

Risks in Business Operations

Major risks related to the Group's businesses and finances that have the possibility of influencing the decisions of investors are as follows. Forward-looking statements are based on the understanding of the Group as of the end of the fiscal year under review.

1. Impact from Economic Trends and the Market Environment

In the information service market in which the Group operates, companies remain reluctant to invest in information systems and the business climate continues to be difficult. In this environment, any serious situation, such as unexpectedly intense price competition or delayed response to technological advancement, may affect the business results and financial conditions of the Group.

2. Project Management Risks

The Group is engaged in many different system development projects. With intensified competition, however, customers are continually demanding more-sophisticated systems and as a result projects are becoming increasingly complex. If a problem arises in a development project, there is a risk that the problem would require greater-than-expected both costs and time to resolve, which could lead to a cost overrun. To avoid such a risk, the Group has continued to implement effective measures for preventing cost overruns and detecting problems at an early stage by enhancing the project management system, increasing productivity by systematizing and standardizing the system development method, and implementing the Andon system, which detects problems in a project at an early stage.

3. Risks Associated with Investment Decisions

The Group makes large investments with the aim of providing new products and services to strengthen its competitiveness and expand its businesses. When such investments are made, the R&D/Investment Committee and the Executive Council carefully determine the appropriateness of business plans and other factors. However, there is no guarantee that an adequate return on investment will always be achieved. If the Group is unable to achieve an adequate return, then its business results may be affected.

4. Information Control Risks

The Group has many opportunities to access confidential personal and/or corporate information, including information on the Group itself, through business activities related to the development and provision of information systems. We therefore place information control as a top priority in order to hold information in strict confidence, and we take all possible measures for appropriate management of information as a member of the IT industry. To cope with the small possibility of an information leak in an emergency case that is beyond conventional imagination, the Group has insurance contracts to address the situation up to a certain extent. However, in the case that damage repair expenses are higher than the overall amount of contract coverage, or in the case that the leak has resulted in severe damage to the Group's reputation, there is the possibility that the business results and financial conditions of the Group would be severely affected.

5. Risks Associated with Retention of Skilled Engineers

The shortage of skilled engineers in the information service industry is a significant issue. If we are unable to recruit high-caliber engineers to meet our needs, this could have a material impact on the Group's ability to

secure technological advantages. To address this issue, we are proactively revising the personnel system to improve the working environment of employees, enabling them to acquire high-level qualifications. Moreover, we have been building an organization in which the skilled engineers of the Group are able to concentrate on projects, by dismantling the previous organizational framework and introducing a system that allocates engineers on a project-by-project basis. Furthermore, we are working proactively to enhance training programs for developing human resources.

6. Intellectual Property Rights Risks

The Group applies intellectual property rights to a large number of computer programs for its business operations. Thus, any failure in the acquisition or maintenance of licenses as scheduled could affect the Group's business activities. In addition, there is a possibility that the Group may be one of the parties concerned with intellectual property rights litigation on computer programs and, as a result, any incurred expenses could affect the Group's business results.

7. Risks Associated with Key Supplier Relations

We are the sole authorized distributor of Unisys Corporation-made computers and other products. We handle the import, sales, and maintenance services of those computers and other products in Japan, while Unisys Corporation grants us the use of its trademark, technical information, and assistance. The trading relationship with Unisys Corporation has been secure, but if the relationship became unbalanced and could not be sustained, it would have a material impact on the Group's business results.

8. Exchange Rate Fluctuation Risks

The Group imports and sells Unisys Corporation-made computers and other foreign-made products. Thus, the Group's procurements in foreign-currency denominations could be exposed to fluctuations in foreign exchange rates. To avoid such risks, the Group takes risk-hedging measures through forward exchange contracts. The Group's purchase of foreign-currency denominations totaled ¥7,385 million for the fiscal year under review.

9. Lawsuit Risks

The Group makes continuous efforts to fully comply with laws and ordinances in order to perform its business activities in a proper and transparent manner. If any lawsuit or legal action were to be taken against the Company or any Group companies, regardless of whether or not there was a compliance violation, the business results of the Group may be impacted.

10. Natural Disaster Risks

The occurrence of a natural disaster, such as an earthquake or infectious disease outbreak, could cause damage to or otherwise result in loss of social infrastructure or one or more of the Group's major business bases. Such a disaster could also injure many of our suppliers or employees, or result in a situation in which the Group must restrict its business activities to ensure the safety or maintain the wellbeing of such suppliers or employees. Were such a disaster to occur, then the Group may have to incur significant expenses to respond to the damages, which could greatly impact sales or other business activities and ultimately affect the Group's business results. Therefore, in preparation for the case in which such an event occurs, the Group is striving to establish a structure on which its operations could be maintained.