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

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

Questioner A

Q1*: *You mentioned there was an increase in selling, general and administrative expenses, particularly in the Services sub-segment, associated with cloud-related investments. Can you elaborate on the impact of the cloud-related investments?

A1: Within the category of selling, general and administrative expenses, there has also been an increase in network product-related development expenses, which is outside the area of cloud computing. I cannot disclose the scale of these expenses. For the total cloud-related investments, this year we plan on making investments on the scale of 100 billion yen, which is the same level as we made in fiscal 2010. With respect to networking development expenses, since the second half of last year we have been making considerable investments in our business in North America. We have been maintaining a high level of investments since the third quarter of last fiscal year, and the year-on-year increase in selling, general and administrative expenses can be explained by these upfront networking-related investments.

***Q2*:** *By how much did R&D expenses increase?*

A2: We only disclose our annual R&D expenses. I cannot disclose further details. Fujitsu's guideline with R&D expenses is that they represent about 5% of sales. You can use this to calculate an approximate figure.

***Q3*:** *What factors, both in and outside Japan, contributed to the decline in profitability for your Services sub-segment? In addition, last year there were some major unprofitable projects in Europe. Please describe the status of your efforts to implement controls to prevent unprofitable projects.*

A3: We have made significant progress in implementing controls for unprofitable projects in Europe, and we have brought clarity to the projects in question. With the establishment of the Assurance Group, we have deployed executive-level personnel from Fujitsu headquarters to the region, where they are carefully monitoring the projects. However, as the Assurance Group cannot do everything on its own, it is crucial that CEOs from local subsidiaries have a detailed grasp of the projects and, if necessary, participate in high-level customer negotiations. The number of deals we are involved with is increasing. In the past, a failure to obtain a clear agreement on the terms and conditions at an early stage was a major reason behind failed projects. We are making sure the CEOs get involved to confirm an upfront agreement. Presently, as far as we have confirmed, there have been no projects for which contract termination will be necessary.

As for the breakdown of factors in and outside Japan that contributed to the income decline in our Services sub-segment, excluding the impact of the earthquake in Japan, the domestic business was essentially the same as the previous year. The deterioration occurred mainly outside Japan. In comparison with last year, UK government-related factors have adversely impacted profitability. Budget reductions by the UK government had not yet taken place in the first quarter of fiscal 2010, but they began in the third quarter. As a result, on a first-quarter comparative basis, budgetary tightening has had a significant impact.

Q4**:** *In your full-year forecast announced in June, you projected that the full-year impact of the earthquake would be 37.0 billion yen, but for the first quarter, the impact was 13.0 billion yen, which leaves 24.0 billion remaining. Starting in the second quarter, do you anticipate the impact of the earthquake will actually continue? Or, do you think it will be less significant?*

A4: From a manufacturing perspective, the impact on some of our product models will continue into the second quarter, but the overall impact will not be very significant. If we focus only on tracing the impact of the earthquake, there is a risk that we will lose sight of our overall business. Therefore, we plan to take this first quarter as an opportunity to wrap up our efforts to deal with the impact of the earthquake, and then focus on how we can execute our current business plan. Except for in the afflicted areas, our customers themselves are not talking very much about the impact of the earthquake. Rather, their focus is moving toward how business confidence will change in the near future. Of course, this does not mean that we think the economy will fully recover soon.

Questioner B

Q1: *Please tell us which segments exceeded your projections in the first quarter. It appears that results in the System Platforms sub-segment were better than you had expected. Also, it appears that IT spending is currently fairly strong, but do you feel this trend is likely to persist in the second quarter and beyond?*

A1: Let me answer by explaining sales conditions on an industry-sector basis in Japan for our Technology Solutions segment during the first quarter. At the time we announced our full-year projections on June 17, we expected sales in the first quarter to decline by 4% from the previous year's first quarter, and they did decline by 4%. Still, in the intervening month, there have been some changes in sales trends on an industry-sector basis. For example, we had projected sales to rise by 6% in the manufacturing sectors, but they actually rose by 8%. We expect sales here to taper off slightly in the second quarter, but we are projecting the high sales levels to continue in the second half of the fiscal year. For the retailing and distribution sector, in June we had projected sales to decline by 7% from the previous year's first quarter, but sales only declined by 2%, exceeding our projections, and we expect sales in the second and third quarters and beyond to exceed sales levels of the previous fiscal year. For social infrastructure, such as telecom carriers, electrical utilities, and gas utilities, we had expected our sales to decline by 5%, but actual sales were slightly below our projections, dropping by 6%. Sales in the second quarter should be relatively high, particularly because of higher sales to telecom carriers, but, as we initially anticipated, sales to electrical utilities, including the smart meter business, are stagnating. For the financial services sector, in June we had expected sales to decline by 3%, but they declined by 4%. For public sector sales, too, we had expected a decline of 7%, but sales were lower than we had projected, declining by 9%. For regional business, including sales to healthcare institutions, sales were as we had projected, rising 3% from the previous year's first quarter. So, as you can see, sales are trending pretty much as we had expected, but we are projecting a sharp rise in the fourth quarter, so it will take a bit longer before raise our level of certainty. Based on these first-quarter trends, as seen with the 8% rise in our sales to the manufacturing sectors, we feel that Japan as a whole is on track for a sustainable recovery. With the impact of the strong yen, I think our customers will continue to expand their business outside of Japan, but if we stay on top of customer needs, we think it should result in higher business performance in fiscal 2012 and fiscal 2013.

In our System Platforms sub-segment, our network product business is very strong. In our server-related business in Japan, sales of x86 servers rose noticeably. Sales of x86 servers are also rising in Europe, particularly in Germany, and sales in emerging markets are soaring. We expect these trends to continue in the second half of the fiscal year. On the other hand, countries that are experiencing debt problems, such as Italy and Spain, are also important markets for us, and one key to our performance will be whether we will be able to get the business we are anticipating in these markets.

Q2: *Although the yen has been strengthening, you have not changed the exchange rates underlying your projections. If the yen were to strengthen to 75 yen per dollar, how would it affect your performance?*

A2: Our current projections are based on an assumption of 80 yen per dollar, and the impact of a 1 yen movement against the dollar on our operating income is 1.3 billion yen. The impact of a 1 yen movement against the euro on our operating income is 300 million yen. The impact of currency fluctuations on our components business is especially large, and that business would face difficulties if the yen were to continue to strengthen. It has not yet reached the point where we would consider shifting our production bases. In our networking business, we have production plants in the US, namely Dallas, Texas and in Japan. We may consider shifts in the allocation of production. For our Device Solutions business, except for the advanced devices for which we have outsourced production to TSMC, it is difficult to imagine that we would shift outside of Japan the front-end fabrication activities we currently perform in Japan.

In the first quarter of fiscal 2010, rather than the yen/dollar rate, our biggest problem was the dollar/euro rate. Now, with both the dollar and the euro weak, their impacts offset each other, and that has helped the import side of our business in Europe. If the euro falls below the level of 1.3 dollars per euro, which is the exchange rate assumption used in our projections, our profitability will be adversely affected.

Q3: *Do you think the double-digit growth in sales posted by the System Platforms sub-segment in the first quarter is sustainable? In addition, with the expanded use of smart phones and tablet PCs, traffic volumes must be putting a strain on network capacities. What is the difference between the present situation and the IT bubble of 2000 in terms of telecom carrier spending on capacity?*

A3: At the time of the telecom bubble in 2000, there were many telecom carriers, and they were all making excessive investments in capacity. Currently, AT&T and Verizon are the two leaders, and they have been taking a very cautious stance toward investment. Network capacities are currently tight, so I do not think we will see a situation in which the bottom falls out of the market.

With respect to the sustainability of the rise in x86 server sales, sales are rising in both of Fujitsu's major markets of Japan and Europe. In Europe, in addition to the rise in unit sales volumes, there has also been a shift in the sales mix toward rack servers, so the ratio of the lower-priced x86 servers has fallen. In that respect, there has been a great improvement, including in profitability. In Europe, in addition to central Europe, our business is also expanding in Turkey and Russia.

Questioner C

Q1: *At the management direction briefing in June, you mentioned that, for IT services business outside of Japan, your first priority was on putting an internal review system in place. When do you expect to start actively going after new business?*

A1: We have created an Assurance Group, so we now have in place an organization that can perform detailed checks of potential projects. Right now, the places where we see large-scale project opportunities are Germany, the UK, and Sweden. Most of these are private-sector deals. These deals are currently being reviewed to confirm that they would be profitable, and we are already actively going after global deals that involve multiple regions. Even for large-scale deals involving just one country, as long as we can get the resources we need to handle them, we will go after them. For deals in which we would be replacing another vendor, because they involve greater risks, we are proceeding cautiously as we review them. All the recently won projects have passed management-level reviews, so we are confident that these will work out well.

Questioner D

Q1**:** *With respect to first quarter domestic IT business, was the reason why your sales in the public sector were less than expected due to lower pricing because of competition, or was it due to a decline in the number of projects?*

A1: It was due to a drop in the number of projects. In the first quarter, our public sector business emphasized the maintenance of existing projects rather than new development projects. There were few new opportunities in the government sector. I anticipate that this will change once the national citizen ID program in Japan and other initiatives get off the ground.

Q2**:** *What was the scope of the earthquake's impact on your public-sector business?*

A2: Small projects with local governments have been impacted. Going forward, we hope that, as part of a third supplementary quake relief budget, a major framework will be decided upon for how to go about rebuilding the affected regions. If this is not the case, however, I expect the challenging conditions to continue.

Q3**:** *Is it correct that the flow of incoming orders has been better than expected, particularly in the manufacturing sector?*

A3: We expected IT spending in the retailing and distribution industries to decline due to logistical difficulties after the earthquake, among other problems, but the recovery is progressing, and we have finally begun to gain a clear outlook. In the manufacturing industry, we are seeing growth in sales of services that support customers who are expanding their operations outside Japan. Fujitsu is especially well-equipped to support customers whose global IT expansion is led by their headquarters in Japan. For companies that delegate IT deployment to each of their regional bases, however, Fujitsu's sales approach is less straightforward. Going forward, one of our challenges will be determining how we can best approach such customers.

Questioner E

Q1: *In June, we heard that the book-to-bill ratio in your semiconductor business was high, but how has the trend in orders been? Also, you mentioned that current conditions in AV-related devices are weak, but could you comment further on that point?*

A1: For the purpose of avoiding shortages of components, customers placed advance orders. As a result, our book-to-bill ratio in April was very high. We were able to fill these orders smoothly, but in May and June we could not accumulate many orders—particularly for AV-related devices. I think orders for automobile-related devices will begin to pick up now, but of key importance will be how many orders for AV-related devices we can get for short-term delivery in September and October. If we do not get a sufficient inflow of orders, there is a risk that our operational efficiency will suffer.

Questioner F

Q1: *Was the 17.0 billion yen loss in the first quarter in line with your internal projections, or did your performance exceed your internal projections? And, accordingly, should we expect you to exceed your target of 5.0 billion yen in operating income for the first half of the fiscal year?*

A1: The results of the first quarter slightly exceeded our internal projections. Still, it is too early to say whether we can exceed our projections for the first half. We expect results to be in line with our projections. From the current levels of demand we see, I think meeting the profitability targets for the first half of the fiscal year is within reach. Our mobilewear business is improving, but we have yet to find out from customers their detailed demands. In our mobile phone business, we are planning to release many new models in the second quarter. If these are well-received by consumers they will generate a level of sales in line with our projections. Sales of mobile phones really depend on what happens to become popular, however, so there is still a level of uncertainty.

Q2: *Did your mobile phone business post a loss in the first quarter? In light of your schedule of new model releases, please also tell us what your projections are for the second quarter and beyond.*

A2: Our mobile phone business broke even in the first quarter. We expect sales to increase significantly in the second quarter, so I think we should be able to post a profit.

Q3: *You recently issued 50.0 billion yen in straight corporate bonds. Please tell us what your plans are for raising additional funds.*

A3: We have no plans to raise additional funds. Please think of the 50.0 billion yen we raised as simply being used to repay previous long-term borrowings. These are not funds for M&A.

Questioner G

Q1: *You posted an extraordinary loss of 7.5 billion in the first quarter to cover the impact of the earthquake on the operations of your production facilities, but was there no impact on operating profitability? If not, does that mean that, even if factory operations return to normal in the second quarter, operating income will not recover?*

A1: The loss from production stoppages was both from our inability to procure parts in our mobilewear business and the inability of our customers to procure parts. The loss from production stoppages was recorded as an extraordinary loss. In addition to this, with lower sales, the reduction in gross margin resulted in a decline in operating income, so we expect operating income to recover starting from the second quarter. In our mobile phone business, too, there was a loss from the lower production activities, but it was recorded in operating expenses. Operating income also declined because of the decline in sales. If we are able to improve our manufacturing efficiency and sales increase, we will return to our normal baseline.

In the first quarter, the impact of the earthquake reduced sales by 44.1 billion yen and operating income by 13.0 billion yen. If our manufacturing operations return to normal, the impact will be reduced in the second quarter. Of course, that does not mean that the impact will be completely eliminated in the second quarter, but we are seeking to meet our targets by working hard to cover the shortfalls. We do not plan to record any extraordinary losses from the earthquake in the second quarter or subsequent quarters.

Q2: *Based on the trend of orders you see, what is your forecast for your business in Japan?*

A2: From the trend in orders, we are now seeing signs that our performance for the first half of the fiscal year will be as we have projected. We are not pessimistic. As for business outside of Japan, the key will be how we ensure that the opportunities we see in the pipeline are converted into wins.