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, 2008 (fiscal 2007). Forward-looking statements in this section are based on management's understanding and best judgment as of March 31, 2008.

1. Analysis of Results

Business Environment

In fiscal 2007, ended March 31, 2008, the business environment in which the Fujitsu Group operates remained healthy, driven largely by economic growth in Asia, centering on China and India. This was despite economic slowdown in the United States, stemming from rising raw materials and energy prices and financial instability caused by the subprime mortgage crisis, as well as growing uncertainty regarding the European economy.

The Japanese economy showed some signs of weakness resulting from sharp currency swings in the second half of the fiscal year, soaring prices for raw materials, sluggish consumer demand, and falling stock prices. Overall, however, the domestic economy was firm, supported by moderate recovery in demand in the corporate sector, driven by exports to rapidly growing emerging markets.

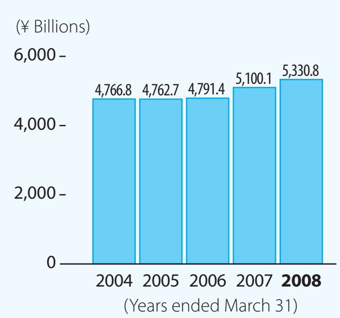
With respect to IT investments, economic slowdown in the United States and other factors provided growing cause for concern. On the whole, however, growth-oriented investments remained solid as companies strove to expand their global operations and strengthen their competitiveness. This was against a backdrop of rising demand from companies establishing compliance and internal control systems, as well as ongoing improvements in corporate earnings and financial positions.

Fiscal 2007 was the first year of the Group's new medium-term strategic plan, designed to boost earnings and growth. Based on our "Field Innovation" approach, we are shifting our emphasis from "IT solutions" to "business solutions" which call for a deeper involvement in the businesses of our customers. We are also pursuing Group-wide organizational and structural reforms and accelerating the globalization of our operations. The Fujitsu Group will implement Field Innovation for our own operations as well as to improve our customers' businesses, and through our constant pursuit of innovation, we aim to contribute to the creation of a networked society that is rewarding and secure, bringing about a prosperous future that fulfills the dreams of people throughout the world.

Net Sales

In fiscal 2007, consolidated net sales amounted to ¥5,330.8 billion (US$53,308 million), an increase of 4.5% from the previous fiscal year. All business segments posted higher sales, led by strong results in the Services business and solid demand for PCs and mobile phones. Sales in Japan grew 4.0% year-on-year. Although sales of mobile phone base stations and standard technology logic devices were sluggish, sales in the Services business were strong, benefiting from increased sales of systems integration services, particularly to the financial services sector, as well as outsourcing services. Moreover, sales of PCs, mobile phones, and 90nm advanced logic products also increased. Sales outside of Japan climbed 5.4%. In the Services business, overseas sales were boosted by acquisitions and strong performances by existing businesses. Sales of UNIX servers, optical transmission systems, and PCs outside Japan were also up.

NET SALES

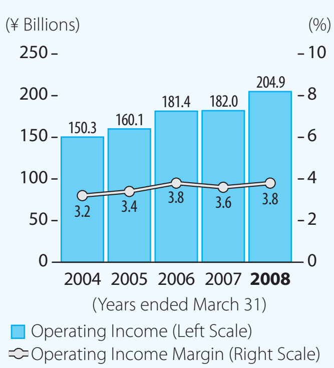


Cost of Sales, Selling, General & Administrative Expenses, and Operating Income

In fiscal 2007, cost of sales totaled ¥3,959.5 billion (US$39,595 million), and selling, general and administrative (SG&A) expenses were ¥1,166.3 billion (US$11,663 million).

Operating income was ¥204.9 billion (US$2,049 million), an increase of ¥22.9 billion over the previous fiscal year, and the operating income margin improved 0.2 of a percentage point to 3.8%. (Excluding the impact of changes in accounting policies implemented during the year, operating income would have been ¥205.5 billion (US$2,055 million), up ¥23.4 billion.) Gross profit benefited from higher sales and cost reductions for components. These factors outweighed several negative aspects, such as provision for losses from an unprofitable Services business project outside Japan, as well as intensified price competition in HDDs for notebook PCs during the first half of the year. SG&A expenses rose ¥29.8 billion year-on-year, due mainly to an increase in selling expenses related to higher revenue, expansion in the scope of our Services business due to acquisitions in Europe and elsewhere, and upfront, strategic investments in such fields as next-generation networks. As a percentage of net sales, however, SG&A expenses fell 0.4 of a percentage point from the previous fiscal year.

OPERATING INCOME AND OPERATING INCOME MARGIN



Other Income (Expenses) and Net Income

Other expenses, net, totaled ¥95.5 billion (US$955 million). We recorded a ¥17.3 billion (US$173 million) gain on the sale of shares in affiliates and a ¥2.0 billion (US$20 million) gain on change in interest related to the public listing of Nantong Fujitsu Microelectronics Co., Ltd., a Chinese affiliate. By contrast, we reported a ¥14.5 billion (US$145 million) foreign exchange loss due to the yen's sharp appreciation toward the end of the fiscal year, as well as a ¥25.1 billion (US$251 million) valuation loss on our holdings of publicly listed shares, reflecting a steep decline in the share price of Spansion Inc. of the United States. We also posted a ¥25.0 billion (US$250 million) loss on valuation of inventories in conjunction with the early adoption of a new accounting policy for such valuations introduced in the year under review. In line with the restructuring of our LSI business, meanwhile, we recorded a total of ¥22.1 billion (US$221 million) in losses, including an impairment loss on property, plant, and equipment stemming from the transfer of the product development and mass-production prototyping functions of the Akiruno Technology Center to the Mie Plant and associated relocation expenses.

Net income for the year totaled ¥48.1 billion (US$481 million), down ¥54.3 billion. (Excluding the impact of changes in accounting policies implemented during the year, net income would have been ¥61.2 billion (US$612 million), down ¥41.2 billion.) The decline in net income stemmed in part from ¥77.3 billion (US$773 million) in other income recorded in the previous year on the sale of shares in Fanuc Ltd. and other companies. Although the income tax liability increased due to higher dividend income from subsidiaries outside of Japan, around ¥18.0 billion (US$180 million) of the valuation allowance for deferred tax assets was returned and recorded as income. This was due to the tax benefit of an increase in the number of companies subject to consolidated corporate taxation and higher profits from core business operations.

The Company maintains significant loss carryforwards for corporate tax purposes in relation to structural business reforms carried out in the past. Prior to and including the year ended March 31, 2005, we booked around ¥150.0 billion (US$1,500 million) in accumulated valuation allowances for deferred tax assets in excess of the amount expected to be returned over a five-year period. Although we conservatively estimate future recoverable amounts, the recovery of loss carryforwards had proceeded faster than the initial plan as of March 31, 2008.

2. Segment Information

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

Technology Solutions

Sales in this segment in fiscal 2007 amounted to ¥3,272.2 billion (US$32,722 million), up 3.6% from fiscal 2006. Sales in Japan edged up 0.7% thanks to the ongoing strength of our Services business, which offset lower sales of mobile phone base stations. Sales outside of Japan rose 9.4%, due to ongoing growth of the Services business through acquisitions, as well as continued strength of existing businesses and higher sales of UNIX servers.

Operating income for the segment rose ¥16.5 billion year on year to ¥180.1 billion (US$1,801 million). (Excluding the impact of accounting policy changes, operating income would have been ¥188.3 billion (US$1,883 million), up ¥24.6 billion.) Despite a provision for losses from an unprofitable project outside of Japan, as well as higher upfront strategic investments in optical transmission systems and other Next-Generation Network equipment, operating income was boosted by higher sales in our Services business, excellent cost efficiencies in our server business, and other factors.

Seeking to optimize resources and step up integration of our product development and sales organizations, in August 2007, we made Fujitsu Access Limited and Fujitsu Wireless Systems Limited—two subsidiaries responsible for manufacturing, development, and sales of networking products—into wholly owned subsidiaries through exchanges of shares. In addition, in April 2008, we decided to consolidate the sales divisions of our domestic photonics business into Fujitsu Limited, and consolidate our domestic photonics development and manufacturing operations into Fujitsu Access, with these changes scheduled to take effect in July 2008. Integrating our sales divisions will enhance our sales capabilities, while the merged product development and manufacturing functions will improve and speed up those processes, enabling us to deliver higher-quality services to customers at competitive prices.

We are also pursuing our "Field Innovation" approach in the Services business. In October 2007, for example, we began training selected employees to become "Field Innovators," with the aim of strengthening and expanding our relationships with our customers. In addition, we are promoting the "industrialization" of IT services to advance the standardization and automation of processes used in the building of IT infrastructure. Specific measures include the establishment of the Infrastructure Technology Center, spearheaded by subsidiary Fujitsu FSAS Inc. We will continue to enhance various technologies that support Field Innovation. At the same time, we will focus on the development of new business solutions based on internal practices.

In fiscal 2007, the Fujitsu Group continued working proactively to strengthen its ability to deliver services on a global scale. During the year, we acquired via public tender offer Mandator AB, which provides application and other IT services in Scandinavia, primarily in its home country of Sweden. We also acquired a company that provides infrastructure services in Oceania. In Canada, meanwhile, we acquired two companies—a provider of business process optimization services and a provider of IT consulting and solutions. In Japan, we reinforced the service delivery capabilities of our remote data centers, which meet the security needs of customers for top-level security and business continuity in the event of natural disasters. In December 2007, we began operation of our Fujitsu Tokyo No. 2 Systems Center, a city center-based data facility designed to meet growing demand for Internet Data Center (IDC) services.

Ubiquitous Product Solutions

Sales in this segment in fiscal 2007 reached ¥1,188.9 billion (US$11,889 million), up 6.3% from fiscal 2006. Sales in Japan rose 7.2% amid solid demand for PCs and a growing market for mobile phones. Sales outside of Japan increased 4.8% on the back of higher sales of notebook PCs, primarily in North America and Asia, as well as strong sales of HDDs for notebook computers, where we set a new record in unit sales.

Segment operating income rose ¥10.9 billion, to ¥52.5 billion (US$525 million). (Excluding the impact of accounting policy changes, operating income would have been ¥54.2 billion (US$542 million), up ¥12.6 billion.) Profitability in our PC business was boosted by increased sales and lower component costs, combined with enhanced cost efficiency. With respect to HDDs, conditions in the second half of the year improved as we launched a new perpendicular magnetic recording model and benefited from the alleviation of price declines for HDDs used in notebook PCs. However, sharp price decreases in the first half of the period had a negative impact on full-year earnings.

Despite signs of stabilization buoyed by rising demand for PCs, competition in the market for HDDs for notebook PCs remains intense. In 2.5-inch HDDs, we developed two new models launched in May 2008—a 500GB model offering the highest capacity of any 2.5-inch HDD on the market, and a 320GB model with a built-in encryption function. We will continue honing our competitiveness in HDDs by targeting further cost reductions and launching a steady stream of innovative products.

In PCs, Shimane Fujitsu Limited, our PC manufacturing subsidiary in Japan, passed the cumulative production milestone of 20 million computers during the year. We will continue pursuing further improvements and efficiencies throughout our PC operations, from manufacturing to distribution. At the same time, we will seek to create a manufacturing organization that can quickly meet market needs with high-quality offerings, and consistently deliver products that guarantee customer satisfaction.

In January 2008, we established a new company by consolidating the parent company's mobile phone production management division and customer service center with the manufacturing and maintenance divisions of several subsidiaries, including Fujitsu Wireless Systems Limited, a wholly owned company. By strengthening the Fujitsu Group's mobile phone production and maintenance organization, we aim to become more responsive to customer needs and enhance the quality of our services.

Device Solutions

This segment reported a 4.5% year-on-year increase in sales, to ¥796.7 billion (US$7,967 million). Despite sluggish demand for standard technology logic devices, sales in Japan increased 14.1%. This was due to expanded production of 90nm advanced technology logic devices at the Mie Plant Fab No. 1, as well as increased sales of flash memory devices following the start of contractual production at facilities purchased from Spansion Japan Limited. Sales outside of Japan declined 9.9%, largely due to lower billings through the Company's overseas sales subsidiaries following a realignment of our overseas flash memory sales organization.

Segment operating income totaled ¥18.2 billion (US$182 million), mostly unchanged from fiscal 2006. (Excluding the impact of accounting policy changes, operating income would have been ¥7.9 billion (US$79 million), down ¥11.0 billion year on year.) Despite benefiting from increased sales of advanced technology logic devices for our LSI device business, operating income was impacted by higher depreciation expenses associated with the production launch at Mie Plant Fab No. 2, which uses 65nm process technology, as well as a delay in the rebound of demand for standard technology logic devices. The profitability of our electronic components business declined due to the yen's sharp appreciation at the end of the fiscal year, as well as intensified price competition and higher upfront investments.

To strengthen our integrated production and sales business structure, in October 2007, we transformed Fujitsu Devices Inc. into a wholly owned subsidiary through an exchange of shares. We then changed that company's name to Fujitsu Electronics Inc. and consolidated our sales division into it, thereby integrating our sales organization under one roof. In March 2008, we integrated the development and mass-production prototyping functions for advanced process technologies (90nm-generation and beyond) at our Mie Plant. In addition, we reorganized our LSI operations into an independent, wholly owned subsidiary, Fujitsu Microelectronics Limited, in order to create an organization capable of rapid and timely management decisions. In addition to our core

ASIC*[1] and COT*[2] operations, we are strengthening our sales of general-purpose devices, including ASSPs*[3], microcontrollers, and analog devices, for which demand is growing, especially in Asia. The goal of the restructuring is to increase the proportion of sales derived from high-value-added, general-purpose offerings and build a stronger, more efficient business foundation.

*[1] ASIC : Application-specific integrated circuit
*[2] COT : Customer owned tooling (contract production of LSI devices designed and developed by the customer)
*[3] ASSP: Application-specific standard product

Net Sales and Operating Income by Business Segment (including intersegment sales)

(¥ Billions)

Years ended March 31	2007	**2008**	Increase Rate (%)
Net sales			
Technology Solutions	¥3,157.0	**¥3,272.2**	3.6%
Ubiquitous Product Solutions	1,118.3	**1,188.9**	6.3
Device Solutions	762.6	**796.7**	4.5
Other Operations	490.3	**526.8**	7.4
Intersegment elimination	(428.2)	**(453.9)**	
Consolidated net sales	¥5,100.1	**¥5,330.8**	4.5%

(¥ Billions)

Years ended March 31	2007	**2008**	Increase (Decrease)
Operating income (loss)			
Technology Solutions	¥163.6	**¥180.1**	¥16.5
Ubiquitous Product Solutions	41.6	**52.5**	10.9
Device Solutions	19.0	**18.2**	(0.7)
Other Operations	10.5	**14.2**	3.7
Unallocated operating costs and expenses/ intersegment elimination	(52.7)	**(60.3)**	(7.5)
Consolidated operating income	¥182.0	**¥204.9**	¥22.9

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 Fujitsu Group reported sales of ¥4,229.7 billion (US$42,297 million), up 3.7% from fiscal 2006. Lower sales of mobile phone base stations and other products were outweighed by higher sales of services, PCs, and mobile phones. Operating income grew a substantial ¥49.0 billion, to ¥240.9 billion (US$2,409 million). Despite intensified price competition in HDDs for notebook PCs and lower sales of mobile phone base stations, operating income increased owing to higher sales and increased efficiency in the services, server, and PC businesses following cost-cutting measures.

EMEA

In EMEA, sales increased 4.6%, to ¥769.9 billion (US$7,699 million). Growth was particularly strong in Germany and Scandinavia, where our Services business expanded on the back of acquisitions. Operating income declined ¥23.4 billion, to ¥0.7 billion (US$7 million). Despite the beneficial effect of increased sales, operating income was negatively affected by several factors. These included a provision for losses from an unprofitable project in the United Kingdom, higher goodwill amortization costs associated with acquisitions in the Services business, and investments in the development of optical transmission systems and other Next-Generation Network (NGN) equipment.

The Americas

Sales in the Americas rose 6.3%, to ¥469.9 billion (US$4,699 million). Higher sales of optical transmission systems, servers, HDDs, and notebook PCs contributed to the overall revenue increase. Operating income remained mostly unchanged, at ¥9.2 billion (US$92 million). Despite higher development costs for NGN and increased marketing expenses related to the launch of IA servers, operating income was boosted by higher sales and cost-cutting in the retail solutions business.

APAC & China

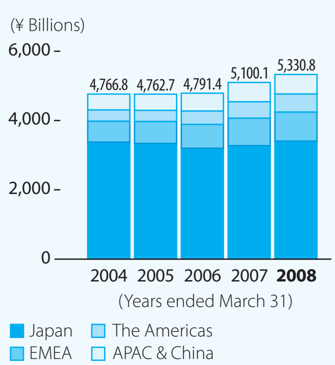
In APAC & China, sales grew 5.9%, to ¥855.0 billion (US$8,550 million). Due in part to an acquisition in Oceania, the Services business expanded, while our HDD manufacturing subsidiaries also posted higher sales. Operating income climbed ¥3.1 billion, to ¥14.8 billion (US$148 million), owing mainly to the revenue increase.

Net Sales and Operating Income by Geographic Segment (including intersegment sales) (¥ Billions)

Years ended March 31	2007	2008	Increase Rate (%)
Net sales			
Japan	¥4,077.1	**¥4,229.7**	3.7%
EMEA	736.3	**769.9**	4.6
The Americas	442.3	**469.9**	6.3
APAC & China	807.1	**855.0**	5.9
Intersegment elimination	(962.8)	**(993.8)**	
Consolidated net sales	¥5,100.1	**¥5,330.8**	4.5%

Years ended March 31	2007	2008	Increase (Decrease)
Operating income (loss)			
Japan	¥191.8	**¥240.9**	¥49.0
EMEA	24.1	**0.7**	(23.4)
The Americas	8.4	**9.2**	0.7
APAC & China	11.6	**14.8**	3.1
Unallocated operating costs and expenses/ intersegment elimination	(54.0)	**(60.7)**	(6.7)
Consolidated operating income	¥182.0	**¥204.9**	¥22.9

FOR REFERENCE: NET SALES BY CUSTOMERS' GEOGRAPHIC LOCATION



3. Capital Resources and Liquidity

Improvement in Financial Condition

In fiscal 2007, the Fujitsu Group continued to improve the soundness of its financial position, including by bolstering the profitability of its core businesses and boosting cash flows through more efficient deployment of working capital.

The total asset turnover ratio for the year was 1.37 times, up 0.05 of a point, and the monthly inventory turnover rate was 1.03 times, an improvement of 0.10 of a point. Free cash flow—the sum of cash flows from operating and investing activities—was positive ¥38.1 billion (US$381 million). (Excluding the impact of the previous fiscal year-end falling on a business holiday, free cash flow would have been positive ¥144.7 billion (US$1,447 million).)

Assets, Liabilities, and Net Assets

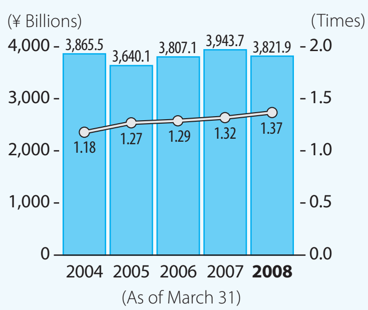
Total assets at fiscal year-end amounted to ¥3,821.9 billion (US$38,219 million), down ¥121.7 billion from a year earlier. The decline stemmed primarily from a fall in non-current assets. Among current assets, cash and cash equivalents increased in line with the issue of convertible bonds in August 2007 to prepare for redemption of convertible bonds maturing in 2009. Inventories declined ¥29.2 billion, to ¥383.1 billion (US$3,831 million), and the monthly inventory turnover rate, which is an indication of asset efficiency, rose to 1.03 times, an improvement of 0.10 of a point. Among non-current assets, investments and long-term loans declined, due mainly to falling prices of our holdings of listed shares.

Total liabilities stood at ¥2,691.7 billion (US$26,917 million), down ¥91.2 billion from a year earlier. (Excluding the impact of the previous fiscal year-end falling on a business holiday, which resulted in the payment of trade payables being carried over into fiscal 2007, liabilities would have increased ¥36.7 billion.)

Interest-bearing loans rose to ¥887.3 billion (US$8,873 million), due to the issue of convertible bonds to finance redemption of existing debt. Net interest-bearing debt (after subtracting cash and cash equivalents) was ¥339.4 billion (US$3,394 million). The D/E ratio was 0.94 times, and the net D/E ratio was 0.36 times.

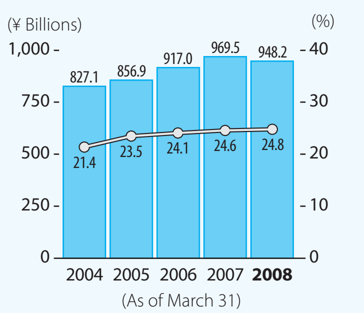
Net assets amounted to ¥1,130.1 billion (US$11,301 million), down ¥30.5 billion. This was mainly due to a decline in valuation and translation adjustments stemming from the yen's sharp appreciation toward the end of the year, as well as falling prices of listed shares. Shareholders' equity rose ¥36.6 billion, to ¥911.6 billion (US$9,116 million). At its meeting held in May 2007, the Board of Directors approved a resolution to transfer ¥240.4 billion (US$2,404 million) from "capital surplus" to "retained earnings."

TOTAL ASSETS/TOTAL ASSETS TURNOVER RATIO



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

OWNERS' EQUITY/OWNERS' EQUITY RATIO



Owners' Equity: net assets less minority interests

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

Cash Flows

Net cash provided by operating activities amounted to ¥322.0 billion (US$3,220 million), down ¥86.6 billion from the previous fiscal year. (Excluding the impact of the previous fiscal year-end falling on a business holiday, which resulted in the payment of trade payables being carried over into fiscal 2007, net cash provided by operating activities would have been ¥63.7 billion higher, due to increased income from core business operations and progress in the collection of trade receivables.)

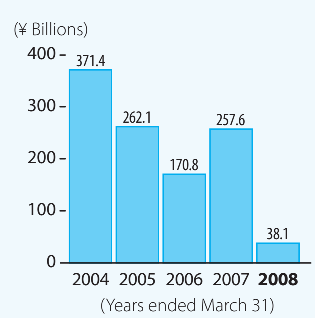
Net cash used in investing activities totaled ¥283.9 billion (US$2,839 million), up ¥132.8 billion from the previous year. The comparative increase in outflows stemmed from the sale of shares in Fanuc Ltd. in fiscal 2006, which generated an inflow of ¥69.8 billion (US$698 million) in that year.

Free cash flow (the sum of operating and investment cash flows) was positive ¥38.1 billion (US$381 million). (Excluding the impact of the previous fiscal year-end falling on a holiday, free cash flow would have been positive ¥147.7 billion (US$1,477 million).)

Net cash provided by financing activities totaled ¥62.3 billion (US$623 million). During the year, the Company undertook share buybacks in order to convert subsidiaries into wholly owned companies via exchanges of shares. By contrast, it also issued ¥200.0 billion (US$2,000 million) in convertible bonds to even out obligations associated with the potential redemption of convertible bonds maturing in 2009.

As a result of the above factors, cash and cash equivalents at the end of fiscal 2007 totaled ¥547.8 billion (US$5,478 million), up ¥99.1 billion from a year earlier.

FREE CASH FLOW



4. Capital Expenditure

In fiscal 2007, 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 ¥249.0 billion (US$2,490 million). By business segment, capital expenditure was ¥81.6 billion (US$816 million) in Technology Solutions, ¥27.6 billion (US$276 million) in Ubiquitous Product Solutions, ¥117.3 billion (US$1,173 million) in Device Solutions, and ¥22.5 billion (US$225 million) for corporate and others.

Capital Expenditure

(¥ Billions)

Years ended March 31	2007	**2008**	Increase (Decrease) Rate (%)
Technology Solutions	¥91.3	**¥81.6**	(10.6)%
Ubiquitous Product Solutions	24.8	**27.6**	11.3
Device Solutions	166.2	**117.3**	(29.4)
Corporate and others*	22.8	**22.5**	(1.3)
Total	¥305.2	**¥249.0**	(18.4)%
Japan	254.6	**189.6**	(25.5)
Overseas	50.6	**59.4**	17.4

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

5. Consolidated Subsidiaries

At the end of fiscal 2007, the Company had 430 consolidated subsidiaries, comprising 136 companies in Japan and 294 overseas, representing an increase of 37 from last year's total of 393. The increase in new companies in the Group primarily reflected M&A activity by UK subsidiary Fujitsu Services Holdings PLC as well as the establishment of new companies due to the spin-off of LSI and other business divisions.

The number of affiliated companies accounted for by the equity method as of the fiscal year-end totaled 23, four 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 Financial Instruments 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.

Losses, moreover, may occur as a result of changes in accounting 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 delivered to customers. 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 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 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 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 or a decrease in the capacity utilization rate associated with rapid changes in the operating environment or other factors.

Intangible Assets (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 business is withdrawn or sold by the Group, 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 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.