Summary Translation of Question & Answer Session at
FY 2010 Third-Quarter Financial Results Briefing for Analysts

Date: January 28, 2011
Location: Fujitsu Headquarters, Tokyo
Presenters: Masami Yamamoto, President
Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

Q1: *You downwardly revised your full-year projections for sales of IT services in Japan, but how have your projections changed on an industry sector-basis since your earnings announcement for the first half?*

A1 (Kato): At the time of the first-half earnings announcement, for the full year we expected sales growth of our ICT business in Japan to be 2% over the previous fiscal year, but now we expect sales to be flat. Breaking our projections down by industry sector, we project sales to the manufacturing sector to be 8% higher, which is unchanged from our previous projection. Third-quarter sales to the manufacturing sector increased by 11%, compared to a 2% increase in our plan, so sales in that sector are solid. Projected growth in sales to the retailing and distribution sector has been reduced from 4% to 2%, our projection of 1% growth for the social infrastructure sector has not changed, our projection for financial services has been reduced from 8% to 5%, and public-sector sales are now expected to decline 9%, in comparison with our previous projection of a 10% decline. A major problem area is regional business sales, which we had expected to be flat, but now we expect a decline of 5%. Third-quarter regional business sales, for which we expected a decline of 2%, actually fell by 5%, and we expect the fourth quarter to be even more severe.

Q2: *What is your view of the potential for additional risk as a result of budget austerity measures in the UK? In addition, you mentioned that it will take more time before the cloud business in Japan takes off, but how are you viewing the ICT market in Japan for fiscal 2011?*

A2 (Kato): Price declines on our UK government business will have an impact of roughly 7.0 billion yen on revenue and profit this year compared to last year. We anticipate that the impact will continue into next year. With respect to unprofitable projects in our services business outside Japan, there were problems in our project management, and we are currently taking measures to address the problem.

(Yamamoto): After the Lehman Brothers shock, the ICT market in Japan was clearly on a path to recovery in 2009 and 2010. For the fourth quarter, however, although we had anticipated a strong recovery with strong momentum in our cloud business, we unfortunately had to scale back our projections to just a mild recovery. It is expected that the ICT market in Japan will grow less than 1% in fiscal 2011, but we believe growth will be a bit higher. For the first half of fiscal 2011, however, recovery will continue to be very moderate. As to how strong the recovery will be in the second half, and when it will occur, these are questions on which we will focus between now and the end of March. Once customers complete the process of assessing the impact of cloud investments, we can expect significantly higher ICT spending. With respect to our business outside Japan, unfortunately we generated 20 billion yen in losses on unprofitable projects, but we are thoroughly investigating the problem areas as well as enhancing our organizational structure, and we are confident we can stem further losses by the end of March. For fiscal 2011, we will have a structure in place that will prevent the occurrence of project losses in our business outside Japan, just as we have already done for our business in Japan.

Q3: *I do not think Fujitsu has yet decided when it will switch to International Financial Reporting Standards (IFRS), but even for Japanese standards, there is movement to bring unrecognized retirement benefit obligations onto the balance sheet starting in fiscal 2011. Based on figures as of the end of last March, I believe such a move would reduce Fujitsu's shareholders' equity by 250 billion yen. Could you comment on the impact?*

A3 (Kato): With respect to the timing of a shift to IFRS, as a portion of the standards has not yet been decided, we would like to wait until we have a clearer idea of them before we decide. I believe that the pension benefit impact is something along the lines you mentioned, but we would like to take various measures to reduce it.

Q4: *If you have preliminary estimates on the impact of corporate tax reform, please let us know.*

A4 (Kato): The impact of a 5% reduction in corporate tax rates would be approximately 15 billion yen, but we plan to take various measures to minimize this impact. Even if the tax reforms go into effect prior to the end of next fiscal year, our intention is to take offsetting measures to nullify its impact to our income.

Questioner B

Q1: *When you refer to unprofitable projects outside of Japan, is it just one project or multiple projects? What industries are the customers in, and what country? What is the size of the projects, and when did operations begin? Are the losses attributable to problems existed at the time of the order, or did technical problems arise?*

A1 (Kato): As we are in the process of fixing the projects and negotiating with the customers, we will have to refrain from providing any further details at this time.

Just to give some background on how the losses occurred, however, in each region outside of Japan we received an increasing number of orders for large-scale projects, and many of these projects are increasingly more complex. At this point, the key is to determine how best to fix these projects.

Q2: *We have heard explanations in the past about how everything is fine because you have taken provisions for project losses, but I recall that, in many cases, everything did not turn out to be fine. Now you have used 20 billion yen in loss provisions, but will this be enough to cover the losses, or is there a risk that losses will escalate?*

A2 (Kato): The 20 billion yen figure reflects all of the risks we can anticipate.

Questioner C

Q1: *Are these unprofitable projects similar to past underperforming projects in your existing businesses, or are they in new business areas, such as cloud computing?*

A1 (Kato): The circumstances surrounding the current unprofitable projects are somewhat different in nature than previous loss-generating projects outside of Japan. A major reason why losses occurred this time relates to problems at the initial stage of the project with the customer. Another factor was our inability to clarify our escalation process when projects started to expand, but we now have a structure in place for escalation, enabling us to hedge our risks. It was not as if we weren't paying attention. We were monitoring the progress of projects, but certain areas on the front lines were overlooked.

Q2: *Please describe the IT investment trends you are seeing in both developed and emerging countries.*

A2 (Yamamoto): There is strong momentum in our hardware businesses in such emerging markets as Turkey and Russia. Even in these countries, there is a growing awareness of Fujitsu's hardware products, and we have high expectations for continued growth in demand from fiscal 2011 onwards. In developed countries, we are focusing on the delivery of ICT-enabled services, with a particular emphasis on cloud services. With respect to our on-demand virtual system service, which we launched in Japan beginning last October, we are planning to roll out services to developed countries outside Japan starting in February and have already received a significant number of inquiries. A significant priority for us with respect to our business in developed countries is to determine how we can package a new cloud-oriented services model.

Q3: *Could you tell us about the business conditions of your Network Products segment? It was surprising to see your sales in the segment drop from the third quarter of the previous year.*

A3 (Kato): From the start of the fiscal year, our view was that fiscal 2010 would be a transition period for our networking business as a whole. In addition, one of the reasons why third-quarter sales in the segment were lower than in the prior same period is, whereas in the third quarter of fiscal 2009 we recorded sales from submarine optical cable systems, there were no such sales in this year's third quarter. Our expectations for strong growth for the segment in North America, however, have not changed. Spending by North American telecom carriers continues to increase, and we anticipate optical network investments will continue to expand in the fourth quarter. Fujitsu is not taking a particularly active approach to pursuing submarine optical cable-related business, and our Network Products operations at the current time are focused foremost on North American telecom carriers, with LTE deployments in Japan as our next big opportunity.

Q4: *You mentioned that you are planning to retract your current operating income target of 250 billion yen for fiscal 2011 and issue a revised medium-term plan. Given the current challenges you are facing in the cloud computing market, do you intend to make significant changes to your overall business strategy, or will you proceed with your current strategy and revise your figures based on present market conditions?*

A4 (Yamamoto): Using 145 billion yen in operating income as a baseline, we will look at how much we can increase it and create a new medium-term plan starting with fiscal 2011. We will continue to strive towards achieving our operating income margin on or above 5%. I believe that the transition towards cloud computing has not changed substantially. At the same time, we want to reexamine the speed at which this transition is progressing and the environment surrounding it. Up until the last fiscal year, we thought about our cloud strategy primarily in speculative terms, but now that we have actually launched our cloud business, we have gathered enough information needed to perform a proper evaluation. After our full-year results for fiscal 2010 are released in April, we will be ready to present you with a medium-term plan that takes into consideration both ICT market trends and Fujitsu’s action plans.

Questioner D

Q1: *Earlier you mentioned that, for your medium-term plan, the starting point for operating income would be 145 billion yen, but if the 20 billion yen in losses on unprofitable projects outside Japan is only a one-time expense, shouldn’t the starting point be 165 billion yen, instead?*

A1 (Yamamoto): I did say earlier that we would eliminate any loss-generating projects next year. Therefore, it surely stands to reason that 165 billion yen would be the starting point.

Q2: *You mentioned that there has been a delay in the recovery of Japan’s IT market, but two years have passed since the Lehman Brothers shock, and corporate earnings in Japan have recovered. Why, then, has corporate IT spending not recovered?*

A2 (Yamamoto): One very significant reason why corporate earnings in Japan have recovered is because corporations have reduced expenses and generally streamlined their spending. Accordingly, spending on ICT has also been squeezed. On the other hand, it is the common view of corporate executives that ICT investment is essential for future growth, so we feel that starting sometime in fiscal 2011, spending on ICT will rebound once again.

Questioner E

Q1: *Will you be holding your Management Direction Briefing in April instead of in March?*

A1 (Yamamoto): Given the shifting business environment, instead of holding the briefing in March, it would be more realistic for us to hold it once we have determined our year-end figures and can speak confidently about our plan. Therefore, we would like to hold it soon after our year-end financial results announcement.

Q2: *Regarding the 7.0 billion yen decline in sales due to IT spending cuts by the British government, is my understanding correct that these cuts will have the same effect in fiscal 2011?*

A2 (Kato): As the impact is from lower pricing on existing contracts, the effects will continue to be felt in the next fiscal year. At the same time, although the British government has halted talks on any new projects, we have expectations that these will resume in the second half of fiscal 2011.

Q3: *Regarding the results of your strategic investments, do you expect that any investments in particular will contribute to your sales or income in the next fiscal year?*

A3 (Yamamoto): We launched our On-Demand Virtual System Service last October, and since then, we have seen a significant number of customers begin to actually employ it. We have reached a level where we can generate a reasonable return on investment plan from this service. I plan to properly discuss this and other topics during our upcoming Management Direction Briefing.

Questioner F

Q1*: In the past, Fujitsu initially struggled when the industry shifted from mainframes to open architecture, and then after adapting accordingly, it encountered further difficulty in transitioning to an Internet-centric model. Now that Fujitsu is developing its cloud business, it will have to reevaluate its business model, although I think it will be difficult for the company to change its model immediately. Please describe Fujitsu's timeline for shifting to cloud computing.*

A1 (Yamamoto): Fujitsu has made continuous investments on the premise of building its cloud business in a timely manner, so it is unfortunate for some people to suggest that Fujitsu is behind schedule in shifting to cloud computing after looking merely at the downward revisions to our projections. Although I believe we are making quick progress in our cloud transition, we have also set aggressive goals for ourselves. Fujitsu's cloud services business is the perfect environment for leveraging the wide array of technologies and services we have developed up until now. In the history of centralized and distributed computing, the era of open infrastructure led the industry towards distributed computing, whereas the cloud computing era has brought us back in the direction of centralization. As a result, the stage is set for Fujitsu to take full advantage of the strengths of its vertically-integrated business model.

Q2: *With pricing for systems operations collapsing as a result of the shift to the cloud, how do you plan to expand your business?*

A2 (Yamamoto): There is price competition in any era. The ability to compete on pricing is in some respects, a function of volume, so we are now dealing with competition by having pricing that reflects global volume levels. To prevail in on a global level, we need to come up with original ideas that no other company has. Of course, we cannot do everything on our own, so for some areas we will forge alliances with major vendors to enable us to create vertically-integrated business models. We are already in discussions with many major vendors, and believe that there will be many business opportunities for us.

END