Notes to Consolidated Financial Statements

Fujitsu Limited and Consolidated Subsidiaries

1. Significant Accounting Policies

(a) Basis of presenting consolidated financial statements and the principles of consolidation

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the regulations under the Securities and Exchange Law of Japan and accounting principles and practices generally accepted in Japan. The consolidated subsidiaries outside Japan have adopted the accounting principles and practices in their respective countries. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan.

Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards ("IFRS") and accounting principles and practices in other countries in certain respects as to applications and disclosure requirements. The differences between the accounting principles and practices adopted by the Group and those prescribed by IFRS are set forth in Note 2.

The consolidated financial statements include the accounts of the Company and, with minor exceptions, those of its majority-owned subsidiaries.

The acquisition of companies is accounted for by the purchase method. Goodwill represents the excess of the acquisition cost over the fair value of the net assets of the acquired companies.

Investments in affiliates, with minor exceptions, are accounted for by the equity method.

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

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

The adoption of IFRS had the effect to decrease net sales by ¥5,032 million ($42,644 thousand) and increased operating income and income before income taxes and minority interests by ¥6,109 million ($51,771 thousand) and ¥5,192 million ($44,000 thousand), respectively. The impact of this change to the segment information is set forth in Note 19.

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

As a result of the above changes, cumulative effect as of April 1, 2005 of ¥85,980 million ($728,644 thousand) had been charged to retained earnings (deficit).

(b) Cash equivalents

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

(c) Translation of foreign currency accounts

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign currency exchange rates in effect at the respective balance sheet dates.

The assets and liabilities accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Income and expense accounts are translated at the average exchange rate during the year. The resulting translation adjustments are recorded in a separate component of shareholders' equity as "foreign currency translation adjustments."

(d) Revenue recognition

Revenue from sales of IT systems and products excluding customized software under development contracts (the "customized software") is recognized upon acceptance by the customers, whereas, revenue from sales of personal computers, other equipment and electronic devices is recognized when the products are shipped.

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

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

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

As a result of this change, sales and cost of sales increased ¥10,399 million ($88,127 thousand) and ¥8,833 million ($74,856 thousand), respectively; operating income and income before income taxes and minority interests both increased ¥1,566 million ($13,271 thousand). The impact of this change to the segment information is set forth in Note 19.

(e) Marketable securities

Marketable securities included in "short-term investments" and "investments and long-term loans" are classified as either held-to-maturity investments, which are the debt securities which the Group has the positive intent and ability to hold to maturity, or available-for-sale securities, which are "equity securities" or "debt securities not classified as held-to-maturity."

Held-to-maturity investments are stated at amortized cost, adjusted for the amortization of premium or accretion of discounts to maturity. The cost of available-for-sale securities sold is calculated by the moving average method.

Available-for-sale securities are carried at fair market value, with the unrealized gains or losses, net of taxes, reported in a separate component of shareholders' equity.

(f) Allowance for doubtful accounts

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

(g) Inventories

Finished goods are mainly stated at cost determined by the moving average method.

Work in process is mainly stated at cost determined by the specific identification method or the average cost method.

Raw materials are mainly stated at cost determined by the moving average method or the most recent purchase price method.

(h) Property, plant and equipment and depreciation

Property, plant and equipment, including renewals and additions, are carried at cost. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation is computed principally by the declining balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function.

Certain property, plant and equipment are impaired based on consideration of their future usefulness. Accumulated impairment loss is subtracted directly from each asset.

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

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

(i) Intangible assets

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

Computer software for sale is amortized based on the current year sales units to the projected total products' sales units. Computer software for internal use is amortized by the straight-line method over the estimated useful lives.

Other intangible assets are amortized by the straight-line method at the rates based on the estimated useful lives of the respective assets.

(j) Leases

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

(k) Provision for product warranties

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

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

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

In comparison with previous methods, the adoption of this policy represents a reduction in operating income of ¥3,029 million ($25,670 thousand) and, as a result of recording provision for prior product warranties of ¥7,413 million ($62,822 thousand) as an expense in "other income (expenses)," a reduction of ¥10,442 million ($88,492 thousand) in income before income taxes and minority interests. The impact of this change to the segment information is set forth in Note 19.

(l) Retirement benefits

The Company and the majority of the consolidated subsidiaries have retirement benefit plans.

Under the significant defined benefit plans, the actuarial valuation used to determine the pension costs is the projected unit credit method.

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

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

(m) Provision for loss on repurchase of computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. ("JECC") and other leasing companies for leasing to ultimate users under contracts which require the Group to repurchase the computers if they are returned by the users after a certain period. Based on past experience, an estimated amount for the loss arising from such repurchases is provided at the point of sales and is charged to income.

(n) Income taxes

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

(o) Earnings per share

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stocks issuable upon the exercise of warrants and the conversion of convertible bonds.

(p) Derivative financial instruments

The Group uses derivative financial instruments for the purpose of hedging against the risk of fluctuations in interest rates and foreign exchange rates on receivables and payables denominated in foreign currencies.

All derivative financial instruments are stated at fair market value.

The Group defers gain or loss on changes in the fair market values of the derivative financial instruments on the balance sheet until gain or loss on the hedged items are recognized.

2. *Differences with International Financial Reporting Standards*

A brief description of the material differences between IFRS and Japanese GAAP relevant to the Group is set out below. The Group has not completed the assessment to identify or quantify the impact of all such differences. The description below is therefore prepared based on the Group's current assessment and consideration at March 31, 2006. Additionally, the Group has not made any attempts to identify or quantify any differences between IFRS and Japanese GAAP, which may result from changes in both or either accounting principles and practices in the future.

This note is out of scope of the audit.

Inventories

Under IAS 2, inventories should be stated at the lower of their historical cost or net realizable value. The Group evaluates inventories mainly at cost as indicated in Note 1. (g) Inventories. The effects on the aggregate value of inventories based on IAS 2 are not calculated. However, the Group takes into consideration the recoverability of inventories based on future business environments.

Goodwill

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

Retirement benefits

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

Scope of consolidation

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

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

Uniformity of accounting policies

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

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

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

3. *U.S. Dollar Amounts*

The Company and its consolidated subsidiaries in Japan maintain their books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into U.S. dollars at ¥118 = US$1, the approximate exchange rate at March 31, 2006.

The U.S. dollar amounts are presented solely for the convenience of readers and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in U.S. dollars at the above or any other rate.

4. *Marketable Securities*

At March 31, 2005 and 2006, marketable securities included in "short-term investments" and "other investments and long-term loans" were as follows:

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Held-to-maturity investments			
Carrying value (Amortized cost)	¥ 1,414	**¥ 901**	**$ 7,635**
Market value	1,436	**892**	**7,559**
Net unrealized gain (loss)	¥ 22	**¥ (9)**	**$ (76)**
Available-for-sale securities			
Acquisition costs	¥ 62,158	**¥ 65,323**	**$ 553,585**
Carrying value (Market value)	228,429	**369,039**	**3,127,449**
Net unrealized gain (loss)	¥166,271	**¥303,716**	**$2,573,864**

5. *Inventories*

Inventories at March 31, 2005 and 2006 consisted of the following:

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Finished goods	¥186,555	**¥180,656**	**$1,530,983**
Work in process	211,090	**142,673**	**1,209,093**
Raw materials	80,865	**85,381**	**723,568**
	¥478,510	**¥408,710**	**$3,463,644**

6. *Investments in Affiliates*

The Company accounts for investments in affiliates by the equity method with minor exceptions.

A summary of the financial information of the affiliates accounted for by the equity method is presented below:

At March 31	Yen (millions) 2005	2006	U.S. Dollars (thousands) 2006
Current assets	¥585,081	**¥ 813,649**	**$ 6,895,330**
Non-current assets	392,281	**598,677**	**5,073,534**
	977,362	**1,412,326**	**11,968,864**
Current liabilities	604,384	**778,905**	**6,600,890**
Long-term liabilities	224,153	**238,405**	**2,020,381**
Net assets	¥148,825	**¥ 395,016**	**$ 3,347,593**

Years ended March 31	Yen (millions) 2004	2005	2006	U.S. Dollars (thousands) 2006
Net sales	¥1,393,351	¥1,603,931	**¥1,774,230**	**$15,035,847**
Net income (loss)	39,994	45,934	**(16,235)**	**(137,585)**

Decrease in net income (loss) for the year ended March 31, 2006 mainly consisted of the deconsolidation of Advantest Corporation due to sales of its shares for the year ended March 31, 2005, and the expansion of net loss of Spansion Inc. for the year ended March 31, 2006.

The carrying and market values of the shares of the publicly listed equity method affiliates at March 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Carrying value	¥ 9,838	**¥65,261**	**$553,059**
Market value	30,465	**88,286**	**748,186**

Carrying value and Market value at March 31, 2006, mainly consisted of increase due to the listing of Spansion Inc. on the NASDAQ exchange.

After the shares in Advantest Corporation were sold for the year ended March 31, 2005, Advantest Corporation was no longer treated as an equity method affiliate.

At March 31, 2005 and 2006, the amount of ¥19,373 million ($164,178 thousand) representing the Company's 29.49% investment in JECC was included in "other investments and long-term loans." The Company does not regard JECC as an affiliate as it is unable to exercise significant influence over JECC's affairs. JECC's principal business is the leasing of computers and peripherals purchased from its six shareholders. At March 31, 2005 and 2006, JECC's issued share capital was ¥65,700 million ($556,780 thousand). Its net sales for the years ended March 31, 2004, 2005 and 2006 amounted to ¥303,285 million, ¥304,482 million and ¥299,993 million ($2,542,314 thousand), respectively.

7. *Property, Plant and Equipment*

Changes in property, plant and equipment resulted from the following:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Land			
Balance at beginning of year, net	¥134,217	**¥115,606**	**$ 979,712**
Additions	32	**276**	**2,339**
Translation differences	113	**414**	**3,508**
Other, net	(18,756)	**(3,235)**	**(27,415)**
Balance at end of year, net	¥115,606	**¥113,061**	**$ 958,144**
Buildings			
Balance at beginning of year, net	¥276,259	**¥254,677**	**$2,158,280**
Additions	16,487	**43,348**	**367,356**
Depreciation	24,531	**26,258**	**222,526**
Translation differences	707	**2,277**	**19,297**
Other, net	(14,245)	**(2,621)**	**(22,212)**
Balance at end of year, net	¥254,677	**¥271,423**	**$2,300,195**

"Other, net" for the year ended March 31, 2005 mainly consisted of decrease due to the transfer of our plasma display panel business and the shifting of compound semiconductor device business subsidiaries from consolidated subsidiaries to equity method affiliates.

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Machinery and equipment			
Balance at beginning of year, net	¥372,679	**¥327,626**	**$2,776,491**
Additions	159,816	**199,530**	**1,690,932**
Depreciation	146,699	**147,587**	**1,250,737**
Translation differences	1,608	**2,570**	**21,780**
Other, net	(59,778)	**(25,320)**	**(214,576)**
Balance at end of year, net	¥327,626	**¥356,819**	**$3,023,890**

"Other, net" for the year ended March 31, 2005 mainly consisted of decrease due to the transfer of our plasma display panel business and the shifting of compound semiconductor device business subsidiaries from consolidated subsidiaries to equity method affiliates.

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Construction in progress			
Balance at beginning of year, net	¥ 19,868	**¥ 29,991**	**$ 254,161**
Additions	121,599	**175,689**	**1,488,890**
Translation differences	13	**12**	**101**
Transfers	(111,489)	**(170,019)**	**(1,440,839)**
Balance at end of year, net	¥ 29,991	**¥ 35,673**	**$ 302,313**

8. *Goodwill*

An analysis of goodwill is presented below:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	2005	**2006**	**2006**
Balance at beginning of year	¥66,045	**¥81,569**	**$691,263**
Additions	25,564	**18,776**	**159,119**
Amortization	11,626	**15,372**	**130,271**
Translation differences	1,586	**277**	**2,347**
Balance at end of year	¥81,569	**¥85,250**	**$722,458**

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2005 and 2006 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Loans, principally from banks, with weighted average interest rates of 1.27% at March 31, 2005 and 2.07% at March 31, 2006:			
Secured	¥ 600	**¥ 760**	**$ 6,440**
Unsecured	101,479	**63,060**	**534,407**
	¥102,079	**¥63,820**	**$540,847**

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Loans, principally from banks and insurance companies, due 2005 to 2020 with the weighted average interest rate of 1.81% at March 31, 2005 and due 2006 to 2020 with the weighted average interest rate of 1.85% at March 31, 2006:			
Secured	¥ 662	**¥ 462**	**$ 3,915**
Unsecured	173,522	**84,131**	**712,974**
Bonds and notes issued by the Company:			
Zero coupon unsecured convertible bonds due 2009	250,000	**250,000**	**2,118,644**
2.875% unsecured bonds due 2006	50,000	**50,000**	**423,729**
3.15% unsecured bonds due 2009	50,000	**50,000**	**423,729**
2.3% unsecured bonds due 2007	50,000	**50,000**	**423,729**
2.325% unsecured bonds due 2008	50,000	**50,000**	**423,729**
3.0% unsecured bonds due 2018	30,000	**30,000**	**254,237**
2.175% unsecured bonds due 2008	50,000	**50,000**	**423,729**
2.15% unsecured bonds due 2008	50,000	**50,000**	**423,729**
0.64% unsecured bonds due 2006	100,000	**100,000**	**847,457**
0.42% unsecured bonds due 2007	50,000	**50,000**	**423,729**
1.05% unsecured bonds due 2010	50,000	**50,000**	**423,729**
Bonds and notes issued by consolidated subsidiaries, due 2005 to 2006 with the weighted average interest rate of 1.35% at March 31, 2005 and due 2011 with the weighted average interest rate of 2.00% at March 31, 2006:			
Unsecured	26,525	**200**	**1,695**
Less amounts due within one year	(107,474)	**(171,028)**	**(1,449,390)**
	¥ 873,235	**¥ 693,765**	**$ 5,879,364**

At March 31, 2006, the Group had committed line contracts with banks aggregating ¥207,850 million ($1,761,441 thousand). Of the total credit limit, ¥32,773 million ($277,737 thousand) was used as the above short-term and long-term borrowings and the rest, ¥175,077 million ($1,483,704 thousand), was unused.

The current conversion price of the zero coupon convertible bonds issued by the Company is ¥1,201.00 per share. Each conversion price is subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 2006, the convertible bonds were convertible into approximately 208 million shares of common stock.

Certain outstanding convertible bonds and notes can be repurchased at any time and may be redeemed at the option of the Company, in whole or in part, at 100% of their principal amounts.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Years ending March 31	Yen (millions)	U.S. Dollars (thousands)
2007	¥171,028	$1,449,390
2008	186,352	1,579,254
2009	102,067	864,975
2010	303,379	2,571,008
2011 and thereafter	101,967	864,127

Convertible bonds are treated solely as liabilities and value inherent in their conversion feature is not recognized as equity in accordance with accounting principles and practices generally accepted in Japan. The total amount of the convertible bonds has been included in "long-term debt."

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2005 and 2006 are principally presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Property, plant and equipment, net	¥3,057	**¥2,790**	**$23,644**

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the banks, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the banks concerned. These general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by default, to offset deposits at the banks against the indebtedness due to the banks.

10. *Retirement Benefits*

The Company and the majority of the consolidated subsidiaries in Japan have unfunded lump-sum retirement plans which, in general, cover all employees who retire before a retirement age prescribed in their internal codes. The employees are entitled to the benefits primarily based on their length of service and basic salary as of the retirement date.

In addition, the Company and the majority of the consolidated subsidiaries in Japan participate in contributory defined benefit plans which cover substantially all employees. The major contributory defined benefit plan (the "Plan"), which is referred to as the Fujitsu Corporate Pension Fund, entitles employees upon retirement at the normal retirement age to either a lump-sum payment or pension annuity payments for life commencing at age 60, or a combination of both based on their length of service, basic salary as of the retirement date and the number of years of participation in the Plan. The contributions of the Company and the subsidiaries covered by the Plan and their employees are made to the Fujitsu Corporate Pension Fund which is an external organization.

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

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

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

<In Japan>

Projected benefit obligation and plan assets

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Projected benefit obligation	¥(1,247,141)	**¥(1,054,075)**	**$(8,932,839)**
Plan assets	876,758	**1,122,751**	**9,514,839**
Projected benefit obligation in excess of plan assets	(370,383)	**68,676**	**582,000**
Unrecognized net obligation at transition	81,653	**65,264**	**553,085**
Unrecognized actuarial loss	314,353	**47,585**	**403,263**
Unrecognized prior service cost (reduced obligation)	(593)	**(176,712)**	**(1,497,560)**
Prepaid pension cost	(110,777)	**(89,847)**	**(761,415)**
Accrued retirement benefits	¥ (85,747)	**¥ (85,034)**	**$ (720,627)**

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

Components of net periodic benefit cost

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Service cost	¥ 53,613	¥ 49,892	**¥ 40,751**	**$ 345,347**
Interest cost	48,004	29,511	**28,133**	**238,415**
Expected return on plan assets	(36,125)	(30,733)	**(28,419)**	**(240,839)**
Amortization of unrecognized obligation for retirement benefits:				
Amortization of net obligation at transition	25,435	16,691	**16,228**	**137,526**
Amortization of actuarial loss	39,578	22,609	**22,943**	**194,432**
Amortization of prior service cost	(8,070)	(5)	**(10,957)**	**(92,856)**
Net periodic benefit cost	¥ 122,435	¥ 87,965	**¥ 68,679**	**$ 582,025**
Gain on transfer of substitutional portion of employees' pension funds	(146,532)	—	**—**	**—**
Total	¥ (24,097)	¥ 87,965	**¥ 68,679**	**$ 582,025**

Applying the transitional provisions as prescribed in paragraph 47-2 of "Practical Guidelines of Accounting and Retirement Benefits-Interim Report" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants), the Company and certain consolidated subsidiaries in Japan accounted for the elimination of the future and past benefit obligations of the substitutional portion as well as the related government-specified portion of the employees' pension plan assets at the date of the approval made in the year ended March 31, 2004.

The assumptions used in accounting for the plans

At March 31	2005	**2006**
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.8%	**3.2%**
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period	**Straight-line method over the employees' average remaining service period**
Method of allocating prior service cost	Straight-line method over 10 years	**Straight-line method over 10 years**
Amortization period for net obligation at transition	10 years	**10 years**

For the year ended March 31, 2001, the Company fully recognized in income its portion of the unrecognized net obligation at transition. For additional plan assets to cover the unrecognized net obligation at transition, the Company placed its holding of marketable securities in trust which was solely established for the retirement benefit plan.

<Outside Japan>

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

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

(NOTE) Guidelines of changes in accounting principles and practices in FS and FTEL are set previously in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation.

Projected benefit obligation and plan assets

At March 31	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Projected benefit obligation	¥(597,236)	$(5,061,322)
Plan assets	448,619	3,801,856
Projected benefit obligation in excess of plan assets	(148,617)	(1,259,466)
Unrecognized actuarial loss	31,924	270,542
Accrued retirement benefits	¥(116,693)	$ (988,924)

Components of net periodic benefit cost

Year ended March 31	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Service cost	¥ 8,205	$ 69,534
Interest cost	27,436	232,509
Expected return on plan assets	(25,370)	(215,000)
Amortization of the unrecognized obligation for retirement benefit:		
Amortization of actuarial loss	81	686
Net periodic benefit cost	¥ 10,352	$ 87,729

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

The assumptions used in accounting for the plans

At March 31	2006
Discount rate	Mainly 5.1%
Expected rate of return on plan assets	Mainly 7.3%
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period

11. Income Taxes

The Group is subject to a number of different income taxes. The statutory tax rates in the aggregate in Japan were approximately 42.0% for the year ended March 31, 2004, and approximately 40.6% for the years ended March 31, 2005 and 2006.

The components of income taxes are as follows:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Current	¥34,125	¥ 32,422	**¥36,831**	**$312,127**
Deferred	58,085	153,131	**196**	**1,661**
Income taxes	¥92,210	¥185,553	**¥37,027**	**$313,788**

The reconciliations between the applicable statutory income tax rate and the effective income tax rate for the years ended March 31, 2004, 2005 and 2006 are as follows:

Years ended March 31	2004	2005	**2006**
Statutory income tax rate	42.0%	40.6%	**40.6%**
Increase (Decrease) in tax rate:			
Tax effect on prior losses on investments in equity method affiliates	—	—	**(9.4%)**
Amortization of goodwill	8.1%	2.1%	**5.3%**
Valuation allowance for deferred tax assets	53.2%	45.7%	**(3.4%)**
Non-deductible expenses for tax purposes	1.7%	1.3%	**2.3%**
Non-taxable income	(0.6%)	(0.5%)	**(0.8%)**
Tax effect on equity in earnings of affiliates, net	(1.1%)	(1.7%)	**0.5%**
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies	26.6%	(2.3%)	**—**
Tax effect on prior losses on investments in subsidiaries	(72.5%)	—	**—**
Other	1.3%	(2.2%)	**(3.7%)**
Effective income tax rate	58.7%	83.0%	**31.4%**

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

At March 31	2005	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Deferred tax assets:			
Tax loss carryforwards	¥ 271,554	¥ 231,784	$ 1,964,271
Accrued retirement benefits	139,585	169,908	1,439,898
Accrued bonus	36,854	40,265	341,229
Provision for loss on repurchase of computers	17,607	14,186	120,220
Intercompany profit on inventory and property, plant and equipment	6,417	5,452	46,204
Other	67,811	67,179	569,314
Gross deferred tax assets	539,828	528,774	4,481,136
Less: Valuation allowance	(289,910)	(243,463)	(2,063,246)
Total deferred tax assets	249,918	285,311	2,417,890
Deferred tax liabilities:			
Unrealized gains on securities	¥ (67,457)	¥(123,270)	$(1,044,661)
Gains from establishment of stock holding trust for retirement benefit plan	(110,617)	(110,617)	(937,432)
Retained earnings appropriated for tax allowable reserves	(8,942)	(8,523)	(72,229)
Other	(548)	(578)	(4,899)
Total deferred tax liabilities	(187,564)	(242,988)	(2,059,221)
Net deferred tax assets	¥ 62,354	¥ 42,323	$ 358,669

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

At March 31	2005	Yen (millions) 2006	U.S. Dollars (thousands) 2006
Other current assets	¥ 75,515	¥ 79,244	$ 671,559
Other investments and long-term loans	40,085	63,400	537,288
Other current liabilities	(690)	(520)	(4,407)
Other long-term liabilities	(52,556)	(99,801)	(845,771)
Net deferred tax assets	¥ 62,354	¥ 42,323	$ 358,669

The Company and the wholly owned subsidiaries in Japan have adopted the consolidated tax return system of Japan.

Tax losses can be carried forward up to 7 years in Japan, 20 years in the United States, and indefinitely in the United Kingdom. Realization depends on the abilities of the companies to generate sufficient taxable income prior to the expiration of the tax loss carryforwards. With respect to deferred tax assets, we recorded a valuation allowance to cover the amount in excess of what we are likely to recover in the future.

Deferred tax liabilities have not been provided on the undistributed profit of affiliates, as it is deemed that any distributions will not give rise to tax liabilities.

12. Shareholders' Equity

The changes in the number of issued shares of common stock for the years ended March 31, 2004, 2005 and 2006 were as follows:

			Number of shares
Years ended March 31	2004	2005	**2006**
Balance at beginning of year	2,001,962,672	2,001,962,672	**2,070,018,213**
Conversion of convertible bonds	—	1,141	**—**
Increase as a result of stock exchange	—	68,054,400	**—**
Balance at end of year	2,001,962,672	2,070,018,213	**2,070,018,213**

An increase as a result of stock exchange for the year ended March 31, 2005 reflected the issuance of shares in October 2004 by which the Company turned Fujitsu Support and Service Inc. into a wholly owned subsidiary.

13. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2006 for purchases of property, plant and equipment were approximately ¥15,496 million ($131,322 thousand).

Contingent liabilities for guarantee contracts amounted to ¥40,092 million ($339,763 thousand) at March 31, 2006. Of the total contingent liabilities, guarantees given mainly for bank loans taken by FDK Corporation, an equity method affiliate of the Company, were ¥13,300 million ($112,712 thousand) and for employees' housing loans were ¥8,219 million ($69,653 thousand).

14. Derivative Financial Instruments

Purpose of Derivative Trading

The Group enters into derivative transactions related to foreign currency exchange rates and interest rates in order to reduce risk exposure arising from fluctuations in these rates, to reduce the cost of the funds financed, and to improve return on invested funds.

Basic Policies for Derivative Trading

The Group basically enters into derivative transactions only to cover actual requirements for the effective management of receivables/liabilities, and not for speculative or dealing purposes.

The Group, in principle, has no intention to use derivative financial instruments that would increase market risks. Furthermore, the counterparties to the derivative transactions are thoroughly assessed in terms of their credit risks. Therefore, the Group believes that its derivative financial instruments entail minimal market and credit risks.

Control of Derivative Trading

The Group enters into derivative transactions based on regulations established by the Company, and controls the risk of the transaction by assessing the efficiency of its hedging.

Hedge Accounting

The Group adopts hedge accounting for its derivative transactions.

Gains or losses on changes in the fair market values of the hedging instruments, which consist of forward exchange, option and swap contracts and related complex contracts, are recognized in income when the relating hedged items are reflected in income.

Fair Value of Derivative Financial Instruments:

At March 31, 2005 and 2006, all derivative financial instruments were stated at fair market value and recorded on the balance sheets.

15. *Leases*

The following is a summary of equivalent amounts of acquisition cost, accumulated depreciation, book value of leased assets, and minimum lease payments required under finance leases, which were recorded in the corresponding asset accounts, at March 31, 2005 and 2006.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Equivalent amounts of acquisition cost	¥163,712	**¥198,400**	**$1,681,356**
Accumulated depreciation	102,974	**117,607**	**996,670**
Book value of leased assets	60,738	**80,793**	**684,686**
Minimum lease payments required			
Within one year	23,486	**29,623**	**251,042**
Over one year but within five years	42,002	**60,545**	**513,093**
Over five years	2,133	**16,355**	**138,602**
Total	¥ 67,621	**¥106,523**	**$ 902,737**

The following is a summary of future minimum lease payments required under non-cancelable operating leases in the aggregate and for each of the following periods.

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Within one year	¥10,766	**¥ 9,554**	**$ 80,966**
Over one year but within five years	28,961	**23,730**	**201,102**
Over five years	18,843	**14,415**	**122,161**
Total	¥58,570	**¥47,699**	**$404,229**

16. *Supplementary Information to the Consolidated Balance Sheets*

Receivables, trade from and payables, trade to affiliates at March 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Receivables, trade	¥36,847	**¥42,816**	**$362,847**
Payables, trade	64,038	**85,332**	**723,153**

Provision for product warranties included in "Other current liabilities" at March 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2005	**2006**	**2006**
Provision for product warranties	¥6,456	**¥16,993**	**$144,008**

Provision for product warranties at March 31, 2005 was related to certain products of consolidated subsidiaries.

17. *Earnings Per Share*

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Net income	¥49,704	¥31,907	**¥68,545**	**$580,890**
Bonuses to directors and statutory auditors from retained earnings (deficit)	(596)	(548)	**(658)**	**(5,576)**
Net income for common stock shareholders	49,108	31,359	**67,887**	**575,314**
Effect of dilutive securities	(1)	29	**(648)**	**(5,492)**
Diluted net income	¥49,107	¥31,388	**¥67,239**	**$569,822**

			thousands
Weighted average number of shares	2,000,366	2,034,114	**2,067,787**
Effect of dilutive securities	208,159	230,778	**208,159**
Diluted weighted average number of shares	2,208,525	2,264,892	**2,275,946**

			Yen	U.S. Dollars
Basic earnings per share	¥24.55	¥15.42	**¥32.83**	**$0.278**
Diluted earnings per share	22.24	13.86	**29.54**	**0.250**

18. *Supplementary Information to the Consolidated Statements of Operations*

Research and development expenses charged to "selling, general and administrative expenses" for the years ended March 31, 2004, 2005 and 2006 were ¥250,910 million, ¥240,222 million and ¥241,566 million ($2,047,169 thousand), respectively.

"Other income (expenses)—other, net" for the years ended March 31, 2004, 2005 and 2006 consisted of the following:

			Yen (millions)	U.S. Dollars (thousands)
Years ended March 31	2004	2005	**2006**	**2006**
Settlement gain	¥ —	¥ —	**¥ 15,957**	**$ 135,229**
Gain on business transfer	—	36,534	**3,455**	**29,280**
Gain on sales of marketable securities	134,624	133,299	**—**	**—**
Gain on transfer of substitutional portion of employees' pension funds	146,532	—	**—**	**—**
Gain on sales of property, plant and equipment	13,649	—	**—**	**—**
Amortization of unrecognized obligation for retirement benefits	(56,943)	(39,295)	**(28,214)**	**(239,102)**
Restructuring charges	(164,202)	(20,085)	**(11,559)**	**(97,958)**
Loss on disposal of property, plant and equipment	(7,142)	(7,668)	**(7,229)**	**(61,263)**
Loss on change in interest	—	—	**(8,413)**	**(71,297)**
Provision for prior product warranties	—	—	**(7,413)**	**(62,822)**
Real estate valuation losses	—	(15,274)	**—**	**—**
HDD litigation-related expenses	(10,220)	—	**—**	**—**
Casualty loss	(4,700)	—	**—**	**—**
Foreign exchange gains (losses), net	(6,972)	2,174	**5,803**	**49,178**
Other, net	(20,425)	(20,437)	**(15,724)**	**(133,254)**
	¥ 24,201	¥ 69,248	**¥(53,337)**	**$(452,009)**

Settlement gain

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

Gain on business transfer

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

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

Gain on sales of marketable securities

Gain on sales of marketable securities for the year ended March 31, 2004 related mainly to the sales of shares in Fanuc Ltd.

Gain on sales of marketable securities for the year ended March 31, 2005 related mainly to the sales of shares in Fanuc Ltd. and Advantest Corporation.

Gain on transfer of substitutional portion of employees' pension funds

Please refer to Note 10 for "gain on transfer of substitutional portion of employees' pension funds" for the year ended March 31, 2004.

Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment for the year ended March 31, 2004 related to securitization of the land and buildings of Fujitsu Solution Square (located in Kamata, Tokyo), and the sales of other properties that had been used for employees' welfare.

Amortization of unrecognized obligation for retirement benefits

Amortization of unrecognized obligation for retirement benefits related mainly to amortization of actuarial loss in Japan and net obligation at transition for the consolidated subsidiaries in Japan.

Restructuring charges

Restructuring charges for the year ended March 31, 2004 related to the cost of ¥75,775 million for reduction in force, disposal of assets and one-time amortization of goodwill with regard to global restructuring focusing on North America, the expected loss of ¥68,316 million based on strict analysis of predicted future returns with regard to fundamental reform of the Software & Services business in Japan, and other costs of ¥20,111 million for reduction in force and disposal of assets with regard to restructuring of subsidiaries.

Restructuring charges for the year ended March 31, 2005 were recorded as expenses relating to reductions and relocation of personnel and disposition of assets primarily at domestic manufacturing subsidiaries.

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

Loss on change in interest

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

Provision for prior product warranties

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

Real estate valuation losses

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

HDD litigation-related expenses

HDD litigation-related expenses for the year ended March 31, 2004 included expenses related to the settlement of a class-action lawsuit in the United States regarding certain Fujitsu-manufactured magnetic hard disk drives, as well as other litigation-related expenses and expenses for corrective measures for customers.

Casualty loss

Casualty loss for the year ended March 31, 2004 related to repair expenses incurred to cover damage to property as a result of the earthquake that occurred off the coast of Miyagi Prefecture, Japan, on May 26, 2003.

19. *Segment Information*

Business Segment Information

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						Yen (millions)
2004						
Sales						
Unaffiliated customers	¥2,847,798	¥ 834,256	¥734,320	¥350,514	¥ —	¥4,766,888
Intersegment	80,522	114,239	70,365	115,598	(380,724)	—
Total sales	2,928,320	948,495	804,685	466,112	(380,724)	4,766,888
Operating costs and expenses	2,789,314	916,552	777,147	453,708	(320,175)	4,616,546
Operating income (loss)	139,006	31,943	27,538	12,404	(60,549)	150,342
Total assets	1,828,260	328,865	749,552	480,133	478,779	3,865,589
Depreciation	123,191	27,631	84,924	14,335	11,724	261,805
Capital expenditure						
(including intangible assets)	120,020	16,411	62,793	10,023	9,235	218,482
2005						
Sales						
Unaffiliated customers	¥2,860,359	¥ 899,000	¥733,866	¥269,534	¥ —	¥4,762,759
Intersegment	74,059	132,415	60,931	107,693	(375,098)	—
Total sales	2,934,418	1,031,415	794,797	377,227	(375,098)	4,762,759
Operating costs and expenses	2,792,336	1,000,088	762,215	368,181	(320,252)	4,602,568
Operating income (loss)	142,082	31,327	32,582	9,046	(54,846)	160,191
Total assets	1,808,630	338,585	672,146	498,557	322,280	3,640,198
Depreciation	104,324	23,300	69,686	11,029	12,153	220,492
Capital expenditure						
(including intangible assets)	104,261	21,031	80,367	16,763	9,502	231,924
2006						
Sales						
Unaffiliated customers	**¥2,903,651**	**¥ 926,417**	**¥655,139**	**¥306,209**	**¥ —**	**¥4,791,416**
Intersegment	**80,291**	**133,506**	**52,398**	**141,147**	**(407,342)**	**—**
Total sales	**2,983,942**	**1,059,923**	**707,537**	**447,356**	**(407,342)**	**4,791,416**
Operating costs and expenses	**2,819,717**	**1,025,461**	**674,237**	**439,647**	**(349,134)**	**4,609,928**
Operating income (loss)	**164,225**	**34,462**	**33,300**	**7,709**	**(58,208)**	**181,488**
Total assets	**1,811,796**	**335,548**	**670,832**	**471,283**	**517,672**	**3,807,131**
Depreciation	**113,525**	**21,539**	**68,124**	**12,141**	**11,675**	**227,004**
Capital expenditure						
(including intangible assets)	**154,935**	**23,482**	**120,234**	**15,066**	**12,123**	**325,840**

Years ended March 31	Technology Solutions	Ubiquitous Product Solutions	Device Solutions	Other Operations	Elimination & Corporate	Consolidated
						U.S. Dollars (thousands)
2006 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$24,607,212**	**$7,850,991**	**$5,552,025**	**$2,594,992**	**$ —**	**$40,605,220**
Intersegment	**680,432**	**1,131,407**	**444,051**	**1,196,161**	**(3,452,051)**	**—**
Total sales	**25,287,644**	**8,982,398**	**5,996,076**	**3,791,153**	**(3,452,051)**	**40,605,220**
Operating costs and expenses	**23,895,907**	**8,690,347**	**5,713,873**	**3,725,822**	**(2,958,763)**	**39,067,186**
Operating income (loss)	**1,391,737**	**292,051**	**282,203**	**65,331**	**(493,288)**	**1,538,034**
Total assets	**15,354,203**	**2,843,627**	**5,685,017**	**3,993,924**	**4,387,051**	**32,263,822**
Depreciation	**962,076**	**182,534**	**577,322**	**102,890**	**98,941**	**1,923,763**
Capital expenditure (including intangible assets)	**1,313,009**	**199,000**	**1,018,932**	**127,678**	**102,737**	**2,761,356**

1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. Changes in business segments
   The Group has been integrating its sales and system engineering groups and pursuing other organizational reforms to make its structure more efficient, since the year ended March 31, 2005.
   In light of the development of these ongoing organizational reforms, the Group has reclassified its business segments as: Technology Solutions, Ubiquitous Product Solutions, Device Solutions, and Other Operations, in consideration of the similarities in particular product and service offerings and sales methods, from the year ended March 31, 2006.
   Segment information prior to and for the year ended March 31, 2005 has been restated.
3. The principal products and services of business segments are as follows:
   (1) Technology Solutions .... Servers (mainframes, UNIX servers, mission-critical IA servers, PC servers), storage system, software (OS, middleware), network control system, optical transmission systems, mobile base station, consulting, system integration services (system construction), outsourcing services (one-stop information system operational management), network services (network environments and networking-related services for information systems), system support (information system and network maintenance and monitoring services), information system installation, network construction, custom terminal installation (ATMs, POS systems)
   (2) Ubiquitous Product Solutions ... Personal computers, mobile phones, HDD (compact magnetic drives), magneto-optical drives, optical modules
   (3) Device Solutions .... LSI (logic LSI devices, flash memory), electronic components (semiconductor packages, SAW devices), mechanical components (relays, connectors, etc)
   (4) Other Operations .... Audio/navigation equipment, automotive electronic devices
4. Unallocated operating costs and expenses included in “Elimination & Corporate” for the years ended March 31, 2004, 2005 and 2006 were ¥61,032 million, ¥58,324 million and ¥56,150 million ($475,847 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
5. Corporate assets included in “Elimination & Corporate” at March 31, 2004, 2005 and 2006 amounted to ¥955,034 million, ¥927,300 million and ¥932,190 million ($7,899,915 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.
6. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, sales to unaffiliated customers and operating income for “Technology Solutions” increased by ¥5,367 million ($45,483 thousand) and ¥7,785 million ($65,975 thousand), respectively, and operating income for “Ubiquitous Product Solutions” decreased by ¥2,977 million ($25,229 thousand).

Geographic Segment Information

Years ended March 31	Japan	Europe	The Americas	Others	Elimination & Corporate	Consolidated
						Yen (millions)
2004						
Sales						
Unaffiliated customers	¥3,605,665	¥544,593	¥254,488	¥362,142	¥ —	¥4,766,888
Intersegment	465,811	18,768	20,210	217,037	(721,826)	—
Total sales	4,071,476	563,361	274,698	579,179	(721,826)	4,766,888
Operating costs and expenses	3,867,743	556,675	287,859	565,675	(661,406)	4,616,546
Operating income (loss)	203,733	6,686	(13,161)	13,504	(60,420)	150,342
Total assets	2,411,533	347,871	226,122	206,993	673,070	3,865,589
2005						
Sales						
Unaffiliated customers	¥3,560,925	¥585,138	¥281,959	¥334,737	¥ —	¥4,762,759
Intersegment	463,593	11,764	16,959	268,154	(760,470)	—
Total sales	4,024,518	596,902	298,918	602,891	(760,470)	4,762,759
Operating costs and expenses	3,836,679	585,199	294,565	590,749	(704,624)	4,602,568
Operating income (loss)	187,839	11,703	4,353	12,142	(55,846)	160,191
Total assets	2,178,392	357,883	177,941	215,058	710,924	3,640,198
2006						
Sales						
Unaffiliated customers	**¥3,430,442**	**¥623,344**	**¥344,094**	**¥393,536**	**¥ —**	**¥4,791,416**
Intersegment	**513,959**	**9,198**	**19,382**	**325,314**	**(867,853)**	**—**
Total sales	**3,944,401**	**632,542**	**363,476**	**718,850**	**(867,853)**	**4,791,416**
Operating costs and expenses	**3,758,559**	**609,592**	**349,901**	**703,931**	**(812,055)**	**4,609,928**
Operating income (loss)	**185,842**	**22,950**	**13,575**	**14,919**	**(55,798)**	**181,488**
Total assets	**2,303,223**	**378,108**	**163,144**	**249,534**	**713,122**	**3,807,131**
						U.S. Dollars (thousands)
2006 (in U.S. Dollars)						
Sales						
Unaffiliated customers	**$29,071,542**	**$5,282,576**	**$2,916,051**	**$3,335,051**	**$ —**	**$40,605,220**
Intersegment	**4,355,585**	**77,949**	**164,254**	**2,756,898**	**(7,354,686)**	**—**
Total sales	**33,427,127**	**5,360,525**	**3,080,305**	**6,091,949**	**(7,354,686)**	**40,605,220**
Operating costs and expenses	**31,852,195**	**5,166,033**	**2,965,263**	**5,965,517**	**(6,881,822)**	**39,067,186**
Operating income (loss)	**1,574,932**	**194,492**	**115,042**	**126,432**	**(472,864)**	**1,538,034**
Total assets	**19,518,839**	**3,204,305**	**1,382,576**	**2,114,695**	**6,043,407**	**32,263,822**

1. Classification of the geographic segments is determined by geographical location.
2. The principal countries and regions belonging to geographic segments other than Japan are as follows:
   (1) Europe .... U.K., Spain, Germany, Finland, the Netherlands
   (2) The Americas .... U.S.A., Canada
   (3) Others .... China, Thailand, Vietnam, the Philippines, Singapore, Korea, Taiwan, Australia
3. Unallocated operating costs and expenses included in “Elimination & Corporate” for the years ended March 31, 2004, 2005 and 2006 were ¥61,032 million, ¥58,324 million and ¥56,150 million ($475,847 thousand), respectively. Most of these costs and expenses were incurred as basic research and development expenses and general and administrative expenses at the Company.
4. Corporate assets included in “Elimination & Corporate” at March 31, 2004, 2005 and 2006 amounted to ¥955,034 million, ¥927,300 million and ¥932,190 million ($7,899,915 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents and short-term investments), long-term investments and miscellaneous assets held by the general and administrative sections at the Company.
5. Accounting principles and practices were changed from the year ended March 31, 2006 as stated in Note 1. (a) Basis of presenting consolidated financial statements and the principles of consolidation (d) Revenue recognition (k) Provision for product warranties. As a result of these changes, sales to unaffiliated customers increased by ¥10,399 million ($88,127 thousand), operating income decreased by ¥1,463 million ($12,398 thousand) in “Japan,” and sales to unaffiliated customers decreased by ¥5,032 million ($42,644 thousand), operating income increased by ¥6,271 million ($53,144 thousand) in “Europe.”