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, 2007 (fiscal 2006). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2007.

1. Analysis of Results

Business Environment

During fiscal 2006, while soaring crude oil prices and higher prices for raw materials starting from the first half of the fiscal year were cause for concern, the overall business environment in which the Fujitsu Group operates was positive, supported by a global rise in stock prices and stable foreign exchange rates. In addition, while there were signs of a slight deceleration in growth in the second half of the fiscal year, global economic growth was mostly solid, boosted by strong growth in Asia, particularly China and India. Although overall economic growth in Japan was restrained by weak household spending and other factors, the corporate sector continued to exhibit steady growth.

With respect to investment in information technology, spending in overseas markets continued to be strong, particularly in the US and EMEA (Europe, Middle East and Africa). Although IT investment in Japan was not as strong as in overseas markets, there was upward momentum as a result of strategic investments spurred by improvement in corporate earnings and increased demand driven by companies seeking to upgrade IT systems for enhancing internal control, security and business continuity. Both in Japan and overseas, our IT services business was strong, but in our product-related businesses we faced a growing shift to lower price points resulting from performance improvements for products like servers and storage systems, as well as price declines in our electronic devices business due to intensified competition in digital consumer electronic products.

In order to enhance our competitive position in an expanding IT market driven by IT services, we will work on a global basis to strengthen our relationships with customers and expand our services covering the entire life cycle of IT operations. In addition, in order to strengthen product businesses that add value to our IT service offerings, we will strive to enhance product competitiveness by stepping up collaboration between sales and product development units and eliminating excess product variations. As a reliable partner to our customers and a global corporation that is contributing to the creation of a prosperous and dynamic networked society, we will seek to continually improve our operations in order to deepen the trust we enjoy from customers and society as a whole.

Net Sales

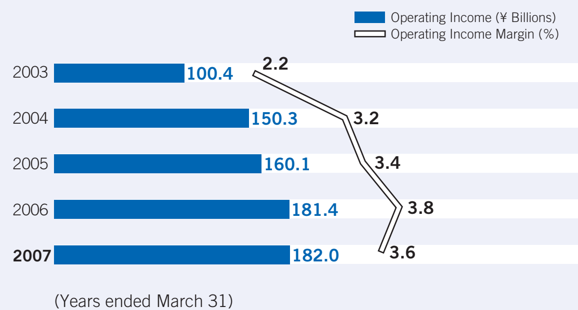
Consolidated net sales for fiscal 2006 were ¥5,100.1 billion (US$43,222 million), an increase of 6.4% over the previous fiscal year. All business segments posted higher sales. Overseas sales increased by 14.7% over the previous year. Although second-half sales of standard technology logic devices in Asia were sluggish, higher sales of IT services in North America and the UK, boosted by aggressive acquisitions, as well as HDDs and UNIX servers, led to the double-digit increase in overseas sales. Sales in Japan increased by 2.3% over the previous year, the first year-on-year increase in domestic sales since fiscal 2003. Although sales of mobile phone base stations declined from the previous year, when there was strong demand, sales in our services business were strong, particularly in the financial services and manufacturing sectors, and sales of electronic components also increased.

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

In fiscal 2006, the cost of sales was ¥3,781.6 billion (US$32,048 million), while selling, general and administrative (SG&A) expenses were ¥1,136.4 billion (US$9,631 million). Consolidated operating income increased ¥0.6 billion year on year to ¥182.0 billion (US$1,543 million). Due to higher sales in services and other businesses, gross profit grew ¥50.5 billion compared to a year earlier. However, the gross profit margin deteriorated by 0.6 of a percentage point to 25.9% as intensifying global price competition impacted HDD, UNIX server, optical transmission system, PC and other product businesses. Meanwhile, SG&A expenses increased by ¥49.9 billion. This reflected major expansion in our services business, including acquisitions in North America and the

securing of large-scale contracts in the UK, as well as investment in cutting-edge logic LSI technologies, and ongoing and active upfront strategic investment in hardware and software centered on technology solutions in Japan.

■ Operating Income and Operating Income Margin



(Years ended March 31)

Other Income (Expenses) and Net Income

Other income, net totaled ¥32.4 billion (US$275 million). Net interest expense, comprising interest and dividend income and interest charges, was ¥4.2 billion (US$36 million), an improvement of ¥4.3 billion compared to the previous fiscal year. Equity in earnings of affiliates was ¥6.9 billion (US$59 million), an improvement of ¥8.4 billion year on year. This mainly reflected the exclusion of Spansion Inc., which posted a loss in the previous fiscal year, from the Company's equity-method affiliates following the sale of some shares in this company in November 2006. Amortization of unrecognized obligation for retirement benefits was ¥3.1 billion (US$27 million). This was a substantial improvement of ¥25.0 billion compared to a year earlier due to revisions to the Company's pension system in Japan in September 2005 and an improvement in share prices at the end of the previous fiscal year. In addition, we booked a gain on sales of marketable securities of ¥77.3 billion (US$655 million) and a gain on change in interest of ¥2.1 billion (US$18 million) under other income. This reflected the sale of some shares in Fanuc Ltd. related to a tender offer for this company's treasury stock, and the sale of a portion of shares and a third-party offering related to the initial public offering (IPO) for consolidated subsidiary NIFTY Corporation. Meanwhile, under other expenses, we recorded an impairment loss of ¥9.9 billion (US$85 million) on fixed assets in the optical transmission systems business and other operations, and losses on sales of marketable securities of ¥2.2 billion (US$19 million) related to the sale of some shares in Spansion Inc., which listed in December 2005.

We recognized ¥96.2 billion (US$816 million) as income taxes, which combines current and deferred income taxes, against ¥214.4 billion (US$1,818 million) of income before income taxes and minority interests.

Net income for fiscal 2006 was ¥102.4 billion (US$868 million), an increase of ¥33.8 billion compared to a year earlier. Thanks to the substantial improvement in amortization of unrecognized obligation for retirement benefits, gain on sales of investment securities and other factors, this was a record figure for the Company, exceeding the previous record-high of ¥89.0 billion in fiscal 1984.

2. Segment Information

The following section provides information on net sales (including intersegment sales) and operating income in each of our principal business segments. From the fiscal year under review, the Company adopted a new method for allocating operating expenses. For year-on-year comparisons, previous year figures for operating income have been adjusted to reflect this change.

Technology Solutions

Consolidated net sales in this segment, which includes the System Platforms and Services sub-segments, were ¥3,157.0 billion (US$26,755 million), up 5.8% over fiscal 2005. In Japan, despite strong sales in the Services sub-segment, sluggish sales of mobile phone base stations and server-related products led to a 0.2% decline for the segment as a whole. Overseas sales increased by 19.9% as a result of continued strength in outsourcing and other services as well as higher sales of UNIX servers and other products in System Platforms. Operating income for the segment was ¥163.6 billion (US$1,387 million), an increase of ¥10.5 billion compared to the previous year. Although there was a decline in profitability in our optical transmission systems and retail solutions businesses in North America and our network business in the UK, higher Services earnings in Japan and overseas enabled us to post a more than ¥10.0 billion increase in overall operating income for Technology Solutions.

Our ETERNUS 8000/4000 series open-standard storage systems received a "best Japan brand" award in recognition of their world-leading performance and high reliability. These storage systems have also received very high marks from our customers, and we plan to further strengthen global sales.

In servers, we launched a new line of our PRIMEQUEST mission-critical IA servers in July 2006 and in April 2007 carried out the global launch of the new SPARC Enterprise line of UNIX servers jointly developed with Sun Microsystems.

In addition, in December 2006 we launched a highly praised PC server that combined the world's smallest footprint with world-class levels of low-noise and low-power operation. Going forward we will continue to offer high-performance, highly reliable products that are environmentally friendly and take customer installation space requirements into consideration.

By leveraging core information technologies, such as processor technologies and system technologies that deliver mainframe-class levels of reliability, we will offer on a global basis highly reliable systems that are tailored to customer IT environments.

In our services business, in January 2007, Fujitsu Services, our UK-based subsidiary, acquired TDS AG, a German IT services company that specializes in IT operations outsourcing and consulting services. The acquisition raises our presence in the German market and positions Fujitsu for further growth in key European markets.

In October 2006, we signed an agreement with SAP AG of Germany to become an SAP Global Services Partner, becoming the first Japan-based company with that designation. The agreement strengthens our collaboration in the area of services. Going forward, we will offer SAP implementation solutions globally.

In April 2007, to strengthen our consulting business in Japan, we took our consulting business, which excels in internal control and other upstream consulting services, and consolidated its functions into Fujitsu Research Institute, which offers business and management consulting services that leverage synergies with its activities as a think tank division. As a valuable partner to our customers, we will promote the integration of IT and business management to accelerate front-line "field innovation" in a wide array of business situations.

Building on a strategic collaboration agreement signed with Cisco Systems in fiscal 2005, in May 2006 we began offering network solutions centering on next-generation high-end routers, which will be a key component in building Next-Generation Networks.

In December 2006, NIFTY Corporation, our consolidated subsidiary engaged in the provision of Internet services, undertook an IPO. Moving forward, with greater managerial independence and latitude, NIFTY Corporation will provide customers with original value-added services and solutions that more precisely reflect customer needs and thereby help to raise the corporate value of the Fujitsu Group.

Ubiquitous Product Solutions

Net sales in the Ubiquitous Product Solutions segment were ¥1,118.3 billion (US$9,477 million), an increase of 5.5% over fiscal 2005. In Japan, sales increased by 1.3%. Sales of PCs were sluggish, as consumer sales were adversely affected by postponed purchases prior to the release of Windows Vista and corporate PC sales were impacted by intensified price competition. Overseas sales increased by 13.7%, bolstered by record-high shipment volumes of HDDs for notebook PCs and servers.

Operating income for Ubiquitous Product Solutions was ¥41.6 billion (US$353 million), an increase of ¥6.8 billion compared to the previous fiscal year. Although PC prices fell as a result of intensified global competition and price declines for HDDs for notebook PCs were steeper than anticipated, overall income for the segment increased as a result of business development of non-PC markets for HDDs, the impact of higher sales of mobile phones, and cost efficiencies and quality improvements stemming from strengthened manufacturing innovation initiatives.

In recent years, for notebook PCs just as much as for desktop PCs, there has been strong demand for high-speed HDDs that deliver high-volume storage capacity and high reliability. In addition, there is a growing need for high-capacity HDDs for use in digital home electronics. To meet these needs, we will commence sales of new 2.5" HDDs that deliver the highest storage capacity in the industry while offering best-in-class levels of low-noise and low-power operation. We will also offer an enhanced line of high-quality, high-capacity HDDs employing perpendicular magnetic recording technology.

Device Solutions

Net sales in Device Solutions were ¥762.6 billion (US$6,463 million). There was a sudden deterioration in market conditions for digital home electronics in the second half and fluctuations in demand for advanced technology logic products. Full-scale operation of the 300mm facility

(Fab No. 1) at our Mie Plant and improved sales of other electronic components, however, contributed to a 7.8% increase in sales over fiscal 2005. Operating income for Device Solutions was ¥19.0 billion (US$161 million), a decrease of ¥10.4 billion compared to the previous fiscal year. Despite the positive impact from higher sales of advanced technology logic devices, which benefited from an increase in production capacity at the Mie Plant, and other electronic components, sales of standard technology logic devices were sluggish, and there were also higher amortization costs and development expenses related to the Mie Plant's 300mm wafer lines, resulting in lower operating income.

The semiconductor production facilities acquired from Spansion Japan in April 2007 to boost front-end production capacity for standard technology logic commenced operations as Fujitsu Semiconductor Technologies Ltd. The company is expanding production of Flash microcontrollers for use mainly in automobiles and digital appliances. In order to improve production efficiency and cost competitiveness, we are continuing to consolidate our back-end assembly operations.

Our 300mm wafer facility (Fab No. 2) employing 65nm technology at the Mie Plant became operational in April 2007 as scheduled, and it is currently on track to commence volume shipments in July. Moving forward, we will be investing in capacity expansion in step with market demand.

Concentrating resources on our logic business, we will continue to pursue business development and expansion while maintaining a balance between advanced and standard technology logic. Positioning advanced technology logic as an engine for growth, we will seek to expand sales of such products to customers requiring devices with high speed and low power consumption. At the same time, we will work even more aggressively to penetrate global markets and achieve higher volumes in standard technology logic.

Furthermore, we sold a portion of our shareholding in our joint venture with Advanced Micro Devices, Inc., Spansion Inc., which conducted an IPO in December 2005 to list on the NASDAQ market in the US. After the sale, our share of ownership was reduced to less than 20%, and so the company is no longer an equity-method affiliate.

Net Sales and Operating Income by Business Segment

(including intersegment)

(¥ Billions)

Years ended March 31	2006	2007	Increase (Decrease) Rate (%)
Net sales			
Technology Solutions	¥2,983.9	**¥3,157.0**	5.8%
Ubiquitous Product Solutions	1,059.9	**1,118.3**	5.5
Device Solutions	707.5	**762.6**	7.8
Other Operations	447.3	**490.3**	9.6
Intersegment elimination	(407.3)	**(428.2)**	
Consolidated net sales	¥4,791.4	**¥5,100.1**	6.4%

Years ended March 31	2006	2007	Increase (Decrease)
Operating income (loss)			
Technology Solutions	¥153.0	**¥163.6**	¥ 10.5
Ubiquitous Product Solutions	34.8	**41.6**	6.8
Device Solutions	29.5	**19.0**	(10.4)
Other Operations	7.6	**10.5**	2.8
Unallocated operating costs and expenses/ intersegment elimination	(43.5)	**(52.7)**	(9.2)
Consolidated operating income	¥181.4	**¥182.0**	¥ 0.6

Geographic Segment Information

The following section provides information on net sales (including intersegment sales) and operating income in each of our principal operating regions. From the fiscal year under review, we have changed geographic segment names. The previous Europe segment has been renamed EMEA (Europe, Middle East and Africa), while the Others segment has been changed to APAC & China. In addition, for year-on-year comparisons of operating income, previous year figures have been adjusted to reflect the new method for allocating operating expenses adopted from the fiscal year under review.

Japan

Net sales were ¥4,077.1 billion (US$34,552 million), an increase of 3.4% over fiscal 2005. Lower sales in System Platforms, which covers servers and network equipment, were offset by favorable performance in Services, as well as mobile phones, advanced technology logic devices and other electronic components, resulting in an overall increase in domestic sales. Operating income, principally from our services business, was ¥191.8 billion (US$1,626 million), up ¥20.7 billion over fiscal 2005.

EMEA

Net sales were ¥736.3 billion (US$6,240 million). Continued strong performance in outsourcing services in the UK and other favorable business trends resulted in a 16.4% increase in sales over fiscal 2005. Operating income was ¥24.1 billion (US$205 million), up ¥1.1 billion compared to the previous fiscal year.

The Americas

The expansion of our North American services business through aggressive acquisitions and the strong performance of UNIX servers and HDDs for servers contributed to net sales of ¥442.3 billion (US$3,749 million), up 21.7% over fiscal 2005. However, operating income was ¥8.4 billion (US$72 million), a ¥5.1 billion decrease compared with last fiscal year. In addition to the impact of intensified price competition for UNIX servers, sales were sluggish prior to the release of new products in the second half of the year. In addition, a delay in the recovery of our retail solutions and optical transmission systems businesses had an adverse effect on operating income for this region.

APAC & China

Favorable performance in HDDs and PCs contributed to net sales of ¥807.1 billion (US$6,840 million), a 12.3% increase over the same period last year. Due to intensified global price competition, operating income was ¥11.6 billion (US$99 million), a decline of ¥3.2 billion compared to fiscal 2005.

Net Sales and Operating Income by Geographic Segment

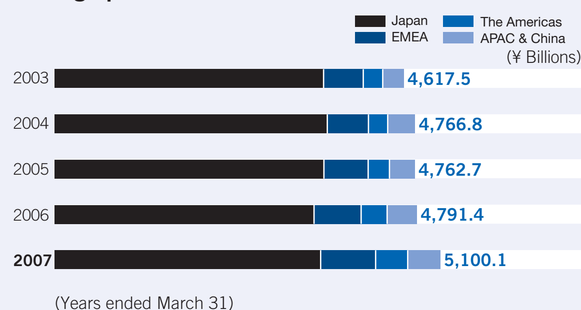
(including intersegment)

(¥ Billions)

Years ended March 31	2006	2007	Increase (Decrease) Rate (%)
Net sales			
Japan	¥3,944.4	**¥4,077.1**	3.4%
EMEA	632.5	**736.3**	16.4
The Americas	363.4	**442.3**	21.7
APAC & China	718.8	**807.1**	12.3
Intersegment elimination	(867.8)	**(962.8)**	
Consolidated net sales	¥4,791.4	**¥5,100.1**	6.4%

Years ended March 31	2006	2007	Increase (Decrease)
Operating income (loss)			
Japan	¥171.1	**¥191.8**	¥20.7
EMEA	22.9	**24.1**	1.1
The Americas	13.5	**8.4**	(5.1)
APAC & China	14.9	**11.6**	(3.2)
Unallocated operating costs and expenses/ intersegment elimination	(41.1)	**(54.0)**	(12.9)
Consolidated operating income	¥181.4	**¥182.0**	¥ 0.6

For Reference: Net Sales by Customers' Geographic Location



(Years ended March 31)

3. Capital Resources and Liquidity

Improvement in Financial Condition

In the year under review, we continued efforts to improve the soundness of our financial position. By recording more than ¥100.0 billion in net income for fiscal 2006, we achieved a marked improvement in the Company's financial condition, including a 0.5 percentage point increase in the owners' equity ratio (net assets less minority interests to total assets) to 24.6%. In addition, consolidated retained earnings were ¥54.3 billion (US$460 million), reversing a run of negative retained earnings that had continued since fiscal 2002.

As of March 31, 2007, the balance of interest-bearing loans was ¥745.8 billion (US$6,320 million). The balance of net interest-bearing loans after deducting cash and time deposits was ¥300.8 billion (US$2,550 million). As a result, the D/E ratio was reduced to 0.77 times, below our medium-term goal of 1.0, and the net D/E ratio fell to 0.31 times.

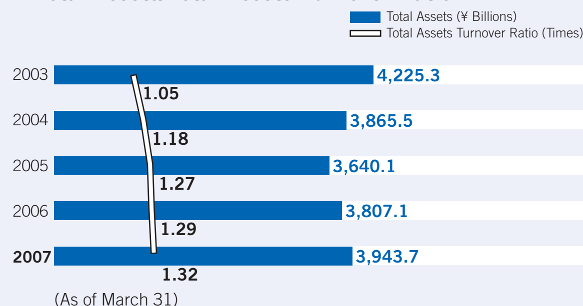
Assets, Liabilities and Net Assets

Total assets at the end of fiscal 2006 were ¥3,943.7 billion (US$33,421 million), an increase of ¥136.5 billion from the end of the previous fiscal year. This was due in large part to the increase in current assets, primarily trade receivables, resulting from increased sales. Although inventories totaled ¥412.3 billion (US$3,495 million), exceeding our target of reducing them to below ¥400.0 billion, the monthly inventory turnover rate rose to 0.93 times, an improvement of 0.05 times, as asset utilization efficiency continued to steadily improve. Although property, plant and equipment increased as a result of the investment in capacity expansion at the Mie Plant, there was a large decrease in marketable securities held for investment resulting from the sales of shares in Fanuc Ltd. and other companies.

Total liabilities were ¥2,783.0 billion (US$23,585 million), an increase of ¥65.9 billion compared to the end of the previous fiscal year. However, excluding the impact of the last day of the fiscal year being a business holiday, there was a decrease of ¥61.9 billion. The balance of interest-bearing loans totaled ¥745.8 billion (US$6,320 million), a decrease of ¥182.7 billion compared to the end of the previous fiscal year. Subtracting cash and time deposits, net interest-bearing loans were ¥300.8 billion (US$2,550 million). As a result of bond redemptions and loan repayments, the D/E ratio improved to 0.77 times, well within the target level of 1.0.

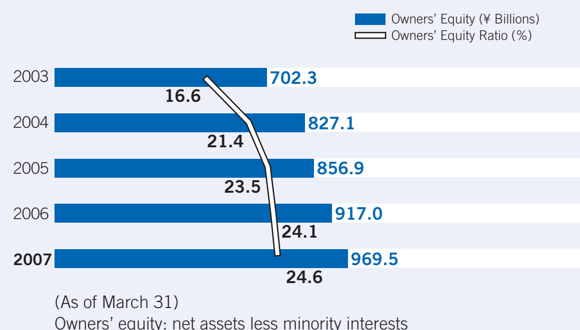
Net assets were ¥1,160.7 billion (US$9,837 million), up ¥70.6 billion compared to the end of the previous fiscal year. Consolidated retained earnings, which had been negative each year since fiscal 2002, achieved a positive balance. As a result, the owners' equity ratio rose to 24.6%, an increase of 0.5 percentage points compared to the end of the previous fiscal year.

■ Total Assets/Total Assets Turnover Ratio



(As of March 31)

■ Owners' Equity/Owners' Equity Ratio



(As of March 31)
Owners' equity: net assets less minority interests

Summary of Cash Flows

Net cash provided by operating activities was ¥408.7 billion (US$3,464 million). However, as the last day of the fiscal year was a business holiday, this number includes ¥75.2 billion (US$637 million) in trade payables and other current assets (liabilities), the payment of which was shifted into the following fiscal year. Although there was an increase in trade receivables, this was offset by the increase in earnings from businesses operations, in addition to the impact of the last day of the fiscal year being a holiday, leaving overall net cash flow from operating activities roughly equivalent to the level of the prior fiscal year.

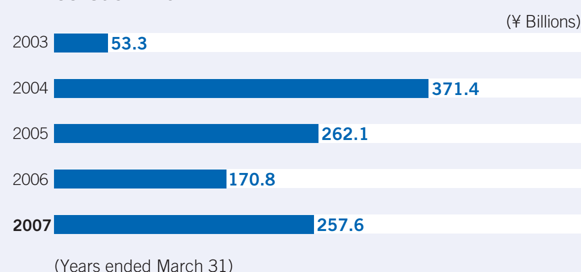
Net cash used in investing activities was ¥151.0 billion (US$1,280 million). Although outflows increased due to capital expenditures primarily for the increase in production capacity at the Mie Plant, as a result of the impact of the sales of shares in Fanuc Ltd., NIFTY Corporation and Spansion Inc., together with an impact of ¥34.3 billion (US$2,915 million) attributable to the last day of the fiscal year being a holiday, there was overall a decrease in cash outflows of ¥83.6 billion compared with the previous fiscal year.

Free cash flow, the sum of operating and investment cash flows, was positive ¥257.6 billion (US$2,184 million), an increase in free cash flow of ¥86.7 billion over fiscal 2005. Excluding the impact of sales of marketable securities, this represents an increase in free cash flow of ¥152.8 billion.

Net cash used in financing activities was ¥234.9 billion (US$1,991 million).

As a result of the above factors, cash and cash equivalents at the end of the fiscal year totaled ¥448.7 billion (US$3,803 million), an increase of ¥27.8 billion compared to end of the previous fiscal year.

■ Free Cash Flow



4. Capital Expenditure

In fiscal 2006, capital expenditure, which was concentrated on growth fields such as logic LSI technologies and outsourcing services, as well as on building the base for future business development, totaled ¥305.2 billion (US$2,587 million). By business segment, capital expenditure was ¥91.3 billion (US$774 million) in Technology Solutions, ¥24.8 billion (US$210 million) in Ubiquitous Product Solutions, ¥166.2 billion (US$1,409 million) in Device Solutions, and ¥22.8 billion (US$194 million) for general corporate and other areas.

Capital Expenditure (¥ Billions)

Years ended March 31	2006	2007	Increase (Decrease) Rate (%)
Technology Solutions	¥ 93.1	**¥ 91.3**	(2.0)%
Ubiquitous Product Solutions	19.4	**24.8**	27.7
Device Solutions	115.5	**166.2**	43.9
Corporate and others*	21.8	**22.8**	4.9
Total	¥249.9	**¥305.2**	22.1 %
Japan	190.6	**254.6**	33.6
Overseas	59.3	**50.6**	(14.7)

* Non-allocable capital expenditure for shared R&D and parent company management divisions

5. Consolidated Subsidiaries

At the end of fiscal 2006, the Company had 393 consolidated subsidiaries, comprising 128 in Japan and 265 overseas, representing an increase of 1 from last year's total of 392. Although there was an increase in new companies in the Group due to M&A activity by UK subsidiary Fujitsu Services, the total number of consolidated subsidiaries was roughly the same as the previous fiscal year due to the liquidation of overseas subsidiaries.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 27, 1 less than a year earlier.

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 Securities and Exchange Law of Japan. The accounting principles and practices adopted by consolidated subsidiaries outside Japan conform to those of their respective countries.

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 Group is discussing the requirements for the adoption of International Financial Reporting Standards (IFRS) and if these standards are adopted there is a possibility of losses arising as a result of the change. When these standards are adopted, it is possible that differences may arise from financial statements prepared under Japanese standards.

Revenue Recognition

Revenue from sales of IT systems and products, excluding software 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 shipped. Revenue from software 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.

Property, Plant and Equipment

Depreciation for property, plant and equipment 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. In the future, some equipment and facilities may become obsolete as a result of technical innovation

or other factors, and some equipment and facilities may no longer be required as the result of withdrawal from certain businesses, in which case their actual useful lives may be recognized as shorter than their originally estimated useful lives. Losses may occur as a result.

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

Intangible Assets

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 when the business is withdrawn or sold by the Group, or when 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 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 proved to be unrecoverable. If a significant decline in market value or net worth occurs and is proved 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 Company'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.

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. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected. In the event an actuarial loss arises, the actuarial loss is amortized using a straight-line method over employees' average remaining service period. Furthermore, revisions to accounting standards in countries where overseas subsidiaries are located and in Japan could potentially impact the Company's retirement benefit costs and obligations, as well as net assets.

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.