

**Summary Translation of Question & Answer Session at  
FY 2012 First Quarter Financial Results Briefing for Analysts**

Date: July 27, 2012

Location: Fujitsu Headquarters, Tokyo

Presenters: Kazuhiko Kato, Corporate Executive Vice President & CFO

**Questioner A**

***Q1:** There have been reports by some media regarding the status of Fujitsu's business in the semiconductor industry. Can you please discuss how things are unfolding, even if the details have not yet been finalized?*

**A1:** We have no comment at this time.

***Q2:** What kind of impact will the delays in mobile phone chip shipments have on your procurement, sales plan and income?*

**A2:** At the end of April, our projections took into consideration the mobile phone chip supply problems. So in this sense, we are progressing as planned in our mobile phone business. In the second quarter, we expect to be able to generate sales on par with the fourth quarter of last fiscal year.

**Questioner B**

***Q1:** Please tell us about your IT sales results for the first quarter in Japan and your forecast for the first half of fiscal 2012.*

**A2:** I will go over our IT sales in Japan by industry sector for the first quarter in comparison with last fiscal year's first quarter. Year-on-year sales growth in the manufacturing sector was 6% in comparison with our previous forecast of 5%. For the retailing and distribution sector, sales rose 2% compared to our forecast of 5%. Sales in the social infrastructure sector rose by 31% compared to our forecast of 20%. For the financial services sector, sales declined by 1% compared to our projected decline of 3%. For the regional and public sectors, sales fell by 1% compared to our projected decline of 5%. With respect to our forecast for the first half, for manufacturing as well as retailing and distribution, we expect the sales growth rate for the first half to exceed the growth rate for the first quarter. For social infrastructure, first-quarter sales greatly exceeded results in the first quarter of fiscal 2011, but we expect first half sales to show only modest year-on-year growth. For finance as well as regional and public sector business, we expect first-half sales to fall short of results in the first half of fiscal 2011. Orders in the first quarter returned to the level of orders prior to the Lehman Brothers shock, and we currently have a healthy order backlog, so if we continue at this pace through September, we then would confirm a higher certainty that we will be able to meet our projections for the second half.

***Q2:** I understand that competition in the European PC business is very severe, so each company is accelerating its move into emerging markets, and price competition is intensifying. To what extent do you think gains in emerging markets can offset the deterioration you are experiencing in Europe?*

**A2:** Thinking about our business in emerging markets, including India, our biggest competitor is Lenovo. In low-end PC models for emerging markets, market conditions are very difficult because of intensified price competition. In terms of foreign exchange risk, in Germany we are procuring parts in dollars and then selling products in euros, so we are affected by the euro/dollar exchange rate, but for PC sales in emerging markets, we are procuring parts in dollars and selling in dollars. Therefore, to the extent that our business in emerging markets has increased, we have become less susceptible to adverse effects from exchange rate fluctuations compared to two years ago. We hope to improve profitability starting from the second quarter by holding down sales promotion expenses, and by controlling the mix of models so that it is not so skewed toward low-end models.

***Q3:** What was the capacity utilization rate of your semiconductor manufacturing facilities in the first quarter, and what do you expect it to be for the second quarter?*

**A3:** For LSI devices, in accordance with the recovery in automobile production, we expect capacity utilization to increase from the first quarter to the second quarter. More specifically, for advanced products, capacity utilization was approximately 90% in the first quarter and is expected to increase to about 95% for the second quarter, while capacity utilization for basic products was around 65% in the first quarter and is expected to improve to approximately 70% in the second quarter.

### **Questioner C**

***Q1:** Please tell us the status of your business outside Japan. Compared to your initial expectations regarding sales and earnings, to what extent has your understanding changed? Please also tell us what initiatives you are undertaking to improve profitability.*

**A1:** In Europe, our results in the UK were in line with expectations. From the perspective of profitability, we need to be concerned about the risk that the government will ask for price concessions once the Olympics is over. Currently we are promoting cost reductions to enable us to cope with that possibility. We are also concerned that domestic spending on IT in Germany is starting to be constricted. In hardware, profitability deteriorated because of the adverse impact of foreign exchange movements and an increase in sales promotion expenses. We will reduce sales promotion expenses. We would like to see European government leaders quickly put forth policies to promote economic growth. In addition, in Australia and North America, results are largely in line with expectations, but we are seeing some foot-dragging, primarily on public sector projects. In each country, there is the possibility that budgets will be cut, but we still do not have a clear idea of the extent that it may impact us.

***Q2:** What are your thoughts regarding the change in the accounting rules for the pensions that will go into effect next fiscal year or the fact that the discount rate for UK pensions is high given the current market interest rates?*

**A2:** It is true that, with respect to UK pensions, a reduction in the discount rate is a risk. According to preliminary calculations, for every 1% drop in the discount rate, our pension obligations might increase by 60 billion yen. After I talked about the UK pension risks, in April when we announced our full-year financial results, we have received proposals from a variety of financial institutions. From among these proposals, we will choose the one that best suits us, and I would like to take action before the end of the fiscal year to reduce our risk. We are not, however, planning a full pension buyout at this time.

***Q3:** When do you plan to update your medium-term management plan?*

**A3:** We are still considering how best to approach a variety of management issues, so it will be difficult to update the plan during the first half of fiscal 2012.

**Questioner D**

***Q1:** Even though you posted a 25 billion yen loss in the first quarter, you have said that results were slightly above target, but on the surface, at least, if we exclude Services segment, it appears that performance has deteriorated in every segment since last year. Based on your projections for overall operating income for the first half, it seems that you are expecting significant improvements starting in the second quarter. Please explain how performance will improve in each of your major segments.*

**A1:** From the start, our projections reflected a significant increase in income in the second quarter. We are expecting a significant increase in income from mobile phones in the second quarter. In addition, if we look at the pattern of results in our Technology Solutions segment, in a typical year sales and operating income are concentrated in the second and fourth quarters. This fiscal year, too, we expect a significant accumulation of sales for each segment in the second quarter, and we expect that will lead to an improvement in profits.

Within Japan, first quarter orders reached a level not seen since prior to the Lehman Brothers shock, so our systems engineering group has a large volume of work, and that is not where our worries lie. The risk really lies elsewhere, in our Device Solutions segment and our European PC business. We cannot afford to have the profitability of our European PC business deteriorate any further than it already has, and figuring out how best to improve its performance is a pressing issue for us.

***Q2:** Alcatel-Lucent has announced a fairly drastic restructuring, and business conditions in Europe appear very difficult, but do you see any of the same tendencies in your telecom infrastructure business with carriers in North America?*

**A2:** I do not know the situation of other companies, but we have seen a deceleration in orders from North American telecom carriers since the third quarter of fiscal 2011. In fiscal 2011, our optical transmission business in North America achieved sales of over \$1 billion, and we also had the top market share, so the trends we are seeing are not the result of our lagging behind the market.

**Q3:** *For LSI devices, you mentioned that, from the second quarter, you expect capacity utilization rates for both advanced and standard products to increase, but there is also considerable uncertainty regarding global economic conditions. Does that give you cause for concern?*

**A3:** In June, capacity utilization rates for both advanced and standard products were picking up. We are expecting strong demand in the second quarter for image processing LSI devices.

#### **Questioner E**

**Q1:** *You said that orders inside Japan have returned to pre-Lehman Brothers shock levels. How are they growing compared to the first quarter of fiscal 2011? Also, what are your expectations for order trends after the second quarter?*

**A1:** In terms of sales, we have recorded single-digit growth from the first quarter of fiscal 2011, but orders have grown more than 10% compared to the same period. It seems like it has been a while since we have returned to these levels. Orders in areas such as services, systems integration, and servers are all showing high growth. Moreover, this is not the result of one particular large-scale deal, but orders as a whole are growing, particularly in projects from customers in the manufacturing industry. In the second half of the year, we are also expecting large-scale deal opportunities. Orders in Japan look to be steady.

**Q2:** *You explained that your earnings for mobile phones in the second quarter will be in line with the second half of last fiscal year. Does this mean that they will be about the same level as the fourth quarter of fiscal 2011, or the average for last fiscal year's second half?*

**A2:** Mobile phone sales for the second quarter will be on par with the fourth quarter of last fiscal year. Conversely, sales in the first quarter were too low. We were in a major product transition period before introducing new models, and we ended up recording sales that were lower than the period right after the Great East Japan Earthquake.

**Q3:** *With respect to the problems in Europe related to the PC business, what kind of impact have you already sustained during the first quarter? By reducing your sales promotion expenses, what kind of improvement can be expected? Are there any other concerns, such as excess inventory? Please describe Fujitsu's plans and timeline for addressing the European PC business.*

**A3:** One factor behind the higher costs in the PC business was the HDD supply shortage that occurred in the third quarter of last fiscal year. To secure an adequate supply of components, at the time we addressed the shortage by working to bring together a sufficient supply of HDDs, as well as by signing additional supply agreements. The price of these HDDs has finally returned to the levels they were at prior to the Thai floods, but this was not entirely the case during the first quarter. Memory prices have also come down recently, providing a cost reduction opportunity. At the same time, the same is also true for our competitors, and we must be prepared to take appropriate action in the face of pricing competition for market share. In this regard, it is important that we shift our product portfolio towards higher-end products.

***Q4:** Is the over 10% rise in domestic IT orders a reflection of Fujitsu's market strength? Or is it simply a bounce back from the weakness in last year's first quarter as a result of the impact of the Great East Japan Earthquake?*

**A4:** After the Lehman Brothers shock, it is true that customers postponed making IT investment decisions, but it seems as though a genuine sense of recovery is finally arising, with customers increasing spending on IT as part of their global expansion. Last fiscal year, our cloud-related business recorded sales on the scale of 100 billion yen. In the first quarter of this fiscal year, we have generated around 20 billion yen in sales, a year-on-year increase of 15%. One could say that a shift towards cloud computing is occurring right beneath our feet. Another example is our datacenter business, where demand is so strong that we quickly need to get started on building a new facility or we will not be able to keep up with customer orders. As to whether it is a reflection of Fujitsu's strengths that our level of orders has returned to levels prior to the Lehman Brothers shock, I think this is the level of orders that Fujitsu should be able to generate. If we have the same level of order backlog at the end of the second quarter, I think we can say that Fujitsu's prospects over the next several years are good.

#### **Questioner F**

***Q1:** Please tell us about your mobile phone shipments in the first quarter and your plans for the second quarter.*

**A1:** In the first quarter, mobile phone shipments were down 25% from the same period in fiscal 2011. During the second quarter, we anticipate significantly higher shipments compared to both the second quarter last year and the first quarter this year.

***Q2:** Was your loss in the PC business attributable to factors inside or outside Japan?*

**A2:** Factors outside Japan played a significant role in the PC business' loss.

***Q3:** You have revised your full-year sales projections downward, but in what way does this revision take into account risks associated with Europe?*

**A3:** The downward revision in sales only accounts for exchange rate projections. With respect to our actual business, we have not revised our projections. There is concern that

the UK government will request price concessions. In addition, a key point for Fujitsu will be to what degree our business in Germany will be able to meet its targets. We already have a variety of measures in place, so we plan on moving forward and managing to meet our projections.

### **Questioner G**

***Q1:** You mentioned that you experienced a double-digit increase in domestic orders during the first quarter. Among your systems integration, services and server businesses, which of these had increases? In addition, when did your orders have its peak? Was it prior to the Lehman Brothers shock, or sometime around 1999 before the Y2K problem?*

**A1:** The business that showed the highest growth during the first quarter was our network products business to telecom carriers. Servers and services also displayed a good growth, so none of these areas recorded year-on-year declines. Orders were highest prior to the Y2K problem, and around 2007, before the Lehman shock, orders were also at a high level. Going forward, we have large-scale deal opportunities lined up toward the end of this fiscal year into next year.

***Q2:** Looking at your operating income by geographic region for the first quarter, operating income in Europe has deteriorated by 4.2 billion yen compared to the first quarter of fiscal 2011, and the US, which posted a loss, has also deteriorated by 3.3 billion yen from the same period. Please explain the reason for this.*

**A2:** In Europe, the profitability of our PC business deteriorated. The loss in the US can be attributed to weakened demand for network equipment from telecom carriers.

***Q3:** If 1999, a year in which your domestic orders were very high, represents 100, how large was your level of orders in 2007, and how large is your level of orders in 2012 extending into 2013? Please tell us how large the peak is.*

**A3:** I am unable to give you a precise figure, but the fact that we have recovered to the levels achieved prior to the Lehman Brothers shock means that Fujitsu's business has finally returned to cruising speed.

***Q4:** You mentioned that sales of network products to telecom carriers in Japan were strong. Were you referring to sales of hardware, or services?*

**A4:** In our business to telecom carriers, service-related sales also grew, but it was hardware that showed the highest growth due to the need to deal with greater volumes of communications traffic. We can anticipate high growth for the business for the rest of the year.