Notes to Consolidated Financial Statements

Fujitsu Limited and Consolidated Subsidiaries

1. *Significant Accounting Policies*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Cash equivalents

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

(c) Translation of foreign currency accounts

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

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

(d) Revenue recognition

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

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

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

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

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

(e) Marketable securities

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

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

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

(f) Allowance for doubtful accounts

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

(g) Inventories

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

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

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

(h) Property, plant and equipment and depreciation

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

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

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

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

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

(i) Intangible assets

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

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

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

(j) Leases

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

(k) Provision for product warranties

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

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

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

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

(l) Retirement benefits

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

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

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

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

(m) Provision for loss on repurchase of computers

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

(n) Provision for recycling expenses

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

(o) Income taxes

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

(p) Earnings per share

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

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

(q) Derivative financial instruments

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

All derivative financial instruments are stated at fair market value.

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

2. *Differences with International Financial Reporting Standards*

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

This note is out of scope of the audit.

Inventories

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

Goodwill

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

Retirement benefits

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

Scope of consolidation

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

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

Uniformity of accounting policies

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

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

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

3. *U.S. Dollar Amounts*

The Company and its consolidated subsidiaries in Japan maintain their books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into U.S. dollars at ¥118 = US$1, the approximate exchange rate at March 31, 2007.

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

4. *Marketable Securities*

At March 31, 2006 and 2007, marketable securities included in "short-term investments" and "investments and long-term loans—others" were as follows:

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

5. *Inventories*

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

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

6. *Investments in Affiliates*

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

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

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	**2007**	**2007**
Current assets	¥ 813,649	**¥ 750,176**	**$ 6,357,424**
Non-current assets	598,677	**439,756**	**3,726,745**
Total assets	¥1,412,326	**¥1,189,932**	**$10,084,169**
Current liabilities	778,905	**826,692**	**7,005,864**
Long-term liabilities	226,356	**179,867**	**1,524,297**
Net assets(*)	407,065	**183,373**	**1,554,008**
Total liabilities and net assets	¥1,412,326	**¥1,189,932**	**$10,084,169**

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

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

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

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

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

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

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

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

7. *Property, Plant and Equipment*

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

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

8. Goodwill

An analysis of goodwill is presented below:

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

9. Short-Term Borrowings and Long-Term Debt

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

Short-term borrowings

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

Long-term debt (including current portion)

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

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

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

The current conversion price of the zero coupon convertible bonds issued by the Company is ¥1,201.00 per share. Each conversion price is subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 2007, the convertible bonds were convertible into approximately 208 million shares of common stock.

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

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

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

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2006 and 2007 are principally presented below:

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

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

10. *Retirement Benefits*

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

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

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

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

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

<In Japan>

Projected benefit obligation and plan assets

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

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

Components of net periodic benefit cost

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

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

The assumptions used in accounting for the plans

At March 31	2006	**2007**
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.2%	**2.7%**
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period	**Straight-line method over the employees' average remaining service period**
Method of allocating prior service cost	Straight-line method over 10 years	**Straight-line method over 10 years**
Method of allocating net obligation at transition	Straight-line method over 10 years	**Straight-line method over 10 years**

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

<Outside Japan>

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

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

Projected benefit obligation and plan assets

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

Components of net periodic benefit cost

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

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

The assumptions used in accounting for the plans

At March 31	2006	**2007**
Discount rate	Mainly 5.1%	**Mainly 5.5%**
Expected rate of return on plan assets	Mainly 7.3%	**Mainly 7.0%**
Method of allocating actuarial loss	Straight-line method over the employees' average remaining service period	**Straight-line method over the employees' average remaining service period**

11. *Income Taxes*

The Group is subject to a number of different income taxes. The statutory tax rates in the aggregate in Japan were approximately 40.6% for the years ended March 31, 2005, 2006 and 2007.

The components of income taxes are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

12. *Shareholders' Equity*

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

Years ended March 31	2005	2006	2007
			Number of shares
At beginning of year	2,001,962,672	2,070,018,213	**2,070,018,213**
Conversion of convertible bonds	1,141	—	**—**
Increase as a result of stock exchange	68,054,400	—	**—**
At end of year	2,070,018,213	2,070,018,213	**2,070,018,213**

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

13. *Commitments and Contingent Liabilities*

Commitments outstanding at March 31, 2007 for purchases of property, plant and equipment were approximately ¥21,982 million ($186,288 thousand).

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

14. *Derivative Financial Instruments*

Purpose of Derivative Trading

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

Basic Policies for Derivative Trading

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

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

Control of Derivative Trading

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

Hedge Accounting

The Group adopts hedge accounting for its derivative transactions after assessing the effectiveness of its hedging.

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

Fair Value of Derivative Financial Instruments:

At March 31, 2006 and 2007, all derivative financial instruments were stated at fair market value and recorded on the balance sheets.

15. *Leases*

The following is a summary of acquisition cost, accumulated depreciation, book value of leased assets, and minimum lease payments required under finance leases, which were recorded in the corresponding asset accounts, at March 31, 2006 and 2007.

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

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

	Yen (millions)		U.S. Dollars (thousands)
At March 31	2006	2007	2007
Within one year	¥ 9,554	**¥10,407**	**$ 88,195**
Over one year but within five years	23,730	**23,525**	**199,364**
Over five years	14,415	**10,147**	**85,992**
Total	¥47,699	**¥44,079**	**$373,551**

16. *Supplementary Information to the Consolidated Balance Sheets*

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

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

17. *Earnings Per Share*

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

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

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

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

Research and development expenses charged to "selling, general and administrative expenses" for the years ended March 31, 2005, 2006 and 2007 were ¥240,222 million, ¥241,566 million and ¥254,095 million ($2,153,347 thousand), respectively.

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

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

Gain on sales of marketable securities

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

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

Gain on change in interest

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

Settlement gain

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

Gain on business transfer

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

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

Impairment loss

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

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

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

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

Loss on sales of marketable securities

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

Restructuring charges

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

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

Loss on change in interest

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

Provision for prior product warranties

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

Real estate valuation losses

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

Amortization of unrecognized obligation for retirement benefits

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

19. *Segment Information*

Business Segment Information

Yen (millions)

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

U.S. Dollars (thousands)

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

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

Geographic Segment Information

Yen (millions)

Years ended March 31	Japan	EMEA	The Americas	APAC & China	Elimination & Corporate	Consolidated
2005						
Sales						
Unaffiliated customers	¥ 3,560,925	¥ 585,138	¥ 281,959	¥ 334,737	¥ —	¥ 4,762,759
Intersegment	463,593	11,764	16,959	268,154	(760,470)	—
Total sales	4,024,518	596,902	298,918	602,891	(760,470)	4,762,759
Operating costs and expenses	3,850,999	585,199	294,565	590,749	(718,944)	4,602,568
Operating income (loss)	173,519	11,703	4,353	12,142	(41,526)	160,191
Total assets	2,178,392	357,883	177,941	215,058	710,924	3,640,198
2006						
Sales						
Unaffiliated customers	¥ 3,430,442	¥ 623,344	¥ 344,094	¥ 393,536	¥ —	¥ 4,791,416
Intersegment	513,959	9,198	19,382	325,314	(867,853)	—
Total sales	3,944,401	632,542	363,476	718,850	(867,853)	4,791,416
Operating costs and expenses	3,773,248	609,592	349,901	703,931	(826,744)	4,609,928
Operating income (loss)	171,153	22,950	13,575	14,919	(41,109)	181,488
Total assets	2,303,223	378,108	163,144	249,534	713,122	3,807,131
2007						
Sales						
Unaffiliated customers	**¥3,517,649**	**¥727,213**	**¥424,394**	**¥430,907**	**¥ —**	**¥5,100,163**
Intersegment	**559,499**	**9,147**	**17,932**	**376,259**	**(962,837)**	**—**
Total sales	**4,077,148**	**736,360**	**442,326**	**807,166**	**(962,837)**	**5,100,163**
Operating costs and expenses	**3,885,284**	**712,229**	**433,861**	**795,486**	**(908,785)**	**4,918,075**
Operating income (loss)	**191,864**	**24,131**	**8,465**	**11,680**	**(54,052)**	**182,088**
Total assets	**2,324,811**	**482,593**	**158,640**	**271,835**	**705,845**	**3,943,724**

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

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

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

Consolidated balance sheet

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

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

Consolidated statement of cash flows

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

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

21. *Related Party Transactions*

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

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

- Related party: Fujitsu Leasing Co., Ltd.

  Common stock—¥1,000 million ($8,475 thousand)

  Breakdown of the Company's voting rights ownership

  Directly held: 25.0%

  Indirectly held: 5.0%

  Relationship with the Company

  Lease transactions with the Company

  3 board members of the Company concurrently serve as board members of the related party

  7 board members of the related party have been transferred from the Company

- Content of transactions

  Sales of assets: ¥42,100 million ($356,780 thousand)

  Lease transactions: ¥6,685 million ($56,653 thousand)

- Balance of related transactions recorded on balance sheets at March 31, 2007

  Non-trade receivables: ¥621 million ($5,263 thousand)

  Non-trade payables: ¥13 million ($110 thousand)

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

22. *Share-based Payment Plans*

The stock option activity is as follows:

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

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

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

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

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

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

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

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

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

23. *Subsequent Events*

1. Tender offer for GFI Informatique in France

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

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

(1) Objectives

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

(2) Entity to be purchased

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

IT services deployment in Europe, mainly France

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

(3) Beginning and period of the tender offer

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

Beginning: Early July, 2007 (plan)
Period: Approximately 1 month (plan)

(4) Prerequisite for completing the tender offer

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

Reference (GFI): approximately 46,339 thousand issued shares at January 31, 2007
approximately 7,854 thousand issued warrants at January 31, 2007

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

Shares of GFI : €8.5 per share
Warrants of GFI : €3.15 per warrant

(6) Cash needed for the purchase

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

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

2. Appropriation of the Company's other capital surplus

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

<Objectives>

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

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

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

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

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

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

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

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

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

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

(1) Objectives

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

(2) Method and content of share exchange

① Method of share exchange

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

② Share exchange ratio

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

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

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

(3) Period of share exchange

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

4. Purchase of treasury stock

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

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

① Objectives for purchase of treasury stock

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

② Content of purchase

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

(2) Purchase of treasury stock

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