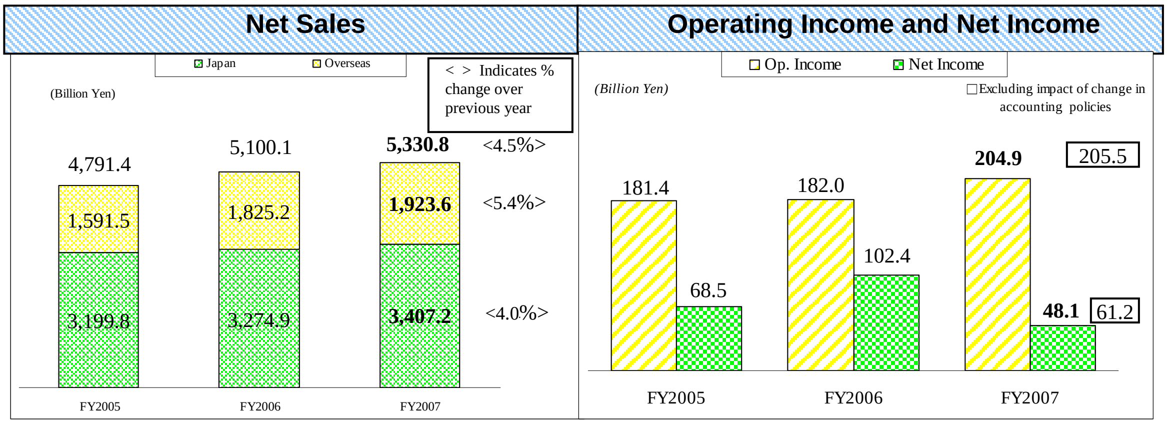
2. Profit and Loss

Note: In these explanatory materials, the yen figures for net sales, operating income, and other figures are converted into US$ amounts for reference purposes, at a rate of $1=100 yen, the approximate Tokyo foreign exchange market rate on March 31, 2008.



Consolidated net sales for fiscal 2007 were 5,330.8 billion yen (US$53,308 million), an increase of 4.5% over the previous fiscal year. All business segments posted higher sales, led by strong results in the Services and PC/Mobile Phones sub-segments. Sales in Japan increased by 4.0% over the previous year. Although sales of mobile phone base stations and standard logic technology products were sluggish, sales in the Services business were strong, with higher sales of system integration services, particularly in the financial services sector, and outsourcing services. In addition, sales of PCs, mobile phones and 90nm advanced logic products increased. Sales outside of Japan increased by 5.4% over the previous year. Sales increased in the Services business as a result of acquisitions as well as strong performance in our existing businesses. Moreover, sales of UNIX servers, optical transmission systems and PCs also increased outside Japan.

Consolidated operating income was 204.9 billion yen (US$2,049 million), an increase of 22.9 billion yen over the previous fiscal year, and the operating income margin improved by 0.2 percentage point to 3.8%. Excluding the impact of changes in accounting policies that were implemented this fiscal year, consolidated operating income was 205.5 billion yen, a year-on-year increase of 23.4 billion yen. The improvement in operating income was the result of higher gross income, which increased as a result of such factors as the contribution of higher sales and cost savings for components. These factors outweighed a provision for the loss of an unprofitable Services business project outside Japan and intensified price competition in HDDs for notebook PCs during the first half of the fiscal year. Selling, general and administrative expenses increased by 29.8 billion yen over the previous fiscal year as a result of such factors as an increase in selling expenses related to higher sales, an expansion in the scale of our overseas Services businesses due to acquisitions in Europe and elsewhere, and upfront, strategic investments in such fields as next-generation networks. As a percentage of total sales, however, selling, general and administrative costs fell by 0.4 point in comparison with the previous fiscal year.

In other income and expenses, we posted a 14.5 billion yen currency translation adjustment loss resulting from the steep appreciation of the yen in the fourth quarter. In addition, we recorded a 17.3 billion gain from the sale of shares in affiliates and a 2.0 billion yen gain in relation to the public listing of Chinese affiliate Nantong Fujitsu Microelectronics. On the other hand, a steep decline in the market value of our shareholdings in Spansion Inc. in the US was the primary reason for a revaluation loss of 25.1 billion yen. We also recorded a loss of 25.0 billion yen on account of a revaluation loss on inventories in conjunction with the early adoption of a new accounting policy for the valuation of inventories introduced from this fiscal year. In addition, as part of the restructuring of our LSI product business, we recorded losses totaling 22.1 billion yen, covering impairment losses on property, plant and equipment and expenses related to the relocation of the Akiruno Technology Center's development work and mass-production prototyping functions to the Mie Plant and the related disposal of certain equipment.

As a result of the above factors, we reported fiscal 2007 consolidated net income of 48.1 billion yen (US$481 million), a decrease of 54.3 billion yen compared to fiscal 2006. Excluding the impact of changes in accounting policies that were implemented this fiscal year, consolidated net income was 61.2 billion yen (US$612 million), a decrease of 41.2 billion yen from the previous fiscal year. The decline in net income is attributable in part to other income of 77.3 billion yen recorded in the previous year on sales of shares in Fanuc Ltd. and other companies. Although the income tax liability increased as a result of such factors as higher dividend income from subsidiaries outside of Japan, around 18.0 billion yen of the valuation allowance from deferred tax assets was returned and recorded as income, due to the tax benefit of an increase in the number of companies subject to consolidated corporate taxation and higher profits from business operations.

The company maintains significant loss carryforwards for corporate tax purposes in relation to structural business reforms carried out in the past. Before or in fiscal 2004, the company booked approximately 150.0 billion yen in accumulated valuation allowances for deferred tax assets in excess of the amount expected to be returned over a five-year period. Though the company has conservatively estimated the amount of loss carryforwards, since the recovery of loss carryforwards was proceeding faster than the initial plan as of March 31, 2008, the company booked a portion of the allowance this term.