6. Business and Other Risks

Listed below are the principal business and other risks affecting the Fujitsu Group that may influence the evaluations of investors. We are aware of these risks and are making efforts to prevent incidents of risk from arising and to minimize their impact should they occur.

Among the risks listed below are some items related to future developments, but the list only includes items that are deemed necessary to publicly disclose at this time (April 27, 2005).

1. Economic or Financial Market Trends

   The Fujitsu Group offers IT products and services, telecommunications infrastructure equipment, semiconductors, hard disk drives and other products and services, and economic trends in Japan, the U.S. or Europe could affect the sales and profitability of these offerings. In particular, there could be unforeseen price declines or changes in demand for semiconductors and PCs. In such cases, there may be the risk of not being able to recoup investment costs, as well as the risk of opportunity losses.

   In addition, there are risks associated with exchange rate and interest rate fluctuations, such as the risk of exchange losses, depreciation of overseas assets, appreciation of foreign currency-denominated liabilities, and an increase in the interest burden of interest-bearing loans, as well as the risk of higher financing costs in the future. In addition, domestic and foreign stock price fluctuations could result in a reduction in the value of marketable securities or a reduction in pension assets, exposing the company to the risk of higher losses.

2. Customers

   A large concentration of the Fujitsu Group's business is with telecommunications carriers, financial institutions, and large manufacturers, and business conditions within these industries, including structural reforms, could lead to changes in customer investment trends having a significant impact on our sales and profitability. In semiconductors and hard disk drives, much of the business consists of repeat business from specific customers, which is important for business stability. Accordingly, an inability to secure such repeat business could impact sales and profitability.

   In addition, trends in corporate IT spending as well as in IT spending by national or local governments affect our sales and profitability.

3. Competitors/Industry

   Competition in the IT industry is extremely severe, and we face the risk of not being able to increase sales or lower costs to offset larger-than-anticipated market price reductions, the risk of being unable to maintain our competitive standing if a new competitor introduces highly competitive products or services, and the risk of not being able to maintain our competitive standing in technological innovation despite maximizing the R&D efforts of the Fujitsu Group – all of which could result in lower market share and affect sales and profitability.

4. Partners, Alliances, etc.

   Because the Fujitsu Group produces sophisticated technology products, there is a risk of not being able to maintain a stable source of supply for parts (i.e., difficulty in obtaining alternative supplies, difficulty in assuring sufficient volume). There is also a risk that, as a result of foreign exchange fluctuations or a tightening of demand, the cost of supplies could become quite high, impinging on our ability to realize expected returns.

In addition, if we are unable to verify the quality of parts being supplied, there is a risk of product defects, processing delays, opportunity losses, repair costs, and disposal costs of rejected goods, as well as the potential need to pay damages to customers.

Through technology collaborations and joint ventures, the Fujitsu Group works together with a large number of companies. If, however, as a result of managerial, financial, or other causes, it became difficult to maintain specific collaborations or to gain sufficient results from them, it could have a detrimental impact on our business. Moreover, many of our products and services employ other companies' patents, technologies, software, and trademarks with the consent of their owners, but there is no guarantee that other companies will continue to grant licensing rights at terms acceptable to us.

5. Public Regulations, Public Policy, and Tax Matters

Wherever the Fujitsu Group operates, domestically or abroad, we must comply with a variety of regulations, such as authorizations for business or investment, import/export regulations and restrictions, as well as laws pertaining to anti-monopoly policies, intellectual property rights, consumers, the environment and recycling, labor conditions, and taxation. If we were unable to comply with these laws and regulations, we might be forced to cease business operations, which would impact sales and profitability. We may also be subject to increased compliance costs associated with stricter or otherwise altered regulations.

6. Other Operations-related Risks

1) Deficiencies or Flaws in Products and Services

The Fujitsu Group is committed to further strengthening quality control at the manufacturing, development and procurement stages; however, it is impossible to totally eliminate the possibility of deficiencies or flaws occurring in products, including software. We are promoting software componentization and standardization of development work in order to improve the quality of system development and other services, but the possibility of defects arising cannot be excluded. In the event that such deficiencies or flaws occur, we might have to carry out product repairs or recalls, engage in system recovery work, pay damages to customers or suffer opportunity losses.

2) Project Management

Due to such factors as the increasing scale of systems and more rigorous demands from customers, as well as the advance of open system environments, system development work is becoming increasingly complex, and pricing pressures are intensifying. In regard to projects with deteriorating profitability, in fiscal 2003 we established a new organizational unit to review all business negotiations and help prevent the occurrence of such projects. In April of this year, we strengthened the authority and organization of this function by establishing a Systems Integration Assurance Unit, which reports directly to the president and is charged with preventing new incidences of profit deterioration. Along with these measures, we are continuing, when necessary, to maintain reserves for losses. Nevertheless, in spite of these measures, there is a possibility that we might not be able to completely prevent the occurrence of problematic projects.

3) Investment Decisions

In the IT industry, large investments in R&D and facilities are necessary in order to maintain competitiveness. The Fujitsu Group gives priority to investments in promising markets and technologies. There is, however, the possibility that specific markets or technologies might not grow to the extent anticipated, or that supply and demand imbalances or price erosion may be more severe than expected. The semiconductor field is particularly subject to these factors and therefore has a high degree of risk.

4) Intellectual Property Rights
   We face the risk of not being able to adequately protect the Fujitsu Group's technology and know-how in certain regions on account of legal restrictions. In addition, we are subject to the risk of not being able to prevent third parties from using our intellectual property to manufacture and market products similar to our own products. Moreover, in the event that other companies independently develop competing technology equivalent to ours, there is the risk that the value of our intellectual property may fall.

   We have put in place measures to prevent infringement of others' intellectual property rights. However, there remains the risk that this might occur.

   In addition, we have previously instituted a program to compensate employees for innovations that they make in the course of their work, and we will in the future continue to implement this program in accordance with the revision of Japan's patent laws. Nevertheless, we face potential risk from lawsuits initiated by employees in regard to compensation for innovation created at the workplace.

5) Human Resources
   We are subject to the risk that inability to foster and hire appropriate human resources might negatively impact growth and profitability.

6) Environmental Pollution
   While committed to minimizing environmental burden in accordance with the Fujitsu Group Environmental Policy, we cannot guarantee that environmental pollution will never occur as a result of our operations. Moreover, although we monitor soil and waste water as well as engage in clean-up activities at our former factory sites, this does not mean that pollution will not be found at such sites in the future. In the event that environmental pollution were to occur or be identified, clean up and other costs could be incurred and adversely affect business results.

7) Information Management
   In order to safeguard personal and confidential information regarding customers and business partners, we have instituted strict regulations and taken special effort to properly train employees. Nevertheless, we cannot absolutely guarantee that information will not leak out. In the unlikely event that this should occur, trust in the Fujitsu Group might decline and we might become obligated to pay damages.

8) Credit Ratings and Other Factors that Affect Trust in the Group
   In addition to having a major influence on capital procurement, credit ratings by outside institutions can impact the level of trust that customers or business partners place in us. A decline in the company's ratings, therefore, could have a negative impact on both capital procurement and business dealings.

7. Natural Disasters and Unforeseen Occurrences

1) There is a possibility that production disruptions might occur due to damage to plants resulting from earthquakes or interruptions in the supply of electricity or water. Such occurrences could interrupt shipments to customers or disrupt shipments of parts for our internal use, thereby affecting factory production.

2) The outbreak of disputes, political instability or a currency crisis in nations or regions where we are operating could have a significant impact on our business.

8. Financial and Accounting Risks Other Than Business and Other Risks

In addition to the business and other risks mentioned above, the following financial and accounting risks could arise based upon business developments.

1) Property, Plant and Equipment

Depreciation of property, plant and equipment is mainly calculated by the declining balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, structure and function. In the future, in cases where equipment is no longer in use owing to obsolescence from technological advances, or due to the exiting of a business, useful life may end up shorter than originally estimated. As such, there is a risk that incidental losses may occur.

We have not chosen to adopt in advance the asset-impairment accounting rules scheduled to become mandatory in fiscal 2005. After the adoption of the asset-impairment accounting rules, if estimates of future cash flow decrease due to lower earnings projections in certain business areas, or amounts deemed recoverable decrease, losses related to asset-impairment accounting may occur.

2) Intangible Assets (Software)

For the depreciation of software intended for commercial sale, we have adopted a method based on actual sales volume results versus estimated sales volume over the estimated life of the product. While estimated sales volume is calculated based upon reasonable sales plans, one-time losses may occur if unit sales fall short of the original sales plan.

For software used in-house, we utilize a straight-line method based on the estimated useful life of the software. Should actual useful life in the future be less than the original estimate, there is a risk of incidental losses.

3) Calculation of Consolidated Adjustments

In terms of calculations for consolidated adjustments, incidental losses may occur in cases in which we sell or exit from an acquired business, or due to a decrease in the profitability of the acquired business.

4) Marketable Securities

In regard to other marketable securities, in cases when the stock price or real value decreases significantly, and excepting those cases in which the value is deemed to be recoverable, a loss is posted to reflect the loss of value, but that does not preclude the possibilities of further future losses.

5) Deferred Tax Assets

The amount of deferred tax assets is posted appropriately on our balance sheet taking into account the balance of losses carried forward and other temporary differences. In the event that projected taxable income is higher or lower because of variations in future financial performance, there is a risk that the balance of deferred tax assets may increase or decrease. In addition, in the event that future revisions to tax regulations cause a change in the effective tax rate, there is a risk that the balance of deferred tax assets may increase or decrease.

6) Retirement Benefit Obligations

Expenses and obligations for employee retirement benefits are calculated according to a variety of actuarial assumptions (discount rate, retirement rate, mortality rate, expected income rate, etc.). If actual experience differs from these underlying assumptions, or if the underlying assumptions themselves change, there is a possibility that it will affect the amount of the expense or obligation for retirement benefits.

In addition, in the event of a change in accounting standards in the countries in which our overseas subsidiaries are located or in Japan, the amount of the expense or obligation for retirement benefits may be impacted.

7) Provision for Loss On Repurchase of Computers
A portion of the computers that the Fujitsu Group makes are sold to Japan Electronic Computer Co. Ltd. (JECC) and other leasing companies, which lease them to end users. Fujitsu enters into a contract with the leasing companies to repurchase the computers in the future, and at the time of sale a provision is recorded reflecting the expected loss that will be incurred at the time of repurchase. In the event there are changes in usage trends among customers, additions or reductions to the provision may be needed.