Summary Translation of Question & Answer Session at
FY 2011 Third Quarter Financial Results Briefing for Analysts

Date: January 31, 2012
Location: Fujitsu Headquarters, Tokyo
Presenters: Masami Yamamoto, President
Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

Q1: *Please tell us about your IT sales results for the third quarter in Japan by industry sector and your forecast for the full fiscal year.*

A1 (Kato): Overall IT sales in Japan in the third quarter increased by 5%, which is what we had projected. Year-on-year sales growth in the manufacturing sector was 3%. For the retailing and distribution sector, sales declined by 7%. Because of a strong rise in sales of hardware to telecom carriers, sales in the social infrastructure sector increased by 14%. For the financial services sector, sales increased by 8%, and for the regional and public sectors, sales increased by 4%. For the full fiscal year, we had previously projected overall sales in Japan to grow by 2%, but we have revised the projection down to 1% growth. In the manufacturing sector, we are sticking with our previous projection of 7% sales growth, as Japanese manufacturers continue to invest in IT. For the retailing and distribution sector, although sales declined somewhat in the third quarter, we are projecting sales to increase by 2% for the full year. We are projecting a rise of 5% for social infrastructure, a decline of 2% for financial services, and a decline of 2% for regional and public sectors.

Q2: *Please tell us the impact of the Thai floods on operating income in each business segment.*

A2 (Kato): For the full year, we expect the Thai floods to reduce operating income by 17.0 billion yen. The segment hurt most is Ubiquitous Solutions, where we expect the overall impact to be 10.0 billion yen. For mobile phones, although there was a negative impact in the third quarter, we expect to be able to make it up in the fourth quarter. We expect a 6.0 billion yen reduction in operating income for Device Solutions and a 1.0 billion yen reduction for Technology Solutions.

Among the effects of the Thai floods, the impact of higher priced HDDs is 6.0 billion yen. Our subsidiary in Germany, Fujitsu Technology Solutions, needed HDDs to fulfill delivery orders in December, so we were forced to go out and purchase HDDs in the open market, resulting in this negative impact. In addition, about half of the 10.0 billion yen impact in Ubiquitous Solutions is on Mobilewear, where operating income was reduced by 5.0 billion yen. Of the 6.0 billion yen impact on Device Solutions, 5.0 billion yen is for LSI devices, and 1.0 billion yen is for electronic components, including FDK.

Q3: *At your second-quarter financial results briefing in October, you explained that orders were trending above the pace of the same period in the prior fiscal year, but what is the situation now?*

A3 (Kato): Orders this month are trending above the pace of the prior-year period, but it is too early to be optimistic about this quarter. In our solutions and systems integration business, the other day Fujitsu Frontech made downward revisions to its earnings projections. It shows that demand for its hardware integrated solutions is declining. And customers in the social infrastructure sector are mainly devoting their budgets to networking hardware, postponing spending on systems integration.

Q4: *For fiscal 2011, you have revised your full-year operating income projections down to 100.0 billion yen, but what is your outlook for operating income in fiscal 2012?*

A4 (Yamamoto): I think we are capable of generating 150.0 billion yen in operating income in the normal operating environment. Beyond that, the issue is how close we can get to our medium-term target of having an operating income margin of 5%.

Q5: *For your Device Solutions business, are you considering a fundamental measure to reduce your fixed-cost structure? What timeframe do you have in mind for decisions on your Device Solutions business? Will you reach a conclusion by the end of the fiscal year?*

A5 (Yamamoto): We cannot allow the current situation in our Device Solutions business to continue, and we are even prepared to consider making fundamental changes. For measures that we can address, we will move quickly to implement them. We are increasing our decision-making speed, but our goal should be to reach the best possible solution, not to make a final decision by the end of the fiscal year.

Q6: *Can we rule out the need for additional restructuring charges this fiscal year?*

A6 (Yamamoto): I cannot say that there is zero possibility of additional charges.

<u>Questioner B</u>

Q1: *From the 135.0 billion yen in operating income you posted in fiscal 2010, you are now projecting to record operating income of 100.0 billion yen in 2011, a decline of 35.0 billion yen. Among the factors behind this decline, how would you allocate this 35.0 billion yen among the impact of the earthquake, the flooding, foreign exchange fluctuations, and other cost factors?*

A1 (Kato): Among the segments, the biggest negative impact was from Device Solutions. In addition, because of the earthquake and floods, we could no longer project a recovery in Mobilewear, and we are now projecting a loss in that business. The earthquake impacted results in the previous fiscal year’s fourth quarter as well as this fiscal year’s first quarter, so if those offset each other, that leaves the impact of the floods, the deterioration in the market for semiconductor devices, the appreciation of the yen, and the surge in prices of rare-earth metals as factors affecting results in fiscal 2011. From an overall perspective, the elimination of unprofitable projects outside of Japan should have resulted in better results in our Services sub-segment, but because sales in Japan for Technology Solutions are essentially unchanged from the previous fiscal year, and because we continued to spend heavily on development, the result was a significant drop in profitability compared to fiscal 2010.

Q2: *To what extent do you expect profitability in your LSI device business to improve in the fourth quarter?*

A2 (Kato): In addition to a change in capacity utilization rates, what will really contribute to higher profitability in our LSI device business in the fourth quarter is our ability to collect development charges from customers and earn a return on the investments in development costs we have made for nine months. In addition, there will be an improvement in product shipments, so we expect a significant improvement in profitability in the fourth quarter compared to the third quarter.

Q3: *With the negative effects of the earthquake and floods behind you, I expect that you should be able to generate operating income in the range of 150.0 billion yen next fiscal year, but are there any other factors that could serve to boost your results? Please tell us a little more about your outlook for next fiscal year.*

A3 (Yamamoto): In our efforts to reach our medium-term target of a 5% operating income margin, rather than expanding our sales, what is most important to us is reducing our total costs. We have been undertaking ongoing structural reforms to reduce costs—not just costs reductions on the product side but also cost reductions for service delivery, as well—in order to improve profitability. We recently announced a reorganization of our systems engineering subsidiaries in Japan. By implementing specific measures such as this, we will be able to lower our costs in fiscal 2012 and beyond. We are also taking a variety of measures in our business outside of Japan that will enable us to improve our profitability next fiscal year and beyond.

Q4: *What is your outlook for large-scale deals and supercomputer sales?*

A4 (Yamamoto): We are optimistic that there will be opportunities for large-scale deals in fiscal 2012 and beyond.

<u>Questioner C</u>

Q1: *I remember that sometime in the past you had mentioned that you were negotiating changes to your pension plans outside Japan. What is the status of those negotiations? And what actuarial assumptions to you plan to use in the future?*

A1 (Kato): The process of changing our pension plan systems outside of Japan is proceeding well. There is, however, a potential problem in the UK. The EU is thinking of implementing a system whereby the discount rate in the EU would be determined by adopting the lowest interest rate among its member states. If this provision is implemented, our UK pension benefit obligations would increase significantly, and it would also have a large adverse impact on most companies in the UK. Accordingly, the UK has announced its opposition to this provision.

Q2: *In listening to your explanation a few minutes ago, I got the impression that gross margin in your IT services business is falling, but is that true? If it is true, when did it start falling? If, rather than a temporary fall, you expect it to persist, I am concerned about the impact on your future profits.*

A2 (Kato): Because the average deal size has become smaller, there has been an increase in business with lower margins. I think this fiscal year we bottomed out in terms of the period with the fewest number of large-scale deals. For smaller-scale deals, there has been a general trend toward greater price competition. To enable us to cope with these conditions, we have developed standardized tools that are helpful in making the project development process more efficient. We are not completely finished, but we have already started to apply some of these tools to a portion of our projects. In addition, through the restructuring of our systems engineering subsidiaries in Japan, to which Mr. Yamamoto referred earlier, we will raise the mobility of our resources and know-how, and thereby raise the utilization rate of our system engineers, improving our profitability. We are also shifting resources to accelerate the growth of our cloud business. For every dollar of direct cloud sales, we generate an additional two dollars in sales for our peripheral businesses, so we are optimistic about our growth prospects next fiscal year and beyond.

(Yamamoto): With the growth of the cloud, we thought there would be a possibility that our system integration and solutions sales would fall, but actually they have not fallen—they are essentially unchanged from the prior year. With the shift from mainframes to open-standard systems, customers always want to renew systems, and the system upgrade cycle has become shorter over time. In this kind of environment, even with the growth of the cloud, we do not expect our system integration and solutions sales to drop off significantly.

Q3: *You mentioned that you are considering what steps you should take with your semiconductor business, but where will your emphasis be in weighing different options? Will it be on the level of synergies with other business units? Or will it simply be on contribution to profits? Please tell us the ranking of your priorities.*

A3 (Yamamoto): For our semiconductor business, two years ago we made the decision to shift to a fab-lite model, and that is what we have done. Cutting-edge LSI devices are an important component of our hardware products. We have successfully implemented a process in which we can develop and obtain the necessary LSIs based on a fab-lite model. We have implemented a structure in which we design the devices and TSMC fabricates them, and an increasing number of our products use devices produced through this alliance. My view is that it is now time to decide how much we should do internally in the area of semiconductors and what our next step beyond fab-lite should be.

Q4: *Even if you further advance the fab-lite model, can we be safe in assuming that you have no intention of expanding your own production capacity?*

A4 (Yamamoto): As we move ahead with the fab-lite model, we want to match our development and production to demand. Unfortunately, under the current market circumstances, for our in-house production capacity, we have an excess of idle capacity. The issue is how we can match this capacity to demand.

Q5: *You mentioned that you were making upfront investments in fiscal 2011 to develop new IT services this year. What are your plans for fiscal 2012? Will these development investments be higher than that in fiscal 2011?*

A5 (Yamamoto): Even though we are facing a very severe business environment, we have not reduced the amount we spend on R&D. We have made progress in developing platforms for our cloud services and big data initiatives. I think we can say that our peak investments are behind us. Our spending on such investments will not increase dramatically in fiscal 2012, but it will also not significantly decrease. It will essentially be an extension of the spending levels of fiscal 2011.

Questioner D

Q1: *Please discuss sales trends outside of Japan by region.*

A1 (Kato): In the UK, public sector sales have declined, but our sales to the private sector have not yet expanded enough to offset this decline. On the European continent, the rise in sales in Germany has leveled off, but our sales in Turkey, Russia, and the Middle East have risen very rapidly, and now account for 20% of our sales in the European region. If sales continue to rise in those countries, it will help to cover the slowdown of sales in Germany. We also need to build our business in India. Our subsidiary in Germany, Fujitsu Technology Solutions, is in charge of developing our business in India, and their progress on this initiative will be key to our overall progress. We may make significant investments in fiscal 2012 for that purpose. In the Nordic region, some large-scale projects were delayed, but they will start in the fourth quarter, beginning a stream of annuity-type business, enabling us to generate stable earnings in the region.

Q2: *What are the characteristics of your business in Turkey, Russia, and the Middle East?*

A2 (Kato): Most of it is hardware-related. In the European region, there is a trend toward server integration. More than just selling PC boxes, we are also making progress in expanding our sales of servers.