

## **6. 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. We are aware of and have evaluated these risks and are making efforts to prevent, mitigate, transfer, and control potential risks, and minimize the impact should these risks actually arise. 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 30, 2014).

### **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 US dollar, euro and British pound 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. Sudden fluctuations in exchange rates can also affect the cost of 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 restraints 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 restraints 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, as well as efforts to expand sales of competitive products and services derived from an awareness of customers' needs and industry trends.

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. The Fujitsu Group has taken a variety of measures to strengthen the resiliency of its supply chain, including moving to multiple sources for procurement, working on, or strengthening support for, business continuity management (BCM) initiatives of suppliers, and holding a sufficient supply of inventories. Despite these efforts, inadequate supplies of parts and raw materials 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. The Fujitsu Group's earnings might be affected by increased compliance costs associated with measures to make stricter or otherwise revise such policies, laws and regulations, or by liabilities stemming from fines in cases where the company is found to have committed a violation. 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. Others**

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**

In accordance with our corporate philosophy, the Fujitsu Way, we emphasize quality in our business activities. The Fujitsu Group aims to enhance quality to build and support a networked society where people can live in comfort and with peace of mind.

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 work, the possibility of defects arising after delivery cannot be excluded. With respect to systems that play a critical role in supporting social infrastructure, 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 addition, in our cloud services, the Fujitsu Group positions "high reliability" as the most important value, and maintains earthquake-resistant and highly secure facilities in order to achieve a high-standard information security. However, we cannot totally exclude the possibility of service interruption. In the event of deficiencies or flaws, or interruption of 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, system development work is becoming increasingly more complex and challenging. 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 and 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. The Fujitsu Group is carrying out essential structural reforms, including those currently being undertaken for the LSI device business. 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. Implementation of personnel rationalization following the structural reforms currently in progress may accelerate the above trends.

### **6) Environment**

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. The Group regards environmental protection as one of its most important management items and is committed to minimizing environmental burden and preventing

environmental pollution. However 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, upgrading its information infrastructure 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 whose information is leaked.

The Fujitsu Group has 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 the ability to prevent computer viruses, unauthorized access, including cyber attacks, or other disruptions from impeding network operations and leaking information.

## **8) Fujitsu Group Facilities**

The Fujitsu Group owns or rents a variety of facilities inside and outside Japan, including offices, manufacturing facilities, and datacenters. These facilities comply with building standards and other regulations in their respective countries. The Fujitsu Group has also established its own set of safety standards, but in the event of an earthquake, major flooding, fire, radioactive contamination, or other disasters, terrorist attacks, demonstrations, or strikes, or faulty construction quality or the occurrence of operational errors, among other factors, a facility's operations, including production lines, may need to be discontinued. In such a case, this may lead to the possibility of adverse effects on the Fujitsu Group's business or that of our customers.

## **9) 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.

## **10) Litigation**

The Fujitsu Group may become the subject of litigation in the course of executing its operations, resulting in an obligation to pay unforeseen damages. Depending upon the amount of damages the profit and loss of the Fujitsu Group may be materially impacted.

## **11) Compliance Issues**

The Fujitsu Group promotes the thorough diffusion and implementation of internal company rules, nurturing a corporate culture of strict adherence to these rules, and has constructed the necessary internal systems and structures for adherence. The Fujitsu Group has defined the behavior to which all Fujitsu Group employees must strictly adhere in the Code of Conduct of the Fujitsu Way. The Fujitsu Group has also instituted uniform Global Business Standards, which provide more detailed guidance on the behavior expected of each employee. In addition, as one committee within the Internal Control Division,

which reports directly to the Fujitsu Group Management Council, the Risk and Compliance Committee has been established to promote compliance throughout the Fujitsu Group. Even with these measures in place, however, there is a possibility that the Fujitsu Group will be unable to completely eliminate compliance-related risks. In the event that there is a violation of relevant laws or regulations inside or outside Japan, society's trust in the Fujitsu Group may be damaged, or there may be demands for payment of significant penalties or compensation for damages, leading to the possibility of adverse impact on the Fujitsu Group's business.

Also, in the course of troubleshooting ATM software as a part of ongoing maintenance under contract from a customer, there was an incident in fiscal 2013 in which a former employee of a Group company illegally obtained internal ATM information and produced counterfeit cards, using those cards to withdraw cash. Fujitsu deeply regrets the trouble and distress that this incident has caused to affected individuals and financial institutions, and is making every effort to prevent a recurrence.

## **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), which is continually reviewed and improved, 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. Last fiscal year there were several large-scale disasters, including the Great East Japan Earthquake, the nuclear power plant accidents and the ensuing electrical power shortages, and the floods in Thailand. Going forward, there is also a possibility that unforeseen events may occur, such as major earthquakes in the Tokyo metropolitan area, the Tohoku region or along the Nankai Trough, or a prolongation of power shortages in Japan. Based on the fact that such events could disrupt operations, the company is making every effort to ensure the continuity of key businesses. Having dealt with the Great East Japan Earthquake, 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.

### **2) Geopolitical Issues**

Armed conflicts, terrorism, demonstrations, strikes, 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**

Revenue from sales of ICT systems and products, excluding customized software under development contracts, is recognized upon acceptance by the customers, whereas revenue from sales of personal

computers, other peripheral equipment and electronic devices is recognized when the products are delivered to the customers. Revenue from customized software under development contracts is recognized on a percentage-of-completion basis.

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

## **2) Inventories**

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

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

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

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 and a decrease in the capacity utilization rate, associated with rapid changes in the operating environment or other factors, and business realignment.

## **4) Software**

Computer software for sale is amortized by a method based on projected sales volume over the estimated life. Computer software for internal use is amortized by the straight-line method over the useful life. Should actual sales volumes fail to meet initial projected volumes, or should actual useful life in the future be less than the original estimate, there is a risk that amortization expenses may increase.

## **5) Goodwill**

Goodwill arising from the acquisition of a business, including those purchased by consolidated subsidiaries, has been amortized by the straight-line method over the period corresponding to the premium of the acquired business. With the voluntary adoption of IFRS in fiscal 2014, however, goodwill will no longer be amortized. Losses may be recognized if the profitability of the acquired business decreases, or if there is a withdrawal or a selling of the business during the period returns from the acquired business are expected.

## **6) Investment 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 net assets. 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.

#### **7) Deferred Tax Assets**

The Group records 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.

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

Some of the Group's products are covered by contracts that require the Group to repair or exchange them free of charge during a set period of time. Based on past records, the Group recognizes 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.

#### **9) Provision for Construction Contract Losses**

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

#### **10) Retirement Benefits**

Defined benefit liability and defined benefit expenses are determined based on certain actuarial assumptions which include discount rates, employee turnover rates and mortality rates. When actual results differ from the assumptions or when the assumptions are changed, the defined benefit liability and defined benefit expenses can be affected.