

## 6. Notes

### (1) Business and Other Risks

Listed below are the principal business and other risks affecting the Fujitsu Group (Fujitsu Limited and its consolidated subsidiaries) that we believe may influence investors' decisions. With a view to proactively disclosing information to investors, we have also included items that may not necessarily have significant bearing on such decisions. We are aware of and have evaluated these risks and are making efforts to prevent, mitigate, transfer, and retain potential risks, and immediately confront risks should they occur. Please note that the following is not an exhaustive list of all the risks that may affect the Group. Among the risks listed below are some items related to future developments, but the list only includes items that the Group deems necessary to publicly disclose as of the date of submission of these materials (April 28, 2011).

#### 1. Economic and Financial Market Trends

Economic and financial market trends have an impact on the Group's business results, financial base and other aspects of its operations. Examples of such risks are listed below.

##### 1) Economic Trends in Key Markets

The Fujitsu Group provides ICT services, server and storage products, network products, as well as semiconductors and other components, to clients in corporate and public institutions, as well as consumers in Japan and every region of the globe. Hence, sales and income generated from these operations are greatly affected by economic conditions in each respective market. The economic trends in our key markets, namely Japan, North America, Europe, and Asia (including China), can significantly impact Fujitsu Group operations.

##### 2) High-tech Market Volatility

The ICT sector is periodically subject to dramatic changes in the balance of supply and demand that exceed the scope of normal cyclical market variations. This tendency is particularly evident with regard to semiconductors, PCs, and other general-purpose products. The Fujitsu Group gives ample consideration to market cycles and volatility when deciding to develop new global technology solutions and other businesses, launch new products, initiate volume production, or scale back production, among other actions. Nonetheless, we may fail to accurately forecast market changes, or changes in market conditions could exceed our forecasts. Accordingly, there is a risk that we may be unable to recoup investment costs, as well as the risk of opportunity losses. Further, the Group continuously implements structural reforms in a bid to respond to market changes. However, drastic market changes could force us to enact structural reforms on a far greater scale than initially expected, resulting in a temporary increase in related expenses.

##### 3) Exchange Rates

The Fujitsu Group is expanding its business outside Japan. As a result, sudden fluctuations in exchange rates and other factors could have a significant impact on sales and income, resulting in such factors as the lowering of competitive pricing for the services and products that we deliver outside Japan. This in turn, can affect the components and materials that we import from outside Japan, as well as the various products that we export. In addition, with respect to assets held by the Group outside Japan, as well as liabilities, there is the possibility that exchange rate fluctuations could lead to depreciation of assets and/or appreciation of liabilities.

##### 4) Interest Rates

The Fujitsu Group has interest-bearing loans which include debt directly impacted by interest rate fluctuations. Consequently, rising interest rates could increase borrowing costs.

##### 5) Capital Markets

Stock market trends in and outside of Japan have a substantial effect on the value of Group stockholdings in other companies and the management of pension assets. Weak stock market performance could thus force us to incur losses on the devaluation of marketable securities held or a reduction in pension assets, exposing the Group to the risk of higher valuation losses or additional pension obligations.

### 2. Customers

Fujitsu Group operations are highly influenced by the business trends of customers. Examples of potential risks are described below.

### **1) Changes in Customers' ICT Investment Trends**

A growing proportion of our technology solutions and other businesses is with the public institutions such as the Japanese, local and foreign governments; telecommunications carriers; financial services institutions; and large manufacturers. The business environment within these industries, including shifting market trends and structural reforms, could lead to changes in customers' IT investment trends, having a significant impact on Group sales and profitability. In addition, the trends in sales of our customers' products and services have a large impact on the demand for and prices of the Group's products and services. Accordingly, soft demand and falling prices for customers' products and services, a decline in the size of customers' businesses, or customers' reduced market share, as well as restrains on customer ICT investments could negatively impact Group sales and earnings.

In our business outside Japan, for example, government-related projects in the UK are an especially important part of our business. Accordingly, changes and restrains placed on the ICT investment plans of the UK government could impact sales and profitability.

### **2) Ability to Maintain Long-Term Relationships with Customers**

The Fujitsu Group is creating long-lasting ties with its customers, striving to be a valued and trusted business partner and provide solutions across the full IT system lifecycle. Accordingly, business stability hinges on maintaining relations with customers. An inability to maintain trusted relationships with such customers, or the failure to renew contracts with them, could therefore affect sales and profitability.

### **3. Competitors/Industry**

The ICT sector is characterized by intense competition and fast-paced technological innovation. Events within the industry or actions by competitors could therefore have a substantial impact on our business results. Examples of such potential risks are listed below.

#### **1) Price Competition**

Changes in market environments, intensifying competition, technological innovation and other factors may cause prices for products and services to decline. Anticipating such technology- and competition-driven price reduction of ICT services, including cloud computing, and the escalation of PC prices, we are pursuing a variety of measures to reduce costs, including the introduction of Toyota Production System reforms, the industrialization of services and standardization, and software modularization, as well as efforts to expand sales of new products and services. Despite these steps, the Group still faces the risk of larger-than-expected declines in prices, as well as being unable to achieve cost reductions or sales growth due to fluctuations in procurement costs. Any of these risks could negatively impact Group sales and profitability.

#### **2) Competition from New Market Entrants and Others**

In addition to challenges posed by existing industry peers, competition from new market entrants continues to intensify in the ICT sector. Today, new entrants continue to emerge in market areas where the Fujitsu Group has a competitive advantage, thus entailing the risk that we may lose our competitive edge, or fail to secure a clear competitive advantage in future business operations.

#### **3) Competition in Technology Development**

Technological advancement in the ICT sector occurs at an extremely fast pace, leading to rapid turnover in new products and technologies. In this context, remaining competitive requires the continuous development of state-of-the-art technology. While the Fujitsu Group does its utmost to maintain highly competitive technologies by expanding into markets such as cloud computing and smartphones, a loss in competitiveness versus other companies in the race to develop innovative technologies could lead to a decline in the Group's market share and profitability, which would negatively impact sales and earnings. Further, sales and profitability could be affected by the development of groundbreaking technologies and services by competitors that would severely compromise the value of the Group's services and products.

### **4. Suppliers, Alliances, etc.**

In the course of its operations, the Fujitsu Group conducts business with a wide range of suppliers and alliance partners. Accordingly, any significant changes in relationships with these and other business partners could affect the Group's business.

### **1) Procurement**

The Fujitsu Group utilizes sophisticated technologies to provide a range of products and services. There is therefore a risk that we may encounter difficulties in procuring a stable supply of certain key components or raw materials, or in cases where regular supply channels are unavailable, that we may be unable to secure alternative procurement sources. There is also the risk that the Group may be unable to sufficiently procure certain parts or raw materials in the large volumes required. Moreover, natural disasters, accidents and other events, as well as any deterioration in business conditions at suppliers, could hinder the ability of business partners to provide the Group with a stable supply of required components or raw materials. These and other events could cause delays in the provision of products and services, resulting in postponement of deliveries to customers and opportunity losses. In respect to procurement of components and other materials, foreign exchange rate fluctuations, tight supply and demand conditions, and other pressures could drive procurement costs higher than initial estimates, leading to diminished returns on products and services, as well as lower sales due to the higher prices. Additionally, while we make every effort to ensure the quality of procured components, we cannot guarantee that all components purchased will be free of defects. The discovery of such issues could result in processing delays, as well as defective products, opportunity losses, repair costs, and disposal costs for defective goods, plus the potential obligation to pay damages to customers.

### **2) Collaborations, Alliances and Technology Licensing**

To enhance competitiveness within a global ICT business environment, the Fujitsu Group works with a large number of companies through business alliances, technology collaborations, joint ventures and other means, a practice that we intend to actively continue in the future. If, however, as a result of managerial, financial, or other causes, it becomes difficult to establish or maintain such collaborative ties or to gain sufficient results from them, the Group's business could be adversely affected. Moreover, many of our products and services employ other companies' patents, technologies, software, and trademarks with the consent of their owners. However, there is no guarantee that other companies will continue to grant or license the right to use their property under terms acceptable to the Fujitsu Group.

## **5. Public Regulations, Public Policy, and Tax Matters**

The business operations of the Fujitsu Group are global in scope, and are therefore impacted by a variety of public regulations, public policies, tax laws and other such factors in all countries where the Group does business. Specifically, wherever it operates, the Group must comply with a variety of government policies, regulations, such as authorizations for business or investment, import/export regulations and restrictions, as well as laws pertaining to antimonopoly policies, intellectual property rights, consumers, the environment and recycling, labor conditions, subcontracting, and taxation. Earnings might be affected by increased compliance costs associated with measures to make stricter or otherwise revise such policies, laws and regulations. We also provide solutions in certain fields and business domains such as healthcare, communications, and construction that are subject to other public regulations, meaning that regulatory trends in these sectors may potentially impact the Group's business.

## **6. Other Operational Risks**

The Fujitsu Group makes every effort to eliminate known risks but can offer no guarantee of its ability to always achieve every desired outcome in the course of executing business operations. Some of the specific risks faced in this respect are detailed below.

### **1) Deficiencies or Flaws in Products and Services**

The Fujitsu Group builds and supports the infrastructure behind the modern network society, which has become increasingly global and sophisticated. In accordance with our corporate philosophy the Fujitsu Way, quality is one of our most important values, and it underpins the trust that customers and society place in us.

We are committed to improving quality at the design and development stages as well as in manufacturing by setting rules on quality control throughout the company. We are also promoting strict quality control when purchasing components from external suppliers. These efforts notwithstanding, it is impossible to totally eliminate the possibility of deficiencies or flaws occurring in products, including software. While the Group is also setting rules on quality control throughout the company, promoting software

modularization, standardization of development work, and enhanced security measures in order to improve the quality of system development and other services in the technology solutions business, the possibility of defects arising cannot be excluded. With respect to systems that play a critical role in supporting social infrastructure, following the incidents involving system problems at the Tokyo Stock Exchange in November 2005, we have been checking for any potential problems in these systems, including the operating environment, software and hardware, in cooperation with our customers. In addition, we have continuously made improvements to the quality, contracts, and related rules in order to ensure the stable operation of social infrastructure systems. We cannot, however, entirely eliminate the possibility of deficiencies or flaws. In the event that such deficiencies or flaws occur in the products or services, the Group may have to initiate product recalls or repairs, engage in system recovery work, pay damages to customers or suffer opportunity losses, all of which would negatively impact Group sales and profitability.

## **2) Project Management**

Due to such factors as the increasing scale and sophistication of systems and more rigorous demands from customers, as well as the advance of open system environments, system development work is becoming increasingly complex. At the same time, greater competition is leading to increasingly intense pricing pressures. To deal with this situation and prevent incidences of delayed delivery and loss-generating projects, we have been revising our approach to making contracts with customers, advancing the standardization of sales and system engineering business processes, and working to manage risk from the business negotiation stage through actual project implementation. The Group continues to maintain reserves for losses as necessary. In addition, we are striving to industrialize the system development process in order to strengthen our cost competitiveness. Nevertheless, in spite of these measures, there is a possibility that we may be unable to completely prevent incidences of delayed delivery the occurrence of loss-generating projects.

## **3) Investment Decisions and Business Restructuring**

In the ICT industry, large investments in R&D, capital expenditure, business acquisitions, and business restructuring are necessary to maintain competitiveness. Accordingly, the success or failure of these initiatives has a profound effect on the business results of the Fujitsu Group. When making such investment and restructuring decisions, we give ample consideration to a range of factors such as market trends, customer needs, the superiority of the Group's own technologies, the financial performance of acquisition candidates and our business portfolio. There is, however, the risk that markets and technologies, as well as acquisition candidates deemed attractive by the Group, may fail to grow as anticipated, or that supply and demand imbalances or price erosion may be more severe than expected. The Group takes a number of steps to mitigate this risk, including the consideration of investment efficiency and responding to inherent fluctuations by dividing investment into multiple phases and forging agreements with customers prior to investment. Nonetheless, there is no guarantee that the Group can generate sufficient returns on such investments.

## **4) Intellectual Property Rights**

The Fujitsu Group has accumulated technologies and expertise that help distinguish its products from those of other companies. Legal restrictions in certain regions, however, may impair our ability to fully protect some of the Group's proprietary technologies, with the result that we could be unable to effectively prevent the manufacture and sale of similar products developed by third parties using the Group's own intellectual property. Moreover, the creation of comparable or superior technologies by other companies could erode the value of the Group's intellectual property. The Group has instituted internal policies, including stringent clearance procedures prior to launching new products and services, to ensure that no infringement of other companies' intellectual property occurs. However, there is the possibility that the Group's products, services or technologies may be found to infringe on other companies' intellectual property, and that earnings may be impacted by such consequences as the need to pay for usage rights or cover costs associated with modifying designs. In addition, the Group has previously instituted a program to compensate employees for innovations that they make in the course of their work, and will continue to implement this program in the future in accordance with related laws and regulations. Nevertheless, the Group faces potential risk from lawsuits initiated by employees in regard to compensation for innovation created in the workplace.

## **5) Human Resources**

The growth and profitability of the Fujitsu Group depends heavily on human resources. As such, a major issue for the Group is the ability to recruit, foster, and prevent the attrition of talented technical experts, system engineers, managers and other key personnel. The inability to do so could negatively impact the Group's growth and profitability.

#### **6) Environment-related Risks**

Making contributions to society and protecting the environment are part of the corporate values of the Fujitsu Group, as set forth in the Fujitsu Way. While committed to minimizing environmental burden and preventing environmental pollution in accordance with the Fujitsu Group Environmental Policy, the Group cannot guarantee that environmental pollution will not occur as a result of its operations. Moreover, although we monitor soil and wastewater as well as engage in clean-up activities at 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, social trust in the Group may weaken, and clean up and other costs could be incurred, which would adversely affect the Group's earnings.

#### **7) Information Management**

In order to safeguard the personal and confidential information of customers, business partners, and the Fujitsu Group itself, the Group has taken such measures as establishing strict regulations, instituting training programs for employees, and providing consultation to business subcontractors. Nevertheless, the Group cannot guarantee that information will not be leaked. In the unlikely event that this should occur, trust in the Fujitsu Group could decline and the Group may be obligated to pay damages to customers.

#### **8) Credit Ratings and Other Factors that Affect the Group's Credit**

In addition to having a major influence on financing, credit ratings by outside institutions serve as reliable sources of information for our customers when they conduct transactions with us. Lower credit ratings caused by failure to meet earnings targets, deteriorating financial conditions and other reasons could influence our ability to secure financing and place the Group at a disadvantage in bidding for projects and in other business dealings.

### **7. Natural Disasters and Unforeseen Incidents**

Natural disasters and other unforeseen situations could have a major impact on the business results and financial standing of the Fujitsu Group. Examples of the potential risks posed are found below.

#### **1) Damage from Earthquakes, Other Natural Disasters and Accidents**

The Fujitsu Group has instituted a Business Continuity Plan (BCP) to ensure that, even in the event of natural disasters like earthquakes, major floods, or volcanic eruptions, as well as accidents or the outbreak of infectious diseases like new forms of influenza, we can continue our critical business operations to fulfill our corporate social responsibility, while at the same time continuing to provide a stable flow of high-quality, highly-reliable products and services, which our customers rely on for their business. As part of this initiative, we have taken steps to make our sites resistant to earthquakes and we conduct regular site inspections, along with disaster-readiness drills. Nevertheless, there is a possibility that the Group may be forced to suspend the delivery of products and services to customers or its support for customer information systems in the event an unforeseen natural disaster or accident forces sites to suspend operations, inflicts damage to facilities and equipment, interrupts the supply of electricity or water, disrupts public transportation or communications infrastructure, or causes damage to our supply chains.

Immediately following the Tohoku Earthquake on Friday, March 11, 2011, a disaster response headquarters was established, with the company president acting as chief, and information was collected about the status of all Fujitsu Group facilities in eastern Japan and the status of customers. At the same time, the Group restored critical business operations in accordance with its BCP, and in order to restore the supply of products and services to customers and to uphold the Fujitsu Group's role in society, we have pursued business continuity initiatives, including temporarily transferring a portion of the production lines for PCs, semiconductors, and other products to alternate facilities. Despite these recovery efforts, in the event of a major aftershock or other event, there is a possibility that the Group's business activities may be affected by interruptions to public infrastructure, fuel shortages, damage to facilities and equipment, damage to supply chains, and other circumstances.

In response to power shortages caused by the Tohoku Earthquake, the Fujitsu Group is fulfilling its corporate responsibility by appropriately responding to government and industry demands. Furthermore, in order to evaluate the Group's energy usage from a medium- and long-term perspective, we have established a power conservation committee, with the company president as chairman. The committee is monitoring government developments while implementing an energy-conservation strategy for the entire Fujitsu Group. There is a possibility that the Group's business activities may be affected by necessary changes in business operations due to power shortage counter-measures, particularly during the summertime, as well as scheduled power outages and unpredictable large-scale power outages.

We have a well-developed system in place to ensure the integrity and stable operation of critical in-house networks, which are a key element of our business infrastructure. However, the Group cannot guarantee its ability to prevent invasive computer viruses and other disruptions from impeding network operations.

## **2) Geopolitical Risk**

Armed conflicts, terrorism, political instability, currency crises, and other events in nations or regions where the Fujitsu Group operates could have a significant impact on its businesses.

## **8. Financial Statements**

In addition to business and other risks described above, the Group may also be impacted by the following risks related to its Financial Statements.

### **1) Revenue Recognition**

The sales of system products (excluding contract software development) are recognized upon acceptance by customers. Sales of personal computers, peripheral equipment, and electronic devices are recognized upon delivery to customers. Sales from contract software development projects are recognized based on the percentage-of-completion method.

In the event that estimated costs exceed estimated revenue, the Group strictly appraises the recoverable value and recognizes unrecoverable value as a loss. Should project costs increase beyond estimates, however, there is a possibility that additional losses may arise.

### **2) Inventories**

Inventories are recorded in the financial statements at acquisition cost. In the event that the net sales value of certain inventories declines below the acquisition cost as of the end of the reporting term, the net sales value is recorded and the difference between the net sales value and the acquisition cost is recorded as cost of sales. The net sales value of accumulated inventories that remain unsold following an operating cycle is calculated based on estimated future demand and market trends. There is a risk of significant losses in the event that the market environment deteriorates beyond reasonable estimates and the net sales value declines significantly.

### **3) Property, Plant and Equipment**

Depreciation of property, plant and equipment is mainly calculated by the straight-line method based on the estimated useful lives of the respective assets, which vary according to the circumstances of each business. In the future, in cases where assets are no longer in use owing to obsolescence from technological advances, or due to changes in the use of the assets, useful life may be shorter than current estimates. As such, there is a risk that depreciation expenses may increase.

In addition, there is a risk of asset impairment losses if anticipated cash flow from assets declines as a result of sudden changes in the operating environment that lead to higher rates of idle equipment, lower rates of capacity utilization, or business reorganization.

### **4) Software**

For the depreciation of software intended for commercial sale, we have adopted a method based on projected sales volume over the estimated life of the product. While projected 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 the 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 that amortization expenses may increase.

## **5) Goodwill**

In terms of goodwill, the straight-line method is used to amortize excess earnings power of businesses acquired, including those acquired by subsidiaries. During the amortization period, incidental losses may occur if the profitability of an acquired business declines or we sell or exit from an acquired business.

## **6) Marketable Securities**

With regard to held-to-maturity securities, valuations are made based on the amortized cost method. For other marketable securities that have a market value, the market value method is used based on the price as of the closing date of the financial period. For securities that do not have market values, the valuations are made utilizing primarily the moving-average method. In regard to other marketable securities that have a market value, the value of such securities may change due to fluctuations in market value and, as a result, net assets may increase or decrease. In addition, when the fair value of other marketable securities decreases significantly, and excepting those cases in which the value is deemed to be recoverable, an impairment loss is posted. In future, should there be a significant decrease in fair value, and such value is not deemed to be recoverable, there is a possibility of impairment losses.

## **7) 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.

## **8) Provision for Product Warranties**

To prepare for expenses to cover costs relating to our obligations for the free repair and exchange of products covered under contracted warranty periods, we record at the time of sales a provision, based on past experience, to cover future estimated product repair and exchange costs. The Fujitsu Group is pursuing vigorous quality control measures at the manufacturing, development and procurement stages. However, should product defects exceed estimated levels, there is the possibility that additional expenses may arise.

## **9) Provision for Losses on Construction Contracts**

The Group records a provision for expected losses on contract software development contracts and construction contracts for projects in which the profitability has deteriorated significantly as of the end of the reporting period. In order to prevent the generation of unprofitable projects, the Group is standardizing its business processes and has created specialist organizations to audit projects and mitigate such risks from the time the contracts are won until they are completed. Should project costs increase beyond estimates, however, there is a possibility that additional losses may arise.

## **10) Retirement Benefit Obligations**

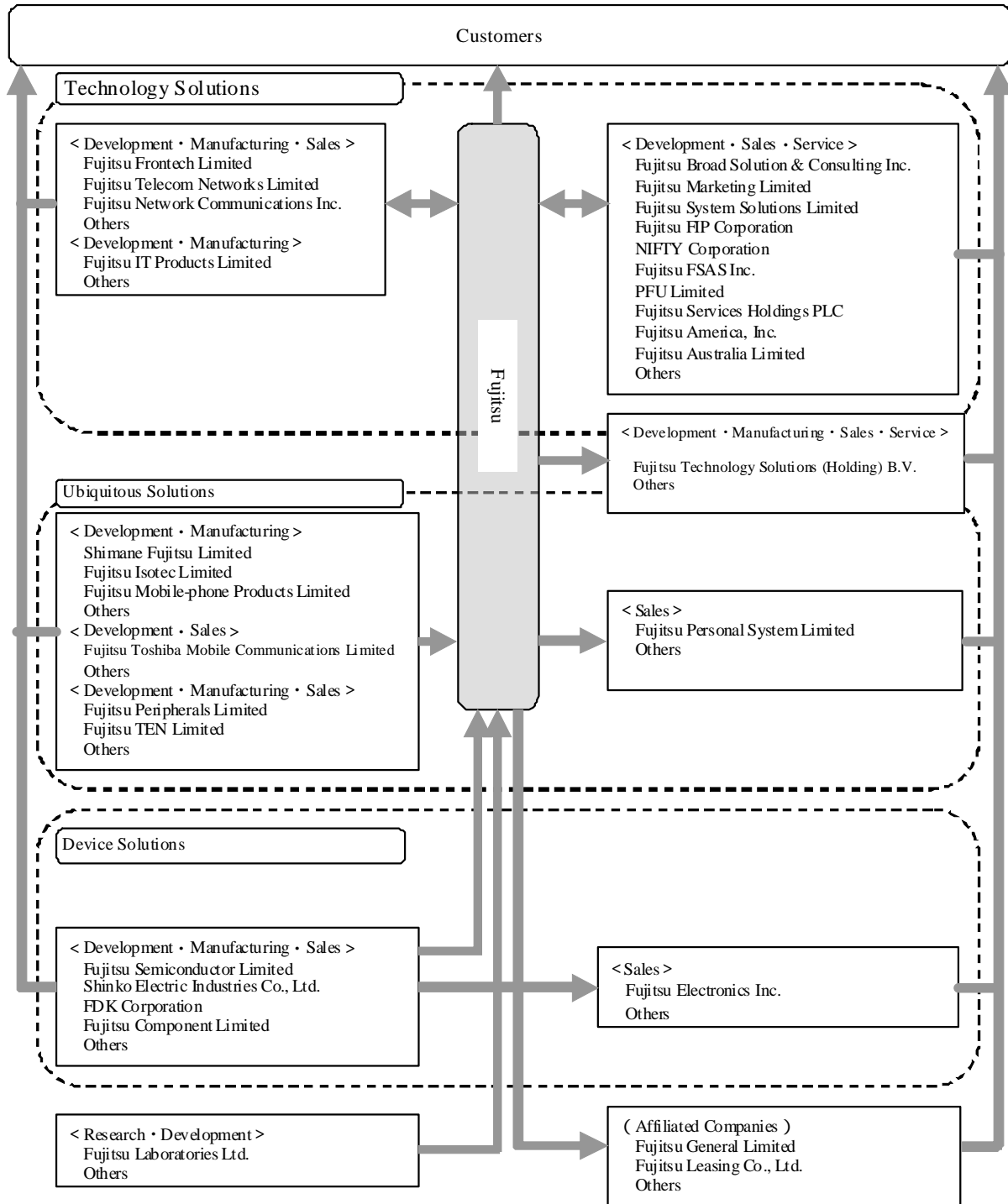
Expenses and obligations for employee retirement benefits are formulated according to a variety of actuarial assumptions (discount rate, retirement rate, mortality rate, expected income rate, etc.). Actuarial losses are recognized over the average remaining employee working years. If actual experience 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.

## **11) Provision for Loss on Repurchase of Computers**

A portion of the computers manufactured by the Fujitsu Group 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.

## (2) Relationships between Fujitsu Group Companies

The following chart shows the relationships between Fujitsu Group companies (as of March 31, 2011):



Consolidated subsidiaries listed in stock exchanges in Japan are as follows:

Fujitsu Frontech Limited (2nd Section Tokyo Stock Exchange), NIFTY Corporation (2nd Section Tokyo Stock Exchange), Fujitsu Broad Solution & Consulting Inc. (JASDAQ), Shinko Electric Industries Co., Ltd. (1st Section Tokyo Stock Exchange), FDK Corporation (2nd Section Tokyo Stock Exchange), Fujitsu Component Limited (2nd Section Tokyo Stock Exchange)