Management's Discussion and Analysis of Operations

The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") for the year ended March 31, 2009 (fiscal 2008). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2009. Figures representing the percentage increase or decrease in net sales excluding the impact of exchange rate movements are calculated by taking the average exchange rates in fiscal 2007 for the U.S. dollar, Euro, British pound, Australian dollar, Korean won, and other currencies, applying them to foreign currency-denominated sales in fiscal 2008, and comparing the results to sales in fiscal 2007.

1. Analysis of Results

Business Environment

In fiscal 2008, ended March 31, 2009, the business environment in which the Group operates was characterized by a rapidly worsening global economic recession. A contraction in credit and a worsening cycle of deterioration in the real economy emerged against the backdrop of a spreading financial crisis. This led to negative growth in the United States and Europe, and triggered a major economic slowdown in Asia, mainly China and India, which previously had sustained high rates of growth.

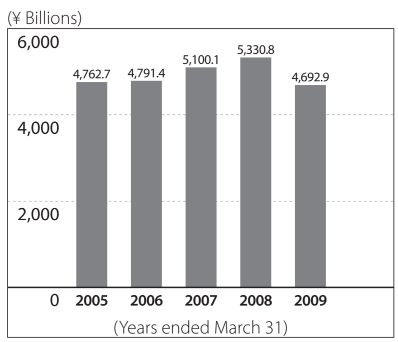
In Japan, the economic recession grew more severe due to the sudden drop in exports, resulting in double-digit negative growth for two consecutive quarters during the second half of the year (October 2008 to March 2009). The deterioration in the economy hit the country's corporate sector particularly hard. Consumer demand also took a negative turn, tracking the rapid deterioration in Japan's personal income and employment conditions.

IT investments were firm through the first half of the year, but hardware investments declined precipitously from the second half due to the global economic recession. Companies also became more selective with software investments. This adverse economic climate did, however, serve to highlight the growing importance of corporate social responsibility and comprehensive risk management. This has underpinned solid upfront investments in response to compliance- and security-related concerns, and other strategic measures for enhancing competitiveness in global markets to achieve future growth.

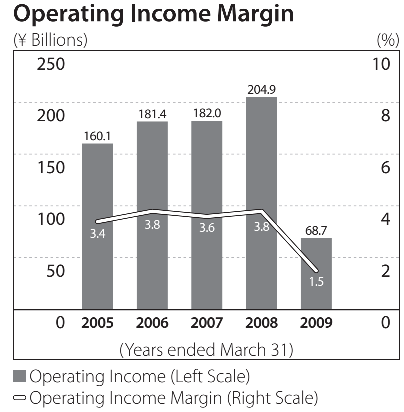
Net Sales

In fiscal 2008, consolidated net sales amounted to ¥4,692.9 billion ($47,888 million), a decrease of 12.0% from the previous fiscal year. However, excluding the effects of the yen's appreciation, the decline in net sales was 6%. Sales in Japan declined 6.3% year on year. Despite the economic recession, performance in Technology Solutions remained on par with the previous fiscal year, largely due to healthy sales in the Services business. Due to the impact of rapid economic deterioration from the third quarter (October to December 2008), however, sales results were dragged down by lower demand for logic LSI devices, electronic components, PCs and other products, as well as the lengthening of the replacement cycle for mobile phones. Sales outside of Japan declined 22.0%, or 6% if the effects of currency exchange rates are excluded. The Services business outside of Japan grew, mainly on business targeting private-sector demand in continental Europe, but sales of PCs and UNIX servers fell due to the economic turmoil in Europe and the United States, as did sales of hard disk drives (HDDs) and electronic components.

Net Sales



Operating Income and Operating Income Margin



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

In fiscal 2008, cost of sales totaled ¥3,491.5 billion ($35,628 million), gross profit was ¥1,201.4 billion ($12,260 million), and the gross profit margin was 25.6%, largely unchanged from the previous year.

Gross profit declined ¥169.8 billion year on year, as beneficial effects from higher sales and greater cost efficiency in the Services business in Japan were outweighed by sharply lower sales of logic LSI devices, electronic components, PCs and other products, triggered by the rapid decline in market conditions and yen appreciation emerging in the second half of the fiscal year. Although profit margins worsened for logic LSI devices, mobile phones and HDDs, the lower sales in components businesses and consumer products, which have low profit margins, kept the overall profit margin on par with that of the previous fiscal year.

Selling, general and administrative (SG&A) expenses were ¥1,132.7 billion ($11,558 million), down ¥33.6 billion year on year. This result primarily reflected a reduction in expenses due to the effects of currency exchange rates, which offset negative factors such as increased retirement benefit costs caused by a worsening environment for management of pension assets in the previous year, and an increase in strategic upfront investments mainly in Technology Solutions.

As a result, operating income was ¥68.7 billion ($702 million), ¥136.2 billion lower than the previous fiscal year.

Other Income (Expenses) and Net Income (Loss)

Other expenses, net, totaled ¥182.0 billion ($1,858 million), a substantial ¥86.5 billion increase from the previous fiscal year. This sharp deterioration was the result of equity in losses of affiliates, net, of ¥34.0 billion ($347 million), coupled with poor business performance at the Company's joint venture in PC and server sales and component-related affiliates in Europe, and a sharp expansion in losses related to structural reforms. We also recorded an impairment loss on non-current assets of ¥58.9 billion ($601 million), ¥54.1 billion ($553 million) in restructuring charges, and a ¥18.7 billion ($191 million) valuation loss on our holdings of publicly listed shares, reflecting a steep decline in market prices, as other expenses. The impairment loss on non-current assets was primarily related to our LSI business. Prompted by lower profitability, we have conservatively estimated amounts deemed recoverable in the future, and posted losses related to advanced logic LSI facilities (buildings and 300mm wafer production facilities at the Mie Plant Fab No. 2) based on our revised future usage plans. These plans are prefaced on our transition to a business model where mass production of the 40nm generation advanced logic LSI products is outsourced. Restructuring charges consisted mainly of losses from the transfer of the HDD business, costs incurred in the scheduled disposal and removal of facilities as part of production structure realignment in the LSI business, and structural reform costs in our component business and business outside Japan.

Fujitsu reported a net loss of ¥112.3 billion ($1,147 million), representing a decline of ¥160.4 billion from net income reported in the previous fiscal year. The substantial loss posted in equity in losses of affiliates, net, and increased losses from loss-making subsidiaries where the posting of deferred tax assets is not possible, resulted in a high tax burden relative to the loss before income taxes and minority interests reported.

Condensed Consolidated Statements of Operations

(Billions of yen)

Years ended March 31	2008	**2009**	YoY Change	Increase rate (%)
Net sales	5,330.8	**4,692.9**	(637.8)	(12.0)
Cost of sales	3,959.5	**3,491.5**	(468.0)	(11.8)
Gross profit	1,371.3	**1,201.4**	(169.8)	(12.4)
Selling, general and administrative expenses	1,166.3	**1,132.7**	(33.6)	(2.9)
Operating income	204.9	**68.7**	(136.2)	(66.5)
Other income (expenses)	(95.5)	**(182.0)**	(86.5)	—
Income (loss) before income taxes and minority interests	109.4	**(113.3)**	(222.7)	—
Net income (loss)	48.1	**(112.3)**	(160.4)	—

2. Segment Information

Net Sales and Operating Income by Business Segment

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

Technology Solutions

Sales in this segment in fiscal 2008 amounted to ¥3,077.0 billion ($31,399 million), down 6.0% from fiscal 2007. Sales in Japan were up 1.2% thanks to growth in our SI business, as well as increased sales of IP routers to carriers. Sales outside of Japan fell 18.8%, but were roughly unchanged from last year if exchange rate effects are excluded. Although sales of UNIX servers declined, we recorded growth in the Services business targeting continental Europe.

Operating income for the segment rose ¥8.5 billion year on year to ¥188.7 billion ($1,926 million). Operating income in Technology Solutions increased overall due to the recognition of losses from an unprofitable project in the Services business in the UK in the previous fiscal year, plus the benefit of higher sales in SI business in Japan, and improved cost efficiency. These positive factors outweighed the impact of lower UNIX server sales, initial costs accompanying private sector-oriented business expansion in the Services business in Europe, and the adverse impact of currency exchange rates.

The Group continues to proactively develop its Technology Solutions business, with the goal of upgrading and enhancing the capacity to provide services on a global scale. In fiscal 2008, we reviewed our structure in North America, integrating three companies—Fujitsu Consulting, Fujitsu Computer Systems, and Fujitsu Transaction Solutions—as subsidiaries under newly established Fujitsu North America Holdings (in April 2009, the three aforementioned companies were merged, and the name of the company was changed to Fujitsu America). In addition to this realignment, we reached an agreement with Australian telecom Telstra Corporation Limited to acquire all shares in its subsidiary, IT services firm KAZ Group Pty Ltd. In April 2009, we acquired shares in Fujitsu Siemens Computers from Siemens AG of Germany, which held a 50% stake in the company, converting it into a wholly owned subsidiary and changing the company's name to Fujitsu Technology Solutions. With Fujitsu Technology Solutions as a spearhead, we will move forward with reconfiguring the company's global sales framework, and enhancing development and production efficiency, to achieve our goal of annual sales of 500,000 units of x86 servers worldwide in the fiscal year ending March 31, 2011. In this way, we aim to reinforce our base for supporting the global development of the IT services business.

In Japan, we made a decision in May 2009 to conduct a share exchange that will make Fujitsu Business Systems a wholly owned subsidiary and signed an agreement to this effect. This move is intended to enhance our technology solutions for the medium-sized business market. We intend to concentrate the Group's resources for this market in Fujitsu Business Systems, which we will position as a pivotal Group company responsible for everything from service and product planning, to development, sales and operations for medium-sized corporate customers.

Ubiquitous Product Solutions

Sales in this segment in fiscal 2008 were ¥949.1 billion ($9,685 million), down 20.2% from fiscal 2007. Sales in Japan fell 13.5% due to intensifying cost competition in PCs and slumping sales to the corporate sector, along with the lengthening replacement cycle for mobile phones. Sales outside of Japan decreased 32.1%, or 24% excluding currency exchange rate effects. Sales were negatively impacted by fiercer competition in HDDs, coupled with lackluster PC sales, primarily in Europe, due to adverse market price conditions.

Segment operating income was ¥0.5 billion ($6 million), ¥52.0 billion lower than the previous fiscal year. In addition to lower mobile phone sales and increased costs associated with more sophisticated functionality, earnings fell on a drop in PC prices and sales volumes, despite benefits from lower costs for PC components. Meanwhile in HDDs, losses grew due to increasing global competition in HDDs for notebook PCs and servers, and production cutbacks in HDD heads.

In April 2009, Fujitsu signed agreements finalizing the transfer of the hard disk drive business and HDD media business, both currently operations within its HDD business, to Toshiba Corporation and Showa Denko K.K., respectively. The drive business is scheduled to be transferred on August 1, 2009, and the HDD media business is to be transferred on July 1, 2009. Ahead of this change, the Company's HDD head business was terminated before the close of fiscal 2008. While most employees in the hard disk drive and HDD media businesses will be transferred to the respective companies receiving these operations, employees concentrated in the HDD head business have been reassigned to other areas of the Group. Furthermore, the Company has posted ¥37.0 billion in restructuring charges in line with these business transfers, consisting largely of losses for the disposition of assets and liabilities, and costs for settling retirement benefit costs due to the transfer of employees to other companies.

Device Solutions

This segment reported a 26.2% year-on-year decrease in sales, to ¥587.6 billion ($5,997 million). Sales in Japan decreased 28.6%. From the latter half of the second quarter (July to September 2008) sales of logic LSI devices were impacted by inventory adjustments triggered by worsening market conditions across a range of fields, particularly products for digital home appliances and automobiles. The result was a massive decline in sales of mature technology and 90nm advanced technology logic devices. Sales of Flash memory for mobile phones and electronic components also declined on challenging market conditions. Sales outside of Japan declined 21.7%, or 13% if currency exchange rate effects are excluded, largely due to deterioration in market conditions for electronic components.

The segment posted an operating loss of ¥71.9 billion ($734 million), representing a ¥90.2 billion decline from income recorded in the previous fiscal year. The rapid decline in the market climate from the latter half of the second quarter caused losses to expand rapidly, from ¥4.7 billion in first quarter (April to June 2008), ¥2.5 billion in the second quarter (July to September 2008), and ¥21.1 billion in the third quarter (October to December 2008), to ¥43.4 billion in the fourth quarter (January to March 2009). In logic LSI devices, lower sales due to adverse market conditions were compounded with a steady decline in capacity utilization rates at production lines from the latter half of the second quarter through to the fiscal year-end. Electronic components also reversed course abruptly from the previous fiscal year to end in a loss, due to a rapid weakening in demand and the impact of currency exchange rates.

To cope with the sudden drop in customer demand in the LSI business, the Group is reorganizing its production framework to match demand by the end of the current fiscal year (March 31, 2010). This move entails consolidating mature technology logic device production lines in the Iwate and Aizu Wakamatsu plants in Japan, increasing efficiency of administrative operations, and reassigning approximately 2,000 employees to other positions within the Group. Accordingly, we posted losses of ¥11.3 billion as restructuring charges for expenses related to facilities terminating production in the current fiscal year. Further, we recorded impairment losses of ¥49.9 billion related to property, plant and equipment in the LSI business, as there is no sign of a quick recovery in the business environment in the current fiscal year. These losses pertain to advanced technology logic LSI device facilities (buildings and 300mm wafer production facilities at the Mie Plant Fab No. 2), based on revised future usage plans for these facilities. Along with drafting conservative estimates of amounts deemed recoverable in the future, we have opted for transition to a business model in which mass production of 40nm generation advanced technology logic devices is outsourced.

In March 2009, Fujitsu transferred its capacitor business and shares in equity-method affiliate Eudyna Devices Inc. In May 2009, we subscribed to a private placement of shares in equity-method affiliate FDK Corporation, converting the affiliate into a consolidated subsidiary. FDK had fallen into excessive debt following losses posted at the end of the year due to worsening business performance and structural reforms. Our decision to take on FDK Corporation's excessive debt will enable the company to avoid an adverse impact that this debt may have had on its business activities. We also determined that doing so was the best option for maintaining the corporate value of Fujitsu as FDK's largest shareholder, creditor and business partner. FDK's consolidation means that structural reforms will take place smoothly as we work to raise the corporate value of both companies.

Geographical Segment Information

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

Japan

In Japan, the Company reported consolidated sales of ¥3,789.9 billion ($38,673 million), down 10.4% from fiscal 2007. While the Services business grew mainly from higher demand in the SI business and sales of routers to telecom carriers, sales were lower overall due to a slump in demand for logic LSI devices and electronic components. This was compounded by the lengthening replacement cycle for mobile phones and increased competition in PCs and HDDs. Operating income declined ¥134.4 billion year on year to ¥106.4 billion ($1,086 million). In addition to lower sales, income was impacted by the effect of currency exchange rates on electronic components, and by increased costs associated with more sophisticated mobile phone functions.

EMEA (Europe, Middle East and Africa)

In EMEA, sales decreased 20.4%, to ¥612.8 billion ($6,254 million). However, if currency exchange rate effects are excluded the result is an increase of 4%. Although sales of optical transmission systems and HDDs were lower, we recorded growth in the Services business in private-sector business for continental Europe. Operating income climbed ¥11.3 billion, to ¥12.0 billion ($123 million). The Services business was negatively affected by currency exchange rates and growth in initial costs associated with expanding the private sector-oriented services business. Earnings rose, however, due to the recognition of losses from an unprofitable project in the UK in the previous fiscal year. We also recorded fewer losses from optical transmission systems thanks to lower development costs required for Next-Generation Networks (NGN).

The Americas

Sales in the Americas fell 22.3% (or 15% excluding currency exchange rate effects), to ¥365.2 billion ($3,727 million). Despite higher sales of optical transmission systems, sales of UNIX servers, HDDs, and automotive electronic equipment declined. The Services business, meanwhile, was adversely impacted by deterioration in market conditions. We recorded an operating loss of ¥1.3 billion ($14 million), representing a decline of ¥10.6 billion from the previous year's operating income. In addition to lower sales, earnings declined on higher development costs for NGN.

APAC (Asia-Pacific) & China

In APAC & China, sales decreased 23.3% (a decline of 17% excluding currency exchange rate effects), to ¥656.0 billion ($6,694 million). Operating income was ¥6.4 billion ($66 million), or ¥8.3 billion lower year on year, owing mainly to lower sales of LSIs, electronic components, HDDs, and automotive electronic equipment.

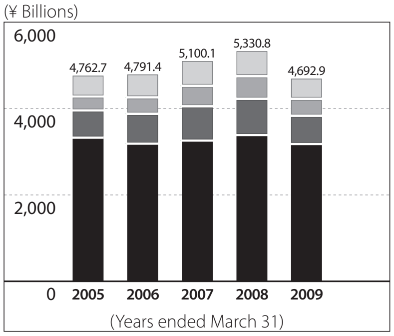
3. Capital Resources and Liquidity

Improvement in Financial Condition

In fiscal 2008, the Group continued its efforts to improve the soundness of its financial position. However, the Group recorded a net loss of ¥112.3 billion ($1,147 million) due to the posting of substantial one-time losses, namely restructuring charges and impairment losses accompanying business reorganization. The owner's equity ratio was 23.2%, down 1.6 percentage points year

For Reference: Net Sales by Customers' Geographic Location

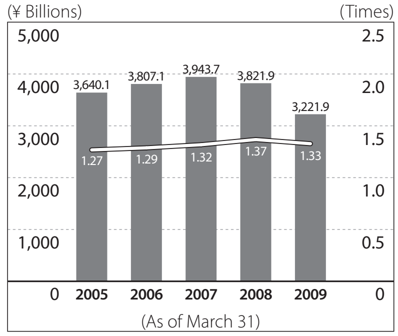
(¥ Billions)



■ Japan ■ The Americas
■ EMEA ■ APAC & China

Total Assets/ Total Assets Turnover Ratio

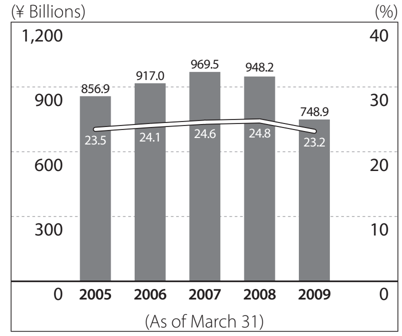
(¥ Billions) (Times)



■ Total Assets (Left Scale)
▭ Total Assets Turnover Ratio (Right Scale)

Owners' Equity/ Owners' Equity Ratio

(¥ Billions) (%)



Owners' Equity: net assets less minority interests

■ Owners' Equity (Left Scale)
▭ Owners' Equity Ratio (Right Scale)

on year. Free cash flow ended the year at positive ¥23.4 billion. Due to preparations for the redemption of bonds in the first quarter of fiscal 2009 (April to June 2009) and allowances for certain purchasing funds, interest-bearing debt as of March 31, 2009 was ¥883.4 billion ($9,015 million), with the D/E ratio surpassing 1 at 1.18 times. However, net debt (after subtracting cash and cash equivalents) was ¥355.3 billion ($3,626 million), and the net D/E ratio was 0.47 times.

Assets, Liabilities, and Net Assets

Total assets at fiscal year-end amounted to ¥3,221.9 billion ($32,877 million), down ¥599.9 billion from a year earlier. Current assets, mainly receivables, trade, decreased ¥282.4 billion from March 31, 2008, primarily due to lower sales in the fourth quarter (January to March 2009) compared to the same period a year earlier. Inventories declined ¥76.6 billion year on year, to ¥306.4 billion ($3,127 million). The monthly inventory turnover rate, which is an indication of asset efficiency, was 0.98 times, deteriorating 0.05 of a point from the previous fiscal year-end due to lower sales caused by a sudden fall in demand and the yen's appreciation. Investments and long-term loans declined ¥142.6 billion year on year, due mainly to falling prices of our holdings of listed shares. Property, plant and equipment declined ¥166.7 billion on a decrease in capital expenditures mainly in the LSI business, coupled with impairment losses posted in relation to advanced logic LSI facilities (buildings and 300mm wafer production facilities at the Mie Plant Fab No. 2).

Total liabilities, inclusive of current and long-term liabilities, stood at ¥2,296.3 billion ($23,432 million), down ¥395.4 billion from a year earlier. This was largely attributable to a reduction in trade payables. Interest-bearing loans stood at ¥883.4 billion ($9,015 million), virtually unchanged from the previous fiscal year-end. Bonds decreased by ¥106.0 billion, mainly due to bond redemptions in June and October 2008 totaling ¥100.0 billion. However, borrowings increased ¥102.2 billion, reflecting the procurement of funds used for purchases. The D/E ratio exceeded 1 at 1.18 times. However, net debt (after subtracting cash and cash equivalents) was ¥355.3 billion ($3,626 million), and the net D/E ratio was 0.47 times. Furthermore, we carried out redemption of the entire amount of convertible bonds with maturity dates of May 2009, which totaled ¥250.0 billion.

Net assets amounted to ¥925.6 billion ($9,445 million), down ¥204.5 billion from March 31, 2008. Shareholders' equity declined ¥128.7 billion, due to the posting of a net loss for the year. Valuation and translation adjustments declined ¥70.4 billion, stemming from a decrease in unrealized gains from shares of Fanuc Ltd. and others, and the yen's appreciation. As a result, the owners' equity ratio fell 1.6 percentage points year on year, to 23.2%.

Condensed Consolidated Balance Sheets

(Billions of yen)

At March 31	2008	**2009**	YoY Change
Assets			
Current assets	2,169.9	**1,887.5**	(282.4)
Investments and long-term loans	592.7	**450.0**	(142.6)
Property, plant and equipment	839.7	**673.0**	(166.7)
Intangible assets	219.5	**211.3**	(8.2)
Total assets	3,821.9	**3,221.9**	(599.9)
Liabilities and net assets			
Current liabilities	1,611.3	**1,550.4**	(60.9)
Long-term liabilities	1,080.4	**745.9**	(334.4)
Net assets	1,130.1	**925.6**	(204.5)
Shareholders' equity	911.6	**782.9**	(128.7)
Valuation and translation adjustments	36.5	**(33.9)**	(70.4)
Minority interests in consolidated subsidiaries	181.9	**176.6**	(5.3)
Total liabilities and net assets	3,821.9	**3,221.9**	(599.9)
Cash and cash equivalents at end of year	547.8	**528.1**	(19.6)
Interest-bearing loans	887.3	**883.4**	(3.8)

Cash Flows

Net cash provided by operating activities amounted to ¥248.0 billion ($2,531 million), down ¥73.9 billion from the previous fiscal year due primarily to deterioration in income (loss) before income taxes and minority interests.

Net cash used in investing activities totaled ¥224.6 billion ($2,292 million), or ¥59.3 billion less than in the previous year. Cash was used mainly to purchase facilities for the Services business. Purchases of property, plant and equipment decreased ¥93.1 billion, reflecting outflows for the purchase of 300mm lines for the Mie Plant in the previous fiscal year. We also recorded proceeds from the sale of affiliate stock in the previous fiscal year, resulting in a decline of ¥39.8 billion in proceeds from sales of investment securities during the year under review.

Free cash flow (the sum of operating and investment cash flows) was positive ¥23.4 billion ($240 million), representing a decline of ¥14.6 billion compared to the previous fiscal year. Excluding the impact of the fiscal year ended March 31, 2007 falling on a holiday, which mainly resulted in the payment of trade payables being carried over to the fiscal year ended March 31, 2008 (cash flow from operating activities of ¥75.2 billion and cash flow from investing activities of ¥34.3 billion), free cash flow would have declined ¥124.2 billion.

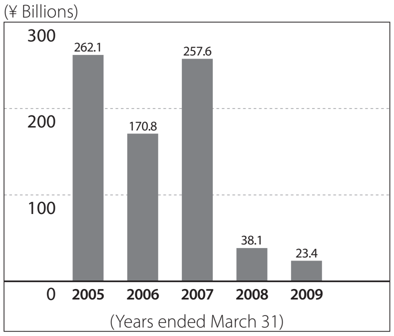
Net cash used in financing activities totaled ¥47.8 billion ($489 million), a decrease of ¥110.2 billion from net cash provided a year earlier. In addition to ¥168.9 billion for the redemption of bonds and ¥24.4 billion for the payment of dividends, cash used reflected borrowings procured for funds used in purchasing. A major factor in the decline was proceeds from the issuance of ¥200.0 billion in convertible bonds and ¥100.0 billion in straight bonds recorded in the previous fiscal year.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2008 totaled ¥528.1 billion ($5,390 million), down ¥19.6 billion from a year earlier.

Fujitsu Siemens Computers, a joint venture made into a consolidated subsidiary in April 2009 under the new name of Fujitsu Technology Solutions, had ¥96.6 billion in cash and cash equivalents (744 million euros; 1 euro=¥129.84) as of March 31, 2009.

Free Cash Flow

(¥ Billions)



Condensed Consolidated Statements of Cash Flows

(Billions of yen)

Years ended March 31	2008	**2009**	YoY Change
I Cash flows from operating activities	322.0	**248.0**	(73.9)
II Cash flows from investing activities	(283.9)	**(224.6)**	59.3
Free cash flow	38.1	**23.4**	(14.6)
(I+II; [excluding effects of fiscal year ending on a holiday])	[147.7]	**[23.4]**	[(124.2)]
III Cash flows from financing activities	62.3	**(47.8)**	(110.2)
IV Cash and cash equivalents at end of year	547.8	**528.1**	(19.6)

To ensure efficient fund procurement when the need for funds arises, the Company and certain consolidated subsidiaries have established commitment lines with multiple financial institutions. As of March 31, 2009, these commitment lines had an aggregate yen value of ¥210.1 billion, of which ¥3.0 billion was received as short-term and long-term borrowings and the rest, ¥207.1 billion, was unused.

The Company has acquired bond ratings from Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Rating and Investment Information, Inc. (R&I). As of March 31, 2009, the Company had bond ratings (long-term/short-term) of A3 (long-term) from Moody's, A^- (long-term) from S&P, and A^+ (long-term) and a^{-1} (short-term) from R&I.

4. Capital Expenditure

In fiscal 2008, capital expenditure totaled ¥167.6 billion ($1,711 million), a decline of 32.7% from ¥249.0 billion in the previous fiscal year. This decline was primarily attributable to a significant decrease in capital expenditure in the LSI business. Capital expenditure was ¥87.7 billion ($896 million) in Technology Solutions. This figure mainly reflected the purchase of ownership rights to land and buildings belonging to a key business site in Japan, Fujitsu Solution Square, as well as capital expenditure to expand the outsourcing business in the UK, and facility expansion of datacenters in Japan. In Ubiquitous Product Solutions, capital expenditure was ¥18.7 billion ($191 million), used to build facilities for new PC and mobile phone models, as well as facilities for perpendicular magnetic recording technology for HDDs. Capital expenditure was ¥39.6 billion ($405 million) in Device Solutions, reflecting investment in the Mie Plant's Fab No. 2 for 300mm wafers related to advanced technology logic LSI devices, the upgrade of mature technology logic LSI facilities and electronic components. Capital expenditure outside of the aforementioned segments was ¥21.5 billion ($220 million).

5. Consolidated Subsidiaries

At the end of fiscal 2008, the Company had 480 consolidated subsidiaries, comprising 187 companies in Japan and 293 overseas, representing an increase of 50 from last year's total of 430. The main reason for the increase in new companies was the consolidation of the non-consolidated subsidiaries of PFU, Fujitsu FSAS, and Fujitsu FIP in Japan. Although the consolidation of these formerly non-consolidated subsidiaries had a negligible effect on consolidated business results for the fiscal year under review, retained earnings at the beginning of the fiscal year increased by ¥7.0 billion. Furthermore, the completion of liquidation proceedings for Fujitsu IT Holdings, Inc. resulted in a decline in capital surplus of ¥12.3 billion, and a commensurate increase in retained earnings of ¥12.3 billion.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 20, three less than a year earlier, due to the sale of Eudyna Devices Inc. and other companies.

6. Critical Accounting Policies and Estimates

Accounting Principles and Practices

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles and practices generally accepted in Japan and the regulations under the Financial Instruments and Exchange Law of Japan. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amount of the assets, liabilities, contingent assets and contingent liabilities reported at the end of the fiscal year, as well as the amount of revenue and expenses recognized during that term. Actual results may differ from these estimates. The following assumptions and estimates based on the application of accounting principles are those that the management believes may have a material impact on the consolidated financial statements.

Revenue Recognition

Revenue from sales of IT systems and products, excluding customized software under development contracts, 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 delivered to customers. Revenue from customized software under development contracts is recognized on a percentage-of-completion basis.

We stringently assess the potential revenue recoverable on projects for which estimated costs have exceeded estimated revenue, and recognize as losses the amounts assessed as non-recoverable. If the estimated costs relating to such contracts increase further in the future, additional losses may be recognized.

Inventories

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

Property, Plant and Equipment

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

In addition, impairment losses may be recognized in cases in which there is a decline in expected future cash flows from assets due to production facilities becoming idle, a decrease in the capacity utilization rate, or business realignment, associated with rapid changes in the operating environment or other factors.

Software

Computer software for sale is amortized based on projected unit sales volume during the period for which the projections are made. The projected unit sales volume is estimated based on a feasible sales plan, but one-time losses may occur if anticipated unit sales fall short of the original sales plan. Computer software for internal use is amortized by the straight-line method over its estimated useful life. Losses may occur if the actual useful life falls short of the initially estimated useful life.

Goodwill

Goodwill arising from the acquisition of a business, including those purchased by consolidated subsidiaries, is amortized by the straight-line method over the period corresponding to the premium of the acquired business. Losses may be recognized if the Group withdraws from or sells the business, or if the profitability of the acquired business decreases during the period the Group expected the return.

Marketable Securities

Held-to-maturity investments are stated at amortized cost, while available-for-sale securities with market value are carried at fair market value as of the balance sheet date. Available-for-sale securities without market value are carried at cost based primarily on the moving-average method. Fluctuations in the value of available-for-sale securities with market value cause fluctuations in the carrying value of investment securities, resulting in increases or decreases in shareholders' equity. Impairment loss is recognized on available-for-sale securities when the market value or the net worth falls significantly and is considered to be unrecoverable. If a significant decline in market value or net worth occurs and is expected to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

We record an appropriate balance of deferred tax assets against losses carried forward and temporary differences. Future increases or decreases in the balance of deferred tax assets may occur if projected taxable income decreases or increases as a result of trends in future business results. In addition, changes in the effective tax rate due to future revisions to taxation systems could result in increases or decreases of deferred tax assets.

Provision for Product Warranties

Some of the Group's products are covered by contracts that require us to repair or exchange them free of charge during a set period of time. Based on past experience, we record a provision for estimated repair and exchange expenses at the time of sale. The Group is taking steps to strengthen quality management during the product development, manufacturing and procurement stages. However, should product defects or other problems occur at a level in excess of that covered by the estimated expenses, additional expenses may be incurred.

Provision for Construction Contract Losses

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

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, mortality rates, and the expected rate of return on the plan assets. In the event an actuarial loss arises, the actuarial loss is amortized using a straight-line method over employees' average remaining service period. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected.

Provision for Loss on Repurchase of Computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. (JECC) and other leasing companies. Contracts with these companies require the buyback of the computers if lease contracts are terminated. An estimated amount for the loss arising from such buybacks is provided at the time of sale and is recorded as a provision. Any future changes in the usage trends of end-users may result in additions or reductions to the provision.