THE POSSIBILITIES ARE INFINITE

A Determination to Succeed

FUJITSU LIMITED

Annual Report 2005

Contents

Cautionary Statement

Determined ...

...To Deliver on Four Key Commitments

We made real progress in fiscal 2004, refocusing our efforts and resources on fields where we can leverage Fujitsu's competitive advantages. Consequently, we are poised to enter the next stage of growth.

We are confident that we can now fully maximize our traditional strengths as a company—our broad and diversified customer base, depth of applications expertise, and broad scope of technologies, as well as our strong integration capabilities—to generate this growth.

As discussed in the following pages, we are determined to deliver on four key commitments to achieve our ultimate goal of transforming Fujitsu into a truly powerful company.

Naoyuki Akikusa

Left: Naoyuki Akikusa
Chairman

Hiroaki Kurokawa

Right: Hiroaki Kurokawa
President

...To Change Our Business Structure

Strengthening Existing Businesses

Fiscal 2004 was a year when we made significant changes to the operational focus of the company. Specifically, we adopted a framework that moves from our past reliance on individual employee skills and expertise to a greater emphasis on the collective strengths of the organization.

As part of efforts to reform the company's structure, we realigned our solutions business in Japan by unifying sales and systems engineering groups along customer lines. This step, aimed at creating clearer points of contact for customers, also involved reorganizing regional systems engineering companies. These efforts were supported by progress in standardizing business processes, allowing more systematic project management and implementation that more accurately reflects customer needs.

We also took the decision to withdraw from the plasma display panel (PDP) and liquid crystal display (LCD) fields in our Electronic Devices business segment, which is facing seismic change in its operating landscape. By concentrating resources in the system LSI field, where Fujitsu boasts a strong competitive advantage, we are determined to achieve profitable growth in Electronic Devices going forward.

Fujitsu has now moved from a period of consolidation and recovery to refocus on growth. Supported by a new operating framework, we are implementing a number of initiatives designed to deliver this growth.

Creating and Cultivating New Businesses

To generate growth in new areas, we will focus on using IT to drive "innovation in the field," that is, the various front lines of business and personal lifestyles. Until now, we have primarily leveraged the power of IT to help customers improve management and back-office systems. Now, we plan to help them use IT to realize far-reaching change in frontline areas like R&D, manufacturing, distribution and sales. This will lead to the wide-ranging application of Fujitsu products and services in areas where the actual movement of people and goods takes place. For individuals as well, there are numerous frontline areas where IT can bring greater dynamism, security, enjoyment and convenience to daily lives.

I believe that the combination of Fujitsu's broad and diversified customer base, depth of applications expertise, and broad scope of technologies, as well as our strong integration capabilities, are key success factors that will enable us to provide IT utilization solutions for these frontline scenarios.

In order to pioneer IT-driven innovation in the field, we will promote more flexible and dynamic allocation of skilled personnel in parallel with business development, and strive to ensure the results of R&D projects are rapidly translated into viable products and services. This will mean bringing together the collective strengths of Fujitsu Laboratories Ltd. and the rest of the Fujitsu Group, and channeling resources into new growth fields like security/public safety and ubiquitous networking-related businesses.

. . . To Boost Earnings Power

Bringing an End to Loss-generating Projects

Profitability in our Software & Services business segment has been deteriorating over the last few years, mainly due to a number of large loss-generating projects. After being appointed president, starting with new projects, I tackled this issue head on, implementing stringent risk management measures that begin right from the contract negotiation stage and that allow us to better visualize project progress. Thanks to these and other initiatives, the incidence of new loss-generating projects has fallen significantly since October 2003.

During fiscal 2004, we also pushed forward with our Solution Business Restructuring initiative. Specifically, we integrated sales and systems engineering groups to more effectively control profits, and established a Systems Integration Assurance Unit to reinforce risk management systems and reform contractual procedures. This allowed us to deal with around 75% of the loss-generating projects in monetary terms, and essentially bring under control the remaining 25%. Not only have these measures enabled us to significantly improve the cost ratios of existing projects, they have also helped boost the productivity of new projects and given us the agility we need to compete in a more and more challenging marketplace.

In the past year, we essentially resolved our biggest problem—loss-generating projects. Our goal now is to rapidly build a robust financial structure, giving us the base we need to prevail over the increasingly intense competition in our markets.

Rapidly Building a Robust Financial Base

We are making good progress in creating the strong financial base we need to take on our increasingly competitive rivals. Determined to ensure we build a sound financial position for Fujitsu, I set the target of reducing the balance of interest-bearing loans to less than ¥1,100.0 billion by the end of fiscal 2004. Despite a challenging operating environment, we kept a tight rein on our financial position and were able to achieve our target—as of March 31, 2005, interest-bearing loans totaled ¥1,082.7 billion. At the same time, we aggressively implemented a range of other measures, including the booking of an allowance for deferred tax assets, leading to improvement in the total asset turnover and debt-equity ratios and other financial indices. Combined, these efforts are steadily leading to the creation of a healthier financial structure.

In parallel with efforts to streamline assets, we are actively channeling capital investment into new growth fields. In fiscal 2005, plans call for capital expenditure of ¥260 billion in Electronic Devices and other segments, an increase of more than 40% year on year.

…To Enhance Manufacturing Competitiveness

Regaining Our Position of Strength in Manufacturing

We have been working to improve quality, cost and delivery (QCD) across all our operational areas, from design and development to production and sales. In fiscal 2004, the benefits of these efforts started to emerge in a significant way.

In quality, for example, we worked to eliminate the inclusion of any of our principal products in the low- or deficient-quality product rankings in the industry, and at the same time to expand the number of Fujitsu products recognized as having industry-leading quality. Progress has been good: in the first quarter of fiscal 2003, 18% of our principal products were ranked low or deficient in terms of quality. By the last quarter of fiscal 2004, this figure had dropped to just 2%, with no products at all in the deficient product category. In the same period, the ratio of Fujitsu products ranked as industry-leading in terms of quality rose from 59% to 88%.

Our adoption of the Toyota Production System is also leading to benefits in manufacturing innovation. In the second half of fiscal 2004, we reduced manufacturing lead times for optical transmission systems and mobile phone base stations by 40% and 38%, respectively, compared to a year earlier. Significant improvements were also achieved in servers, storage systems, PCs and other products. The benefits of these gains have been threefold—lower costs, better quality and more reliable launch dates.

Fujitsu has been regaining its traditional strength in manufacturing innovation. Looking ahead, we are determined to more effectively translate our advantages in technology development and production into new business opportunities.

Reducing Costs to Build a Stronger Fujitsu

Going forward, we will work meticulously to improve QCD and reduce our cost ratio not only in manufacturing but in design, development, procurement and all key processes. Cost reductions from these efforts will free up more cash to enhance the competitiveness of our products, thereby helping to increase sales revenue, which we can then reinvest. I am determined to establish this kind of virtuous cycle in our business.

Our product competitiveness is dependent upon unflagging R&D efforts covering a wide range of fields. But in the future, we need to translate the fruits of our research into actual business opportunities more quickly. With this in mind, we plan to realize more efficient and rapid product development by more tightly aligning research with product development and launch roadmaps.

. . . To Expand Our Business Globally

Forging Strategic Partnerships

Demand for IT is growing worldwide, so we are naturally focusing on further developing our global operations. Setting the stage for this, in fiscal 2004 we linked up with several leading companies to form strategic alliances in a range of fields. Specific examples included a joint product development and supply alliance with Sun Microsystems, Inc. in the UNIX server field; collaboration with Microsoft and Red Hat in the development of our next-generation mission-critical IA server; and an alliance with Cisco Systems focusing on routers and switches that includes the joint development of basic software and marketing of co-branded products. These and other strategic alliances will help further accelerate the expansion of our global business.

Fiscal 2004 was a significant year for our overseas business. Building on this, we aim to capture a larger share for our products and services in overseas markets, where the application of IT is rapidly spreading into new fields.

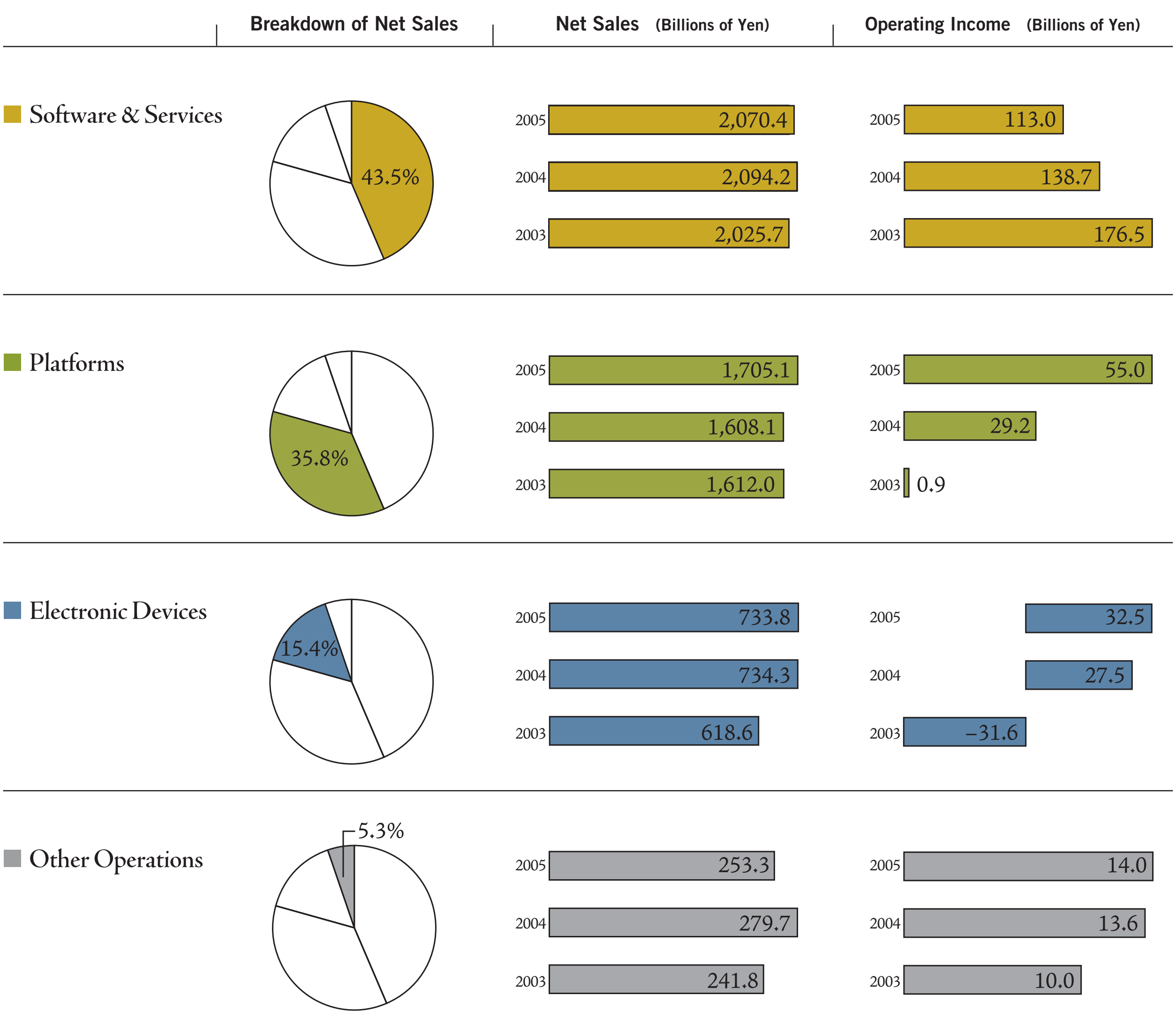
Accelerating Global Business Development

We are achieving some solid results in our overseas business. For example, in Software & Services, we saw increased profitability at our overseas operations in fiscal 2004, including benefits from the integration of Group companies in Europe, Australia and other regions from the beginning of the fiscal year, as well as the return to operating profitability at our North American services subsidiary. Our server and network businesses are helping to drive this newfound strength, particularly in the network field, where we have been achieving market leadership in an increasing number of areas, including optical transmission systems in North America and ADSL in the UK.

We will continue to reinforce the foundation to support further overseas business growth, accelerating the expansion of global product volumes and advancing our solutions business to secure competitive advantage.

Consolidated Results

For fiscal years ending March 31, excluding intersegment sales



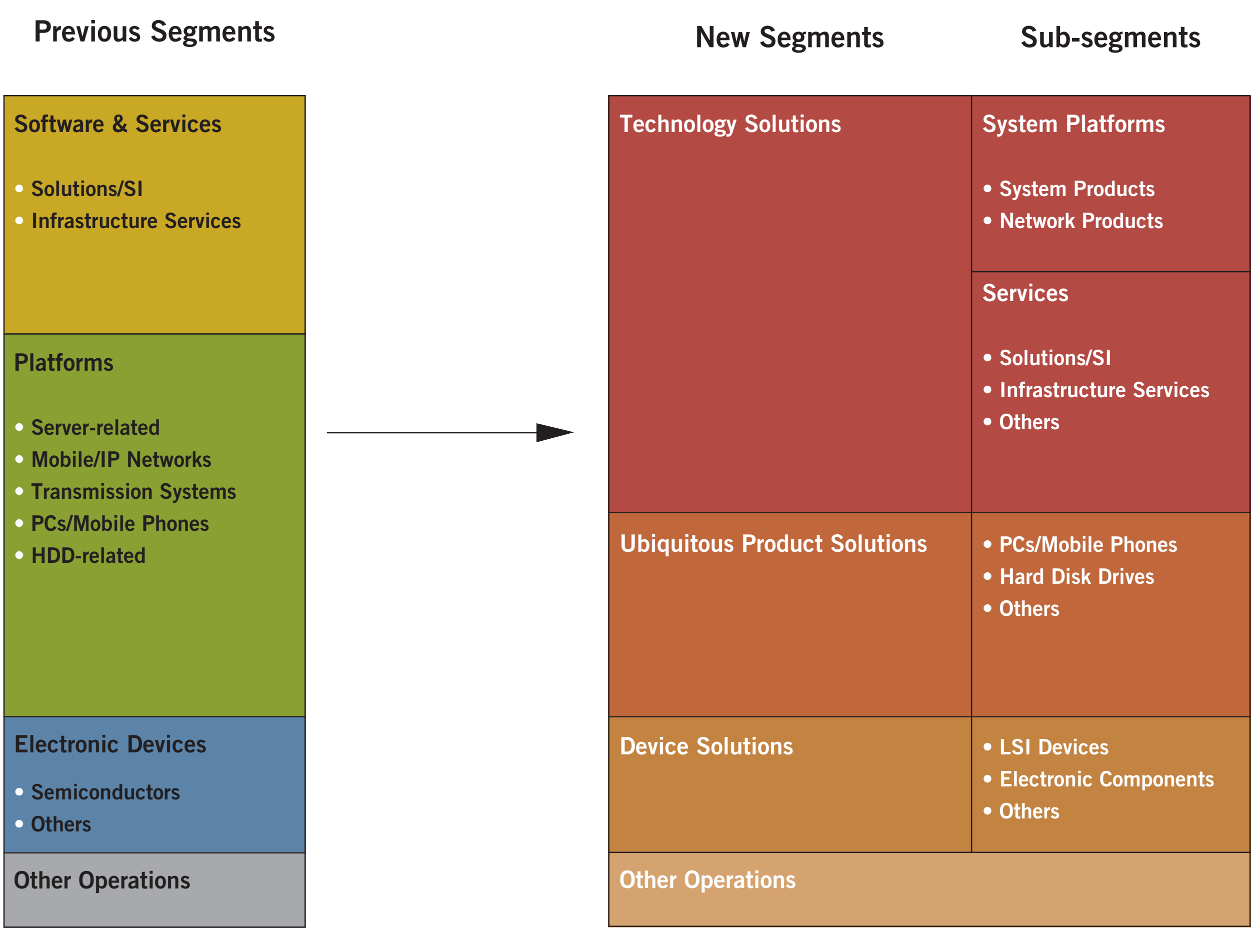
Note: In September 2003, Fujitsu Leasing Co., Ltd., our principal leasing operation, became an equitymethod affiliate and was removed from the scope of consolidation after we transferred a portion of our shares in the company to a third party. As a result, from the third quarter of fiscal 2003, we eliminated the Financing segment. Separately, in March 2004, FDK Corporation was made an equitymethod affiliate following an injection of capital from a third party.

Changes in Business Segment Categories

From the next fiscal year, ending March 31, 2006, we will revise our business segments into customer-centric product categories. First, we are positioning Technology Solutions—covering the provision of comprehensive solutions comprising the high-performance, high-quality products and services that customers are demanding—as the principal business domain of the Fujitsu Group, and we will aggressively pursue greater profitability and growth.

Next, the Ubiquitous Product Solutions segment includes products such as PCs, mobile phones and hard disk drives, which are integral to meeting individuals' needs in the era of ubiquitous networking. In this segment we will work to improve speed and quality and reduce costs.

In Device Solutions, through a series of restructuring initiatives and alliances, we are focusing our resources on leading-edge logic LSI devices, and, together with related components businesses, we will pursue advanced technologies that other companies cannot match, as well as higher quality and greater efficiency.

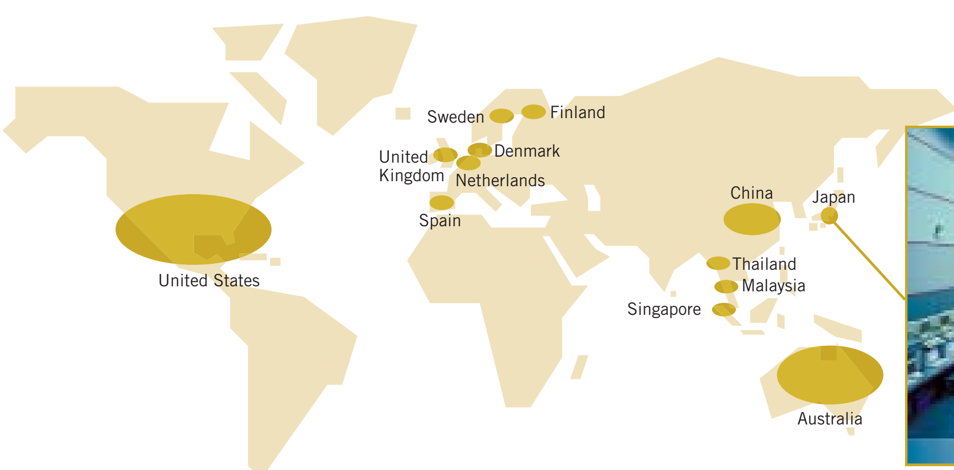


Software & Services

Operating Environment and Performance

Spending on IT in Japan in fiscal 2004 continued to lack strength. Although there were moves to develop next-generation systems, including steps by financial institutions to upgrade security and the introduction of traceability systems by companies in the logistics and transport industries, overall, commitment to IT investment was patchy at the individual company level depending on industry, business size and region. Overseas, the outsourcing business was buoyant, particularly in Europe, and we expect continued growth in this field going forward.

Against this backdrop, we worked to more aggressively implement our comprehensive system development methodology, called SDAS*1, as well as build a distinctive presence in the marketplace by advancing our TRIOLE*2 strategy for optimized IT infrastructure to provide greater business efficiency, agility and continuity. Despite these efforts, our solutions and systems integration (SI) business slowed in Japan, and we again experienced increased losses from certain domestic loss-generating projects. Overseas, we made strong efforts to grow our business, especially in Europe and the Americas. Overall, however, net sales in the Software & Services segment declined 1.1% from a year earlier, to ¥2,070.4 billion ($19,350 million). Excluding the impact of measures undertaken in fiscal 2003 to restructure our North American operations, sales were roughly the same as last year on a continuing operations basis. Although major government-sector



We operate a global network of system centers.

The Fujitsu Tatebayashi System Center is among the largest in Japan.

outsourcing wins by Fujitsu Services in the UK and benefits from restructuring at Fujitsu Consulting in the US boosted income from overseas operations, this was not enough to offset factors such as rising development costs related to loss-generating projects in the domestic market. Consequently, the segment posted a year-on-year decline in operating income of ¥25.7 billion, to ¥113.0 billion ($1,057 million).

Initiatives in Fiscal 2004

In order to boost profitability in this segment, we took priority measures to deal with the issue of rising losses from loss-generating projects. Specifically, since creating a new organization in February 2004 to assess project status at each stage of development and implementation, we have taken steps including reinforcing project risk management and reviewing our approach to contracts. As part of our efforts to reform our organization and approach, in June 2004, we realigned our solutions business organization in Japan by unifying our sales and systems engineering groups along customer lines. This has resulted in a structure that enables us to respond more rapidly to changes in customers' business environments. More recently, in April 2005, we set up an SI Assurance Unit reporting directly to the president in order to enhance our ability to prevent the recurrence of loss-generating projects. Thanks to these initiatives, we are seeing a dramatic drop-off in new incidences of such projects.

Additionally, in October 2004, we made Fujitsu Support & Service a wholly owned subsidiary in order to reinforce our ability to provide operational support to customers throughout the entire IT system lifecycle.

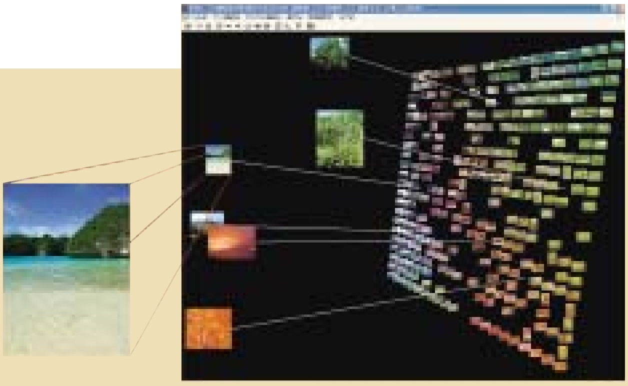
Issues to Be Addressed

Going forward, we plan to apply SDAS to all new projects to reduce development lead times and boost development efficiency. And in addition to continuing to promote TRIOLE, we will work to further expand our outsourcing business, which we believe offers potential for growth both in Japan and overseas.

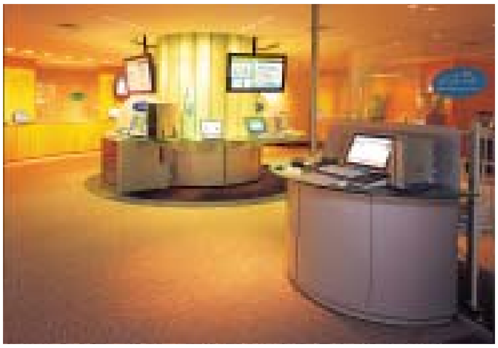
In project management, we will apply the percentage of completion method for all new software development contract orders in fiscal 2005. This will realize real-time project management and improve project visibility. We will also actively utilize the SI Assurance Unit to boost project profitability.

*1 SDAS: System Development Architecture & Support, a comprehensive application development framework covering all aspects of information system operations.

*2 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 total cost of ownership.



Our MultimediaArchiveExplorer lets users search the web by selecting images.



Our netCommunity showroom in Tokyo gives visitors a glimpse of how IT will be used in the ubiquitous networking future.

Platforms

Operating Environment and Performance

Despite continued weakness in Japan, the server market overall improved steadily in fiscal 2004 along with the recovery in business confidence overseas. In the mobile communication systems market, business generated by the expansion of third-generation (3G) network services in Japan grew. At the same time, the full-scale shift to IP networks by carriers and enterprises worldwide gathered steam, and the optical network systems business also expanded.

In this environment, our Platforms segment posted an increase of 6.0% in net sales, to ¥1,705.1 billion ($15,936 million), supported by strong sales of UNIX servers in Europe, North America and other overseas markets. Operating income increased ¥25.7 billion, to ¥55.0 billion ($514 million).

Initiatives in Fiscal 2004

In June 2004, we launched the world's first UNIX server featuring 64-bit processors built on leading-edge 90-nanometer (nm) semiconductor technology. In December 2004, we opened our Platform Solution Center in central Tokyo, where customers can efficiently verify system performance, quality and other requirements.

In another major server-related initiative, we announced the worldwide launch of our PRIMEQUEST server in April 2005. This new mission-critical Intel Architecture (IA) server boasts mainframe-class reliability and performance.

Separately, underpinned by rising demand for security systems in response to new personal data privacy regulations and efforts to combat credit card fraud, a number of customers

PRIMEQUEST mission-critical IA server
Left: System board (CPU/memory unit)
Right: Dedicated chipset (CPU control)

in the financial services field adopted our pioneering contactless palm vein pattern authentication technology for use in ATMs and with other services.

Overseas, we aggressively marketed our optical transport systems to two of North America's largest carriers—SBC Communications Inc. and Verizon Communications Inc.—as well as to major cable TV operator Comcast Corporation. This helped us maintain leadership in the synchronous optical network (SONET) segment there. In the UK, we leveraged our powerful partnership with British Telecommunications plc (BT) to secure the top share in the ADSL systems market. Based on our strong track record, BT selected Fujitsu as a preferred supplier for its 21st Century Network.

We also advanced partnerships with other leading global companies in fiscal 2004. These included: a joint product development and supply alliance with Sun Microsystems, Inc. in the UNIX server field; collaboration with Microsoft Corporation and Red Hat, Inc. in the development of our next-generation mission-critical IA server; a strategic alliance with Cisco Systems, Inc. in the router and switch field; and the establishment of a joint venture with TDK Corporation to manufacture HDD heads.

Issues to Be Addressed

We view our server business as dedicated to shouldering the business processing burdens of our customers, and in pursuing global expansion of this business we aim to also grow our business in related product and service fields. As part of this approach, we will work particularly hard on boosting sales of our new PRIMEQUEST mission-critical IA server.

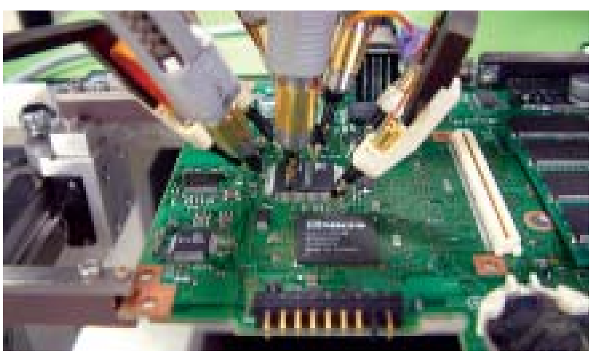
In addition, we will strive to grow our IP network business by leveraging our collaboration with Cisco Systems to provide a wider lineup of IP solutions for communications carriers and enterprise customers, as well as offer integrated IT and telecommunications solutions.

In the 3G mobile communication systems business, we will continue to focus on the growing domestic market and work with partner Alcatel to win a larger share of global demand. In North America and Europe, we aim to build on our current strong customer relationships by offering powerful optical transport systems to support the build-out of broadband and IP network infrastructure, helping to drive further business growth in these markets. In addition, along with focusing on the full-scale deployment of fixed-line optical access systems, we also plan to win new business through aggressive efforts in the broadband wireless access field related to WiMAX* and various other protocols.

In the PC business, we will enhance our consumer products with greater AV functionality and introduce more stringent security functions for products targeting business users. Our efforts in mobile phones will target greater productivity and lower costs, while we will focus on further boosting the quality of our HDD products.

* WiMAX: Offering wider coverage than Wi-Fi, Bluetooth® and other wireless communication protocols, WiMAX can provide connectivity over an area of several square kilometers.

The server room at our Platform Solution Center in Tokyo



Proprietary development tools are used to ensure high-quality mainboard design for the FMV-LIFEBOOK PC (Shimane Fujitsu Limited).

Electronic Devices

Operating Environment and Performance

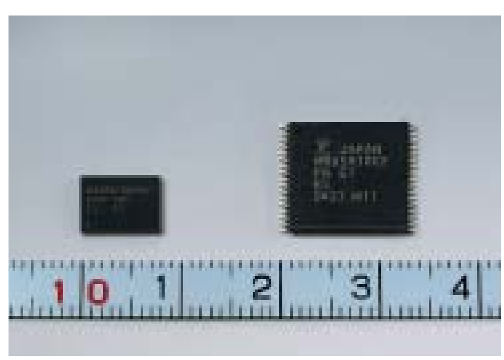
There was strong demand for digital consumer electronics products such as PDP and LCD televisions and DVD recorders in the first half of fiscal 2004. However, from the second half, demand for these products began to stagnate and the electronic components market deteriorated rapidly.

Amid these overall industry trends, although intensifying price competition led to lower income from our PDP and LCD products, higher sales of LSI devices for other digital consumer electronics products and automotive applications, and strong performance by electronic components subsidiaries made positive contributions to our results. Accordingly, Electronic Devices reported only a marginal decline of 0.1% in net sales, to ¥733.8 billion ($6,859 million). On a continuing operations basis, after excluding the impact of making our compound semiconductor business and Flash memory manufacturing subsidiary equity-method affiliates, sales grew 4.6% year on year. Although operating income was adversely impacted by the deteriorating situation in PDPs and LCDs, there was a significant increase in operating income from semiconductors thanks to higher income in the logic chip business and improved earnings in the system memory business. Consequently, the segment recorded an increase of ¥5.0 billion in operating income, to ¥32.5 billion ($305 million).

Initiatives in Fiscal 2004

During the fiscal year we launched a diverse stream of high value-added devices. These included COT, ASIC and other products built on our leading-edge 90nm semiconductor technology, FRAM*1 devices with world-leading 1Mbit memory, and the world's smallest mobile phone SAW duplexer compatible with the North American PCS protocol.

ASIC lineup



FRAM devices with world-leading 1Mbit memory

As part of group-wide business restructuring reforms since 2002, we have been channeling resources into our most competitive business field—LSI devices—and these reforms progressed steadily during fiscal 2004. Targeting the digital consumer electronics, mobile phone, PC and peripherals, and server and network fields, we strove to strike a balance between our advanced product (90nm devices) and standard product (130nm and higher devices) businesses, and to boost profitability in both. In advanced products, we leveraged our industry-leading 90nm technology to offer a broad range of solutions to customers, from products to foundry services. This helped us forge strong customer relationships and create a launch pad for business expansion, illustrated by the fact we have secured business with more than 20 companies. In standard products, we worked to raise productivity by expanding the implementation of Toyota Production System reforms, thereby moving toward an earnings structure that will enable us to secure greater competitiveness and profitability on a sustainable basis.

Our decision to channel resources into the LSI business is underpinned by the fact that we boast world-leading technological capabilities in a broad range of related fields, from embedded software development, design methodologies, analysis and verification, to cutting-edge process technologies.

We proceeded as scheduled with plans to increase manufacturing capacity for volume production of next-generation LSI devices. In April 2004, we began constructing a new facility at our Mie Plant for the mass production of logic devices on 300mm wafers using 90nm and 65nm process technologies and completed pilot testing in February 2005—the fastest-ever facility start-up in the industry. Since the facility became officially operational in April, we have been steadily progressing toward scheduled full volume production in September.

Also in conjunction with the shift of resources to the LSI business, we transferred the majority of our PDP business shareholding to joint venture partner Hitachi, Ltd. in March 2005, and in June, we transferred our LCD operations to Sharp Corporation.

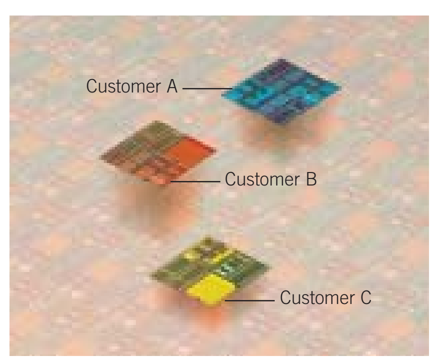
Issues to Be Addressed

Going forward, we will work to further strengthen our New IDM business, leveraging our distinctive low-power and first-time-right*[2] design technologies and internal and external collaboration to enhance strategic partnerships with customers, starting from upstream processes. Through this approach, we will harness our technological strengths to create a powerful lineup of competitive products with our customers. At the same time, in anticipation of intensifying price competition and other challenges, we will strive to build an operating structure that is more resilient to changes in the business landscape. This will include enhancing our design capabilities, developing new technologies and pursuing continuous innovation in manufacturing to create a lower cost base by reducing costs and boosting productivity.

*[1] Ferroelectric Random Access Memory: non-volatile memory offering higher endurance for multiple read/write operations
*[2] Design that achieves a fully functioning LSI device at first iteration

Magnified image of a 90nm transistor

Advanced, multilayer wiring used in LSI devices



SiExpress™: With our technology, different ICs can be designed into a single mask, realizing the production of ICs for multiple customers on the same wafer.

Ticket-dispensing Multimedia Terminals Providing a Wide Range of Services

Regal Entertainment Group (United States)

Entertainment is big business in the United States, and few amusement spots have the ability to attract massive numbers of people the way that movie theaters can.

The Regal Entertainment Group operates the world's largest network of cinemas, boasting 254 million visitors in the United States each year, according to 2004 data. Fujitsu has started replacing existing ticket dispensers installed by Regal with new multimedia terminals that can also issue tickets. To ensure these terminals serve as automatic ticketing platforms for the greatest number of customers, Regal demanded exceptional reliability from both the machines and the systems that run them to minimize technical glitches and other issues. Regal's terminals also have to respond to a variety of needs, from allowing customers to print out tickets reserved on the Web, handling advance tickets, and dispensing cash by card, to providing updated movie information. Regal has given our terminals high marks for enabling customers to enjoy a trip to the movies without waiting in line, and for providing a cashless alternative for quickly picking up reserved tickets for the latest movies.

The movie industry today has spread to every corner of the globe. The Regal Entertainment Group stands at the cutting edge of this industry. So when a trend emerges at Regal, the whole world takes notice. As the future of movies unfolds, Fujitsu, in partnership with Regal, will continue to rise to new challenges in the industry.

Safer, Reliable Healthcare With Electronic Medical Records

Cancer Institute Hospital (Japan)

The digitization of clinical information such as prescriptions and medical records has been gathering pace in recent years, as healthcare providers work to improve the quality of care and create more efficient delivery systems.

Seventy years ago, the Cancer Institute Hospital in Ariake, Tokyo was founded as Japan's first hospital specializing in the treatment of cancer. The hospital is also a forerunner in the adoption of electronic medical records, and has moved quickly to put in place the necessary infrastructure.

In conjunction with the hospital's move to a new facility in March 2005, we developed, installed and began operating a total clinical information solution that includes electronic medical records. All clinical test results and other details of treatment are recorded in the patient's electronic medical chart, ensuring everybody involved in providing care to the patient is literally on the same page. This digitized system is also being used to prevent medical accidents as part of a thorough care management system. Now, for example, prior to giving patients an intravenous drip, the nurse will scan corresponding barcodes on the patient's wristband and medicine packaging to ensure the right person is getting the correct medication. The nurse also uses his or her own ID barcode to verify the whole process.

Through the provision of this electronic medical record system, Fujitsu plays a vital role in the Cancer Institute Hospital's comprehensive medical data management framework. Going forward, we will continue to leverage the power of cutting-edge IT to help healthcare providers deliver safe medical services that engender patient trust.

Highly Flexible IT Services for the Airline Industry

British Midland Airways (United Kingdom)

In response to the challenges facing the air transportation market after 9/11 and other events such as SARS, British Midland Airways Ltd. (bmi), the UK-based airline operating both short-haul and long-haul routes, has outsourced its IT provision to Fujitsu to reduce costs and better align IT spend with their changing business.

We now deliver the majority of IT and communications services to bmi. In the process of setting up the contract, over 50 staff transferred into Fujitsu.

The contract is moving the provision of IT from a fixed cost to one which varies with bmi's business volumes; the service is charged for on a usage basis. We are also aligning the service delivery framework to ensure it underpins bmi's key business performance indicators.

Richard Dawson, bmi's Group IT Director, summarized the agreement by saying, "Outsourcing to Fujitsu has allowed bmi to devote more time to managing the business in what are challenging times for all airlines, secure in the knowledge that our contract will deliver a flexible IT infrastructure that will be responsive to our changing requirements."

We are 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.

Major Accomplishments in Fiscal 2004

UHF-band electronic tag technology for a broad range of service applications

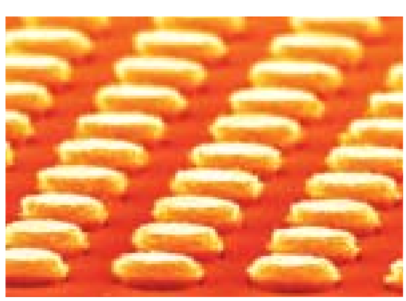
Our UHF-band*1 electronic tag technology has promising uses in a variety of different business applications, including inventory management and production monitoring. Not only does the technology enable tagged goods to be identified from a greater distance than with frequency bands used to date, but together with our proprietary security technology and newly developed tag antenna that offers outstanding communication performance even with goods that contain metals or liquids, it can be used for an even wider range of service applications.

Technology for improved data reception quality in next-generation mobile phones

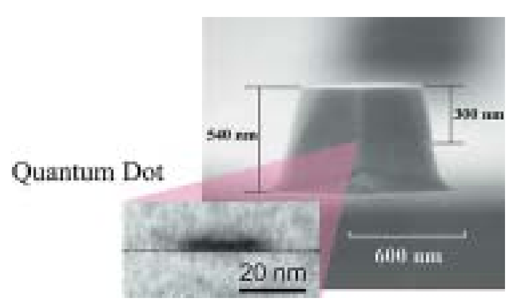
This technology leverages improvements we have made in data reception quality to enable the high-speed download of music, video and other content via next-generation mobile phones. By efficiently reducing interference caused by the reflection of base station signals off buildings and other objects, we are helping to make mobile phone use more versatile and convenient.

Ultra high-speed, high-density CMOS technology for next-generation 65nm LSI devices

Our multilayer wiring technology for next-generation 65nm LSI devices will enable significant improvements in speed and power consumption compared with the cutting-edge 90nm devices in volume production today. The use of a combination of copper and nano clustering silica, a highly durable, low-k insulating material also developed by Fujitsu, proved instrumental in making these ultra-high-speed, high-density LSI devices possible.



The adoption of carbon nanotubes in place of copper in circuitry could significantly boost electrical current density and heat conduction.



Ultra-secure encrypted transmission is now one step closer after our success in emitting a single photon, a world first.

■ **Single-photon emitter for ultra-secure quantum encryption of data transmission*2**

We achieved successful emission of a single photon in the 1.3-micron data transmission wavelength, a world first and key technological step toward achieving bona fide quantum-encrypted data transmission, seen as the ultimate encryption method for data transmission security. This accomplishment has also paved the way for the realization of data transmission speeds more than 400 times faster than those possible with conventional methods.

Direction in Fiscal 2005

In tandem with an R&D program that harnesses our comprehensive capabilities to respond to present market needs, we will pursue research designed to unlock future business opportunities.

■ **Creating new solutions leveraging our technology value chain**

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

■ **R&D in new and novel fields to support future businesses**

To support future business development, we will pursue research in new and novel fields, including intelligent transport systems technology, 45nm-generation semiconductor technology, and nanotechnology.

■ **Promoting joint research to expand technological and product possibilities**

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

Key Research Themes in Fiscal 2005

We will focus on the following research themes to help usher in the ubiquitous networking era:

■ **Next-generation server, storage and networking technologies;**

■ **Ubiquitous computing and devices;**

■ **Technologies to ensure the reliability and security of IT systems; and,**

■ **High-end CMOS transistor technology*3 for 45nm-generation devices.**

*1 UHF-band refers to radio wave frequencies between 952 ~ 954MHz.

*2 This technology was developed together with the University of Tokyo's Research Center for Advanced Science and Technology as part of an IT program sponsored by Japan's Ministry of Education, Culture, Sports, Science and Technology. Semiconductor crystals used in this research were developed in collaboration with the Nanomaterials Laboratories of Japan's National Institute for Materials Science.

*3 CMOS transistor technology: A semiconductor circuit processing technology that realizes advanced, high-density chips with low energy consumption.

Intellectual Property

Importance of Intellectual Property

The environment surrounding intellectual property has changed significantly with the creation of various new systems and mechanisms. It will become increasingly important to utilize these effectively going forward.

By leveraging intellectual property to support the development of our own unique advanced technologies, we aim to build an exclusive position as a technology leader in the marketplace. To achieve this goal, we are pursuing the following:

- **Implementing strict data protection measures, including initiatives to prevent unintended leaks;**
- **Creating a culture that values and protects intangible assets;**
- **Taking an uncompromising stance on infringement of intellectual property rights.**

Intellectual Property Strategy

Guided by these three core principles, we are working to secure and utilize intellectual property in order to provide products and services that are anchored by powerful technological capabilities and enhance customer satisfaction.

Maintain Superior Competitiveness

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

Ensure Business Flexibility

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

Secure Business Profitability

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

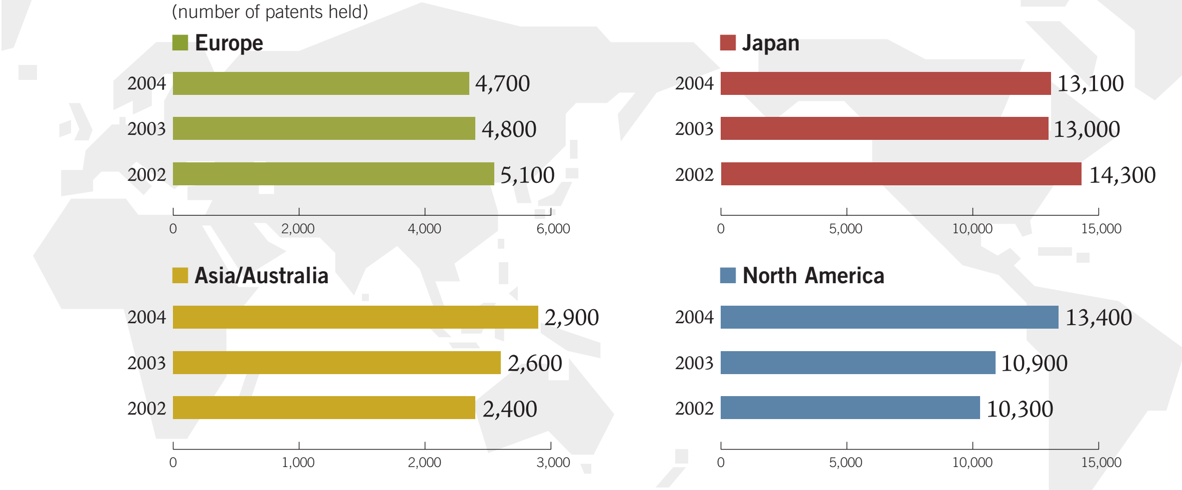
1. Patent Rights

(1) Global Patent Portfolio and Promotion Organization

Centered on Japan, but including Europe, the US and elsewhere in Asia, we are working to secure powerful patents on a global basis. We have dispatched specialist personnel to the US in particular to promote patent acquisition activities and actively leverage our patent rights.

Global Patent Portfolio

(number of patents held)



(2) Key Themes Driving Patent Acquisition Activities

We are striving to strengthen our patent portfolio guided by key themes in each of our business areas. Using ATMS/IR, our proprietary patent data search system, we are working to strategically acquire patents by closely following the latest technology trends, creating patent maps and taking other steps.

■ Principal Patent Results in Fiscal 2004

Mission-critical Servers (PRIMEQUEST/PRIMEPOWER)
We filed 400 domestic and international patents relating to core functionality such as system synchronization and mirroring technologies.

Vein Pattern Authentication Technology
We filed over 120 domestic and international patents for biometric authentication technology, interfaces and peripheral technologies.

TRIOLE (software)
We filed over 200 domestic and international patents in areas including flexible I/O and reliability technologies.

65nm and 90nm Transistor Product Technologies
We filed over 200 domestic and international patents related to technologies for stable production of low power consumption/high-speed transistors.

PRIMEQUEST server

Contactless palm vein authentication system

(3) In-house Inventions

We have adopted an approach to in-house inventions where individual inventors are initially responsible for evaluating the merits of their own inventions. Based on these evaluations, we rank the inventions and provide compensation accordingly. We also issue commendations for inventions to promote acquisition of valid patents. Going forward, we will strive to create a favorable environment for in-house invention by improving the transparency of the compensation system, gaining further support from employees by engaging them in dialog on these issues, and raising incentives.

2. Respecting Other Companies' Rights

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

3. Ensuring Strict Information Management

"Maintain confidentiality" is a key element of the Code of Conduct in *The FUJITSU Way*, the core set of principles guiding the corporate and individual actions of the Fujitsu Group. Emphasizing this as a fundamental behavior, we are working to raise employee awareness of the importance of carefully managing Fujitsu confidential information, personal information, and information from third parties that we hold in confidence. At the same time, we have established three internal regulations to provide concrete guidance on information management.

Guided by *The FUJITSU Way*

Coexisting with communities and society as a good corporate citizen is one of our key objectives. Guided by the aims of *The FUJITSU Way*, we are striving to ensure our business activities are conducted in harmony with, and for the benefit of, global and local communities. We contribute to society in a variety of ways using our unique position as an IT company. Below are just some of the activities we were involved in during fiscal 2004.

■ Reforestation Activities Overseas

Since 1997, we have supported efforts to regenerate tropical forests in Southeast Asia. One hallmark of this project is the role of employees, who provide donations and travel at their own expense to target sites to participate in reforestation work. In January 2005, for example, 41 employee volunteers from Japan helped plant more than 2,600 dipterocarp trees in Malaysia.

■ Relief for Victims of the Sumatra Earthquake and Indian Ocean Tsunami

The earthquake that struck off the coast of Sumatra, Indonesia on December 26, 2004, and the Indian Ocean tsunami it triggered, affected more countries and claimed more lives than any comparable natural disaster in recorded history. At Fujitsu, the outpouring of support that emerged in the wake of this unprecedented disaster came in a variety of forms and from across the Group. Corporate contributions as well as money and supplies collected from employees were donated to national and local government agencies, as well as to the Red Cross and other organizations supporting relief and recovery efforts.

■ Web-based Charitable Activities

In Japan, our ISP subsidiary, NIFTY Corporation, posted special charity content on its @nifty portal site to aid victims of the Sumatra Earthquake and the Chuetsu Earthquake, which struck Niigata Prefecture, Japan. Pictures of scenery and photographs submitted by amateur photographers and others were offered for sale on the site. Proceeds from about 10,000 transactions, matched by donations from NIFTY, were given to the Community Chest of Niigata Prefecture in December 2004 and UNICEF Japan in March 2005 to support people affected by the disasters.

■ Support for the Mathematical Olympiad Foundation of Japan

We continue to support the Mathematical Olympiad Foundation of Japan, which seeks to foster mathematical creativity and young talent and advance mathematics education. The foundation selects and supports Japan's representatives for the International Mathematical Olympiad.

Overseas tree-planting activities

Mathematical Olympiad (Fiscal 2004)

Fujitsu and the Environment

At Fujitsu, we consider environmental protection a key management priority. Leveraging our position as an IT company with advanced technologies and the power to innovate, we are working to help realize a sustainable society. We carry out our own environmental protection activities in addition to strictly complying with environmental laws and regulations related to our business activities. And as part of our efforts to ensure the world's resources are preserved for future generations, we are pursuing a range of progressive environmental initiatives across our entire organization and embedded in individual behavior. Below are just some of the steps we took to help protect the environment in fiscal 2004.

■ Eco-friendly Next-generation LSI Factory Comes On Line

In April 2005, a new facility came on stream at our Mie Plant for the volume production of logic chips utilizing 300mm-diameter wafers and 90nm and next-generation 65nm process technology. The facility incorporates a number of features designed to reduce environmental impact. Along with installing the latest in eco-friendly production equipment, the use of heavy oil has been eliminated and other measures taken to help fight global warming. Equipment for compacting alkali solids was introduced to cut down industrial waste, and bioprocessing techniques adopted to reduce chemical emissions in the wastewater release cycle. The facility is also the first of its kind built with hybrid seismic isolation construction, which minimizes the risk of environmental contamination and human injury in the event of an earthquake.

■ Plant-based Plastic Used in Notebook PC Housings

Launched as part of our spring 2005 PC lineup, the FMV-BIBLO NB80K is the world's first notebook PC with the main plastic housing made from environmentally friendly plant-based plastic. Jointly developed with Fujitsu Laboratories and Toray Industries, Inc., this new plastic is made from 50% natural materials and consists mainly of polylactic acid derived largely from corn and other starch sources, thereby helping to reduce consumption of petroleum resources. When used in notebook PC housings, this plastic reduces CO_2 emissions over the entire product lifecycle by about 15% compared to petroleum-based plastics.

■ Comprehensive ISO 14001 Certification Obtained for Domestic Group Companies

Bolstering environmental management is a key theme of the Fujitsu Group Environmental Protection Program (Stage IV). One of the specific objectives of this program is to establish a group-wide environmental management framework by March 31, 2006, anchored by a well-developed environmental management system. Marking a major step in this direction, in March 2005, we received comprehensive ISO 14001 certification for our environmental management system covering 97 domestic Group companies and some 100,000 employees.

New eco-friendly semiconductor fabrication facility at our Mie Plant

FMV-BIBLO NB80K Notebook PC with corn-based plastic housing

ISO 14001 Certificate

Board of Directors

Representative Directors

Naoyuki Akikusa
Chairman

Hiroaki Kurokawa
President

Directors

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

Hiroshi Oura
Director and Senior Executive Advisor
Advantest Corporation

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

Akira Takashima
Vice Chairman

Masamichi Ogura
Corporate Executive Vice President

Toshihiko Ono
Corporate Executive Vice President

Chiaki Ito
Corporate Executive Vice President

Michiyoshi Mazuka
Corporate Executive Vice President

Statutory Auditors

Standing Auditors

Takashi Takaya
Hiromasa Inagaki

Auditors

Yoshiharu Inaba
(President and CEO, Fanuc Ltd.)

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

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

Corporate Executive Officers

President

Hiroaki Kurokawa

Corporate Executive Vice Presidents

Masamichi Ogura
Toshihiko Ono
Chiaki Ito
Michiyoshi Mazuka

Corporate Senior Vice Presidents

Hirohisa Yabuuchi
Hideaki Yumiba
Ichiro Komura
Tetsuo Urano
Takashi Igarashi
Haruki Okada
Koichi Hironishi
Yoshiyuki Tanakura
Kimihisa Ito
Hiromichi Hirata

Corporate Vice Presidents

Takashi Aoki
Kazuhiko Kato
Kuniaki Nozoe
Nobutake Matsumura
Takashi Nakamura
Yoshihisa Nagano
Yasuo Koike
Kyung-Soo Ahn
Shigeru Fujii
Yasuaki Ara
Kazuya Wada
Takumi Nakamura
Hideo Sekine
Junichi Murashima
Shinichi Hasegawa
Makoto Matsubara
Shinichi Kuruma
Yoshifumi Mita
Kazuo Ishida
Hirosada Tone
Fujio Ohara
Akira Yamanaka
Tsuneaki Ohara
Masanobu Katoh
Kazuo Miyata
Terumi Chikama
Takashi Harima
Jiro Sugawara
Kiyonobu Ishida
Masami Yamamoto

Corporate Governance

Our Basic Stance on Corporate Governance

We believe that the concurrent pursuit of efficient management and the proper control of business risks are essential to achieving sustainable improvement in corporate value. Recognizing that stronger corporate governance is vital to realizing this goal, we have actively appointed outside directors to help ensure sound and transparent management. At the same time, by separating management oversight and operational execution functions we have promoted faster decision-making while further clarifying management responsibilities. We believe that clear separation of these functions is helping to realize greater transparency and efficiency.

Corporate Governance Structure

Overview of Corporate Institutions

Fujitsu's Board of Directors is responsible for management oversight, supervising the execution functions of the Management Strategy Council and the Management Council under its authority. As an executive organ, the Management Strategy Council discusses and decides upon fundamental policies and strategy regarding business management. The Management Council makes decisions on important matters regarding operational execution. Issues discussed by the two councils and a summary of their debates are reported to the Board of Directors, which makes decisions on items of particular importance.

The auditing function is carried out by statutory auditors, who review the Board of Directors as well as operational execution functions.

The Board of Directors is composed of eight internal directors and two outside directors, for a total of 10 members. The Board of Auditors consists of five statutory auditors: two standing auditors and three outside auditors.

Audits by Statutory Auditors and Internal Audits

Fujitsu has adopted a statutory auditor system. Auditors attend important management meetings, including those held by the Board of Directors, the Management Strategy Council, and the Management Council to express opinions, and through direct interviews with operational units when needed and other methods, they audit the Board of Directors and operational execution bodies.

Additionally, the Corporate Internal Audit Division has been established within the Corporate Center to serve as an internal audit group. This division audits the internal affairs of the company and its affiliates, proposes improvements in their business practices, and regularly reports its audit findings to the Management Council.

Initiatives to Enhance Corporate Governance in Fiscal 2004

In July 2004, we established The FUJITSU Way Promotion Council, a body reporting directly to the president. This council is charged with further accelerating the groupwide penetration and implementation of the mission, values and code of conduct that comprise *The FUJITSU Way*. We also set up a Compliance Committee to enhance risk management and promote structures and procedures for internal compliance based on these core tenets.

In addition, the Risk Management Committee and Environmental Committee, which had both operated independently, were realigned under The FUJITSU Way Promotion Council. Their activities are helping to achieve good corporate governance in accordance with *The FUJITSU Way*.

Compliance Committee (newly established)

This committee is responsible for promoting structures and systems to ensure strict compliance with external as well as internal rules, regulations and norms of behavior. To support these efforts, we have operated a "help line" system since September 2004 to serve as a confidential liaison point for receiving reports from employees and providing guidance to them on matters of conduct.

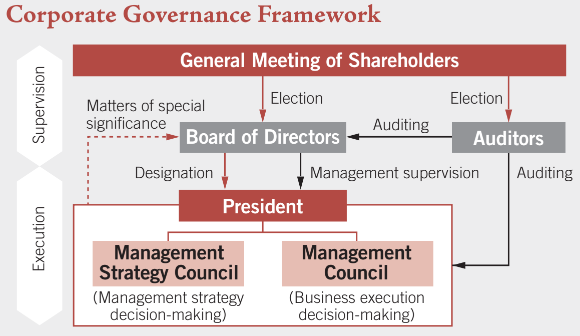
Risk Management Committee

This committee works to obtain information regarding specific incidences of risk and to mitigate their impact on customers and the Fujitsu Group. Serious issues are reported to the Management Council or Board of Directors for discussion and response. In this way, risk issues and countermeasures are disseminated throughout the Fujitsu Group, strengthening our overall risk management posture.

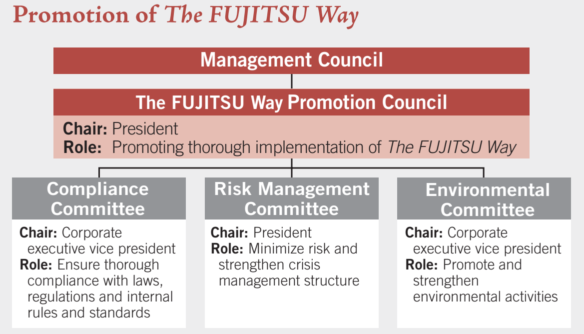
Environmental Committee

This committee is responsible for promoting and strengthening the environmental protection activities of the Fujitsu Group, which are based on The Fujitsu Group Environmental Policy and The Fujitsu Group Environmental Protection Program.

Corporate Governance Framework



Promotion of *The FUJITSU Way*



Business and Other Risks

Listed below are the principal business and other risks affecting the Fujitsu Group (Fujitsu Limited and its consolidated subsidiaries) that we believe may influence investors' decisions. With a view to proactively disclosing information to investors, we have also included items that may not necessarily have significant bearing on such decisions. We are aware of these risks and are making efforts to prevent them from materializing, avoid potential risks altogether, and immediately confront risks should they occur. Among the risks listed below are some items related to future developments, but the list only includes items that the Group deemed necessary to publicly disclose as of the date of submission of its securities report (June 30, 2005).

1. Economic and Financial Market Trends

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

(1) Economic Trends in Key Markets

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

(2) Hi-tech Market Volatility

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

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

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

(3) Exchange Rates

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

(4) Interest Rates

In fiscal 2004, the Fujitsu Group reduced the level of interest-bearing loans by a substantial margin. The balance of these loans, however, is still in excess of ¥1,000 billion, and includes items that are directly impacted by interest rate fluctuations. Consequently, rising interest rates could result in an increase in the interest burden from interest-bearing loans, while the risk of higher financing costs in the future could affect our efforts to procure necessary funding for our operations.

(5) Capital Markets

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

2. Customers

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

(1) Customer Performance and Business Conditions

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

(2) Ability to Maintain Lasting Ties With Customers

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

(3) Changes in Customer IT Investment Trends

A major portion of Group sales and earnings is dependent on the provision of IT systems and services to enterprises, public institutions and other customers. Changes in customer IT investment behavior, including reductions in corporate IT spending, can have a profound effect on Group sales and profitability. Alongside corporate clients, national and local governments represent another important customer base for the Fujitsu Group. In the UK, for example, government-related projects are an especially important part of our business. Accordingly, changes in the approach to e-Government and other national-level IT utilization policies being promoted in Japan and elsewhere could impact sales and profitability.

3. Competitors/Industry

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

(1) Price Competition

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

(2) Competition From New Market Entrants and Others

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

(3) Competition in Technology Development

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

4. Partners, Alliances, etc.

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

(1) Procurement

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

(2) Collaborations, Alliances and Technology Licensing

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

(3) Stability of Partner Financial Institutions

Deterioration in the business conditions of financial institutions with which the Group has dealings could lead to changes in financing terms and other developments that could affect the ability to procure required funds.

5. Public Regulations, Public Policy, and Tax Matters

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

6. Other Operational Risks

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

(1) Deficiencies or Flaws in Products and Services

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

(2) Project Management

Due to such factors as the increasing scale of systems and more rigorous demands from customers, as well as the advance of open system environments, system development work is becoming increasingly complex. At the same time, greater competition is leading to increasingly intense pricing pressures. In fiscal 2003, the emergence of certain loss-generating projects prompted the Group to implement extensive risk management measures, including standardized guidelines for projects of a set scale and above, the introduction of the percentage of completion method, and other measures to help prevent the occurrence and facilitate the early identification of such projects. In fiscal 2004, we strengthened these efforts by establishing a new organization to screen projects at the contract negotiation phase and curtail the occurrence of projects with deteriorating profitability. Additionally, in April 2005, we established the Systems Integration Assurance Unit, a body with enhanced powers that reports directly to the president and is charged with bolstering efforts to prevent new incidences of loss-generating projects. Along with these measures, the Group continues to maintain reserves for losses as necessary. Nevertheless, in spite of these measures, there is a possibility that we may be unable to completely prevent the occurrence of loss-generating projects.

(3) Investment Decisions

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

(4) Intellectual Property Rights

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

(5) Human Resources

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

(6) Environmental Pollution

While committed to minimizing environmental burden in accordance with the Fujitsu Group Environmental Policy, the Group cannot guarantee that environmental pollution will never occur as a result of its operations. Moreover, although we monitor soil and wastewater as well as engage in clean-up activities at former factory sites, this does not mean that pollution will not be found at such sites in the future. In the event that environmental pollution were to occur or be identified, clean-up and other costs could be incurred that adversely affect Group earnings.

(7) Information Management

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

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

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

7. Natural Disasters and Unforeseen Incidents

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

(1) Damage From Earthquakes, Other Natural Disasters and Accidents

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

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

(2) Geopolitical Risk

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

Five-Year Summary

Fujitsu Limited and Consolidated Subsidiaries
Years ended March 31

	Yen (millions) (excluding per share data, D/E ratio, and number of employees)					U.S. dollars (thousands)
	2001	2002	2003	2004	**2005**	**2005**
Net sales	¥5,484,426	¥5,006,977	¥4,617,580	¥4,766,888	**¥4,762,759**	**$44,511,766**
Operating income (loss)	244,026	(74,426)	100,427	150,342	**160,191**	**1,497,112**
Income (loss) before income taxes and minority interests	157,564	(594,733)	(147,606)	157,018	**223,526**	**2,089,028**
Net income (loss)	8,521	(382,542)	(122,066)	49,704	**31,907**	**298,196**
Total assets	¥5,200,071	¥4,595,804	¥4,225,361	¥3,865,589	**¥3,640,198**	**$34,020,542**
Shareholders' equity	1,214,383	853,756	702,390	827,177	**856,990**	**8,009,252**
Amounts per share of common stock (Yen and U.S. dollars):						
Earnings (loss)						
Basic	¥ 4.3	¥ (193.0)	¥ (61.3)	¥ 24.5	**¥ 15.4**	**$ 0.144**
Diluted	4.3	(193.0)	(61.3)	22.2	**13.9**	**0.130**
Cash dividends	10.0	5.0	—	3.0	**6.0**	**0.056**
Shareholders' equity	614.2	426.5	350.8	413.2	**414.2**	**3.871**
Interest-bearing loans	¥1,636,224	¥1,760,626	¥1,763,769	¥1,277,121	**¥1,082,788**	**$10,119,514**
D/E ratio (times)	1.35	2.06	2.51	1.54	**1.26**	
Free cash flow	129,653	(102,892)	53,382	371,434	**262,103**	**2,449,561**
R&D expenses	¥ 403,405	¥ 349,855	¥ 285,735	¥ 250,910	**¥ 240,222**	**$ 2,245,065**
Capital expenditure	438,043	306,966	147,620	159,795	**181,402**	**1,695,346**
Number of employees	187,399	170,111	157,044	156,169	**150,970**	
Net sales by business segment (excluding intersegment sales):						
Software & Services	¥2,014,375	¥2,085,863	¥2,025,790	¥2,094,261	**¥2,070,444**	**$19,349,944**
Platforms	2,349,854	2,015,226	1,612,016	1,608,178	**1,705,124**	**15,935,738**
Electronic Devices	759,723	546,555	618,632	734,320	**733,866**	**6,858,561**
Financing	107,246	114,472	119,279	50,391	**—**	**—**
Other operations	253,228	244,861	241,863	279,738	**253,325**	**2,367,523**
Total	¥5,484,426	¥5,006,977	¥4,617,580	¥4,766,888	**¥4,762,759**	**$44,511,766**
Net sales by customers' geographic location:						
Japan	¥3,590,282	¥3,460,915	¥3,280,665	¥3,378,265	**¥3,340,664**	**$31,221,159**
Europe	725,756	643,260	568,763	605,051	**633,243**	**5,918,159**
The Americas	765,288	542,144	390,482	324,269	**320,971**	**2,999,729**
Others	403,100	360,658	377,670	459,303	**467,881**	**4,372,719**
Total	¥5,484,426	¥5,006,977	¥4,617,580	¥4,766,888	**¥4,762,759**	**$44,511,766**

Notes: 1. See Note 17 of Notes to Consolidated Financial Statements for specific calculation of basic and diluted earnings per share.
2. The U.S. dollar amounts stated above and in the following Management's Discussion and Analysis of Operations have been translated from yen, for readers' convenience only, at the rate of ¥107 = US$1, which was the approximate rate on the Tokyo Foreign Exchange Market at March 31, 2005.
3. Cash dividends per share of common stock for the year ended March 31, 2005 are the total of interim and year-end dividends approved by the Company's board of directors on October 28, 2004 and at the Annual Shareholders' Meeting on June 23, 2005, respectively.
4. The capital expenditure stated above excludes intangible assets.

Management's Discussion and Analysis of Operations

The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") for the year ended March 31, 2005 (fiscal 2004). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2005.

1. Analysis of Results

Business Environment

With regard to the business environment during fiscal 2004, overseas, the US and China experienced a temporary slowdown in growth as a result of surging oil prices and rising interest rates, but both these countries as well as Europe were able to maintain economic growth, and factors tempering growth appear to be easing. In Japan, there was a shift from the robust conditions that had prevailed in the digital consumer electronics sector until the beginning of the period, and the market for electronic components rapidly deteriorated, leading to a temporary flattening out of overall economic growth. Despite this, there appear to be prospects for a mild recovery in fiscal 2005.

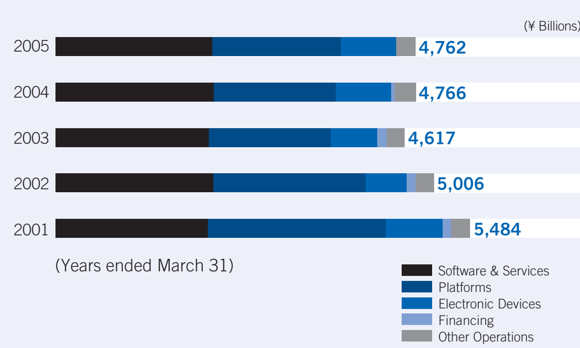
Looking at trends in IT investment, while the prospects for IT spending overseas appear to be bright, led by an aggressive spending posture among global corporations, in Japan the outlook varies according to industry, company size, or region, and there is a continuing lack of intensity overall. On the other hand, spending on open architecture IT infrastructure systems is enjoying strong growth in both qualitative and quantitative terms, and there is rapidly increasing demand for greater stability and efficiency in such systems. In addition, with more attention being paid to security issues as a result of the enactment of the Personal Information Protection Act in Japan this year, there is greater demand than ever for the capabilities that IT can deliver in supporting internal controls and other measures to enhance security. Consequently, an increase in IT spending on public infrastructure systems as well as by individual corporations can be expected.

In the world of ubiquitous networking, made possible by sophisticated IT infrastructure comprised of high-performance, high-reliability servers, networks and software seamlessly integrated in an open environment, it will be possible to securely and conveniently deliver advanced services in such areas as shopping, banking, and healthcare. As a leading provider of server and networking technology and services essential to the ubiquitous networking era, Fujitsu seeks to provide comprehensive solutions that bring together high-performance, high-quality products and services—such as biometric authentication technology for enhanced security—to meet the specific needs of individual customers.

Net Sales

Consolidated net sales for fiscal 2004 were ¥4,762.7 billion ($44,512 million), a decrease of 0.1% compared to the preceding fiscal year. On a continuing operations basis, excluding the impact of restructuring, this represented an increase of 2.8%. Deteriorating market conditions reduced sales of products such as plasma display panels (PDPs) and liquid crystal displays (LCDs), and in Japan, a sluggish recovery in IT spending restrained sales of servers and solutions/system integration services. Overseas, sales of outsourcing services, UNIX servers, optical transmission systems, PCs and compact hard disk drives (HDDs) improved.

■ **Net Sales by Business Segment**
(excluding intersegment)



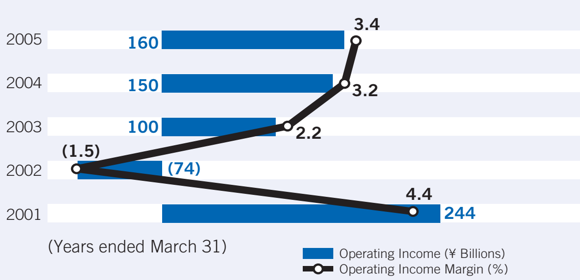
Cost of Sales, Selling, General & Administrative Expenses, and Operating Income

In fiscal 2004, the cost of sales rose ¥51.6 billion to ¥3,512.5 billion ($32,828 million), while selling, general and administrative (SG&A) expenses declined ¥65.5 billion to ¥1,090.0 billion ($10,187 million).

The cost of sales ratio deteriorated by 1.2 percentage points from the prior fiscal year to 73.8%, while the ratio of SG&A expenses to net sales improved by 1.4 percentage points to 22.8% as a result of increased efficiency, benefits from restructuring carried out primarily at overseas operations and the reclassification of certain subsidiaries as equity method affiliates. As a result of the foregoing, the overall operating income margin rose by 0.2 percentage points.

Operating income was ¥160.1 billion ($1,497 million), up ¥9.8 billion over the previous fiscal year. Although operating income was adversely impacted by lower prices and losses on projects with deteriorating profitability in the Software & Services segment, in the Platforms and Electronic Devices segments, despite intense price competition, operating income grew as a result of increased sales, progress on cost-cutting and expense controls.

Operating Income and Operating Income Margin



Other Income (Expenses) and Net Income

Other income, net of other expenses, totaled ¥63.3 billion ($592 million). Net interest, comprising interest and dividend income and interest charges, resulted in a loss of ¥9.6 billion ($90 million), an improvement of ¥7.0 billion mainly owing to a decrease in interest-bearing loans. Equity in earnings of affiliates, net was ¥3.6 billion ($34 million), an increase of ¥4.5 billion from a loss posted last year. Amortization of unrecognized obligation for retirement benefits was ¥39.2 billion ($367 million), an improvement of ¥17.6 billion due to an increase in stock prices last year and the transfer of the substitutional portion of employees' pension funds.

Besides the previously mentioned items, other income (expenses), during fiscal 2004 included gains from the sales of marketable securities to bolster our financial position, as well as on the transfer of the PDP business. Details are as follows:

- **Gain on sales of marketable securities**
  . . . . ¥133.2 billion ($1,246 million)

Sales of part of our holdings in Fanuc Ltd. and Advantest Corporation on February 22 and 23, 2005 (¥129.2 billion) were recorded as gain on sales of marketable securities.

- **Gain on business transfer**
  . . . . ¥36.5 billion ($341 million)

A formal agreement was reached on March 25, 2005 for the transfer of our PDP business to joint venture partner Hitachi, Ltd. We recognized proceeds from this and other business transfers as gain on business transfer.

- **Restructuring charges**
  . . . . ¥20.0 billion ($188 million)

Restructuring charges were recorded as expenses relating to reductions and relocation of personnel and disposal of assets primarily at domestic manufacturing subsidiaries.

- **Real estate valuation losses**
  . . . . ¥15.2 billion ($143 million)

Valuation losses on idle property holdings were reported.

We recognized ¥185.5 billion ($1,734 million) as income taxes, which combines current and deferred income taxes, against ¥223.5 billion ($2,089 million) of income before income taxes and minority interests. The income taxes included a valuation allowance of ¥93.5 billion ($874 million) for deferred tax assets, in addition to normal tax expenses.

Having significant tax loss carryforwards from the restructuring of operations since fiscal 2001, we calculated deferred tax assets at fiscal year-end based on projected future taxable income. At that time, in light of the delayed recovery of taxable income primarily from the Company's business operations, we recorded a valuation allowance to cover the amount in excess of what we were likely to recover, as based on estimates of the next fiscal year's taxable income.

After deducting minority interests of ¥6.0 billion ($57 million), net income for the year was ¥31.9 billion ($298 million), a decrease of ¥17.7 billion from the prior fiscal year.

2. Segment Information

Net sales below refer to sales to unaffiliated customers.

Business Segment Information

Although operating income in the Software & Services segment declined sharply in fiscal 2004, the opposite was true for the Platforms segment, where income was substantially higher. The Electronic Devices segment also saw income growth.

Software & Services

Consolidated net sales were ¥2,070.4 billion ($19,350 million), roughly on par with fiscal 2003 when excluding the impact of that fiscal year's restructuring of overseas subsidiaries. Sales in Japan decreased, primarily due to the slow recovery in IT investment, sluggish sales in solutions/systems integration services, and a reduction in earnings from public infrastructure systems deals. Overseas, buoyed by successive large-scale government-sector outsourcing wins by Fujitsu Services in the UK, orders and sales steadily increased, with sales rising 9.8% on a continuing operations basis.

Consolidated operating income in this segment declined by ¥25.7 billion to ¥113.0 billion ($1,057 million). Increased earnings from large-scale government-sector outsourcing deals by Fujitsu Services in the UK and the benefits of last year's restructuring of Fujitsu Consulting in the US led to improved results at each of these subsidiaries. In the domestic solutions/systems integration business, however, development costs significantly increased for projects with deteriorating profitability, resulting in a substantial drop in operating income.

Along with an increase in losses related to loss-generating projects completed during fiscal 2004 that far surpassed previous-year estimates, we also booked unexpected additional losses for projects scheduled to be completed in fiscal 2005 and beyond. In an effort to maintain delivery schedules and quality on large-scale loss-generating projects, development resources were diverted to these projects throughout the period. The result was a decline in overall efficiency in our solutions/systems integration business.

As of the end of March 2005, the balance of the reserve for losses on loss-generating projects that will be completed in fiscal 2005 or beyond was ¥28.0 billion ($262 million). Of the loss-generating projects uncovered to date, approximately 75% on a value basis were completed by the end of fiscal 2004, and of the projects expected to be completed in fiscal 2005, the majority are expected to involve systems that begin operation by the third quarter of fiscal 2005. Moreover, the major portion of losses sustained to date have been on projects that were contracted and on which development work began prior to the end of the first half of fiscal 2003. For projects initiated since the second half of fiscal 2003, at which time we implemented comprehensive countermeasures starting from the initial project discussion phase, the incidence of losses has dramatically declined.

Reviewing the concrete measures implemented to date to improve project risk management procedures, in February 2004 we established an organization to review project business discussions at every stage in order to prevent the occurrence of loss-generating projects. Since that time we have expanded our organizational resources in this area, strengthening our project risk management organization and reforming our contractual procedures. In April 2005, we established a new Systems Integration Assurance Unit with broader authority that reports directly to the president in order to further enhance our procedures to prevent the occurrence of problematic projects. We have also implemented a real-time project management tracking system and, since the beginning of fiscal 2005, have been applying the percentage of completion method to all software development contracts in order to maximize project visibility.

In June 2004, we realigned our solutions business organization in Japan by unifying our sales and systems engineering groups along customer lines. Along with reforming our organization and approach to more quickly respond to our customers' changing business environments, this has clarified organizational responsibility for ensuring project profitability from the order stage. We also restructured and consolidated our systems engineering companies in the Tohoku, Shikoku, and Chugoku regions. As a result, we expect considerable improvement in the profitability of systems integration projects going forward.

In addition, in order to augment full IT system lifecycle management (LCM) support for customers, in October 2004 we made Fujitsu Support and Service Inc. a wholly owned subsidiary of Fujitsu Limited through an exchange of shares. In January 2005, we consolidated into a single location nearly 2,500 employees of both companies who had previously been dispersed in multiple centers throughout the Tokyo metropolitan area, and we consolidated redundant service centers in regional locations throughout Japan.

Continual cost reductions are essential in order to meet customer expectations regarding pricing. Accordingly, we intend to expand the utilization of our SDAS comprehensive system development framework to all new deals, and thoroughly improve efficiency by reducing development times and other measures. Moreover, we intend to intensify the use of custom-made development tools like our TRIOLE templates, which provide pre-verified system construction patterns for open environments and greatly improve overall system reliability.

Platforms

Consolidated net sales in the Platforms segment grew 6.0% over the previous fiscal year to ¥1,705.1 billion ($15,936 million). Sales of UNIX servers overseas were strong, particularly in Europe and North America, and sales of transmission systems, primarily to European and North American telecommunications carriers, showed double-digit growth. Although sales of PCs in Japan were sluggish, primarily as a result of intense pricing competition in the retail sector, overseas sales of high-function, high-quality notebook computers registered especially large gains. Sales of our HDDs (for use in notebook computers and servers), which enjoy a reputation in the marketplace for high quality and excellent reliability, also showed significant growth, especially overseas.

Operating income for the sector nearly doubled from the previous year, increasing by ¥25.7 billion to ¥55.0 billion ($514 million). Continued progress was made in lowering costs through improvements in manufacturing processes as well as reducing development costs and increasing efficiencies for such products as optical transmission systems, IP networks and servers. Amid declining prices and increasing volumes in PCs, we made further efforts to increase efficiencies in our manufacturing and delivery infrastructure and to lower procurement costs for components. However, with the deployment of financial terminals to accommodate new Japanese banknotes having run its course, profitability declined in the Server-related sub-segment, and although sales of new mobile phone handsets increased with the shift to third-generation (3G) communications under way in Japan, equipping the new handsets with sophisticated functionality delayed cost reductions and adversely impacted profitability in this area.

In June 2004, we began global sales of new UNIX servers equipped with 64-bit processors employing our leading-edge 90nm semiconductor technology. In April 2005 we announced the global launch of PRIMEQUEST, our new mission-critical IA server with mainframe-class performance and reliability. Providing the economy of an open architecture server together with the high reliability of a mainframe computer, PRIMEQUEST breaks new ground as the world's most powerful open architecture server in the mission-critical space.

Based on a strategy of active collaboration with global partners in order to help strengthen our business, in fiscal 2004 we worked with IBM to establish standards for autonomic system technology, with Cisco Systems in routers and switches, with Intel and Microsoft in the IA server field, and with Sun Microsystems in the area of UNIX servers.

In the hard disk drive business, we merged the operations of our drive-head assembly division in the Philippines with TDK's subsidiary in the same country, and the new entity began operation in December 2004. This move helps to ensure an adequate supply of drive heads to meet future surges in demand.

In light of the Personal Information Protection Act that came into effect in Japan in April 2005 and recent increases in counterfeit credit card-related crimes, there are growing calls for technology solutions to help protect information security. Our pioneering palm vein recognition technology has been adopted by many financial institutions for use in their ATMs, and a number of these systems are already in operation.

Electronic Devices

Consolidated net sales in this segment were ¥733.8 billion ($6,859 million), an increase of 4.6% over the previous year on a continuing operations basis excluding the impact of restructuring. Although price competition in PDPs and LCDs intensified as a result of deterioration in the market supply/demand balance, increased orders for leading-edge products and strong sales by our components subsidiaries contributed to the overall increase in sales.

Operating income was ¥32.5 billion ($305 million), an increase over last year of ¥5.0 billion. Continuing progress in improving manufacturing efficiency and increased revenue from components subsidiaries offset the impact of lower sales of PDPs, LCDs and other products, contributing to the overall increase in operating income.

In February 2005, pilot testing was completed at our new Mie Plant facility for the mass production of 300mm wafers utilizing our leading-edge 90nm and 65nm process technology, and operations officially commenced in April. With market demand for leading-edge technology continually increasing, the plant is steadily progressing toward the start of volume production planned for September 2005.

In March 2005, we reached formal agreement with Hitachi, Ltd. regarding the transfer of our PDP operations. Accordingly, we transferred to Hitachi, Ltd. a portion of the stock we held in Fujitsu Hitachi Plasma Display Ltd., as well as certain intellectual property relating to PDPs. In addition, in April 2005 we signed an agreement with Sharp Corporation for the transfer of our LCD business.

Through the transfer of these flat panel display businesses, we will be better able to concentrate resources on LSI devices to more effectively grow that business.

Other Operations

In June 2004, we sold our logistics subsidiary to a Japan-based subsidiary of Exel plc of the UK. By capitalizing on ties with Exel, we are bolstering our global logistics framework and achieving more advanced SCM in a drive to deliver products faster and more reliably than ever to Fujitsu customers.

Net Sales and Operating Income by Business Segment

(including intersegment)

(¥ Billions)

Years ended March 31	2004	**2005**	Increase (Decrease) Rate (%)
Net sales			
Software & Services	¥2,146	**¥2,108**	(1.7)
Platforms	1,832	**1,861**	1.6
Electronic Devices	804	**794**	(1.2)
Financing	54	**—**	—
Other Operations	418	**352**	(15.8)
Intersegment elimination	(489)	**(354)**	
Consolidated net sales	¥4,766	**¥4,762**	(0.1)

Years ended March 31	2004	**2005**	Increase (Decrease)
Operating income (loss)			
Software & Services	¥138	**¥113**	¥(25)
Platforms	29	**55**	25
Electronic Devices	27	**32**	5
Financing	2	**—**	(2)
Other Operations	13	**14**	0
Unallocated operating costs and expenses/ intersegment elimination	(60)	**(54)**	6
Consolidated operating income	¥150	**¥160**	¥ 9

Geographic Segment Information

Japan

Net sales were ¥3,560.9 billion ($33,280 million), a decline of 1.2% year on year. Excluding the impact of business realignment in the previous fiscal year, which resulted in the reclassification of our Flash memory, leasing, and other businesses as equity method affiliates, net sales rose 1.5% on a continuing operations basis. Sales were also higher for system-on-chip devices used in base stations for 3G mobile communications systems and digital home appliances.

Operating income was ¥187.8 billion ($1,756 million), ¥15.8 billion lower than the previous year, mainly due to a drop in income caused by deteriorating performance in Software & Services and PDPs.

Europe

Net sales were ¥585.1 billion ($5,469 million), up 7.4% year on year and 12.1% higher on a continuing operations basis. This result stemmed from increased sales from large-scale government-sector outsourcing contracts in the UK, and from business targeting telecommunications carriers.

Operating income was ¥11.7 billion ($109 million), nearly double the previous year's figure. This reflected the benefits of higher sales in Software & Services and communications equipment.

The Americas

Net sales were ¥281.9 billion ($2,635 million), a year-on-year increase of 10.8%, and 15.5% higher on a continuing operations basis.

Operating income was ¥4.3 billion ($41 million), reversing the previous year's operating loss of ¥13.1 billion. Earnings increased on the back of benefits from the previous year's restructuring initiatives, improved results from optical transmission systems, and healthy performance from HDDs.

Others

Net sales declined 7.6% year on year, to ¥334.7 billion ($3,128 million), and 6.5% on a continuing operations basis. This was largely due to a deteriorating LCD market. Operating income was ¥12.1 billion ($113 million), down ¥1.3 billion.

Net Sales and Operating Income by Geographic Segment

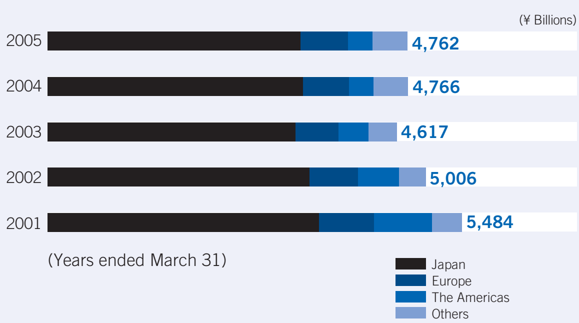
(including intersegment)

(¥ Billions)

Years ended March 31	2004	2005	Increase (Decrease) Rate (%)
Net sales			
Japan	¥4,071	**¥4,024**	(1.2)
Europe	563	**596**	6.0
The Americas	274	**298**	8.8
Others	579	**602**	4.1
Intersegment elimination	(721)	**(760)**	
Consolidated net sales	¥4,766	**¥4,762**	(0.1)

Years ended March 31	2004	2005	Increase (Decrease)
Operating income (loss)			
Japan	¥203	**¥187**	¥(15)
Europe	6	**11**	5
The Americas	(13)	**4**	17
Others	13	**12**	(1)
Unallocated operating costs and expenses/ intersegment elimination	(60)	**(55)**	4
Consolidated operating income	¥150	**¥160**	¥ 9

For reference: Net Sales by Customers' Geographic Location



3. Capital Resources and Liquidity

Improvement in Financial Strength

As a result of the deterioration of performance following the collapse of the IT bubble and the large charges stemming from restructuring initiatives, there had been significant deterioration in the Group's financial condition. However, since fiscal 2003, we have made progress in improving the soundness of our financial position. We were able to meet our goal of reducing interest-bearing loans to ¥1,100 billion or below by the end of fiscal 2004, ending the fiscal year with a balance of ¥1,082.7 billion ($10,120 million) as a result of cash flow generated from business operations as well as investment cash flow collected from sales of asset holdings. As a result, our D/E ratio reached 1.26, drawing closer to our medium-term goal of 1.0. Net interest-bearing loans, which subtract cash and time deposits, were greatly reduced to ¥628.0 billion ($5,870 million), and the net D/E ratio reached 0.73. In terms of management indices expressing financial stability and efficient use of assets, in a number of areas we have exceeded the values for the recent peak year of fiscal 2000.

We have also made efforts to deal with financial risks. In the same way that we did in the previous fiscal year, in fiscal 2004 we recognized upfront losses for problematic projects as soon as they were determined, including for work not yet implemented. In addition, we recorded valuation losses on idle property that we had no plans to use. Moreover, with respect to deferred tax assets, we recorded a valuation allowance to cover the amount in excess of what we are likely to recover in the future.

Assets, Liabilities and Shareholders' Equity

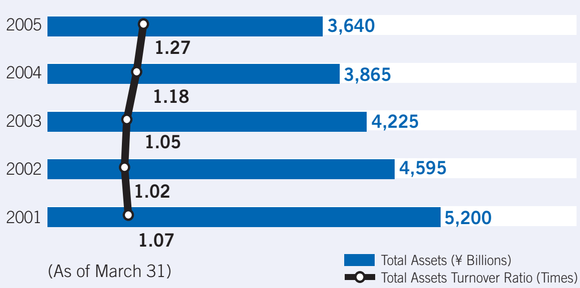
Total assets at the end of fiscal 2004 were ¥3,640.1 billion ($34,021 million), a reduction of ¥225.3 billion from the end of the previous fiscal year. Total current assets were ¥1,981.5 billion ($18,519 million), a reduction of ¥34.0 billion from the end of the last fiscal year. Inventories were reduced, mainly due to increased efforts in manufacturing innovation.

Total fixed assets decreased by ¥191.3 billion from the end of the prior fiscal year, to ¥1,658.6 billion ($15,502 million). Property, plant, and equipment less accumulated depreciation decreased by ¥75.1 billion, due to such factors as the shift to the equity method of accounting for our compound semiconductor business and the transfer of our PDP business. Investments and long-term loans were reduced by ¥120.5 billion as a result of sales of marketable securities and the posting of a valuation allowance for deferred tax assets.

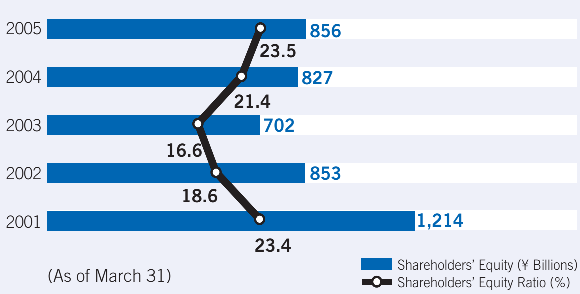
Total liabilities, which include current and long-term liabilities, were ¥2,619.0 billion ($24,477 million), a reduction of ¥228.9 billion compared to the end of the prior fiscal year. Reflecting primarily corporate bond redemptions and repayment of borrowings, interest-bearing loans were reduced by ¥194.3 billion. Along with this, we improved our D/E ratio by 0.28 to 1.26.

Total shareholders' equity increased by ¥29.8 billion, to ¥856.9 billion ($8,009 million). In addition to recording a net profit for the fiscal year, capital surplus increased in conjunction with making Fujitsu Support and Service a wholly owned subsidiary via an exchange of shares. The shareholders' equity ratio increased by 2.1 percentage points to 23.5%.

■ Total Assets/Total Assets Turnover Ratio



■ Shareholders' Equity/Shareholders' Equity Ratio



Summary of Cash Flows

Net cash provided by operating activities during the fiscal year was ¥277.2 billion ($2,591 million), roughly in line with the approximately ¥300 billion recorded in fiscal 2003. Internal reserve increased due to a significant increase in profit excluding some special items whereas working capital decreased due to such factors as the payment of accounts payable in our domestic solutions/systems integration business.

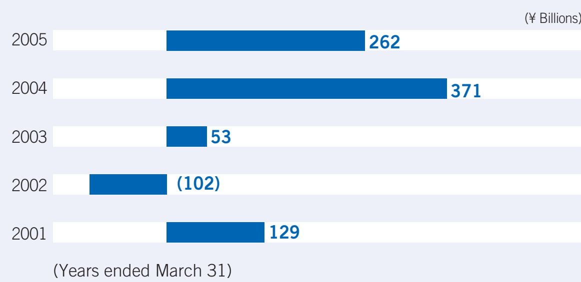
Net cash used in investing activities was ¥15.1 billion ($141 million). Outflows for capital expenditures roughly balanced out inflows from sales of marketable securities.

Free cash flow, the sum of operating and investing cash flows, was a positive ¥262.1 billion ($2,450 million) and was used to redeem corporate bonds and repay borrowings.

Net cash used in financing activities was ¥212.0 billion ($1,982 million). Excluding items such as proceeds from the sales of marketable securities, free cash flow from our business operations was positive ¥93.7 billion ($876 million), an increase in cash inflows of ¥4.6 billion over the previous fiscal year.

Cash and cash equivalents stood at ¥454.5 billion ($4,248 million) at the end of the period, ¥40.6 billion more than at year-end in fiscal 2003.

■ Free Cash Flow



4. Capital Expenditure

In fiscal 2004, capital expenditure, which was targeted at the most promising growth sectors and held within the same range as depreciation expenses, totaled ¥181.4 billion ($1,695 million). By business segment, capital expenditure was ¥49.4 billion ($462 million) in Software & Services, ¥36.6 billion ($342 million) in Platforms, ¥76.1 billion ($711 million) in Electronic Devices, and ¥19.1 billion ($179 million) for general corporate and other areas.

Capital Expenditure

(¥ Billions)

Years ended March 31	2004	**2005**	Increase (Decrease) Rate (%)
Software & Services	¥ 54	**¥ 49**	(8.5)
Platforms	32	**36**	12.9
Electronic Devices	59	**76**	28.4
Corporate and others*	13	**19**	37.3
Total	¥159	**¥181**	13.5
Japan	135	**142**	5.2
Overseas	24	**39**	59.7

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

5. Consolidated Subsidiaries

At the end of fiscal 2004, the Company had 403 consolidated subsidiaries, 123 in Japan and 280 overseas, representing a decrease of 52 from last year's total of 455. The decrease included the transfer of our PDP operations and the shift of our compound semiconductor subsidiary to the equity method of accounting, as well as reductions relating to global business restructuring and the realignment of our systems engineering subsidiaries in Japan's Chugoku and Shikoku regions.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 34, a net increase of two. This number included Eudyna Devices Inc., Eudyna Devices Europe Ltd. and two other new equity method affiliates, while Advantest Corporation and one other company are no longer treated as equity method affiliates.

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 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. 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.

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

In fiscal 2005, we plan to introduce the percentage of completion method to recognize revenue and to improve the visibility of project management for software development contracts.

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 have not adopted in advance the impairment accounting standard that will become mandatory in fiscal 2005 in Japan. Accordingly, following application of the standard, impairment losses may have to be recognized in cases in which there is a decline in the anticipated amount of future cash flows as a result of deterioration in the projected results of a business unit, or a decline in the fair market value of property, plant and equipment, leading to a corresponding decline in the amounts judged to be recoverable.

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.

Retirement benefit costs and obligations are recognized in conformity with the accounting principles and standards generally accepted in the respective countries where incurred. Any future revisions to these accounting standards could impact the recognized retirement benefit costs and obligations as well as shareholders' equity.

Provision for Loss on Repurchase of Computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. (JECC) and other leasing companies 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.

Consolidated Balance Sheets

Fujitsu Limited and Consolidated Subsidiaries
At March 31

		Yen (millions)	U.S. Dollars (thousands) (Note 3)
Assets	2004	**2005**	**2005**
Current assets:			
Cash and cash equivalents	¥ 413,826	**¥ 454,516**	**$ 4,247,813**
Short-term investments (Note 4)	3,103	**2,672**	**24,972**
Receivables, trade (Note 16)	810,469	**824,992**	**7,710,206**
Allowance for doubtful accounts	(5,931)	**(6,586)**	**(61,552)**
Inventories (Note 5)	521,126	**478,510**	**4,472,056**
Other current assets (Note 11)	272,981	**227,433**	**2,125,542**
Total current assets	2,015,574	**1,981,537**	**18,519,037**
Investments and long-term loans:			
Affiliates (Note 6)	163,889	**175,844**	**1,643,402**
Other investments and long-term loans (Notes 4, 6, 10 and 11)	663,174	**530,622**	**4,959,084**
Total investments and long-term loans	827,063	**706,466**	**6,602,486**
Property, plant and equipment (Notes 7, 9 and 15):			
Land	134,217	**130,913**	**1,223,486**
Buildings	727,812	**720,449**	**6,733,168**
Machinery and equipment	1,882,066	**1,795,784**	**16,783,028**
Construction in progress	19,868	**29,991**	**280,290**
	2,763,963	**2,677,137**	**25,019,972**
Less accumulated depreciation	(1,960,940)	**(1,949,237)**	**(18,217,168)**
Property, plant and equipment, net	803,023	**727,900**	**6,802,804**
Intangible assets (Note 15):			
Software	142,530	**133,847**	**1,250,907**
Goodwill (Note 8)	66,045	**81,569**	**762,327**
Other intangible assets	11,354	**8,879**	**82,981**
Total intangible assets	219,929	**224,295**	**2,096,215**
Total assets	¥ 3,865,589	**¥ 3,640,198**	**$ 34,020,542**

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

Liabilities, minority interests and shareholders' equity	Yen (millions) 2004	Yen (millions) 2005	U.S. Dollars (thousands) (Note 3) 2005
Current liabilities:			
Short-term borrowings (Note 9)	¥ 178,382	**¥ 102,079**	**$ 954,009**
Current portion of long-term debt (Note 9)	204,367	**107,474**	**1,004,430**
Payables, trade (Note 16)	796,915	**735,981**	**6,878,327**
Accrued expenses	316,404	**323,473**	**3,023,112**
Customers' advances	29,960	**34,956**	**326,692**
Accrued income taxes	26,744	**29,602**	**276,654**
Other current liabilities (Notes 11 and 15)	165,290	**157,952**	**1,476,187**
Total current liabilities	1,718,062	**1,491,517**	**13,939,411**
Long-term liabilities:			
Long-term debt (Note 9)	894,372	**873,235**	**8,161,075**
Accrued retirement benefits (Note 10)	79,200	**85,747**	**801,374**
Provision for loss on repurchase of computers	68,214	**56,467**	**527,729**
Other long-term liabilities (Notes 11 and 15)	88,104	**112,035**	**1,047,056**
Total long-term liabilities	1,129,890	**1,127,484**	**10,537,234**
Minority interests in consolidated subsidiaries	190,460	**164,207**	**1,534,645**
Shareholders' equity:			
Common stock (Note 12)			
Authorized—5,000,000,000 shares			
Issued			
2004—2,001,962,672 shares	324,624		
2005—2,070,018,213 shares		**324,625**	**3,033,878**
Capital surplus	455,963	**497,882**	**4,653,103**
Retained earnings (Deficit)	(35,734)	**(7,823)**	**(73,112)**
Unrealized gains on securities, net of taxes	149,629	**98,076**	**916,598**
Revaluation surplus on land, net of taxes	3,453	**3,453**	**32,271**
Foreign currency translation adjustments	(69,901)	**(57,980)**	**(541,869)**
Treasury stock, at cost	(857)	**(1,243)**	**(11,617)**
Total shareholders' equity	827,177	**856,990**	**8,009,252**
Commitments and contingent liabilities (Note 13)			
Total liabilities, minority interests and shareholders' equity	¥3,865,589	**¥3,640,198**	**$34,020,542**

Consolidated Statements of Operations

Fujitsu Limited and Consolidated Subsidiaries
Years ended March 31

			Yen (millions)	U.S. Dollars (thousands) (Note 3)
	2003	2004	**2005**	**2005**
Net sales	¥4,617,580	¥4,766,888	**¥4,762,759**	**$44,511,766**
Operating costs and expenses:				
Cost of sales	3,328,261	3,460,932	**3,512,552**	**32,827,589**
Selling, general and administrative expenses (Note 18)	1,188,892	1,155,614	**1,090,016**	**10,187,065**
	4,517,153	4,616,546	**4,602,568**	**43,014,654**
Operating income	100,427	150,342	**160,191**	**1,497,112**
Other income (expenses):				
Interest and dividend income	8,495	6,668	**8,643**	**80,776**
Equity in earnings of affiliates, net	570	(862)	**3,691**	**34,495**
Interest charges	(29,913)	(23,331)	**(18,247)**	**(170,533)**
Other, net (Note 18)	(227,185)	24,201	**69,248**	**647,178**
	(248,033)	6,676	**63,335**	**591,916**
Income (loss) before income taxes and minority interests	(147,606)	157,018	**223,526**	**2,089,028**
Income taxes (Note 11):				
Current	36,188	34,125	**32,422**	**303,009**
Deferred	(64,977)	58,085	**153,131**	**1,431,131**
	(28,789)	92,210	**185,553**	**1,734,140**
Income (loss) before minority interests	(118,817)	64,808	**37,973**	**354,888**
Minority interests in income of consolidated subsidiaries	(3,249)	(15,104)	**(6,066)**	**(56,692)**
Net income (loss)	¥ (122,066)	¥ 49,704	**¥ 31,907**	**$ 298,196**

			Yen	U.S. Dollars (Note 3)
Amounts per share of common stock:				
Basic earnings (loss) (Note 17)	¥ (61.3)	¥ 24.5	**¥ 15.4**	**$ 0.144**
Diluted earnings (loss) (Note 17)	(61.3)	22.2	**13.9**	**0.130**
Cash dividends	—	3.0	**6.0**	**0.056**

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

Consolidated Statements of Shareholders' Equity

Fujitsu Limited and Consolidated Subsidiaries
Years ended March 31

			Yen (millions)	U.S. Dollars (thousands) (Note 3)
	2003	2004	**2005**	**2005**
Common stock:				
Balance at beginning of year	¥ 324,624	¥324,624	**¥324,624**	**$3,033,869**
Conversion of bonds	—	—	**1**	**9**
Balance at end of year	¥ 324,624	¥324,624	**¥324,625**	**$3,033,878**
Capital surplus:				
Balance at beginning of year	¥ 519,720	¥519,720	**¥455,963**	**$4,261,336**
Increase as a result of stock exchange	—	—	**50,156**	**468,748**
Gain on sales of treasury stocks	—	16	**12**	**112**
Decrease as a result of deconsolidation of equity method affiliates	—	(63,773)	**(8,249)**	**(77,093)**
Balance at end of year	¥ 519,720	¥455,963	**¥497,882**	**$4,653,103**
Retained earnings (Deficit):				
Balance at beginning of year	¥ 76,176	¥ (60,718)	**¥ (35,734)**	**$ (333,963)**
Net income (loss)	(122,066)	49,704	**31,907**	**298,196**
Cash dividends paid	(5,005)	—	**(12,001)**	**(112,159)**
Bonuses to directors and statutory auditors	(598)	(620)	**(620)**	**(5,794)**
Increase as a result of deconsolidation of equity method affiliates	—	—	**7,961**	**74,402**
Decrease as a result of deconsolidation of equity method affiliates	—	(27,706)	**—**	**—**
Other, net	(9,225)	3,606	**664**	**6,206**
Balance at end of year	¥ (60,718)	¥ (35,734)	**¥ (7,823)**	**$ (73,112)**
Unrealized gains on securities, net of taxes:				
Balance at beginning of year	¥ 10,417	¥ 2,152	**¥149,629**	**$1,398,402**
Increase (decrease)	(8,265)	147,477	**(51,553)**	**(481,804)**
Balance at end of year	¥ 2,152	¥149,629	**¥ 98,076**	**$ 916,598**
Revaluation surplus on land, net of taxes:				
Balance at beginning of year	¥ 4,311	¥ 3,938	**¥ 3,453**	**$ 32,271**
Increase (decrease)	(373)	(485)	**—**	**—**
Balance at end of year	¥ 3,938	¥ 3,453	**¥ 3,453**	**$ 32,271**
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (81,323)	¥ (86,517)	**¥ (69,901)**	**$ (653,280)**
Change during the period	(5,194)	16,616	**11,921**	**111,411**
Balance at end of year	¥ (86,517)	¥ (69,901)	**¥ (57,980)**	**$ (541,869)**
Treasury stock:				
Balance at beginning of year	¥ (169)	¥ (809)	**¥ (857)**	**$ (8,009)**
(Increase) decrease	(640)	(48)	**(386)**	**(3,608)**
Balance at end of year	¥ (809)	¥ (857)	**¥ (1,243)**	**$ (11,617)**

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

Consolidated Statements of Cash Flows

Fujitsu Limited and Consolidated Subsidiaries
Years ended March 31

	Yen (millions)			U.S. Dollars (thousands) (Note 3)
	2003	2004	**2005**	**2005**
Cash flows from operating activities (A):				
Income (loss) before income taxes and minority interests	¥(147,606)	¥ 157,018	**¥ 223,526**	**$ 2,089,028**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	325,618	261,805	**220,492**	**2,060,673**
Goodwill amortization	17,667	31,144	**11,626**	**108,654**
Accrual (payments) for retirement benefits	8,936	22,923	**7,269**	**67,935**
Provision for loss on repurchase of computers	26,063	33,329	**21,746**	**203,234**
Reversal of provision for loss on repurchase of computers	(35,191)	(40,161)	**(33,494)**	**(313,028)**
Interest charges	29,913	23,331	**18,247**	**170,533**
Interest and dividend income	(8,495)	(6,668)	**(8,643)**	**(80,776)**
Equity in earnings of affiliates, net	(570)	862	**(3,691)**	**(34,495)**
Disposal of non-current assets	53,855	30,714	**39,765**	**371,635**
Gain on transfer of substitutional portion of employees' pension funds	—	(146,532)	**—**	**—**
Gain on sales of marketable securities	(29,362)	(134,624)	**(133,299)**	**(1,245,785)**
(Increase) decrease in receivables, trade	63,246	(101,803)	**(26,320)**	**(245,981)**
(Increase) decrease in inventories	39,538	42,637	**37,965**	**354,813**
(Increase) decrease in other current assets	(33,062)	6,628	**13,808**	**129,047**
Increase (decrease) in payables, trade	(60,500)	158,327	**(47,859)**	**(447,280)**
Increase (decrease) in other current liabilities	(60,800)	13,608	**10,956**	**102,392**
Other, net	(16,249)	3,865	**(35,757)**	**(334,178)**
Cash generated from operations	173,001	356,403	**316,337**	**2,956,421**
Interest paid	(30,920)	(24,142)	**(18,858)**	**(176,243)**
Interest received	6,422	2,763	**4,638**	**43,346**
Dividends received	8,282	6,358	**4,694**	**43,869**
Income taxes paid	(38,988)	(37,337)	**(29,579)**	**(276,439)**
Net cash provided by (used in) operating activities	117,797	304,045	**277,232**	**2,590,954**
Cash flows from investing activities (B):				
Purchases of property, plant and equipment	(163,503)	(141,596)	**(151,862)**	**(1,419,271)**
Proceeds from sales of property, plant and equipment	91,779	47,841	**14,283**	**133,486**
Purchases of intangible assets	(66,524)	(59,423)	**(47,677)**	**(445,580)**
Purchases of investment securities	(34,279)	(47,205)	**(23,239)**	**(217,187)**
Proceeds from sales of investment securities	98,303	269,110	**161,047**	**1,505,112**
Other, net	9,809	(1,338)	**32,319**	**302,047**
Net cash provided by (used in) investing activities	(64,415)	67,389	**(15,129)**	**(141,393)**
A+B (*)	53,382	371,434	**262,103**	**2,449,561**
Cash flows from financing activities:				
Proceeds from long-term debt	358,615	57,150	**126,179**	**1,179,243**
Repayment of long-term debt	(222,779)	(197,876)	**(240,293)**	**(2,245,729)**
Increase (decrease) in short-term borrowings	(105,167)	(76,741)	**(48,816)**	**(456,224)**
Increase (decrease) in minority interests	(2,702)	10,700	**(1,024)**	**(9,570)**
Dividends paid	(5,005)	—	**(12,001)**	**(112,159)**
Other, net	(90,199)	(33,135)	**(36,079)**	**(337,187)**
Net cash provided by (used in) financing activities	(67,237)	(239,902)	**(212,034)**	**(1,981,626)**
Effect of exchange rate changes on cash and cash equivalents	(3,230)	(3,199)	**1,661**	**15,523**
Net increase (decrease) in cash and cash equivalents	(17,085)	128,333	**51,730**	**483,458**
Cash and cash equivalents at beginning of year	299,418	282,333	**413,826**	**3,867,533**
Cash and cash equivalents of newly consolidated subsidiaries	—	3,160	**947**	**8,850**
Cash and cash equivalents of deconsolidated subsidiaries	—	—	**(11,987)**	**(112,028)**
Cash and cash equivalents at end of year	¥ 282,333	¥ 413,826	**¥ 454,516**	**$ 4,247,813**
Noncash investing and financing activities:				
Acquisition of assets under finance leases	¥ 32,696	¥ 32,084	**¥ 33,273**	**$ 310,963**
Increase in capital surplus as a result of stock exchange	—	—	**50,156**	**468,748**
Contribution of assets to an affiliated company	—	63,949	**—**	**—**

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

Notes to Consolidated Financial Statements

Fujitsu Limited and Consolidated Subsidiaries

1. *Significant Accounting Policies*

(a) Basis of presenting consolidated financial statements

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 statements 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

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 at March 31, 2005, 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 immediately recognized the expected loss on the software development contracts which were proved to be unprofitable from the year ended March 31, 2004. The Group classified the expected loss as "restructuring charges" for the year ended March 31, 2004.

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 International Financial Reporting Standards or 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 ¥107 = US$1, the approximate exchange rate at March 31, 2005.

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, 2004 and 2005, marketable securities included in "short-term investments" and "other investments and long-term loans" were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Held-to-maturity investments			
Carrying value (Amortized cost)	¥ 2,208	**¥ 1,414**	**$ 13,215**
Market value	2,225	**1,436**	**13,421**
Net unrealized gain	¥ 17	**¥ 22**	**$ 206**
Available-for-sale securities			
Acquisition costs	¥ 64,794	**¥ 62,158**	**$ 580,916**
Carrying value (Market value)	317,891	**228,429**	**2,134,851**
Net unrealized gain	¥253,097	**¥166,271**	**$1,553,935**

5. *Inventories*

Inventories at March 31, 2004 and 2005 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Finished goods	¥193,039	**¥186,555**	**$1,743,505**
Work in process	240,637	**211,090**	**1,972,804**
Raw materials	87,450	**80,865**	**755,747**
	¥521,126	**¥478,510**	**$4,472,056**

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	2004	**2005**	**2005**
Current assets	¥ 778,871	**¥585,081**	**$5,468,047**
Non-current assets	450,182	**392,281**	**3,666,177**
	1,229,053	**977,362**	**9,134,224**
Current liabilities	616,255	**604,384**	**5,648,448**
Long-term liabilities	275,723	**224,153**	**2,094,888**
Net assets	¥ 337,075	**¥148,825**	**$1,390,888**

Years ended March 31	2003	2004	Yen (millions) 2005	U.S. Dollars (thousands) 2005
Net sales	¥1,214,169	¥1,393,351	**¥1,603,931**	**$14,990,009**
Net income	445	39,994	**45,934**	**429,290**

After the shares in Advantest Corporation were sold for the year ended March 31, 2005, Advantest Corporation was no longer treated as an equity method affiliate. In the summary of the financial information stated above, the net assets of Advantest Corporation at March 31, 2004 were ¥221,768 million.

The carrying and market values of the shares of the publicly listed equity method affiliates at March 31, 2004 and 2005 were as follows:

At March 31	2004	Yen (millions) 2005	U.S. Dollars (thousands) 2005
Carrying value	¥18,148	**¥ 9,838**	**$ 91,944**
Market value	79,581	**30,465**	**284,720**

After shares in Advantest Corporation were sold for the year ended March 31, 2005, Advantest Corporation was no longer treated as an equity method affiliate. The carrying and market values at March 31, 2004 stated above included ¥9,205 million and ¥34,709 million, respectively, for Advantest Corporation

At March 31, 2004 and 2005, the amount of ¥19,373 million ($181,056 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, 2004 and 2005, JECC's issued share capital was ¥65,700 million ($614,019 thousand). Its net sales for the years ended March 31, 2003, 2004 and 2005 amounted to ¥295,987 million, ¥303,285 million and ¥304,482 million ($2,845,626 thousand), respectively.

7. *Property, Plant and Equipment*

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

		Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	**2005**	**2005**
Land			
Balance at beginning of year, net	¥133,806	**¥134,217**	**$1,254,365**
Additions	4,728	**32**	**299**
Translation differences	(588)	**113**	**1,056**
Other, net	(3,729)	**(18,756)**	**(175,290)**
Balance at end of year, net	¥134,217	**¥115,606**	**$1,080,430**
Buildings			
Balance at beginning of year, net	¥327,343	**¥276,259**	**$2,581,860**
Additions	25,621	**16,487**	**154,085**
Depreciation	28,165	**24,531**	**229,262**
Translation differences	(4,318)	**707**	**6,607**
Other, net	(44,222)	**(14,245)**	**(133,131)**
Balance at end of year, net	¥276,259	**¥254,677**	**$2,380,159**

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.

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

Machinery and equipment			
Balance at beginning of year, net	¥500,806	**¥372,679**	**$3,482,981**
Additions	135,389	**159,816**	**1,493,607**
Depreciation	177,174	**146,699**	**1,371,018**
Translation differences	(8,756)	**1,608**	**15,028**
Other, net	(77,586)	**(59,778)**	**(558,673)**
Balance at end of year, net	¥372,679	**¥327,626**	**$3,061,925**

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.

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

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2004	**2005**	**2005**
Construction in progress			
Balance at beginning of year, net	¥ 28,597	**¥ 19,868**	**$ 185,682**
Additions	106,544	**121,599**	**1,136,439**
Translation differences	(350)	**13**	**122**
Transfers	(114,923)	**(111,489)**	**(1,041,953)**
Balance at end of year, net	¥ 19,868	**¥ 29,991**	**$ 280,290**

8. *Goodwill*

An analysis of goodwill is presented below:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2004	**2005**	**2005**
Balance at beginning of year	¥97,937	**¥ 66,045**	**$617,243**
Additions	114	**25,564**	**238,916**
Amortization	31,144	**11,626**	**108,654**
Translation differences	(862)	**1,586**	**14,822**
Balance at end of year	¥66,045	**¥ 81,569**	**$762,327**

9. *Short-Term Borrowings and Long-Term Debt*

Short-term borrowings at March 31, 2004 and 2005 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Loans, principally from banks, with weighted average interest rates of 0.99% at March 31, 2004 and 1.27% at March 31, 2005:			
Secured	¥ 833	**¥ 600**	**$ 5,607**
Unsecured	177,549	**101,479**	**948,402**
	¥178,382	**¥102,079**	**$ 954,009**

Long-term debt at March 31, 2004 and 2005 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Loans, principally from banks and insurance companies, due 2004 to 2020 with the weighted average interest rate of 2.12% at March 31, 2004 and due 2005 to 2020 with the weighted average interest rate of 1.81% at March 31, 2005:			
Secured	¥ 3,233	**¥ 662**	**$ 6,187**
Unsecured	220,104	**173,522**	**1,621,701**
Bonds and notes issued by the Company:			
1.4% unsecured convertible bonds due 2004	39,617	**—**	**—**
Zero coupon unsecured convertible bonds due 2009	250,000	**250,000**	**2,336,448**
2.875% unsecured bonds due 2006	50,000	**50,000**	**467,290**
2.575% unsecured bonds due 2004	50,000	**—**	**—**
3.15% unsecured bonds due 2009	50,000	**50,000**	**467,290**
2.3% unsecured bonds due 2007	50,000	**50,000**	**467,290**
2.325% unsecured bonds due 2008	50,000	**50,000**	**467,290**
3.0% unsecured bonds due 2018	30,000	**30,000**	**280,373**
2.175% unsecured bonds due 2008	50,000	**50,000**	**467,290**
2.15% unsecured bonds due 2008	50,000	**50,000**	**467,290**
0.64% unsecured bonds due 2006	100,000	**100,000**	**934,579**
0.31% unsecured bonds due 2004	80,000	**—**	**—**
0.42% unsecured bonds due 2007	—	**50,000**	**467,290**
1.05% unsecured bonds due 2010	—	**50,000**	**467,290**
Bonds and notes issued by consolidated subsidiaries, due 2005 to 2006 with the weighted average interest rate of 1.38% at March 31, 2004 and due 2005 to 2006 with the weighted average interest rate of 1.35% at March 31, 2005:			
Unsecured	25,785	**26,525**	**247,897**
Less amounts due within one year	(204,367)	**(107,474)**	**(1,004,430)**
	¥ 894,372	**¥ 873,235**	**$ 8,161,075**

At March 31, 2005, the Group had committed line contracts with banks aggregating ¥211,603 million ($1,977,598 thousand). Of the total credit limit, ¥68,542 million ($640,579 thousand), was used as the above short-term and long-term borrowings, and the rest, ¥143,061 million ($1,337,019 thousand), was unused.

The current conversion price of the zero coupon convertible bonds issued by the Company is ¥1,201.00 per share. Each conversion price is subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 2005, the convertible bonds were convertible into approximately 208 million shares of common stock.

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Years ending March 31	Yen (millions)	U.S. Dollars (thousands)
2006	¥107,474	$1,004,430
2007	171,335	1,601,262
2008	193,665	1,809,953
2009	102,977	962,402
2010 and thereafter	405,258	3,787,458

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."

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2004 and 2005 are principally presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Property, plant and equipment, net	¥6,268	**¥3,057**	**$28,570**

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

10. *Retirement Benefits*

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

In addition, the Company and the majority of the consolidated subsidiaries in Japan participate in contributory defined benefit plans which cover substantially all employees. The major contributory defined benefit plan (the "Plan"), which is referred to as the Fujitsu 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, 2004 and 2005, and the components of net periodic benefit cost for the years ended March 31, 2003, 2004 and 2005 are summarized as follows:

Projected benefit obligation and plan assets

	Yen (millions)		U.S. Dollars (thousands)
At March 31 (Consolidated domestic accounts)	2004	**2005**	**2005**
Projected benefit obligation	¥(1,209,288)	**¥(1,247,141)**	**$(11,655,523)**
Plan assets	799,058	**876,758**	**8,194,000**
Projected benefit obligation in excess of plan assets	(410,230)	**(370,383)**	**(3,461,523)**
Unrecognized net obligation at transition	98,874	**81,653**	**763,112**
Unrecognized actuarial loss	335,285	**314,353**	**2,937,878**
Unrecognized prior service cost (reduced obligation)	(682)	**(593)**	**(5,542)**
Prepaid pension cost	(102,447)	**(110,777)**	**(1,035,299)**
Accrued retirement benefits	¥ (79,200)	**¥ (85,747)**	**$ (801,374)**

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.

Components of net periodic benefit cost

Years ended March 31 (Consolidated domestic accounts)	2003	2004	Yen (millions) 2005	U.S. Dollars (thousands) 2005
Service cost	¥ 57,011	¥ 53,613	**¥ 49,892**	**$ 466,280**
Interest cost	49,363	48,004	**29,511**	**275,804**
Expected return on plan assets	(42,654)	(36,125)	**(30,733)**	**(287,224)**
Amortization of unrecognized obligation for retirement benefits:				
Amortization of net obligation at transition	26,487	25,435	**16,691**	**155,991**
Amortization of actuarial loss	26,403	39,578	**22,609**	**211,299**
Amortization of prior service cost	(8,989)	(8,070)	**(5)**	**(47)**
Net periodic benefit cost	¥107,621	¥ 122,435	**¥ 87,965**	**$ 822,103**
Gain on transfer of substitutional portion of employees' pension funds	—	(146,532)	**—**	**—**
Total	¥107,621	¥ (24,097)	**¥ 87,965**	**$ 822,103**

The assumptions used in accounting for the plans

At March 31 (Consolidated domestic accounts)	2004	2005
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	4.5%	**3.8%**
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period	**Straight-line method over the employees' average remaining service period**
Method of allocating prior service cost	Straight-line method over 10 years	**Straight-line method over 10 years**
Amortization period for net obligation at transition	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	2004	**2005**	**2005**
Projected benefit obligation	¥(348,759)	**¥(400,643)**	**$(3,744,327)**
Plan assets	257,427	**300,254**	**2,806,112**
Projected benefit obligation in excess of plan assets	¥ (91,332)	**¥(100,389)**	**$ (938,215)**
Discount rate	5.90%	**5.80%**	

11. *Income Taxes*

The Group is subject to a number of different income taxes. The statutory tax rates in the aggregate in Japan were approximately 42.0% for the years ended March 31, 2003 and 2004, and approximately 40.6% for the year ended March 31, 2005.

The components of income taxes are as follows:

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2003	2004	**2005**	**2005**
Current	¥ 36,188	¥34,125	**¥ 32,422**	**$ 303,009**
Deferred	(77,015)	58,085	**153,131**	**1,431,131**
Effect of change in statutory tax rate	12,038	—	**—**	**—**
Income taxes	¥(28,789)	¥92,210	**¥185,553**	**$1,734,140**

The reconciliations between the applicable statutory income tax rate and the effective income tax rate for the years ended March 31, 2003, 2004 and 2005 are as follows:

Years ended March 31	2003	2004	**2005**
Statutory income tax rate	42.0%	42.0%	**40.6%**
Increase (Decrease) in tax rate:			
Tax effect on prior losses on investments in subsidiaries	—	(72.5%)	**—**
Valuation allowance for deferred tax assets	(10.1%)	53.2%	**45.7%**
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	—	26.6%	**(2.3%)**
Amortization of goodwill	(5.0%)	8.1%	**2.1%**
Tax effect on equity in earnings of affiliates, net	0.2%	(1.1%)	**(1.7%)**
Non-deductible expenses for tax purposes	(2.1%)	1.7%	**1.3%**
Non-taxable income	3.1%	(0.6%)	**(0.5%)**
Effect of change in statutory tax rate	(8.2%)	—	**—**
Other	(0.4%)	1.3%	**(2.2%)**
Effective income tax rate	19.5%	58.7%	**83.0%**

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2005 were as follows:

At March 31	Yen (millions) 2004	2005	U.S. Dollars (thousands) 2005
Deferred tax assets:			
Tax loss carryforwards	¥ 402,881	**¥ 271,554**	**$ 2,537,888**
Accrued retirement benefits	189,402	**139,585**	**1,304,533**
Accrued bonus	35,949	**36,854**	**344,430**
Provision for loss on repurchase of computers	19,645	**17,607**	**164,551**
Intercompany profit on inventory and property, plant and equipment	10,106	**6,417**	**59,972**
Other	62,132	**67,811**	**633,747**
Gross deferred tax assets	720,115	**539,828**	**5,045,121**
Less:			
Valuation allowance	(217,721)	**(289,910)**	**(2,709,439)**
Total deferred tax assets	502,394	**249,918**	**2,335,682**
Deferred tax liabilities:			
Gains from establishment of stock holding trust for retirement benefit plan	¥(206,699)	**¥(110,617)**	**$(1,033,804)**
Unrealized gains on securities	(102,552)	**(67,457)**	**(630,439)**
Retained earnings appropriated for tax allowable reserves	(10,816)	**(8,942)**	**(83,570)**
Other	(2,060)	**(548)**	**(5,121)**
Gross deferred tax liabilities	(322,127)	**(187,564)**	**(1,752,934)**
Net deferred tax assets	¥ 180,267	**¥ 62,354**	**$ 582,748**

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

At March 31	Yen (millions) 2004	2005	U.S. Dollars (thousands) 2005
Other current assets	¥103,449	**¥ 75,515**	**$ 705,748**
Other investments and long-term loans	89,868	**40,085**	**374,626**
Other current liabilities	(6,448)	**(690)**	**(6,449)**
Other long-term liabilities	(6,602)	**(52,556)**	**(491,177)**
Net deferred tax assets	¥180,267	**¥ 62,354**	**$ 582,748**

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

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

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

Deferred tax assets have not been provided for losses on investments in 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, 2003, 2004 and 2005 were as follows:

	Number of shares		
Years ended March 31	2003	2004	**2005**
Balance at beginning of year	2,001,962,672	2,001,962,672	**2,001,962,672**
Conversion of convertible bonds	—	—	**1,141**
Increase as a result of stock exchange	—	—	**68,054,400**
Balance at end of year	2,001,962,672	2,001,962,672	**2,070,018,213**

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

13. *Commitments and Contingent Liabilities*

Commitments outstanding at March 31, 2005 for purchases of property, plant and equipment were approximately ¥18,180 million ($169,907 thousand).

Contingent liabilities for guarantee contracts amounted to ¥50,167 million ($468,850 thousand) at March 31, 2005. Of the total contingent liabilities, guarantees given mainly for loans taken by Spansion LLC group were ¥17,087 million ($159,692 thousand) and for employees' housing loans were ¥10,071 million ($94,121 thousand).

14. *Derivative Financial Instruments*

Purpose of Derivative Trading

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

Basic Policies for Derivative Trading

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

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

Control of Derivative Trading

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

Hedge Accounting

The Group adopts hedge accounting for its derivative transactions.

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

Fair Value of Derivative Financial Instruments:

At March 31, 2004 and 2005, all derivative financial instruments were stated at fair market value and recorded on the balance sheets.

15. *Leases*

The following is a summary of equivalent amounts of acquisition cost, accumulated depreciation, book value of leased assets, and minimum lease payments required under finance leases, which were recorded in the corresponding asset accounts, at March 31, 2004 and 2005.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Equivalent amounts of acquisition cost	¥233,553	**¥163,712**	**$1,530,019**
Accumulated depreciation	140,019	**102,974**	**962,374**
Book value of leased assets	93,534	**60,738**	**567,645**
Minimum lease payments required			
Within one year	30,393	**23,486**	**219,495**
Over one year but within five years	67,336	**42,002**	**392,542**
Over five years	2,582	**2,133**	**19,935**
Total	¥100,311	**¥ 67,621**	**$ 631,972**

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	2004	**2005**	**2005**
Within one year	¥10,821	**¥10,766**	**$100,617**
Over one year but within five years	29,955	**28,961**	**270,663**
Over five years	20,443	**18,843**	**176,103**
Total	¥61,219	**¥58,570**	**$547,383**

16. *Supplementary Information to the Consolidated Balance Sheets*

Receivables, trade from and payables, trade to affiliates at March 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2004	**2005**	**2005**
Receivables, trade	¥43,457	**¥36,847**	**$344,364**
Payables, trade	67,277	**64,038**	**598,486**

17. *Earnings Per Share*

		Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2003	2004	**2005**	**2005**
Net income (loss)	¥(122,066)	¥49,704	**¥31,907**	**$298,196**
Bonuses to directors and statutory auditors from retained earnings (deficit)	(582)	(596)	**(548)**	**(5,121)**
Net income (loss) for common stock shareholders	(122,648)	49,108	**31,359**	**293,075**
Effect of dilutive securities	—	(1)	**29**	**271**
Diluted net income (loss)	¥(122,648)	¥49,107	**¥31,388**	**$293,346**

		thousands	
Weighted average number of shares	2,001,138	2,000,366	**2,034,114**
Effect of dilutive securities	—	208,159	**230,778**
Diluted weighted average number of shares	2,001,138	2,208,525	**2,264,892**

		Yen		U.S. Dollars
Basic earnings (loss) per share	¥(61.3)	¥24.5	**¥15.4**	**$0.144**
Diluted earnings (loss) per share	(61.3)	22.2	**13.9**	**0.130**

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, 2003, 2004 and 2005 were ¥285,735 million and ¥250,910 million, ¥240,222 million ($2,245,065 thousand), respectively.

"Other income (expenses)—other, net" for the years ended March 31, 2003, 2004 and 2005 consisted of the following:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2003	2004	**2005**	**2005**
Gain on sales of marketable securities	¥ 29,362	¥ 134,624	**¥133,299**	**$1,245,785**
Gain on business transfer	14,536	—	**36,534**	**341,439**
Gain on transfer of substitutional portion of employees' pension funds	—	146,532	**—**	**—**
Gain on sales of property, plant and equipment	—	13,649	**—**	**—**
Amortization of unrecognized obligation for retirement benefits	(43,901)	(56,943)	**(39,295)**	**(367,243)**
Restructuring charges	(151,486)	(164,202)	**(20,085)**	**(187,710)**
Real estate valuation losses	—	—	**(15,274)**	**(142,748)**
Loss on disposal of property, plant and equipment	(10,185)	(7,142)	**(7,668)**	**(71,663)**
HDD litigation-related expenses	—	(10,220)	**—**	**—**
Casualty loss	—	(4,700)	**—**	**—**
Cost of corrective measures for products	(30,600)	—	**—**	**—**
Loss on devaluation of marketable securities	(21,802)	—	**—**	**—**
Foreign exchange gains (losses), net	(5,710)	(6,972)	**2,174**	**20,318**
Other, net	(7,399)	(20,425)	**(20,437)**	**(191,000)**
	¥(227,185)	¥ 24,201	**¥ 69,248**	**$ 647,178**

Gain on sales of marketable securities

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

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

Gain on business transfer

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.

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

Gain on transfer of substitutional portion of employees' pension funds

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

Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the year ended March 31, 2003 related to securitization of the land and buildings of Fujitsu Solution Square (located in Kamata, Tokyo), and the sales of other properties that had been used for employees' welfare.

Amortization of unrecognized obligation for retirement benefits

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

Restructuring charges

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

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

Real estate valuation losses

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

HDD litigation-related expenses

HDD litigation-related expenses for the year ended March 31, 2004 included expenses 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

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

Cost of corrective measures for products

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.

19. *Segment Information*

Business Segment Information

Years ended March 31	Software & Services	Platforms	Electronic Devices	Financing	Other Operations	Elimination & Corporate	Consolidated
							Yen (millions)
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							
(including intangible assets)	79,503	51,818	65,327	59	5,910	9,660	212,277
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							
(including intangible assets)	95,387	42,409	62,793	49	8,609	9,235	218,482
2005							
Sales							
Unaffiliated customers	**¥2,070,444**	**¥1,705,124**	**¥733,866**	**¥ —**	**¥253,325**	**¥ —**	**¥4,762,759**
Intersegment	**38,462**	**156,405**	**60,931**	**—**	**99,060**	**(354,858)**	**—**
Total sales	**2,108,906**	**1,861,529**	**794,797**	**—**	**352,385**	**(354,858)**	**4,762,759**
Operating costs and expenses	**1,995,851**	**1,806,527**	**762,215**	**—**	**338,339**	**(300,364)**	**4,602,568**
Operating income (loss)	**113,055**	**55,002**	**32,582**	**—**	**14,046**	**(54,494)**	**160,191**
Total assets	**1,232,815**	**961,577**	**672,146**	**—**	**460,478**	**313,182**	**3,640,198**
Depreciation	**72,104**	**58,531**	**69,686**	**—**	**8,018**	**12,153**	**220,492**
Capital expenditure							
(including intangible assets)	**80,354**	**47,563**	**80,367**	**—**	**13,954**	**9,686**	**231,924**

Years ended March 31	Software & Services	Platforms	Electronic Devices	Financing	Other Operations	Elimination & Corporate	Consolidated
							U.S. Dollars (thousands)
2005 (in U.S. Dollars)							
Sales							
Unaffiliated customers	**$19,349,944**	**$15,935,738**	**$6,858,561**	**$ —**	**$2,367,523**	**$ —**	**$44,511,766**
Intersegment	**359,458**	**1,461,729**	**569,448**	**—**	**925,795**	**(3,316,430)**	**—**
Total sales	**19,709,402**	**17,397,467**	**7,428,009**	**—**	**3,293,318**	**(3,316,430)**	**44,511,766**
Operating costs and expenses	**18,652,813**	**16,883,430**	**7,123,504**	**—**	**3,162,047**	**(2,807,140)**	**43,014,654**
Operating income (loss)	**1,056,589**	**514,037**	**304,505**	**—**	**131,271**	**(509,290)**	**1,497,112**
Total assets	**11,521,636**	**8,986,701**	**6,281,738**	**—**	**4,303,533**	**2,926,934**	**34,020,542**
Depreciation	**673,869**	**547,019**	**651,271**	**—**	**74,935**	**113,579**	**2,060,673**
Capital expenditure							
(including intangible assets)	**750,972**	**444,514**	**751,093**	**—**	**130,411**	**90,524**	**2,167,514**

1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. 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.
3. The principal products and services of business segments are as follows:
   (1) Software & Services .... Consulting services, systems construction (systems integration), system deployment and operational support 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 arrays, 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 LSI (System LSI, ASICs, microcontrollers, FRAM), memory LSI (Flash memory, FCRAM), semiconductor packages, SAW devices, electronic components (relays, connectors, etc.), liquid crystal displays (LCDs)
   (4) Financing .... Leasing business
   (5) Other Operations .... Audio/navigation equipment, automotive electronic devices
4. Unallocated operating costs and expenses included in "Elimination & Corporate" for the years ended March 31, 2003, 2004 and 2005 were ¥57,822 million, ¥61,032 million and ¥58,324 million ($545,084 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
5. Corporate assets included in "Elimination & Corporate" at March 31, 2003, 2004 and 2005 amounted to ¥1,048,824 million, ¥955,034 million and ¥927,300 million ($8,666,355 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)
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 sales	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

Years ended March 31	Japan	Europe	The Americas	Others	Elimination & Corporate	Consolidated
						Yen (millions)
2004						
Sales						
Unaffiliated customers	¥3,605,665	¥544,593	¥254,488	¥362,142	¥ —	¥4,766,888
Intersegment	465,811	18,768	20,210	217,037	(721,826)	—
Total sales	4,071,476	563,361	274,698	579,179	(721,826)	4,766,888
Operating costs and expenses	3,867,743	556,675	287,859	565,675	(661,406)	4,616,546
Operating income (loss)	203,733	6,686	(13,161)	13,504	(60,420)	150,342
Total assets	2,411,533	347,871	226,122	206,993	673,070	3,865,589
2005						
Sales						
Unaffiliated customers	**¥3,560,925**	**¥585,138**	**¥281,959**	**¥334,737**	**¥ —**	**¥4,762,759**
Intersegment	**463,593**	**11,764**	**16,959**	**268,154**	**(760,470)**	**—**
Total sales	**4,024,518**	**596,902**	**298,918**	**602,891**	**(760,470)**	**4,762,759**
Operating costs and expenses	**3,836,679**	**585,199**	**294,565**	**590,749**	**(704,624)**	**4,602,568**
Operating income (loss)	**187,839**	**11,703**	**4,353**	**12,142**	**(55,846)**	**160,191**
Total assets	**2,178,392**	**357,883**	**177,941**	**215,058**	**710,924**	**3,640,198**
						U.S. Dollars (thousands)
2005 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$33,279,673**	**$5,468,579**	**$2,635,131**	**$3,128,383**	**$ —**	**$44,511,766**
Intersegment	**4,332,645**	**109,944**	**158,495**	**2,506,112**	**(7,107,196)**	**—**
Total sales	**37,612,318**	**5,578,523**	**2,793,626**	**5,634,495**	**(7,107,196)**	**44,511,766**
Operating costs and expenses	**35,856,813**	**5,469,149**	**2,752,944**	**5,521,019**	**(6,585,271)**	**43,014,654**
Operating income (loss)	**1,755,505**	**109,374**	**40,682**	**113,476**	**(521,925)**	**1,497,112**
Total assets	**20,358,804**	**3,344,701**	**1,663,000**	**2,009,888**	**6,644,149**	**34,020,542**

1. Classification of the geographic segments is determined by geographical location.
2. The principal countries and regions belonging to geographic segments other than Japan are as follows:
   (1) Europe .... U.K., Spain, Germany, Finland, the Netherlands
   (2) The Americas .... U.S.A., Canada
   (3) Others .... China, Thailand, Vietnam, the Philippines, Singapore, Korea, Taiwan, Australia
3. Unallocated operating costs and expenses included in "Elimination & Corporate" for the years ended March 31, 2003, 2004 and 2005 were ¥57,822 million, ¥61,032 million and ¥58,324 million ($545,084 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, 2003, 2004 and 2005 amounted to ¥1,048,824 million, ¥955,034 million and ¥927,300 million ($8,666,355 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. *Subsequent Events*

The Company had previously filed a lawsuit in California State District Court against Cirrus Logic Inc., Amkor Technology, Inc., Sumitomo Bakelite Company Limited and Sumitomo Plastics America, Inc. in regard to incidences of problems with small form-factor magnetic hard disk drives in 2001. However, in June 2005 a settlement was reached with these companies.

As a result, the Company expects to record "other income" of approximately ¥15.4 billion ($146.8 million).

Independent Auditors' Report

ERNST & YOUNG SHINNIHON

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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, 2004 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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, 2004 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

As described in Note 20 to the consolidated financial statements, Fujitsu Limited had previously filed a lawsuit in regard to incidences of problems with small form-factor magnetic hard disk drives. However, in June 2005 a settlement was reached.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 23, 2005 Ernst & Young Shin Nihon

A MEMBER OF ERNST & YOUNG GLOBAL

Principal Subsidiaries and Affiliates

(As of March 31, 2005)

Consolidated Subsidiaries

JAPAN

Listed

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

Unlisted

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

*Fujitsu Hitachi Plasma Display Ltd. is no longer classified as a consolidated subsidiary or an equity-method affiliate following the transfer of a majority of Fujitsu's shareholding in the company to Hitachi, Ltd. in March 2005.

THE AMERICAS

Unlisted

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

EUROPE

Unlisted

Fujitsu Services Holdings PLC
Fujitsu Telecommunications Europe Ltd.

Equity Method Affiliates

JAPAN

Listed

Fujitsu General Ltd.
FDK Corporation

Unlisted

Fujitsu Leasing Co., Ltd.
Eudyna Devices Inc.

THE AMERICAS

Unlisted

FASL LLC

EUROPE

Unlisted

Fujitsu Siemens Computers (Holding) B.V.

Shareholders' Data

(As of March 31, 2005)

Capital:	¥324,625 million
Common Stock:	Authorized: 5,000,000,000 shares
Issued:	2,070,018,213 shares
Number of Shareholders:	250,930

Principal Shareholders	Number of shares held (thousands)	Percentage of total shares outstanding (%)
The Master Trust Bank of Japan, Ltd. (for trust)	163,137	7.88
Japan Trustee Services Bank, Ltd. (for trust)	103,885	5.02
Fuji Electric Holdings Co., Ltd.	94,663	4.57
Fuji Electric Systems Co., Ltd.	63,220	3.05
The Chase Manhattan Bank, N.A. London (Standing proxy, Mizuho Corporate Bank, Ltd.)	48,443	2.34
State Street Bank and Trust Company (Standing proxy, Mizuho Corporate Bank, Ltd.)	44,468	2.15
Asahi Mutual Life Insurance Company	40,299	1.95
Fuji Electric FA Components & Systems Co., Ltd.	38,574	1.86
State Street Bank and Trust Company 505103 (Standing proxy, Mizuho Corporate Bank, Ltd.)	34,204	1.65
Mizuho Corporate Bank, Ltd.	32,654	1.58

Notes:

1. Shares held by The Master Trust Bank of Japan, Ltd. (for trust) and the Japan Trustee Services Bank, Ltd. (for trust) are for the trust services of these banks.
2. Of the shares held by Fuji Electric Holdings Co., Ltd., Fuji Electric Systems Co., Ltd. and Fuji Electric FA Components & Systems Co., Ltd., 1,962 thousand, 62,799 thousand and 38,194 thousand shares, respectively, are trust assets that were entrusted to Mizuho Trust & Banking Co., Ltd. for retirement benefit trusts, and then re-entrusted to Trust & Custody Services Bank, Ltd. Voting rights for these shares are exercised in accordance with the directions of the respective companies who own the shares. Including the above, the number of Fujitsu shares held by the Fuji Electric Group as retirement benefit trust assets total 138,242 thousand shares (representing 6.68% of total shares outstanding).
3. Of the shares held by Mizuho Corporate Bank, Ltd., 212 thousand shares are trust assets that were entrusted to Mizuho Trust & Banking Co., Ltd. for retirement benefit trusts, and then re-entrusted to Trust & Custody Services Bank, Ltd. Voting rights for these shares are exercised in accordance with the directions of Mizuho Corporate Bank, Ltd.

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Transfer Agent

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Stock Exchange Listings

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

Independent Auditors

Shin Nihon & Co.

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Printed in Japan BA0025-1AP

This report is printed on 100% recycled paper with ink containing less than 15% oil-based solvent.