Summary Translation of Question & Answer Session at FY 2009 Financial Results Briefing for Analysts

Date: April 30, 2010
Location: Fujitsu Headquarters, Tokyo
Presenters: Masami Yamamoto, President
Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

Q1: *Regarding the projected improvement in operating income for the Services sub-segment in fiscal 2010, please quantify the four positive factors and the two negative factors affecting income. Please also provide a similar quantitative explanation of your projections for the System Platforms sub-segment.*

A1 (Kato): We are projecting operating income of 38.8 billion yen for the Services sub-segment in fiscal 2010. The two negative factors are the increase in pension-related expenses in the UK, and an increase in strategic investment expenditures. We expect pension expenses in the UK to increase by nearly 8.0 billion yen. If interest rates in the UK increase by even a little, these expenses will be significantly reduced due to calculation of discount rate, but that will depend on the outcome of the UK general election in May. In the UK, in fiscal 2009 we tried to switch our pension system from a defined benefit plan to a 401(k)-type defined contribution plan, but we were unable to execute this shift, in part because of the restructuring we implemented in the midst of these efforts.

The increase in strategic investment expenditures in the Services sub-segment is projected to be 10.0 billion yen for cloud computing-related investments.

As for positive factors, the effect of the European restructuring initiatives which the company conducted in the previous year is expected to add 10.0 billion yen, and we expect to add another 10.0 billion yen by strengthening project management to reduce cost in projects both in Japan and outside Japan. In addition, we expect the combination of lower goodwill amortization expenses and lower pension-related expenses in Japan to result in 23.0-24.0 billion yen in savings. The remainder is from an expected recovery in our business performance.

Regarding loss-generating projects, in contrast to the past, we didn’t have a large number of loss-generating projects in fiscal 2009. The problems were confined to just a few projects, and we tried to keep a close watch on costs to prevent widening losses, but there were slight delays in completing some projects.

In the System Platforms sub-segment, part of the improvement in profitability is from lower goodwill amortization costs and lower pension-related expenses in Japan, but the biggest contribution is from improved performance in our networking product business, which is beginning to generate operating income that approaches the high levels of the past SONET era. Specifically, LTE-related R&D expenses reached their peak in the previous year, after which we hope to be able to achieve single-digit performance in operating income. In system products, development expenses for mission-critical x86 servers peaked in fiscal 2009, so in fiscal 2010, as development costs decline, it will be time to reap profits. In addition, in the PRIMEGY IA server models, we have been able to generate synergies with Fujitsu Technology Solutions in Germany, with cost reductions even in the fourth quarter of fiscal 2009. From now on, the increase in unit sales, combined with greater efficiencies in development and manufacturing, will contribute to higher operating income.

Q2: *With respect to the recovery in your LSI device business, you mentioned that your current book-to-bill ratio is at least 1.0, but please tell us the status of your capacity utilization rate and quantitative figures on your orders.*

A2 (Kato): The capacity utilization rate in our LSI device business is in the 80-89% range. For the first quarter of fiscal 2010, we are projecting capacity utilization rate in the same range. Even during the upcoming holidays in early May, all of the production lines will be in operation. Starting from the second quarter, we are projecting capacity utilization of 85-90%, depending on the production line.

The flow of orders is clearly improving, including the current quarter. The book-to-bill ratio has recovered to 1.0. This is not the result of orders increasing just from particular companies, either. Rather, orders are increasing across the board.

We also plan to enhance our presence in the Chinese market. We have reorganized our internal management structure and will increase our focus on the Chinese market.

Performance in the electronic components business, including Shinko Electric Industries Co., Ltd., is also clearly recovering. Moreover, as a result of FDK Corporation's acquisition of part of Sanyo Electric Co., Ltd.'s battery business, it is now steadily generating new deals, which will contribute to higher earnings in the future.

Q3: *Please tell us about your projections for fiscal 2010 IT sales in Japan by industry sector.*

A3 (Kato): In terms of trends in the overall IT market, including hardware, outside of Japan, in the UK, for example, we are not expecting a recovery. In North America, we plan to go after deals that, in the past, we failed to reel in.

In terms of full-year sales results in Japan for the Technology Solutions segment in fiscal 2009, overall sales were down 7%, which is what we had projected. In the manufacturing and retail/distribution sectors, sales were down by 14% versus our projection of a 13% decline, social infrastructure sales were down 4% versus our forecast of a 3% decline, and sales to the financial services sector were down 11%, which was in line with our projections. Public sector sales increased by 2%, versus our projection of a 1% increase, and for regional business, sales decreased by 2%, which was in line with our projections. For regional business, results were boosted by a 10% increase in sales in the healthcare

sector. For fiscal 2010, we are projecting an 11% increase in sales to the manufacturing and retail/distribution sectors, a 1% increase in social infrastructure sales, a 10% increase in sales to the financial services sector, a 13% decline in public sector sales, and a 2% increase in sales for regional business. Overall, we project sales in Japan to increase by 4% in fiscal 2010. We expect a squeeze in public sector spending on IT. In regional business, we expect continued solid growth in the healthcare sector, with sales projected to increase by 6%.
Sales in fiscal 2010 are not expected to exceed the level achieved in fiscal 2008, so we really need to see some additional growth before we can say the economy has truly recovered. That is the reason why the first half of fiscal 2010 is expected to be tough.

Q4: *For networking products, you mentioned "single-digit performance" in operating income, but does that mean single-digit billions of yen or double-digit percentage?*

A4 (Kato): The networking products business broke even on an operating basis in fiscal 2009, but we are hoping to achieve single-digit billions of yen in fiscal 2010 operating income.

Q5: *You mentioned that development costs would decline, but for the company as a whole, it appears that depreciation expenses will decline by 11.0 billion yen in fiscal 2010, and that development costs will be flat or even increase a bit. It appears that development expenditures for new business fields are included in the "elimination and corporate" category, but I wonder if you could explain the rationale for having development expenditures in the segments decline while increasing investment expenditures in the "elimination and corporate" category.*

A5 (Kato): Development expenditures in networking products peaked in fiscal 2009, and development expenditures have already peaked for mission-critical servers. In fiscal 2010, we will shift toward strategic investments, mainly in cloud computing. As President Yamamoto mentioned earlier, we plan to spend 100.0 billion yen on cloud computing-related initiatives, comprised of about 50.0 billion yen in development expenditures and 50.0 billion yen in capital expenditures. That represents an increase of about 25.0 billion yen and 10.0 billion yen, respectively, compared to fiscal 2009.

In our Services sub-segment, for fiscal 2010 we have allocated 10.0 billion yen in additional expenses to cover strategic investments, mainly in cloud computing, in our projections. In addition, we have allocated 25.0 billion yen in strategic investments in the "elimination and corporate" category. The reason is because these include investments in internal systems, which is in accordance with our policy of having Fujitsu serve as a customer reference. In addition, led by Fujitsu Laboratories, the Fujitsu Group as a whole is accelerating initiatives in human-centric computing, resulting in higher expenses. We will give more details at the Management Direction Briefing in July.

We do not expect that these investments will produce immediate results. We as well as Fujitsu Laboratories are focusing on development work with a time-horizon of several years. These expenses are all included in the "elimination and corporate" category.

Q6: *Actual sales in fiscal 2009 in the System Products unit were 317.8 billion yen, and you are projecting a fairly significant increase in sales in fiscal 2010, to 370.0 billion yen. What areas do you expect to increase? Does this represent organic growth, or are there any special factors involved?*

A6 (Kato): For servers, the increase is primarily attributable to servers for Sun Microsystems. In addition, in the second half of fiscal 2010, we are expecting a recovery in demand, including in Japan. In that environment, we hope to sell more x86 servers, including the mission-critical PRIMEQUEST servers as well as PRIMERGY servers. Fujitsu's sales are still very heavily concentrated in the second half of the fiscal year, but just looking at the fourth quarter of fiscal 2009, it appears that sales in our System Platforms sub-segment are on the upswing.

<u>Questioner B</u>

Q1: *For your projected increase of 4% in sales in Japan for your Technology Solutions segment in fiscal 2010, could you tell us what the break out is between the first half and the second half? In addition, your expectation of an 11% increase in sales to the manufacturing and retail/distribution sectors appears high. Could you provide further explanation on this point?*

A1 (Kato): For fiscal 2010, we expect a sales decline of 8% in the first quarter, a decline of 2% in the second quarter, and a very large increase in the fourth quarter, exposing us to the risk of these sales not materializing. In terms of current orders from March and April, although the value amounts are relatively small, the unit volume of orders is increasing. So it will really depend on how many large-scale deals we can get. Judging by our level of orders, it currently looks like there may be a greater possibility of achieving our sales projections for the first half. Even if we are unable to get a sufficient level of orders, we are also considering ways to further cut costs, and we consider the fiscal 2010 target of 185 billion yen in operating income to be the minimum we need to achieve.

It may seem that our sales projections for the manufacturing and retail/distribution sectors are high, but I would encourage the high expectations. Many of Japan's corporations, including small- and medium-sized companies, are expanding in other markets in Asia, and there are many deals in Asia that, in the past, we have failed to reel in. From now on, we are going to go after those deals by mobilizing our sales teams both in Japan and outside Japan. For Asian markets, we will be offering packaged infrastructure services. In addition, there was a significant amount of IT equipment that fell due for 5-year replacement in fiscal 2009, but which was not replaced as customers postponed new investment. We expect demand from that to materialize in fiscal 2010.

Q2: *I would like to clarify something about your 100 billion yen in strategic investments. Am I correct in assuming that, in fiscal 2010, you will recognize 50 billion yen of this 100 billion yen amount as expenses, and that they will be included in the "elimination and corporate" category?*

A2 (Kato): It is not the case that the entire amount will be included in the "elimination and corporate" category. The Services sub-segment will post 10.0 billion yen of these expenses. In addition, product-related segments will also book cloud-related expenses where it is related to their businesses. The expenses booked in the "elimination and corporate" category include research expenses that may only result in business several years in the future or internal system investments for the purpose of serving a customers' reference. Our policy is to look out on the medium- to long-term horizon and determine where we need to invest, and if it is in areas that are not expected to produce immediate financial results, those investment expenditures are booked in the "elimination and corporate" category.

Questioner C

Q1: *In your fiscal 2010 projections for the Technology Solutions business inside Japan, you are projecting a 4% increase in sales. Can you please describe the segment's performance in fiscal 2009 and the fourth quarter?*

A1 (Kato): Sales for fiscal 2009 declined by 7% compared to the previous year, and they declined by 4% in the fourth quarter, 2% more than we had projected.

Q2: *You mentioned that you are now past the peak in development costs for mission-critical servers, but which of your models is positioned to compete against IBM's Power7 series?*

A2 (Yamamoto): We are continuing to invest in the development of mission-critical servers. Since we invested significant resources into our PRIMEQUEST servers that began shipping towards the end of fiscal 2009, we believe fiscal 2010 will be time for us to reap returns on our investment. People think that the key to competing against Power7 is our SPARC chip. But based on our partnership with Oracle, engineers from both sides have started discussions in order to improve SPARC's performance in terms of not just its clock speed, but also through an integrated approach that incorporates middleware. In terms of developing a model to compete against the Power7 series, I believe that we are likely to invest on the scale that we have in the past.

Q3: *AT&T recently announced that it has selected Ciena as a domain supplier for optical communications equipment as part of its Domain Supplier program. Can you tell us anything about the status of Fujitsu's involvement as a participant in this program?*

A3 (Yamamoto): At the present moment, Fujitsu has no official comment on the matter.

Q4: *Regarding your business expansion in Asia, how large are the investments you are making for your data center in Guangdong, China? In addition, isn't the start of real business still far down the road?*

A4 (Kato): Our initial investment in the Guangdong data center will be relatively small, in the range of a few billion yen, responding to the number of orders we receive. We are currently in discussions with numerous customers in the US who are looking to utilize our data center in Guangdong to penetrate the Chinese market. Given that the project is also a joint venture with the government in China, we think that the data center will provide significant value to customers interested in conducting business that transcends national borders.

<u>Questioner D</u>

Q1: *To what extent are the 60.0 billion yen in cost reductions, which were described during last year's management direction briefing, reflected in your income projections for fiscal 2010? Please give a breakdown your projections for pension benefit expenses, the amortization of goodwill, and expenses related to personnel reductions.*

A1 (Kato): With respect to pension benefits, in fiscal 2009 we finished amortizing unrecognized new obligation at transition that had existed since fiscal 1999. That impact is approximately 17.0 billion yen. In addition, there were significant improvements in the performance of pension investments inside Japan, resulting in an overall improvement of approximately 17%. While we originally anticipated that this would contribute to cost reductions in fiscal 2010, the savings we were able to make in Japan were offset to some extent by the deterioration of pension assets in the UK. The improvement in pension benefit expenses in fiscal 2010 will be limited with the completion of unrecognized net obligation at transition.

Regarding the amortization of goodwill, in accordance with the acquisition of Fujitsu Technology Solutions in the first quarter of fiscal 2009, there were one-time depreciation charges. In addition, the amortization expenses for goodwill associated with our acquisition of the old ICL many years ago have now been eliminated. The combination of these two factors results in 12.0 billion yen in savings. There are also about 10.0 billion yen in improvements resulting from the sale of the HDD business. In addition, there are nearly 30.0 billion yen in improvements from the other restructuring initiatives we undertook. In total, last summer we said these would result in 60.0 billion in savings, and we had actually hoped for an even larger improvement, but the forecast we have currently will be 69.0 billion yen in improvements.

In addition, in terms of reductions in fixed costs, our restructuring initiatives generated 130.0 billion yen in savings in fiscal 2009.From current level of fixed cost, we expect to have further improvement in fiscal 2010 resulting in more savings. Moreover, we reduced our workforce in Europe by 7%, and we expect these measures to also result in savings.

Q2: *Regarding operating income for your Service business in fiscal 2010, you mentioned negative factors totaling 18.0 billion yen and positive factors totaling 43.0 billion yen. Therefore it appears, that if excluding these positive/negative items, your operating income will only increase by about 10.0 billion yen, while sales increases by 90.0 billion yen, which seems too small. Are you factoring in any other risks?*

A2 (Kato): In light of the weak recovery we are expecting, we do not expect results in our UK subsidiary to improve very much. We are projecting higher sales in North America, but there is considerable uncertainty associated with this projection. In line with the recovery in the IT market we expect in the second half of the fiscal year, we are projecting a 15.0 billion yen improvement in operating income in Japan, but outside of Japan, we expect a deterioration in the operating income of Fujitsu Services. Factoring in the risks associated with results outside of Japan, we expect the combined total improvement inside Japan and outside Japan to be about 15.0 billion yen. After the election, if the economy recovers in the UK, we may become more optimistic.

<u>Questioner E</u>

Q1: *You projected operating income of 200 billion yen for fiscal 2010 when you announced your medium-term plan, yet your new operating income target for fiscal 2010 has been revised to 185 billion yen. Assuming that improvement from technical factors, such as amortization and pension costs, does not deviate much from what was projected in your medium-term plan, is it correct to understand that your projection of 185 billion yen is the result of business conditions in the UK and other countries being more challenging that you had originally anticipated? Wouldn't you agree that with a little effort it is possible to meet the 200 billion yen figure?*

A1 (Kato): Because of the risk involved in the fourth quarter of fiscal 2010, we have initially committed to generating operating income of 185 billion yen. If we are able to generate solid results each quarter, we would like to raise this level to 200 billion yen.