

## Summary Translation of Question & Answer Session at Management Direction Briefing

**Date:** July 9, 2010, 16:00-17:30

**Location:** Fujitsu Shiodome Headquarters, Tokyo

**Presenter:** Masami Yamamoto, President

### Questioner A

*Q1: With the conversion last year of Fujitsu Technology Solutions to a 100% consolidated subsidiary, your European business reached approximately 1 trillion yen in sales in FY2009, and the impact of foreign exchange fluctuations on your income has now become larger. Based on current trends in your European business, what business risks are you concerned about?*

**A1:** In terms of the impact of foreign exchange fluctuations in Europe, a change of 1 yen against the British pound has a 100 million yen impact on our operating income, and a 1 yen movement against the euro has a 200 million yen impact.

In terms of the business risks associated with Fujitsu Services, we have to carefully watch the impact of the change in administration of the British government. We feel there are both risks and opportunities. In terms of risks, the government has clearly indicated that it intends to cut spending, and it is possible that we will be asked to reduce the pricing of the outsourcing services we provide to the government. On the other hand, as the UK government tries to move forward with a structural transformation, we assume there will be increasing demand for outsourcing services in order to reduce costs, so we think there will also be business opportunities for us. We are closely monitoring economic trends and risks in Europe as we take appropriate measures to move ahead on our business objectives. At the present time, the expected negative impact on our profits in fiscal 2010 is on a scale that can easily be absorbed by the company as a whole.

*Q2: With respect to your strategy in your networking business, are you aiming to expand sales, even if it means sacrificing profits in the short term, or is your priority on profitability? For AT&T's Domain Supplier program, in particular, is Fujitsu willing to become a Domain Supplier even if it means taking on additional risk? Also, outside of North America, in what other regions do you plan to expand your networking business?*

**A2:** We have spent the past 2-3 years transforming the structure of our networking business. The objective was to concentrate our business on our powerful technologies. We are not seeking to expand in many different areas. We will focus on our strengths and expand in those areas. The networking business had been generating losses, but it returned to profitability in fiscal 2009, and we expect it to be profitable again in fiscal 2010. As for AT&T's Domain Supplier program, we wish to actively participate in the program, although the selection is up to AT&T. As for business in regions outside of North America, we want to use our three locations of Japan, the US, and the UK as a platform for seeking opportunities globally in the area of networking services. For

example, from the UK, we currently are exploring new business in Saudi Arabia and other parts of the Middle East.

***Q3:** For each segment, please give us your projections for sales growth and operating income for fiscal 2011. In addition, the operating income margin in your Services business in fiscal 2009 was 6.5%, but I would like to know by how much you expect this to improve in fiscal 2011. How will the expansion of cloud computing affect your profitability?*

**A3:** I am afraid I will have to refrain from giving a breakdown by segment of the 250 billion yen in operating income we are targeting for fiscal 2011. Of the net 65 billion yen increase in operating income in fiscal 2011 over fiscal 2010, we are planning to have 35 billion yen come from the structural reforms we are pursuing in each business area. In addition, we expect an increase of 30 billion yen from an expansion in our global business outside of Japan, and an increase of 10 billion from new business fields. Factoring in 10 billion yen in higher expenses from strategic investments, we get a net increase in operating income of 65 billion yen, and through these measures we plan to meet our target of generating 250 billion yen in operating income. In our Services business, we are aiming for an operating income margin of over 7%.

As for how cloud computing will affect our profitability, there are a variety of clouds, such as public clouds, private clouds, and hybrid clouds, but with Fujitsu's vertically integrated business model, I think Fujitsu will be able to deliver environments in which customers will feel secure in shifting to these various clouds. This represents a very significant business opportunity for Fujitsu. We do not think it will hurt our profitability. In terms of the absolute level of sales, however, because the expansion of cloud computing will result in a greater concentration of computing platforms, it is possible that our absolute sales of platforms will not increase. That is why it is important for us to create new business models and expand sales in those new areas. Through the two-pronged approach of converting our existing business to the cloud and creating new businesses, we plan on expanding our business overall.

#### **Questioner B**

***Q1:** Five to ten years from now, what do you anticipate that Fujitsu will need to look like for you, as president, to give the company a passing grade?*

**A1:** Five years from now, Fujitsu will need to be a truly global ICT company. There are two things we will have to do to accomplish this. Firstly, we cannot be satisfied with our preliminary target of generating 40% of our sales outside of Japan, but rather we must succeed in generating the majority of our sales outside of Japan. Secondly, it is not enough for us just to expand our sales outside of Japan, but we will also have to transform our ways of thinking and behaving in Japan to adapt to the global market. If we can accomplish these two objectives, I am confident that Fujitsu will be able to become a truly global ICT company.

*Q2: In terms of your business approach, is your plan to focus on generating profits from Services business while ensuring that you do not post a loss in the products business? In terms of the balance of profitability in each business, what are your views?*

**A2:** While I mentioned that, with the rise of cloud computing, I want our business to revolve around services, I do not mean to suggest that it is acceptable for the profit margins in our products businesses to be low. When we talk about the importance of services, it is because we want customers to see us as an ICT services company no matter what we deliver to them. We are committed to increasing the operating income margins of all of our business segments.

*Q3: Since you assumed responsibility as president, I imagine that you have been making visits to customers. From your new perspective as company president, what do you feel are the positive aspects of Fujitsu, and what are the negative aspects?*

**A3:** I have had the opportunity to visit and speak with the leaders of more than 100 of our corporate customers. I have gotten a particularly strong sense of how high customer expectations are for Fujitsu as the leading ICT company in Japan. This feeling is greater than when I was working in the business divisions. On the other hand, the demands that are being placed on Fujitsu are also quite challenging. Our customers in Japan are rapidly continuing to expand their businesses globally, and there are a great number of Japanese customers who wish to utilize the same kinds of systems that they are accustomed to using in Japan in their global operations. Fujitsu is a company that can reliably respond to these needs.

*Q4: While Fujitsu has a significant presence in Japan, 5 trillion yen in annual sales really isn't that large for global companies. China and India are expanding markets, and if Fujitsu is striving to become a global ICT company within 5 or 10 years, I think it is necessary that you strengthen your operations in these emerging countries and recognize this as your top management priority. What is your business strategy? Given the time constraints, I imagine that you will need to decide on a strategy within 1-2 years.*

**A4:** Presently, our sales in Japan are about 3 trillion yen and our sales in Europe are about 1 trillion yen. Considering the potential market size of emerging countries, if we are able to generate equivalent sales in these emerging markets, I believe that Fujitsu has the potential to generate sales of 15-20 trillion yen. I want us to be among the world's top three ICT corporations, and become No. 1 or No. 2 in certain sectors of the industry.

*Q5: Regarding your strategy for emerging countries, have there been any specific internal discussions as to which regions or business domains you plan to expand into?*

**A5:** We plan to have medium-term strategy briefings early next year at which our group of senior executive vice presidents will present our specific strategy for new businesses and our global business outside Japan.

**Questioner C**

*Q1: In your networking and device businesses, is there a possibility that you will be taking further steps in terms of structural reforms or industry realignments?*

**A1:** The short answer is that we are considering further reforms. The time is over when we can succeed only through expansion in the Japanese market. The challenge going forward is to determine how we can expand our business on a global scale, in addition to Japan, and this challenge is shared by all of our business areas, including our networking and device businesses. We cannot be reassured by our temporary success in the Japanese market. As a first step, however, we need to strengthen the position of our existing businesses. In our networking business, we were able to return it to profitability by focusing, over a period of 2 to 3 years, on its core competencies. Outside of Japan, we have taken various measures, and we want to follow through on their execution and make our networking business strong. Regarding our device business, we are proceeding with the various structural reforms necessary to make it profitable, and we anticipate that the effects of these reforms will contribute to an overall profit for fiscal 2010. At the present time, we are continuously implementing structural reforms, and we plan to continue these in the future. While strengthening our position in this way, I want us to be in an industry leader position and pursue a variety of different challenges.

*Q2: What is your view on the timing of these structural reforms and the possibility of forging partnerships with companies both inside and outside Japan?*

**A2:** I do not by any means believe that Fujitsu will try to accomplish all of this by itself. What I meant by “leader” is that I want Fujitsu to become a key opinion leader in the industry. Because the structural forms are closely connected to government policies and other factors, I cannot give you a concrete answer about their timing. For the time being, however, we are strengthening our fundamentals and evaluating our next steps forward.

#### **Questioner D**

*Q1: You have a new CEO at one of your subsidiaries in North America. Have you seen an impact yet?*

**A1:** In April 2009 we integrated three subsidiaries: Fujitsu Consulting, which was focused on services; Fujitsu Transaction Solutions, which specialized in solutions for the retailing industry; and Fujitsu Computer Systems, which focused on computing products. At that time, however, we did not have a clear business direction. Now we have a new CEO in place there, and we are in the midst of shifting our business to focus on services. The business in each of our locations outside of Japan has always been based on strong relationships with customers, and we also have relationships with good customers in North America. These strong relationships represent a very valuable asset for Fujitsu, and we want to leverage those relationships in rejuvenating our business in North America. Last year we received a very large outsourcing contract from Alliance Data, and we would like to grow that type of business.

*Q2: Recently in Japan there has been a lot of attention focused on the topic of public-private partnerships in promoting business, such as exporting social infrastructure*

*technologies with government backing. Is Fujitsu involved in any of the areas the government is promoting, such as national citizen IDs?*

**A2:** The government has announced its intent to use ICT to revitalize Japan, and Fujitsu is very interested in partnering with the government in our business. We have started trials in a public-private partnership on smart grids. For national citizen IDs, as well, we would like to contribute in various ways on the ICT side.

*Q3: In the past, Fujitsu had a culture of creating new products, such as the OASYS word processor, TOWNS personal computer, and PDP displays. In the area of products, do you have any initiatives to create innovative new products?*

**A3:** Fujitsu has always generated new products based on new technology, and that remains part of our DNA. There is a lot of talk these days about smartphones, but in the realm of technology, in no way is Fujitsu behind the curve. Going forward, I think a new concept will gain importance, in which the emphasis will be on combining a variety of different technologies to create new products. Rising to new challenges is part of the DNA of Fujitsu employees, so I am hopeful that, in a few years, we will launch products that will astonish the world.

#### **Questioner E**

*Q1: Last year when Fujitsu announced its medium-term business plan, you projected an increase in operating income of 50 billion yen in fiscal 2011 from fiscal 2010, but now you are projecting an increase of 65 billion yen. From the perspective of profits, what has changed since your previous projection? When explaining, please distinguish external factors from internal efforts.*

**A1:** What I would first like to say is that our operating income projection of 185 billion yen for fiscal 2010 is, in our view, a minimum hurdle. We have not given up on the 200 billion yen target for fiscal 2010 that we announced last year as part of our medium-term business plan. The 185 billion yen figure is simply the figure to which we have publicly committed. Since there was a 15 billion yen reduction, we simply added it to the fiscal 2011 target, making it a projected increase of 65 billion yen. As for how we intend to increase operating income by this 15 billion yen amount, we expect it to come from creating new businesses. Over the past year, we feel there has been a significant acceleration in new developments based on cloud computing. Even at that time we expected existing infrastructure to be shifted to the cloud, but the creation of new businesses with the expansion of cloud services into a variety of different fields was not reflected in our medium-term business plan last year. In revised our plan for fiscal 2011, therefore, we included an increase of 10-15 billion yen from the creation of new businesses in the total increase of 65 billion yen. Our operating income target of 250 billion yen for fiscal 2011 reflects this increase, and we expect to meet this target.

*Q2: In that case, is it correct to assume that your thinking has not changed with respect to the content of the 50 billion yen increase you previously announced?*

**A2:** No, our thinking has not changed. The content has changed somewhat, but our thinking has not changed. We still plan to increase income by creating strong fundamentals through structural reforms and leveraging Fujitsu strengths for cloud computing.

*Q3: You have been discussing how the cloud era presents opportunities for Fujitsu, but are there any risks that come to mind?*

**A3:** In some ways, cloud computing represents a double-edged sword. The increase in the efficiency of ICT infrastructure will make it easy for customers to use, and costs will come down, but from the perspective of ICT vendors, it is expected to result in a difficult sales environment. In that environment, we will retain our customers, and for customers with systems configured from multiple vendors, we will actively approach them to use a cloud-based environment, thereby increasing our cloud customers. We have all the preparations in place. The conclusion, therefore, is that our sales will not increase if we rely on our traditional business alone, and that is the risk.

#### **Questioner F**

*Q1: In the area of middleware, IBM and HP have an edge, but do you have any strategy to catch up?*

**A1:** It is true that, in comparison with IBM and HP, our middleware business is weak. In a vertically integrated business model, middleware is important. For core areas or areas of differentiation, we want to compete on our own, but in areas where we are weaker than our global competitors, we have to consider M&A and alliances. Fortunately for us, some top middleware vendors have expressed an interest in our vertically integrated business model and our technological strengths, and have approached us. This could be an important opportunity for us.

*Q2: It seems that your strategy is different in each region, with a focus on services in Europe, on networking in North America, and on supporting Japanese customers in Asia. Do you have a strategy that would generate synergies between regions?*

**A2:** In the case of Fujitsu's subsidiaries outside of Japan, in each region there is a history of acquiring companies that used to be independent, so our operating entities in each region have their own culture and customers. Fujitsu's global business, therefore, is multicultural, and our strength has been the relationship of trust we have enjoyed with customers in each region. Going forward, our strategy is to have, on a global basis, uniformity in our datacenter and services business, positioning our multicultural strengths on top of this. This approach is gradually spreading throughout our organization. For example, datacenter know-how in Australia was shared with our operations in Japan and put into use in our business.

*Q3: Does Fujitsu again plan to go after mass market volumes in PCs and mobile phones?*

In Fujitsu's future vision for an intelligent society, PCs and mobile phones will function as information sensors that are intimately linked to people's daily lives, and they therefore represent an important business. Without these devices, Fujitsu will be unable to achieve its vision for creating a Human Centric Intelligent Society. Therefore, we plan to hold onto our PC and mobile phone businesses as a point-of-contact with our customers. In doing this, however, we need to ensure that they remain strong as independent businesses. We will pursue this not only in Japan, but also worldwide.

**Questioner G**

***Q1:** In listening to your presentation today, I got the impression that in the future you plan to focus on the B-to-C market, as well. Is that the case? For example, in promoting business in the healthcare field, do you plan to introduce a variety of terminals?*

**A1:** We do not make such a strong distinction between B-to-B and B-to-C business. In the end, every business comes down to the consumer, so we are constantly keeping an eye on consumers. We have to devise business strategies with the premise that the impact of consumer trends will be significant. As for terminals, if it is an area in which we excel, we may decide to go after the business on our own, but basically our intention is to form alliances with many different vendors and focus on creating services. For example, in the healthcare field, we do not make weight scales or blood pressure monitors, so we partnered with Tanita Corporation, and data from those instruments is able to be uploaded to Fujitsu's mobile phones.

***Q2:** What is your current impression on the extent to which there will be a recovery in customer IT spending in Japan in the second half of the fiscal year?*

**A2:** With respect to IT spending in the second half and beyond, up until Japan's Upper House Diet elections, I thought it was certain that there would be a recovery. After all, for consumer-oriented products, including components and PCs, the market is already recovering in the first half of the fiscal year, and a recovery in solutions and system integration services, in our experience, usually lags behind by about six months. Now, however, the lack of political stability has us slightly concerned. In the second half of the fiscal year, with the tax credit for automobiles and the eco-point system for consumer appliances ending, we need to take a close look at market movements, and if the government's policy responses are not on the mark, it is possible that consumer confidence will decline.