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, 2011 (fiscal 2010). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2011. The impact of exchange rate fluctuations is calculated by taking the average exchange rates in fiscal 2009 for the U.S. dollar, euro and British pound and applying them to foreign currency-denominated transactions in fiscal 2010.

1. Analysis of Results

Business Environment

The overall business environment during fiscal 2010 was characterized by a mild recovery, mainly attributable to higher demand in China and other emerging markets, despite high unemployment in Europe and the US as well as fiscal austerity measures and concerns about the stability of financial markets in Europe. In Japan, the economy was in a mild recovery trend, with an improvement in labor market, a recovery in capital spending, and rising exports, particularly in the first half of the fiscal year (from April to September 2010). The second half of the fiscal year (from October 2010 to March 2011), however, was witness to an increasingly severe business environment with government incentive policies running their course and an ongoing appreciation of the yen. Moreover, with the Great East Japan Earthquake on March 11, 2011, the recovery trend came to a sudden halt and the country's near-term economic prospects became uncertain.

With respect to investment in information and communication technology (ICT), though there were signs of recovery in demand for hardware during the first half, overall investment continued to be restrained. A severe investment environment now prevails following the Great East Japan Earthquake, with many investment projects postponed or cancelled.

Net Sales

Consolidated net sales for fiscal 2010 were ¥4,528.4 billion ($54,559 million), a decline of 3.2% from fiscal 2009. On a constant currency basis, however, sales were on par with the prior fiscal year. Sales in Japan were essentially unchanged from fiscal 2009. Although sales of LSI devices and electronic components were strong as a result of the continued market recovery since the previous year, there was a decline in sales of car audio and navigation systems, as new car sales stalled after the government's subsidy program for eco-friendly car purchases ended in the first half of the fiscal year. In addition, sales of PCs and other products were adversely affected by temporary production stoppages and shipment delays resulting from the Great East Japan Earthquake. Sales outside Japan decreased 9.2%. On a constant currency basis, however, sales were essentially unchanged from the previous fiscal year. Particularly in the first half of the fiscal year, there were higher sales of x86 servers in Europe, LSI devices and electronic components in Asia, and optical transmission systems in North America. As a result of the transfer of the HDD business in October 2009, however, overall sales outside Japan remained essentially unchanged.

Condensed Consolidated Income Statements

(Unit: billion yen)

Years ended March 31	2010	**2011**	YoY Change	Change (%)
Net sales	4,679.5	**4,528.4**	(151.1)	(3.2)
Cost of sales	3,436.4	**3,270.9**	(165.4)	(4.8)
Gross profit	1,243.1	**1,257.4**	14.3	1.2
Selling, general and administrative expenses	1,148.7	**1,124.8**	(23.8)	(2.1)
Operating income	94.3	**132.5**	38.2	40.5
Other income (expenses)	18.3	**(30.3)**	(48.6)	–
Income before income taxes and minority interests	112.7	**102.2**	(10.4)	(9.3)
Income taxes	15.7	**48.1**	32.4	205.4
Minority interests in income (loss) of consolidated subsidiaries	3.8	**(1.0)**	(4.8)	–
Net income	93.0	**55.0**	(37.9)	(40.8)

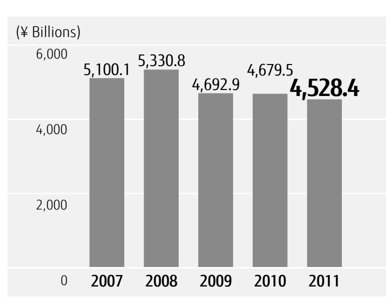
Reference: Financial Indicators

(Unit: billion yen)

Years ended March 31	2010	**2011**	YoY Change
Net sales	4,679.5	**4,528.4**	(151.1)
Sales outside Japan	[1,748.3]	**[1,587.3]**	[(160.9)]
Ratio of sales outside Japan	[37.4%]	**[35.1%]**	[(2.3%)]
Operating income margin	2.0%	**2.9%**	0.9%
Return on equity	12.0%	**6.8%**	(5.2%)

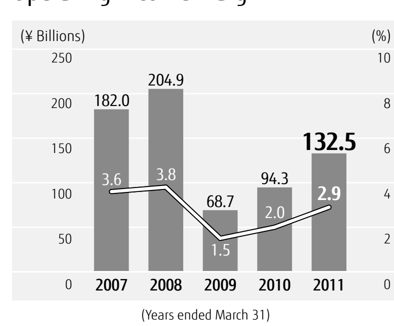
Note: Owners' equity: Net assets – Subscription rights to shares – Minority interests
Return on equity (ROE): Net income ÷ {(Owners' equity at beginning of period + Owners' equity at end of period) ÷ 2}

Net Sales



(Years ended March 31)

Operating Income and Operating Income Margin



(Years ended March 31)

Operating Income (Left Scale)
Operating Income Margin (Right Scale)

Ratio of sales outside Japan was 35.1%, a decrease of 2.3 percentage points compared to the previous fiscal year. Although sales of optical transmission systems and other products increased in the Americas, sales declined in Europe, Middle East, Africa (EMEA) and the Asia-Pacific (APAC)/China market due to the effect of exchange rate fluctuations and the transfer of the HDD business.

In fiscal 2010, the average yen exchange rates against the U.S. dollar, the euro, and the British pound were ¥86, ¥113, and ¥133, respectively, representing a year-on-year appreciation of ¥7 against the U.S. dollar, ¥18 against the euro, and ¥15 against the British pound. Exchange rate fluctuations versus the U.S. dollar, euro, and British pound caused a reduction in net sales of approximately ¥40.0 billion, ¥80.0 billion, and ¥40.0 billion respectively. As a result, currency exchange rate fluctuations had a negative impact of approximately ¥160.0 billion on net sales for fiscal 2010.

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

The cost of sales was ¥3,270.9 billion ($39,409 million), and gross profit was ¥1,257.4 billion ($15,150 million), for a gross profit margin of 27.8%. Despite the adverse effects of the earthquake and yen appreciation, gross profit increased by ¥14.3 billion compared to the previous year. This was the result of increased sales of LSI devices and electronic components, lower depreciation and other fixed costs in the Group's LSI device business as a result of structural reforms, in addition to the completion, in the previous fiscal year, of the amortization of unrecognized obligation for retirement benefits in accordance with new accounting standards in fiscal 2000. The gross profit margin improved by 1.2 percentage points compared to fiscal 2009.

Selling, general and administrative expenses were ¥1,124.8 billion ($13,553 million), a decline of ¥23.8 billion from the previous year. Selling, general and administrative expenses declined due to one-time expenses incurred in the previous year as a result of the conversion of Fujitsu Technology Solutions (Holding) B.V. into a wholly-owned subsidiary, along with the transfer of the HDD business and appreciation of the yen. Research and development expenses including selling, general and administrative expenses rose ¥11.2 billion compared with the previous year to ¥236.2 billion ($2,846 million). Although expenses related to the development of mobile phone base stations declined as LTE*[1] commercial services began, development expenses for cloud services, smartphones and other products increased. The ratio of R&D expenses to sales increased from 4.8% in the previous year to 5.2%.

*[1] An abbreviation for Long Term Evolution, a next-generation standard for high-speed mobile communications which improves upon the third-generation (3G) standard.

As a result, operating income was ¥132.5 billion ($1,598 million), an increase of ¥38.2 billion compared to fiscal 2009. The operating income margin improved 0.9 of a percentage point year-on-year, to 2.9%, chiefly due to improved profitability from structural reforms in the LSI business, and the Group-wide cost-reduction measures.

The Group strives to minimize the impact of currency exchange rate fluctuations on earnings. During fiscal 2010, fluctuations in currency exchange rates had the effect of lowering operating income by approximately ¥24.0 billion relative to the previous year. For fiscal 2010, a one yen (¥1) fluctuation in the currency exchange rate translated into an impact on operating income of approximately ¥0.9 billion for the U.S. dollar, ¥0.2 billion for the euro, and ¥0.1 billion for the British pound.

Other Income (Expenses), Net Income and Comprehensive Income

Other income (expenses) totaled a loss of ¥30.3 billion ($366 million). The financial balance (interest income plus dividend income minus interest charges) was negative ¥5.6 billion ($68 million), an improvement of ¥2.6 billion compared to the previous year due to a decline in interest-bearing loans and other factors. Net loss on foreign exchange, however, increased by ¥6.8 billion to a loss of ¥11.0 billion ($133 million) due to appreciation of the yen. A gain on sales of investment securities of ¥9.3 billion ($113 million) was booked as other income from the sale of shares in affiliates owned by a UK subsidiary. The Group recorded ¥11.6 billion ($140 million) in loss on disaster as other expenses, covering the costs of restoring plant and equipment damaged in the Great East Japan Earthquake, along with fixed costs during temporary plant shutdowns and the disposal loss on inventories. Other expenses also included a loss of ¥4.1 billion ($50 million) on adjustment for adoption of accounting standard for asset retirement obligations, representing the cost of applying the standard to past years.

The Great East Japan Earthquake caused damage to some of the buildings and production equipment at manufacturing plants for LSI devices, x86 servers and PCs, network products and mobile phones. Operations at some of these plants were also suspended due to a temporary lack of electricity, water, gas and other critical infrastructure. As of April 20, 2011, operations at all affected plants had been fully restored.

(Manufacturing Plants Affected by Great East Japan Earthquake)

LSI Devices
Fujitsu Semiconductor Limited
Five plants including the Iwate Plant (Kanegasaki-cho, Isawa-gun, Iwate Prefecture, Japan)

x86 Server/PC
Fujitsu Isotec Limited
Head Office Plant (Date-shi, Fukushima Prefecture, Japan)

Network Product/Mobile Phone
Fujitsu Limited
Nasu Plant (Otawara-shi, Tochigi Prefecture, Japan), Oyama Plant (Oyama-shi, Tochigi Prefecture, Japan)

Power Supply Equipment
Fujitsu Telecom Networks Limited
Furudono Plant (Furudono-cho, Ishikawa-gun, Fukushima Prefecture, Japan)

The Company reported consolidated net income of ¥55.0 billion ($664 million), representing a decrease of ¥37.9 billion from fiscal 2009. Although operating income increased ¥38.2 billion year-on-year, income before income taxes and minority interests declined ¥10.4 billion to ¥102.2 billion ($1,232 million) as a result of the gain on sales of investment securities of ¥89.6 billion posted as other income in the previous year for the sales of shares of FANUC Ltd. and other securities. Income taxes increased ¥32.4 billion year-on-year to ¥48.1 billion ($580 million). The income tax rate against income before income taxes and minority interests increased to 47% compared with 14% in the previous year, when the gain on sales of investment securities increased the amount of recoverable deferred tax assets, leading to a reversal of the valuation allowance. Minority interests totaled a loss of ¥1.0 billion ($12 million), a deterioration of ¥4.8 billion due to worsening performance of a subsidiary developing, manufacturing and selling automotive equipment.

The Group views profitability and efficiency of invested capital in businesses as important management indicators. For fiscal 2010, the return on equity, calculated by dividing net income by average owners' equity, was 6.8%, a decline of 5.2 percentage points from the previous fiscal year.

Other comprehensive income totaled a loss of ¥15.2 billion ($184 million), primarily as a result of a foreign currency translation adjustments loss stemming from the ongoing appreciation of the yen. Because the Group's global business development primarily revolves around service businesses, foreign currency fluctuations in the value of the net assets of subsidiaries outside Japan are recorded in other comprehensive income. As a result of the fiscal 2009 sale of shares in FANUC Ltd., the impact of stock price fluctuations on the unrealized gain and loss on securities, net of taxes, was limited.

Comprehensive income, representing the total of other comprehensive income and income before minority interests, was ¥38.7 billion ($467 million).

2. Segment Information

Information by Operating Segment

Change in Segmentation

The Group is pursuing "a business growth strategy based on the acceleration of its globalization" and "the creation of new services businesses to support the realization of a Human Centric Intelligent Society*[2]." On the basis of this management strategy, the company revised its operating segments from fiscal 2010. In addition, from fiscal 2010 the company has implemented "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan Statement No. 17, issued March 27, 2009) and "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Accounting Standards Board of Japan Guidance No. 20, issued March 21, 2008).

*[2] A society where all people can benefit from the value created by ICT, without needing to be aware of sophisticated technologies and operations.
Vast amounts of information generated by the behavior of people and organizations can be collected by high-speed, high-capacity wireless networking technologies as well as a variety of information terminals and sensing technologies that are permeating society, including corporate activities and the daily lives of people. This information can be used to make visible the movements of people and things that were, up until now, difficult to track. By analyzing this information through utilizing ICT infrastructure, such as cloud platforms and supercomputers, effective data can be generated. As a result, new value and business models can be created. Through new discoveries on the issues facing society as a whole, including healthcare, the global environment, and energy problems, as well as business activities, and through sophisticated human interfaces, the Group is committed to bringing about a prosperous, human-centric society that delivers the benefits of ICT to as many people as possible.

Prior to fiscal 2010, the Group's operating segments consisted of "Technology Solutions," "Ubiquitous Product Solutions," "Device Solutions," and "Other Operations," based on the similarity of the products and services and sales methods. From fiscal 2010, the reportable segments were consolidated into the three segments of "Technology Solutions," "Ubiquitous Solutions," and "Device Solutions," based on organizational structure, the characteristics of the products and services, and the similarities in sales markets. "Other Operations/ Elimination & Corporate" covers items not included in the above three reportable segments, including Japan's Next-Generation Supercomputer project, facility services and the development of information systems for the Group companies, and welfare benefits for Fujitsu Group employees. The main changes in segmentation are described below.

(Car audio and navigation systems, mobile communication equipment, and automotive electronic equipment)
In the "Human Centric Intelligent Society" that the Group is seeking to bring about, car audio and navigation systems will, along with PCs and mobile phones, play an important role as ubiquitous terminals and sensors in collecting and utilizing information and knowledge generated from the patterns of movements of people and organizations. Prior to fiscal 2010, these products were included in the "Other Operations/Elimination & Corporate" segment, but they are now included in the "Ubiquitous Solutions" segment. At the same time, the name of the segment was revised from "Ubiquitous Product Solutions" to "Ubiquitous Solutions."

(Optical transceiver modules, printed circuit boards)
In accordance with the internal management reorganization associated with the segments, a subsidiary manufacturing, developing and selling optical transceiver modules previously included in the "Ubiquitous Product Solutions" segment and a subsidiary manufacturing printed circuit boards previously included in the "Other Operations/Elimination and Corporate" segment are now included in the "Device Solutions" segment.

(HDD business transferred in fiscal 2009)
The HDD business was included in the "Ubiquitous Product Solutions" segment prior to its transfer. Figures for fiscal 2009 were reclassified into the "Other Operations/ Elimination & Corporate" segment for comparison purposes.

Sales and Operating Income by Segment

Sales (including intersegment sales) and operating income by segment for fiscal 2010 are shown on the following pages. Due to the changes in segmentation from the current year, figures for fiscal 2009 have been reclassified into the new segments for comparison and analysis purposes.

(Unit: billion yen)

Years ended March 31		2010	**2011**	YoY Change	Change (%)
Technology Solutions	Net sales	3,129.3	**3,014.3**	(114.9)	(3.7)
	Operating income	153.5	**162.8**	9.2	6.0
Ubiquitous Solutions	Net sales	1,119.6	**1,125.6**	5.9	0.5
	Operating income	40.6	**22.6**	(18.0)	(44.3)
Device Solutions	Net sales	589.0	**630.6**	41.5	7.0
	Operating income	(9.0)	**20.9**	30.0	—
Other Operations/ Elimination & Corporate	Net sales	(158.6)	**(242.2)**	(83.6)	—
	Operating income	(90.8)	**(73.9)**	16.9	—
Consolidated	Net sales	4,679.5	**4,528.4**	(151.1)	(3.2)
	Operating income	94.3	**132.5**	38.2	40.5

Technology Solutions

The Technology Solutions segment delivers products, software, and services to customers in an optimal, integrated package of comprehensive services. These consist of Solutions/Systems Integration, which are services for the construction of information and communication systems, Infrastructure Services, which are primarily outsourcing and maintenance services, System Products, which covers mainly the servers and storage systems that comprise ICT platforms, and Network Products, which are used to build communications infrastructure, such as mobile phone base stations and optical transmission systems.

Consolidated net sales were ¥3,014.3 billion ($36,318 million), a year-on-year decline of 3.7%. Excluding the impact of exchange rate fluctuations, sales were on par with fiscal 2009. Sales in Japan decreased 1%. High-volume production of dedicated servers for the Next-Generation Supercomputer system helped boost sales, but mobile phone base station sales were adversely impacted by the industry entering a transition period prior to the full-fledged deployment of commercial LTE services. In addition, corporate investment constraints continued reaction against yen appreciation and the effect of government policies, despite a rebound in sales in areas of the financial services industry during the second half of the fiscal year. Furthermore, the Great East Japan Earthquake delayed some customer contracts and product shipments. Although sales outside Japan declined 8.1%, the decline mainly results from yen appreciation. In the UK, government fiscal austerity measures adversely impacted. Sales of infrastructure services and x86 servers rose in continental Europe, and sales of optical transmission systems and other equipment in the US achieved steady growth.

The segment posted operating income of ¥162.8 billion ($1,962 million), an increase of ¥9.2 billion compared to fiscal 2009. In Japan, despite lower sales of mobile phone base stations and other equipment, income rose with the completion, in the previous fiscal year, of the amortization of the unrecognized obligation for retirement benefits in accordance with new accounting standards in fiscal 2000. Another positive factor was that development expenses related to mobile phone base stations and other equipment had already peaked in the previous year. Outside Japan, despite the positive impact of the completion in fiscal 2009 of the amortization of goodwill stemming from the acquisition of UK-based ICL PLC (now Fujitsu Services Holdings PLC) and a decrease in expenses associated with retirement benefit obligations of a UK subsidiary, income declined due to reduced services sales to the UK government and a deterioration in the profitability of some projects.

Ubiquitous Solutions

The Ubiquitous Solutions segment contains ubiquitous terminals or sensors—including personal computers and mobile phones, as well as car audio and navigation systems, mobile communication equipment, and automotive electronic equipment—that collect and utilize various information and knowledge generated from the behavioral patterns of people and organizations needed to achieve the Group's vision of a "Human Centric Intelligent Society."

Net sales in the segment were ¥1,125.6 billion ($13,562 million), essentially unchanged from fiscal 2009. Excluding the impact of exchange rate fluctuations, sales increased by 3%. Sales in Japan increased 4.6%. Mobile phone sales volume increased due to a merger in the mobile phone business and growth in sales of smartphones. On the other hand, demand for PCs for educational institutes was lower than in the previous fiscal year, and there was a halt in operations at some manufacturing plants due to the earthquake damage. Sales of car audio and navigation systems in the mobilewear sub-segment also decreased, due to a decline in new automobile purchases as the Japanese government's eco-car subsidy expired and to earthquake damage. Sales outside Japan declined 10.3%, but were on par with the previous year when excluding the impact of exchange rate fluctuations. Sales of desktop PCs in Europe grew steadily, but remained anemic in the US and Asia. Sales of mobilewear devices outside Japan were on par with the prior fiscal year.

Operating income was ¥22.6 billion ($273 million), a decrease of ¥18.0 billion compared to the previous fiscal year. In Japan, income was adversely impacted by downward pricing pressure for feature phones*[3] in the mobile phone business, as well as an increase of development expenses related to smartphones and other devices. The earthquake and other factors also caused sales of PCs and mobilewear devices to decline. Outside Japan, in fiscal 2009, there was a one-time decrease in expenses due to settlement with a national copyright organization which reduced copyright levies imposed on PC manufacturers. On the other hand, in fiscal 2010, the Group promoted cost reductions and enhanced cost efficiencies.

*[3] A standard mobile handset which is distinguishable from smartphones, which have functions of personal digital assistants (PDA) and can be customized like a PC.

Regarding the new company established for the merger of the mobile phone businesses of the Company and Toshiba Corporation, on October 1, 2010, Toshiba completed the transfer of its mobile phone operations to the new company, and upon the Company's acquisition of an 80.1% share of the new company, it commenced operations. The Company's existing mobile phone operations will continue to operate as a part of the Company.

Device Solutions

The Device Solutions segment provides cutting-edge technology products, such as LSI devices used in digital home appliances, automobiles, mobile phones and servers, as well as electronic components consisted chiefly of semiconductor packages.

Net sales were ¥630.6 billion ($7,598 million), an increase of 7% compared to fiscal 2009. Excluding the impact of foreign exchange fluctuations, sales increased by 11%. Sales in Japan increased 8.9%. Sales of LSI devices increased due to mass production of CPUs for Japan's Next-Generation Supercomputer system, as well as the recovery in demand for mobile phones and automotive devices. The acquisition of a nickel-hydride battery business also contributed to higher sales of electronic components. Sales outside Japan increased 4.7% and by 13% when excluding the impact of exchange rate fluctuations. Sales of LSI devices in Asia, Europe and the US increased. Despite the transfer of the communications devices business to Taiyo Yuden Co. Ltd. in fiscal 2009, there was an increase in sales of semiconductor packages associated with the expansion of the PC and other markets, primarily in the US. The acquisition of the nickel-hydride battery business also had a positive impact.

Operating income was ¥20.9 billion ($253 million), an improvement of ¥30.0 billion over the previous fiscal year. In Japan, although LSI devices business income was negatively affected by earthquake-related production stoppages, overall income improved as a result of lower fixed overhead costs enabled by realigning production facilities and enhancing efficiencies in administrative operations, as well as the maintenance of a high capacity utilization rate at factories in Japan up until the earthquake. Income in the electronic components business also increased as a result of higher sales and cost reductions. Outside Japan, increased sales and cost reductions in the LSI and electronic components businesses outweighed the negative effects of exchange rate fluctuations and resulted in higher income.

Other Operations/Elimination and Corporate

This category includes operations not included in the reportable segments, such as Japan's Next-Generation Supercomputer project, facility services and the development of information systems for Group companies, and welfare benefits for Group employees. Fiscal 2009 figures for the HDD business, transferred on October 1, 2009, are included in this category.

This category also includes expenses which are not classified into an operating segment. The expenses consist of strategic expenses such as basic research and development expenses, as well as group management shared expenses incurred by the Company.

The category posted an operating loss of ¥73.9 billion ($891 million), representing an improvement of ¥16.9 billion over fiscal 2009.

The improvement was the result of the October 2009 transfer of the loss-generating HDD business, and the loss reserves posted in the previous fiscal year for anticipated expenses associated with the Next-Generation Supercomputer system.

Geographic Information

One of the Group's management priorities is to increase sales and raise profitability of its business in growing markets outside Japan. Geographic financial information is important to the Group's business management and is useful for shareholders and investors in understanding the Group's financial overview.

(Unit: billion yen)

Years ended March 31		2010	**2011**	YoY Change	Change (%)
Japan	Net sales	3,400.5	**3,389.2**	(11.3)	(0.3)
	Operating income	166.3	**215.7**	49.4	29.7
Europe, Middle East, Africa (EMEA)	Net sales	975.6	**849.5**	(126.0)	(12.9)
	Operating income	(2.6)	**(18.4)**	(15.8)	—
The Americas	Net sales	293.8	**298.4**	4.5	1.6
	Operating income	1.8	**2.6**	0.8	46.9
Asia-Pacific (APAC) & China	Net sales	505.4	**405.1**	(100.2)	(19.8)
	Operating income	12.9	**11.0**	(1.9)	(15.1)
Elimination & Corporate	Net sales	(496.0)	**(414.0)**	81.9	—
	Operating income	(84.1)	**(78.3)**	5.7	—
Consolidated	Net sales	4,679.5	**4,528.4**	(151.1)	(3.2)
	Operating income	94.3	**132.5**	38.2	40.5

Japan

Net sales amounted to ¥3,389.2 billion ($40,835 million), roughly on par with fiscal 2009. Despite growth in sales of LSI devices and electronic components and the benefits of the Company and Toshiba Corporation mobile phone business merger, sales were impacted by the transfer of the HDD business in the previous fiscal year, as well as lower sales resulting from the Great East Japan Earthquake. Sales of system integration services were sluggish due to continued corporate spending constraints. Operating income in Japan was ¥215.7 billion ($2,599 million), a year-on-year increase of ¥49.4 billion. Income improved as a result of a reduction in retirement benefit expenses, progress in restructuring the LSI devices business, and the positive effect of transferring the loss-generating HDD business.

EMEA

Net sales amounted to ¥849.5 billion ($10,236 million), down 12.9% from fiscal 2009. Excluding the impact of currency fluctuations, net sales remained on par with the previous fiscal year. Despite growth in x86 server sales in continental Europe, mainly in Germany, overall sales were undercut by the transfer of the HDD business and the impact of UK government fiscal austerity measures on the services business. EMEA recorded an operating loss of ¥18.4 billion ($223 million), a decline of ¥15.8 billion from the previous fiscal year. Despite the benefit of the completion in fiscal 2009 of goodwill amortization stemming from the acquisition of ICL PLC (now Fujitsu Services Holdings PLC) in the UK, the region posted a loss as a result of lower sales to the government in the UK services business, as well as the one-time recognition of upfront costs and other expenses associated with the cancellation of certain long-term services contracts. While retirement benefit costs of a UK subsidiary increased in fiscal 2010 due to higher obligations at the end of the previous fiscal year, pension system revisions led to the recording of one-time gain that exceeded the additional costs.

The Americas

Net sales were ¥298.4 billion ($3,596 million), an increase of 1.6% from fiscal 2009. Excluding the impact of foreign exchange rate fluctuations, sales increased 8%. In addition to the steady growth of sales of optical transmissions systems, sales of LSI devices, electronic components, and car audio and navigation systems also increased, mainly during the first half of the fiscal year. Although sales of service business to the Canadian government experienced strong sales, demand in the US private sector was slightly decreased. Operating income for the region amounted to ¥2.6 billion ($32 million), an improvement of ¥0.8 billion from fiscal 2009 as a result of higher sales of optical transmissions systems and other factors.

APAC & China

Net sales were ¥405.1 billion ($4,882 million), a year-on-year decline of 19.8%. Operating income was ¥11.0 billion ($133 million), representing a decrease of ¥1.9 billion over fiscal 2009, reflecting the transfer of the HDD business and other factors.

3. Capital Resources and Liquidity

Assets, Liabilities and Net Assets

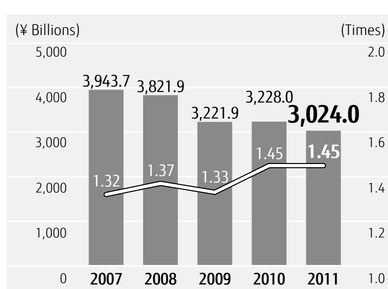
Consolidated total assets at the end of fiscal 2010 were ¥3,024.0 billion ($36,435 million), a decrease of ¥203.9 billion compared to the end of fiscal 2009. Current assets totaled ¥1,760.6 billion ($21,212 million), a decrease of ¥111.3 billion compared to the end of fiscal 2009. The decline was due to the use of cash on hand to redeem corporate bonds along with a decrease in trade receivables due to lower fourth quarter sales following the Great East Japan Earthquake and a decrease in revenue from the services business outside of Japan. Inventories at the end of fiscal 2010 totaled ¥341.4 billion ($4,114 million), up ¥19.1 billion from the end of the previous fiscal year. This increase was attributable to the commencement of full-scale production and delivery of the Next-Generation Supercomputer system and to the effect of the earthquake on primarily the PC and mobile phone businesses. The monthly inventory turnover ratio, which is an indication of asset utilization efficiency, was 1.02 times, a deterioration of 0.02 times from end of the previous fiscal year. Investments and long-term loans were ¥372.8 billion ($4,492 million), a decrease of ¥41.2 billion compared to the end of the preceding fiscal year, partly due to the redemption of investment securities. Property, plant and equipment totaled ¥638.6 billion ($7,694 million), a decline of ¥24.0 billion, and intangible assets totaled ¥251.9 billion ($3,036 million), a decline of ¥27.2 billion. The declines were a result of capital expenditure below the level of depreciation, and appreciation of yen mainly affecting European subsidiaries' figures in consolidation.

Total liabilities were ¥2,070.3 billion ($24,944 million), a decrease of ¥209.3 billion from the end of fiscal 2009. The balance of interest-bearing loans was ¥470.8 billion ($5,673 million), a decrease of ¥106.6 billion from the end of fiscal 2009, due primarily to the redemption of ¥100.0 billion of convertible bonds at maturity mainly in cash on hand. In addition, because of higher company contributions to offset the unrecognized obligation for retirement benefits, accrued retirement benefits decreased ¥24.8 billion from the end of fiscal 2009. Due to repayment of interest-bearing loans, the D/E ratio was 0.57 times, an improvement of 0.15 percentage point compared to the end of fiscal 2009, and the net D/E ratio dropped to 0.14 times, an improvement of 0.06 percentage point compared to the end of the preceding fiscal year. Both the D/E ratio and the net D/E ratio marked the lowest levels historically attained by the Group.

Net assets were ¥953.7 billion ($11,491 million), an increase of ¥5.4 billion from the end of the previous fiscal year. Despite a ¥17.1 billion decrease in minority interests in conjunction with the conversion of PFU Limited into a wholly owned subsidiary and a ¥15.4 billion decrease in accumulated other comprehensive income due to foreign currency translation adjustments in line with yen appreciation, shareholders' equity increased ¥38.0 billion from the end of fiscal 2009 because of the net income recorded in fiscal 2010. The owners' equity ratio was 27.2%, an increase of 2.5 percentage points over the end of fiscal 2009.

Regarding the unrecognized obligation for retirement benefits*[4], the level in Japan increased by ¥38.6 billion year on year, to ¥315.2 billion ($3,798 million) at the end of fiscal 2010, due to worsened performance of pension plan assets under management. Outside Japan,

**Total Assets/
Total Assets Turnover Ratio***

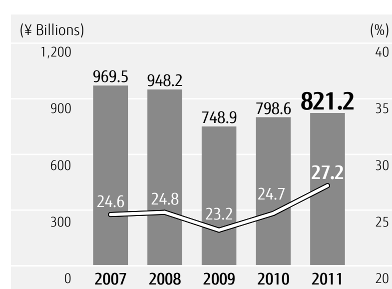


(As of March 31)

■ Total Assets (Left Scale)
⊂⊃ Total Assets Turnover Ratio (Right Scale)

* Net Sales divided by Average Total Assets

Owners' Equity/Owners' Equity Ratio



(As of March 31)

■ Owners' Equity (Left Scale)
⊂⊃ Owners' Equity Ratio (Right Scale)

the level declined by ¥35.7 billion to ¥74.3 billion ($895 million). In addition, the future minimum lease payment required under non-cancelable operating leases at the end of fiscal 2010 decreased by ¥12.4 billion from the end of fiscal 2009 to ¥85.6 billion ($1,032 million).

*4 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.

Condensed Consolidated Balance Sheets

(Unit: billion yen)

As of March 31	2010	**2011**	YoY Change
Assets			
Current assets	1,871.9	**1,760.6**	(111.3)
Investments and long-term loans	414.1	**372.8**	(41.2)
Property, plant and equipment	662.7	**638.6**	(24.0)
Intangible assets	279.2	**251.9**	(27.2)
Total assets	3,228.0	**3,024.0**	(203.9)
Liabilities			
Current liabilities	1,560.0	**1,507.8**	(52.2)
Long-term liabilities	719.6	**562.5**	(157.1)
Total liabilities	2,279.6	**2,070.3**	(209.3)
Net assets			
Shareholders' equity	865.8	**903.9**	38.0
Accumulated other comprehensive income	(67.1)	**(82.6)**	(15.4)
Minority interests in consolidated subsidiaries	149.6	**132.4**	(17.1)
Total net assets	948.3	**953.7**	5.4
Total liabilities and net assets	3,228.0	**3,024.0**	(203.9)
Cash and cash equivalents at end of year	420.1	**358.5**	(61.5)
Interest-bearing loans	577.4	**470.8**	(106.6)
Net interest-bearing loans	157.2	**112.2**	(45.0)
Owners' equity	798.6	**821.2**	22.5

Notes: Year-end balance of cash and cash equivalents: Cash and time deposits + Investment securities – Time deposits and investment securities with a maturity of greater than three months
Year-end balance of interest-bearing loans: Short-term borrowings and current portion of bonds payable (Current liabilities) + Long-term borrowings and bonds payable (Non-current liabilities)
Net debt (Interest-bearing loans – cash and cash equivalents)
Owners' equity: Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries

Reference: Financial Indicators

(Unit: billion yen)

Years ended March 31	2010	**2011**	YoY Change
Inventories	322.3	**341.4**	19.1
[inventory turnover ratio]	[14.88]	**[13.65]**	[(1.23)]
[Monthly inventory turnover rate]	[1.04]	**[1.02]**	[(0.02)]
Shareholders' equity ratio	26.8%	**29.9%**	3.1%
Owners' equity ratio (%)	24.7%	**27.2%**	2.5%
D/E ratio (times)	0.72	**0.57**	(0.15)
Net D/E ratio (times)	0.20	**0.14**	(0.06)

Note: Inventory turnover ratio: Net sales ÷ {(Beginning balance of inventories + year-end balance of inventories) ÷ 2}
Monthly inventory turnover: Net sales ÷ Average inventories during period* ÷ 12
Shareholders' equity ratio: Shareholders' equity ÷ Total assets
Owners' equity ratio: (Net assets – Subscription rights to shares – Minority interests in consolidated subsidiaries) ÷ Total assets
D/E ratio: Interest-bearing loans ÷ Owners' equity
Net D/E ratio: Net debt (Interest-bearing loans – cash and cash equivalents) ÷ Owners' equity

* Average inventories during period are calculated as the average of the ending balance of inventories for each of the four quarters of the fiscal year.

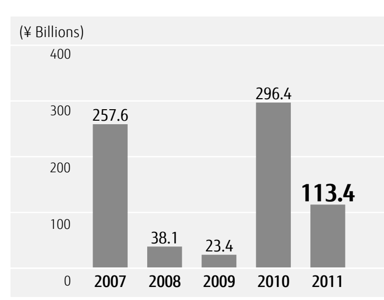
Cash Flows

Net cash flows provided by operating activities during fiscal 2010 were ¥255.5 billion ($3,079 million), a year-on-year decrease of ¥39.8 billion. The decrease was the result of an increase in inventories stemming from the initiation of full-scale production and delivery of the Next-Generation Supercomputer system and the effect of the earthquake. Other factors were the payment during fiscal 2010 of costs associated with both the restructuring initiatives in the services business in Europe and a settlement with a German copyright organization on royalty payments related to the personal reproduction of copyrighted materials by PC users from the previous year.

Net cash used in investing activities was ¥142.1 billion ($1,712 million). Although there was cash inflow from the sale of investment securities and from the final sale of shares in conjunction with the transfer of the HDD business in the prior fiscal year, there were outflows of ¥122.2 billion ($1,473 million) for the acquisition of property, plant and equipment, primarily for use in outsourcing services, and ¥59.6 billion ($719 million) for the acquisition of intangible assets, resulting in higher cash outflows of ¥143.1 billion compared with the previous fiscal year. During fiscal 2009, there was an inflow of ¥116.8 billion from the sale of investment securities, including shares in FANUC Ltd., in accordance with FANUC's solicitation to repurchase its shares, an inflow of ¥50.4 billion in conjunction with the conversion of Fujitsu Technology Solutions (Holding) B.V. and FDK Corporation into consolidated subsidiaries and the aggregation of the companies' cash and cash equivalents, and an inflow of ¥17.5 billion in line with the transfer of the HDD and other business.

Free cash flow (the sum of cash flows from operating and investing activities) was positive ¥113.4 billion ($1,367 million), representing a decrease of ¥182.9 billion year on year. Excluding one-time items, such as proceeds from sales of investment securities, free cash flow decreased by ¥38.2 billion.

Free Cash Flow



Net cash used in financing activities was ¥166.9 billion ($2,011 million). Although the company issued ¥50.0 billion in straight bonds in October 2010 to cover the redemption of ¥50.0 billion in straight bonds maturing in November 2010, the company also redeemed ¥100.0 billion in convertible bonds maturing in fiscal 2010, primarily in cash on hand. Moreover, in addition to year-end and interim dividend payments of ¥23.1 billion in line with the increase in dividends from the prior fiscal year, there was also a payment of ¥9.4 billion for the acquisition of shares from minority shareholders in conjunction with the conversion of PFU Limited into a wholly owned subsidiary. Compared to fiscal 2009, when ¥300.0 billion in corporate bonds was redeemed, there was a decrease in outflows of ¥238.3 billion.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2010 totaled ¥358.5 billion ($4,320 million), down ¥61.5 billion from a year earlier.

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, 2011, the Group had liquidity of ¥561.3 billion ($6,763 million), of which ¥358.5 billion ($4,320 million) was cash and cash equivalents and ¥202.7 billion ($2,443 million) was the yen value of unused commitment lines.

To raise 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, 2011, 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.

Condensed Consolidated Statements of Cash Flows

(Units: billion yen)

Fiscal year ended March 31	2010	**2011**	YoY Change
I Cash flows from operating activities	295.3	**255.5**	(39.8)
II Cash flows from investing activities	1.0	**(142.1)**	(143.1)
I+II Free cash flow	296.4	**113.4**	(182.9)
[Excluding one-time items]	[111.6]	**[73.3]**	[(38.2)]
III Cash flows from financing activities	(405.3)	**(166.9)**	238.3
IV Cash and cash equivalents at end of year	420.1	**358.5**	(61.5)

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

4. Capital Expenditure

In fiscal 2010, capital expenditure totaled ¥130.2 billion ($1,569 million), an increase of 3.0% from ¥126.4 billion spent in the previous fiscal year. In the Technology Solutions segment, capital expenditures totaled ¥67.2 billion ($810 million) for expansion of datacenters in Japan, including the opening of the Yokohama datacenter, along with datacenters in Australia and other regions outside Japan. In the Ubiquitous Solutions segment, the Group spent ¥15.5 billion ($188 million), mainly for new models of PC and mobile phone, along with manufacturing facilities for car audio and navigation systems. In the Device Solutions segment, expenditures totaled ¥39.4 billion ($475 million), mainly for LSI device manufacturing facilities and facilities to increase production of electronic components.

5. Consolidated Subsidiaries

As of the end of fiscal 2010, the number of consolidated subsidiaries in Japan totaled 198, and the number outside Japan totaled 337, for a total of 535 subsidiaries, down five from 540 subsidiaries in fiscal 2009.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 15, five less than a year earlier.

6. Critical Accounting Policies and Estimates

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 assumptions and estimates 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 the amounts assessed as non-recoverable as losses. 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 and the NRV, 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. As such, there is a risk that depreciation expenses may increase.

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

Software

Computer software for sale is amortized by a method based on projected sales volume over the estimated life. Computer software for internal use is amortized by the straight-line method over the useful life. Should actual sales volumes fail to meet initial projected volumes, or should actual useful life in the future be less than the original estimate, there is a risk that amortization expenses may increase.

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 profitability of the acquired business decreases, or if the Group withdraws from or sells the business 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 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). Notwithstanding these efforts, 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 once 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.