Corporate Governance

1. Basic Stance on Corporate Governance

We believe that pursuing management efficiency while effectively managing business risks is essential to achieving sustainable improvement in corporate value. Recognizing that stronger corporate governance is vital to realizing this goal, we have been active in appointing 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. The clear separation of these functions is designed to further improve management transparency and efficiency.

We manage our Group companies based on clear distinction between 1) companies that perform an assigned function in our business; and 2) companies that pursue a synergistic relationship with us based on a shared corporate strategy.

2. Status of Corporate Governance-related Policy Implementation

(I) Management Control Organization with Respect to Business Decisions, Operational Execution and Oversight, and Other Corporate Governance Structures

(i) Institutional Structure and Internal Control

The Board of Directors is responsible for management oversight, supervising the operational execution functions of two executive organs under its authority, the Management Strategy Council and the Management Council.

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 discussions are reported to the Board of Directors, which makes decisions on items of particular importance. The Management Strategy Council generally meets once a month, while the Management Council generally meets three times a month, but meetings for either body can be convened whenever necessary.

The auditing function is carried out by statutory auditors (Board of Statutory Auditors), who review the Board of Directors as well as operational execution functions, and attend important meetings, including meetings of the Board of Directors as well as the Management Strategy Council and Management Council.

In addition, the 10-member Board of Directors consists of eight internal directors and two outside directors, while the five-member Board of Statutory Auditors consists of two internal auditors and three external auditors. To further clarify the management responsibility of directors, the term of directors was reduced from two years to one year under a resolution adopted at the Annual Shareholders' Meeting convened on June 23, 2006.

(ii) Basic Stance on Internal Control Framework and Status of Implementation

At a meeting of the Board of Directors on May 25, 2006, the following basic stance was adopted with respect to enhancement of the Company's internal control system based on Article 362, Paragraph 5 and Paragraph 4, Section 6 of the Company Law, as well as Article 100, Paragraphs 1 and 3 of the Company Law Enforcement Regulations.

1. Objective

The FUJITSU Way, the core set of principles guiding the Fujitsu Group, sets forth our goal of helping to solve customers' problems and contributing to society through the provision of high-quality products and services based on leading-edge technology, as well as our determination to fulfill our corporate responsibilities to stakeholders, including: customers, employees*, shareholders and investors, suppliers, business partners, local communities and broader global society.

We believe that the concurrent pursuit of efficient management and the proper control of business risks are essential to achieving sustainable improvement in the corporate value of the Fujitsu Group. Recognizing that stronger corporate governance is vital to realizing this goal, we are constantly working to implement and advance the policies outlined below.

2. Framework to Ensure the Propriety of Fujitsu Limited and Fujitsu Group Business Activities

(1) System to Ensure Efficient Execution of Duties by the Board of Directors

① Management oversight functions and operational execution functions are separated at Fujitsu. The Board of Directors supervises the Management Strategy Council, Management Council and other executive organs charged with operational execution functions. Among these executive organs, the Management Strategy Council discusses and makes decisions on fundamental matters of business direction and strategy. The Management Council makes decisions about important matters relating to operational execution. Issues discussed by the two councils and a summary of their discussions are reported to the Board of Directors, which makes decisions on matters of particular importance.

② In order to strengthen management oversight functions, we actively appoint outside directors and auditors.

③ The Board of Directors clarifies matters relating to the duties of directors with assigned business responsibilities, corporate executive officers, and other executive-level managers (all referred to hereafter as "senior managers"), as well as the authority of other executive bodies, and sees to it that duties are executed in accordance with the responsibilities of each position.

④ Senior managers shall make decisions regarding execution of their duties based on appropriate decision-making procedures in accordance with "Board of Directors Regulations," "Management Strategy Council Regulations," "Management Council Regulations," "*Ringi* Regulations," and other relevant regulations.

⑤ Senior managers are expected to thoroughly familiarize employees with management direction and other strategy directives, and, in order to achieve business goals, to set and achieve concrete objectives.

⑥ In order to pursue greater operational efficiency, senior managers are expected to continuously promote the development and full implementation of internal control systems as well as the improvement of business processes.

⑦ The Board of Directors monitors and directs progress in the achievement of business objectives by arranging for monthly reports on financial results and business operations from senior managers and other executive organizations with business execution duties.

(2) System to Ensure that Execution of Duties by Directors and Employees Complies with Laws, Regulations and the Articles of Incorporation

① Senior managers are expected not only to uphold *The FUJITSU Way*, which includes the basic principles of compliance with laws, regulations and the Articles of Incorporation, but to also actively promote compliance by the Fujitsu Group as a whole in accordance with their ethical obligations as senior managers.

② Senior managers shall, by carrying out ongoing educational programs and other measures, strive to ensure that employees rigorously adhere to the basic principles of *The FUJITSU Way*, and thereby promote compliance by the Fujitsu Group as a whole.

③ Senior managers shall clarify legal regulations and other rules regarding the business activities of the Fujitsu Group, as well as institute and enforce the necessary rules, training, and monitoring systems to promote compliance by the Fujitsu Group as a whole.

④ In the event that senior managers or employees become aware of the possibility of a serious operations-related compliance violation, they are to immediately inform the Board of Directors and/or the Board of Statutory Auditors through regular operational reporting lines.

⑤ In order to enable the early discovery of potential compliance problems and their proper handling through information channels separate from regular operational reporting lines, senior managers shall establish and maintain an internal notification system that includes a structure and procedures for protecting those who raise compliance issues.

⑥ The Board of Directors shall receive on a periodic basis reports on the state of operations from those charged with executing them as well as confirm that there are no compliance violations in connection with execution of business duties.

(3) Regulations and Other Structures for Managing the Risk of Losses

① Senior managers strive to realize the continuity of Group businesses, growth in corporate value and the sustainable development of corporate activities. In order to deal with risks that might constitute obstacles to achieving these goals, they shall establish jurisdictions for various types of risks and put in place administrative systems to deal with them in an appropriate manner.

② Senior managers shall regularly assess and verify risks that might result in losses to the Group and report significant issues to the Board of Directors.

③ In regard to the kind of risks identified in the preceding item, as well as other risks that might be envisioned to arise in the course of carrying out business activities, senior managers shall establish preventative and other measures to control risks and carry out activities to minimize possible losses. In addition, in order to minimize losses resulting from the elicitation of incidences of risk, along with establishing a Risk Management Committee and implementing other necessary measures, incidences of risk shall be analyzed on a periodic basis and reported to the Board of Directors, and other activities shall be carried out to prevent similar risks from arising.

④ In order to gather the kind of risk information that cannot be captured through the measures referred to above, senior managers shall put in place and maintain an internal notification system that includes protection for those who come forward with information.

(4) Systems for Retaining and Managing Information Relating to Execution of Directors' Duties

① Based on company policies, senior managers shall delegate persons with the responsibility for retaining and managing the following documents (including in digital form) and other important information relating to the execution of directors' duties:

- Minutes of Annual Shareholders' meetings and related materials
- Minutes of Board of Directors' meetings and related materials
- Minutes of other meetings involving important decision-making bodies along with related materials
- Documents and related materials authorized by senior managers
- Other important documents relating to management execution by senior managers

② In order for directors or statutory auditors to verify the status of issues relating to operational execution of duties, they shall have access as needed to the documents listed in the previous item, and the persons responsible for retaining and managing these documents shall put systems in place to ensure that directors and statutory auditors can have access to them when they are requested.

(5) Systems for Ensuring the Propriety of Fujitsu Group Business Activities

① In order to continuously improve the corporate value of the Fujitsu Group, the Company shall, in accordance with *The FUJITSU Way*, provide guidance and support to Fujitsu Group company senior managers to ensure that proper systems are in place throughout the Group to efficiently and properly adhere to points (1)–(4).

② Specifically, in regard to the issues mentioned in the previous item, we shall prepare a set of Fujitsu Group Management Regulations that specify each company's role, responsibilities, lines of authority, decision-making procedures, and other matters.

③ Senior managers from Fujitsu Limited and Fujitsu Group companies shall meet regularly for updates on the Group's management direction and to address issues relating to achieving business performance targets. In addition, the statutory auditors of Fujitsu Group companies shall meet to address issues facing the Fujitsu Group from an audit perspective.

④ Senior managers from Fujitsu Limited and each Group company shall formulate policies to resolve any obstacles relating to meeting business performance targets identified in the previous item, and implement appropriate policies after a thorough discussion of the issues. If necessary, Fujitsu Limited shall receive reports or applications for approval as shall be specified separately in the Fujitsu Group Management Regulations.

⑤ The Company's internal audit division shall coordinate with each Group company's internal audit division to perform internal audits of the entire Fujitsu Group. Findings shall be regularly reported to the boards of directors and/or statutory auditors of Fujitsu Limited and the Group company concerned. Important matters relating to Fujitsu Group companies are reported to Fujitsu's Board of Directors and Board of Statutory Auditors.

(6) Systems for Ensuring the Propriety of Audits by Statutory Auditors

<Provisions to Ensure Independence>

① The Company shall staff the Statutory Auditors' Office with employees to help the statutory auditors perform their duties. Employees selected for this purpose shall have the capabilities and knowledge needed to meet the requirements of the statutory auditors.

② To ensure the independence of the employees assigned to the Statutory Auditors' Office, senior managers shall consult in advance with the statutory auditors regarding personnel issues for these employees, including appointments, transfers, and compensation.

③ As a general principle, senior managers shall not have employees assigned to the Statutory Auditors' Office assume concurrent responsibilities with other units. If, however, the statutory auditors request the assistance of employees with specialized expertise, necessitating concurrent responsibilities for those employees, the provisions in the preceding item ensuring independence shall apply to those employees.

<Provisions for Reporting>

① Senior managers from Fujitsu Limited and each Group company shall provide opportunities for statutory auditors to attend important meetings.

② Senior managers and employees from Fujitsu Limited and each Group company shall immediately notify the statutory auditors of any incidences of risk that impact management or financial performance, or if they become aware of evidence of major compliance violations relating to the conduct of business activities.

③ Senior managers and employees from Fujitsu Limited and each Group company shall make periodic reports to the statutory auditors on issues relating to the execution of business operations.

<Provisions to Ensure Effectiveness>

① Senior managers from Fujitsu Limited and each Group company shall regularly exchange information with the statutory auditors.

② The Corporate Internal Audit Division shall regularly report its findings to the statutory auditors.

③ The statutory auditors shall, on an as-needed basis, receive presentations or reports from the accounting auditors on their accounting audit findings and shall, on a regular basis, exchange information.

* In *The FUJITSU Way*, the term 'employees' refers to employees of the Fujitsu Group. The same usage is applied in these basic policies.

(iii) Status of Audits by Statutory Auditors, Internal Audits, and Accounting 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 audit the Board of Directors and operational execution bodies. In addition, the Corporate Internal Audit Division has been established so serve as an internal audit group. This division audits the internal affairs of the Company and its affiliates, proposes improvement in their business practices, and regularly reports its audit findings to the Management Council.

Accounting audits are carried out by Ernst & Young ShinNihon, which reports to the Board of Statutory Auditors on the auditing plan and auditing results, and when necessary, exchanges opinions and conducts joint audits with the statutory auditors. Accounting audit work is carried out by four certified public accountants at Ernst & Young ShinNihon. They are Yoji Suzuki (22 continuous years auditing the financial statements of Fujitsu*), Yuichi Mochinaga (9 years*), Noriyuki Tsunoda, and Hideaki Karaki. Other Ernst & Young ShinNihon employees that assist with the audits are 21 certified public accountants, 25 assistant certified public accountants, and 5 accounting staff members.

* Ernst & Young ShinNihon has introduced a rotation system for employees engaged in accounting audits. This move was voluntarily taken prior to the enactment of regulations based on the Certified Public Accountant Law and the implementation of self-imposed rules by the Japanese Institute of Certified Public Accountants. Ernst & Young ShinNihon plans to implement this system from the current consolidated fiscal year.

(iv) Personal, Capital and Business Relationships and Other Interests between the Company and Outside Directors and Outside Auditors

1. Interests between the Company and Outside Directors and Outside Auditors

The Company's outside directors and outside auditors, listed below, have no special interests in the Company.

Outside directors: Kunihiko Sawa, Ikujiro Nonaka

Outside auditors: Yoshiharu Inaba, Tamiki Ishihara, Megumi Yamamuro

2. Interests between the Company and Companies at which Outside Directors and Outside Auditors are Employed as Directors or Auditors

Director Kunihiko Sawa is an advisor to Fuji Electric Holdings Co., Ltd., the holding company of the Fuji Electric Group. Fuji Electric Holdings holds 4.74% of Fujitsu stock and holds another 6.68% through trust accounts for employee retirement benefits. Additionally, as of June 28, 2006, an advisor to Fujitsu Limited was serving as a director of Fuji Electric Holdings, in which Fujitsu has a 9.96% stake. Fujitsu Limited and Fuji Electric Holdings have a business relationship.

Auditor Yoshiharu Inaba is President and CEO of Fanuc, Ltd., in which Fujitsu holds a 7.78% stake. As of June 28, 2006, a representative director of Fujitsu Limited was serving as an auditor of Fanuc. Fujitsu Limited and Fanuc have a business relationship.

Auditor Tamiki Ishihara is Chairman and Representative Director of Seiwa Sogo Tatemono Co., Ltd., which holds a 0.04% stake in Fujitsu Limited. The Fujitsu Group and Seiwa Sogo Tatemono have a business relationship.

Though not meeting the legal definition of an outside director under Japan's Company Law, Fujitsu Limited director Hiroshi Oura serves as a director and senior executive advisor of Advantest Corporation, in which Fujitsu holds a 10.09% stake through trust accounts for employee retirement benefits. As of June 28, 2006, a representative director and an auditor of Fujitsu Limited were serving as a director and an auditor of Advantest, respectively. Fujitsu Limited and Advantest have a business relationship.

(v) Status of Company's Initiatives to Enhance Corporate Governance

<Basic Stance>

Comprising our mission, values, and code of conduct, *The FUJITSU Way* is the core set of principles guiding the corporate and individual actions of the Fujitsu Group.

We pursue the sound and efficient execution of our business activities by striving to accelerate the penetration and implementation of *The FUJITSU Way* and to promote structures and procedures to ensure propriety throughout the Group in our business dealings.

<Status of Implementation>

To accelerate the penetration and implementation of *The FUJITSU Way*, in July 2004 we established *The FUJITSU Way* Promotion Council, as a body reporting directly to the Management Council, and a Compliance Committee. In addition, we realigned the Risk Management Committee and Environmental Committee, which had both previously operated independently, under *The FUJITSU Way* Promotion Council.

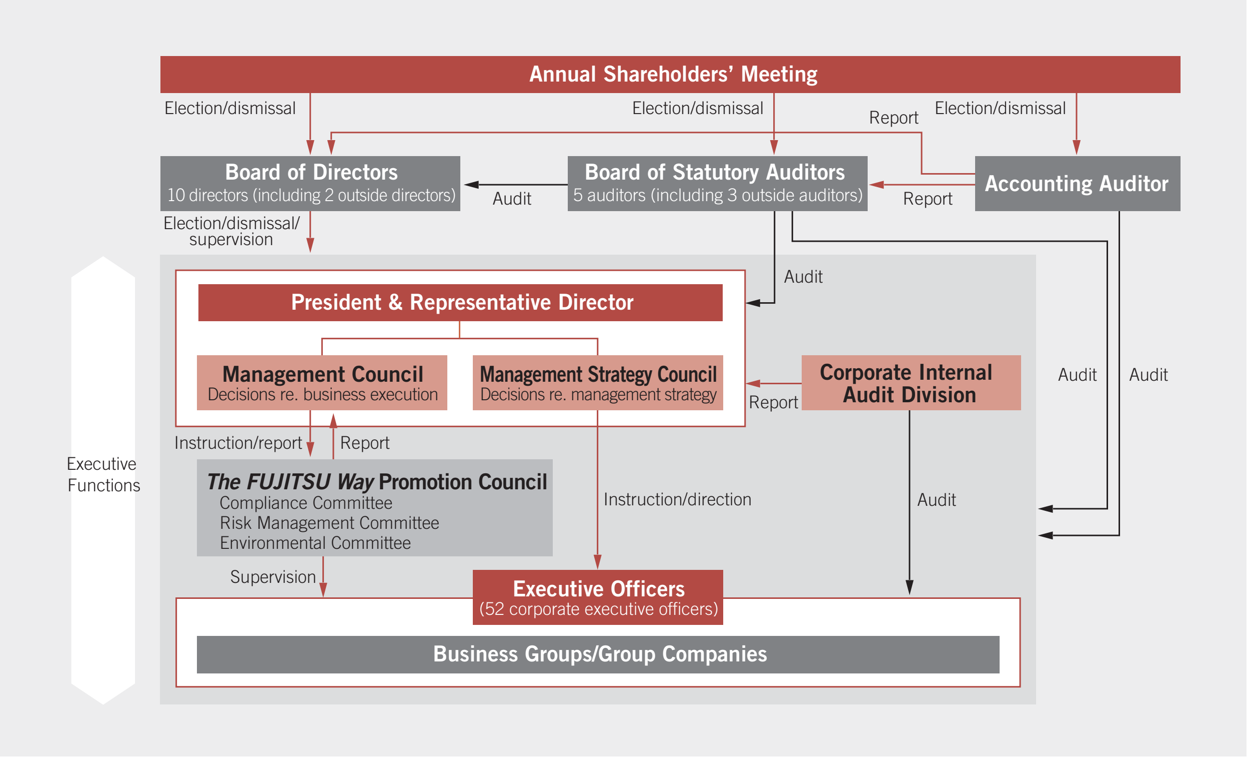
To promote risk management, *The FUJITSU Way* Promotion Council continuously monitors the implementation of risk prevention measures by working to raise awareness of risks and by gathering information on specific risks, including potential ones. Moreover, in anticipation of the enactment of Japan's version of Sarbanes-Oxley legislation, in the second half of fiscal 2005 we launched a project to construct an internal control system that will ensure the validity and credibility of our financial reports. Along with establishing a promotion organization dedicated to this endeavor, we have been working to extend it across the Group, including domestic and overseas subsidiaries, by building up our promotion organization, accumulating know-how and cultivating personnel. The goals of the project also include achieving greater efficiency through the pursuit of business process reforms across the Group.

The functions of the committees aligned under *The FUJITSU Way* Promotion Council are as follows:

- Compliance Committee: 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, since September 2004 we have put in place a "helpline" system to serve as a confidential liaison for receiving reports from employees and providing guidance to them on matters of conduct.
- Risk Management Committee: This committee takes measures to obtain information regarding specific incidences of risk and minimize the impact of risk incidences on customers and the Fujitsu Group. Serious issues are reported to the Management Council or Board of Directors for discussion and response. Through these measures, 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.

We are taking into consideration the opinions of our accounting auditors as we implement the project to construct an internal control system that will ensure the validity and reliability of our financial reports.

(vi) Our Corporate Governance System



(II) Directors' Compensation

Compensation paid to directors and auditors during the fiscal year under review is described below.

(Millions of yen)

	Fixed compensation		Bonuses		Retirement Allowances	
	People	Total Amount	People	Total Amount	People	Total Amount
Directors	12	245	0	0	2	45
Of which, outside	2	9	–	–	–	–
Auditors	7	54	0	0	2	15
Total	19	299	0	0	4	60

Notes: 1. By resolutions passed at the Annual Shareholders' Meeting, the upper limits of compensation for all directors and all auditors, respectively, were as follows:

Directors: ¥60 million per month (Resolution passed at the Annual Shareholders' Meeting in 1991.)

Auditors: ¥5 million per month (Resolution passed at the Annual Shareholders' Meeting in 1989.)

The upper limits were amended by a resolution passed at the Annual Shareholders' Meeting held on June 23, 2006, as follows:

Directors: ¥600 million per month

Auditors: ¥100 million per month

2. The numbers of directors and auditors in the table above include directors and statutory auditors who resigned in June 2005.

(III) Compensation Paid to Accounting Auditors

Total compensation to be paid by the Company and its consolidated subsidiaries to Ernst & Young ShinNihon: ¥682 million. Of this amount, the sum to be paid as compensation for performing the audit under Article 2.1 of the Certified Public Accountants Law (Act No. 103, 1947): ¥597 million.

Of this amount, the sum to be paid by the Company as compensation to the accounting auditors: ¥224 million.

The Company does not clearly differentiate the amounts of compensation for an audit under the former Law for Special Exceptions to the Commercial Code Concerning Auditors of Kabushiki Kaisha (Act No. 22 in 1974) from an audit under the Securities and Exchange Law (Act No. 25 of 1948), and the amount stated above thus includes the compensation for the audit under the Securities and Exchange Law.