THE POSSIBILITIES ARE INFINITE

FUJITSU

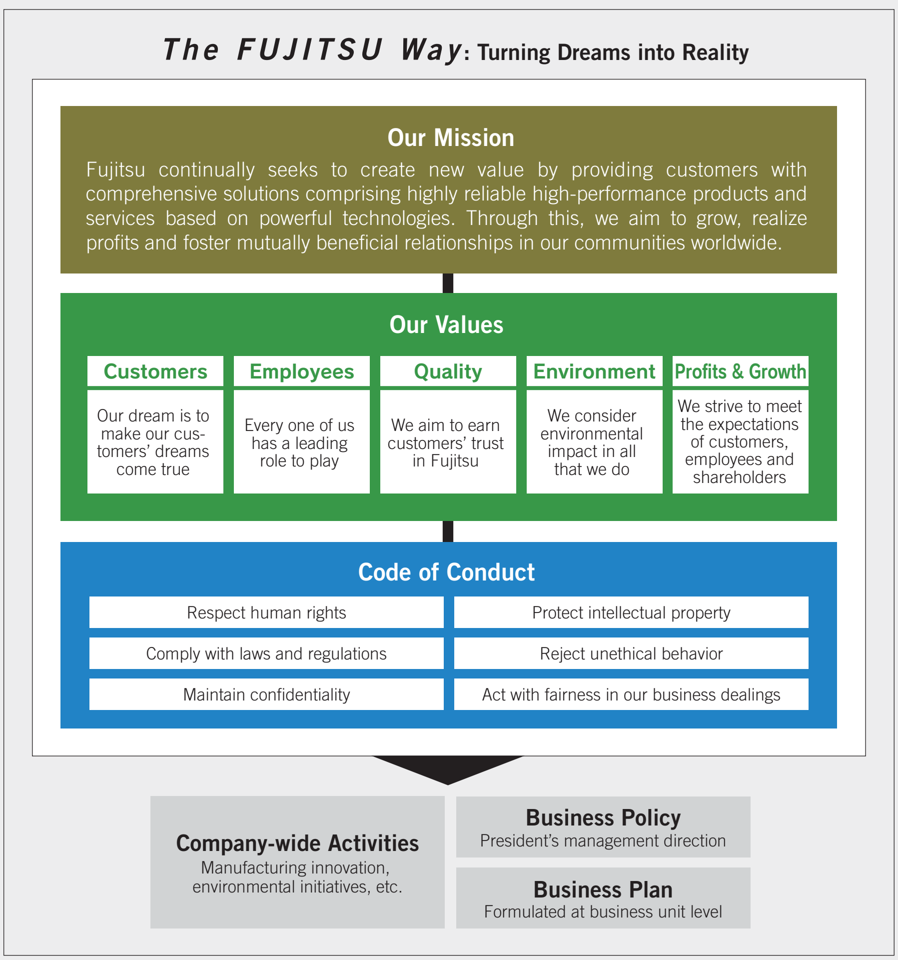
Tackling New Challenges

FUJITSU LIMITED

Annual Report 2007

The FUJITSU Way

Introduced in 2002, *The FUJITSU Way* is the core set of principles guiding the corporate and individual actions of the Fujitsu Group and our continuing development as good global corporate citizens. A common understanding of Fujitsu's mission, values and code of conduct serves as the standard governing individual employees' business activities, as well as the driving force behind our socially responsible business strategy and the inspiration for related company-wide activities, business policies and plans.



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Forward-looking Statements

* This annual report may contain forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results may differ materially from those projected or implied in the forward-looking statements due to, without limitation, the following factors: general economic and market conditions in key markets (particularly in Japan, North America, Europe and Asia, including China); rapid changes in the high-technology market (particularly semiconductors, PCs, etc.); fluctuations in exchange rates or interest rates; fluctuations in capital markets; intensifying price competition; changes in market positioning due to competition in R&D; changes in the environment for the procurement of parts and components; changes in competitive relationships relating to collaborations, alliances and technical provisions; potential emergence of unprofitable projects; and, changes in accounting policies.

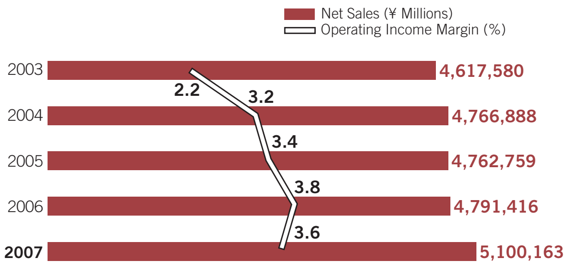
Financial Highlights

Fujitsu Limited and Consolidated Subsidiaries

					Yen (millions)	U.S. Dollars (thousands)
	(excluding per share data, D/E ratio, number of issued shares, and number of employees)					
Years ended March 31	2003	2004	2005	2006	**2007**	**2007**
Net sales	¥4,617,580	¥4,766,888	¥4,762,759	¥4,791,416	**¥5,100,163**	**$43,221,720**
Domestic	3,280,665	3,378,265	3,340,664	3,199,842	**3,274,908**	**27,753,457**
Overseas	1,336,915	1,388,623	1,422,095	1,591,574	**1,825,255**	**15,468,263**
Operating income	100,427	150,342	160,191	181,488	**182,088**	**1,543,119**
Income (loss) before income taxes and minority interests	(147,606)	157,018	223,526	118,084	**214,495**	**1,817,754**
Net income (loss)	(122,066)	49,704	31,907	68,545	**102,415**	**867,924**
Total assets	¥4,225,361	¥3,865,589	¥3,640,198	¥3,807,131	**¥3,943,724**	**$33,421,390**
Interest-bearing loans	1,763,769	1,277,121	1,082,788	928,613	**745,817**	**6,320,483**
Total liabilities	3,308,415	2,847,952	2,619,001	2,717,056	**2,783,005**	**23,584,788**
Capital	324,624	324,624	324,625	324,625	**324,625**	**2,751,059**
Owners' equity (Net assets less minority interests)	702,390	827,177	856,990	917,045	**969,522**	**8,216,288**
Cash flows from operating activities	¥ 117,797	¥ 304,045	¥ 277,232	¥ 405,579	**¥ 408,765**	**$ 3,464,110**
Cash flows from investing activities	(64,415)	67,389	(15,129)	(234,684)	**(151,083)**	**(1,280,364)**
Free cash flow	53,382	371,434	262,103	170,895	**257,682**	**2,183,746**
Amounts per share of common stock (Yen and U.S. dollars):						
Net income (loss)	¥(61.29)	¥24.55	¥15.42	¥32.83	**¥49.54**	**$0.420**
Owners' equity (Net assets less minority interests)	350.84	413.22	414.18	443.20	**469.02**	**3.975**
Cash dividends	—	3.00	6.00	6.00	**6.00**	**0.051**
Number of issued shares (thousands)	2,001,962	2,001,962	2,070,018	2,070,018	**2,070,018**	
Number of employees	157,044	156,169	150,970	158,491	**160,977**	
Consolidated subsidiaries	487	455	403	392	**393**	

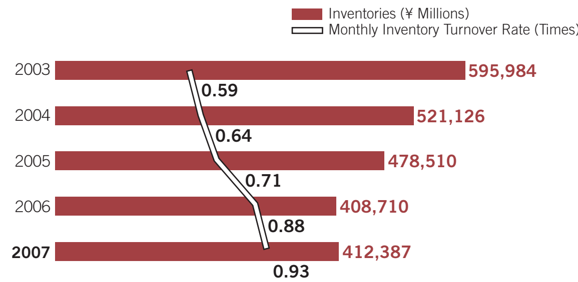
Note: The U.S. dollar amounts stated above and elsewhere in this report have been translated from yen, for readers' convenience only, at the rate of ¥118 = US$1, which was the approximate rate on the Tokyo Foreign Exchange Market at March 31, 2007.

Net Sales and Operating Income Margin



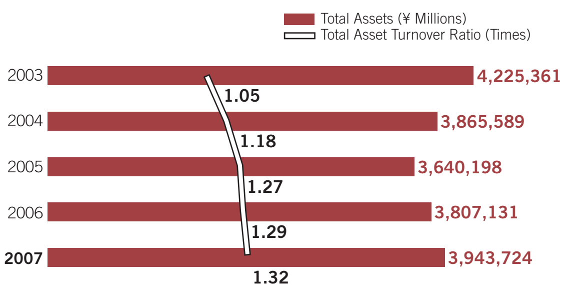
(Years ended March 31)

Inventories and Monthly Inventory Turnover Rate



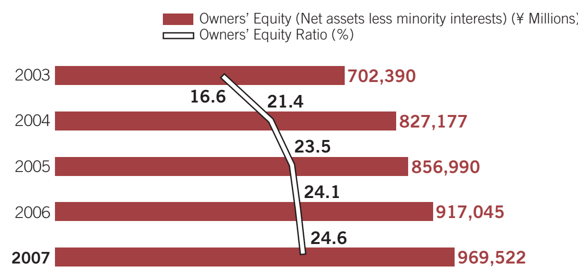
(As of March 31)

Total Assets and Total Asset Turnover Ratio



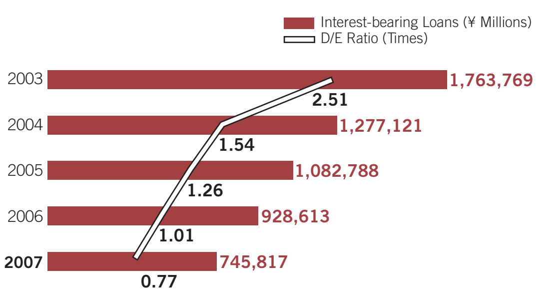
(As of March 31)

Owners' Equity and Owners' Equity Ratio



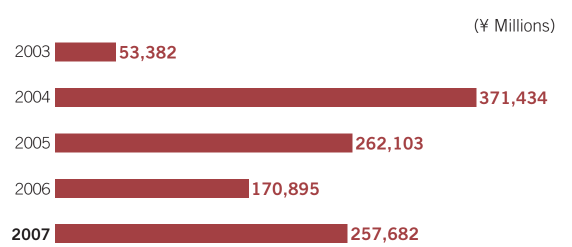
(As of March 31)

Interest-bearing Loans and D/E Ratio



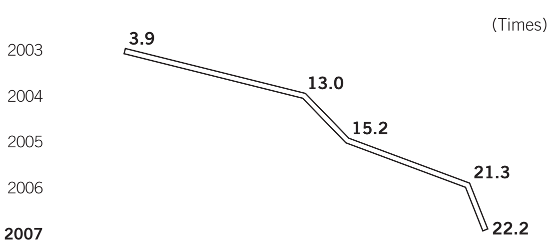
(As of March 31)

Free Cash Flow



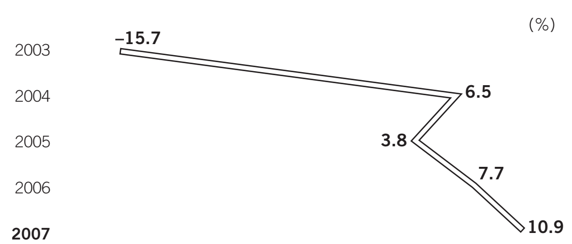
(Years ended March 31)

Interest Coverage Ratio



(Years ended March 31)

Return on Equity



(Years ended March 31)

A Message from Management

Due to the advance and growing use of networks, information technology can now be found in every corner of society, making life more convenient and driving far-reaching change. IT systems are becoming increasingly important as the foundations of business and society itself. As a consequence, IT is now one of the key elements of today's corporate and social infrastructure.

The Fujitsu Group aims to be a partner that contributes to the success of its customers' businesses and grows together with them. In pursuit of this goal, we intend to deepen our involvement in customers' business operations by expanding our presence in business solutions. Our new approach is "field innovation," through which we

Naoyuki Akikusa
Chairman

will help customers to drive innovation by continuously pursuing improvement of their business processes and IT systems.

Another clear trend in recent years is the accelerating pace of business globalization. We believe that enhancing the Group's global business capabilities is imperative if we want customers to choose Fujitsu as their partner.

Fiscal 2007 is the first year of our new medium-term strategic plan. By tackling a variety of issues under this three-year management plan, we will strive to make this a transformational year for Fujitsu in order to boost earnings and growth and further increase corporate value.

Hiroaki Kurokawa

Hiroaki Kurokawa
President

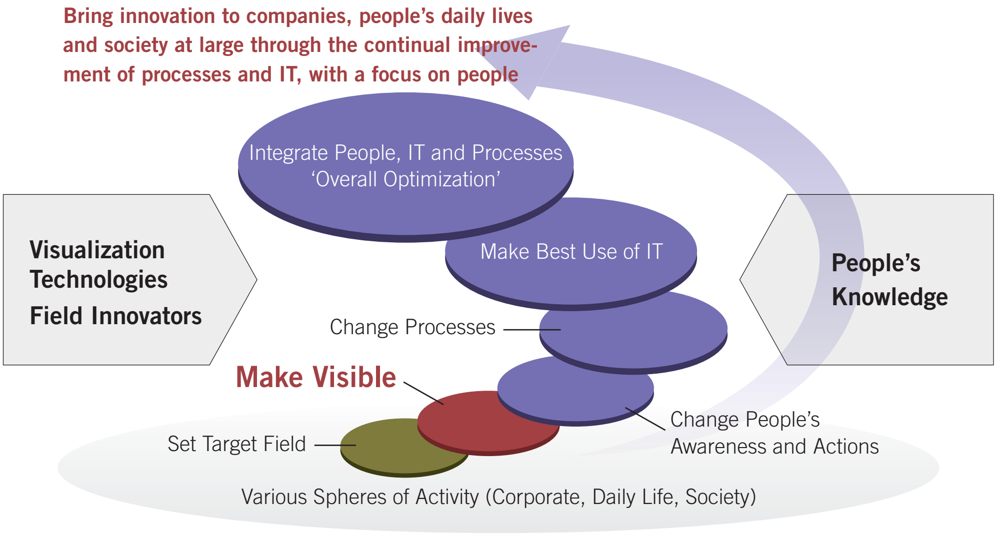
New Challenges

Over the last three years, we have worked to regain our customers' trust. Building on this progress, we are now aiming to make the next three years a period of higher growth and returns. Fiscal 2007 must therefore be a transformational year for Fujitsu. This feature highlights some of the initiatives we will be taking in the current fiscal year to realize this goal.

What is the background to your new "field innovation" approach?

There is no letup in the pace of IT innovation. Today, we can realize many more opportunities by fully utilizing a whole range of IT products and services. However, as IT has evolved, so too has the complexity and impenetrability of systems knowledge, with the result that related business processes and the role of people in these processes have become harder to identify. Some customers even tell us that it is now more difficult to understand what is going on in their businesses and work sites. It is clear that focusing on IT alone will not help customers to improve their businesses. Originally, introducing IT was meant to help companies upgrade business processes and use the knowledge of their employees more effectively. I believe we now have to return to this starting point. First, we must make the relationships between people, processes and IT more visible. This is essential if we are to truly take the customer's viewpoint. This is what we call "field innovation." This idea is an important factor in our new medium-term strategic plan, which is explained later in this report.

■ **Field Innovation—Converting IT-enabled Innovation into Business Value**



How did Fujitsu perform in fiscal 2006?

In the year under review, consolidated net sales increased 6.4%, to ¥5,100.1 billion. Operating income, although short of our initial target of ¥190.0 billion, rose 0.3% year on year, to ¥182.0 billion. As a result, we maintained the trend of higher sales and earnings.

Looking at our sales performance, while certain areas of the electronic devices market slowed, sales were favorable overall, as sales of services and UNIX servers grew strongly overseas and unit shipments of hard disk drives (HDDs) reached an all-time high.

However, the rise in operating income was limited compared to the rate of sales growth. Global price competition intensified, especially in product areas, and although we worked to cut costs, we were not able to fully offset the drop in prices. Other factors impacting profitability included higher expenses related to new business acquisitions and other initiatives to expand our business in Europe and North America, investment in advanced logic LSI technologies, and heavier upfront strategic expenditures in both hardware and software.

As a backdrop to your new medium-term strategic plan, could you first review the last three years at Fujitsu?

Our management focus during the last three years was centered on regaining the trust of customers and improving the viability of various businesses. We put particular effort into helping employees regain the will and ability to take on our rivals with confidence. Specifically, we concentrated on initiatives to fix problematic areas by reducing the incidence of project failures, raising quality, and boosting operational efficiency. We have made real progress, illustrated by an approximate 50% drop over the last three years in the number of Group companies reporting operating losses. Although challenges remain with respect to earnings growth, we were able to increase sales and earnings during this period.

Operating income has now exceeded the ¥180 billion level for the past two fiscal years, up from around ¥160 billion in fiscal 2004, while the operating income margin rose from 3.2% in fiscal 2003, to 3.6% in fiscal 2006. However, this increase of only 0.4 of a percentage point stands in contrast with a sales growth rate of 7.0% over the same period.

Meanwhile, other expenses have declined and the monthly inventory turnover rate has improved from 0.64 in fiscal 2003 to 0.93 in fiscal 2006. Our financial position is clearly better, and I believe Fujitsu has regained its underlying strength.

What are the objectives and key elements of your new medium-term strategic plan?

Our new medium-term strategic plan covers the three fiscal years through fiscal 2009, ending March 31, 2010. Based on a review of our performance over the last three years, our foremost

New Medium-term Goals (FY 2007–2009)

		FY 2006 Results	Medium-term Targets (FY 2009)
Operating Income Margins	Consolidated	3.6%	Over 5%
	Technology Solutions	5.2%	Over 7%
Overseas Sales Ratio		36%	Over 40%
Monthly Inventory Turnover		0.93 times	2 times*

*Set as medium- to long-term target level

objective will be to boost operating income margins. Specifically, we are aiming to raise our overall operating income margin to more than 5.0% in fiscal 2009, compared with 3.6% in fiscal 2006. We also want to raise the operating income margin in our core Technology Solutions segment to above 7.0%.

Another goal is to step up our business expansion in overseas markets that are growing strongly. Our aim is to increase the proportion of overseas sales from the current 36% of consolidated net sales to more than 40% by fiscal 2009.

Over the same period, we are also aiming to improve the monthly inventory turnover rate to approximately 2.0 times, compared with 0.93 in fiscal 2006.

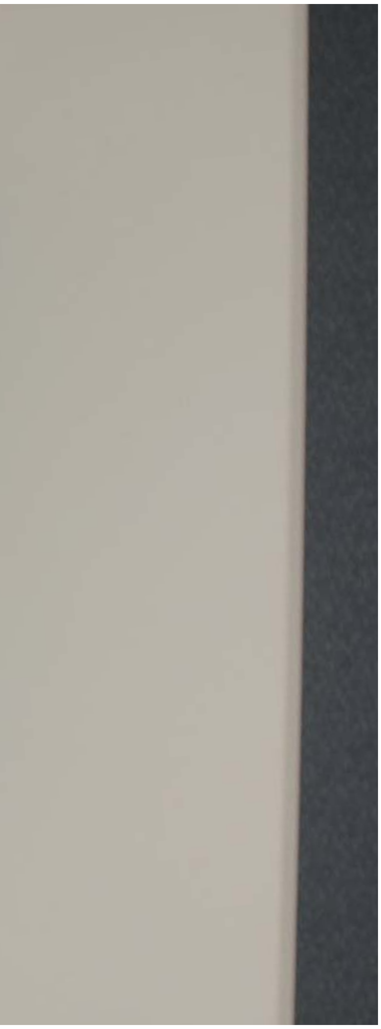
In terms of business development, we plan to focus on the services business to drive earnings growth in our mainstay Technology Solutions segment. We will also build an operating structure to ensure that higher sales in our HDD and device businesses translate into stronger earnings.

What management initiatives will you pursue in order to achieve the goals of the new medium-term strategic plan?

The key phrase for the next three fiscal years is "boost earnings and growth." Under our medium-term strategic plan, we will focus on reinforcing areas of our business that are already strong—the services business being one example. We will also implement constructive, Group-wide organizational realignment and work to extend our business domain from IT solutions into business solutions.

Naturally, we remain committed to four key principles that have underpinned our management approach at Fujitsu for many years, namely: to always think and act from the customer's perspective, to maintain and improve timely delivery and quality, to increase the speed of our business operations, and to think and act on frontline realities.

We have now added three new management principles to this list. First, we will work to enhance collaboration between sales and product development functions in order to create competitive product and service offerings that will allow us to increase market share and raise profitability. Second, we will follow the principle of cash flow-conscious management to encourage each Fujitsu business to be more self-sufficient. And third, recognizing that people



are our greatest asset, we will pursue management that seeks to realize the full potential of our human resources.

Could you give some more details on how you plan to create a competitive product lineup by enhancing collaboration between sales and product development?

The kind of value customers seek from IT products and services is becoming exceptionally diverse. In servers, for example, the days when providing high-performance systems was enough to please customers are over. Today, their requirements may include quiet, compact servers for office environments, models that consume less power and have other environmentally friendly features, and systems that are easier to operate and reduce the potential for operational errors. The key to staying ahead in this market is creating products that offer customers real added value, or more specifically, developing and launching products with value that makes them stand out in the marketplace as quickly as possible. Another trend is shorter product life cycles, which means manufacturers have to sell out products in a very short time frame. In this context, we have to carefully predict demand to ensure we are not left with excess inventories.

To make all this happen, our product development engineers have to work more closely with our sales people in order to listen to customers' feedback and experience the actual workplace environments where our products will be used. At the same time, our marketing units, customer support units and, in fact, our entire organization, have to rebuild systems and development processes centered on product and service offerings. In this way, through an operational approach that brings us closer to customers and their actual businesses, we will be able to create a lineup of more competitive products and services.

New Management Principles

Recurring themes over the past 3 years:

- **Think and act from the customer's viewpoint**
- **Continue to maintain timely delivery and quality**
- **Continue to increase speed**
- **Think and act on frontline realities**

Competitive Product & Service Offerings

Enhancing collaboration between sales and product development

- Focus management efforts on creating competitive product and service offerings that can drive up market share and profits
- Align organization and processes to create product and service offerings from the customer's perspective

Self-sufficiency

Cash-flow-conscious management

- Business operations should subsist on the cash flow they generate

Human Knowledge as an Asset

Management for realizing full potential of human resources

- Allocation and cultivation of human resources that make fullest use of people's value (potential)
- Promote Group management and Group-wide HR management

Four Challenges for FY 2007–2009

- Create a new Group management structure
- Strengthen strategic thinking based on JQA*
- Think and act more thoroughly from a Group-wide perspective

- Reform product and service development processes (enhance collaboration with sales)
- Pursue new types of product and service value
- Develop easy-to-implement systems that do not require extensive system engineering resources to deploy or maintain

- Place importance on frontline operational realties
- Take advantage of people's frontline expertise and promote teamwork
- Implement field innovation in our own operations

- Cultivate lifelong learners (encourage self-improvement)
- Foster field innovators
- Nurture global human resources

*JQA: Japan Quality Award

Could you tell us about the four key challenges that you intend to tackle in the new medium-term strategic plan?

Simply put, we will vigorously pursue management that focuses on people and product and service offerings. In so doing, we will tackle four key challenges: improve our product and service offerings, empower our people, enhance our frontline operational capabilities, and strengthen our management. In strengthening our product and service competitiveness, we have to carefully identify the new types of value customers are seeking. Enhancing collaboration between sales and product development functions is one way of doing this. In addition, until now, we have supplied many products based on the assumption of having teams of system engineers to manage them. Going forward, we must challenge ourselves to develop and provide more products that do not rely on system engineers, in other words, systems that are easier to deploy and manage and will therefore enable us to increase sales volumes. In regard to the challenge of empowering our people, a key theme will be to develop people capable of supporting our field innovation approach by helping our employees acquire more specialist skills. Enhancing our frontline operational capabilities will focus on pursuing field innovation in our own operations, as well as on encouraging better teamwork. Finally, strengthening management capability will be crucial to ensure that operational reforms going forward are implemented effectively. Two key themes will be enhancing the strategic thinking of senior managers based on our existing JQA program designed to raise the quality of management, and creating a new Group management structure.

You mentioned the medium-term target of raising the ratio of overseas sales to consolidated net sales from 36% to more than 40%. How will you do this?

We plan to further grow our business overseas by developing strategies tailored to each market and building on the Fujitsu Group's capabilities. In Europe, the Middle East and Africa (EMEA), we are building a strong presence in the public-sector IT market, especially in the UK. We also plan to expand our business in the commercial sector and enhance our capabilities in markets across continental Europe. In the Americas, along with working to strengthen our individual businesses in fields such as photonics, servers, PCs and services, we will strive to enhance Fujitsu's overall presence in the market.

In the Asia Pacific (APAC) and China regions, our business is currently centered on the local operations of Japanese companies. Going forward, we will work to grow our business with indigenous companies. We obviously see China and India as growing markets for our products and services, and we will also focus on these countries as strategic offshore sites for our services operations.

Expanding Global Business Capabilities ~Grasp market characteristics and steadily expand opportunities for growth~

EMEA	**Head**: Corporate Sr. VP Richard Christou (Also serves as FS Chairman) **FY06 Sales**: 795.8 billion yen (+15.4%) **Mid-term regional goal**: 8% growth/year **FS sales**: (FY05) £2,294M→(FY07) £2,700M (About ¥600.0 billion)	■ Fujitsu Services: Build on strength as top-tier services company for UK government/public sector • Work to expand business in continental Europe and with private-sector clients • Acquired TDS of Germany in Jan. '07 ■ Expand TRIOLE deployment (including for services)
The Americas	**Head**: Corporate Sr. VP Tetsuo Urano **FY06 Sales**: 472.9 billion yen (+21.9%) **Mid-term regional goal**: 14% growth/year **FC sales**: (FY05) $384M→(FY07) $700M (About ¥80.0 billion)	■ Fujitsu Consulting: Expand services capabilities through M&A • Acquired Rapidigm in Mar. '06 ■ Reorganize global retail business ■ Develop vertically integrated solutions business
APAC and China	**Head (China)**: Corporate First Sr. VP Takashi Igarashi **Head (APAC)**: Corporate Sr. VP Kyung-soo Ahn **FY06 Sales**: 556.4 billion yen (+8.3%) **Mid-term regional goal**: 11% growth/year	■ Expand Fujitsu Australia's SAP business • Expand outsourcing services business ■ Strengthen local management in China market ■ Full-fledged start-up of business in India

* FY06 sales are regional net sales to unaffiliated customers; FS=Fujitsu Services, FC=Fujitsu Consulting; FY07 figures are estimates.

How do you plan to strengthen the struggling System Platforms sub-segment?

System Platforms is struggling now, but it is an extremely important part of our business, because these platforms support and help us to differentiate our services business.

We plan to strengthen System Platforms in a number of ways. First, we will push forward with reforms to our product development process based on enhancing collaboration between sales and product development functions. This will allow us to more accurately identify the needs of customers and sales channels, and then reflect these needs in our product offerings. Second, we will streamline the number of models and product options in our lineup so we can use resources more effectively and speed up product development.

We will also change our approach to system proposals. One of our key assets in System Platforms is the vast amount of sales data we have accumulated. By analyzing around 9,000 business deals to date, we were able to identify 25 different usage scenarios, which we then categorized into six optimization levels. For example, we have divided the area of data backup management into six optimization levels ranging from "on-site data backup on an *ad hoc* basis" to "data backup with disaster countermeasures."

Based on this exercise, we learned that proposals that simply offer servers or storage systems will not satisfy customers. In server integration, for example, network optimization is always required too. In this way, we can get a more accurate overall picture of customer needs, and bring together specialists from each related area to create proposals from the customer's perspective. This, I believe, is one way we can leverage our unique strengths as a company.

What is Fujitsu's policy on returning profits to shareholders?

I believe we can boost shareholder value by delivering sustained growth. Our basic policy on the payment of dividends is to offer a stable return to shareholders while ensuring a healthy level of retained earnings to strengthen our financial position and actively develop our business.

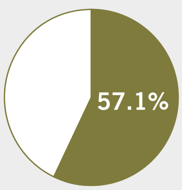
In fiscal 2006, we reported consolidated net income of ¥102.4 billion. However, on an unconsolidated basis, which provides the legal basis for dividends, we posted a net loss. Nevertheless, in light of the fact that future financial risks would be reduced by posting the loss, that the loss is not associated with an actual outflow of cash, and that earnings are on a recovery path, we decided to pay an annual dividend of ¥6.00 per share, the same as the previous fiscal year, to maintain our policy of providing a stable return to shareholders. By continuing to increase profits, we hope to pay shareholders substantial dividends going forward.

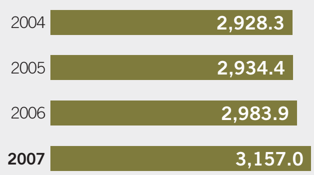
Business Overview

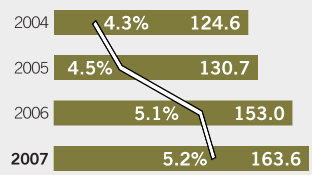
Years ended March 31

Breakdown of Net Sales | **Net Sales*** (Billions of Yen) | **Operating Income/Operating Income Margin** (Billions of Yen) | **Business Description**

Technology Solutions

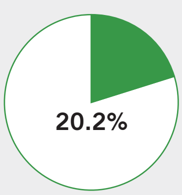


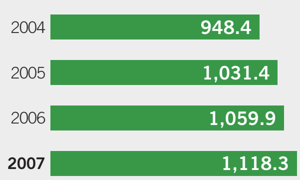


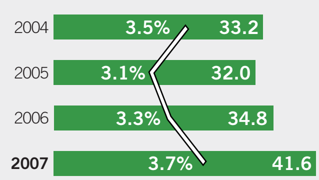


Underpinned by a range of highly reliable, high-performance IT system platforms employing cutting-edge technologies, we provide services optimized for individual clients and solutions that span the entire IT system life cycle.

Ubiquitous Product Solutions

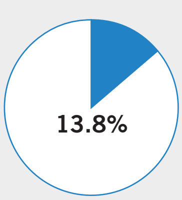


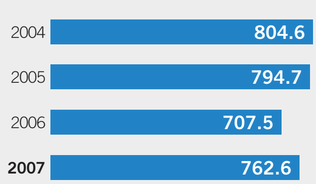


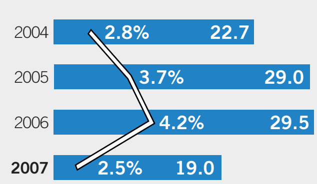


Emphasizing speed-to-market and price-competitiveness through highly efficient development and manufacturing activities, our PCs, mobile phones, and hard disk drives are vital to the realization of a ubiquitous networked world.

Device Solutions







Logic LSI chips and related electronic components are core technologies that we provide to customers inside and outside the Group as optimized solutions to help enhance the competitiveness of their products.

* Including intersegment sales

■ Main Products & Services

System Platforms: Full range of servers (mainframe, UNIX, mission-critical IA, PC), storage systems, various types of software (operating system, middleware), optical transmission systems, and mobile phone base stations

Services: Consulting, systems integration, outsourcing services, network services, system support services, information system installation and network construction, and dedicated terminal systems and equipment (ATMs, POS systems)



Left: SPARC Enterprise UNIX server **Center:** FLASHWAVE optical transmission system **Right:** Control room of the Fujitsu Tatebayashi System Center, one of Japan's largest IT outsourcing facilities.

PCs, mobile phones, storage equipment (hard disk drives, magneto-optical disk drives), optical transceiver modules and other products



Left: Our FMV-DESKPOWER Series of PCs lets users enjoy digital high-definition TV programs.
Center: The FOMA® F904i was the first One Segment broadcast-compatible mobile phone to feature a full-wide display. **Right:** A high-quality, high-capacity hard disk drive with excellent reliability incorporating perpendicular magnetic recording technology.

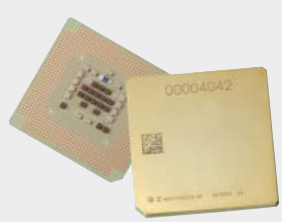
Logic LSI devices (system LSI, ASICs*[1], microcontrollers, FRAM*[2]–embedded logic), system memory devices (flash memory, FCRAM*[3]), semiconductor packages, SAW*[4] devices, and other electronic components

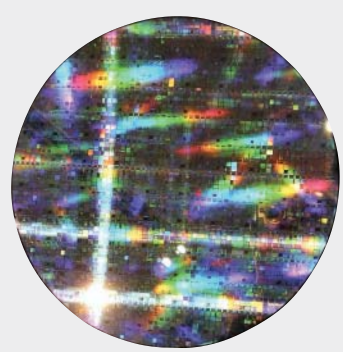
*[1] Application-Specific Integrated Circuit: A type of LSI customized for a particular application or user requirement, as opposed to LSI circuits for general-purpose products.

*[2] Ferroelectric Random Access Memory: A nonvolatile memory characterized by low power consumption, fast write times and numerous read-write cycles. (FRAM is a trademark of Ramtron International Corporation).

*[3] Fast-cycle Random Access Memory: High-speed DRAM that incorporates our original pipeline operation technology to accelerate memory read-write cycles.

*[4] SAW devices boost the performance of mobile phones and other mobile devices and also help to reduce size and power consumption.





Left: CPU for the SPARC Enterprise UNIX server
Right: 300mm wafer using 65nm process technology

Operational Review and Outlook

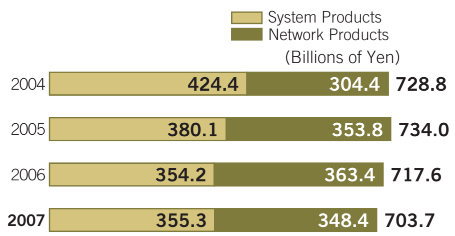
Technology Solutions—System Platforms

Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

Net Sales	Operating Income	R&D Expenses*	Capital Expenditure*
703.7 (–1.9%)	7.5 (–69.5%)	130.7 (–0.7%)	91.3 (–1.9%)

* Figures are for the entire Technology Solutions segment

Sub-segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

Network Products
The jointly developed Fujitsu and Cisco CRS-1 high-end routing system for communications carriers (left) and our FLASHWAVE optical transmission system (right) are being used to build broadband Internet and other next-generation communications networks.

Fiscal 2006 Performance Overview

In System Platforms, we worked to boost earnings by expanding operations globally, centered on our TRIOLE IT infrastructure optimization model, and in parallel developing our network business focused on next-generation networks.

In Japan, although sales of our ETERNUS storage systems were strong, reflecting demand related to corporate compliance with Japan's Financial Instruments and Exchange Law (known colloquially as J-SOX) and the Personal Information Protection Law, demand for mobile phone base stations declined compared to the previous fiscal year when it was particularly strong. As a result, domestic sales declined 4.5% year on year. Overseas, however, sales rose 5.2%, as higher sales of servers and related products outweighed a slowdown in sales of optical transmission systems in North America.

As a result, for the period under review the System Platforms sub-segment reported an overall year-on-year decline in sales of 1.9% to ¥703.7 billion (US$5,964 million). Operating income dropped ¥17.0 billion to ¥7.5 billion (US$64 million), as efforts to boost sales failed to cover higher expenses related to the development of new optical transmission systems products for next-generation networks (NGN) in the US and UK.

Announcement Highlights

- Fujitsu and Cisco Introduce New High-Performance Routers for IP Next-Generation Networks (May 25, 2006)
- Fujitsu Unveils WiMAX*1 Strategy Encompassing Silicon, Systems and Services (October 9, 2006)
- Fujitsu Selected to Develop and Manufacture Super 3G*2 Wireless Base Station Equipment for NTT DoCoMo (November 21, 2006)
- Fujitsu and Sun Microsystems Set the Standard for Open Systems Computing with Fastest, Most Reliable Solaris/SPARC Servers (April 17, 2007)
- Fujitsu Receives Intel® Server & Storage Innovation Award for PRIMERGY TX120 Compact Server (April 18, 2007)
- Fujitsu Opens Platform Solution Center in Brazil (May 30, 2007)

Initiatives Going Forward

System Products

In the domestic server market, we expect challenging conditions to remain due to intensifying price competition and other factors. Overseas, the market is expected to remain firm. Customer requirements are becoming more sophisticated as they seek to comply with stricter regulations on internal control, reinforce

System Products
Grounded on our high-performance, highly reliable mainframe technologies, our SPARC Enterprise UNIX servers (left), PRIMEQUEST mission-critical IA servers (center) and ETERNUS storage systems (right) are capable of meeting a wide range of customers' operational needs.

Mobile WiMAX Base Station System
We exhibited our WiMAX base station at ITU Telecom World 2006, an international networking exhibition held in Hong Kong in December 2006.

security, and ensure business continuity. We will work to provide system products that meet these needs on a global basis and also strive to boost sales of related products and services.

Specifically, centered on competitive products such as our PRIMEQUEST mission-critical IA server, which combines mainframe reliability with the agility and economy of open-standard servers, and SPARC Enterprise, our new line of UNIX servers jointly developed with Sun Microsystems, we will work to grow sales globally, and increase market share and profits. Furthermore, by enhancing collaboration between sales and product development and streamlining the number of product variations, we will strive to improve resource utilization efficiency and accelerate business execution in order to develop more competitive offerings that customers and sales channels will support.

Network Products

The shift to NGN is under way both in Japan and overseas, and competition is intensifying. Against this backdrop, we are overhauling our organizational structure to enhance our responsiveness to customer needs, reinforce product planning capabilities and strengthen product competitiveness. Specific steps include the establishment of a Telecom Business Group and making Fujitsu Access Ltd. and Fujitsu Wireless Systems Ltd. wholly owned subsidiaries.

In optical transmission systems, we will build on our leadership in the North American market for next-generation SONET[*3] equipment by advancing the convergence of Internet Protocol technology and optical networks. In Japan, we will strengthen our response to developments in NGN by leveraging our global track record in advanced network technologies. In Europe, anchored by our leading share of the UK ADSL market, we will work toward the completion of BT's 21st Century Network program as a preferred supplier of access equipment, and capitalize on this experience to support the move to NGN in other markets.

In mobile systems, along with continuing to advance our 3G business in Japan, we will focus on business expansion in Super 3G, following our selection by NTT DoCoMo to develop and manufacture base stations for this standard, and WiMAX. We will also enhance our service delivery platform for NGN.

*1 WiMAX (Worldwide Interoperability for Microwave Access): General term for a wireless network protocol based on the IEEE802.16 and IEEE802.16e wireless interface standards.

*2 Super 3G: A proposed mobile communications protocol to achieve higher performance, will reduce connectivity delays and improve bandwidth utilization efficiency.

*3 SONET (Synchronous Optical Network): A high-speed digital transmission system that utilizes optical fiber.

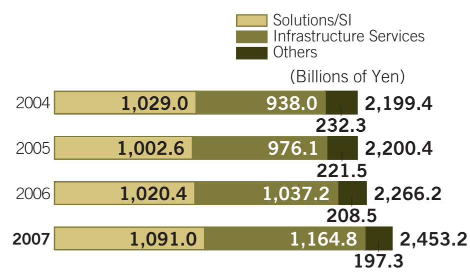
Technology Solutions—Services

Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

Net Sales	Operating Income	R&D Expenses*	Capital Expenditure*
2,453.2 (8.3%)	156.1 (21.5%)	130.7 (–0.7%)	91.3 (–1.9%)

* Figures are for the entire Technology Solutions segment

Sub-segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

Home-use Healthcare Support System
A remote health management and medical support system for the elderly. The system, which connects users with a central care center via a network, allows healthcare professionals to assess vital health signs and provide advice via a video phone.

Fiscal 2006 Performance Overview

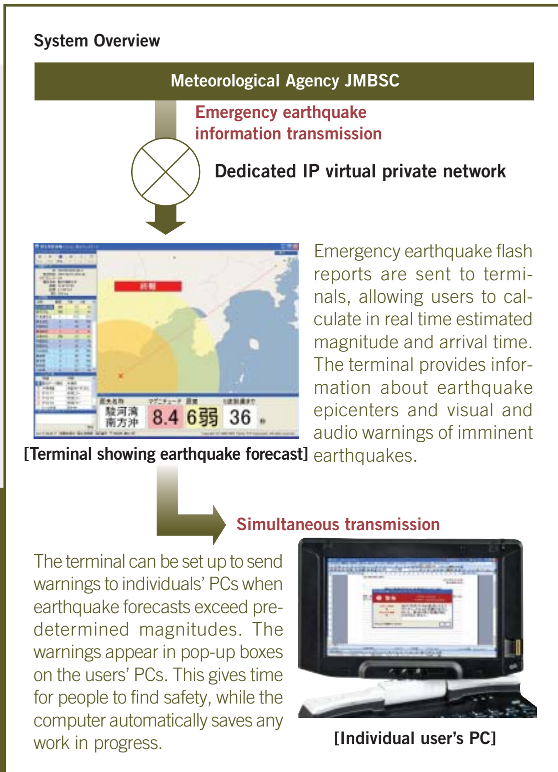
In Japan, we focused on boosting earnings by reinforcing project risk management and creating mechanisms to increase the efficiency of system development. We also strengthened our operational services and packaged solutions, areas that are expected to generate stable earnings going forward. Overseas, we actively rolled out our strategy of services business development tailored to the requirements of different regional markets. In Europe, centered on UK subsidiary Fujitsu Services, we worked to expand business not only for government IT outsourcing projects but also projects in the commercial sector, and at the same time enhance our ability to supply systems to customers across the European continent. In North America, meanwhile, we worked to strengthen service provision through acquisitions and alliances.

In Japan, sales rose 1.2% year on year as systems integration business expanded for banks, insurance companies, securities firms and other clients in the financial field, as well as for automakers and other manufacturers. Outsourcing services sales were also firm. Overseas, we reported a significant 23.9% increase in sales compared to a year earlier. This reflected growth in our services business in North America through the acquisition of new companies, and continued strong growth in our outsourcing business in the UK. As a result, the Services sub-segment posted an overall increase in sales of 8.3%, to ¥2,453.2 billion (US$20,790 million).

Despite a delay in the recovery of our retailing solutions business in North America and heavier upfront strategic expenditures in our systems integration business in Japan, operating income surged 21.5% year on year to ¥156.1 billion (US$1,323 million). This rise reflected the effect of higher sales in the services business both in Japan and overseas, as well as stronger risk management and improved project profitability due to greater efficiency in system development.

Announcement Highlights

- Yarra Valley Water Selects Fujitsu as Strategic IT Outsourcing Partner in AUS$21 Million Agreement (August 15, 2006)
- Fujitsu Remains at the Top in Japanese IT Outsourcing Revenue Ranking for Two Consecutive Years (September 4, 2006)
- Fujitsu and SAP AG Strenghen Services Partnership (October 5, 2006)



Emergency Earthquake Warning System, AlertStation EQ
Using emergency earthquake flash reports transmitted by the Japan Meteorological Business Support Center (JMBSC), an organization run by the Meteorological Agency, the system gives users vital seconds to prepare themselves before major tremors hit. This is just one of the systems Fujitsu supplies in the increasingly important fields of disaster countermeasures and business continuity.

Large-screen UBWALL Interactive Displays
Installed in shopping malls or other sites that attract large numbers of people, UBWALL displays information tailored to individual consumer interests. When users hold IC card-enabled mobile phones to the screen, the display shows personalized recommendations for restaurants and products, as well as store locations. UBWALL has already been adopted by some local governments, financial services providers and numerous other customers.

- Fujitsu Services Signs Contract to Acquire Majority Interest in German IT Services Company TDS AG (December 11, 2006)
- Fujitsu Strengthens Consulting Operations (March 27, 2007)
- Fujitsu Wins £80m Outsourcing Contract from the UK's Financial Services Authority (April 19, 2007)
- Fujitsu Signs €400 Million Outsourcing Partnership with Allianz IT Service Provider AGIS (May 15, 2007)

Initiatives Going Forward

Worldwide investment in IT is being underpinned by global economic expansion, and we expect this to drive further strong growth in our services business going forward. In order to make a leap forward in this business, we will expand our operational focus from IT solutions into business solutions.

In Japan, where the rate of market growth is low, we will seek to expand by tapping customer demand for operational field innovation. In support of this, we will transfer experienced personnel capable of communicating with customers from a business perspective to the Fujitsu Research Institute, where they will be trained as "field innovators." In addition, following the consolidation of infrastructure system engineering resources at Fujitsu FSAS in May 2007, we will push forward with the industrialization and standardization of our infrastructure services, aiming for further expansion in this buoyant field.

Overseas, where the services business is expanding at a higher pace, we will strive to accurately identify and meet the specific needs of each region, and aim for further growth. In Europe, this will mean working to capture more business from the private sector and extending our reach across the continent. In North America, we will enhance our services provision capabilities through M&A and other means, and in China and India, where market expansion is especially rapid, we will establish a full-scale operational presence.

Moreover, centered on India, we will continue to expand our offshore development operations*, which are vital to growing our business globally. Our goal is to create an offshore development framework comprising around 8,500 personnel by fiscal 2009.

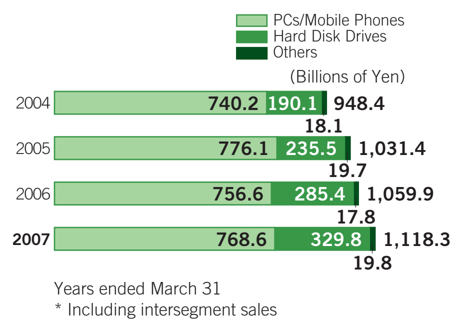
* Outsourcing of systems development, operational management and other functions to overseas businesses and subsidiaries.

Ubiquitous Product Solutions

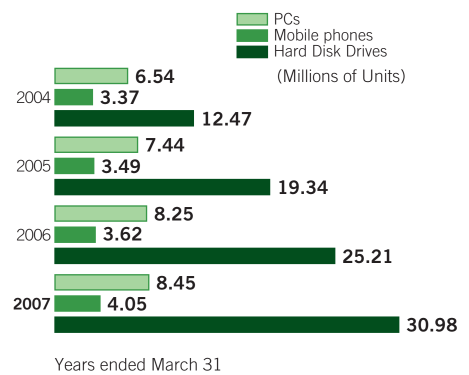
Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

Net Sales	Operating Income	R&D Expenses	Capital Expenditure
1,118.3 (5.5%)	41.6 (19.7%)	36.7 (13.6%)	24.8 (27.8%)

Segment Sales* by Main Product



Unit Shipments (PCs/Mobile Phones/HDDs)



Fiscal 2006 Performance Overview

In this business segment, we continued efforts to cut costs and raise product quality by stepping up manufacturing innovation initiatives. Sales of PCs were sluggish as individual consumers postponed purchases prior to the launch of the Windows Vista™ operating system and competition intensified in the business-use market. Sales of mobile phones, however, were firm. Hard disk drives (HDDs) also saw strong sales, with record shipments of 2.5-inch drives for notebook PCs and 3.5-inch models for servers. Overall, the Ubiquitous Product Solutions segment posted a year-on-year increase in sales of 5.5%, to ¥1,118.3 billion (US$9,477 million).

Despite bigger-than-anticipated price declines centered on PCs and 2.5-inch HDDs for notebook PCs due to intense competition in markets worldwide, operating income rose ¥6.8 billion compared to a year earlier to ¥41.6 billion (US$353 million). This increase reflected the effect of higher sales of mobile phones, the growing adoption of HDDs in non-PC fields, and improved cost efficiency and product quality due to enhanced manufacturing innovation initiatives.

Announcement Highlights

- Fujitsu Introduces World's First 300GB 2.5-inch SATA Hard Disk Drive (December 12, 2006)
- NTT DoCoMo, Renesas, Fujitsu, Mitsubishi Electric, Sharp and Sony Ericsson to Jointly Develop Platform for 3G Mobile Phone Handsets (February 8, 2007)
- Onshi Invention Prize Awarded to Fujitsu for Its Synthetic Ferrimagnetic Media Technology for Use in HDDs (May 8, 2007)
- Fujitsu to Release New 2.5-inch HDD with 250 GB Capacity in a 9.5mm-thin Profile (May 15, 2007)
- Fujitsu Announces the New 'U Series' of Tablet-Convertible Notebook PCs, the World's Smallest in Its Class (May 16, 2007)
- Sales of Fujitsu Raku Raku Phone Series of Mobile Phones Surpass the 10 Million Unit Mark (May 31, 2007)

Fujitsu Raku Raku Phone Series
A range of phones designed for ease of use. Total shipments since their launch in September 2001 now exceed 10 million units.

Hard Disk Drives (HDDs)
Our HDDs are used in PCs, servers, storage systems and other products. We supply 3.5-inch models mainly for servers, and 2.5-inch products for mobile devices. By adopting perpendicular magnetic recording technology, we plan to boost capacity and reliability further.

FMV-BIBLO LOOX U Series
The world's smallest PC in the tablet-convertible class, the FMV-BIBLO LOOX U Series weighs just 580g and comes in an ultra-compact body only 26.5mm thick. Users can easily connect to the Internet anytime, anywhere.

Initiatives Going Forward

In our PC business, we will strive to make our products even easier to use and further raise quality. At the same time, we will boost profitability by offering high-value-added models that feature enhanced security and AV functions. Centered on Europe and the growing Asian market, we will work to expand our PC business overseas and strive for higher volume in low-price models.

In mobile phones, although growth is slowing in Japan, we plan to boost earnings by rolling out more appealing and distinctive new models, such as the easy-to-use Fujitsu Raku Raku Phone series, and continuing to enhance our product development partnerships and manufacturing capabilities. Moreover, based on our view that mobile phones will become the key wireless device of the ubiquitous networked world, we will develop new products that combine the capabilities of both mobile phones and PCs.

In HDDs, our aim is to sustain growth by maintaining Fujitsu's reputation for high-quality products and further enhancing the competitiveness of our offerings. In enterprise HDDs, where we have captured the second largest share worldwide, we will respond to the growing shift from 3.5-inch to 2.5-inch HDDs and seek to grow our market share by launching new 2.5-inch enterprise models to supplement our existing 3.5-inch range. Meanwhile, the mobile HDD market is projected to sustain annual growth of more than 20% in the years ahead, as HDDs are increasingly used in consumer electronics such as digital home appliances and game consoles, as well as in products in the IT sector. We have built an industry-leading lineup of 2.5-inch ATA products capable of covering a wide-range of applications in the IT and consumer electronics fields. We will use these products, which offer high performance, industry-leading capacity, and can also be used for automotive applications, to drive further business growth. In addition, we will continue developing powerful new technologies to support further growth, including magnetic heads for large-capacity storage devices and synthetic ferrimagnetic media technology, a recent winner of the Onshi Invention Prize.

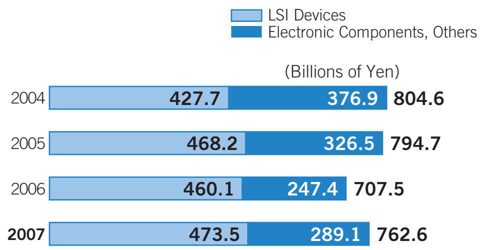
Going forward, we plan to maintain our competitiveness by leveraging perpendicular magnetic recording and other new technologies, and expand our existing business while preserving Fujitsu's high quality brand image. We will also develop the business further in consumer electronics and other fields outside the traditional PC market.

Device Solutions

Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

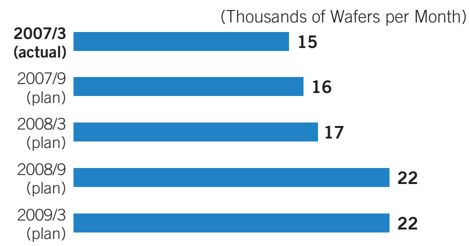
Net Sales	Operating Income	R&D Expenses	Capital Expenditure
762.6 (7.8%)	19.0 (–35.6%)	46.3 (21.8%)	166.2 (43.9%)

Segment Sales* by Main Product



Years ended March 31
* Including intersegment sales

300mm Wafer Production Capacity (90nm/65nm process technology)



Forecasts as of March 31, 2007

Fiscal 2006 Performance Overview

The Device Solutions business segment is comprised of two subsegments: LSI Devices and Electronic Components, Others. In LSI Devices, we have focused our resources on logic LSI technologies. Specifically, we have been working to increase earnings while maintaining a balance between our advanced technology logic LSI business, which includes 90nm/65nm process technology, and our standard technology logic LSI business, based on 130nm and earlier process technologies.

In the year under review, the market deteriorated rapidly from the second half of the fiscal year, particularly in the digital consumer electronics sector. Although there was some fluctuation in demand for advanced technology logic products, Mie Plant Fab No. 1, producing logic LSI devices on 300mm wafers, was fully operational, and demand for other electronic components was strong. As a result, the Device Solutions segment posted an increase in sales of 7.8% year on year, to ¥762.6 billion (US$6,463 million).

In terms of operating income, the effect of higher sales of advanced technology logic LSI products and other electronic components was not sufficient to offset the impact of sluggish sales of standard technology logic LSI products, increased depreciation associated with Mie Plant Fab No. 1, and higher development expenses. Consequently, operating income for the segment declined ¥10.4 billion, to ¥19.0 billion (US$161 million).

Announcement Highlights

- Fujitsu and Lattice Strengthen Partnership (June 13, 2006)
- Fujitsu and Advantest Establish Joint Venture for LSI Prototyping Services: e-Shuttle (October 30, 2006)
- Fujitsu Consolidates Back-end LSI Assembly Facilities (March 30, 2007)
- Fujitsu Semiconductor Technologies Begins Operations (March 30, 2007)
- Fujitsu Announces Mobile WiMAX SoC Performance and Delivery Schedule (May 21, 2007)
- Fujitsu Devices Inc. to Become a Wholly Owned Subsidiary of Fujitsu Limited through an Exchange of Shares (May 24, 2007)
- Jazz and Fujitsu to Collaborate on Providing Complete Solution for 90nm and 65nm RF CMOS Foundry Customers (May 25, 2007)

Mie Plant for Advanced Logic LSI Production
The Mie Plant produces LSI devices on 300mm wafers. Fab No.1 has been onstream since April 2005, and Fab No. 2, which utilizes 65nm process technology, became operational in April 2007.

■ Development Roadmap for Baseband LSI Chips Used in Mobile WiMAX Terminals

Initiatives Going Forward

In the logic LSI field, we will work to enhance and deepen implementation of the New IDM business model that we have been pursuing, as well as develop our volume-oriented business while maintaining a balanced operational focus on advanced and standard technology products. We have been advancing 65nm process technology as part of our strategy for growing our advanced technology logic LSI business. Specifically, Mie Plant Fab No. 2 came onstream in April 2007 as scheduled and will begin volume shipments in July. Additional investment to boost capacity will be implemented as necessary in line with customer requirements. In standard technology logic LSI products, we purchased front-end semiconductor production facilities from Spansion Japan to boost production capacity in order to meet growing demand for Flash microcontrollers used in automobiles and digital appliances. Fujitsu Semiconductor Technologies began operating this site, which has a monthly output of 30,000 200mm wafers, in April 2007. Meanwhile, in a move designed to boost production efficiency and cost-competitiveness in our back-end assembly operations, we decided to integrate our Gifu Plant's operations at our Kyushu Plant.

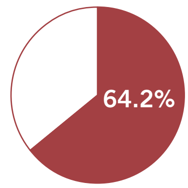
Going forward, to secure higher volumes in the global market centered on high-growth Asia, we will strengthen our ASSP* and standard product businesses. In particular, we will enhance our lineup of distinctive products for mobile devices built on low-leak, energy efficient technologies. We will also leverage our strong intellectual property portfolio in image processing-related technologies to reinforce our "Fujitsu for Image Processing" brand reputation.

Moreover, to ensure the timely provision of optimal solutions for customers, we will continue to push forward the realignment of our organizational structure, including Group companies. Our goal will be to build an operating structure capable of meeting the whole range of customer demands, from device manufacturing to LSI solutions. As one step in this process, we announced in May 2007 that Fujitsu Devices Inc. will become a wholly owned subsidiary. In this way, we will strive to create a simpler, easier to understand structure for customers, while also enhancing collaboration between sales and product development.

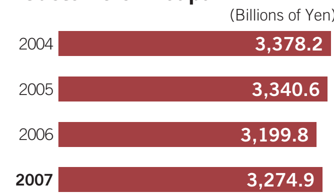
* ASSP (application-specific standard products): Standardized LSI products designed for power supply, file and image processing, HDTV and other applications in PCs, mobile devices, communications networks and other products. ASSP products can be sold to multiple users.

Japan

■ Proportion of Total Sales



■ Net Sales to Unaffiliated Customers in Japan



Years ended March 31

Helping to make customer-facing operations faster and more efficient

Resona Bank, Ltd.

Japan's Resona Bank is on a mission to eliminate waiting time at its bank branches while enhancing the range of services on offer. This is the basis for a program designed to create a nationwide network of next-generation retail banking outlets. The high, imposing counters of the past are being replaced by "Quick Navi" service booths that feature automatic teller machines (ATMs) and waist-height desks where Resona employees stand and deal directly with customers. By eliminating the need for customers to go to teller windows to fill in forms to deposit or withdraw money, Resona is significantly reducing the time needed for banking procedures. Customers have been impressed by this groundbreaking approach, which aims to take the waiting out of banking, as well as appreciative of the more attentive service. Moreover, this enhanced efficiency is significantly lowering the cost of teller operations. This means Resona can allocate more office staff and space to dealing with customers, allowing employees to devote more time to providing individualized attention. As a key partner in Resona's next-generation branch office program, Fujitsu has helped make this transformation possible by providing total support for the planning, development and introduction of all the necessary IT systems. The result is a unique business model in the Japanese banking sector.

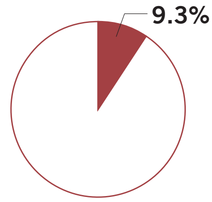
Upgrading information and communications systems to ensure the delivery of reliable, up-to-the-minute disaster and weather news

Japan Meteorological Agency

The daily weather reports in newspapers and on TV are based on meteorological data gathered and analyzed from sources worldwide. Last year, to enhance the efficiency and sophistication of its weather forecasting and delivery capabilities, Japan's Meteorological Agency revamped the information and communications systems critical to its weather observation and forecasting operations. As part of the upgrade, the systems at four existing sites in East Japan were integrated at one location. By combining system operation and management at a single site, the agency was able to significantly reduce operating costs, while system upgrades mean vast quantities of data—up to about 2 billion characters, or the equivalent of 150,000 newspaper pages—can now be disseminated in a single day. Moreover, the robust system can rapidly deliver highly accurate information even in the event of an earthquake or typhoon. Fujitsu's support has been vital to the success of the upgrade, which is underpinned by fully redundant system architecture that ensures non-stop stable operation. Leveraging our strengths in the provision of the latest open-standard systems technology, advanced system development capabilities and finely tuned customer support, we are supporting infrastructure critical to society.

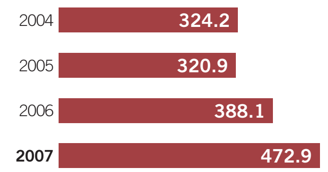
The Americas

■ Proportion of Total Sales



■ Net Sales to Unaffiliated Customers in the Americas

(Billions of Yen)



Years ended March 31

Going global with Fujitsu POS software

Godiva Chocolatier

Founded in Brussels, Belgium by Joseph Draps over 80 years ago, Godiva Chocolatier is the world leader in super premium chocolate. Godiva owns and operates more than 450 boutiques and shops worldwide, and has a presence in more than 80 countries.

Historically, Godiva operated as four separate business units (North America, Europe, Asia Pacific and Japan). As part of a global growth initiative, the company's goal was to achieve a consistent IT solution across all geographies. Fujitsu GlobalSTORE retail POS application is a key element of its global store technology platform.

Godiva selected GlobalSTORE because it offers the flexibility to easily configure the same POS application to address specific country needs at any location around the world. This flexibility has enabled Godiva to quickly deploy GlobalSTORE in more than 300 stores in the US, Canada, Singapore and other areas. The next phase of deployment will include several countries in Europe, and Japan will follow in early 2008.

Delivering a high-bandwidth private network to support a state-of-the-art educational environment

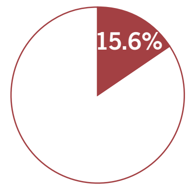
Seattle Public School District

Fujitsu is succeeding in the US educational market by supplying a high-bandwidth private network to the largest school district in Washington State. The Seattle Public School District selected Fujitsu products for a district-wide network comprising the FLASHWAVE 4000 multiservice SONET platform and FLASHWAVE 7500 reconfigurable optical add/drop multiplexer (ROADM), with NETSMART 1500 element management software.

The result is a high-bandwidth private network that supports all of the Seattle Public School District's voice and data needs, while realizing significant ongoing cost savings by replacing expensive, slower, leased T1 and T3 services. With Seattle's elementary, middle, and high schools receiving broadband connections in excess of 100 Mbps, the district is delivering the bandwidth necessary to support a state-of-the-art educational experience for its 47,000 students. In the future, this network will bring video streaming and distance learning into the classroom.

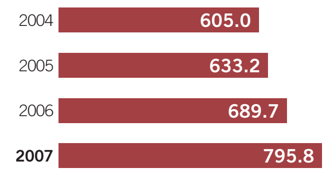
EMEA

■ Proportion of Total Sales



■ Net Sales to Unaffiliated Customers in EMEA

(Billions of Yen)



Years ended March 31

Deploying a pioneering palm vein-based biometric ID solution at a primary school in Scotland

Todholm Primary School

Kids at Todholm Primary School in Paisley, Scotland now have a cool way of buying their school lunches—all they have to do is place a hand over a sensor. As part of a government initiative in Scotland to improve the provision of school meals, Fujitsu and partners deployed a pioneering biometric ID cashless payment system at the school's cafeteria. As well as allowing the children to quickly pay for their meals without fumbling around for change or meal cards, the system, which is easy to use and quickly and accurately verifies users, also replaces a former color-coded voucher system for subsidized school meals, thereby removing the social stigma felt by some of the children. In addition, terminals facing the cafeteria staff show calorie intake for each meal, allowing them to give students advice on healthy eating. The system is being used as a tool to help improve the well-being of children by tackling childhood obesity and other health issues. Fujitsu played a vital role in realizing this system. Using our highly accurate PalmSecure™ palm vein authentication technology, we worked with Scottish company Yarg Biometrics Ltd. to create and deploy this groundbreaking biometric ID solution. This is just one example of how we are helping to accelerate the shift to a cashless society.

Delivering desktop managed services globally

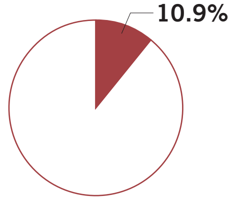
KLM Royal Dutch Airlines

KLM Royal Dutch Airlines is an international airline operating worldwide, offering passengers and airfreight shippers more than 250 destinations worldwide, either non-stop or via other airports. KLM undertook a policy of standardizing and outsourcing office automation operations, supporting the airline's strategy of focusing solely on its core business.

Fujitsu's relationship with KLM, which has been built over 10 years, has seen a gradual increase in the provision of IT services during this time. Fujitsu is seen as a safe pair of hands, delivering what we promise to time scales and on budget. We now provide desktop managed services for approximately 25,000 end-users and 11,000 desktops to KLM's Netherlands and Benelux operations. This covers availability and capacity management, monitoring, remote system support and user facility support. We also provide KLM with a 24/7 helpdesk and end-user support as well as call management for all applications and IT issues.

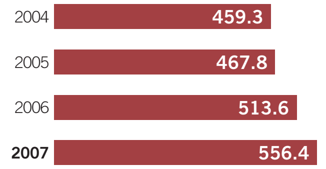
APAC & China

Proportion of Total Sales



Net Sales to Unaffiliated Customers in APAC & China

(Billions of Yen)



Years ended March 31

Providing high-speed, stable operations for cutting-edge medical systems

Sungae Hospital

South Korea's Sungae Hospital is attracting attention as a model "digital hospital" thanks to active investment that has made IT an integral part of healthcare provision. Although Sungae Hospital is a medium-size general medical care facility with 1,100 beds, it boasts cutting-edge medical infrastructure on a par with much larger facilities. This infrastructure includes a comprehensive medical information system, which incorporates prescription medication data, a medical imaging database linked to patient data, and an electronic medical records system. However, this advanced IT utilization presented a major drawback—the number of servers in the hospital mushroomed to 20, and operating and managing them was becoming a major drain on time and resources. To compound matters, the hospital was experiencing system failures as server processing power reached its limits. To overcome these challenges, Sungae Hospital selected Fujitsu PRIMEQUEST mission-critical IA servers based on their excellent performance profile and fully redundant system architecture for superior reliability. Fourteen of the hospital's 20 servers were replaced by two PRIMEQUEST units, increasing processing power fivefold and significantly reducing server operating and management costs.

Providing critical IT support through true partnership that enhances service provision and drives down costs

Yarra Valley Water

Yarra Valley Water is one of the leading water retailers in Victoria, Australia, providing water and sewerage services to more than 1.6 million Victorian residents and 650,000 properties in the northern and western suburbs of Melbourne, Australia. As a mature outsourcer of IT services, Yarra Valley Water was looking for a long-term partner that could deliver outstanding service today, while positioning the company for future operational and organizational change. Fujitsu was selected to fill this role thanks to our focus on quality service delivery, commitment to innovation, flexibility and long-term approach. As Yarra Valley Water's strategic IT outsourcing partner, we provide desktop, network and server management, and are also responsible for the management of Yarra Valley Water's core enterprise applications, including its customer information and billing system, as well as voice communications. In this way, we are helping Yarra Valley Water to provide services to Victoria's citizens that win an even higher level of trust.

Yarra Valley Water | a fresh approach

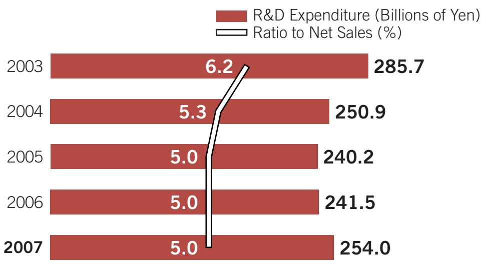
Research & Development

Our Mission in R&D

Guided by our basic policy of creating new value for customers and contributing to the realization of a ubiquitous networked world, we are driving forward cutting-edge research and development into next-generation services, servers and networks, as well as electronic devices and materials that support our services and products.

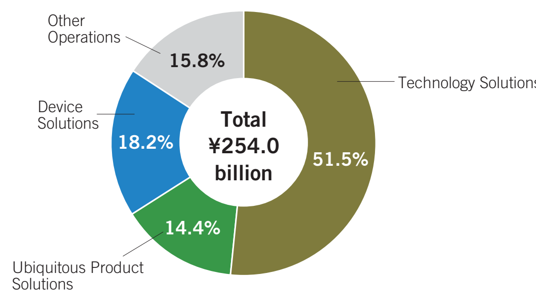
- **Foster the creation of new businesses**
- **Create and accumulate advanced technologies**
- **Extend our value chain globally**
- **Fulfill our social responsibilities**

R&D Expenditure



Years ended March 31

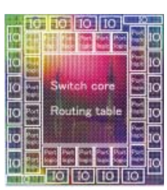
Fiscal 2006 R&D Expenditure by Segment



Major Achievements in Fiscal 2006

(1) Web marketing technology for the Web 2.0 era

We developed technology capable of identifying and analyzing company and product reviews written in Chinese or English appearing on Internet bulletin boards or blogs. A subsidiary company has already been providing a similar Japanese-language service, and this new technology will now allow clients to conduct global web marketing analysis of company and product reviews in all three languages.



The world's first single-chip 10GbE switch LSI

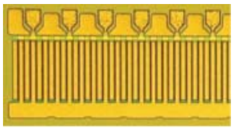
(2) Technology that enhances server system performance

We developed a new switching device that boosts the performance of server systems. The device, which incorporates the world's first 10 gigabit Ethernet (10GbE) switch chip, acts as a high-speed interface capable of transmitting data at 10Gbps over a single connection. In addition to enabling the design of more compact and energy-efficient servers with lower operating costs, this device will allow the replacement of multiple-standard networks used to connect servers in data centers with a single 10GbE network, thereby making operation and management easier. This technology has already been incorporated in the internal switches for our BX620 blade servers.

IP-9500 HDTV encoder/decoder utilizing highly efficient H.264 standard video encoding

(3) Practical application technology for H.264/advanced video coding

We created original new technology for the latest H.264 standard (also known as advanced video coding, or AVC) that speeds up data transfer rates by 30%. The technology includes an algorithm that uses knowledge about the characteristics of human vision to encode high-quality video images, and reduces processing capacity needed to encode high-definition images by 80%, while also eliminating unnecessary data transmission. We have also applied this technology in a low-power video encoding LSI for high-definition (HD) video—a world first—and our IP-9500 encoder/decoder, which enables real-time HDTV transmission over the Internet.



GaN HEMT for highly efficient data transmission amplifiers

(4) WiMAX amplifiers with world-class power efficiency

The WiMAX*[1] protocol enables the creation of next-generation wireless broadband networks that allow users to easily send and receive large volumes of data outside or on the move. We developed new data transmission amplifiers for WiMAX base stations and terminals. With the amplifiers for base stations, we teamed up with KDDI Corporation, a Japanese telecommunications company, to develop highly efficient data transmission amplifiers utilizing gallium nitride (GaN) HEMT*[2] technology. By developing and adopting a HEMT crystal structure and incorporating digital pre-distortion technology, we have roughly doubled power efficiency compared to conventional amplifiers. As a result, base stations can be made more compact and energy efficient. With WiMAX mobile terminals, we created compact, energy-efficient amplifiers with minimal digital signal distortion. As result, the usage time for the mobile terminals can be increased by roughly 1.5 times, and data transmission speeds can be boosted by approximately the same amount.

*[1] Worldwide Interoperability for Microwave Access: A wireless network protocol based on the IEEE802.16 and IEEE802.16e standards. WiMAX enables the provision of high-speed mobile connectivity services of 75mbps even when the user is traveling at speeds of up to 120km/h.

*[2] High Electron Mobility Transistor: An ultra-fast field-effect transistor pioneered by Fujitsu in 1980.

Fujitsu Wins Prestigious Award at nano tech 2007

Held annually since 2002, nano tech is the world's biggest international nanotechnology exhibition and conference. We were honored to receive the nano tech Award 2007, given to the best-of-show exhibitor in all categories, which recognized some of our latest R&D advances, such as quantum dot laser technology for optical transmission systems, carbon nanotube wiring for future LSI devices, and artificial antibodies (modified aptamers). In addition, we were praised by the award committee for establishing QD Laser, Inc., a quantum dot laser company that is advancing the practical application of nanotechnology.

nano tech Award 2007

Strategic Direction in Fiscal 2007

■ Develop new solutions leveraging our technology value chain

We will pursue R&D efforts 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.

■ Key research themes in fiscal 2007

(1) Next-generation IT service technologies
(2) Next-generation server technologies
(3) Next-generation network technologies
(4) Technologies to create distinctive systems and devices (new terminals, imaging, electronic paper, low power consumption, reliability)
(5) Technologies in new fields/frontiers (nanotechnology, robotics)

■ R&D in emerging new fields to support future businesses

- Peta-scale computing (next-generation supercomputer)
- Next-generation mobile communications technology
- Nanotechnology
- Intelligent Transport System (ITS) technology to improve safety and security
- Humanoid robots with artificial intelligence
- IT that supports lifestyles in an aging society
- Environmentally friendly materials and solutions

■ Promoting joint research to identify new possibilities in technology and products

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

Intellectual Property

The Importance of Intellectual Property

Protecting intellectual property rights is clearly articulated in the code of conduct of *The FUJITSU Way*, the core set of principles guiding the corporate and individual actions of the Fujitsu Group. Consequently, all our employees recognize intellectual property as a key corporate asset supporting our business activities. Highly aware of the legal implications related to intellectual property rights, we strive to acquire, protect, and utilize such rights, taking steps to safeguard our own rights, while respecting the intellectual property of other companies.

- **Implement strict data protection measures, including initiatives to prevent unintended leaks**
- **Create a culture that values and protects intangible assets (intellectual property)**
- **Take an uncompromising stance on infringement of intellectual property rights**

Intellectual Property Strategy

We are promoting an intellectual property strategy closely integrated with our business and R&D strategies. Business managers and researchers are personally responsible for understanding and analyzing the intellectual property assets owned by Fujitsu and other companies. Based on this information, they then formulate and implement intellectual property strategies. In support of this, we are pursuing the following five measures company-wide:

① Strategically secure, maintain and utilize rights (including patents, industrial designs, trademarks, copyrights and trade secrets);
② Respect other companies' intellectual property rights, (conscientiously avoid infringing on other companies' patents);
③ Carry out thorough management of information (in addition to enhancing internal rules, we are conducting e-learning and implementing periodic checks such as a monthly "Security Check Day");
④ Actively engage in external policy-making activities;
⑤ Cultivate and maintain strategic human resources.

1. Patent Rights

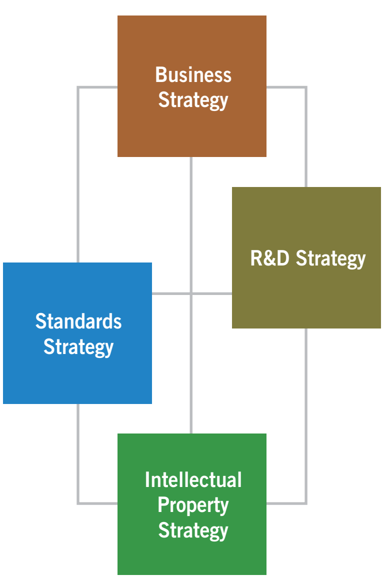
(1) Enhancing Our Patent Portfolio

Patents are a key intellectual property asset and an important management resource. We are working to build a global patent portfolio centered on Japan using the following three specific approaches:

1) Establish and focus on priority strategic themes;
2) Carry out post-application review and revision for business development;
3) Obtain a wide range of rights to ensure business stability.

Beginning in fiscal 2006, with the aim of incorporating patent feasibility studies into our business strategy, we appointed intellectual property officers in each business unit. These individuals are responsible for assessing and analyzing the

■ Linking Business and R&D Strategies



■ Patent Applications in Japan in 2006

1	Matsushita Electric Industrial Co., Ltd.	3,948
2	Toshiba Corporation	2,911
3	Seiko Epson Corporation	2,477
4	Hitachi, Ltd.	2,352
5	Mitsubishi Electric Corporation	2,293
6	Canon Inc.	2,289
7	Sony Corporation	1,869
8	DENSO Corporation	1,843
9	**Fujitsu Limited**	**1,835**
10	Honda Motor Co., Ltd.	1,824
11	Nissan Motor Co., Ltd.	1,714
12	Ricoh Company, Ltd.	1,689
13	Sharp Corporation	1,639
14	SANYO Electric Co., Ltd.	1,474
15	Toyota Motor Corporation	1,455
16	Fuji Photo Film Co., Ltd.	1,190
17	Matsushita Electric Works, Ltd.	1,140
18	NTT Corporation	1,109
19	Fuji Xerox Co., Ltd.	875
20	Samsung Electronics Co., Ltd.	809

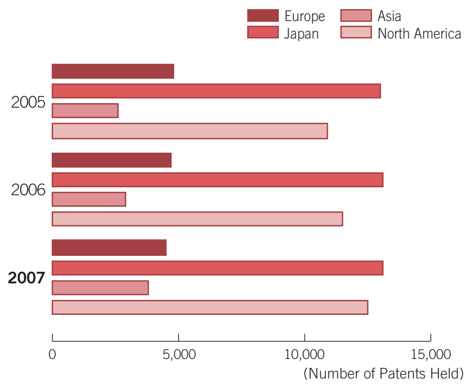
Source: Fujitsu survey based on Japan Patent Office data (Number of issued patents)

■ Patent Applications in the US in 2006

1	IBM Corporation	3,651
2	Samsung Electronics Co., Ltd.	2,453
3	Canon Inc.	2,378
4	Matsushita Electric Industrial Co., Ltd.	2,273
5	Hewlett-Packard Development Company, L.P.	2,113
6	Intel Corporation	1,962
7	Sony Corporation	1,810
8	Hitachi, Ltd.	1,749
9	Toshiba Corporation	1,717
10	Micron Technology, Inc.	1,612
11	**Fujitsu Limited**	**1,513**
12	Microsoft Corporation	1,463
13	Seiko Epson Corporation	1,205
14	General Electric Company	1,051
15	Fuji Photo Film Co., Ltd.	918
16	Infineon Technologies AG	904
17	Koninklijke Philips Electronics N.V.	901
18	Texas Instruments Incorporated	884
19	Siemens AG	857
20	Honda Motor Co., Ltd.	836

Source: IFI CLAIMS Patent Services (Number of issued patents)

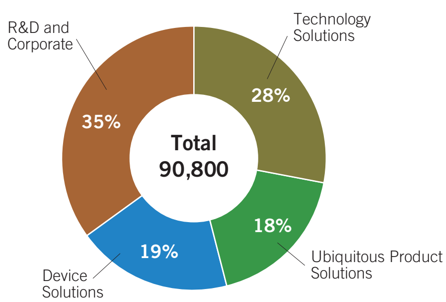
Our Global Patent Portfolio



Years ended March 31

Registered Patents by Business Segment

(Fiscal 2006)



patent holdings of Fujitsu and other companies and conducting more rigorous assessment of their competitiveness and business feasibility. Based on this approach, we can more effectively develop internal technology development and patent acquisition plans, and consider joint development and other possible collaboration with other companies. At the same time, we can take early action to avoid infringement of patents held by competitors (early identification and management of patent risks).

(2) Linking Business and R&D

We strategically channel our R&D investment into priority technology fields and work to acquire patents for not only basic technologies in these fields but also technologies in peripheral areas. For example, in the server field, every year we file for around 500 patents in Japan and overseas. Similarly, in the optical transmission technology field, we annually apply for more than 400 patents worldwide. In network-related areas, the yearly figure exceeds 100 patents, including more than 30 patents aimed at promoting industry-wide standards in the WiMAX, 3.5G mobile phone system and other fields. In advanced semiconductor technology, we file for more than 100 patents related to semiconductor circuit miniaturization technology of 45nm and beyond.

Examples of Linking Business and R&D Strategies

Transmission of HD video over IP networks (H.264)

- Video compression and transmission technology
- Systematic acquisition of necessary patents for technology standardization (more than 20 patents acquired/filed for in Japan and overseas)
- Successful transmission of HD video over IP network between Japan and U.S. (February 2007)

IP-9500 HDTV encoder/decoder

Steganography technology for printed materials (encoding data into images)

- Technology that encodes data invisible to the human eye into printed color images; the data can then be decoded by mobile phone cameras and other devices
- More than 50 patents filed worldwide
- Fine picture code (FPcode) application examples:
  - FPcode-embedded *Hachifuku-jin* good-luck charms with electronic fortune-telling feature at Kiyomizu Temple in Kyoto (November 2006)
  - Launch of media-mix sales promotion service using FPcode by FM-Yamaguchi radio station and other clients (February 2007)

(3) Licensing

We conclude cross-licensing agreements aimed at preserving a high degree of business latitude, and make technologies publicly available in various forms where we believe this will foster broader use of our technology compared with commercializing it on our own. We currently have more than 500 licensing agreements.

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 fostering a culture at Fujitsu that respects the patent rights of other companies, as well as creating an environment that allows all our technicians to utilize the ATMS/IR system to research patents held by other companies.

3. Anti-counterfeiting Strategy

In China, Hong Kong and other parts of the world, we continue to discover numerous fake products that violate Fujitsu's corporate logo, trademarks and product designs. Because these counterfeit products affect our customers in the markets where they are found and damage our corporate image, we are taking rigorous legal steps against the companies that manufacture and sell them in accordance with copyright law and industrial design rights.

For further details, please see "Fujitsu's Intellectual Property Strategy" at: http://www.fujitsu.com/global/about/ir/library/intellectualproperty/

Social and Environmental Activities

Giving Back to the Community

Seeking to coexist and prosper alongside local communities and global society as a good corporate citizen, we use our unique position as an IT company to contribute to society in a variety of ways. Our goal is to fulfill our responsibility to the sustainable development of society and generate benefits for all our stakeholders, while at the same time realizing the growth of the Fujitsu Group. Below are just some of the activities we were involved in during fiscal 2006.

■ Japan-America Institute of Management Science (JAIMS)

Established by Fujitsu in 1972, JAIMS is a not-for-profit postgraduate educational institute whose mission is to cultivate leaders who can fulfill their potential on the global stage. The institute is celebrating its 35th anniversary in 2007. Over 22,000 people from roughly 50 countries have already benefited from JAIMS courses. Thanks to the language abilities, business skills and global contacts they acquired through their JAIMS education, many alumni are now actively contributing to the development of the global economy in countries worldwide. Recognizing more than 30 years of promoting international exchange, JAIMS was awarded the 2006 Foreign Minister's Commendation in July 2006.

■ Reforestation Activities Overseas

Carrying out tree planting activities to help regenerate tropical forests, primarily in Southeast Asia, is one example of an initiative we have taken to contribute to global society. In Malaysia, where forests have been disappearing due to slash-and-burn agricultural methods, commercial logging and palm oil plantations, regeneration has become a pressing issue. In response to this, we established the Fujitsu Group Malaysia Eco-Forest Park in 2002 with donations from Fujitsu Group employees. By November 2006, a total of around 37,500 saplings native to the region had been planted in the park covering an area of approximately 150 hectares.

■ Raising Awareness of Environmental Issues

We are working to increase awareness and understanding of environmental issues by sending Fujitsu Group employees to elementary, junior high and senior high schools to give talks about the environment. Through fun, hands-on lectures using kits to dismantle PCs and explanations of the 3Rs (Reduce, Reuse, Recycle), we show children how they can reduce impact on the environment in their daily lives in the hope that this will encourage them to take action to safeguard the environment. In fiscal 2006, Fujitsu employees gave lectures to around 800 students in Japan. Feedback from the children showed a greater understanding of the importance of saving resources and a desire to immediately apply what they had learned in their everyday lives.

Scholarship students on the JAIMS MBA program

Participants in tree-planting activities at the Fujitsu Group Malaysia Eco-Forest Park

One of the hands-on lectures given by Fujitsu employees at schools

Environmental Activities

The Fujitsu Group recognizes that environmental protection is a vitally important business issue. By utilizing our technological expertise in the IT industry and our creative talents, we seek to contribute to the promotion of sustainable development. In addition, while observing all environmental regulations in our business operations, we are actively pursuing environmental protection activities on our own initiative. Through our individual and collective actions, we continuously strive to safeguard a rich natural environment for future generations. Below are just some of the steps we took to help protect the environment in fiscal 2006.

Fujitsu Group Environmental Protection Program (Stage V)

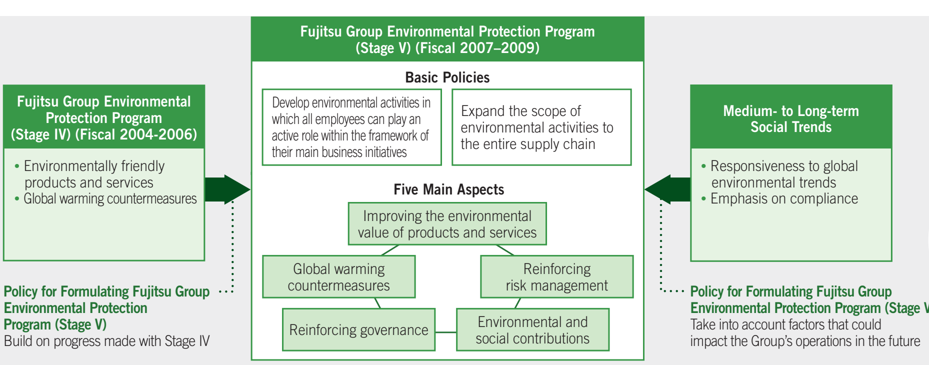
We announced Stage V of the Fujitsu Group Environmental Protection Program to guide our environmental activities during the fiscal 2007 to 2009 period. The program was formulated based on two basic policies: Develop environmental activities in which all employees can play an active role within the framework of their daily business activities, and, from the perspective of fully complying with environmental regulations worldwide and fulfilling our corporate social responsibility, expand the scope of environmental activities to the entire supply chain. In line with these policies, we will work to achieve concrete targets in five priority areas—improving the environmental value of products and services, global warming countermeasures, reinforcing governance, reinforcing risk management, and environmental and social contributions.

Overseas Product Recycling Systems Created

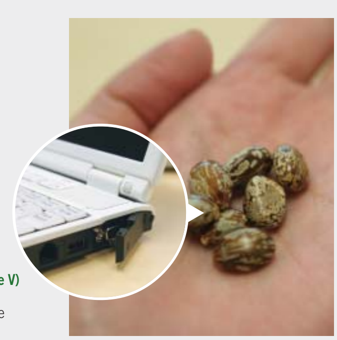
As an active promoter of product recycling, the Fujitsu Group has already established a nationwide recycling system in Japan that has enabled it to achieve a high domestic resource recycling rate of more than 90%. As of June 2007, we had launched IT product recycling in the U.S., Australia, Canada, the Philippines, and Singapore, with plans to introduce this service in Thailand in the near future. By building recycling systems globally in this way, we are striving to help realize a recycling-oriented society.

Bio-based Plastic Made from Castor Oil

For some time, Fujitsu and Fujitsu Laboratories have been working on the development of environmentally friendly bio-based plastic. Successes so far have included the creation of polylactide polymer technology that makes plastic less flammable and more heat- and shock-resistant. The resulting plastic is also easier to mold and has already been used in the main housings of some of our notebook PC models. In 2006, research efforts in the field took another step forward. Working with Arkema, a French chemicals company, we successfully developed a new type of bio-based plastic made from castor oil. This new material is much more flexible than polylactide plastic and is now being used in some notebook PC components.



Policy and Main Themes of Fujitsu Group Environmental Protection Program (Stage V)



We use bio-based plastic made from castor oil in some of our notebook PCs

Management

Board of Directors

Representative Directors

Naoyuki Akikusa
Chairman

Hiroaki Kurokawa*
President

Masamichi Ogura*
Corporate Senior Executive Vice President

Toshihiko Ono*
Corporate Senior Executive Vice President

Chiaki Ito*
Corporate Senior Executive Vice President

Michiyoshi Mazuka*
Corporate Senior Executive Vice President

Directors

Hiroshi Oura
Senior Executive Advisor
Advantest Corporation

Ikujiro Nonaka
Professor Emeritus
Hitotsubashi University

Haruo Ito
President and Representative Director
Fuji Electric Holdings Co., Ltd.

Haruki Okada*
Corporate First Senior Vice President

* Concurrently serve as corporate executive officers

Statutory Auditors

Standing Auditors

Hirohisa Yabuuchi
Akira Kato

Auditors

Yoshiharu Inaba
(President and CEO, Fanuc Ltd.)

Tamiki Ishihara
(Corporate Adviser, Seiwa Sogo Tatemono Co., Ltd.)

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

Corporate Executive Officers

Corporate First Senior Vice Presidents

Hideaki Yumiba
Takashi Igarashi
Kimihisa Ito
Kuniaki Nozoe

Corporate Senior Vice Presidents

Ichiro Komura
Tetsuo Urano
Koichi Hironishi
Kazuhiko Kato
Kyung-soo Ahn
Shigeru Fujii
Takumi Nakamura
Junichi Murashima
Kazuo Ishida
Terumi Chikama
Richard Christou
Makoto Matsubara
Jirou Sugawara
Masami Yamamoto
Tatsuo Tomita

Corporate Vice Presidents

Takashi Aoki
Yoshifumi Mita
Akira Yamanaka
Tsuneaki Ohara
Masanobu Katoh
Kazuo Miyata
Kiyonobu Ishida
Koichi Ishizaka
Hirokazu Uejima
Takashi Moriya
Seiji Nakagawa
Toshiyuki Kuwahara
Akira Furukawa
Kenji Ikegai
Makoto Murakami
Haruyoshi Yagi
Masatoshi Kambe
Tsuneo Kawatsuma
Masaaki Hamaba
Haruyuki Iida
Kazuhiko Hanaoka
Susumu Ishikawa
Masami Fujita
Hironobu Nishikori
Yutaka Yokoyama
Takashi Mori
Hideyuki Saso
Bunmei Shimojima
Koichi Ueda
Yoshiyuki Suzuki
Kazuhiro Igarashi

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.

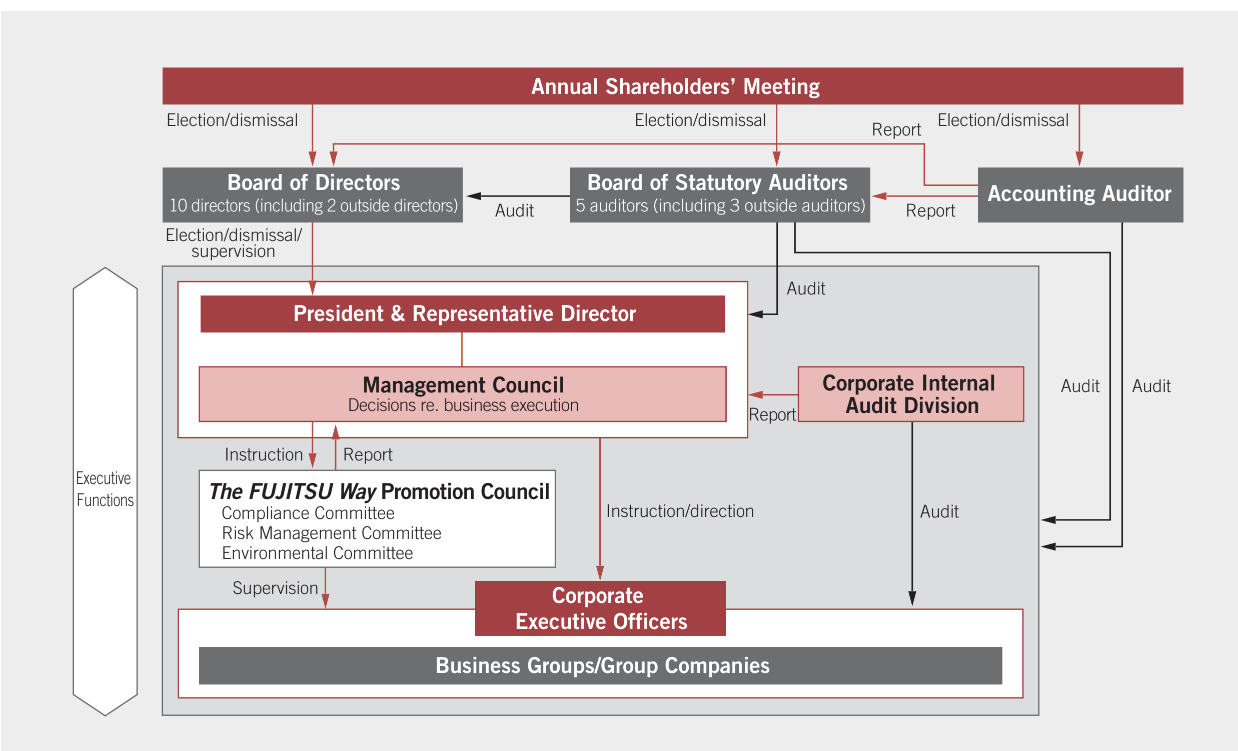
2. Status of Corporate Governance-related Policy Implementation

(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 the Management Council, an executive organ under its authority.

The Management Council discusses and decides upon fundamental policies and strategy regarding business management, as well as makes decisions on important matters regarding operational execution. Issues discussed by the Management Council and a summary of its discussions are reported to the Board of Directors, which makes decisions on items of particular importance. In principle, the Management Council meets three times a month, but meetings may 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 and the 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.

The Company's corporate governance structure as of March 31, 2007 is shown in the diagram on the previous page.

(ii) Summary of Liability Limitation Agreements

In accordance with Article 423, Paragraph 1 of the Company Law, we have concluded liability limitation agreements with outside directors and outside auditors. The limit of liability pursuant to these agreements is the statutory minimum liability limit. Liability shall only be limited in cases where outside directors or outside auditors are liable through the performance of duties that are deemed to have been carried out in good faith and without gross negligence.

(iii) Number of Directors

The Company's Articles of Incorporation stipulate that the number of directors shall be 15 or less.

(iv) Requirements for Resolutions for the Election of Directors

The attendance at shareholders' meetings of shareholders holding one-third of the total number of voting rights who may exercise these rights shall constitute a quorum for the election of directors, and a resolution for the election shall require a majority of their voting rights.

(v) Decision-making Body on Dividends

With respect to the distribution of dividends and other matters set out in each item of Article 459, Paragraph 1 of the Company Law, except as otherwise provided in laws and ordinances, these shall be determined by a resolution of the Board of Directors, as stipulated in the Articles of Incorporation. This is to enable the timely payment of dividends and ensure flexibility in dividend policy.

(vi) Requirements for Extraordinary Shareholder Resolutions

The attendance at shareholders' meetings of shareholders holding one-third or more of the total number of voting rights who may exercise these rights shall constitute a quorum for extraordinary shareholder resolutions stipulated in Article 309, Paragraph 2 of the Company Law, and approval of an extraordinary shareholder resolution shall require two-thirds or more of their voting rights. This represents an easing of requirements to enable conditions for the quorum to be met more readily.

(vii) 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*[1], 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 Council*2 and other executive organs charged with operational execution functions and makes decisions on important matters. Among these executive organs, the Management Council discusses and decides fundamental matters of business direction and strategy, and makes decisions about important matters relating to operational execution. Issues discussed by the Management Council and a summary of its 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 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.

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

*2 The former Management Strategy Council and Management Council have been combined into a single body, the Management Council.

(viii) 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 and the Management Council, to audit the Board of Directors and operational execution bodies. In addition, the Corporate Internal Audit Division has been established to 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 three certified public accountants at Ernst & Young ShinNihon. They are Michiko Tomonaga, Noriyuki Tsunoda, and Hideaki Karaki. Other Ernst & Young ShinNihon employees that assist with the audits are 17 certified public accountants, 17 assistant certified public accountants, and 6 accounting staff members.

(ix) 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: Haruo Ito, 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

Haruo Ito is President and Representative Director of Fuji Electric Holdings Co., Ltd., the holding company of the Fuji Electric Group. Fuji Electric Holdings holds 5.47% of Fujitsu stock and holds another 5.94% through trust account assets for employee retirement benefits. Additionally, as of June 29, 2007, 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 5.00% stake. As of June 29, 2007, 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 Corporate Adviser to Seiwa Sogo Tatemono Co., Ltd., which has a business relationship with the Fujitsu Group.

Though not meeting the legal definition of an outside director under Japan's Company Law, Fujitsu Limited director Hiroshi Oura serves as Senior Executive Advisor of Advantest Corporation, in which Fujitsu holds a 10.09% stake through trust account assets for employee retirement benefits. As of June 29, 2007, 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.

(x) 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>

In accordance with the enforcement of the Company Law, we adopted a basic stance with respect to enhancement of the Company's internal control framework through a resolution of the Board of Directors as explained in 2. (I) (vii) above. We subsequently designated the relevant executive bodies to take responsibility for development of the internal control framework. We are now working to build a more sound operational execution framework based on a review of relevant regulations and operational processes.

Furthermore, 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 revisions to the Securities Exchange Law (enactment of the Financial Instruments and Exchange Law), in the second half of fiscal 2005 we launched Project EAGLE as a Company-wide initiative 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 these efforts, we have been working to extend them 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.

(II) Directors' Remuneration

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

Position	No. of recipients	Total remuneration (millions of yen)
Directors	10	345
Of which, outside	(2)	(15)
Auditors	5	66
Of which, outside	(3)	(22)

Notes: 1. By a resolution passed at the 106th Annual Shareholders' Meeting on June 23, 2006, the upper limit of annual remuneration for all directors was set at ¥600 million.
2. By a resolution passed at the 106th Annual Shareholders' Meeting on June 23, 2006, the upper limit of annual remuneration for all auditors was set at ¥100 million.
3. No bonuses were paid to directors or auditors during the fiscal year under review.
4. At the 107th Annual Shareholders' Meeting on June 22, 2007, a resolution was passed granting retirement allowances to retiring members of the Board of Directors and the Board of Auditors and final payments of retirement allowances in conjunction with the abolition of the retirement allowance system for directors and auditors. These payments amounted to a total of ¥1,131 million for the 10 directors as of March 31, 2007 (including a total of ¥21 million for two outside directors), and a total of ¥70 million for the five auditors as of March 31, 2007 (including a total of ¥15 million for three outside auditors). These amounts have not been included in the above table.

(III) Remuneration Paid to Accounting Auditors

Total remuneration to be paid by the Company and its consolidated subsidiaries to Ernst & Young ShinNihon during the fiscal year under review is described below.

Type	Total remuneration (millions of yen)	Of which, paid by the Company (millions of yen)
Sum to be paid as remuneration for performing the audit under Article 2, Paragraph 1 of the Certified Public Accountants Law	625	250
Sum to be paid for other services	14	–
Total	640	250

Notes: 1. The Company does not clearly differentiate the amounts of compensation for an audit under the Securities Exchange Law from an audit under the Company Law. Consequently the amounts stated above include compensation for the audit under the Company Law.
2. Some of the Company's subsidiaries employ the services of auditing firms other than the accounting auditor.

(IV) Activities of Outside Officers

	Name	Activities
Outside Directors	Kunihiko Sawa	Attended 94% of the Board of Directors meetings held during the year under review and made comments based on his deep insight into the businesses of the Company.
	Ikujiro Nonaka	Attended 69% of the Board of Directors meetings held during the year under review and made comments from his extensive experience in business administration.
Outside Auditors	Yoshiharu Inaba	Attended 81% of the Board of Directors meetings and 100% of the Board of Auditors meetings held during the year. He made comments at the Board of Directors meetings and the Board of Auditors meetings based on his deep insight into the businesses of the Company.
	Tamiki Ishihara	Attended 88% of the Board of Directors meetings and 100% of the Board of Auditors meetings held during the year under review. He did not make a comment at the Board of Directors meetings held during the year, but he made comments at meetings of the Board of Auditors from his specialized viewpoint on finance and accounting.
	Megumi Yamamuro	Attended 94% of the Board of Directors meetings and 100% of the Board of Auditors meetings held during the year under review. He made comments at the Board of Directors meetings and the Board of Auditors meetings from his specialized viewpoint as an attorney.

Notes: 1. In the year under review, the Board of Directors met 16 times and the Board of Auditors met six times.
2. Although Hiroshi Oura does not meet the legal definition of an outside director under the Company Law, we call on him to fulfill the role of an outside director to help strengthen management oversight. Mr. Oura attended 100% of the Board of Directors meetings held during the year under review and made comments based on his deep insight into the businesses of the Company.

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 arising, 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 deems necessary to publicly disclose as of June 22, 2007.

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 and institutional 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, Europe, and Asia (including China), key markets where economic trends can significantly impact Fujitsu Group operations.

2) High-tech Market Volatility

The IT sector is periodically subject to dramatic changes in the balance of supply and demand that exceed the scope of normal 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. In addition, with respect to overseas assets held by the Group, as well as liabilities, there is the possibility that exchange rate fluctuations could lead to depreciation of assets and/or appreciation of liabilities.

4) Interest Rates

The Fujitsu Group has interest-bearing loans with a balance of around ¥750 billion, including items that are directly impacted by interest rate fluctuations. Consequently, rising interest rates could increase capital procurement costs.

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) Changes in Customers' IT Investment Trends

A large proportion of our IT products and services, as well as communications infrastructure and other business, is with telecommunications carriers, financial institutions, and large manufacturers. The business environment within these industries, including shifting market trends and structural reforms, could lead to changes in customers' IT 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' sales and inventory adjustments of 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.

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.

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 life cycle. 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 and retain contract relationships with such customers could therefore affect 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 obsolescence of 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. Additionally, there is the risk of an adverse effect on sales and profitability as a result of the time it takes to implement mass-production chip technologies for semiconductors, such as in solving technological issues concerning cutting-edge process development technology.

4. Suppliers, Alliances, etc.

In the course of its operations, the Fujitsu Group conducts business with a range of different companies, including suppliers and alliance partners. 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 the provision of products and services, 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 and services, as well as lower sales due to the need to raise 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. 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.

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 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. Earnings might be affected by increased compliance costs associated with measures to make stricter or otherwise revise such laws and 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 the Group's business.

6. Other Operational Risks

The Fujitsu Group makes every effort to eliminate known risks but can offer no guarantee of its ability to always achieve every desired outcome 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, standardization of development work, and enhanced security measures in order to improve the quality of system development and other services, the possibility of defects arising cannot be excluded. With respect to systems that play a critical role in supporting societal infrastructure, following the incidents involving system troubles at the Tokyo Stock Exchange, we initiated urgent and comprehensive inspections of customer systems in November 2005. In cooperation with our customers, we have been checking for any potential problems in these systems, including the operating environment, software and hardware. We cannot, however, entirely eliminate the possibility of deficiencies or flaws. 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 the fiscal year ended March 2004, 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 enhance the early identification of such projects. In the fiscal year ended March 2005, 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. In this way, along with revising our approach to making contracts with customers, and advancing the standardization of sales and system engineering business processes, we are working to manage risk from the business negotiation stage through actual project implementation and thereby 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, capital expenditure, and business acquisitions 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, the financial performance of acquisition candidates, and our business portfolio. There is, however, the risk that promising markets and technologies, as well as acquisition candidates deemed attractive 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, and that earnings may be impacted by such consequences as the need to pay for usage rights or cover costs associated with having to modify designs. 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 the Group's growth and profitability.

6) Environmental Pollution

While committed to minimizing environmental burden in accordance with *The FUJITSU Way* and the Fujitsu Group Environmental Policy, the Group cannot guarantee that environmental pollution will not occur as a result of its operations. Moreover, although we monitor soil and wastewater as well as engage in cleanup 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, cleanup and other costs could be incurred that adversely affect the Group's earnings.

7) Information Management

In order to safeguard the personal and confidential information of customers and business partners, the Group has taken such measures as establishing strict regulations, instituting training programs for employees, and providing consultation to business subcontractors. 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 or 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.

Financial Section

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Five-Year Summary

Fujitsu Limited and Consolidated Subsidiaries

					Yen (millions)	U.S. Dollars (thousands)
					(excluding per share data, D/E ratio, and number of employees)	
Years ended March 31	2003	2004	2005	2006	**2007**	**2007**
Net sales	¥4,617,580	¥4,766,888	¥4,762,759	¥4,791,416	**¥5,100,163**	**$43,221,720**
Operating income	100,427	150,342	160,191	181,488	**182,088**	**1,543,119**
Income (loss) before income taxes and minority interests	(147,606)	157,018	223,526	118,084	**214,495**	**1,817,754**
Net income (loss)	(122,066)	49,704	31,907	68,545	**102,415**	**867,924**
Total assets	¥4,225,361	¥3,865,589	¥3,640,198	¥3,807,131	**¥3,943,724**	**$33,421,390**
Net assets	916,946	1,017,637	1,021,197	1,090,075	**1,160,719**	**9,836,602**
Amounts per share of common stock (Yen and U.S. dollars):						
Earnings (loss)						
Basic	¥(61.29)	¥24.55	¥15.42	¥32.83	**¥49.54**	**$0.420**
Diluted	(61.29)	22.24	13.86	29.54	**44.95**	**0.381**
Cash dividends	—	3.00	6.00	6.00	**6.00**	**0.051**
Owners' equity (Net assets less minority interests)	350.84	413.22	414.18	443.20	**469.02**	**3.975**
Interest-bearing loans	¥1,763,769	¥1,277,121	¥1,082,788	¥ 928,613	**¥ 745,817**	**$ 6,320,483**
D/E ratio (times)	2.51	1.54	1.26	1.01	**0.77**	
Free cash flow	53,382	371,434	262,103	170,895	**257,682**	**2,183,746**
R&D expenses	¥ 285,735	¥ 250,910	¥ 240,222	¥ 241,566	**¥ 254,095**	**$ 2,153,347**
Capital expenditure	147,620	159,795	181,402	249,999	**305,285**	**2,587,161**
Number of employees	157,044	156,169	150,970	158,491	**160,977**	
Net sales by business segment (excluding intersegment sales):						
Technology Solutions	¥2,828,313	¥2,847,798	¥2,860,359	¥2,903,651	**¥3,064,713**	**$25,972,144**
Ubiquitous Product Solutions	788,313	834,256	899,000	926,417	**993,232**	**8,417,220**
Device Solutions	618,632	734,320	733,866	655,139	**707,132**	**5,992,644**
Other Operations	382,322	350,514	269,534	306,209	**335,086**	**2,839,712**
Total	¥4,617,580	¥4,766,888	¥4,762,759	¥4,791,416	**¥5,100,163**	**$43,221,720**
Net sales by customers' geographic location:						
Japan	¥3,280,665	¥3,378,265	¥3,340,664	¥3,199,842	**¥3,274,908**	**$27,753,457**
EMEA	568,763	605,051	633,243	689,774	**795,877**	**6,744,720**
The Americas	390,482	324,269	320,971	388,131	**472,975**	**4,008,263**
APAC & China	377,670	459,303	467,881	513,669	**556,403**	**4,715,280**
Total	¥4,617,580	¥4,766,888	¥4,762,759	¥4,791,416	**¥5,100,163**	**$43,221,720**

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 ¥118 = US$1, which was the approximate rate on the Tokyo Foreign Exchange Market at March 31, 2007.
3. "Net assets" at March 31, 2007 is presented based on a new accounting standard in Japan for net assets, effective April 1, 2006. The sums of figures formerly presented as "Shareholders' equity" and "Minority interests in consolidated subsidiaries" in the financial statements prior to and for the year ended March 31, 2006 have been reclassified as "Net assets" for comparative purposes.
4. Cash dividends per share of common stock for the year ended March 31, 2007 are the total of interim and year-end dividends approved by the Company's board of directors on October 26, 2006 and May 24, 2007, respectively.
5. The Other Operations segment for the years ended March 31, 2003 and 2004 includes the former Financing segment.
6. The Group designated senior executives as heads of Fujitsu Group business operations in four major regions, EMEA, the Americas, APAC and China for the year ended March 31, 2007, in order to maintain a firm, detailed grasp of global market trends and rapidly respond to them. As a result of these changes, the former "Europe" segment has been changed to "EMEA" (EMEA = Europe, Middle East and Africa) and the former "Others" segment has been changed to "APAC & China" (APAC = Asia-Pacific).
7. 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, 2007 (fiscal 2006). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2007.

1. Analysis of Results

Business Environment

During fiscal 2006, while soaring crude oil prices and higher prices for raw materials starting from the first half of the fiscal year were cause for concern, the overall business environment in which the Fujitsu Group operates was positive, supported by a global rise in stock prices and stable foreign exchange rates. In addition, while there were signs of a slight deceleration in growth in the second half of the fiscal year, global economic growth was mostly solid, boosted by strong growth in Asia, particularly China and India. Although overall economic growth in Japan was restrained by weak household spending and other factors, the corporate sector continued to exhibit steady growth.

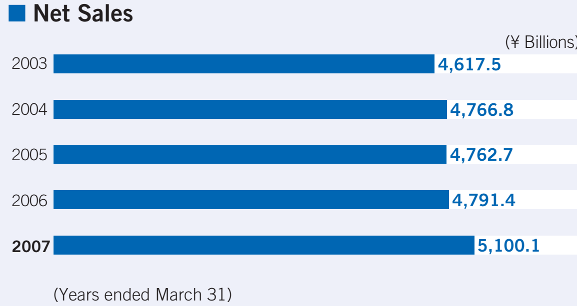
With respect to investment in information technology, spending in overseas markets continued to be strong, particularly in the US and EMEA (Europe, Middle East and Africa). Although IT investment in Japan was not as strong as in overseas markets, there was upward momentum as a result of strategic investments spurred by improvement in corporate earnings and increased demand driven by companies seeking to upgrade IT systems for enhancing internal control, security and business continuity. Both in Japan and overseas, our IT services business was strong, but in our product-related businesses we faced a growing shift to lower price points resulting from performance improvements for products like servers and storage systems, as well as price declines in our electronic devices business due to intensified competition in digital consumer electronic products.

In order to enhance our competitive position in an expanding IT market driven by IT services, we will work on a global basis to strengthen our relationships with customers and expand our services covering the entire life cycle of IT operations. In addition, in order to strengthen product businesses that add value to our IT service offerings, we will strive to enhance product competitiveness by stepping up collaboration between sales and product development units and eliminating excess product variations. As a reliable partner to our customers and a global corporation that is contributing to the creation of a prosperous and dynamic networked society, we will seek to continually improve our operations in order to deepen the trust we enjoy from customers and society as a whole.

Net Sales

Consolidated net sales for fiscal 2006 were ¥5,100.1 billion (US$43,222 million), an increase of 6.4% over the previous fiscal year. All business segments posted higher sales. Overseas sales increased by 14.7% over the previous year. Although second-half sales of standard technology logic devices in Asia were sluggish, higher sales of IT services in North America and the UK, boosted by aggressive acquisitions, as well as HDDs and UNIX servers, led to the double-digit increase in overseas sales. Sales in Japan increased by 2.3% over the previous year, the first year-on-year increase in domestic sales since fiscal 2003. Although sales of mobile phone base stations declined from the previous year, when there was strong demand, sales in our services business were strong, particularly in the financial services and manufacturing sectors, and sales of electronic components also increased.

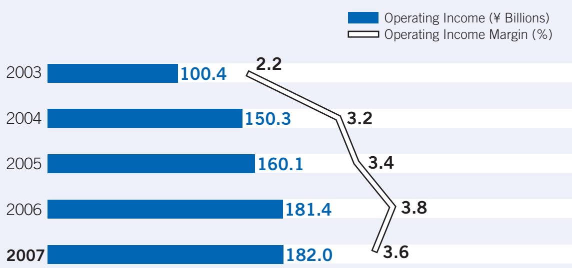
■ Net Sales



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

In fiscal 2006, the cost of sales was ¥3,781.6 billion (US$32,048 million), while selling, general and administrative (SG&A) expenses were ¥1,136.4 billion (US$9,631 million). Consolidated operating income increased ¥0.6 billion year on year to ¥182.0 billion (US$1,543 million). Due to higher sales in services and other businesses, gross profit grew ¥50.5 billion compared to a year earlier. However, the gross profit margin deteriorated by 0.6 of a percentage point to 25.9% as intensifying global price competition impacted HDD, UNIX server, optical transmission system, PC and other product businesses. Meanwhile, SG&A expenses increased by ¥49.9 billion. This reflected major expansion in our services business, including acquisitions in North America and the securing of large-scale contracts in the UK, as well as investment in cutting-edge logic LSI technologies, and ongoing and active upfront strategic investment in hardware and software centered on technology solutions in Japan.

Operating Income and Operating Income Margin



(Years ended March 31)

Other Income (Expenses) and Net Income

Other income, net totaled ¥32.4 billion (US$275 million). Net interest expense, comprising interest and dividend income and interest charges, was ¥4.2 billion (US$36 million), an improvement of ¥4.3 billion compared to the previous fiscal year. Equity in earnings of affiliates was ¥6.9 billion (US$59 million), an improvement of ¥8.4 billion year on year. This mainly reflected the exclusion of Spansion Inc., which posted a loss in the previous fiscal year, from the Company's equity-method affiliates following the sale of some shares in this company in November 2006. Amortization of unrecognized obligation for retirement benefits was ¥3.1 billion (US$27 million). This was a substantial improvement of ¥25.0 billion compared to a year earlier due to revisions to the Company's pension system in Japan in September 2005 and an improvement in share prices at the end of the previous fiscal year. In addition, we booked a gain on sales of marketable securities of ¥77.3 billion (US$655 million) and a gain on change in interest of ¥2.1 billion (US$18 million) under other income. This reflected the sale of some shares in Fanuc Ltd. related to a tender offer for this company's treasury stock, and the sale of a portion of shares and a third-party offering related to the initial public offering (IPO) for consolidated subsidiary NIFTY Corporation. Meanwhile, under other expenses, we recorded an impairment loss of ¥9.9 billion (US$85 million) on fixed assets in the optical transmission systems business and other operations, and losses on sales of marketable securities of ¥2.2 billion (US$19 million) related to the sale of some shares in Spansion Inc., which listed in December 2005.

We recognized ¥96.2 billion (US$816 million) as income taxes, which combines current and deferred income taxes, against ¥214.4 billion (US$1,818 million) of income before income taxes and minority interests.

Net income for fiscal 2006 was ¥102.4 billion (US$868 million), an increase of ¥33.8 billion compared to a year earlier. Thanks to the substantial improvement in amortization of unrecognized obligation for retirement benefits, gain on sales of investment securities and other factors, this was a record figure for the Company, exceeding the previous record-high of ¥89.0 billion in fiscal 1984.

2. Segment Information

The following section provides information on net sales (including intersegment sales) and operating income in each of our principal business segments. From the fiscal year under review, the Company adopted a new method for allocating operating expenses. For year-on-year comparisons, previous year figures for operating income have been adjusted to reflect this change.

Technology Solutions

Consolidated net sales in this segment, which includes the System Platforms and Services sub-segments, were ¥3,157.0 billion (US$26,755 million), up 5.8% over fiscal 2005. In Japan, despite strong sales in the Services sub-segment, sluggish sales of mobile phone base stations and server-related products led to a 0.2% decline for the segment as a whole. Overseas sales increased by 19.9% as a result of continued strength in outsourcing and other services as well as higher sales of UNIX servers and other products in System Platforms. Operating income for the segment was ¥163.6 billion (US$1,387 million), an increase of ¥10.5 billion compared to the previous year. Although there was a decline in profitability in our optical transmission systems and retail solutions businesses in North America and our network business in the UK, higher Services earnings in Japan and overseas enabled us to post a more than ¥10.0 billion increase in overall operating income for Technology Solutions.

Our ETERNUS 8000/4000 series open-standard storage systems received a "best Japan brand" award in recognition of their world-leading performance and high reliability. These storage systems have also received very high marks from our customers, and we plan to further strengthen global sales.

In servers, we launched a new line of our PRIMEQUEST mission-critical IA servers in July 2006 and in April 2007 carried out the global launch of the new SPARC Enterprise line of UNIX servers jointly developed with Sun Microsystems.

In addition, in December 2006 we launched a highly praised PC server that combined the world's smallest footprint with world-class levels of low-noise and low-power operation. Going forward we will continue to offer high-performance, highly reliable products that are environmentally friendly and take customer installation space requirements into consideration.

By leveraging core information technologies, such as processor technologies and system technologies that deliver mainframe-class levels of reliability, we will offer on a global basis highly reliable systems that are tailored to customer IT environments.

In our services business, in January 2007, Fujitsu Services, our UK-based subsidiary, acquired TDS AG, a German IT services company that specializes in IT operations outsourcing and consulting services. The acquisition raises our presence in the German market and positions Fujitsu for further growth in key European markets.

In October 2006, we signed an agreement with SAP AG of Germany to become an SAP Global Services Partner, becoming the first Japan-based company with that designation. The agreement strengthens our collaboration in the area of services. Going forward, we will offer SAP implementation solutions globally.

In April 2007, to strengthen our consulting business in Japan, we took our consulting business, which excels in internal control and other upstream consulting services, and consolidated its functions into Fujitsu Research Institute, which offers business and management consulting services that leverage synergies with its activities as a think tank division. As a valuable partner to our customers, we will promote the integration of IT and business management to accelerate front-line "field innovation" in a wide array of business situations.

Building on a strategic collaboration agreement signed with Cisco Systems in fiscal 2005, in May 2006 we began offering network solutions centering on next-generation high-end routers, which will be a key component in building Next-Generation Networks.

In December 2006, NIFTY Corporation, our consolidated subsidiary engaged in the provision of Internet services, undertook an IPO. Moving forward, with greater managerial independence and latitude, NIFTY Corporation will provide customers with original value-added services and solutions that more precisely reflect customer needs and thereby help to raise the corporate value of the Fujitsu Group.

Ubiquitous Product Solutions

Net sales in the Ubiquitous Product Solutions segment were ¥1,118.3 billion (US$9,477 million), an increase of 5.5% over fiscal 2005. In Japan, sales increased by 1.3%. Sales of PCs were sluggish, as consumer sales were adversely affected by postponed purchases prior to the release of Windows Vista and corporate PC sales were impacted by intensified price competition. Overseas sales increased by 13.7%, bolstered by record-high shipment volumes of HDDs for notebook PCs and servers.

Operating income for Ubiquitous Product Solutions was ¥41.6 billion (US$353 million), an increase of ¥6.8 billion compared to the previous fiscal year. Although PC prices fell as a result of intensified global competition and price declines for HDDs for notebook PCs were steeper than anticipated, overall income for the segment increased as a result of business development of non-PC markets for HDDs, the impact of higher sales of mobile phones, and cost efficiencies and quality improvements stemming from strengthened manufacturing innovation initiatives.

In recent years, for notebook PCs just as much as for desktop PCs, there has been strong demand for high-speed HDDs that deliver high-volume storage capacity and high reliability. In addition, there is a growing need for high-capacity HDDs for use in digital home electronics. To meet these needs, we will commence sales of new 2.5" HDDs that deliver the highest storage capacity in the industry while offering best-in-class levels of low-noise and low-power operation. We will also offer an enhanced line of high-quality, high-capacity HDDs employing perpendicular magnetic recording technology.

Device Solutions

Net sales in Device Solutions were ¥762.6 billion (US$6,463 million). There was a sudden deterioration in market conditions for digital home electronics in the second half and fluctuations in demand for advanced technology logic products. Full-scale operation of the 300mm facility

(Fab No. 1) at our Mie Plant and improved sales of other electronic components, however, contributed to a 7.8% increase in sales over fiscal 2005. Operating income for Device Solutions was ¥19.0 billion (US$161 million), a decrease of ¥10.4 billion compared to the previous fiscal year. Despite the positive impact from higher sales of advanced technology logic devices, which benefited from an increase in production capacity at the Mie Plant, and other electronic components, sales of standard technology logic devices were sluggish, and there were also higher amortization costs and development expenses related to the Mie Plant's 300mm wafer lines, resulting in lower operating income.

The semiconductor production facilities acquired from Spansion Japan in April 2007 to boost front-end production capacity for standard technology logic commenced operations as Fujitsu Semiconductor Technologies Ltd. The company is expanding production of Flash microcontrollers for use mainly in automobiles and digital appliances. In order to improve production efficiency and cost competitiveness, we are continuing to consolidate our back-end assembly operations.

Our 300mm wafer facility (Fab No. 2) employing 65nm technology at the Mie Plant became operational in April 2007 as scheduled, and it is currently on track to commence volume shipments in July. Moving forward, we will be investing in capacity expansion in step with market demand.

Concentrating resources on our logic business, we will continue to pursue business development and expansion while maintaining a balance between advanced and standard technology logic. Positioning advanced technology logic as an engine for growth, we will seek to expand sales of such products to customers requiring devices with high speed and low power consumption. At the same time, we will work even more aggressively to penetrate global markets and achieve higher volumes in standard technology logic.

Furthermore, we sold a portion of our shareholding in our joint venture with Advanced Micro Devices, Inc., Spansion Inc., which conducted an IPO in December 2005 to list on the NASDAQ market in the US. After the sale, our share of ownership was reduced to less than 20%, and so the company is no longer an equity-method affiliate.

Net Sales and Operating Income by Business Segment

(including intersegment)

(¥ Billions)

Years ended March 31	2006	2007	Increase (Decrease) Rate (%)
Net sales			
Technology Solutions	¥2,983.9	**¥3,157.0**	5.8%
Ubiquitous Product Solutions	1,059.9	**1,118.3**	5.5
Device Solutions	707.5	**762.6**	7.8
Other Operations	447.3	**490.3**	9.6
Intersegment elimination	(407.3)	**(428.2)**	
Consolidated net sales	¥4,791.4	**¥5,100.1**	6.4%

Years ended March 31	2006	2007	Increase (Decrease)
Operating income (loss)			
Technology Solutions	¥153.0	**¥163.6**	¥ 10.5
Ubiquitous Product Solutions	34.8	**41.6**	6.8
Device Solutions	29.5	**19.0**	(10.4)
Other Operations	7.6	**10.5**	2.8
Unallocated operating costs and expenses/ intersegment elimination	(43.5)	**(52.7)**	(9.2)
Consolidated operating income	¥181.4	**¥182.0**	¥ 0.6

Geographic Segment Information

The following section provides information on net sales (including intersegment sales) and operating income in each of our principal operating regions. From the fiscal year under review, we have changed geographic segment names. The previous Europe segment has been renamed EMEA (Europe, Middle East and Africa), while the Others segment has been changed to APAC & China. In addition, for year-on-year comparisons of operating income, previous year figures have been adjusted to reflect the new method for allocating operating expenses adopted from the fiscal year under review.

Japan

Net sales were ¥4,077.1 billion (US$34,552 million), an increase of 3.4% over fiscal 2005. Lower sales in System Platforms, which covers servers and network equipment, were offset by favorable performance in Services, as well as mobile phones, advanced technology logic devices and other electronic components, resulting in an overall increase in domestic sales. Operating income, principally from our services business, was ¥191.8 billion (US$1,626 million), up ¥20.7 billion over fiscal 2005.

EMEA

Net sales were ¥736.3 billion (US$6,240 million). Continued strong performance in outsourcing services in the UK and other favorable business trends resulted in a 16.4% increase in sales over fiscal 2005. Operating income was ¥24.1 billion (US$205 million), up ¥1.1 billion compared to the previous fiscal year.

The Americas

The expansion of our North American services business through aggressive acquisitions and the strong performance of UNIX servers and HDDs for servers contributed to net sales of ¥442.3 billion (US$3,749 million), up 21.7% over fiscal 2005. However, operating income was ¥8.4 billion (US$72 million), a ¥5.1 billion decrease compared with last fiscal year. In addition to the impact of intensified price competition for UNIX servers, sales were sluggish prior to the release of new products in the second half of the year. In addition, a delay in the recovery of our retail solutions and optical transmission systems businesses had an adverse effect on operating income for this region.

APAC & China

Favorable performance in HDDs and PCs contributed to net sales of ¥807.1 billion (US$6,840 million), a 12.3% increase over the same period last year. Due to intensified global price competition, operating income was ¥11.6 billion (US$99 million), a decline of ¥3.2 billion compared to fiscal 2005.

Net Sales and Operating Income by Geographic Segment

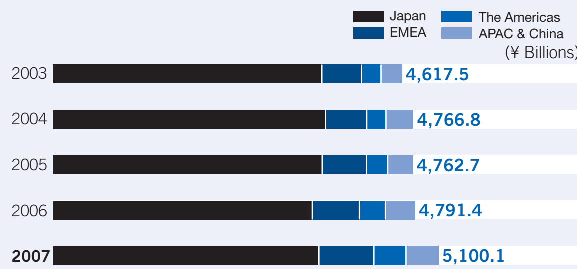
(including intersegment)

(¥ Billions)

Years ended March 31	2006	2007	Increase (Decrease) Rate (%)
Net sales			
Japan	¥3,944.4	**¥4,077.1**	3.4%
EMEA	632.5	**736.3**	16.4
The Americas	363.4	**442.3**	21.7
APAC & China	718.8	**807.1**	12.3
Intersegment elimination	(867.8)	**(962.8)**	
Consolidated net sales	¥4,791.4	**¥5,100.1**	6.4%

Years ended March 31	2006	2007	Increase (Decrease)
Operating income (loss)			
Japan	¥171.1	**¥191.8**	¥20.7
EMEA	22.9	**24.1**	1.1
The Americas	13.5	**8.4**	(5.1)
APAC & China	14.9	**11.6**	(3.2)
Unallocated operating costs and expenses/ intersegment elimination	(41.1)	**(54.0)**	(12.9)
Consolidated operating income	¥181.4	**¥182.0**	¥ 0.6

For Reference: Net Sales by Customers' Geographic Location



(Years ended March 31)

3. Capital Resources and Liquidity

Improvement in Financial Condition

In the year under review, we continued efforts to improve the soundness of our financial position. By recording more than ¥100.0 billion in net income for fiscal 2006, we achieved a marked improvement in the Company's financial condition, including a 0.5 percentage point increase in the owners' equity ratio (net assets less minority interests to total assets) to 24.6%. In addition, consolidated retained earnings were ¥54.3 billion (US$460 million), reversing a run of negative retained earnings that had continued since fiscal 2002.

As of March 31, 2007, the balance of interest-bearing loans was ¥745.8 billion (US$6,320 million). The balance of net interest-bearing loans after deducting cash and time deposits was ¥300.8 billion (US$2,550 million). As a result, the D/E ratio was reduced to 0.77 times, below our medium-term goal of 1.0, and the net D/E ratio fell to 0.31 times.

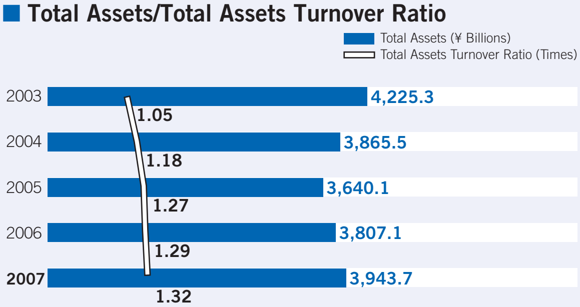
Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2006 were ¥3,943.7 billion (US$33,421 million), an increase of ¥136.5 billion from the end of the previous fiscal year. This was due in large part to the increase in current assets, primarily trade receivables, resulting from increased sales. Although inventories totaled ¥412.3 billion (US$3,495 million), exceeding our target of reducing them to below ¥400.0 billion, the monthly inventory turnover rate rose to 0.93 times, an improvement of 0.05 times, as asset utilization efficiency continued to steadily improve. Although property, plant and equipment increased as a result of the investment in capacity expansion at the Mie Plant, there was a large decrease in marketable securities held for investment resulting from the sales of shares in Fanuc Ltd. and other companies.

Total liabilities were ¥2,783.0 billion (US$23,585 million), an increase of ¥65.9 billion compared to the end of the previous fiscal year. However, excluding the impact of the last day of the fiscal year being a business holiday, there was a decrease of ¥61.9 billion. The balance of interest-bearing loans totaled ¥745.8 billion (US$6,320 million), a decrease of ¥182.7 billion compared to the end of the previous fiscal year. Subtracting cash and time deposits, net interest-bearing loans were ¥300.8 billion (US$2,550 million). As a result of bond redemptions and loan repayments, the D/E ratio improved to 0.77 times, well within the target level of 1.0.

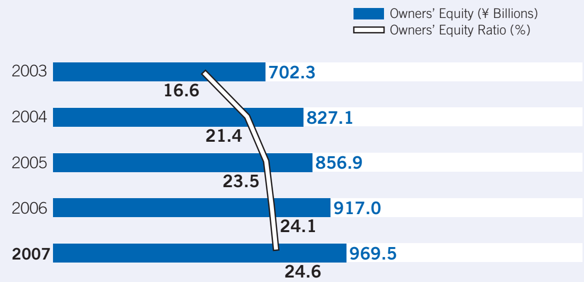
Net assets were ¥1,160.7 billion (US$9,837 million), up ¥70.6 billion compared to the end of the previous fiscal year. Consolidated retained earnings, which had been negative each year since fiscal 2002, achieved a positive balance. As a result, the owners' equity ratio rose to 24.6%, an increase of 0.5 percentage points compared to the end of the previous fiscal year.

■ Total Assets/Total Assets Turnover Ratio



(As of March 31)

■ Owners' Equity/Owners' Equity Ratio



(As of March 31)
Owners' equity: net assets less minority interests

Summary of Cash Flows

Net cash provided by operating activities was ¥408.7 billion (US$3,464 million). However, as the last day of the fiscal year was a business holiday, this number includes ¥75.2 billion (US$637 million) in trade payables and other current assets (liabilities), the payment of which was shifted into the following fiscal year. Although there was an increase in trade receivables, this was offset by the increase in earnings from businesses operations, in addition to the impact of the last day of the fiscal year being a holiday, leaving overall net cash flow from operating activities roughly equivalent to the level of the prior fiscal year.

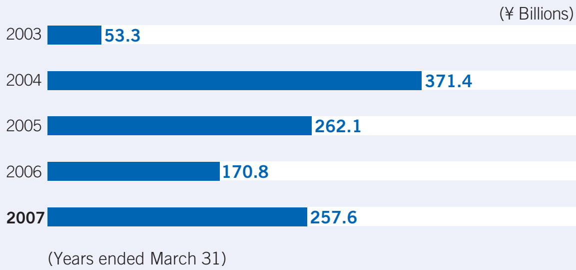
Net cash used in investing activities was ¥151.0 billion (US$1,280 million). Although outflows increased due to capital expenditures primarily for the increase in production capacity at the Mie Plant, as a result of the impact of the sales of shares in Fanuc Ltd., NIFTY Corporation and Spansion Inc., together with an impact of ¥34.3 billion (US$2,915 million) attributable to the last day of the fiscal year being a holiday, there was overall a decrease in cash outflows of ¥83.6 billion compared with the previous fiscal year.

Free cash flow, the sum of operating and investment cash flows, was positive ¥257.6 billion (US$2,184 million), an increase in free cash flow of ¥86.7 billion over fiscal 2005. Excluding the impact of sales of marketable securities, this represents an increase in free cash flow of ¥152.8 billion.

Net cash used in financing activities was ¥234.9 billion (US$1,991 million).

As a result of the above factors, cash and cash equivalents at the end of the fiscal year totaled ¥448.7 billion (US$3,803 million), an increase of ¥27.8 billion compared to end of the previous fiscal year.

Free Cash Flow



4. Capital Expenditure

In fiscal 2006, capital expenditure, which was concentrated on growth fields such as logic LSI technologies and outsourcing services, as well as on building the base for future business development, totaled ¥305.2 billion (US$2,587 million). By business segment, capital expenditure was ¥91.3 billion (US$774 million) in Technology Solutions, ¥24.8 billion (US$210 million) in Ubiquitous Product Solutions, ¥166.2 billion (US$1,409 million) in Device Solutions, and ¥22.8 billion (US$194 million) for general corporate and other areas.

Capital Expenditure

(¥ Billions)

Years ended March 31	2006	**2007**	Increase (Decrease) Rate (%)
Technology Solutions	¥ 93.1	**¥ 91.3**	(2.0)%
Ubiquitous Product Solutions	19.4	**24.8**	27.7
Device Solutions	115.5	**166.2**	43.9
Corporate and others*	21.8	**22.8**	4.9
Total	¥249.9	**¥305.2**	22.1 %
Japan	190.6	**254.6**	33.6
Overseas	59.3	**50.6**	(14.7)

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

5. Consolidated Subsidiaries

At the end of fiscal 2006, the Company had 393 consolidated subsidiaries, comprising 128 in Japan and 265 overseas, representing an increase of 1 from last year's total of 392. Although there was an increase in new companies in the Group due to M&A activity by UK subsidiary Fujitsu Services, the total number of consolidated subsidiaries was roughly the same as the previous fiscal year due to the liquidation of overseas subsidiaries.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 27, 1 less than a year earlier.

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 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 (IFRS) and if these standards are adopted there is a possibility of losses arising as a result of the change. 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, excluding 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. Revenue from software development contracts is recognized on a percentage of completion basis.

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.

Property, Plant and Equipment

Depreciation for property, plant and equipment 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 be recognized as shorter than their originally estimated useful lives. Losses may occur as a result.

In addition, impairment loss may be recognized in cases in which there is a decline in expected future cash flows from assets held by the Company due to production facilities becoming idle or a decrease in the capacity utilization rate associated with rapid changes in the operating environment or other factors.

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 one-time 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, including those purchased by consolidated subsidiaries, 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 are stated at amortized cost, while available-for-sale securities with market value are carried at fair market value as of the balance sheet date. Available-for-sale securities without market value are carried at cost based on the moving-average method. Fluctuations in the value of available-for-sale securities with market value cause fluctuations in the carrying value of investment securities, resulting in increases or decreases in shareholders' equity. Impairment loss is 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 or net worth occurs and is proved to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

We record an appropriate balance of deferred tax assets against losses carried forward and temporary differences. Future increases or decreases in the balance of deferred tax assets may occur if projected taxable income decreases or increases as a result of trends in future business results. In addition, changes in the effective tax rate due to future revisions to taxation systems could result in increases or decreases of deferred tax assets.

Provision for Product Warranties

Some of the Company's products are covered by contracts that require us to repair or exchange them free of charge during a set period of time. Based on past experience, we record a provision for estimated repair and exchange expenses at the time of sale. The Group is taking steps to strengthen quality management during the product development, manufacturing and procurement stages. However, should product defects or other problems occur at a level in excess of that covered by the estimated expenses, additional expenses may be incurred.

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, mortality rates, and the expected rate of return on the plan assets. 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. Furthermore, revisions to accounting standards in countries where overseas subsidiaries are located and in Japan could potentially impact the Company's retirement benefit costs and obligations, as well as net assets.

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. Contracts with these companies require the buyback of the computers if lease contracts are terminated. An estimated amount for the loss arising from such buybacks is provided at the time of sale and is recorded as a provision. Any future changes in the usage trends of end-users may result in additions or reductions to the provision.

Consolidated Balance Sheets

Fujitsu Limited and Consolidated Subsidiaries

	Yen (millions)		U.S. Dollars (thousands) (Note 3)
At March 31	2006	**2007**	**2007**
Assets			
Current assets:			
Cash and cash equivalents	¥ 420,894	**¥ 448,705**	**$ 3,802,585**
Short-term investments (Note 4)	2,369	**720**	**6,102**
Receivables, trade (Notes 16 and 20)	885,300	**1,054,048**	**8,932,610**
Allowance for doubtful accounts	(6,781)	**(6,906)**	**(58,525)**
Inventories (Note 5)	408,710	**412,387**	**3,494,805**
Others (Notes 11 and 20)	222,256	**223,069**	**1,890,415**
Total current assets	1,932,748	**2,132,023**	**18,067,992**
Investments and long-term loans:			
Affiliates (Note 6)	172,933	**120,956**	**1,025,051**
Others (Notes 4, 6, 10 and 11)	688,570	**613,316**	**5,197,593**
Total investments and long-term loans	861,503	**734,272**	**6,222,644**
Property, plant and equipment (Notes 7, 9 and 15)**:**			
Land	113,061	**111,421**	**944,246**
Buildings	707,586	**768,981**	**6,516,788**
Machinery and equipment	1,700,069	**1,987,726**	**16,845,136**
Construction in progress	35,673	**31,332**	**265,525**
	2,556,389	**2,899,460**	**24,571,695**
Less accumulated depreciation	(1,779,413)	**(2,056,971)**	**(17,431,958)**
Property, plant and equipment, net	776,976	**842,489**	**7,139,737**
Intangible assets (Note 15)**:**			
Software	127,471	**133,250**	**1,129,237**
Goodwill (Note 8)	85,250	**82,887**	**702,432**
Others	23,183	**18,803**	**159,348**
Total intangible assets	235,904	**234,940**	**1,991,017**
Total assets	¥ 3,807,131	**¥ 3,943,724**	**$ 33,421,390**

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

(*) With respect to the presentation of impaired assets on the consolidated balance sheets, the acquisition costs of assets are presented net of impairment loss.

(**) "Net assets" at March 31, 2007 is presented based on a new accounting standard in Japan for net assets, effective April 1, 2006. At March 31, 2006, the sum of figures formerly presented as "Shareholders' equity" and "Minority interests in consolidated subsidiaries" has been reclassified as "Net assets" for comparative purposes. (See Note 1)

At March 31	Yen (millions) 2006	2007	U.S. Dollars (thousands) (Note 3) 2007
Liabilities and net assets			
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 9)	¥ 234,848	**¥ 226,250**	**$ 1,917,373**
Payables, trade (Notes 16 and 20)	757,006	**824,825**	**6,990,042**
Accrued expenses (Note 20)	351,176	**390,888**	**3,312,610**
Customers' advances	38,912	**76,407**	**647,517**
Accrued income taxes	27,307	**32,821**	**278,144**
Provision for product warranties	16,993	**16,922**	**143,407**
Others (Notes 11, 15 and 20)	176,263	**239,452**	**2,029,254**
Total current liabilities	1,602,505	**1,807,565**	**15,318,347**
Long-term liabilities:			
Long-term debt (Note 9)	693,765	**519,567**	**4,403,110**
Accrued retirement benefits (Note 10)	201,727	**197,143**	**1,670,704**
Provision for loss on repurchase of computers	43,371	**38,649**	**327,534**
Provision for recycling expenses	3,003	**3,923**	**33,246**
Others (Notes 11 and 15)	172,685	**216,158**	**1,831,847**
Total long-term liabilities	1,114,551	**975,440**	**8,266,441**
Net assets			
Shareholders' equity:			
Common stock (Note 12)			
Authorized—5,000,000,000 shares			
Issued			
2006—2,070,018,213 shares			
2007—2,070,018,213 shares	324,625	**324,625**	**2,751,059**
Capital surplus	498,019	**498,029**	**4,220,585**
Retained earnings (Deficit)	(40,485)	**54,319**	**460,331**
Treasury stock, at cost	(1,465)	**(1,969)**	**(16,687)**
Total shareholders' equity	780,694	**875,004**	**7,415,288**
Valuation and translation adjustments:			
Unrealized gain and loss on securities, net of taxes	179,714	**122,770**	**1,040,424**
Revaluation surplus on land and others, net of taxes	2,504	**2,613**	**22,144**
Foreign currency translation adjustments	(45,867)	**(30,865)**	**(261,568)**
Total valuation and translation adjustments	136,351	**94,518**	**801,000**
Minority interests in consolidated subsidiaries	173,030	**191,197**	**1,620,314**
Total net assets	1,090,075	**1,160,719**	**9,836,602**
Commitments and contingent liabilities (Note 13)			
Total liabilities and net assets	¥3,807,131	**¥3,943,724**	**$33,421,390**

Consolidated Statements of Operations

Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	2005	2006	2007	2007
			Yen (millions)	U.S. Dollars (thousands) (Note 3)
Net sales	¥4,762,759	¥4,791,416	**¥5,100,163**	**$43,221,720**
Operating costs and expenses:				
Cost of sales	3,512,552	3,523,421	**3,781,647**	**32,047,856**
Selling, general and administrative expenses (Note 18)	1,090,016	1,086,507	**1,136,428**	**9,630,745**
	4,602,568	4,609,928	**4,918,075**	**41,678,601**
Operating income	160,191	181,488	**182,088**	**1,543,119**
Other income (expenses):				
Interest income	4,371	5,912	**7,894**	**66,898**
Dividend income	4,272	4,583	**6,291**	**53,314**
Equity in earnings of affiliates, net	3,691	(1,478)	**6,996**	**59,288**
Interest charges	(18,247)	(19,084)	**(18,429)**	**(156,178)**
Other, net (Note 18)	69,248	(53,337)	**29,655**	**251,313**
	63,335	(63,404)	**32,407**	**274,635**
Income before income taxes and minority interests	223,526	118,084	**214,495**	**1,817,754**
Income taxes (Note 11)**:**				
Current	32,422	36,831	**44,104**	**373,762**
Deferred	153,131	196	**52,139**	**441,856**
	185,553	37,027	**96,243**	**815,618**
Income before minority interests	37,973	81,057	**118,252**	**1,002,136**
Minority interests in income of consolidated subsidiaries	(6,066)	(12,512)	**(15,837)**	**(134,212)**
Net income	¥ 31,907	¥ 68,545	**¥ 102,415**	**$ 867,924**

			Yen	U.S. Dollars (Note 3)
Amounts per share of common stock:				
Basic earnings (Note 17)	¥15.42	¥32.83	**¥49.54**	**$0.420**
Diluted earnings (Note 17)	13.86	29.54	**44.95**	**0.381**
Cash dividends	6.00	6.00	**6.00**	**0.051**

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

Consolidated Statements of Changes in Net Assets

Fujitsu Limited and Consolidated Subsidiaries

Yen (millions)

	Shareholders' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings (Deficit)	Treasury stock	Total shareholders' equity	Unrealized gain and loss on securities, net of taxes	Revaluation surplus on land and others, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	¥ 324,624	¥ 455,963	¥ (35,734)	¥ (857)	¥ 743,996	¥ 149,629	¥ 3,453	¥ (69,901)	¥ 190,460	¥ 1,017,637
Increase (decrease) during the term:										
Cash dividends from retained earnings			(12,001)		(12,001)					(12,001)
Bonuses to directors and statutory auditors			(620)		(620)					(620)
Net income			31,907		31,907					31,907
Purchase of treasury stocks				(442)	(442)					(442)
Sales of treasury stocks				56	56					56
Gain on sales of treasury stocks		12			12					12
Increase as a result of stock exchange (Note 12)		50,156			50,156					50,156
Increase and decrease of equity method affiliates		(8,249)	7,961		(288)					(288)
Conversion of bonds (Note 12)	1				1					1
Others			664		664					664
Net increase (decrease) during the term, except for items under shareholders' equity						(51,553)	—	11,921	(26,253)	(65,885)
Net increase (decrease) during the term	1	41,919	27,911	(386)	69,445	(51,553)	—	11,921	(26,253)	3,560
Balance at March 31, 2005	¥ 324,625	¥ 497,882	¥ (7,823)	¥ (1,243)	¥ 813,441	¥ 98,076	¥ 3,453	¥ (57,980)	¥ 164,207	¥ 1,021,197
Increase (decrease) during the term:										
Cash dividends from retained earnings			(12,408)		(12,408)					(12,408)
Bonuses to directors and statutory auditors			(596)		(596)					(596)
Net income			68,545		68,545					68,545
Decrease as a result of changes in accounting principles and practices in UK subsidiaries (Note 1)			(85,980)		(85,980)					(85,980)
Increase as a result of business acquisition		183			183					183
Purchase of treasury stocks				(436)	(436)					(436)
Sales of treasury stocks				214	214					214
Gain on sales of treasury stocks		7			7					7
Increase as a result of stock exchange		6			6					6
Decrease as a result of deconsolidation of consolidated subsidiaries		(59)			(59)					(59)
Others			(2,223)		(2,223)					(2,223)
Net increase (decrease) during the term, except for items under shareholders' equity						81,638	(949)	12,113	8,823	101,625
Net increase (decrease) during the term	—	137	(32,662)	(222)	(32,747)	81,638	(949)	12,113	8,823	68,878
Balance at March 31, 2006	¥ 324,625	¥ 498,019	¥ (40,485)	¥ (1,465)	¥ 780,694	¥ 179,714	¥ 2,504	¥ (45,867)	¥ 173,030	¥ 1,090,075
Increase (decrease) during the term:										
Cash dividends from retained earnings			**(12,405)**		**(12,405)**					**(12,405)**
Bonuses to directors and statutory auditors			**(665)**		**(665)**					**(665)**
Net income			**102,415**		**102,415**					**102,415**
Purchase of treasury stocks				**(529)**	**(529)**					**(529)**
Sales of treasury stocks				**25**	**25**					**25**
Gain on sales of treasury stocks		**10**			**10**					**10**
Increase and decrease of equity method affiliates			**(3,715)**		**(3,715)**					**(3,715)**
Others			**9,174**		**9,174**					**9,174**
Net increase (decrease) during the term, except for items under shareholders' equity						**(56,944)**	**109**	**15,002**	**18,167**	**(23,666)**
Net increase (decrease) during the term	**—**	**10**	**94,804**	**(504)**	**94,310**	**(56,944)**	**109**	**15,002**	**18,167**	**70,644**
Balance at March 31, 2007	**¥ 324,625**	**¥ 498,029**	**¥ 54,319**	**¥ (1,969)**	**¥ 875,004**	**¥ 122,770**	**¥ 2,613**	**¥ (30,865)**	**¥ 191,197**	**¥1,160,719**

U.S. Dollars (thousands) (Note 3)

	Common stock	Capital surplus	Retained earnings (Deficit)	Treasury stock	Total shareholders' equity	Unrealized gain and loss on securities, net of taxes	Revaluation surplus on land and others, net of taxes	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006 (in U.S. Dollars)	$ 2,751,059	$ 4,220,500	$ (343,093)	$ (12,415)	$ 6,616,051	$ 1,523,000	$ 21,220	$ (388,703)	$ 1,466,356	$9,237,924
Increase (decrease) during the term:										
Cash dividends from retained earnings			**(105,127)**		**(105,127)**					**(105,127)**
Bonuses to directors and statutory auditors			**(5,636)**		**(5,636)**					**(5,636)**
Net income			**867,924**		**867,924**					**867,924**
Purchase of treasury stocks				**(4,483)**	**(4,483)**					**(4,483)**
Sales of treasury stocks				**211**	**211**					**211**
Gain on sales of treasury stocks		**85**			**85**					**85**
Increase and decrease of equity method affiliates			**(31,483)**		**(31,483)**					**(31,483)**
Others			**77,746**		**77,746**					**77,746**
Net increase (decrease) during the term, except for items under shareholders' equity						**(482,576)**	**924**	**127,135**	**153,958**	**(200,559)**
Net increase (decrease) during the term	**—**	**85**	**803,424**	**(4,272)**	**799,237**	**(482,576)**	**924**	**127,135**	**153,958**	**598,678**
Balance at March 31, 2007 (in U.S. Dollars)	**$2,751,059**	**$4,220,585**	**$ 460,331**	**$(16,687)**	**$7,415,288**	**$1,040,424**	**$22,144**	**$(261,568)**	**$1,620,314**	**$9,836,602**

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

(*) The presentation of the tables above has been revised based on a new accounting standard in Japan for net assets, effective April 1, 2006. Figures prior to and for the year ended March 31, 2006 have been reclassified for comparative purposes (See Note 1)

Consolidated Statements of Cash Flows

Fujitsu Limited and Consolidated Subsidiaries

Years ended March 31	2005	2006	Yen (millions) 2007	U.S. Dollars (thousands) (Note 3) 2007
Cash flows from operating activities (A):				
Income before income taxes and minority interests	¥ 223,526	¥ 118,084	**¥ 214,495**	**$ 1,817,754**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization, including goodwill amortization	232,118	242,376	**278,784**	**2,362,576**
Impairment loss	—	—	**9,991**	**84,669**
Increase (decrease) in provisions	(2,761)	3,422	**(20,686)**	**(175,305)**
Interest income	(4,371)	(5,912)	**(7,894)**	**(66,898)**
Dividend income	(4,272)	(4,583)	**(6,291)**	**(53,314)**
Interest charges	18,247	19,084	**18,429**	**156,178**
Equity in earnings of affiliates, net	(3,691)	1,478	**(6,996)**	**(59,288)**
Disposal of non-current assets	39,765	28,625	**27,879**	**236,263**
Gain on sales of marketable securities, net	(133,299)	—	**(75,062)**	**(636,119)**
(Increase) decrease in receivables, trade (Note 20)	(26,320)	10,719	**(116,659)**	**(988,636)**
(Increase) decrease in inventories	37,965	5,746	**(7,445)**	**(63,093)**
(Increase) decrease in other current assets (Note 20)	13,808	(836)	**8,706**	**73,780**
Increase (decrease) in payables, trade (Note 20)	(47,859)	21,196	**49,263**	**417,483**
Increase (decrease) in other current liabilities (Note 20)	10,956	26,123	**75,695**	**641,483**
Other, net	(37,475)	(10,648)	**8,630**	**73,136**
Cash generated from operations	316,337	454,874	**450,839**	**3,820,669**
Interest received	4,638	5,814	**7,938**	**67,271**
Dividends received	4,694	4,589	**7,368**	**62,441**
Interest paid	(18,858)	(20,302)	**(18,835)**	**(159,619)**
Income taxes paid	(29,579)	(39,396)	**(38,545)**	**(326,652)**
Net cash provided by operating activities	277,232	405,579	**408,765**	**3,464,110**
Cash flows from investing activities (B):				
Purchases of property, plant and equipment (Note 20)	(151,862)	(221,100)	**(258,631)**	**(2,191,788)**
Proceeds from sales of property, plant and equipment	14,283	50,710	**62,296**	**527,932**
Purchases of intangible assets	(47,677)	(62,173)	**(59,132)**	**(501,119)**
Purchases of investment securities	(23,239)	(70,981)	**(22,813)**	**(193,330)**
Proceeds from sales of investment securities	161,047	22,353	**117,121**	**992,551**
Other, net	32,319	46,507	**10,076**	**85,390**
Net cash used in investing activities	(15,129)	(234,684)	**(151,083)**	**(1,280,364)**
A+B (*)	262,103	170,895	**257,682**	**2,183,746**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(48,816)	(44,503)	**(27,071)**	**(229,415)**
Proceeds from long-term debt	126,179	38,477	**14,160**	**120,000**
Repayment of long-term debt	(240,293)	(150,628)	**(173,867)**	**(1,473,449)**
Dividends paid	(12,001)	(12,408)	**(16,572)**	**(140,441)**
Increase (decrease) in minority interests	(1,024)	(3,250)	**5,297**	**44,890**
Other, net	(36,079)	(35,528)	**(36,900)**	**(312,712)**
Net cash used in financing activities	(212,034)	(207,840)	**(234,953)**	**(1,991,127)**
Effect of exchange rate changes on cash and cash equivalents	1,661	3,323	**4,424**	**37,492**
Net increase (decrease) in cash and cash equivalents	51,730	(33,622)	**27,153**	**230,111**
Cash and cash equivalents at beginning of year	413,826	454,516	**420,894**	**3,566,898**
Cash and cash equivalents of newly consolidated subsidiaries	947	—	**658**	**5,576**
Cash and cash equivalents of deconsolidated subsidiaries	(11,987)	—	**—**	**—**
Cash and cash equivalents at end of year	¥ 454,516	¥ 420,894	**¥ 448,705**	**$ 3,802,585**
Non-cash investing and financing activities:				
Acquisition of assets under finance leases	¥ 33,273	¥ 55,149	**¥ 75,079**	**$ 636,263**
Increase in capital surplus as a result of stock exchange	50,156	6	**—**	**—**

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 and the principles of consolidation

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the regulations under the Securities and Exchange Law of Japan and accounting principles and practices generally accepted in 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 ("IFRS") and accounting principles and practices in other countries in certain respects as to applications and disclosure requirements. The differences between the accounting principles and practices adopted by the Group and those prescribed by IFRS are set forth in Note 2.

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.

<Changes in accounting principles and practices for the year ended March 31, 2007>

Effective from the fiscal year ended March 31, 2007, the Company and its consolidated subsidiaries in Japan have adopted a new accounting standard in Japan for the presentation of net assets in the consolidated balance sheets.

The sum of figures stated as "Shareholders' equity" and "Minority interests in consolidated subsidiaries" in the financial statements prior to and for the year ended March 31, 2006, has been reclassified as "Net assets" for comparative purposes.

<Changes in accounting principles and practices for the year ended March 31, 2006>

For the year ended March 31, 2006, Fujitsu Services Holdings PLC, a UK subsidiary, and its consolidated subsidiaries (together, "FS") have voluntarily adopted IFRS in line with listed companies in the EU. Prior to the adoption of IFRS, FS had been applying the accounting principles and practices generally accepted in the UK. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

For the year ended March 31, 2006, the adoption of IFRS had the effect to decrease net sales by ¥5,032 million and increase operating income and income before income taxes and minority interests by ¥6,109 million and ¥5,192 million, respectively. The impact of this change to the segment information is set forth in Note 19.

For the year ended March 31, 2006, Fujitsu Telecommunications Europe Limited, another UK subsidiary, recognized pension obligation which had not been recognized before in conformity with the new UK accounting standard for the retirement benefits (Financial Reporting Standard 17). The adoption of this standard, however, did not have a material impact on net income for the year ended March 31, 2006.

As a result of the above changes, cumulative effect as of April 1, 2005 of ¥85,980 million had been charged to retained earnings (deficit).

(b) Cash equivalents

Cash equivalents are considered to be short-term highly liquid investments with a maturity of three months or less from the date of acquisition and an insignificant risk of fluctuation in value.

(c) 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 net assets as "foreign currency translation adjustments."

(d) Revenue recognition

Revenue from sales of IT systems and products excluding customized software under development contracts (the "customized software") 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.

Revenue from sales of the customized software is recognized by reference to the percentage-of-completion method.

<Changes in accounting principles and practices for the year ended March 31, 2006>

The Group changed the revenue recognition of the customized software from recognition at the time of acceptance by the customers to the percentage-of-completion method for the year ended March 31, 2006. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

For the year ended March 31, 2006, as a result of this change, sales and cost of sales increased ¥10,399 million and ¥8,833 million, respectively; operating income and income before income taxes and minority interests both increased ¥1,566 million. The impact of this change to the segment information is set forth in Note 19.

(e) 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 net assets.

(f) Allowance for doubtful accounts

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

(g) 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.

(h) 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 impaired based on consideration of their future usefulness. Accumulated impairment loss is subtracted directly from each asset.

<Changes in accounting principles and practices for the year ended March 31, 2006>

In Japan, the Group has adopted a new accounting standard, effective April 1, 2005, for impairment of non-current assets. The adoption of this standard, however, did not have a material impact on net income for the year ended March 31, 2006.

(i) Intangible assets

Goodwill is amortized by the straight-line method over periods not exceeding 20 years. In the consolidated financial statements, the Group consistently amortizes goodwill acquired by consolidated subsidiaries outside Japan where goodwill is not amortized in accordance with the accounting principles and practices in their respective countries.

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.

(j) Leases

Assets acquired by lessees in finance lease transactions are recorded in the corresponding asset accounts.

(k) Provision for product warranties

Provision for product warranties is provided at the time of sales of the products at an amount which represents the estimated cost, based on past experience, to repair or exchange certain products within the warranty period.

<Changes in accounting principles and practices for the year ended March 31, 2006>

For the year ended March 31, 2006, the Group has started to provide for product warranties as noted above in connection with increased sales of products under warranty and the increase in warranty related costs. Prior to and for the year ended March 31, 2005, the Group had charged costs for repair or exchange under warranty to selling, general and administrative expenses at the time the warranty costs were incurred. The amounts in the consolidated financial statements prior to and for the year ended March 31, 2005, have not been restated.

In comparison with previous methods, the adoption of this policy represents a reduction in operating income of ¥3,029 million and, as a result of recording provision for prior product warranties of ¥7,413 million as an expense in "other income (expenses)," a reduction of ¥10,442 million in income before income taxes and minority interests for the year ended March 31, 2006. The impact of this change to the segment information is set forth in Note 19.

(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.

<Changes in accounting principles and practices for the year ended March 31, 2006>

Certain consolidated subsidiaries outside Japan changed their accounting principles and practices on retirement benefits for the year ended March 31, 2006. Details of this change are described in (a) Basis of presenting consolidated financial statements and the principles of consolidation and in Note 10.

(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) Provision for recycling expenses

A provision for anticipated recycling expenses has been made based on the regime for PC recycling enforced in Japan to prepare for recycling expenses incurred upon collection of consumer PCs sold.

(o) Income taxes

The Group has adopted the asset and liability method of tax effect accounting in order to recognize income tax effect of all temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes.

(p) 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.

(q) 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*

A brief description of the material differences between IFRS and Japanese GAAP relevant to the Group is set out below. The Group has not completed the assessment to identify or quantify the impact of all such differences. The description below is therefore prepared based on the Group's current assessment and consideration at March 31, 2007. Additionally, the Group has not made any attempts to identify or quantify any differences between IFRS and Japanese GAAP, which may result from changes in both or either accounting principles and practices in the future.

This note is out of scope of the audit.

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 Note 1. (g) Inventories. 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.

Goodwill

Under IFRS 3 "Business Combinations," goodwill should not be amortized and IAS 36 "Impairment of Assets" should be applied. The Group amortizes goodwill by the straight-line method over periods not exceeding 20 years as indicated in Note 1. (i) Intangible assets.

Retirement benefits

Under IAS 19, the unrecognized net obligation upon the application of new accounting principles and practices should be recognized immediately. The accounting principles and practices for this obligation are indicated in Note 10.

Scope of consolidation

Under IAS 27 and its interpretations SIC 12, Special Purpose Entities (SPEs) should be consolidated when the substance of the relationship between an entity and an SPE indicates that the entity controls the SPE.

The Company and its consolidated subsidiaries in Japan have not consolidated certain qualifying SPEs in conformity with Japanese GAAP.

Uniformity of accounting policies

Under IAS 27, unification of accounting policies for consolidated accounts is required. Under IAS 28, uniformity of accounting policies for affiliates is required as well.

Under Japanese GAAP, uniformity of accounting policies is required for similar transactions and events under similar circumstances, in principle. However, it is permitted to use financial statements prepared in accordance with local GAAP of foreign subsidiaries, unless the difference in accounting principles and practices will lead to unreasonable consequences. The consolidated subsidiaries within the Group outside Japan have adopted the accounting principles and practices in their respective countries as indicated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation while some subsidiaries have adopted IFRS in countries where IFRS can be applied.

As a result of future revisions of IFRS or other effects, there is a possibility that certain differences may arise for the accounting principles and practices that are not discussed above.

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 ¥118 = US$1, the approximate exchange rate at March 31, 2007.

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, 2006 and 2007, marketable securities included in "short-term investments" and "investments and long-term loans—others" were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Held-to-maturity investments			
Carrying value (Amortized cost)	¥ 901	**¥ 599**	**$ 5,076**
Market value	892	**607**	**5,144**
Net unrealized gain (loss)	¥ (9)	**¥ 8**	**$ 68**
Available-for-sale securities			
Acquisition costs	¥ 65,323	**¥ 90,448**	**$ 766,508**
Carrying value (Market value)	369,039	**298,673**	**2,531,127**
Net unrealized gain (loss)	¥303,716	**¥208,225**	**$1,764,619**

5. *Inventories*

Inventories at March 31, 2006 and 2007 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Finished goods	¥180,656	**¥194,433**	**$1,647,737**
Work in process	142,673	**135,569**	**1,148,890**
Raw materials	85,381	**82,385**	**698,178**
Total inventories	¥408,710	**¥412,387**	**$3,494,805**

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	2006	**2007**	**2007**
Current assets	¥ 813,649	**¥ 750,176**	**$ 6,357,424**
Non-current assets	598,677	**439,756**	**3,726,745**
Total assets	¥1,412,326	**¥1,189,932**	**$10,084,169**
Current liabilities	778,905	**826,692**	**7,005,864**
Long-term liabilities	226,356	**179,867**	**1,524,297**
Net assets(*)	407,065	**183,373**	**1,554,008**
Total liabilities and net assets	¥1,412,326	**¥1,189,932**	**$10,084,169**

(*) "Net assets" at March 31, 2007 is presented based on a new accounting standard in Japan for the presentation of net assets. The sum of figures formerly presented as "Shareholders' equity" and "Minority interests in consolidated subsidiaries" prior to and for the year ended March 31, 2006 has been reclassified as "Net assets" for comparative purposes. (See Note 1)

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2005	2006	**2007**	**2007**
Net sales	¥1,603,931	¥1,774,230	**¥1,729,400**	**$14,655,932**
Net income (loss)	45,934	(16,235)	**2,733**	**23,161**

Net income (loss) for the year ended March 31, 2006 deteriorated mainly because of the deconsolidation of Advantest Corporation due to sales of its shares and the expansion of the net loss of Spansion Inc.

Net income (loss) for the year ended March 31, 2007 improved mainly due to the deconsolidation of Spansion Inc.

The carrying and market values of the shares of the publicly listed equity method affiliates at March 31, 2006 and 2007 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Carrying value	¥65,261	**¥ 8,135**	**$ 68,941**
Market value	88,286	**20,441**	**173,229**

Decrease in carrying value and market value for the year ended March 31, 2007, was mainly due to the deconsolidation of Spansion Inc., which is no longer treated as an equity method affiliate.

At March 31, 2006 and 2007, the Company recognized investments in Japan Electronic Computer Co., Ltd. ("JECC") of ¥19,373 million and ¥18,405 million ($155,975 thousand), respectively, as "investments and long-term loans—others." The Company owned 29.49% of JECC's issued and outstanding shares at March 31, 2006 and 2007 each, but the Company did not regard JECC as an affiliate as it was unable to exercise significant influence over JECC's affairs. JECC's principal business was the leasing of computers and peripherals purchased from its six shareholders. At March 31, 2006 and 2007, JECC's issued share capital was ¥65,700 million ($556,780 thousand). Its net sales for the years ended March 31, 2005, 2006 and 2007 amounted to ¥304,482 million, ¥299,993 million and ¥298,591 million ($2,530,432 thousand), respectively.

7. *Property, Plant and Equipment*

Changes in property, plant and equipment, net of accumulated depreciation resulted from the following:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2006	**2007**	**2007**
Land			
Balance at beginning of year	¥ 115,606	**¥ 113,061**	**$ 958,144**
Additions	276	**376**	**3,187**
Impairment loss	—	**1,501**	**12,720**
Translation differences	414	**285**	**2,415**
Other, net	(3,235)	**(800)**	**(6,780)**
Balance at end of year	¥ 113,061	**¥ 111,421**	**$ 944,246**
Buildings			
Balance at beginning of year	¥ 254,677	**¥ 271,423**	**$ 2,300,195**
Additions	43,348	**27,051**	**229,246**
Depreciation	26,258	**25,794**	**218,593**
Impairment loss	—	**2,535**	**21,483**
Translation differences	2,277	**3,086**	**26,152**
Other, net	(2,621)	**(2,353)**	**(19,941)**
Balance at end of year	¥ 271,423	**¥ 270,878**	**$ 2,295,576**
Machinery and equipment			
Balance at beginning of year	¥ 327,626	**¥ 356,819**	**$ 3,023,890**
Additions	199,530	**276,303**	**2,341,551**
Depreciation	147,587	**178,172**	**1,509,932**
Impairment loss	—	**5,499**	**46,602**
Translation differences	2,570	**7,972**	**67,559**
Other, net	(25,320)	**(28,565)**	**(242,076)**
Balance at end of year	¥ 356,819	**¥ 428,858**	**$ 3,634,390**
Construction in progress			
Balance at beginning of year	¥ 29,991	**¥ 35,673**	**$ 302,313**
Additions	175,689	**200,810**	**1,701,780**
Impairment loss	—	**26**	**220**
Translation differences	12	**91**	**771**
Transfers	(170,019)	**(205,216)**	**(1,739,119)**
Balance at end of year	¥ 35,673	**¥ 31,332**	**$ 265,525**

8. Goodwill

An analysis of goodwill is presented below:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2006	2007	2007
Balance at beginning of year	¥81,569	**¥85,250**	**$722,458**
Additions	18,776	**9,370**	**79,407**
Amortization	15,372	**16,261**	**137,805**
Translation differences and others	277	**4,528**	**38,372**
Balance at end of year	¥85,250	**¥82,887**	**$702,432**

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt at March 31, 2006 and 2007 consisted of the following:

Short-term borrowings

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	2007	2007
Short-term borrowings, principally from banks, with weighted average interest rates of 2.07% at March 31, 2006 and 4.57% at March 31, 2007:			
Secured	¥ 760	**¥ 200**	**$ 1,695**
Unsecured	63,060	**40,236**	**340,983**
Total short-term borrowings (A)	¥63,820	**¥40,436**	**$342,678**

Long-term debt (including current portion)

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	2007	2007
a) Long-term borrowings			
Long-term borrowings, principally from banks and insurance companies, due 2006 to 2020 with the weighted average interest rate of 1.85% at March 31, 2006: due 2007 to 2020 with the weighted average interest rate of 1.93% at March 31, 2007:			
Secured	¥ 462	**¥ 262**	**$ 2,220**
Unsecured	84,131	**75,119**	**636,602**
Total long-term borrowings	¥ 84,593	**¥ 75,381**	**$ 638,822**

At March 31	Yen (millions) 2006	2007	U.S. Dollars (thousands) 2007
b) Bonds and notes			
Bonds and notes issued by the Company:			
Zero coupon unsecured convertible bonds due 2009	¥250,000	**¥250,000**	**$2,118,643**
2.875% unsecured bonds due 2006	50,000	—	—
3.15% unsecured bonds due 2009	50,000	**50,000**	**423,729**
2.3% unsecured bonds due 2007	50,000	**50,000**	**423,729**
2.325% unsecured bonds due 2008	50,000	**50,000**	**423,729**
3.0% unsecured bonds due 2018	30,000	**30,000**	**254,237**
2.175% unsecured bonds due 2008	50,000	**50,000**	**423,729**
2.15% unsecured bonds due 2008	50,000	**50,000**	**423,729**
0.64% unsecured bonds due 2006	100,000	—	—
0.42% unsecured bonds due 2007	50,000	**50,000**	**423,729**
1.05% unsecured bonds due 2010	50,000	**50,000**	**423,729**
Bonds and notes issued by consolidated subsidiaries, due 2011 with the weighted average interest rate of 2.00% at March 31, 2006:			
Secured	—	—	—
Unsecured	200	—	—
Total bonds and notes	¥780,200	**¥630,000**	**$5,338,983**
Total long-term debt (including current portion) (a+b)	¥864,793	**¥705,381**	**$5,977,805**
Current portion (B)	171,028	**185,814**	**1,574,695**
Non-current portion (C)	693,765	**519,567**	**4,403,110**
Total short-term borrowings and long-term debt (including current portion)	¥928,613	**¥745,817**	**$6,320,483**
Short-term borrowings and current portion of long-term debt (A+B)	234,848	**226,250**	**1,917,373**
Long-term debt (excluding current portion) (C)	693,765	**519,567**	**4,403,110**

At March 31, 2007, the Group had committed line contracts with banks aggregating ¥218,046 million ($1,847,847 thousand). Of the total credit limit, ¥5,594 million ($47,407 thousand) was used as the above short-term and long-term borrowings and the rest, ¥212,452 million ($1,800,440 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, 2007, 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, 2007 are summarized as follows:

Years ending March 31	Yen (millions)	U.S. Dollars (thousands)
2008	¥185,814	$1,574,695
2009	103,059	873,381
2010	305,764	2,591,221
2011	50,521	428,144
2012 and thereafter	60,223	510,364
Total	¥705,381	$5,977,805

Convertible bonds are treated solely as liabilities and value inherent in their conversion feature is not recognized as equity in accordance with accounting principles and practices 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, 2006 and 2007 are principally presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Property, plant and equipment, net	¥2,790	**¥2,765**	**$23,432**

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 Corporate 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 Corporate Pension Fund which is an external organization.

The Fujitsu Welfare Pension Fund, which the Company and certain consolidated subsidiaries in Japan participated in, received approval of an elimination of the future benefit obligations of the substitutional portion on March 23, 2004, and then received approval of transfer of past benefit obligation of the substitutional portion on September 1, 2005, from the Minister of Health, Labour and Welfare. Accordingly, Fujitsu Welfare Pension Fund changed to the Defined Benefit Corporate Plan based on the Japanese Defined Benefit Corporate Pension Law from the Japanese Welfare Pension Plan based on the Japanese Welfare Pension Insurance Law, and concurrently a part of the pension system was revised.

The majority of the consolidated subsidiaries outside Japan have defined benefit plans and/or defined contribution plans covering substantially all their employees. The major defined benefit pension plan provided outside Japan is the plan that Fujitsu Services Holdings PLC (including its consolidated subsidiaries, "FS") provides. The plan entitles employees payments based on their length of service and salary. The defined benefit section of the plan was closed to new entrants on August 31, 2000. New employees are, however, eligible for membership of the defined contribution section.

The balances of the "projected benefit obligation and plan assets" and the "components of net periodic benefit cost" in the plans in both Japan and outside Japan are summarized as follows:

<In Japan>

Projected benefit obligation and plan assets

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Projected benefit obligation	¥(1,054,075)	**¥(1,104,391)**	**$(9,359,246)**
Plan assets	1,122,751	**1,126,277**	**9,544,720**
Projected benefit obligation in excess of plan assets	68,676	**21,886**	**185,474**
Unrecognized net obligation at transition	65,264	**48,798**	**413,542**
Unrecognized actuarial loss	47,585	**100,729**	**853,636**
Unrecognized prior service cost (reduced obligation)	(176,712)	**(157,891)**	**(1,338,059)**
Prepaid pension cost	(89,847)	**(89,697)**	**(760,144)**
Accrued retirement benefits	¥ (85,034)	**¥ (76,175)**	**$ (645,551)**

As a result of pension system revisions, Fujitsu Corporate Pension Fund which the Company and certain consolidated subsidiaries participate in reported unrecognized prior service cost (reduced obligation) at September 1, 2005.

Components of net periodic benefit cost

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2005	2006	**2007**	**2007**
Service cost	¥ 49,892	¥ 40,751	**¥ 36,424**	**$ 308,678**
Interest cost	29,511	28,133	**26,205**	**222,076**
Expected return on plan assets	(30,733)	(28,419)	**(30,724)**	**(260,373)**
Amortization of unrecognized obligation for retirement benefits:				
Amortization of net obligation at transition	16,691	16,228	**16,230**	**137,542**
Amortization of actuarial loss	22,609	22,943	**5,569**	**47,195**
Amortization of prior service cost	(5)	(10,957)	**(18,653)**	**(158,076)**
Net periodic benefit cost	¥ 87,965	¥ 68,679	**¥ 35,051**	**$ 297,042**

In addition to net periodic benefit cost stated above, extra retirement benefits of ¥5,421 million, ¥3,530 million and ¥3,874 million ($32,831 thousand) were paid for the years ended March 31, 2005, 2006 and 2007, respectively.

The assumptions used in accounting for the plans

At March 31	2006	**2007**
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.2%	**2.7%**
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**
Method of allocating net obligation at transition	Straight-line method over 10 years	**Straight-line method over 10 years**

For the year ended March 31, 2001, the Company fully recognized in income its 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.

<Outside Japan>

FS adopted International Financial Reporting Standards ("IFRS") for the year ended March 31, 2006, and accounts for retirement benefits in accordance with IAS 19 "Employee Benefits." For this change in accounting principles and practices, FS adopted IFRS 1 "First-time Adoption of International Financial Reporting Standards," and recognized the projected benefit obligation in excess of plan assets as of April 1, 2004. FS recognized actuarial gain or loss over future periods after the adoption of IFRS 1.

From the year ended March 31, 2006, Fujitsu Telecommunications Europe Limited, a consolidated subsidiary in the UK, recognized the full value of the unrecognized obligation immediately as accrued retirement benefits, in accordance with a new UK accounting standard for the retirement benefits (Financial Reporting Standard 17).

Projected benefit obligation and plan assets

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Projected benefit obligation	¥(597,236)	**¥(679,617)**	**$(5,759,466)**
Plan assets	448,619	**546,498**	**4,631,339**
Projected benefit obligation in excess of plan assets	(148,617)	**(133,119)**	**(1,128,127)**
Unrecognized actuarial loss	31,924	**11,965**	**101,398**
Unrecognized prior service cost	—	**186**	**1,576**
Accrued retirement benefits	¥(116,693)	**¥(120,968)**	**$(1,025,153)**

Components of net periodic benefit cost

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2006	**2007**	**2007**
Service cost	¥ 8,205	**¥ 11,379**	**$ 96,432**
Interest cost	27,436	**32,123**	**272,229**
Expected return on plan assets	(25,370)	**(33,169)**	**(281,093)**
Amortization of the unrecognized obligation for retirement benefit:			
Amortization of actuarial loss	81	**266**	**2,254**
Net periodic benefit cost	¥ 10,352	**¥ 10,599**	**$ 89,822**

FS applied the "corridor" approach to amortization of actuarial loss.

The assumptions used in accounting for the plans

At March 31	2006	**2007**
Discount rate	Mainly 5.1%	**Mainly 5.5%**
Expected rate of return on plan assets	Mainly 7.3%	**Mainly 7.0%**
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**

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 40.6% for the years ended March 31, 2005, 2006 and 2007.

The components of income taxes are as follows:

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2005	2006	**2007**	**2007**
Current	¥ 32,422	¥36,831	**¥44,104**	**$373,762**
Deferred	153,131	196	**52,139**	**441,856**
Income taxes	¥185,553	¥37,027	**¥96,243**	**$815,618**

The reconciliations between the applicable statutory income tax rate and the effective income tax rate for the years ended March 31, 2005, 2006 and 2007 are as follows:

Years ended March 31	2005	2006	**2007**
Statutory income tax rate	40.6%	40.6%	**40.6%**
Increase (Decrease) in tax rate:			
Valuation allowance for deferred tax assets	45.7%	(3.4%)	**3.8%**
Goodwill amortization	2.1%	5.3%	**3.1%**
Non-deductible expenses for tax purposes	1.3%	2.3%	**1.3%**
Tax effect on equity in earnings of affiliates, net	(1.7%)	0.5%	**(1.3%)**
Non-taxable income	(0.5%)	(0.8%)	**(0.4%)**
Tax effect on prior losses on investments in equity method affiliates	—	(9.4%)	**—**
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	(2.3%)	—	**—**
Other	(2.2%)	(3.7%)	**(2.2%)**
Effective income tax rate	83.0%	31.4%	**44.9%**

"Other" is mainly the difference in statutory income tax rates applied in consolidated subsidiaries outside Japan.

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2007 were as follows:

At March 31	2006	2007	2007
		Yen (millions)	U.S. Dollars (thousands)
Deferred tax assets:			
Tax loss carryforwards	¥ 231,784	**¥ 204,791**	**$ 1,735,517**
Accrued retirement benefits	169,908	**155,048**	**1,313,966**
Accrued bonus	40,265	**41,986**	**355,814**
Provision for loss on repurchase of computers	14,186	**12,785**	**108,347**
Provision for product warranties	6,552	**6,655**	**56,398**
Intercompany profit on inventory and property, plant and equipment	5,452	**3,920**	**33,220**
Other	60,627	**69,651**	**590,263**
Gross deferred tax assets	528,774	**494,836**	**4,193,525**
Less: Valuation allowance	(243,463)	**(253,113)**	**(2,145,025)**
Total deferred tax assets	285,311	**241,723**	**2,048,500**
Deferred tax liabilities:			
Gains from establishment of stock holding trust for retirement benefit plan	¥(110,617)	**¥(110,617)**	**$ (937,432)**
Unrealized gains on securities	(123,270)	**(84,615)**	**(717,076)**
Tax allowable reserves	(8,523)	**(6,844)**	**(58,000)**
Other	(578)	**(676)**	**(5,729)**
Total deferred tax liabilities	(242,988)	**(202,752)**	**(1,718,237)**
Net deferred tax assets	¥ 42,323	**¥ 38,971**	**$ 330,263**

(*) Figures at March 31, 2006 have been reclassified for comparative purposes

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

At March 31	2006	2007	2007
		Yen (millions)	U.S. Dollars (thousands)
Current assets—others	¥ 79,244	**¥ 83,112**	**$ 704,339**
Investments and long-term loans—others	63,400	**71,771**	**608,229**
Current liabilities—others	(520)	**(1,565)**	**(13,263)**
Long-term liabilities—others	(99,801)	**(114,347)**	**(969,042)**
Net deferred tax assets	¥ 42,323	**¥ 38,971**	**$ 330,263**

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.

12. *Shareholders' Equity*

The changes in the number of issued shares of common stock for the years ended March 31, 2005, 2006 and 2007 were as follows:

			Number of shares
Years ended March 31	2005	2006	**2007**
At beginning of year	2,001,962,672	2,070,018,213	**2,070,018,213**
Conversion of convertible bonds	1,141	—	—
Increase as a result of stock exchange	68,054,400	—	—
At end of year	2,070,018,213	2,070,018,213	**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, 2007 for purchases of property, plant and equipment were approximately ¥21,982 million ($186,288 thousand).

Contingent liabilities for guarantee contracts amounted to ¥29,116 million ($246,746 thousand) at March 31, 2007. Of the total contingent liabilities, guarantees given mainly for bank loans taken by FDK Corporation, an equity method affiliate of the Company, were ¥13,300 million ($112,712 thousand), for employees' housing loans were ¥6,707 million ($56,839 thousand) and guarantees given mainly for bank loans taken by Eudyna Devices Inc., an equity method affiliate of the Company, were ¥6,000 million ($50,847 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 after assessing the effectiveness of its hedging.

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, 2006 and 2007, all derivative financial instruments were stated at fair market value and recorded on the balance sheets.

15. *Leases*

The following is a summary 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, 2006 and 2007.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Acquisition cost	¥198,400	**¥251,189**	**$2,128,720**
Accumulated depreciation	117,607	**140,434**	**1,190,118**
Book value	80,793	**110,755**	**938,602**
Minimum lease payments required			
Within one year	29,623	**39,112**	**331,458**
Over one year but within five years	60,545	**84,596**	**716,915**
Over five years	16,355	**9,824**	**83,254**
Total	¥106,523	**¥133,532**	**$1,131,627**

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	2006	**2007**	**2007**
Within one year	¥ 9,554	**¥10,407**	**$ 88,195**
Over one year but within five years	23,730	**23,525**	**199,364**
Over five years	14,415	**10,147**	**85,992**
Total	¥47,699	**¥44,079**	**$373,551**

16. *Supplementary Information to the Consolidated Balance Sheets*

Receivables, trade from and payables, trade to affiliates at March 31, 2006 and 2007 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Receivables, trade	¥42,816	**¥38,673**	**$327,737**
Payables, trade	85,332	**53,924**	**456,983**

17. *Earnings Per Share*

		Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	2006	**2007**	**2007**
Net income	¥31,907	¥68,545	**¥102,415**	**$867,924**
Bonuses to directors and statutory auditors from retained earnings (deficit)	(548)	(658)	**—**	**—**
Net income for common stock shareholders	31,359	67,887	**102,415**	**867,924**
Effect of dilutive securities	29	(648)	**(131)**	**(1,110)**
Diluted net income	¥31,388	¥67,239	**¥102,284**	**$866,814**

			thousands
Weighted average number of shares	2,034,114	2,067,787	**2,067,369**
Effect of dilutive securities	230,778	208,159	**208,159**
Diluted weighted average number of shares	2,264,892	2,275,946	**2,275,528**

			Yen	U.S. Dollars
Basic earnings per share	¥15.42	¥32.83	**¥49.54**	**$0.420**
Diluted earnings per share	13.86	29.54	**44.95**	**0.381**

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, 2005, 2006 and 2007 were ¥240,222 million, ¥241,566 million and ¥254,095 million ($2,153,347 thousand), respectively.

"Other income (expenses)—other, net" for the years ended March 31, 2005, 2006 and 2007 consisted of the following:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2005	2006	**2007**	**2007**
Gain on sales of marketable securities	¥133,299	¥ —	**¥ 77,337**	**$ 655,398**
Gain on change in interest	—	—	**2,136**	**18,102**
Settlement gain	—	15,957	**—**	**—**
Gain on business transfer	36,534	3,455	**—**	**—**
Impairment loss	—	—	**(9,991)**	**(84,669)**
Loss on sales of marketable securities	—	—	**(2,275)**	**(19,280)**
Restructuring charges	(20,085)	(11,559)	**—**	**—**
Loss on change in interest	—	(8,413)	**—**	**—**
Provision for prior product warranties	—	(7,413)	**—**	**—**
Real estate valuation losses	(15,274)	—	**—**	**—**
Amortization of unrecognized obligation for retirement benefits	(39,295)	(28,214)	**(3,146)**	**(26,661)**
Foreign exchange gains (losses), net	2,174	5,803	**2,132**	**18,068**
Loss on disposal of property, plant and equipment and intangible assets	(7,668)	(7,229)	**(19,763)**	**(167,483)**
Other, net	(20,437)	(15,724)	**(16,775)**	**(142,162)**
	¥ 69,248	¥(53,337)	**¥ 29,655**	**$ 251,313**

Gain on sales of marketable securities

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 sales of marketable securities for the year ended March 31, 2007 related mainly to the sales of shares in Fanuc Ltd. in connection with the issuer's own stock repurchase.

Gain on change in interest

Gain on change in interest for the year ended March 31, 2007 refers to gain relating to allocation of new shares of subsidiary company (NIFTY Corporation) to third parties.

Settlement gain

Settlement gain for the year ended March 31, 2006 related to the reconciliation of HDD litigation.

Gain on business transfer

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

Gain on business transfer for the year ended March 31, 2006 related to the transfer of LCD panel operations.

Impairment loss

In principle, the Group's business-use assets are grouped according to managed business units, and idle assets are grouped on an individual asset basis.

For the year ended March 31, 2007, the Group recognized an impairment loss up to the recoverable amount on the asset group for the optical transmission systems business, primarily as a result of delays in business performance recovery due to rapid changes in the business environment in North America and Japan, and recognized an impairment loss on asset groups not used in business.

The impairment loss consisted of ¥1,501 million (¥12,720 thousand) for land, ¥2,535 million ($21,483 thousand) for buildings, ¥5,499 million ($46,602 thousand) for machinery and equipment and ¥456 million ($3,864 thousand) for the other assets.

The Group calculated the recoverable amount of assets using fair value less costs to sell or value in use. The Group used the real estate appraisal value for fair value less costs to sell. The recoverable value of the assets group for the optical transmission business was calculated based on value in use, but the Group used an undiscounted cash flow to estimate the value because the future cash flows were expected to be negative.

Loss on sales of marketable securities

Loss on sales of marketable securities for the year ended March 31, 2007 refers to loss on sales of shares in Spansion Inc. and other equity method affiliates.

Restructuring charges

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.

Restructuring charges for the year ended March 31, 2006 related to expenses of restructuring to improve business profitability and asset efficiency, realignment of business location, etc.

Loss on change in interest

Loss on change in interest for the year ended March 31, 2006 refers to loss relating to allocation of new shares of affiliate (Spansion Inc.) to third parties.

Provision for prior product warranties

Provision for prior product warranties for the year ended March 31, 2006 is related to provision to cover warranty-related costs for products sold in prior fiscal years.

Real estate valuation losses

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

Amortization of unrecognized obligation for retirement benefits

Amortization of unrecognized obligation for retirement benefits related mainly to amortization of actuarial loss in Japan, prior service cost in Japan, which resulted from pension system revisions, and net obligation at transition for the consolidated subsidiaries in Japan.

19. *Segment Information*

Business Segment Information

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						Yen (millions)
2005						
Sales						
Unaffiliated customers	¥ 2,860,359	¥ 899,000	¥ 733,866	¥ 269,534	¥ —	¥ 4,762,759
Intersegment	74,059	132,415	60,931	107,693	(375,098)	—
Total sales	2,934,418	1,031,415	794,797	377,227	(375,098)	4,762,759
Operating costs and expenses	2,803,659	999,413	765,752	368,316	(334,572)	4,602,568
Operating income (loss)	130,759	32,002	29,045	8,911	(40,526)	160,191
Total assets	1,808,630	338,585	672,146	498,557	322,280	3,640,198
Depreciation	104,324	23,300	69,686	11,029	12,153	220,492
Capital expenditure (including intangible assets)	104,261	21,031	80,367	16,763	9,502	231,924
2006						
Sales						
Unaffiliated customers	¥ 2,903,651	¥ 926,417	¥ 655,139	¥ 306,209	¥ —	¥ 4,791,416
Intersegment	80,291	133,506	52,398	141,147	(407,342)	—
Total sales	2,983,942	1,059,923	707,537	447,356	(407,342)	4,791,416
Operating costs and expenses	2,830,921	1,025,122	678,030	439,678	(363,823)	4,609,928
Operating income (loss)	153,021	34,801	29,507	7,678	(43,519)	181,488
Total assets	1,811,796	335,548	670,832	471,283	517,672	3,807,131
Depreciation	113,525	21,539	68,124	12,141	11,675	227,004
Capital expenditure (including intangible assets)	154,935	23,482	120,234	15,066	12,123	325,840
2007						
Sales						
Unaffiliated customers	**¥3,064,713**	**¥ 993,232**	**¥707,132**	**¥335,086**	**¥ —**	**¥5,100,163**
Intersegment	**92,327**	**125,091**	**55,543**	**155,291**	**(428,252)**	**—**
Total sales	**3,157,040**	**1,118,323**	**762,675**	**490,377**	**(428,252)**	**5,100,163**
Operating costs and expenses	**2,993,432**	**1,076,673**	**743,665**	**479,814**	**(375,509)**	**4,918,075**
Operating income (loss)	**163,608**	**41,650**	**19,010**	**10,563**	**(52,743)**	**182,088**
Total assets	**1,880,230**	**360,391**	**727,547**	**419,216**	**556,340**	**3,943,724**
Depreciation	**121,235**	**23,285**	**92,784**	**13,026**	**12,193**	**262,523**
Impairment loss	**9,211**	**—**	**780**	**—**	**—**	**9,991**
Capital expenditure (including intangible assets)	**147,220**	**27,615**	**171,503**	**16,453**	**10,256**	**373,047**

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						U.S. Dollars (thousands)
2007 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$25,972,144**	**$8,417,220**	**$5,992,644**	**$2,839,712**	**$ —**	**$43,221,720**
Intersegment	**782,432**	**1,060,093**	**470,703**	**1,316,026**	**(3,629,254)**	**—**
Total sales	**26,754,576**	**9,477,313**	**6,463,347**	**4,155,738**	**(3,629,254)**	**43,221,720**
Operating costs and expenses	**25,368,068**	**9,124,347**	**6,302,245**	**4,066,221**	**(3,182,280)**	**41,678,601**
Operating income (loss)	**1,386,508**	**352,966**	**161,102**	**89,517**	**(446,974)**	**1,543,119**
Total assets	**15,934,152**	**3,054,161**	**6,165,653**	**3,552,678**	**4,714,746**	**33,421,390**
Depreciation	**1,027,415**	**197,330**	**786,305**	**110,390**	**103,331**	**2,224,771**
Impairment loss	**78,059**	**—**	**6,610**	**—**	**—**	**84,669**
Capital expenditure (including intangible assets)	**1,247,627**	**234,026**	**1,453,415**	**139,432**	**86,915**	**3,161,415**

1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. The principal products and services of business segments are as follows:
   (1) Technology Solutions .... Servers (mainframes, UNIX servers, mission-critical IA servers, PC servers), storage systems, software (OS, middleware), network management systems, optical transmission systems, mobile phone base stations, consulting, systems integration services (system construction), outsourcing services (one-stop information system operational management), network services (network environments and networking-related services for information systems), system support (information system and network maintenance and monitoring services), information system and network construction, custom terminal installation (ATMs, POS systems, etc)
   (2) Ubiquitous Product Solutions .... Personal computers, mobile phones, HDD (hard disk drives), magneto-optical drives, optical transceiver modules
   (3) Device Solutions .... LSI (logic LSI devices), electronic components (semiconductor packages, SAW devices, etc), mechanical components (relays, connectors, etc)
   (4) Other Operations .... Audio/navigation equipment, automotive electronic devices, etc
3. Unallocated operating costs and expenses included in “Elimination & Corporate” for the years ended March 31, 2005, 2006 and 2007 were ¥44,004 million, ¥41,461 million and ¥54,965 million ($465,805 thousand), respectively. Most of these were strategic expenses such as basic research and development expenses and Group management shared expenses incurred by the Company.
4. Corporate assets included in “Elimination & Corporate” at March 31, 2005, 2006 and 2007 amounted to ¥927,300 million, ¥932,190 million and ¥940,397 million ($7,969,466 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and others.
5. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, for the year ended March 31, 2006, sales to unaffiliated customers and operating income for “Technology Solutions” increased by ¥5,367 million and ¥7,785 million, respectively, and operating income for “Ubiquitous Product Solutions” decreased by ¥2,977 million.
   Segment information for the year ended March 31, 2005 has not been restated.
6. Change in method of allocating operating expenses
   Expenses for the Company’s general administrative divisions were previously accounted for primarily as unallocated operating expenses under “Elimination & Corporate.”
   For the year ended March 31, 2007, the Group has changed the method of allocating operating expenses, assessing to each Business Unit (the “BU”) on a services-rendered basis expenses that would be incurred if each BU were to operate independently.
   The Group has been reforming its business performance management system to better reflect the position of various BUs as independent operating entities under the consolidated framework and to delineate the responsibility of each to earn a return on investment. For the year ended March 31, 2007, further development of the business performance management system allowed the Group to better identify and categorize the expenses by functional areas. The Group, therefore, changed the method to allocating expenses to each BU on a service-rendered basis in line with those incurred if each BU were to operate independently to more clearly reflect the actual business situation.
   Strategic expenses to be recovered by the Group as a whole, such as basic research, are recognized in “Elimination & Corporate,” the same as before.
   In addition, the method of allocating expenses attributable to the sales activities of sales and system engineering units was changed from sales-based allocation to a services-rendered approach for the same reasons stated above.
   Segment information for the year ended March 31, 2006 and prior years has been restated.

Geographic Segment Information

Years ended March 31	Japan	EMEA	The Americas	APAC & China	Elimination & Corporate	Consolidated
						Yen (millions)
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	3,850,999	585,199	294,565	590,749	(718,944)	4,602,568
Operating income (loss)	173,519	11,703	4,353	12,142	(41,526)	160,191
Total assets	2,178,392	357,883	177,941	215,058	710,924	3,640,198
2006						
Sales						
Unaffiliated customers	¥ 3,430,442	¥ 623,344	¥ 344,094	¥ 393,536	¥ —	¥ 4,791,416
Intersegment	513,959	9,198	19,382	325,314	(867,853)	—
Total sales	3,944,401	632,542	363,476	718,850	(867,853)	4,791,416
Operating costs and expenses	3,773,248	609,592	349,901	703,931	(826,744)	4,609,928
Operating income (loss)	171,153	22,950	13,575	14,919	(41,109)	181,488
Total assets	2,303,223	378,108	163,144	249,534	713,122	3,807,131
2007						
Sales						
Unaffiliated customers	**¥3,517,649**	**¥727,213**	**¥424,394**	**¥430,907**	**¥ —**	**¥5,100,163**
Intersegment	**559,499**	**9,147**	**17,932**	**376,259**	**(962,837)**	**—**
Total sales	**4,077,148**	**736,360**	**442,326**	**807,166**	**(962,837)**	**5,100,163**
Operating costs and expenses	**3,885,284**	**712,229**	**433,861**	**795,486**	**(908,785)**	**4,918,075**
Operating income (loss)	**191,864**	**24,131**	**8,465**	**11,680**	**(54,052)**	**182,088**
Total assets	**2,324,811**	**482,593**	**158,640**	**271,835**	**705,845**	**3,943,724**

Years ended March 31	Japan	EMEA	The Americas	APAC & China	Elimination & Corporate	Consolidated
						U.S. Dollars (thousands)
U.S. Dollars (thousands)						
Sales						
Unaffiliated customers	$29,810,585	$6,162,822	$3,596,559	$3,651,754	$ —	$43,221,720
Intersegment	4,741,517	77,517	151,966	3,188,636	(8,159,636)	—
Total sales	34,552,102	6,240,339	3,748,525	6,840,390	(8,159,636)	43,221,720
Operating costs and expenses	32,926,135	6,035,839	3,676,788	6,741,407	(7,701,568)	41,678,601
Operating income (loss)	1,625,967	204,500	71,737	98,983	(458,068)	1,543,119
Total assets	19,701,788	4,089,771	1,344,407	2,303,687	5,981,737	33,421,390

1. Classification of the geographic segments is determined by geographical location and interconnectedness of its business activity.
2. Changes in name of geographic segments
For the year ended March 31, 2007, the Group designated senior executives as heads of Fujitsu Group business operations in four major regions in order to maintain a firm, detailed grasp of global market trends and rapidly respond to them. As a result of these changes, the former "Europe" segment has been changed to "EMEA" (EMEA = Europe, Middle East and Africa) and the former "Others" segment has been changed to "APAC & China" (APAC = Asia-Pacific).
3. The principal countries and regions belonging to geographic segments other than Japan are as follows:
(1) EMEA (Europe, Middle East and Africa) ... U.K., Spain, Germany, Finland, the Netherlands
(2) The Americas .... U.S.A., Canada
(3) APAC & China (APAC = Asia-Pacific) .... Australia, Thailand, Vietnam, the Philippines, Singapore, Korea, Taiwan, China
4. Unallocated operating costs and expenses included in "Elimination & Corporate" for the years ended March 31, 2005, 2006 and 2007 were ¥44,004 million, ¥41,461 million and ¥54,965 million ($465,805 thousand), respectively. Most of these were strategic expenses such as basic research and development expenses and Group management shared expenses incurred by the Company.
5. Corporate assets included in "Elimination & Corporate" at March 31, 2005, 2006 and 2007 amounted to ¥927,300 million, ¥932,190 million and ¥940,397 million ($7,969,466 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and others.
6. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, for the year ended March 31, 2006, in "Japan" sales to unaffiliated customers increased by ¥10,399 million and operating income decreased by ¥1,463 million; in "EMEA," sales to unaffiliated customers decreased by ¥5,032 million and operating income increased by ¥6,271 million.
Segment information in this regard for the year ended March 31, 2005 has not been restated.
7. As stated in "Change in method of allocating operating expenses" of Note 19, for the year ended March 31, 2007 the Group changed the method by which it allocates operating expenses for each segment.
Segment information in this regard prior to and for the year ended March 31, 2006 has been restated.

20. *Impact of Non-trading Day at the End of Fiscal Year*

Consolidated balance sheet

March 31, 2007, the end of the fiscal year, was a non-trading day for financial institutions in Japan. Per Japanese business custom, receivables and payables are fiscally settled in the next fiscal year if the end of the fiscal year is a non-trading day for financial institutions. The receivables and payables settled in the following fiscal year for the reason above and stated in the balance sheet at March 31, 2007 were as follows:

	Yen (millions)	U.S. Dollars (thousands)
At March 31	2007	2007
Receivables, trade	¥ 18,049	$ 152,957
Current assets—others	285	2,415
Total current assets (A)	18,334	155,372
Payables, trade	74,168	628,542
Accrued expenses	19,180	162,542
Current liabilities—others	34,584	293,085
Total current liabilities (B)	127,932	1,084,169
Increase in current liabilities, net of current assets (B)–(A)	¥109,598	$ 928,797

Consolidated statement of cash flows

The increase and decrease of receivables and payables stated below whose cash transactions of proceeds and payments were deferred to the following fiscal year were included in the increase and decrease of each account of the consolidated statement of cash flows for the year ended March 31, 2007.

	Yen (millions)	U.S. Dollars (thousands)
Year ended March 31	2007	2007
(Increase) decrease in receivables, trade	¥ (18,049)	$(152,958)
(Increase) decrease in other current assets	(285)	(2,415)
Increase (decrease) in payables, trade	74,168	628,542
Increase (decrease) in other current liabilities	19,366	164,119
Net cash provided by operating activities (C)	75,200	637,288
Purchases of property, plant and equipment	34,398	291,509
Net cash provided by investing activities (D)	34,398	291,509
Net cash flows from the impact (C)+(D)	¥109,598	$ 928,797

21. *Related Party Transactions*

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

For the year ended March 31, 2007, the Company entered into the following transactions with its related party:

• Related party: Fujitsu Leasing Co., Ltd.
Common stock—¥1,000 million ($8,475 thousand)

Breakdown of the Company's voting rights ownership
Directly held: 25.0%
Indirectly held: 5.0%

Relationship with the Company
Lease transactions with the Company
3 board members of the Company concurrently serve as board members of the related party
7 board members of the related party have been transferred from the Company

• Content of transactions
Sales of assets: ¥42,100 million ($356,780 thousand)
Lease transactions: ¥6,685 million ($56,653 thousand)

• Balance of related transactions recorded on balance sheets at March 31, 2007
Non-trade receivables: ¥621 million ($5,263 thousand)
Non-trade payables: ¥13 million ($110 thousand)

(*) The transactions stated above generally have terms of business based on fair value.
(**) Consumption taxes are not included in the transaction amount, but are included in the ending balance.
(***) The above transactions with the Company's related party are sales of its fixed assets to the lessor for the purpose of the utilization of assets as leases.

22. *Share-based Payment Plans*

The stock option activity is as follows:

<Resolution of shareholders' meeting on June 29, 2000>

Position and number of people entitled to the stock option	32 directors 15 executives with director-level responsibilities
Number of shares for stock options	1,305,000 shares of common stock
Date granted	August 1, 2000
Conditions to be vested	Not specified
Corresponding service period	Not specified
Exercisable period	From August 1, 2000 to June 29, 2010

Year ended March 31	Number of shares 2007
Outstanding at beginning of year	500,000
Granted during the year	—
Forfeited during the year	125,000
Exercised during the year	—
Expired during the year	—
Outstanding at end of year	375,000
Exercisable at end of year	375,000

Year ended March 31	Yen 2007	U.S. Dollars 2007
Exercised price	¥3,563	$30.19

<Resolution of shareholders' meeting on June 26, 2001>

Position and number of people entitled to the stock option	32 directors 18 executives with director-level responsibilities
Number of shares for stock options	1,360,000 shares of common stock
Date granted	August 1, 2001
Conditions to be vested	Not specified
Corresponding service period	Not specified
Exercisable period	From August 1, 2001 to June 26, 2011

Year ended March 31	Number of shares 2007
Outstanding at beginning of year	715,000
Granted during the year	—
Forfeited during the year	180,000
Exercised during the year	—
Expired during the year	—
Outstanding at end of year	535,000
Exercisable at end of year	535,000

Year ended March 31	Yen 2007	U.S. Dollars 2007
Exercised price	¥1,450	$12.29

A new accounting standard for stock options has been applied in Japan for the year ended March 31, 2007. Stock options that have been granted after the enforcement date of the Japanese Corporate Law (May 1, 2006) have to be measured at fair value and charged to income for each fiscal year and accounted for as share warrants in the net assets of the consolidated balance sheets until they are exercised or forfeited. The above stock options were granted before the enforcement date of the Japanese Corporate Law and were not recognized in the consolidated balance sheets.

23. *Subsequent Events*

1. Tender offer for GFI Informatique in France

Based on the approval of the Company's board of directors meeting held on May 2, 2007, it was announced that a tender offer to acquire the entire issued share capital of GFI Informatique of France (the "GFI") was to be launched.

In response to the withdrawal of a proposed capital increase offer involving a French company, Itefin Participations, controlled by private equity group Apax Partners, the tender offer was filed with the French regulatory body AMF.

(1) Objectives

To strengthen the Fujitsu Group's IT services business in Europe, Fujitsu Services Holdings PLC, a UK subsidiary of the Company, launched the tender offer for GFI.

(2) Entity to be purchased

GFI Informatique SA; Headquarters: Paris; listed on the Euronext Paris; Approximately 8,500 employees at December 31, 2006

IT services deployment in Europe, mainly France

Sales: €633.1 million, Operating income: €40.3 million for the year ended December 31, 2006

(3) Beginning and period of the tender offer

Under conditions of the approval of French authorities, the beginning and the period of the tender offer are as follows:

Beginning: Early July, 2007 (plan)

Period: Approximately 1 month (plan)

(4) Prerequisite for completing the tender offer

Subscription of 66.67% or more of the issued shares and issued warrants

Reference (GFI): approximately 46,339 thousand issued shares at January 31, 2007

approximately 7,854 thousand issued warrants at January 31, 2007

(5) Proposed purchase price of shares under the tender offer

Shares of GFI : €8.5 per share

Warrants of GFI : €3.15 per warrant

(6) Cash needed for the purchase

Approximately €419.0 million (¥67.4 billion) at maximum; means of financing not yet determined.

The amount stated above is calculated assuming that no warrants were exercised until the completion of the purchase.

2. Appropriation of the Company's other capital surplus

At the board of directors meeting held on May 24, 2007, the Company resolved an appropriation of the Company's "Other capital surplus" and "Other retained earnings" which is prescribed in the second sentence of Article 452 applied pursuant to Article 459 (1) of the Japanese Corporate Law, based on Article 41 of the Company's article of association. As a result, in the non-consolidated financial statements, "Other capital surplus" decreased by ¥240,464 million (US$2,037,831 thousand) and "Other retained earnings" increased by the same amount. Accordingly, in the consolidated financial statements, "Capital surplus" decreased by ¥240,464 million (US$2,037,831 thousand), and "Retained earnings" increased by the same amount.

<Objectives>

The Company recognized a significant amount of net loss after recognizing a devaluation loss mainly on the shares of its UK subsidiary, Fujitsu Services Holdings PLC ("FS") for the year ended March 31, 2007. The objectives for the items stated above are to eliminate the accumulated deficit in the non-consolidated accounts that resulted from this revaluation of shares.

The Company had been using the standard of valuing the shares of FS under the assumption of selling its shares after publicly listing. The Company positioned FS as the pillar of the Fujitsu Group's IT services business in the EMEA region and changed its basic stance with respect to its shareholdings in FS in the year ended March 31, 2007. Accordingly, the Company recognized the devaluation loss since recoverable value of the expected net assets within 5 years is not likely to exceed the acquisition cost.

<For reference: Appropriation of other capital surplus and other retained earnings according to Japanese Corporate Law>

In accordance with Japanese GAAP and Japanese Corporate Law, in the non-consolidated financial statements, “Capital surplus” is classified into “Legal capital surplus” and “Other capital surplus.” “Retained earnings” is classified into “Legal reserve of retained earnings” and “Other retained earnings.”

The appropriation amount of earnings as a dividend to shareholders and a resource of repurchase of treasury stock is calculated based on “Other capital surplus” and “Other retained earnings” in the Company’s non-consolidated accounts at appropriations in accordance with Japanese Corporate Law.

In the non-consolidated account, if the “Other retained earnings” were a deficit at fiscal year end, the Japanese Corporate Law permits us to compensate the deficit from “Other capital surplus” in the next fiscal year.

3. Shift of consolidated subsidiaries to wholly owned subsidiaries through exchange of shares

The Company resolved, at the board of directors meeting held on May 24, 2007, to wholly own three of its subsidiaries, Fujitsu Access Limited (TSE-1), Fujitsu Devices Inc. (TSE-2), and Fujitsu Wireless Systems Limited, through the exchange of shares, and share exchange agreements have been signed with each of the three companies.

The three subsidiaries will seek approval of the exchange of shares at their respective annual shareholders’ meetings scheduled in late June, 2007. On the other hand, Fujitsu Limited does not plan to seek approval for the share exchanges at its annual shareholders’ meeting in accordance with Article 796 (3) of the Japanese Corporate Law.

In addition, as a result of the share exchanges, both Fujitsu Access Limited and Fujitsu Devices Inc. are scheduled to be delisted on July 26, 2007.

(1) Objectives

The business environment in which the Fujitsu Group operates is rapidly changing as a result of technological advancements in the fields of network and IT utilization. In order to respond to the growing and increasingly diverse services needs of customers in a timely manner, the Company is implementing a number of organizational reforms, including realignment of Group companies, to enable it to better meet the expanding range of customer needs.

(2) Method and content of share exchange

① Method of share exchange

Based on the share exchange agreements signed on May 24, 2007, the Company will distribute its common stock to shareholders of Fujitsu Access Limited, Fujitsu Devices Inc. and Fujitsu Wireless Systems Limited in exchange for their common stock in those companies.

② Share exchange ratio

For each share of common stock in the three companies, the following amounts of the Company’s common stock will be distributed.

Fujitsu Access Limited	0.86 shares
Fujitsu Devices Inc.	2.70 shares
Fujitsu Wireless Systems Limited	13.36 shares

The 13,397,978 shares of Fujitsu Access Limited common stock, the 16,169,940 shares of Fujitsu Devices Inc. common stock and the 220,697 shares of Fujitsu Wireless Systems Limited common stock that the Company holds are exempt from this share exchange. The Company will exchange a total of 34,319,427 shares of its common stock with the shareholders of the three subsidiaries, however, the Company plans to allocate treasury stock held currently and the stock which will be purchased subsequently by the effective date for these share exchanges, therefore new common stock will not be issued.

(3) Period of share exchange

① Effective date of share exchange	August 1, 2007 (plan)
② Date of share distribution	Late September, 2007 (plan)

4. Purchase of treasury stock

For the share exchange stated above, the Company resolved a purchase of treasury stock at the board of directors meeting held on May 24, 2007 in accordance with Article 156 applied by reading of terms pursuant to the provisions of Article 165 (3) of the Japanese Corporate Law. The details were as follows:

(1) Contents of the board meeting resolution of purchase of treasury stock

① Objectives for purchase of treasury stock

The Company purchases its treasury stock to allocate its shares to the shareholders of Fujitsu Access Limited, Fujitsu Devices Inc. and Fujitsu Wireless Systems Limited in order to shift the three subsidiaries into wholly owned subsidiaries through share exchange.

② Content of purchase

•Method of purchase	From market
•Class and numbers of shares to be purchased	Common stock 34,400,000 shares (at maximum)
•Amount of cash to be paid for treasury stock purchase	¥28,000 million ($237,288 thousand) (at maximum)
•Period for treasury stock purchase	From May 25, 2007 to July 31, 2007

(2) Purchase of treasury stock

The Company repurchased its 29,740,000 shares of treasury stock at an acquisition cost of ¥24,735 million ($209,619 thousand) at the Tokyo Stock Exchange by June 22, 2007.

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 (the “Company”) and consolidated subsidiaries (the “Group”) as of March 31, 2006 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2007, all expressed in yen. These consolidated financial statements are the responsibility of the Group’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, 2006 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

As described in Note 19 to the consolidated financial statements, the Group changed its accounting policies for allocating operating expenses of its business segments and geographic segments for the year ended March 31, 2007.

As described in Note 23.1 to the consolidated financial statements, the Group announced the tender offer for GFI Informatique SA in France.

As described in Note 23.2 to the consolidated financial statements, the Company resolved the appropriation of its other capital surplus.

As described in Note 23.3 to the consolidated financial statements, the Group resolved the shift of consolidated subsidiaries to wholly owned subsidiaries through share for share exchange.

As described in Note 23.4 to the consolidated financial statements, the Group resolved the purchase of treasury stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

Ernst & Young ShinNihon

June 22, 2007

A MEMBER OF ERNST & YOUNG GLOBAL

Principal Subsidiaries and Affiliates

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.
NIFTY Corporation

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
Fujitsu IT Products Ltd.

■ THE AMERICAS

Unlisted

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

■ EMEA

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.

■ EMEA

Unlisted

Fujitsu Siemens Computers (Holding) B.V.

*Spansion Inc. is no longer classified as an equity-method affiliate following the partial sale of shares in November 2006.

Shareholders' Data

(As of March 31, 2007)

Capital:	¥324,625 million
Common Stock:	Authorized: 5,000,000,000 shares
	Issued: 2,070,018,213 shares
Number of Shareholders:	217,586

Principal Shareholders	Number of shares held (thousands)	Percentage of total shares outstanding (%)
The Master Trust Bank of Japan, Ltd. (for trust)	151,252	7.31
Japan Trustee Services Bank, Ltd. (for trust)	95,069	4.59
Fuji Electric Holdings Co., Ltd.	94,663	4.57
Fuji Electric Systems Co., Ltd.	64,908	3.14
State Street Bank and Trust Company 505103 (Standing proxy, Mizuho Corporate Bank, Ltd. Kabutocho Custody & Proxy Department)	43,270	2.09
Asahi Mutual Life Insurance Company	40,299	1.95
Fuji Electric FA Components & Systems Co., Ltd.	36,886	1.78
Mizuho Corporate Bank, Ltd.	32,654	1.58
Japan Trustee Services Bank, Ltd. (for trust4)	28,963	1.40
Fujitsu Limited Employee Shareholding Association	21,387	1.03

Notes:
1. The investment ratio is calculated taking treasury stock (2,914,813 shares) into account.
2. The shares held by The Master Trust Bank of Japan, Ltd. (for trust), Japan Trustee Services Bank, Ltd. (for trust) and Japan Trustee Services Bank, Ltd. (for trust4) pertain to the trust business by the institution.
3. Of the shares held by Fuji Electric Holdings Co., Ltd., Fuji Electric Systems Co., Ltd., and Fuji Electric FA Components & Systems Co., Ltd., 1,412 thousand shares, 56,787 thousand shares and 29,556 thousand shares, respectively, are trust assets that are trusted to Mizuho Trust & Banking Co., Ltd., and re-trusted to Trust & Custody Services Bank, Ltd., as retirement benefit trust assets. The voting rights involved in these shares are set forth to be exercised upon order of the respective companies. The Company's shares held by the overall Fuji Electric Group, including the shares above explained, in the form of retirement benefit trust assets are 123,042 thousand shares in total (which accounts for 5.94% of the number of outstanding shares).
4. Of the Company's shared held by the Mizuho Corporate Bank, Ltd., 212 thousand shares are trust properties that are trusted to Mizuho Trust & Banking Co., Ltd., and re-trusted to Trust & Custody Services Bank, Ltd., as retirement benefit trust assets. The voting rights involved in these shares are set forth to be exercised upon order of Mizuho Corporate Bank, Ltd.
5. Fujitsu received a large holding report (change in shareholding) dated January 12, 2007 from Barclays Global Investors Japan Trust & Banking, Ltd. containing the following information accurate as of December 31, 2006. Because Fujitsu is currently unable to verify the effective holding of Barclays Global Investors Japan Trust & Banking, the company has not been included in the above list of principal shareholders. The details of the large holding report (change in shareholding) are as follows:
   - Significant shareholder (joint shareholding): Barclays Global Investors Japan Trust & Banking, Ltd. and 9 other companies
   - Number of shares held: 104,648,616
   - Percentage of total shares outstanding: 5.06%
6. Fujitsu received a large holding report (change in shareholding) dated April 14, 2006 from Fidelity Investments Japan Limited containing the following information accurate as of March 31, 2006. Because Fujitsu is currently unable to verify the effective holding of Fidelity Investments Japan, the company has not been included in the above list of principal shareholders. The details of the large holding report (change in shareholding) are as follows:
   - Significant shareholder: Fidelity Investments Japan Limited
   - Number of shares held: 82,838,000
   - Percentage of total shares outstanding: 4.00%

■ Corporate Headquarters

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Minato-ku, Tokyo 105-7123, Japan
Telephone: +81-3-6252-2220

■ Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome
Chiyoda-ku, Tokyo 100-8212, Japan

■ Stock Exchange Listings

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

■ Independent Auditors

Ernst & Young ShinNihon

■ Shareholder Information

For further information, please contact:
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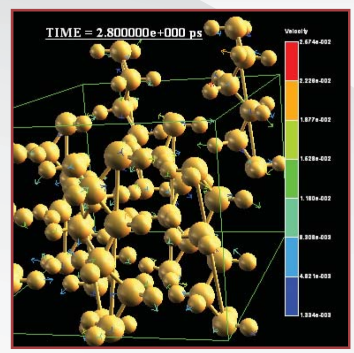
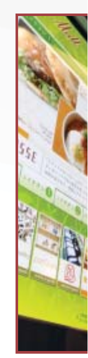
http://www.fujitsu.com/global/about/ir/





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