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, 2010 (fiscal 2009). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2010. The impact of exchange rate movements is calculated by taking the average exchange rates in fiscal 2008 for the U.S. dollar, euro, British pound, Australian dollar, Korean won, and other currencies and applying them to foreign currency-denominated transactions in fiscal 2009.

1. Analysis of Results

Business Environment

During fiscal 2009, ended March 31, 2010, the business environment in which the Group operated was characterized by a serious economic downturn in the first half of the fiscal year, and moderate signs of a recovery in the second half, driven by global progress in inventory adjustments and economic stimulus measures implemented by nations around the world. China's economy expanded as a result of measures to stimulate domestic demand, and the U.S. economy showed improvement as a result of pump-priming measures and progress in inventory adjustments. In Europe, however, the economy remained stagnant due to weak personal consumption resulting from a worsening employment outlook. In Japan, the economy continued to rebound as a result of higher exports, primarily to China and other emerging economies, as well as the underlying support provided by the Japanese government's large economic stimulus program. The recovery remained fragile, however, with lingering weakness in personal income and the job market, as well as prolonged deflationary pressures.

With respect to investment in information and communication technology (ICT), though there were signs of recovery in demand for hardware, challenging conditions remained due to a slow recovery in demand for software and services.

Net Sales

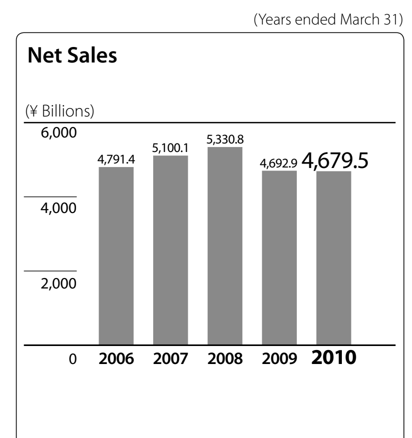
In fiscal 2009, consolidated net sales were ¥4,679.5 billion ($50,317 million), essentially unchanged from fiscal 2008. Sales declined by 7% when excluding the impact of converting Fujitsu Technology Solutions (Holding) B.V. (Fujitsu Technology Solutions, name changed from Fujitsu Siemens Computers (Holding) B.V. in April 2009) and FDK Corporation (FDK), both of which had been equity-method affiliates until the fiscal year under review, into consolidated subsidiaries, the impact of the transfer of the hard disk drive (HDD) business, and the effect of exchange rate fluctuations. Sales in Japan declined by 8.2%. Sales of system integration services and ATM- and POS-related solutions services to customers in the manufacturing, retail/distribution, and financial services industries declined due to corporate spending constraints. Sales of LSI devices, server-related products, and PCs were also lower, primarily as a result of weaker sales in the first half of the fiscal year. Sales outside Japan increased by 16.6%. However, if the effects of business realignment and currency exchange rate fluctuations are excluded, sales actually decreased by 4%. The services business was negatively impacted by the economic recession, particularly in Europe. Sales of HDDs, PCs, and server-related products also declined, primarily in the first half of the year.

Sales outside Japan as a ratio of total net sales came to 37.4%, up 5.4 percentage points from the previous fiscal year. The consolidation of Fujitsu Technology Solutions, which had been an equity-method affiliate until the fiscal year under review, resulted in increased sales to customers in Europe, the Middle East and Africa (EMEA).

In fiscal 2009, Fujitsu Technology Solutions and FDK, both of which had been equity-method affiliates until the fiscal year under review, were converted into consolidated subsidiaries. The consolidation of these companies boosted sales by ¥470.0 billion and ¥65.0 billion, respectively. On the other hand, the transfer of the HDD business reduced net sales by ¥70.0 billion year on year. Accordingly, the impact of business realignment was to increase net sales by ¥465.0 billion compared to fiscal 2008.

In fiscal 2009, the average yen exchange rates against the U.S. dollar, the euro, and the British pound were ¥93, ¥131, and ¥148, respectively, representing a year-on-year appreciation of ¥8 against the U.S. dollar, ¥13 against the euro, and ¥26 against the British pound. Exchange rate fluctuations versus the U.S. dollar caused a reduction in net sales of approximately ¥40.0 billion compared to the previous year, with fluctuations in the euro , British pound, and other currencies lowering net sales by approximately ¥5.0 billion, ¥70.0 billion, and ¥15.0 billion, respectively, year on year. As a result, currency exchange rate fluctuations had a negative impact of approximately ¥130.0 billion on net sales for fiscal 2009. Foreign currency-denominated transactions of Fujitsu Technology Solutions and FDK, which became consolidated subsidiaries from fiscal 2009, were excluded from this calculation.

(Years ended March 31)



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

In fiscal 2009, cost of sales totaled ¥3,436.4 billion ($36,951 million), gross profit was ¥1,243.1 billion ($13,367 million), and the gross profit margin was 26.6%.

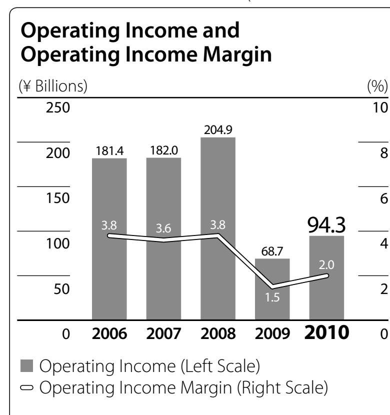
Gross profit increased ¥41.6 billion year on year, primarily atop beneficial effects from the consolidation of Fujitsu Technology Solutions, lower depreciation costs in the LSI business, and higher sales of mobile phones and electronic components. These factors outweighed increased retirement benefit costs triggered by worsening investment conditions for pension assets in the previous fiscal year, a loss provision related to Japan's next-generation supercomputer, and lower service business revenues. The gross profit margin improved 1.0 percentage point year on year, mainly reflecting benefits from progress on structural reforms in the LSI business and the transfer of the HDD business, where profitability had deteriorated. These factors were joined by the promotion of cost-reduction measures in response to declining prices and tepid demand for ICT investment.

Selling, general and administrative (SG&A) expenses were ¥1,148.7 billion ($12,352 million), up ¥16.0 billion year on year. This resulted primarily from the impact of consolidating Fujitsu Technology Solutions and FDK, as well as an increase in strategic upfront investments, largely in relation to cloud computing services. Excluding these factors, expenses fell by over ¥70.0 billion year on year, due in great part to efforts to reduce expenses and enhance efficiency Group-wide. R&D expenses were ¥224.9 billion ($2,419 million), down ¥24.9 billion from the previous year. In addition to greater development efficiencies in the LSI business, R&D expenses pertaining to servers and network products were lower. The ratio of R&D expenditure to net sales was 4.8%, compared to 5.3% a year earlier.

As a result, operating income was ¥94.3 billion ($1,015 million), an increase of ¥25.6 billion compared to fiscal 2008. The operating income margin improved 0.5 of a percentage point year on year, to 2.0%, chiefly due to benefits from structural reforms in the LSI and HDD businesses, and the Group-wide promotion of cost-reduction measures.

The Group strives to minimize the impact of currency exchange rate fluctuations on earnings. During fiscal 2009, fluctuations in currency exchange rates had the effect of lowering operating income by approximately ¥5.0 billion relative to the previous year. For fiscal 2009, a one yen (¥1) fluctuation in the currency exchange rate translated into an impact on operating income of approximately ¥0.8 billion for the U.S. dollar, ¥0.1 billion for the euro, and ¥0.1 billion for the British pound.

(Years ended March 31)



Condensed Consolidated Statements of Operations

(Billions of yen)

Years ended March 31	2009	**2010**	YoY Change	Increase rate
Net sales	4,692.9	**4,679.5**	(13.4)	(0.3)%
Cost of sales	3,491.5	**3,436.4**	(55.1)	(1.6)
Gross profit	1,201.4	**1,243.1**	41.6	3.5
Selling, general and administrative expenses	1,132.7	**1,148.7**	16.0	1.4
Operating income	68.7	**94.3**	25.6	37.2
Other income (expenses)	(182.0)	**18.3**	200.4	—
Income (loss) before income taxes and minority interests	(113.3)	**112.7**	226.0	—
Income taxes	0.4	**15.7**	15.3	—
Minority interests in income (loss) of consolidated subsidiaries	(1.3)	**3.8**	5.1	—
Net income (loss)	(112.3)	**93.0**	205.4	—

Principal Factors in YoY Change

(Billions of yen)

	Net sales	Operating income
I Effects of business realignment and exchange rate fluctuations	335.0	9.5
Effects of business realignment	465.0	14.5
Consolidation of Fujitsu Technology Solutions	470.0	(4.0)
[Amortization of goodwill and other intangible assets, one-time charge for development expenses]	[—]	[(14.0)]
Consolidation of FDK	65.0	2.0
Transfer of HDD business	(70.0)	16.5
Effects of exchange rate fluctuations	(130.0)	(5.0)
II Increased retirement benefit costs	—	(22.0)
III Change from previous year excluding I and II above	(348.0)	38.0
Total	(13.4)	25.6

(Reference) Financial Indicators

(Billions of yen)

Years ended March 31	2009	**2010**	YoY Change
Net sales	4,692.9	**4,679.5**	(13.4)
[Sales outside Japan]	[1,499.8]	**[1,748.3]**	[248.4]
[Ratio of sales outside Japan]	[32.0%]	**[37.4%]**	[5.4%]
Operating income margin	1.5%	**2.0%**	0.5%
Return on equity	(13.2%)	**12.0%**	—

Other Income (Expenses) and Net Income

In other income (expenses), equity in earnings of affiliates, net, improved ¥36.8 billion from the previous year to ¥2.8 billion ($30 million), from a loss of ¥34.0 billion posted a year earlier. This outcome stemmed from the conversion of Fujitsu Technology Solutions and FDK, two equity-method affiliates that posted losses in the previous fiscal year due to worsening performances and structural reforms, into consolidated subsidiaries. The Company also recorded a gain of ¥89.6 billion ($964 million) on sales of investment securities as a result of FANUC Ltd.'s (FANUC) solicitation to repurchase its own shares from the Company, as well as ¥47.4 billion ($510 million) in restructuring charges. The restructuring charges consisted of ¥26.3 billion in expenses to streamline personnel as part of the realignment of European subsidiaries in operations outside Japan, along with ¥21.1 billion related to the reassignment of personnel accompanying LSI business production system realignment, and to enhance the efficiency of administrative operations.

In April 2009, former equity-method affiliate in Europe, Fujitsu Technology Solutions was converted into a wholly owned subsidiary. In tandem with this move, the Group realigned the Fujitsu Technology Solutions Group and Fujitsu Services Group across Europe, including in the U.K. and Ireland, Germany and the Netherlands. This step was taken to eliminate redundancies and heighten efficiencies in regions across Europe, as well as to maximize synergies with the Fujitsu Services Group. Furthermore, as part of structural reforms in the LSI business, the Group made progress on a plan begun in January 2009 to realign the production system to match demand, as well as to enhance the efficiency of administrative operations. By the end of fiscal 2009, the Group had completed the integration and consolidation of three wafer production lines phased in from September 2009.

Net income was ¥93.0 billion ($1,001 million), representing a substantial improvement of ¥205.4 billion from the previous fiscal year. Income before income taxes and minority interests improved ¥226.0 billion due to higher operating income, the gain on sales of investment securities and the reflection of the posting in the previous fiscal year of impairment losses, a loss on revaluation of investment securities, and other charges. Income taxes were ¥15.7 billion ($170 million), with a tax burden relative to income before income taxes and minority interests of 14%. Alongside the improvement related to business activities, the Company reversed valuation allowances due to an increase in the recoverable amount of deferred tax assets in line with the posting of a gain on sales of investment securities. In combination, these factors culminated in a low tax burden for the year. The Company has material tax loss carryforwards associated with past business structural reforms, and records valuation allowances with respect to deferred tax assets in excess of the estimated amount deemed recoverable for up to five years in the future. While the Company has conservatively estimated these future recoverable amounts, greater progress was made recovering loss carryforwards than initially anticipated, due mostly to the gain on sales of investment securities. Minority interests in income of consolidated subsidiaries, meanwhile, came to ¥3.8 billion ($41 million), up ¥5.1 billion year on year, due primarily to improved performance from a publicly listed electronic components subsidiary.

The Group views profitability and efficiency of invested capital in businesses as important management indicators. For fiscal 2009, the return on equity, calculated by dividing net income by average owners' equity*[1], was 12.0%, ending the year above 10% for the first time since the fiscal year ended March 31, 2007.

*[1] Owners' equity = total net assets – subscription rights to shares – minority interests in consolidated subsidiaries.

2. Segment Information

Net Sales and Operating Income by Business Segment

Information on consolidated sales (including intersegment sales) and operating income by business segment are presented below.

Technology Solutions

Sales in this segment in fiscal 2009 amounted to ¥3,121.0 billion ($33,560 million), up 1.4% from fiscal 2008. Sales in Japan were down 7.3%. While sales from outsourcing services grew steadily, revenues from system integration and solutions services declined mainly in the manufacturing, retail/distribution, and financial services sectors as companies cut spending. Sales were also hurt by drops in prices for server-related products and the downturn in the demand cycle for mobile phone base stations. Sales outside of Japan rose 21.0%, but excluding the effects of the consolidation of Fujitsu Technology Solutions and exchange rate fluctuations, actually declined 4.0%. Sales in this segment were negatively impacted most notably by economic stagnation in Europe.

Segment operating income declined ¥36.2 billion year on year to ¥152.4 billion ($1,639 million). In addition to lower revenues for system integration and solutions services and an increase of ¥16.5 billion in retirement benefit costs, stemming from a worsening investment environment for pension assets in the previous fiscal year, there was a deterioration in profitability for certain projects at the fiscal year-end. Outside Japan, in addition to the negative impact of economic stagnation particularly in Europe, operating income was affected by a one-time charge for expensing the fair value of in-process R&D and the amortization of goodwill accompanying the consolidation of Fujitsu Technology Solutions. Profitability also deteriorated for some private- and public-sector projects.

In April 2009, the Company acquired all shares in former equity-method affiliate Fujitsu Technology Solutions held by Siemens AG of Germany, which held a 50% stake in the company, converting it into a wholly owned subsidiary. In conjunction, the Group realigned the Fujitsu Technology Solutions Group and Fujitsu Services Group in every region across Europe, with the goal of eliminating

redundancies and heightening efficiencies in each region, as well as to maximize synergies. As a result of structural reforms at European subsidiaries, the Group has established three integrated organizational structures covering the U.K. and Ireland, the Nordics, and Continental Europe. These changes should enable the Group to make strides in resource optimization and business efficiency. In line with this realignment, the Group reduced its workforce and consolidated offices chiefly in continental Europe. Large personnel reductions were also made in the U.K. in light of continued economic weakness. As a result, the Group booked ¥26.3 billion in restructuring charges as other expenses for fiscal 2009.

In Japan, the Group's front-end terminal technology businesses, including ATMs, POS systems, and totalizator terminals, were consolidated under Fujitsu Frontech Limited, with a view to integrating production and sales to accelerate development of its store solutions targeting the retail and service sectors. Moreover, in order to further strengthen the Group's solutions for medium-sized businesses in Japan, Fujitsu Business Systems Ltd.* was made a wholly owned subsidiary of the Company. In addition, the Company's scanner business was consolidated under PFU Limited (PFU). In April 2010, PFU was converted into a wholly owned subsidiary in a bid to expand synergies with the Company's wide-ranging services and to deliver optimal services and products to customers on a global basis.

* Fujitsu Business Systems Ltd. will be renamed Fujitsu Marketing Limited on October 1, 2010.

Ubiquitous Product Solutions

Sales in this segment in fiscal 2009 were ¥918.7 billion ($9,879 million), down 3.2% from fiscal 2008. Excluding the effects of consolidating Fujitsu Technology Solutions, the transfer of the HDD business and exchange rate fluctuations, sales declined 9% year on year. Sales in Japan fell 6%, reflecting the effects of lower revenues due to declining PC prices, despite an increase in PC sales volume atop the launch of models compatible with the new Windows operating system and growth in demand for PCs for educational use. In mobile phones, sales were lifted by increased sales of affordably priced handset models, coupled with revenues from handset repairs in line with the lengthening replacement cycle for mobile phones. Sales outside of Japan increased 3.3%, but would have declined 18% if business realignment effects and exchange rate fluctuations were excluded. Sales were negatively affected by the lingering impact of lower sales in the HDD business in the first half of the year.

Segment operating income was ¥22.9 billion ($247 million), ¥22.4 billion higher than the previous fiscal year. However, excluding the effects of business realignment and exchange rate fluctuations, operating income actually worsened by ¥9.0 billion year on year. Earnings benefited from growth in mobile phone sales and cost reductions in design and the purchase of components. Earnings were negatively affected, though, by declining PC prices and a first-half loss in the HDD business, which grew ¥6.5 billion from the corresponding period of the previous fiscal year.

Business realignment and exchange rate fluctuations boosted profits by approximately ¥31.0 billion from the previous fiscal year. The components of this rise included, in addition to exchange rate fluctuations, effects from the transfer of the HDD business, which posted a loss of ¥16.5 billion in the second half of fiscal 2008. Another major component was profits in the PC business of consolidated subsidiary Fujitsu Technology Solutions, enabled largely by a temporary reduction in copyright levies imposed on PC manufacturers in Germany as the result of a settlement with the national copyright organization.

Regarding the HDD business, which had continued to face a severe business environment marked by intensifying price competition worldwide, the Company signed final agreements on April 30, 2009 for the transfer of its HDD drive business to Toshiba Corporation and its HDD media business to Showa Denko K.K. The HDD media business was transferred on July 1, 2009, and the HDD drive business was transferred on October 1, 2009. As a result, the Company completed its exit from the HDD business.

Device Solutions

This segment reported a 6.9% year-on-year decrease in sales, to ¥547.2 billion ($5,884 million). Sales in Japan decreased 15.5%. Sales of Flash memory and other devices were lower for the year. But while sales of logic LSI devices also declined for the year, a recovery in demand for LSI devices used in digital home appliances and automobiles during the fourth quarter of the year (January to March 2010) resulted in a year-on-year increase in sales for this three-month period. Sales outside of Japan increased by 8.1%, although sales were largely on par with the previous year when excluding the impact of the conversion of FDK into a consolidated subsidiary and exchange rate fluctuations. While sales of LSI products declined for the full year as a result of the first-half slump in sales, demand for electronic components increased for the full year.

The segment posted an operating loss of ¥8.7 billion ($94 million). Electronic components turned profitable during the year. Although the LSI business became profitable in the second half, the large losses posted in the first quarter (April to June 2009) resulted in a loss on an annual basis. Overall, profitability in the Device Solutions business improved by ¥63.1 billion compared to the previous year. The profitability of the LSI business dramatically improved due to lower depreciation costs and reductions in personnel and other fixed costs resulting from structural reforms, as well as greater development efficiencies. In electronic components, higher demand and other factors contributed to improved profitability.

As part of the restructuring initiatives in its LSI business, the Group embarked on a drive to realign its production framework to match demand and to enhance efficiency in administrative operations. Consequently, the integration and consolidation of three wafer production lines, which the Group had begun phasing in, were completed as planned by the end of the fiscal year. Due to

the benefits of these initiatives, the LSI business continues to make progress toward being able to consistently generate earnings.

Other Operations

Sales in this segment declined 11.0% year on year, to ¥397.3 billion ($4,272 million). Sales of car audio and navigation systems were lower, most notably in the first half of the year, due to the impact of weak economic conditions. Operating income rose ¥4.4 billion from the previous fiscal year, to ¥8.6 billion ($93 million). This outcome reflected progress on cost reductions and greater efficiency with expenses, which ultimately offset the effects of lower sales.

Elimination and Corporate

The segment posted an operating loss of ¥80.8 billion ($870 million), with costs up ¥28.1 billion compared to fiscal 2008. This was chiefly the result of strategic upfront investments and efforts to enhance human resources. Japan's Ministry of Education, Culture, Sports, Science and Technology (MEXT) and the Institute of Physical and Chemical Research, known as RIKEN, are promoting the nation's Next-Generation Supercomputer Project. The aim of the project is to develop a system by the end of fiscal 2012 that will boast a performance of 10 petaflops, which would make it one of the world's fastest supercomputers by today's standards. The critical design and prototype/assessment phases of the project were completed by the end of fiscal 2009. The Company, as a participant in this project, has been selected to manufacture the system, including the CPUs, with production starting in fiscal 2010. Because the government budget approved for the project in March 2010 will not fully cover its production costs, the Company recognized a loss provision in fiscal 2009.

Geographic Segment Information

The following section provides information on sales (including intersegment sales) and operating income in each of our principal operating regions.

Japan

In Japan, the Company reported consolidated sales of ¥3,400.5 billion ($36,565 million), a decrease of 10.3% compared to fiscal 2008. Sales of system integration services and ATM- and POS-related solutions services to customers in the manufacturing, retail/distribution, and financial services sectors declined due to corporate spending constraints. Sales of LSI, server-related products, and PCs were also lower, primarily as a result of weaker sales in the first half of the fiscal year. Operating income in Japan was ¥166.3 billion ($1,789 million), an improvement of ¥59.8 billion over fiscal 2008. Despite lower sales from system integration and solutions services, profitability improved as a result of benefits from progress in restructuring the LSI business, the positive effect of transferring the loss-generating HDD business, and success in cutting costs and using expenses more efficiently.

EMEA (Europe, Middle East and Africa)

In EMEA, consolidated sales were ¥975.6 billion ($10,491 million), an increase of 59.2% from the previous fiscal year. However, excluding effects from consolidating Fujitsu Technology Solutions and FDK, the HDD business transfer, and exchange rate fluctuations, sales declined 9%. The EMEA region posted an operating loss of ¥2.6 billion ($28 million), a deterioration of ¥14.7 billion from the previous fiscal year. In the U.K., services sales were impacted by the economic recession, while the profitability of some private- and public-sector projects declined. Furthermore, the conversion of Fujitsu Technology Solutions into a consolidated subsidiary incurred a one-time charge for expensing the fair value of in-process R&D and the amortization of goodwill and other assets. These charges were offset, however, by a temporary reduction in copyright levies imposed on PC manufacturers in Germany as the result of a settlement with the national copyright organization.

The Americas

Consolidated sales in the Americas came to ¥293.8 billion ($3,160 million), representing a 19.5% year-on-year decrease. Excluding effects from consolidating FDK, the HDD business transfer, and exchange rate fluctuations, sales declined 10%. Although sales of optical transmissions systems increased, sales of server-related products were adversely impacted by weak economic conditions. Operating income for the region was ¥1.8 billion ($20 million), an improvement of ¥3.1 billion from fiscal 2008. Earnings rose principally as a result of cost reductions in optical transmission systems and car audio and navigation systems, which offset the sales decline.

APAC (Asia-Pacific) & China

In APAC & China, consolidated sales were ¥505.4 billion ($5,435 million), down 23.0% year on year. Excluding effects from consolidating FDK, the HDD business transfer, and exchange rate fluctuations, sales declined 9%. While sales benefited from expansion of the services business in Oceania, along with higher sales of car audio and navigation systems, sales of HDDs declined in the first half of the fiscal year. Operating income was ¥12.9 billion ($140 million), ¥6.5 billion higher than the previous fiscal year. The increase in operating income was the result of higher earnings in the services business and car audio and navigation systems.

3. Capital Resources and Liquidity

Assets, Liabilities and Net Assets

Total assets at the fiscal year-end amounted to ¥3,228.0 billion ($34,710 million). Despite the increase in assets associated with the conversion of Fujitsu Technology Solutions and FDK into consolidated subsidiaries, total assets remained at roughly the same level as at the end of fiscal 2008 due to several factors. These included the use of cash reserves and amounts collected from trade receivables for the repayment of interest-bearing loans, as well as the sale

by the Company of its remaining shares in FANUC in accordance with a solicitation by FANUC to repurchase its own shares. This sale had the effect of reducing investments and long-term loans compared to the previous fiscal year-end.

Current assets were ¥1,871.9 billion ($20,129 million), a decrease of ¥15.5 billion compared to March 31, 2009. Although receivables, trade, and inventories increased as a result of the consolidation of Fujitsu Technology Solutions, cash and cash equivalents decreased due to the redemption of bonds. Inventories stood at ¥322.3 billion ($3,466 million), an increase of ¥15.8 billion from the end of the previous fiscal year. If the effects of consolidating Fujitsu Technology Solutions and HDD business transfer are excluded, inventories were approximately the same level as at the end of fiscal 2008. The monthly inventory turnover rate, which is an indication of asset efficiency, was 1.04 times, an improvement of 0.06 times from the end of the previous fiscal year. This was the result of progress in raising inventory efficiency, particularly in product-related businesses such as servers, PCs and mobile phones, as well as the HDD business transfer.

Investments and long-term loans declined ¥35.9 billion year on year, to ¥414.1 billion ($4,453 million), principally from the sale by the Company of its remaining shares in FANUC in accordance with a solicitation by FANUC to repurchase its own shares. Intangible assets amounted to ¥279.2 billion ($3,002 million), up ¥67.8 billion year on year, due mainly to an increase in goodwill accompanying the conversion of Fujitsu Technology Solutions into a consolidated subsidiary.

Total liabilities were ¥2,279.6 billion ($24,513 million), down ¥16.7 billion from March 31, 2009. Although payables, trade, and accrued retirement benefits increased as a result of consolidating Fujitsu Technology Solutions, interest-bearing loans, inclusive of current liabilities (short-term borrowings and current portion of long-term debt) and long-term liabilities (long-term debt), stood at ¥577.4 billion ($6,209 million), down ¥306.0 billion from March 31, 2009. This decrease owed to progress in repaying interest-bearing loans, mainly through the redemption of ¥250 billion in convertible bonds and ¥50 billion in straight bonds that matured in 2009. The D/E ratio was 0.72 times, and the net D/E ratio was 0.2 times.

Net assets amounted to ¥948.3 billion ($10,198 million), an increase of ¥22.7 billion year on year. Minority interests in consolidated subsidiaries declined ¥26.9 billion as a result of the Company's open-market purchase of its own shares to make an allotment to minority shareholders of Fujitsu Business Systems Ltd.*[1] (Fujitsu Business Systems), in order to convert that company into a wholly owned subsidiary. In addition, while total valuation and translation adjustments decreased by ¥33.2 billion as a result of the realization of unrealized gains on securities from the sale of shares in FANUC and other investment securities, total shareholders' equity increased by ¥82.9 billion due to the net income recorded for fiscal 2009. As a result, the owners' equity ratio*[2] was 24.7%, up 1.5 percentage points year on year. This improvement virtually offset deterioration in the owners' equity ratio caused by the net loss recorded in fiscal 2008, returning to the same level as at the end of fiscal 2007.

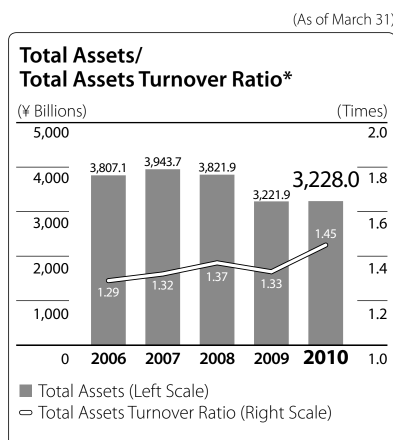
Regarding the unrecognized obligation for retirement benefits*[3], the level in Japan fell by ¥112.0 billion year on year, to ¥276.5 billion ($2,974 million) at the end of fiscal 2009, due to improvement in the performance of pension plan assets under management. Outside Japan, the level rose by ¥98.5 billion to ¥110.0 billion ($1,183 million). Despite an improvement in pension plan asset performance outside Japan, there was an increase due to a reduction in the discount rate*[4], primarily at a subsidiary in the U.K.

*[1] Fujitsu Business Systems Ltd. will be renamed Fujitsu Marketing Limited on October 1, 2010.

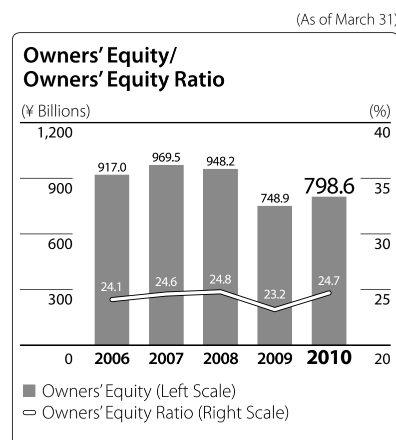
*[2] Calculated as owners' equity (total net assets – subscription rights to shares – minority interests in consolidated subsidiaries) divided by total assets.

*[3] Unrecognized obligations consist primarily of unrecognized actuarial losses. "Actuarial losses" refer to disparities that occur chiefly as the result of differences between expected and actual returns from pension plan assets under management, differences between the estimates used for the actuarial calculation of retirement benefit obligations and actual obligations, and changes in estimates. Of these differences, those that have not yet been expensed are referred to as "unrecognized actuarial losses." The Group expenses actuarial losses that arise over the average remaining service period of its employees.

*[4] Refers to the rate used to discount to present value the amount of expected retirement benefits deemed to be incurred for each projected retirement period incurred by the fiscal year-end. The rate is decided with reference to interest on high-quality corporate bonds as of the balance-sheet date.



* Net Sales divided by Average Total Assets



Condensed Consolidated Balance Sheets

(Billions of yen)

At March 31	2009	**2010**	YoY Change
Assets			
Current assets	1,887.5	**1,871.9**	(15.5)
Investments and long-term loans	450.0	**414.1**	(35.9)
Property, plant and equipment, net	673.0	**662.7**	(10.2)
Intangible assets	211.3	**279.2**	67.8
Total assets	3,221.9	**3,228.0**	6.0
Liabilities and net assets			
Current liabilities	1,550.4	**1,560.0**	9.6
Long-term liabilities	745.9	**719.6**	(26.3)
Net assets	925.6	**948.3**	22.7
Total shareholders' equity	782.9	**865.8**	82.9
Valuation and translation adjustments	(33.9)	**(67.1)**	(33.2)
Minority interests in consolidated subsidiaries	176.6	**149.6**	(26.9)
Total liabilities and net assets	3,221.9	**3,228.0**	6.0
Cash and cash equivalents at end of year	528.1	**420.1**	(108.0)
Interest-bearing loans	883.4	**577.4**	(306.0)

Effects of Consolidation of Fujitsu Technology Solutions

(Billions of yen)

Total assets	358.6
Total liabilities	358.4
Minority interests in consolidated subsidiaries	0.1

(Note) Figures reflect effects as of April 1, 2009, and include amounts posted for goodwill and the elimination of investments and capital accompanying the conversion of Fujitsu Technology Solutions into a consolidated subsidiary.

Cash Flows

Net cash provided by operating activities amounted to ¥295.3 billion ($3,176 million), an increase of ¥47.2 billion compared to the previous fiscal year due to an improvement in working capital, primarily from fluctuations in trade payables.

Net cash provided by investing activities was ¥1.0 billion ($11 million), as cash outflows and inflows were nearly evenly balanced. Along with cash outflows of ¥114.5 billion ($1,231 million) for purchases of property, plant and equipment, primarily representing capital expenditures in the outsourcing services business, ¥58.8 billion ($633 million) in cash was used for purchases of intangible assets. Conversely, the Company saw cash proceeds of ¥116.8 billion ($1,256 million) from the sale of investment securities, including the sale by the Company of remaining shares held in FANUC in accordance with a solicitation by FANUC to repurchase its shares. Furthermore, while cash of ¥53.7 billion was used for the purchase of shares in Fujitsu Technology Solutions, the conversion of Fujitsu Technology Solutions into a consolidated subsidiary resulted in a net cash inflow of ¥42.9 billion, reflecting the inclusion of ¥96.6 billion in cash and cash equivalents held by Fujitsu Technology Solutions. There was also a cash inflow of ¥17.5 billion ($189 million) in conjunction with the transfer of the HDD business and other operations.

Compared to the previous fiscal year, there was a decrease in net cash outflows of ¥225.6 billion, the result of proceeds from the sale of shares in FANUC and business restructuring initiatives related to Fujitsu Technology Solutions and other companies, as well as lower capital expenditures.

Free cash flow (the sum of operating and investment cash flows) was positive ¥296.4 billion ($3,187 million), representing an increase of ¥272.9 billion year on year. Excluding special items, such as proceeds from sales of investment securities and from the acquisition of shares in Fujitsu Technology Solutions, free cash flow increased by ¥103.7 billion to ¥111.6 billion ($1,200 million).

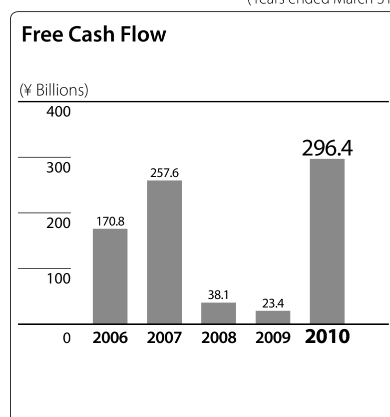
Net cash used in financing activities was ¥405.3 billion ($4,358 million). In addition to cash outflows for the repayment of interest-bearing loans, including ¥300.0 billion for the redemption of corporate bonds, ¥405.3 billion in cash was used for the acquisition of the Company's own shares and the payment of dividends. Compared to a year earlier, cash outflows increased ¥357.4 billion.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2009 totaled ¥420.1 billion ($4,518 million), a decrease of ¥108.0 billion from the previous fiscal year-end, primarily as the result of using free cash flow to repay interest-bearing loans.

To ensure efficient fund procurement when the need for funds arises, the Company views the maintenance of an appropriate level of liquidity as an important policy with respect to its financing activities. "Liquidity" refers to cash and cash equivalents and the total unused balance of financing frameworks based on commitment lines established with multiple financial institutions. As of March 31, 2010, the Group had liquidity of ¥633.0 billion ($6,806 million), of which ¥420.1 billion was cash and cash equivalents and ¥212.9 billion was the aggregate yen value of unused commitment lines.

To procure funds from global capital markets, the Company has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2010, the Company had bond ratings (long-term/short-term) of A3 (long-term) from Moody's, A– (long-term) from S&P, and A+ (long-term) and a-1 (short-term) from R&I.

(Years ended March 31)



Condensed Consolidated Statements of Cash Flows

(Billions of yen)

Years ended March 31	2009	**2010**	YoY Change
I Cash flows from operating activities	248.0	**295.3**	47.2
II Cash flows from investing activities	(224.6)	**1.0**	225.6
I+II Free cash flow	23.4	**296.4**	272.9
[Excluding special items]	[7.8]	**[111.6]**	[103.7]
III Cash flows from financing activities	(47.8)	**(405.3)**	(357.4)
IV Cash and cash equivalents at end of year	528.1	**420.1**	(108.0)

Note: "Free cash flow excluding special items" refers to free cash flow excluding proceeds from sales of investment securities, purchase of shares in subsidiaries, and transfer of businesses.

4. Capital Expenditure

In fiscal 2009, capital expenditure totaled ¥126.4 billion ($1,360 million), a decline of 24.6% from ¥167.6 billion in the previous fiscal year. This decline was primarily attributable to a switch to a "fab-lite" business model*[1] in the LSI business and the transfer of the HDD business. This was partially offset by spending in Technology Solutions, one of the Group's core operations. Capital expenditure here included the opening of a new annex at one of the Group's key bases in Japan, the Tatebayashi System Center, to expand the outsourcing business, as well as the upgrade and expansion of datacenters and other outsourcing facilities overseas, primarily in the U.K.

*[1] A semiconductor business model that minimizes capital expenditures and improves management flexibility. Instead of a company retaining 100% of its own production capacity, a majority of production is outsourced to foundry producers.

5. Consolidated Subsidiaries

At the end of fiscal 2009, the Company had 540 consolidated subsidiaries, comprising 195 companies in Japan and 345 overseas, representing an increase of 60 from last year's total of 480. The main reason for the increase in new companies was the consolidation of former equity-method affiliates Fujitsu Technology Solutions (name changed from Fujitsu Siemens Computers (Holding) B.V. in April 2009) and FDK. The consolidation of these two companies resulted in the consolidation of 35 subsidiaries of Fujitsu Technology Solutions (as of April 1, 2009, the date of business combination) and 14 subsidiaries of FDK as subsidiaries of the Company.

The number of affiliates accounted for by the equity method as of the fiscal year-end totaled 20, unchanged from a year earlier. This figure reflected an increase of five companies and a decrease of five companies, among them Fujitsu Technology Solutions and FDK.

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 Financial Instruments and Exchange Law of Japan. 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 following assumptions and estimates based on the application of accounting principles are those that the management believes may have a material impact on the consolidated financial statements.

Revenue Recognition

Revenue from sales of ICT systems and products, excluding customized software under development contracts, is recognized upon acceptance by the customers, whereas revenue from sales of personal computers, other peripheral equipment and electronic devices is recognized when the products are delivered to the customers. Revenue from customized software under development contracts is recognized on a percentage-of-completion basis.

The Group stringently assesses the potential revenue recoverable on projects for which estimated costs have exceeded estimated revenue, and recognizes 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.

Inventories

Inventories are carried at the acquisition cost. However, should the net realizable value ("NRV") at the fiscal year-end fall below that of the acquisition cost, inventories are subsequently listed based on the NRV, with the difference in value between the acquisition cost, in principle, booked as cost of sales. Inventories outside the normal operating cycle are calculated at an NRV that reflects future demand and market trends. The Group may experience substantial losses in cases where the NRV drops dramatically as a result of deterioration in the market environment compared to forecasts.

Property, Plant and Equipment

Depreciation for property, plant and equipment is computed principally by the straight-line method at rates based on the estimated useful lives of the respective assets, reflecting the likely period over which the value of the assets can be realized under normal business conditions. In the future, some equipment and facilities may become obsolete or may be repurposed as a result of technical innovation or other factors. In such cases, their actual useful lives may be recognized as shorter than their originally estimated useful lives. Losses may occur as a result.

In addition, impairment losses may be recognized in cases in which there is a decline in expected future cash flows from assets due to production facilities becoming idle, a decrease in the

capacity utilization rate, or business realignment, associated with rapid changes in the operating environment or other factors.

Software

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 if the Group withdraws from or sells the business, or if 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 primarily 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 net assets. Impairment loss is recognized on available-for-sale securities when the market value or the net worth falls significantly and is considered to be unrecoverable. If a significant decline in market value or net worth occurs and is expected to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

The Group records 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 Group's products are covered by contracts that require the Group to repair or exchange them free of charge during a set period of time. Based on past records, the Group recognizes 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.

Provision for Construction Contract Losses

The Group records provisions for projected losses on customized software under development contracts and construction contracts that show an acute deterioration in profitability as of the fiscal year-end. The Group is taking steps to curtail the emergence of new, unprofitable projects by moving ahead with the standardization of its business processes, establishing a check system as a dedicated organizational component, and conducting risk management throughout the entire progression of a project (beginning with business negotiations). These efforts notwithstanding, the Group may incur additional losses in the event of an increase in estimated project costs in the future.

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. In the event an actuarial loss arises, the actuarial loss is amortized using a straight-line method over employees' average remaining service period. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected.

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.