

MATTERS OF CONCERN FROM AN EXTERNAL PERSPECTIVE

The following are some of the main matters of concern that could have an adverse impact on aspects of the Fujitsu Group, such as business performance or financial status. We believe that these matters may heavily influence investors' decisions.

Technology Solutions

Services

For solutions and system integration, we are concerned that strong activity in the SI business could lead to system engineer resource shortages, and that resultant increases in personnel costs could have a negative impact on profits. Moreover, we also perceive risks in projects not expected to turn profits in the near term. These include unprofitable projects incurring significant losses and business that is concentrated around the end of the fiscal year, as well as the contraction of our legacy business as cloud-based systems become more prevalent.

For infrastructure services, we consider medium-term risks to be the emergence of competitors in outsourcing and cloud services businesses and the potential to fall into a price war, as well as a decline in the support business due to hardware integration and consolidation. In addition, in the overseas business, there are concerns about the emphasis placed on the government business in the UK market, and that structural reforms implemented to shift from hardware to services in continental Europe are not bearing fruit.

System Platforms

For system products, amid the global contraction of the server market, there is considerable concern over Fujitsu's competitive capabilities, such as how it will compete against other companies with commoditized products and whether its strengths in vertical integration will actually be a factor for differentiation. The mainframe business is gradually declining, and the absence of a highly profitable product to replace it is another factor clouding future prospects.

For network products, business is strongly influenced by carrier investment trends. This results in situations that cannot be improved solely through the efforts of a vendor. Carriers in Japan are showing signs of holding back on investment, and there are concerns over the scale and duration of the impact. Furthermore, as an industry trend, SDN and NFV technologies that convert conventionally hardware-based functions into a software format are advancing, and vendors are under scrutiny regarding their ability to move beyond traditional businesses.

Ubiquitous Solutions

For PCs, there are few factors of differentiation from competitors and extremely low profit margins. As a result, the PC business appears vulnerable to sliding into the red under the impact of foreign exchange factors alone. There are many doubts over whether Fujitsu can overcome this issue in the medium term.

For mobile phones, structural reforms put in place appear to have resolved the generation of losses. However, it appears that quality issues persist. Furthermore, these products are specialized for the domestic market, and without a competitive product other than the Raku-Raku Phone, there is an inevitable sense of risk that the business scale will decline over the medium term due to both domestic market saturation and the level of product competitiveness.

Device Solutions

For LSI devices, performance appears strong due to the effects of structural reforms and brisk demand for specific products. However, with regard to business structure, only the split-off of the SoC business has taken place, and that has led to concerns regarding the uncertainty of the future reorganization of the manufacturing framework. Moreover, there are concerns about future growth with the current profit structure, which is dependent on specific products.

For electronic devices, continuing to hold the shares of subsidiaries such as Shinko Electric Industries feels risky in itself. No clear policy has been indicated as to how long Fujitsu will continue businesses that are not positioned as core operations, and this raises many doubts.

Company-Wide

The most prominent risk is that Fujitsu has not once achieved targets of the medium-term management plans it disclosed in the past. Even where issues are recognized, the execution of reforms in response appears to be slow. The lack of a sense of urgency in management is a fundamental problem. Moreover, there are doubts over whether corporate governance is working effectively in and outside of Japan across the entire Group. Finally, the insufficient explanation of costs relating to "business model transformation" when the fiscal 2014 results were announced was viewed as not having placed enough value on a dialogue with the market, and leaves doubt over the fostering of a relationship of trust between the Company and the market.