balance at beginning of year	¥ (11)	¥ (169)	**¥ (809)**	***$ (7,632)***
(Increase) decrease	(158)	(640)	**(48)**	***(453)***
Balance at end of year	¥ (169)	¥ (809)	**¥ (857)**	***$ (8,085)***

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

Years ended March 31	2002	2003	Yen (millions) 2004	U.S. Dollars (thousands) (Note 3) 2004
Cash flows from operating activities (A):				
Income (loss) before income taxes and minority interests	¥(594,733)	¥ (147,606)	**¥ 157,018**	***$ 1,481,302***
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	417,867	325,618	**261,805**	***2,469,858***
Goodwill amortization	21,090	17,667	**31,144**	***293,811***
Accrual (payments) for retirement benefits	12,638	8,936	**22,923**	***216,255***
Provision for loss on repurchase of computers	30,594	26,063	**33,329**	***314,425***
Reversal of provision for loss on repurchase of computers	(35,279)	(35,191)	**(40,161)**	***(378,877)***
Interest charges	43,126	29,913	**23,331**	***220,104***
Interest and dividend income	(10,480)	(8,495)	**(6,668)**	***(62,906)***
Equity in earnings of affiliates, net	(2,676)	(570)	**862**	***8,132***
Disposal of non-current assets	177,152	53,855	**30,714**	***289,755***
Gain on transfer of substitutional portion of employees' pension funds	—	—	**(146,532)**	***(1,382,377)***
Gain on sales of marketable securities	—	(29,362)	**(134,624)**	***(1,270,038)***
(Increase) decrease in receivables, trade	294,617	63,246	**(101,803)**	***(960,406)***
(Increase) decrease in inventories	272,898	39,538	**42,637**	***402,236***
(Increase) decrease in other current assets	47,232	(33,062)	**6,628**	***62,528***
Increase (decrease) in payables, trade	(210,938)	(60,500)	**158,327**	***1,493,651***
Increase (decrease) in other current liabilities	40,215	(60,800)	**13,608**	***128,377***
Other, net	(49,101)	(16,249)	**3,865**	***36,462***
Cash generated from operations	454,222	173,001	**356,403**	***3,362,292***
Interest paid	(45,458)	(30,920)	**(24,142)**	***(227,754)***
Interest received	6,877	6,422	**2,763**	***26,066***
Dividends received	6,686	8,282	**6,358**	***59,981***
Income taxes paid	(115,756)	(38,988)	**(37,337)**	***(352,236)***
Net cash provided by (used in) operating activities	306,571	117,797	**304,045**	***2,868,349***
Cash flows from investing activities (B):				
Purchases of property, plant and equipment	(347,841)	(163,503)	**(141,596)**	***(1,335,811)***
Proceeds from sales of property, plant and equipment	15,184	91,779	**47,841**	***451,330***
Purchases of intangible assets	(71,375)	(66,524)	**(59,423)**	***(560,594)***
Purchases of investment securities	(26,220)	(34,279)	**(47,205)**	***(445,330)***
Proceeds from sales of investment securities	7,538	98,303	**269,110**	***2,538,773***
Other, net	13,251	9,809	**(1,338)**	***(12,623)***
Net cash provided by (used in) investing activities	(409,463)	(64,415)	**67,389**	***635,745***
A+B (*)	(102,892)	53,382	**371,434**	***3,504,094***

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.

Years ended March 31	2002	2003	Yen (millions) 2004	*U.S. Dollars (thousands) (Note 3) 2004*
Cash flows from financing activities:				
Proceeds from long-term debt	448,947	358,615	**57,150**	***539,151***
Repayment of long-term debt	(296,718)	(222,779)	**(197,876)**	***(1,866,755)***
Increase (decrease) in short-term borrowings	(36,191)	(105,167)	**(76,741)**	***(723,971)***
Increase (decrease) in minority interests	17,032	(2,702)	**10,700**	***100,943***
Dividends paid	(14,842)	(5,005)	**—**	***—***
Other, net	(26,916)	(90,199)	**(33,135)**	***(312,594)***
Net cash provided by (used in) financing activities	91,312	(67,237)	**(239,902)**	***(2,263,226)***
Effect of exchange rate changes on cash and cash equivalents	1,014	(3,230)	**(3,199)**	***(30,179)***
Net increase (decrease) in cash and cash equivalents	(10,566)	(17,085)	**128,333**	***1,210,689***
Cash and cash equivalents at beginning of year	309,984	299,418	**282,333**	***2,663,519***
Cash and cash equivalents of newly consolidated subsidiaries	—	—	**3,160**	***29,811***
Cash and cash equivalents at end of year	¥ 299,418	¥ 282,333	**¥ 413,826**	***$ 3,904,019***
Noncash investing and financing activities:				
Acquisition of assets under finance leases	¥ 24,238	¥ 32,696	**¥ 32,084**	***$ 302,679***
Contribution of assets to an affiliated company	—	—	**63,949**	***603,292***
Conversion of bonds into common stock and capital surplus	19,414	—	**—**	***—***

1. Significant Accounting Policies

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, 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 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 and accounting standards in other countries in certain respects as to application and disclosure requirements. The differences between the accounting principles and practices adopted by the Group and those prescribed by International Financial Reporting Standards are set forth in Note 2.

(b) Principles of consolidation

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.

(c) Cash equivalents

For the purpose of the statement of cash flows, the Group considers all short-term, highly liquid instruments with a maturity of three months or less to be cash equivalents.

(d) 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.

(e) Revenue recognition

Revenue from sales of IT systems and products including 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.

(f) 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.

(g) Allowance for doubtful accounts

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

(h) 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.

(i) 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 devalued based on consideration of their future usefulness.

(j) Intangible assets

Goodwill is amortized by the straight-line method over periods not exceeding 20 years.

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.

(k) Leases

Receivable accounts recognized by the lessors in finance lease transactions are recorded as lease receivables and assets acquired by lessees in finance lease transactions are recorded in the corresponding asset accounts.

(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.

(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 the 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

The Group is discussing the requirements for adoption of International Financial Reporting Standards. The Group believes at present that there are certain differences between the accounting principles and practices adopted by the Group and those prescribed by International Financial Reporting Standards ("IFRS/IAS") at March 31, 2004, which are presented below.

This note is out of scope of the audit.

Software development contracts

Under IAS 11, revenue and costs associated with construction contracts should be recognized by the percentage-of-completion method when the outcome of the contracts can be estimated reliably. The Group generally recognizes revenue and costs associated with software development contracts, which should be accounted for as construction contracts under IAS 11, at the acceptance by the customers as indicated in section (e) of "Significant Accounting Policies."

In addition, under IAS 11, the expected loss should be recognized immediately when it is probable that total contract costs will exceed total contract revenue. The Group recognized the expected loss from the software development contracts which were proved to be unprofitable at March 31, 2004 as "restructuring charges."

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 section (h) of "Significant Accounting Policies." 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.

Impairment of assets

Under IAS 36, upon impairment of assets, the book value should be devaluated to the recoverable amount. The impairment rule will not be applied mandatorily in Japan until the year ended March 31, 2006. Therefore the effects on the aggregate value of assets based on IAS 36 are not calculated. However, the Group takes into consideration the recoverability of assets based on future business activities.

Goodwill

Under IFRS 3, goodwill should not be amortized and the impairment rule should be applied in accordance with IAS 36. The Group amortizes goodwill by the straight-line method over periods not exceeding 20 years as indicated in section (j) of "Significant Accounting Policies" and does not apply the impairment rule.

Retirement benefits (Note 10)

Under IAS 19, the unrecognized net obligation upon the application of a new accounting standard should be recognized immediately. The accounting procedure for this obligation is indicated in Note 10.

As a result of future revisions of IFRS/IAS or the other effects, there is a possibility that certain differences may arise for the accounting procedures that are not discussed above (such as financial instruments).

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 ¥106 = US$1, the approximate exchange rate at March 31, 2004.

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, 2003 and 2004, marketable securities included in "short-term investments" and "other investments and long-term loans" were as follows:

	Yen (millions)		*U.S. Dollars (thousands)*
	2003	2004	*2004*
Held-to-maturity investments			
Carrying value (Amortized cost)	¥ 1,509	**¥ 2,208**	***$ 20,830***
Market value	1,506	**2,225**	***20,990***
Net unrealized gain (loss)	¥ (3)	**¥ 17**	***$ 160***
Available-for-sale securities			
Acquisition costs	¥79,214	**¥ 64,794**	***$ 611,264***
Carrying value (Market value)	82,981	**317,891**	***2,998,972***
Net unrealized gain	¥ 3,767	**¥253,097**	***$2,387,708***

After a certain portion of shares in Fanuc Ltd. was sold for the year ended March 31, 2004, the remaining shares were stated as available-for-sale securities. At March 31, 2004, available-for-sale securities' acquisition costs, carrying value (market value) and net unrealized gain on investments in Fanuc Ltd. were ¥379 million ($3,576 thousand), ¥218,585 million ($2,062,123 thousand) and ¥218,206 million ($2,058,547 thousand), respectively.

5. Inventories

Inventories at March 31, 2003 and 2004 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
	2003	2004	2004
Finished goods	¥218,307	**¥193,039**	***$1,821,123***
Work in process	273,442	**240,637**	***2,270,160***
Raw materials	104,235	**87,450**	***825,000***
	¥595,984	**¥521,126**	***$4,916,283***

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	2003	2004	2004
Current assets	¥ 968,409	**¥ 778,871**	***$ 7,347,839***
Non-current assets	483,473	**450,182**	***4,247,000***
	1,451,882	**1,229,053**	***11,594,839***
Current liabilities	361,863	**616,255**	***5,813,726***
Long-term liabilities	194,605	**275,723**	***2,601,160***
Net assets	¥ 895,414	**¥ 337,075**	***$ 3,179,953***

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2002	2003	2004	2004
Net sales	¥1,163,438	¥1,214,169	**¥1,393,351**	***$13,144,821***
Net income (loss)	(8,803)	445	**39,994**	***377,302***

The carrying and market values of the shares of the publicly listed equity method affiliates at March 31, 2003 and 2004 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2003	2004	2004
Carrying value	¥ 202,621	**¥ 18,148**	***$ 171,208***
Market value	391,237	**79,581**	***750,764***

Carrying and market values at March 31, 2003 consisted of ¥186,801 million and ¥363,304 million, respectively, for Fanuc Ltd. After a certain portion of shares in Fanuc Ltd. was sold for the year ended March 31, 2004, the remaining shares were no longer treated as investments in affiliates at March 31, 2004.

At March 31, 2003 and 2004, the amount of ¥19,373 million ($182,764 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, 2003 and 2004, JECC's issued share capital was ¥65,700 million ($619,811 thousand). Its net sales for the years ended March 31, 2002, 2003 and 2004 amounted to ¥289,340 million, ¥295,987 million and ¥303,285 million ($2,861,179 thousand), respectively.

As a result of reformation, Flash memory operations, Fujitsu Leasing Co., Ltd. and FDK Corporation were shifted from consolidated subsidiaries to equity method affiliates. The aggregate total assets and liabilities of these companies at the shift are presented below:

	Yen (millions)	U.S. Dollars (thousands)
Current assets	**¥ 146,751**	***$ 1,384,443***
Non-current assets	**335,255**	***3,162,783***
	¥ 482,006	***$ 4,547,226***
Current liabilities	**¥ 205,804**	***$ 1,941,547***
Long-term liabilities	**168,412**	***1,588,793***
	¥ 374,216	***$ 3,530,340***

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	2003	2004	2004
Land			
Balance at beginning of year, net	¥140,602	**¥133,806**	***$1,262,321***
Additions	10	**4,728**	***44,603***
Translation differences	(882)	**(588)**	***(5,547)***
Other, net	(5,924)	**(3,729)**	***(35,179)***
Balance at end of year, net	¥133,806	**¥134,217**	***$1,266,198***
Buildings			
Balance at beginning of year, net	¥354,412	**¥327,343**	***$3,088,142***
Additions	15,532	**25,621**	***241,708***
Depreciation	31,226	**28,165**	***265,708***
Translation differences	(3,009)	**(4,318)**	***(40,736)***
Other, net	(8,366)	**(44,222)**	***(417,189)***
Balance at end of year, net	¥327,343	**¥276,259**	***$2,606,217***

Other, net for the year ended March 31, 2004 mainly consisted of decrease due to the shifting of Flash memory operations and FDK Corporation from consolidated subsidiaries to equity method affiliates, the securitization of Fujitsu Solution Square (located in Kamata, Tokyo), and the sales of other properties that had been used for employees' welfare.

Machinery and equipment			
Balance at beginning of year, net	¥656,767	**¥500,806**	***$4,724,585***
Additions	174,669	**135,389**	***1,277,255***
Depreciation	244,506	**177,174**	***1,671,453***
Translation differences	(8,029)	**(8,756)**	***(82,604)***
Other, net	(78,095)	**(77,586)**	***(731,943)***
Balance at end of year, net	¥500,806	**¥372,679**	***$3,515,840***

Other, net for the year ended March 31, 2003 mainly consisted of sales or disposal of machinery and equipment upon restructuring. Other, net for the year ended March 31, 2004 mainly consisted of decrease due to the shifting of Flash memory operations and FDK Corporation from consolidated subsidiaries to equity method affiliates.

Construction in progress			
Balance at beginning of year, net	¥ 45,685	**¥ 28,597**	***$ 269,783***
Additions	118,711	**106,544**	***1,005,132***
Translation differences	(801)	**(350)**	***(3,302)***
Transfers	(134,998)	**(114,923)**	***(1,084,179)***
Balance at end of year, net	¥ 28,597	**¥ 19,868**	***$ 187,434***

8. Goodwill

An analysis of goodwill is presented below:

		Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2003	2004	2004
Balance at beginning of year	¥116,631	**¥ 97,937**	***$ 923,934***
Additions	2,023	**114**	***1,075***
Amortization	17,667	**31,144**	***293,811***
Translation differences	(3,050)	**(862)**	***(8,132)***
Balance at end of year	¥ 97,937	**¥ 66,045**	***$ 623,066***

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2003 and 2004 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
	2003	2004	*2004*
Loans, principally from banks, with weighted average interest rates of 1.11% at March 31, 2003 and 0.99% at March 31, 2004:			
Secured	¥ 2,945	**¥ 833**	***$ 7,858***
Unsecured	295,721	**177,549**	***1,674,991***
Commercial paper, with the weighted average interest rate of 0.10% at March 31, 2003:			
Unsecured	4,000	**—**	***—***
	¥302,666	**¥178,382**	***$1,682,849***

Long-term debt at March 31, 2003 and 2004 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
	2003	2004	*2004*
Loans, principally from banks and insurance companies, due 2003 to 2020 with the weighted average interest rate of 1.63% at March 31, 2003 and due 2004 to 2020 with the weighted average interest rate of 2.12% at March 31, 2004:			
Secured	¥ 6,325	**¥ 3,233**	***$ 30,500***
Unsecured	483,684	**220,104**	***2,076,453***
Bonds and notes issued by the Company:			
1.4% unsecured convertible bonds due 2004	39,617	**39,617**	***373,745***
2.0% unsecured convertible bonds due 2004	15,577	**—**	***—***
zero coupon unsecured convertible bonds due 2009	250,000	**250,000**	***2,358,492***
3.225% unsecured bonds due 2003	30,000	**—**	***—***
2.425% unsecured bonds due 2003	50,000	**—**	***—***
2.875% unsecured bonds due 2006	50,000	**50,000**	***471,698***
2.575% unsecured bonds due 2004	50,000	**50,000**	***471,698***
3.15% unsecured bonds due 2009	50,000	**50,000**	***471,698***
2.3% unsecured bonds due 2007	50,000	**50,000**	***471,698***
2.325% unsecured bonds due 2008	50,000	**50,000**	***471,698***
3.0% unsecured bonds due 2018	30,000	**30,000**	***283,019***
2.175% unsecured bonds due 2008	50,000	**50,000**	***471,698***
2.15% unsecured bonds due 2008	50,000	**50,000**	***471,698***
0.64% unsecured bonds due 2006	100,000	**100,000**	***943,396***
0.31% unsecured bonds due 2004	80,000	**80,000**	***754,717***
Bonds and notes issued by consolidated subsidiaries: due 2003 to 2006 with the weighted average interest rate of 1.34% at March 31, 2003 and due 2005 to 2006 with the weighted average interest rate of 1.38% at March 31, 2004:			
Unsecured	25,900	**25,785**	***243,255***
Less amounts due within one year	(203,425)	**(204,367)**	***(1,927,991)***
	¥1,257,678	**¥894,372**	***$8,437,472***

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2003 and 2004 are principally presented below:

	Yen (millions)		U.S. Dollars (thousands)
	2003	2004	*2004*
Property, plant and equipment, net	¥17,909	**¥6,268**	***$59,132***

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.

At March 31, 2004, the Group had committed line contracts with banks aggregating ¥265,499 million ($2,504,708 thousand). Of the total credit limit, ¥107,014 million ($1,009,566 thousand) was used as the above short-term and long-term borrowings, and the rest ¥158,485 million ($1,495,142 thousand) was unused.

The current conversion prices of the 1.4% and zero coupon convertible bonds issued by the Company are ¥1,751.50 and ¥1,201.00 per share, respectively. Each conversion price is subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 2004, these convertible bonds were convertible into approximately 231 million shares of common stocks.

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, 2004 are summarized as follows:

Years ending March 31	Yen (millions)	U.S. Dollars (thousands)
2005	**¥204,367**	***$1,927,991***
2006	**107,151**	***1,010,858***
2007	**167,097**	***1,576,387***
2008	**160,481**	***1,513,972***
2009 and thereafter	**459,643**	***4,336,254***

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

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 Welfare 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 Welfare Pension Fund which is an external organization. Regarding the employees' pension plan, in response to the enactment of the Japanese Welfare Pension Insurance Law on defined-benefit pension plans, the Fujitsu Welfare Pension Fund applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion, and on March 23, 2004 received approval of the exemption from the Minister of Health, Labour and Welfare.

The majority of the consolidated subsidiaries outside Japan have defined benefit plans and/or defined contribution plans covering substantially all their employees.

The balances of the projected benefit obligation and plan assets, funded status and the amounts recognized in the consolidated financial statements as of March 31, 2003 and 2004, and the components of net periodic benefit cost for the years ended March 31, 2002, 2003 and 2004 are summarized as follows:

Projected benefit obligation and plan assets

	Yen (millions)		U.S.Dollars (thousands)
At March 31 (Consolidated domestic accounts)	2003	2004	*2004*
Projected benefit obligation	¥(1,677,032)	**¥(1,209,288)**	***$(11,408,377)***
Plan assets	809,565	**799,058**	***7,538,283***
Projected benefit obligation in excess of plan assets	(867,467)	**(410,230)**	***(3,870,094)***
Unrecognized net obligation at transition	183,011	**98,874**	***932,773***
Unrecognized actuarial loss	658,079	**335,285**	***3,163,066***
Unrecognized prior service cost (reduced obligation)	(69,840)	**(682)**	***(6,434)***
Prepaid pension cost	(29,258)	**(102,447)**	***(966,481)***
Accrued retirement benefits	¥ (125,475)	**¥ (79,200)**	***$ (747,170)***

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.

The amount of pension assets which were to be transferred to the Japanese Government was valued at ¥310,657 million ($2,930,726 thousand) at March 31, 2004.

The figures presented above for the year ended March 31, 2003 included the substitutional portion of benefit obligation.

Components of net periodic benefit cost

	Yen (millions)			*U.S.Dollars (thousands)*
Years ended March 31 (Consolidated domestic accounts)	2002	2003	2004	*2004*
Service cost	¥ 59,307	¥ 57,011	**¥ 53,613**	***$ 505,783***
Interest cost	46,777	49,363	**48,004**	***452,868***
Expected return on plan assets	(41,400)	(42,654)	**(36,125)**	***(340,802)***
Amortization of unrecognized obligation for retirement benefits:				
Amortization of net obligation at transition	26,311	26,487	**25,435**	***239,953***
Amortization of actuarial loss	18,508	26,403	**39,578**	***373,377***
Amortization of prior service cost	(9,095)	(8,989)	**(8,070)**	***(76,132)***
Net periodic benefit cost	¥100,408	¥107,621	**¥122,435**	***$1,155,047***
Gain on transfer of substitutional portion of employees' pension funds	—	—	**(146,532)**	***(1,382,377)***
Total	¥100,408	¥107,621	**¥ (24,097)**	***$ (227,330)***

The assumptions used in accounting for the plans

At March 31 (Consolidated domestic accounts)	2003	2004
Discount rate	3.0%	**2.5%**
Expected rate of return on plan assets	4.3%	**4.5%**
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 obligation	Straight-line method over 10 years	**Straight-line method over 10 years**
Amortization period for net obligation at transition	The Company: Fully recognized at transition Consolidated subsidiaries in Japan: 10 years	**The Company: Fully recognized at transition** **Consolidated subsidiaries in Japan: 10 years**

Under a new accounting standard in Japan for the year ended March 31, 2001, the Company fully recognized in income the Company's 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.

The major defined benefit pension plan provided outside Japan is the plan that Fujitsu Services group provides in the UK. This plan is subject to formal actuarial valuation in accordance with the UK accounting standard SSAP24 (Statements of Standard Accounting Practice 24).

The Accounting Standards Board of the UK has issued a new UK accounting standard, FRS17 (Financial Reporting Standard 17). It is proposed that FRS17 will be fully effective as the replacement of SSAP24 for accounting periods beginning on or after January 1, 2005. In accordance with the transitional arrangements set out in FRS17, certain disclosures are required using different measurement bases laid down in FRS17.

The projected benefit obligation and the fair value of the plan assets in accordance with FRS17 are summarized as follows:

Projected benefit obligation and plan assets

	Yen (millions)		*U.S.Dollars (thousands)*
At March 31	2003	2004	*2004*
Projected benefit obligation	¥(322,898)	**¥(348,759)**	***$(3,290,179)***
Plan assets	207,637	**257,427**	***2,428,556***
Deficit in the Plan	¥(115,261)	**¥ (91,332)**	***$ (861,623)***
Discount rate	5.75%	**5.90%**	

11. Income Taxes

The Group is subject to a number of different income taxes. The statutory tax rates in Japan for the year ended March 31, 2002, 2003 and 2004 were approximately 42% in the aggregate.

The components of income taxes are as follows:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2002	2003	2004	*2004*
Current	¥ 35,122	¥ 36,188	**¥ 34,125**	***$ 321,934***
Deferred	(234,542)	(77,015)	**58,085**	***547,972***
Effect of change in statutory tax rate	—	12,038	**—**	***—***
Income taxes	¥(199,420)	¥ (28,789)	**¥ 92,210**	***$ 869,906***

The reconciliations between applicable statutory income tax and the effective income tax rate for the year ended March 31, 2002, 2003 and 2004 are as follows:

	2002	2003	2004
Statutory Income tax rate	42.0%	42.0%	**42.0%**
Increase (Decrease) in tax rate:			
Tax effect on prior losses of subsidiaries	6.2%	—	**(72.5%)**
Valuation allowance for deferred tax assets	(12.0%)	(10.1%)	**53.2%**
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	—	—	**26.6%**
Amortization of goodwill	(1.0%)	(5.0%)	**8.1%**
Non-deductible expenses for tax purposes	(0.5%)	(2.1%)	**1.7%**
Tax effect on equity in earnings of affiliates, net	0.2%	0.2%	**(1.1%)**
Non-taxable income	0.3%	3.1%	**(0.6%)**
Effect of change in statutory tax rate	—	(8.2%)	**—**
Other	(1.7%)	(0.4%)	**1.3%**
Effective income tax rate	33.5%	19.5%	**58.7%**

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2004 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2003	2004	*2004*
Deferred tax assets:			
Tax loss carryforwards	¥ 455,928	**¥ 402,881**	***$ 3,800,764***
Accrued retirement benefits	229,780	**189,402**	***1,786,811***
Accrued employee benefits	32,766	**35,949**	***339,142***
Provision for loss on repurchase of computers	19,894	**19,645**	***185,330***
Intercompany profit on inventory and property, plant and equipment	9,104	**10,106**	***95,340***
Other	56,051	**62,132**	***586,151***
Gross deferred tax assets	803,523	**720,115**	***6,793,538***
Less:			
Valuation allowance on tax loss carryforwards	(226,956)	**(204,111)**	***(1,925,576)***
Other valuation allowance	(21,685)	**(13,610)**	***(128,396)***
Total valuation allowance	(248,641)	**(217,721)**	***(2,053,972)***
Total deferred tax assets	554,882	**502,394**	***4,739,566***
Deferred tax liabilities:			
Gains from establishment of stock holding trust for retirement benefit plan	¥(206,699)	**¥(206,699)**	***$(1,949,990)***
Unrealized gains on securities	(1,906)	**(102,552)**	***(967,472)***
Retained earnings appropriated for tax allowable reserves	(8,074)	**(10,816)**	***(102,038)***
Other	(1,639)	**(2,060)**	***(19,434)***
Gross deferred tax liabilities	(218,318)	**(322,127)**	***(3,038,934)***
Net deferred tax assets	¥ 336,564	**¥ 180,267**	***$ 1,700,632***

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

At March 31	Yen (millions) 2003	2004	U.S. Dollars (thousands) 2004
Other current assets	¥ 115,900	**¥ 103,449**	***$ 975,934***
Other investments and long-term loans-Others	233,269	**89,868**	***847,811***
Other current liabilities	(82)	**(6,448)**	***(60,830)***
Other long-term liabilities	(12,523)	**(6,602)**	***(62,283)***
Net deferred tax assets	¥ 336,564	**¥ 180,267**	***$ 1,700,632***

The Company and the wholly owned subsidiaries in Japan have adopted the consolidated tax return system of Japan effective for and after the year ended March 31, 2003.

The tax loss carryforwards expire at various dates, but extend up to 7 years in Japan and primarily 20 years outside Japan. Realization depends on the abilities of the companies to generate sufficient taxable income prior to the expiration of the tax loss carryforwards. Deferred tax assets have been recorded for the loss carryforwards except for those that are unlikely to be realized.

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.

Deferred tax assets have not been provided for losses of subsidiaries except for those expected to be realized.

12. Shareholders' Equity

The changes in the number of issued shares of common stock for the years ended March 31, 2002, 2003 and 2004 were as follows:

	Number of shares 2002	2003	2004
Balance at beginning of year	1,977,227,929	2,001,962,672	**2,001,962,672**
Conversion of convertible bonds	19,452,895	—	**—**
Increase as a result of stock exchange	5,281,848	—	**—**
Balance at end of year	2,001,962,672	2,001,962,672	**2,001,962,672**

An increase as a result of stock exchange for the year ended March 31, 2002 reflected the issuance of shares by which the Company turned Fujitsu Systems Construction Ltd. into a wholly owned subsidiary.

13. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2004 for purchases of property, plant and equipment were approximately ¥940 million ($8,868 thousand).

Contingent liabilities for guarantee contracts amounted to ¥50,028 million ($471,962 thousand) at March 31, 2004. Of the total contingent liabilities, guarantees given for loans by FASL LLC (the company name was altered to Spansion LLC at June 28, 2004) group were ¥26,162 million ($246,811 thousand) and for employees' housing loans were ¥12,508 million ($118,000 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 their risk exposure arising from fluctuations in these rates, to reduce the cost of the funds financed, and to improve their return on invested funds.

Basic Policies for Derivative Trading

The Group basically enters into derivative transactions only to cover their 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 their 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 their hedging.

Hedge Accounting

The Group has adopted 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, 2003 and 2004, all derivative financial instruments were stated at fair market value and recorded on the balance sheet.

15. Leases

Lessors

On September 30, 2004, Fujitsu Leasing Co., Ltd. was shifted from a consolidated subsidiary to an equity method affiliate and no lease payments receivable was consolidated at March 31, 2004.

The following is a summary of minimum lease payments receivable, present value, unearned finance income, and accumulated allowance for uncollectible minimum lease payments receivable, under finance leases operated by Fujitsu Leasing Co., Ltd. at March 31, 2003.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2003	2004	2004
Minimum lease payments receivable			
Within one year	¥ 61,951	¥ —	$ —
Over one year but within five years	113,971	—	—
Over five years	1,421	—	—
Total	¥177,343	¥ —	$ —
The present value of minimum lease payments receivable			
Within one year	¥ 52,438	¥ —	$ —
Over one year but within five years	98,156	—	—
Over five years	1,224	—	—
Total	¥151,818	¥ —	$ —

At March 31, 2003, unearned finance income totaled ¥25,525 million and an accumulated allowance for uncollectible minimum lease payments receivable was ¥1,012 million.

At March 31, 2003, future minimum lease payments received within one year under non-cancelable operating leases amounted ¥278 million.

Lessees

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, 2003 and 2004.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2003	2004	2004
Equivalent amounts of acquisition cost	¥82,286	**¥ 233,553**	***$ 2,203,330***
Accumulated depreciation	27,085	**140,019**	***1,320,934***
Book value of leased assets	55,201	**93,534**	***882,396***
Minimum lease payments required			
Within one year	16,286	**30,393**	***286,727***
Over one year but within five years	39,027	**67,336**	***635,245***
Over five years	322	**2,582**	***24,358***
Total	¥ 55,635	**¥ 100,311**	***$ 946,330***

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	2003	2004	2004
Within one year	¥ 8,672	**¥10,821**	***$ 102,085***
Over one year but within five years	16,475	**29,955**	***282,594***
Over five years	7,912	**20,443**	***192,859***
Total	¥33,059	**¥ 61,219**	***$ 577,538***

16. Supplementary Information to the Consolidated Balance Sheets

Balances with affiliates at March 31, 2003 and 2004 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2003	2004	2004
Receivables, trade	¥50,616	**¥43,457**	***$409,972***
Payables, trade	47,102	**67,277**	***634,089***

17. Earnings Per Share

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2002	2003	2004	2004
Net income (loss)	¥ (382,542)	¥ (122,066)	**¥49,704**	***$468,906***
Bonuses to directors and statutory auditors from retained earnings (deficit)		(582)	**(596)**	***(5,623)***
Net income (loss) for common stock shareholders		(122,648)	**49,108**	***463,283***
Effect of dilutive securities	—	—	**(1)**	***(9)***
Diluted net income (loss)	¥ (382,542)	¥ (122,648)	**¥49,107**	***$463,274***

	thousands		
Weighted average number of shares	1,982,251	2,001,138	**2,000,366**
Effect of dilutive securities	—	—	**208,159**
Diluted weighted average number of shares	1,982,251	2,001,138	**2,208,525**

	Yen			U.S. Dollars
Basic earnings (loss) per share	¥ (193.0)	¥ (61.3)	**¥ 24.5**	***$ 0.231***
Diluted earnings (loss) per share	(193.0)	(61.3)	**22.2**	***0.209***

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, 2002, 2003 and 2004 were ¥349,855 million, ¥285,735 million and ¥250,910 million ($2,367,075 thousand), respectively.

"Other income (expenses)—other, net" for the years ended March 31, 2002, 2003 and 2004 consisted of the following:

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2002	2003	2004	2004
Gain on transfer of substitutional portion of employees' pension funds	¥ —	¥ —	**¥146,532**	***$ 1,382,377***
Gain on sales of marketable securities	—	29,362	**134,624**	***1,270,038***
Gain on sales of property, plant and equipment	—	—	**13,649**	***128,764***
Gain on business transfer	—	14,536	**—**	***—***
Restructuring charges	(417,053)	(151,486)	**(164,202)**	***(1,549,075)***
Amortization of unrecognized obligation for retirement benefits	(35,724)	(43,901)	**(56,943)**	***(537,198)***
HDD litigation-related expenses	—	—	**(10,220)**	***(96,415)***
Loss on disposal of property, plant and equipment	(12,620)	(10,185)	**(7,142)**	***(67,377)***
Casualty loss	—	—	**(4,700)**	***(44,340)***
Cost of corrective measures for products	—	(30,600)	**—**	***—***
Loss on devaluation of marketable securities	(20,535)	(21,802)	**—**	***—***
Foreign exchange gains (losses), net	6,010	(5,710)	**(6,972)**	***(65,774)***
Other, net	(10,415)	(7,399)	**(20,425)**	***(192,689)***
	¥(490,337)	¥(227,185)	**¥ 24,201**	***$ 228,311***

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 property, plant and equipment 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.

Gain on business transfer for the year ended March 31, 2003 related to the transfer of a portion of the printer systems business to Fuji Xerox Co., Ltd.

Restructuring charges for the years ended March 31, 2002 and 2003 related mainly to the comprehensive structural reform of the Group in order to realign and rationalize its development and production in the Electronic Devices and Platforms businesses, as well as to withdraw from the business of small-form-factor magnetic disk drives for desktop PCs.

Restructuring charges for the year ended March 31, 2004 related to the cost of ¥75,775 million ($714,858 thousand) 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 ($644,491 thousand) 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 ($189,726 thousand) for reduction in force and disposal of assets with regard to restructuring of subsidiaries.

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.

HDD litigation-related expenses included expenses relating 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 related to repairing expenses incurred to cover damages to property as a result of the earthquake that occurred off the coast of Miyagi Prefecture, Japan, on May 26, 2003.

Cost of corrective measures for products for the year ended March 31, 2003 related to certain small-form-factor magnetic hard disk drives due to some procured parts that were found to be defective.

Please refer to Note 10 for Gain on transfer of substitutional portion of employees' pension funds.

19. Segment Information

Business Segment Information

Yen (millions)

Years ended March 31	Software & Services	Platforms	Electronic Devices	Financing	Other Operations	Elimination & Corporate	Consolidated
2002							
Sales							
Unaffiliated customers	¥2,085,863	¥2,015,226	¥546,555	¥114,472	¥244,861	¥ —	¥5,006,977
Intersegment	52,762	240,447	91,041	9,432	126,700	(520,382)	—
Total sales	2,138,625	2,255,673	637,596	123,904	371,561	(520,382)	5,006,977
Operating costs and expenses	1,980,771	2,313,234	746,908	119,678	371,305	(450,493)	5,081,403
Operating income (loss)	157,854	(57,561)	(109,312)	4,226	256	(69,889)	(74,426)
Total assets	1,193,072	1,368,610	895,015	250,202	464,965	423,940	4,595,804
Depreciation	89,244	127,197	173,483	46	10,706	11,455	412,131
Capital expenditure	85,870	83,125	186,902	25	9,681	12,601	378,204
2003							
Sales							
Unaffiliated customers	¥2,025,790	¥1,612,016	¥618,632	¥119,279	¥241,863	¥ —	¥4,617,580
Intersegment	72,167	231,260	68,816	9,148	137,082	(518,473)	—
Total sales	2,097,957	1,843,276	687,448	128,427	378,945	(518,473)	4,617,580
Operating costs and expenses	1,921,428	1,842,303	719,071	124,099	368,943	(458,691)	4,517,153
Operating income (loss)	176,529	973	(31,623)	4,328	10,002	(59,782)	100,427
Total assets	1,278,880	1,113,208	693,910	245,707	486,457	407,199	4,225,361
Depreciation	87,359	86,694	128,720	164	9,779	11,581	324,297
Capital expenditure	79,503	51,818	65,327	59	5,910	9,660	212,277

Years ended March 31	Software & Services	Platforms	Electronic Devices	Financing	Other Operations	Elimination & Corporate	Consolidated
							Yen (millions)
2004							
Sales							
Unaffiliated customers	**¥2,094,261**	**¥1,608,178**	**¥734,320**	**¥50,391**	**¥279,738**	**¥ —**	**¥4,766,888**
Intersegment	**52,112**	**224,705**	**70,365**	**4,027**	**138,554**	**(489,763)**	**—**
Total sales	**2,146,373**	**1,832,883**	**804,685**	**54,418**	**418,292**	**(489,763)**	**4,766,888**
Operating costs and expenses	**2,007,615**	**1,803,639**	**777,147**	**52,411**	**404,654**	**(428,920)**	**4,616,546**
Operating income (loss)	**138,758**	**29,244**	**27,538**	**2,007**	**13,638**	**(60,843)**	**150,342**
Total assets	**1,240,641**	**1,031,589**	**749,552**	**—**	**458,744**	**385,063**	**3,865,589**
Depreciation	**85,953**	**68,523**	**84,924**	**70**	**10,611**	**11,724**	**261,805**
Capital expenditure	**95,387**	**42,409**	**62,793**	**49**	**8,609**	**9,235**	**218,482**
							U.S. Dollars (thousands)
2004 (in U.S. Dollars)							
Sales							
Unaffiliated customers	***$19,757,179***	***$15,171,491***	***$6,927,547***	***$475,387***	***$2,639,038***	***$ —***	***$44,970,642***
Intersegment	***491,623***	***2,119,858***	***663,821***	***37,991***	***1,307,113***	***(4,620,406)***	***—***
Total sales	***20,248,802***	***17,291,349***	***7,591,368***	***513,378***	***3,946,151***	***(4,620,406)***	***44,970,642***
Operating costs and expenses	***18,939,764***	***17,015,462***	***7,331,575***	***494,444***	***3,817,491***	***(4,046,415)***	***43,552,321***
Operating income (loss)	***1,309,038***	***275,887***	***259,793***	***18,934***	***128,660***	***(573,991)***	***1,418,321***
Total assets	***11,704,160***	***9,731,972***	***7,071,245***	***—***	***4,327,774***	***3,632,670***	***36,467,821***
Depreciation	***810,877***	***646,443***	***801,170***	***660***	***100,104***	***110,604***	***2,469,858***
Capital expenditure	***899,877***	***400,085***	***592,387***	***462***	***81,217***	***87,123***	***2,061,151***

1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. For the year ended March 31, 2003, "Information Processing" and "Telecommunications" segments were combined into the new "Platforms" segment to reflect the ongoing fusion of computer and network products and technologies in the IT market, as well as the Group's strategic focus on providing integrated systems solutions that optimally combine servers, storage and networks. Segment information prior to and for the year ended March 31, 2002 has been restated.
3. Fujitsu Leasing Co., Ltd., an operating company under the "Financing" segment, was shifted from a consolidated subsidiary to an equity method affiliate at September 30, 2003.
4. The principal products and services of business segments are as follows:
   - (1) Software & Services — Systems construction (system integration services), introductory and operational support services, consulting services, comprehensive management of information systems (outsourcing services, IDC services), provision of network environment for information systems as well as various network services (network services, internet services), software, information and network systems maintenance and monitoring, information systems infrastructure construction and network construction
   - (2) Platforms — Servers (UNIX servers, IA servers, mainframes), peripheral equipment for information systems (disk array, etc.), personal computers, storage equipment (magnetic and magneto-optical disk drives), terminals (financial terminals, POS systems), mobile phone handsets, IP systems, fiber-optic transmission systems, mobile communication systems (3G base station systems)
   - (3) Electronic Devices — Logic ICs (System LSI, ASICs, microcontrollers, FRAM), memory ICs (Flash memory, FCRAM), semiconductor packages, compound semiconductors, SAW devices, electro-mechanical components, LCD panels, PDPs
   - (4) Financing — Leasing business
   - (5) Other Operations — Electronic materials, electronics-applied components, audio/navigation equipment, audio electronic devices, batteries
5. Unallocated operating costs and expenses included in "Elimination & Corporate" for the years ended March 31, 2002, 2003 and 2004 were ¥68,091 million, ¥57,822 million and ¥61,032 million ($575,774 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
6. Corporate assets included in "Elimination & Corporate" at March 31, 2002, 2003 and 2004 amounted to ¥1,046,282 million, ¥1,048,824 million and ¥955,034 million ($9,009,755 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.

Geographic Segment Information

Years ended March 31	Japan	Europe	The Americas	Others	Elimination & Corporate	Consolidated
						Yen (millions)
2002						
Sales						
Unaffiliated customers	¥3,759,770	¥ 591,691	¥ 403,915	¥ 251,601	¥ —	¥5,006,977
Intersegment	401,654	13,940	42,168	222,355	(680,117)	—
Total	4,161,424	605,631	446,083	473,956	(680,117)	5,006,977
Operating costs and expenses	4,108,109	623,610	503,515	468,046	(621,877)	5,081,403
Operating income (loss)	53,315	(17,979)	(57,432)	5,910	(58,240)	(74,426)
Total assets	2,910,468	424,049	304,847	234,406	722,034	4,595,804
2003						
Sales						
Unaffiliated customers	¥3,556,437	¥ 524,910	¥ 257,575	¥ 278,658	¥ —	¥4,617,580
Intersegment	332,151	18,130	20,595	185,505	(556,381)	—
Total	3,888,588	543,040	278,170	464,163	(556,381)	4,617,580
Operating costs and expenses	3,727,730	539,408	296,952	451,419	(498,356)	4,517,153
Operating income (loss)	160,858	3,632	(18,782)	12,744	(58,025)	100,427
Total assets	2,756,667	348,886	203,880	196,875	719,053	4,225,361
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	**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**
						U.S. Dollars (thousands)
2004 (in U.S. Dollars)						
Sales						
Unaffiliated customers	***$34,015,708***	***$5,137,670***	***$2,400,830***	***$3,416,434***	***$ —***	***$44,970,642***
Intersegment	***4,394,443***	***177,056***	***190,661***	***2,047,519***	***(6,809,679)***	***—***
Total	***38,410,151***	***5,314,726***	***2,591,491***	***5,463,953***	***(6,809,679)***	***44,970,642***
Operating costs and expenses	***36,488,142***	***5,251,650***	***2,715,651***	***5,336,557***	***(6,239,679)***	***43,552,321***
Operating income (loss)	***1,922,009***	***63,076***	***(124,160)***	***127,396***	***(570,000)***	***1,418,321***
Total assets	***22,750,311***	***3,281,802***	***2,133,227***	***1,952,764***	***6,349,717***	***36,467,821***

1. Classification of the geographic segments is determined by geographical location.
2. The principal countries and regions belonging to geographic segments other than Japan:
   (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, 2002, 2003 and 2004 were ¥68,091 million, ¥57,822 million and ¥61,032 million ($575,774 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, 2002, 2003 and 2004 amounted to ¥1,046,282 million, ¥1,048,824 million and ¥955,034 million ($9,009,755 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.

20. Related Party Transactions

This information is required by the Securities and Exchange Law of Japan.

For the year ended March 31, 2003, the Company entered into the transactions with its affiliate as follows:

- •Related party: Fanuc Ltd.
  - Common stock – ¥69,014 million
  - The Company's voting rights – 35.4%
  - Relationship with the Company – 2 concurrent board members
- •Transactions: The Company received Fanuc Ltd.'s self-tender offer and sold a part of its holding of Fanuc Ltd. shares to Fanuc Ltd.
- •Transactions date: August 27, 2002
- •Transactions amount: ¥78,473 million

For the year ended March 31, 2004, there was no relevant transaction.

21. Subsequent Events

At the Board of Directors' meeting held on May 17, 2004, the Company and its subsidiary, Fujitsu Support and Service Inc. ("Fsas") resolved to sign a share exchange agreement, under the purpose of turning Fsas into a wholly owned subsidiary of the Company, in order to reorganize and strengthen the function of systems support and operational services in Japan within the Group.

The exchange of shares is expected to take place on October 1, 2004. The share exchange ratio will be one share of Fsas for 2.72 shares of the Company's common stock. The number of new shares to be issued by the Company is 68,054,400 shares of its common stock. The Company's shareholding of 32 million shares of Fsas common stock will not be exchanged.

Shin Nihon & Co.

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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, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in yen. These consolidated financial statements are the responsibility of the Company'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, 2003 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

Shin Nihon & Co.

June 28, 2004

Principal Subsidiaries and Affiliates

Consolidated Subsidiaries

JAPAN

Listed
Shinko Electric Industries Co., Ltd.
Fujitsu Business Systems Ltd.
Fujitsu Support and Service Inc.
Fujitsu Frontech Ltd.
Fujitsu Access Ltd.
Fujitsu Devices Inc.
Fujitsu Component Ltd.

OTC
Fujitsu Broad Solution & Consulting Inc.

Unlisted
Fujitsu Laboratories Ltd.
Fujitsu TEN Limited
PFU Limited
Fujitsu Quantum Devices Limited*
Fujitsu Network Solutions Limited
Fujitsu Media Devices Limited
Fujitsu FIP Corporation
NIFTY Corporation
Fujitsu IT Products Ltd.
Fujitsu Display Technologies Corporation
Fujitsu Hitachi Plasma Display Limited

*Renamed Eudyna Devices Inc. and shifted to equity method affiliate on April 1, 2004.

THE AMERICAS

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

EUROPE

Unlisted
Fujitsu Services Holdings PLC

Affiliates—Equity Method Applied Only

JAPAN

Listed
Fujitsu General Ltd.
Advantest Corporation
FDK Corporation

Unlisted
Fujitsu Leasing Co., Ltd.

THE AMERICAS

Unlisted
FASL LLC

EUROPE

Unlisted
Fujitsu Siemens Computers (Holding) B.V.

(As of March 31, 2004)

Shareholders' Data

Capital: ¥324,624 million
Common Stock: Authorized: 5,000,000,000 shares
Issued: 2,001,962,672 shares
Number of Shareholders: 253,623

Principal Shareholders	Number of shares held (thousands)	Percentage of total shares outstanding
The Master Trust Bank of Japan, Ltd. (for trust)	158,955	7.93%
Japan Trustee Services Bank, Ltd. (for trust)	132,741	6.63%
Fuji Electric Holdings Co., Ltd.	77,421	3.87%
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust (for Fuji Electric Systems Co., Ltd.)	60,296	3.01%
The Chase Manhattan Bank, N.A.London	54,538	2.72%
State Street Bank and Trust Company	45,347	2.27%
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust (for Fuji Electric FA Components & Systems Co., Ltd.)	40,697	2.03%
Asahi Mutual Life Insurance Company	40,218	2.01%
Mizuho Corporate Bank, Ltd.	32,441	1.62%
Nippon Life Insurance Company	22,943	1.15%

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Stock Exchange Listings
Japan: Tokyo, Osaka, Nagoya
Overseas: Frankfurt, London, Swiss

(As of March 31, 2004)

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http://www.fujitsu.com/about/ir/

FUJITSU LIMITED

www.fujitsu.com

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