Summary Translation of Question & Answer Session
FY 2014 Management Direction Briefing

Date:	May 29, 2014
Location:	Fujitsu Headquarters, Tokyo
Presenters:	Masami Yamamoto, President
	Hidehiro Tsukano, Corporate Senior Vice President & CFO

Questioner A

Q1: *You said that you periodically would like to hold this type of management direction briefing. Does that mean that you plan to hold one every year at the end of May?*

A1 (Yamamoto): In terms of timing, I think that this time of year—after we have announced our projections for the new fiscal year, and in the lead up the Annual Shareholders' Meeting—is appropriate, so, yes, basically I would like to hold it this time of year every year.

Q2: *Your target for profit for the year in fiscal 2016 is over 150 billion yen, which represents 60% of your target operating profit of 250 billion yen. Compared to your actual results for fiscal 2013 and your projections for fiscal 2014, however, that seems somewhat low. What is the reason for that?*

A2 (Tsukano): Let me explain using rough figures. For pre-tax profits, in addition to operating income, we are projecting a slight positive contribution from net interest income. We are expecting income tax expenses of over 60 billion yen, and, on top of that, over 30 billion yen in eliminations from minority interests, leaving profit for the year at over 150 billion yen.

Q3: *For M&A, are you envisioning acquisitions of companies outside Japan? There are many IT players in Japan, but as the top player, is Fujitsu considering acquiring any of them to consolidate Japan's IT industry? Also, please comment on your M&A strategy in terms of any regional emphasis you may have.*

A3 (Yamamoto): In terms of our current thinking on M&A, Fujitsu has accumulated a lot of know-how in the field of business innovation, and the markets in which we plan to expand outside of Japan are open, so we do not feel that there is such a strong need for us to pursue acquisitions. On the other hand, in the field of social innovation, such as the fields of medical care and agriculture, we do not necessarily have the know-how we need, so we may consider M&A transactions as a short-cut to expanding our business in a particular area. To give a specific example, we recently made a minority investment in Yokogawa Medical Solutions, and this type of M&A transaction, where we are collaborating in a field outside of Fujitsu's core area of expertise, is something that we may consider again in the future. Outside of Japan, we would like to actively consider investment opportunities, including M&A opportunities, in the ASEAN region, where the market is expected to continue to grow.

Questioner B

Q1: *I have a question that compares slide 11 with slide 47 in the presentation material. Among the factors causing an increase in operating profit, is the increase in operating income that is attributable to an increase in sales about 70 billion yen?*

A1 (Yamamoto): Yes, the impact of the increase in sales is about 70 billion yen. Compared to 2014, however, investments are about 10 billion yen higher in 2016, so we expect the increase in operating profit to be about 60 billion yen.

Q2: *It seems that ROE in fiscal 2016 will not be much higher than the figure you are projecting for fiscal 2014. Could you tell us your thoughts about your balance sheet, including your ROE target?*

A2 (Yamamoto): We do not have concrete figures for the period from fiscal 2014 to fiscal 2016. First, however, Fujitsu needs to increase its shareholders' equity ratio. In fiscal 2013, it fell below 20%, but we would like to get it up to 30% by fiscal 2016. Aside from profits, we consider the strengthening of our balance sheet to be a priority.

Q3: *In your medium-term management plan, how are you positioning subsidiaries, such as Fujitsu Frontech, FDK, Fujitsu Ten, and Fujitsu General? You are planning cumulative investments of 200 billion yen, but is M&A included in this amount?*

A3 (Yamamoto): For the subsidiaries that are part of Technology Solutions, such as Fujitsu Frontech and PFU, we plan to strengthen them, including through investments, for the role they will play in contributing to new growth for the Fujitsu Group. For subsidiaries that are part of Device Solutions, however, such as FDK and Fujitsu Components, we need to consider things from a variety of angles, so no conclusions will be reached in the immediate future, and we have assumed no change in their status in our medium-term financial plan. For non-consolidated subsidiaries, such as Fujitsu General, we will consider taking appropriate measures in accordance with changes in the market.

Q4: *Fujitsu has quite a lot of minority investments in consolidated companies, and if you were to consolidate these as wholly owned subsidiaries, I think it would result in profit for the year of about 180 billion yen. In an environment in which issues are raised about listed subsidiaries, what is the reason for having listed subsidiaries?*

A4 (Yamamoto): Fujitsu Frontech, for example, has an interesting business as an independent company. There are certain things, such as scoreboards, that it can do because it is independent. Just because a company is made into a wholly owned subsidiary, it does not necessarily mean that there will be more synergies. In an environment in which issues are being raised about listed subsidiaries, the management approach of the Fujitsu Group is to think about ways to generate the maximum effect from each subsidiary. For example, we made PFU a wholly owned subsidiary because we felt that was the best thing to do.

Questioner C
Q1: *In the figure on sales growth on slide 47 in the materials, I understand how, in such new business areas as the cloud, mobile, big data, and social innovation, your sales will expand, but why will sales in your existing businesses only grow by 70 billion yen? Compared to statistics I have seen as well as projections from some of your competitors, that growth rate seems very low. What is the reason for this?*

A1 (Yamamoto): It really depends on how the scope of existing businesses is defined. The areas that, according to statistics, are expected to grow, such as big data and cloud business, are all areas that Fujitsu is already in. In that sense, of course we will expand business with existing customers in big data or cloud business. In addition, if customers want to use their existing systems for a long time, we will provide our full support, and for those customers we think there will be new business opportunities in the area of modernization. We will definitely pursue those opportunities to grow our existing business.

Q2: *Even IT vendors that are not in the fields of cloud computing, mobile, big data, and social innovation are expecting to grow their business, so does that mean you expect your existing business to grow at roughly the same rate as other companies in the industry?*

A2 (Yamamoto): In today's IT industry, there are very few IT vendors that are not in the cloud business. In any case, we plan to make steady progress in each of our businesses and expand sales.

Questioner D
Q1: *For your fiscal 2016 targets, what assumptions are you making about your semiconductor business? What are you expecting in terms of sales and earnings?*

A1 (Yamamoto): We have not included the new SoC company in our plans for fiscal 2016. For businesses other than that one, we have assumed results to be flat—unchanged. Compared to our projections for fiscal 2014, we expect operating profit to decline by about 10 billion yen.

Q2: *M&A was discussed earlier, but there were no explanations about subsidiaries like Shinko Electric and Nifty. Does that mean that you continue to consider Nifty necessary, but that, with Shinko Electric, you will take a wait and see approach? I also think that, in the past few years, Fujitsu has taken a cautious approach to M&A, but did today's explanation mean that you would aim to increase sales through M&A, even if you had to lower your target margin hurdle? Or will the cautious approach remain unchanged?*

A2 (Yamamoto): Nifty and Shinko Electric are very different. Nifty is under Technology Solutions and Shinko Electric is under Device Solutions. With regards to Nifty, we are currently considering what to do, but I cannot tell you what our plans are at this time. We need to decide what to do with Shinko Electric, but so far we have not decided.

For M&A, you said that we have been cautious in the past, but that is something that changes with the times. Prior to 2000, we were quite aggressive in pursuing M&A opportunities. After the IT bubble burst, we were somewhat cautious in our approach. Going forward, there is no way of avoiding M&A, or “buying speed,” in other words, in order to stay on track for growth. We have been conscious of this fact in setting our strategy towards fiscal 2016.

Q3: *My understanding is that, in regards to the semiconductor business, your plan is to take your time in exiting the business, but has there been any change to that plan?*

A3 (Yamamoto): Our direction has not changed. We have no plans, however, to immediately exit the foundry business. I think that it is problematic to abruptly take that sort of action and inconvenience our existing customers. I would like to take some time to think of an optimal way of exiting the business. In regards to our foundry business, up until now most of the products produced were Fujitsu’s. Going forward, however, I am thinking about how that business can move forward as a real foundry company that produces products other than just Fujitsu’s.

Q4: *Over the past few years, it appears that Fujitsu’s ability to generate cash flow from operations is declining. For example, in the last three years it looks as if the turnover period for receivables has gradually taken a turn for the worse. This seems to have happened regardless of the economic cycle. What are the reasons for this? And what will happen to the drag on working capital caused by the turnover disparity from here on out? Please let me know your thoughts according to your medium-term management plan.*

A4 (Yamamoto): In the past, the mobile phone business was a big contributor to Fujitsu’s cash flow, but in fiscal 2013 we had to make repeated downward revisions to our projections in this area, leading to a deterioration in cash flow. Since then we have implemented various countermeasures, and now cash flow has returned to normal.

(Tsukano): For fiscal 2013, our target for free cash flow was 60 billion yen, but we actually only generated 46.6 billion yen. The shortfall was caused by cash outflows related to structural reform measures, but we expect free cash flow to recover from here on.

<u>Questioner E:</u>
Q1: *What are your estimates for sales and operating profit for Ubiquitous Solutions and Device Solutions for fiscal 2016?*

A1 (Yamamoto): For Ubiquitous Solutions, we are looking at somewhat of a decrease in sales in fiscal 2016 compared to that of fiscal 2013. For Device Solutions, we expect sales in fiscal 2016 to decrease by 200 – 300 billion yen compared to fiscal 2013. In regards to fiscal 2016 operating profit in Device Solutions, we expect a decrease of about 10 billion yen compared to our projections for of fiscal 2014, and for Ubiquitous Solutions, we expect it to be around the same level as our projections for fiscal 2014.

Q2: *What are your thoughts on the IT market environment in Japan through fiscal 2016?*

A2 (Yamamoto): When making plans, we focus more on the outlook for IT demand than the overall trend of the economy. As you can tell from hearing about shortages of system engineers, we feel that these trends will continue next year and the year after. Overall, we expect the IT market in Japan to grow by around 3%.

Q3: *Overseas, in light of cutbacks in government budgets, and seeing the difficulties that IBM is experiencing, do you think that you will still be able to grow given these conditions?*

A3 (Yamamoto): Yes, I think we can grow. The relative importance of ICT in corporate management is growing, so these days, regardless of economic conditions, we are in an environment where companies have no choice but to invest in ICT.

Q4: *In areas of growth, I feel that things do not always go according to plan, especially in new fields. How are you viewing these risks? On the other hand, I feel that you are being somewhat overly cautious in the reductions you project in your existing business areas. Are you achieving some sort of overall balance?*

A4 (Yamamoto): In the area of business innovation, the issue is how we can transform a company's existing business. In that respect, I feel that this is a field in which the likelihood of us succeeding in transforming a customer's business is quite high. The problem is social innovation. In terms of medical care and agriculture, whether we will succeed in growing in areas that, up until now, ICT had difficulty penetrating is still uncertain. As I mentioned when discussing agriculture, the fact is that over 200 customers are using Akisai. Fiscal 2014 and 2015 may still be difficult, but around fiscal 2016 I feel that we should start seeing significant results from these areas.

Questioner F:

Q1: *In the past, you have said your goal is to have the dominant share in Japan's ICT market. What is your view now?*

A (Yamamoto): Our goal of clearly having the top market share in Japan has not changed. Last year we took the top share for x86 servers. Apart from that, we set share targets based on current conditions in each respective area..

Q2: *You spoke about changes to your global organizational structure and about delegating some measure of authority to each region. What are you doing to limit the risks resulting from the authority you are delegating, for instance, to limit bidding on unprofitable projects?*

A2 (Yamamoto): The regional heads report to me directly every month, and my staff of specialists is always checking up on the projects in each region. We are building an organization that avoids repeats of unprofitable projects through direct oversight from my office.

Q3: *Regarding M&A, apart from your sector-by-sector approach for social innovation, in the past it seemed as if you took an approach of broadening geographically. Is that still the case?*

A3 (Yamamoto): In addition to our sector-based M&A strategy such as in the area of social innovation, I think we still need an M&A strategy for each region. We will continue to look for M&A opportunities, particularly in the ASEAN region, and will expand geographically when we see opportunities.

<u>Questioner G:</u>
Q1: *The IT market in Japan started picking up around the end of 2013. I personally feel that your assumption of CAGR at about 4% would have been unimaginable three years ago. I do not think this is solely due to the effect of Abenomics, but why do companies feel the necessity of investing in ICT at this time? If there are structural factors, what are they?*

A1 (Yamamoto): You may all have some sense of this as well, but I think the ICT landscape is clearly changing. We talked about big data in the past, but it was not yet something that was tangible. Up until now, ICT has mainly been in back-end systems for the purpose of increasing productivity and efficiency. But now our customers want to use ICT as a new kind of tool in their competition. That is big data, that is the cloud. Over the past few years, ICT has evolved to the point where some of these uses that had not been possible before have very suddenly become doable. So I think that is a big factor. Companies that are using ICT as a tool to grow their business are beginning to emerge from a variety of places, especially Japanese companies outside of Japan. This is because Japanese companies cannot afford to just sit idly by. Another factor is that we are evolving into a society where automobiles and all kinds of other things are connected. Connecting means ICT, and as companies take a hard look at how to create value in the connected world, they are naturally going to increase their ICT investments.

Q2: *More than just the deteriorating performance of your Ubiquitous Solutions business, from the perspective of that segment's competitiveness in global markets, it would appear that Fujitsu is in a difficult position. You may make alliances with other network companies or device companies, but where do you see your Ubiquitous Solutions business in 5-10 years?*

A2 (Yamamoto): Fujitsu is a B-to-B company, and in the future we will mainly be a B-to-B company that does business with a B-to-B-to-C frame of reference. So for mobile phones and PCs, Fujitsu will be thinking about usage scenarios in the B-to-B world and looking to create synergies. In 5-10 years, in doing B-to-B business, mobile phones and PCs will still be important human interfaces. We need to focus on that in order to provide customers with the variety of B-to-B services that they will demand.

A couple of recent examples of this are a bank that wanted a system for dealing with customers through the use of tablets, and a life-insurance company that began using tablets as a tool for promoting their services and the signing of contracts. We proposed complete schemes that included everything from devices to software, offered as a service. In those instances, if we did not have the hardware devices, we would not have been able to act as quickly, and I think we would have lost something of Fujitsu's essential nature. At Fujitsu, we have a "human-centric" focus, and I think smart devices are an important part of that. Just to avoid misunderstanding, let me say that we will not tolerate losses, on a stand-alone basis, in our PC and mobile phone businesses, so even for B2C, we need to produce attractive products.

Q3: *If your global competitive position in PCs and mobile phones is deteriorating, what do you need to do to get it to the point where it is holding its own? What are your general thoughts and specific plans?*

A3 (Yamamoto): In this world, if you do not reach a certain volume, your position is going to be very tough. When we talk about smartphones, we are talking about an industry that has seen constant technological advancement. The only way forward for us is to be quick to take advantage of the evolution of technology, and to offer the kinds of value propositions that only we can make. And technology is not just a matter of smartphones, of course. It is comprehensive and synergistic. As long as we make good use of the comprehensive, synergistic abilities we have at Fujitsu, we will come out on top.

Questioner H:

Q1: *In your sales plan for Technology Solutions, you indicate that sales will grow a lot outside of Japan, but do you expect your growth in sales there to be because growth in the market will grow Fujitsu's sales, or because Fujitsu will capture a larger share?*

A1 (Yamamoto): We plan to increase sales by raising our market share. And we have been making preparations for that.

Q2: *What is it that gives Fujitsu an advantage over competitors so that you can increase your share in the face of competition? You have mobile and cloud businesses, but what will give you the edge to increase your share?*

A2 (Yamamoto): Up until now, we have hardly been making any solutions proposals outside of Japan. There are hardly any success stories for solutions like electronic medical records outside of Japan. We are going to focus on expanding our successful solutions internationally. The reason we have not done so already is that we had not properly developed our delivery organization. With our global delivery organization in place, we can expand our solutions business.

What will enable us to beat our competitors? Our strengths will be the same as they are in the Japan, which is the fact that we do business based on proposals to customers. We have a complete range of products, from PCs to servers to middleware. By integrating these capabilities and working with key players around the world, such as SAP, we can offer customer the best possible solution for the services they want.

Questioner I:

Q1: *Fujitsu's strength until now has been seen to be that it is vertically integrated, with such offerings as hardware, software, communications, and computers, but is that still an advantage today?*

A1 (Yamamoto): I think the question is whether the vertical integration that is Fujitsu's strength will continue to be relevant. I think it will, and we are pushing ahead with it. If we hone the technologies that are a good fit for us and partner with top vendors around the world for those things we cannot do, we can create a solid ecosystem, and I believe that is a business model that will resonate around the world.

Q2: *In the area of social innovation, when you form partnerships with various other companies, are you looking for specific partners? Or are you creating partnerships with a wide variety of parties that end up being not very deep?*

A2 (Yamamoto): In the area of social innovation, we have taken a case-by-case approach when partnering in other business areas. For example, we formed an alliance with Iseki for our Akisai business. By bringing together Iseki's agricultural equipment and our solutions, we are able to offer proposals to farmers that would have been impossible before. In medicine, where we are trying to work in more broadly, we formed an alliance with Yokogawa Medical Solutions. I think there will be more and more examples like these in the future.

Q3: *I am sure that Yokogawa Medical Solutions, for example, has their competitors. For Fujitsu, do you plan to work only with one company in a sector, or will you seek partnerships in multiple directions?*

A3 (Yamamoto): Initially we are going to work with one company to build a solid solution. In the future, once we have established a certain share and are positioned well, we may collaborate with other companies.