

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

Date: October 26, 2011

Location: Fujitsu Headquarters, Tokyo

Presenters: Kazuhiko Kato, Corporate Executive Vice President & CFO

**Questioner A**

***Q1:** Compared to the projections you announced last July, the operating loss you are now projecting for the full 2011 fiscal year in the Other/Elimination and Corporate segment has decreased by 10 billion yen. If, in the second half of the fiscal year, results in other business segments deteriorate, is there a possibility of further cost efficiencies in the Other/Elimination and Corporate segment?*

**A1:** If we hold down new investments, yes, it is possible to further reduce expenses. Among the new projects, there are some that require an investment of at least one billion yen. If we held off on such projects, it would be possible for us to reduce expenses. But if we are able to get new business and expand our sales by making the investment, we will go ahead with that project.

***Q2:** Your services business in Europe performed very well in the first half. I have heard that other companies, however, have been hurt by the deteriorating economic conditions in Europe, and that their businesses are not performing very well. Could you explain why your business is performing well?*

**A2:** First of all, the performance of our services business in Europe in the previous fiscal year was especially poor because it was hit by government budget cuts in the UK. Since the second half of fiscal 2010, we have been making concentrated efforts in private sector business in the UK in order to reduce the proportion of public sector business to private sector business in the UK from 60-40 to 50-50. The performance of corporate customers that are active globally has been relatively strong, even as worldwide economic conditions have deteriorated. Our business with those types of customers is starting to increase. Our reputation as a company that is strong in Asia is leading to new business orders.

In addition, sales of PCs and servers in Europe are increasing, and the trend of server virtualization is progressing in Europe as well. Server virtualization has the effect of reducing the number of servers required, but with an upgraded server configuration we are able to sell high-end products with higher per-unit prices, and in tandem with this, sales of corresponding storage equipment and maintenance services are also increasing. In PCs, we have expanded our channel partner sales program, and our sales in core countries such as Germany have been increasing, but this fiscal year we have also been increasing our sales on the European periphery, in such countries as Russia and Turkey, as well as countries in the Middle East, where economic conditions are relatively stable and growth rates high.

We are, however, somewhat anxious about the second half. The risk will increase if economic growth in Germany slows down. We are also worried that corporations will be less willing to invest in ICT as financial institutions rein in lending.

Our business in Greece is not very large. We have already factored a negative impact to our business in Spain and Italy into our forecasts.

**Questioner B**

***Q1:** Please tell us about your IT sales results for the second quarter in Japan and your forecast for the remainder of the fiscal year.*

**A1:** While there are differences between industry sectors, overall sales in the second quarter increased 1% over last fiscal year's second quarter, which is what we had projected. In the manufacturing sector, year-on-year sales growth in the first quarter was 8%, and our projected year-on-year sales growth in the second quarter was 3%, but we actually achieved 6% growth, so our sales performance was very good.

For the retailing and distribution sectors, sales in the first quarter declined by 2%, and we had projected year-on-year sales growth in the second quarter of 1%, but sales actually declined again by 2%, so we weren't quite able to meet our target.

For social infrastructure, amid a very difficult environment in energy-related industries, IT spending by telecom carriers increased in the second quarter, so although we experienced a decline in sales of 16% in the first quarter, we projected sales to increase by 24% in the second quarter, and sales did increase by 24% as projected.

For the financial services sector, sales declined by 3% in the first quarter, and we had projected a decline of 9% in the second quarter, but actual sales declined by 7%, so sales fell below last year's level, but they were higher than projected. For the public sector, first quarter sales declined by 17%, and we had projected second quarter sales to decline by 24%, but actual sales declined by 18%, so we exceeded our projections. That said, the business environment remains severe, with few large-scale deals.

For regional business, sales in the first quarter rose 3%, but we had projected sales in the second quarter to decline by 3%, and sales did decline by 3% as projected. For the full fiscal year, we had previously projected overall sales in Japan to grow by 2%, and we have not changed that projection.

Starting this fiscal year, the government is expected to allocate a budget of 19 trillion yen over five years for earthquake-related reconstruction, and a key point for Fujitsu is how many projects in the ICT field we will be able to win from that spending. If the third supplemental budget passes the Diet and we are able to win some deals, they will contribute to sales starting in the fourth quarter. For regional business, we expect a steady stream of orders from local governments as a result of legislative reforms, as well as business related to hospitals, so we are still projecting sales to be on par with last year.

Looking at our flow of orders through September, if we push ourselves just a bit more in the second half, I think we should be able to achieve overall sales growth of 2%. If there is a prolonged effect of yen appreciation or flooding in Thailand, executives in Japan may become more pessimistic, and there is a possibility that they will put the brakes on new ITC investments, so it is important for us to try to move fourth quarter sales up into the third quarter.

***Q2:** After acquiring the remaining shares in Fujitsu Technology Solutions, you recorded a very large amount of goodwill on your balance sheet, and I am wondering if there have been any changes in the environment that could result in an impairment to the value of that goodwill, such as anything that would delay the return on investment beyond what you anticipated at the time of the acquisition.*

**A2:** It's true that the transaction generated a large amount of goodwill, but amortization has been reducing the balance. With respect to the valuation of the balance of goodwill, whether the acquisition is performing in line with the business plan developed at the time of acquisition is an important point, and Fujitsu Technology Solutions has performed as we had projected. All of you are saying that the economic environment in Europe is not good, but there are also areas that are growing, so you cannot say that everything is bad. In particular, European customers that are expanding their business globally are performing very well, so we want to increase the support services we provide. Rod Vawdrey became the head of our Global Business Group this year, and he is a veteran in the services business, so we are very comfortable leaving it in his hands. In the UK, since we put someone who headed private sector business in charge of our overall business, our private sector business has been steadily expanding.

### **Questioner C**

***Q1:** Due to the impact of the flooding in Thailand, Toyota and other customers of Fujitsu Ten have halted their production lines. For your mobilewear sub-segment, to what extent do you expect the floods to have a negative impact on results in the second half of the fiscal year?*

**A1:** Fujitsu Ten's largest customer is Toyota, and the largest customer of Transtron, which is part of the same mobilewear sub-segment, is Isuzu Motors. Of course, each subsidiary sells to more than one company and also has aftermarket products.

To some extent, the mobilewear sub-segment still felt the impact of the earthquake during the second quarter, although it's headed toward recovery. While I cannot say that there will not be any effects from the flooding, it will not be as substantial of a negative impact as the Great East Japan Earthquake. As long as the economy picks up, we expect to be able to recover lost sales.

***Q2:** Electronics and precision machinery companies, such as Nikon and Sony, have suffered water damage in Thailand. In smartphones as well, a singularly strong area of businesses, the iPhone remains dominant in the market. Amid this environment, to what extent is your Device Solutions business at risk of further deterioration?*

*In addition, when do you anticipate improvement in inventory adjustments for LSI packages?*

**A2:** There are many precision machinery companies with operations in Thailand, so I can't say that there will be no impact.

At the same time, during the second half of the fiscal year we expect our smartphone-related device business to expand. As long as the smartphone-related business grows, we believe the issue of low capacity utilization rates on our production lines will be resolved. We also received a substantial order in September. However, the impact of water damage in Thailand is a cause for concern for our smartphone-related business, as well.

As for inventory adjustments for IC packages used in PCs, I have heard that they have basically run their course. On the other hand, there is also a concern that sales of PC chips will be affected if global PC unit sales remain flat due to the HDD supply issues from the flooding in Thailand. At this point, we still have not been able to fully assess the potential supply chain repercussions.

***Q3:** Now that Rod Vawdrey has been put in charge of the Global Business Group, how do you feel about the Global Business Group's growth prospects for the next period and beyond?*

**A3:** Rod Vawdrey is an executive with a strong sense of what is going on in the field, and he spends most of his time in the field, mainly focused on visiting customers. As such, he does not come to Japan very often. With his active style, Rod is leading Fujitsu's sales expansion activities. He is also very meticulous and, with the support of the staff under him, he is doing very well.

#### **Questioner D**

***Q1:** Please describe Fujitsu's orders and sales of semiconductors from July to September.*

**A1:** The book-to-bill ratio (orders / sales) for the second quarter was 0.9. Figures from August, in particular, were low, but they picked up again slightly in September.

***Q2:** Please explain the state of your business outside Japan, other than in Europe.*

**A2:** In North America, we have been able to expand our business in the retail industry. For the first half as a whole, we recorded higher sales and income. Business in Canada was also strong. On the other hand, our data center-related business is struggling with no increase in orders.

In Asia, our Hong Kong operations have been growing, and determining how to best approach the Chinese market will be crucial. However, we have been steadily increasing the number of deals with Japanese companies in China, and during the first half those sales amounted to tens of billions of yen. We plan to further accelerate these deals.

***Q3:** If there were a downside risk with regard to your services, would it be the domestic market in Japan where a degree of pessimism toward new investments exists?*

**A3:** Even in Japan, we are not very worried about our business in the manufacturing sector. In the first half, our public sector sales in Japan declined by more than 10% compared to the first half of the previous fiscal year, and to limit the decline in sales to less than 10% for the full year, we will need to generate business relating to the earthquake recovery efforts. In addition, in the financial services sector, we are in discussions on several large-scale transactions, so one key for us will be to make sure those result in actual orders. The battle to win deals in the third quarter will be very important.

**Questioner E**

***Q1:** In your business in Europe, you stated that your private sector business is growing. Aren't there issues regarding unprofitable orders or project management? When growing business in a new field, it is often the case that companies try to do too much and end up with loss-generating projects. How are you managing this?*

**A1:** We do not pursue growth without regard for profit. From the prospective deal stage, the progress of negotiations is monitored by the independent Assurance Group. As part of this process, if the deal appears to be at high risk of being unprofitable, we will not pursue it. The CEO of each business unit is responsible for judging whether projects can be completed with the available resources, and if a project does not pose a problem, we will pursue it. In the case of Europe, we will simply shift resources from our public-sector to our private-sector business, so there are no problems related to resources. We hope to increase the number of deals in the private sector. Beginning in the past two years, you can say that we have been entering a period of forward-looking progress.

***Q3:** Looking at your plans for the second half with regard to the public sector business in Japan, are you concerned about whether or not the budget for earthquake rebuilding initiatives will pass during the fourth quarter?*

**A3:** Our projections for the public sector this fiscal year do not factor in any deals of any significance related to rebuilding. After the budget passes through the Diet, the competition between manufacturers is expected to come to a conclusion during or after the fourth quarter. Currently we are in the proposal development phase, and this will not significantly impact sales this fiscal year. Rather, the fourth quarter will determine how many orders Fujitsu will receive in the five years starting in fiscal 2012. This will not influence our projections for the current fiscal year. We intend to aggressively make proposals given the large range of potential projects beginning in fiscal 2012, including those with local governments, or for the taxpayer and social security number program. However, there have been comments that seem to imply that major IT vendors are merely making proposals for their own benefit. At Fujitsu, we believe that ICT is an essential tool for addressing a wide range of challenges involved in rebuilding Japan.