

Summary Translation of Question & Answer Session at FY 2014 Financial Results Briefing for Analysts

Date: April 30, 2015
Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, Senior Executive Vice President
Hidehiro Tsukano, CFO
Takeshi Isobe, Head of Accounting Division, Finance and Accounting Group

Questioner A

Q1: You mentioned that Fujitsu will be spending 30.0 billion yen on structural reforms. To the extent that you can at the current time, please tell us how these budgets will be spent.

A1 (Tanaka): I come from a sales background, and have always interacted closely with customers, but taking into consideration Fujitsu's strengths and weaknesses, in the coming service-oriented era, we must take a global perspective and create a platform that integrates the various business segments Fujitsu has, and then create strong applications that run on that platform. Some segments are very strong and have been making profits, but, from an objective point of view, we are still operating from a producer's perspective, rather than a market-driven perspective. Rather than just individual reforms, we must also make reforms in an integrated manner. Please understand that we will incur some expenses in doing this.

Q2: To clarify, are you saying that, to change your organizational structure around the world, you will incur 30.0 billion yen in expenses?

A2 (Tsukano): In your first question, you used the term "structural reforms," but we are not planning structural reforms. Rather, we are changing our business model. Up until now, Fujitsu has been more or less operating from a producer's perspective. In contrast to that, we need to think from a market-driven, customer-first perspective, and we need to rethink our products from a market perspective. In rebuilding a new business model globally and through our global matrix organization, we need to consider a variety of factors, including sales flows. At this point, all we can say is that it is a change in our business model, but, regarding more concrete measures, we know what the issues are and what we must do. We are currently still examining our figures, and I would like to decline from presenting any specifics at this time.

Questioner B

Q1: Regarding the 30.0 billion yen in strategic investment expenses, Mr. Tanaka, is this something that was decided in the discussions you had with President Yamamoto, or are these expenses that you decided were needed to address issues that had gone undetected until now?

A1 (Tanaka): On this issue, I closely consulted with President Yamamoto, but this is my decision. I would like to once again transform the company-wide business model and take on the market using Fujitsu's strengths. I want to quickly implement these changes this year, and that led to this decision.

Q2: In your explanation, there was mention of the risk of a weak euro, but do you have some plans to impair assets in Europe or close any locations? Or, in reviewing your supply chain, depending on the circumstances, is there a possibility that you will make changes to your locations or impair assets?

A2 (Tanaka): We will always feel the impact of foreign exchange rates, so I would like to strengthen our fundamentals so that we will be able to stand up well to such fluctuations. I would like to explain our plans in greater detail on another occasion.

Q3: In changing your business model, rather than specific business segments, am I correct in understanding that you are referring to your business as a whole?

A3 (Tanaka): Yes. We would like to make our business as a whole stronger.

Q4: In your last briefing about your medium-term plan, there was a very clear explanation of the direction of your solutions and systems integration businesses, but I do not have a very clear sense of the direction for your network products business. There is a trend for the hardware business for communications networks to be replaced by the cloud, but in light of such a trend, could you tell us about the direction of your telecom equipment business?

A4 (Tsukano): Fujitsu is pursuing opportunities in the software-defined network cloud area. In relation to the telecom industry, where the focus has been on stand-alone sales of hardware, rather than a producer-oriented stance, we want to focus on a market-driven perspective, in which the issue is determining what hardware and software to combine and deliver to customers in the form of services.

Q5: For capital expenditures in fiscal 2015, I see that spending in the Technology Solutions segment will increase by 30.0 billion yen, which I assume is investments in datacenters, but expenditures in the Ubiquitous Solutions segment are also high. Even in the Device Solutions segment, even after spinning off your SoC business, spending is high, at 6.0 billion yen, so I am left with an impression that you are still very focused on the hardware side of the business. Spending 175.0 billion yen on property, plant, and equipment does not seem to be consistent with an emphasis on the software and services side of the business.

A5 (Tsukano): As you point out, we should be cutting back on our property, plant, and equipment. Given Fujitsu's intention to focus on software and services, as well as the software-defined network cloud business, it is natural to question why we would invest such a large sum of money in the Device Solutions segment. Even though we are

anticipating that this business will no longer be part of our consolidated results in the future, to properly grow the business now, these investments are necessary.

Questioner C

Q1: For your medium-term plan, are we to understand that you will back down on your fiscal 2016 operating profit target of 250.0 billion yen, and that you will present a revised target?

A1 (Tanaka): We would like to chart our future management direction and then review the figures in our medium-term plan.

(Tsukano): It does not necessarily mean that we will lower our target of 250.0 billion yen. It means that, after reviewing our targets, we would like to brief you on the revisions.

Q2: Does that mean that, after implementing measures in fiscal 2015, you expect to be able to achieve the target of 250.0 billion yen in fiscal 2016, or will slightly more time be required?

A2 (Tsukano): We want to work on building Fujitsu's long-term value, and the strategic expenses we are recording this fiscal year are part of that effort. We realize that our success will be based on how quickly we can act, but we would like some more time to review our plans.

Q3: When will you announce your new management direction?

A3 (Tanaka): At this point, we cannot give you a clear answer, but we would like to make an announcement soon.

Q4: Your announcement about changing your business model was quite unexpected. President Yamamoto also focused on such issues as implementing structural reforms to your semiconductor business, but at this point in time, why are we hearing about this kind of issue again?

A4 (Tanaka): President Yamamoto pursued structural reforms to business segments, such as our semiconductor business and mobile phone business, and I think we are seeing the results of those initiatives. On the other hand, since last year, we have built a global matrix organization and have had a variety of internal discussions, but as the global players we compete against continue to transform themselves, we realized that, for Fujitsu to compete with them, we need to change our whole business in an integrated way, and we felt we needed to quickly implement those changes.

Q5: Conventional foreign IT vendors are also finding it hard to compete with Google. Do you also have a similar sense of crisis and feel that you need to do something about it?

A5 (Tanaka): Yes, in some ways, but it is not as if Fujitsu is going to compete using the same business model as Google. Internally, we have been discussing what business

model we can use to compete, given Fujitsu's strengths. We have developed some clarity there, so we now want to put together a tangible plan and execute it.

Q6: Please tell us about structural reforms to your PC business. To change your business model, is 20-30 billion yen sufficient? In addition, how are you positioning your PC business?

A6 (Tsukano): You used the term "structural reforms," but we are not thinking about implementing structural reforms. Our subsidiary in Germany is an important location in the expansion of our services business in Europe. In light of that, we are thinking of changing our business model with respect to our approach to our hardware businesses, including PCs. Unfortunately, we are not yet able to give you a clearer answer right now, so please wait a bit longer for a more concrete explanation.

Q7: Is there a risk that this concrete explanation will be put off indefinitely?

A6 (Tsukano): No, there is no risk of that.

Questioner D

Q1: For the 30.0 billion yen in expenses that you have included in your operating profit plan for fiscal 2015, what portion is for what you refer to as "upfront investments," and what portion is for changing the business model? In addition, roughly what will the amounts be as you continue into fiscal 2016 and beyond?

A1 (Tsukano): Obviously, we need to invest for growth, and those investments will continue in the magnitude that we have stated. With respect to changing the business model, if we can complete it in fiscal 2015, we should begin to see a return in fiscal 2016, and we are currently considering what investments we should make, and in what order. It is those expenses that we expect to be around 30.0 billion yen.

Q2: I now understand that the 30.0 billion yen in expenses is just for fiscal 2015. In that case, for the upfront investment you have been making, what amount did you make in fiscal 2014, and what amount do you expect to make in fiscal 2015?

A2 (Tsukano): We have planned for 70.0 billion yen in upfront investments over a three-year period, with 25.0 billion yen in fiscal 2014 and fiscal 2015, and 20.0 billion yen in fiscal 2016. In fact the amount was around 30.0 billion yen in fiscal 2014. We are now considering whether we should slightly rein in this investment spending in fiscal 2015, but our plan for fiscal 2015 factors in a similar level of investment as in fiscal 2014.

Q3: You have indicated that you will change your business model to make it more integrated or more services-oriented, but there is a fear that your hardware business, including servers and network products, is becoming less competitive. What are your views on that point?

A3 (Tsukano): When we think about the integration or orchestration of the products and services that Fujitsu has, we understand that there are parts that are still weak. Fujitsu's management understands very well the problems in our hardware business that investors and analysts have been pointing out for some time now, and we already have the outline of a plan for what we should do to address those problems. Now we want to move to implement that plan. As to whether Fujitsu no longer needs hardware at all, we disagree with such a view. For example, just to build one network, a significant amount of infrastructure is required, including optical transmission equipment, wireless equipment, and possibly, depending on the case, terminals such as PCs or mobile phones. In this case, in comparison to the global players competing against us, Fujitsu offers the widest range of hardware, but there are questions about how many of the products we have are the best in each respective field. For that reason, looking out to the future, we need to make a clear distinction between those hardware areas that we need to continue and those that we do not.

Questioner E

Q1: For fiscal 2014, your increase in sales of services in Japan was 1%, which was lower than other companies. From the second quarter through the fourth quarter, your sales rose by 0-1%. What I am concerned about is that the foreign vendors you compete against are experiencing high growth in their cloud businesses, and that, just as is happening in the US, the market for system integration services is expected to shrink. Please tell us your views about the impact of the cloud in Japan and how you are viewing the future, including the shift in your business model.

A1 (Tanaka): The cloud market is important for us, so we have made moves to prepare the appropriate line of products and services and to organize ourselves accordingly. In terms of the form of delivery and how we are viewing the figures, we would like to respond on a separate occasion.

Q2: Do you have plans, whether through M&A or through alliances, to move flexibly in partnering with outsiders?

A2 (Tanaka): We do not have anything specifically in the works right now, but once we have set our management direction, we feel that M&A is one method we can consider.

Q3: Last year, when President Yamamoto presented the medium-term plan, there was talk of having an annual update. Can we expect a briefing on the new business plan sometime within the next three months, or by the time you announce your first quarter results?

A3 (Tanaka): With respect to the specific timing of an announcement, we will need to get back to you on that.

Questioner F

Q1: In your explanation of the telecommunications-related area, a key term mentioned was software-defined networking, but we thought that Fujitsu was already developing

that business in partnership with foreign vendors. Are you now planning to once again move forward on your own?

A1 (Tsukano): We have no plans to do everything on our own. No player does everything on its own. We, too, plan to move ahead in that business in partnership with other companies.

Q2: This question is about the impact of foreign exchange movements, but is it the case that the reason why foreign exchange movements had such a significant adverse impact was because you happened to stockpile components at a time when the exchange conditions were unfavorable for Fujitsu? Even though your competitors faced the same environment, why is it that Fujitsu is emphasizing the impact of foreign exchange movements?

A2 (Tsukano): It was not a problem of stockpiling inventories. Just as every other company in the PC business, we purchase CPUs and operating systems in US dollars, and those are made where labor costs are low, and they are shipped to where the PCs are purchased. That is the basic flow. In our case, because our procurements were in US dollars and we were selling in euros, the weakening of the euro against the US dollar had an especially large impact on us. We expect this impact to be even larger in fiscal 2015.

Q3: When talking about changing your business structure, it would be easier for us to understand if you said that you would be reducing your losses in particular lines of business. Moreover, to say that one year is sufficient for changing a business model sounds strange to me. Even so, do you still wish to convey the message that you will carry out a business transformation in one year?

A3 (Tanaka): As to when we will see a concrete return, that is still a point of discussion in the plan we are considering. Because it is a dynamic competitive environment, we do not know how much of a return we will see in fiscal 2015, fiscal 2016, or fiscal 2017, but we plan to move ahead with a sense of urgency. With respect to specific projections, we would like to talk about these with you on another occasion.