

**Summary Translation of Question & Answer Session at
FY 2013 Second Quarter Financial Results Briefing for Analysts**

Date: October 31, 2013
Location: Fujitsu Headquarters, Tokyo
Presenters: Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

***Q1:** Please tell us about the status of domestic IT-related orders. At the briefing for the first quarter results, you indicated that the order flow was very strong. Please tell us about orders in the second quarter and what you are seeing so far in the third quarter, broken out by industry sector.*

A1: In the first half, we had a very high level of orders, representing a double-digit increase over last year's first half. The order flow in October remains strong.

Looking at domestic IT-related sales, in the first half, they increased by 3% over the same period in the prior fiscal year. For the second quarter, we had projected growth of 3%, but we achieved 5%.

Broken out by industry sector, year-on-year sales in the first half grew by 6% in the manufacturing sector, remained unchanged in the retailing and distribution sectors, increased by 7% in the financial services sector, declined by 7% in social infrastructure, and increased by 11% in the regional and public sectors. In the regional and public sectors, sales in the government and healthcare segments were brisk.

With respect to our projections for the full fiscal year, for domestic IT-related sales we have revised our projections up, to an increase of 5% from an increase of 4%. Broken out by sector, we are projecting sales to increase by 8% in the manufacturing sector, by 6% in retailing and distribution, by 4% in financial services, by 4% in social infrastructure—unchanged from our previous forecast, as we expect recovery of business from telecom carriers in Japan—and by 4% in the regional and public sectors.

***Q2:** Why is your projection for mobile phone shipments in the second half so much higher than shipments in the first half? To what extent is there a risk that you will not be able to achieve such a high level of shipments?*

A2: Actual shipments in the first half were 1.3 million units, and we expect to ship more than double that amount in the second half. Our new model has been selected by NTT DoCoMo as a recommended model. If there is a risk, it is whether the new model will be accepted by end users. If it is accepted, we expect to be able to meet the projection.

***Q3:** Please tell us about the progress of the restructuring initiatives in your semiconductor business.*

A3: Basically, we are making progress. At the last briefing, I said we had hoped to announce further progress in September, so we are behind schedule. The reason for the delay is because each company has its own desired direction, and we have not been able to come together. Still, we are continuing with very serious discussions.

Regarding the Mie plant, given the unfavorable market environment we have revised our business plan several times. Please wait a bit longer for further announcements from us.

Questioner B

***Q1:** What is the amount of your unprofitable services contracts? What are you expecting in the future?*

A1: Regarding the scale of the unprofitable projects in the first half, they shaved approximately 1% off the operating income margin in the Services sub-segment in the first half. As of the end of September, things have been brought back in line, so we do not expect any major losses in the second half. By strengthening our project management procedures, we are making efforts to assure such loss making projects do not happen again.

***Q2:** The company shipped 1.3 million mobile phones in the first half. How far was that below your projections? How much progress do you need to make in the second half before we can determine that the business is doing well?*

A2: The figure of 1.3 million units in first-half shipments was about 30% below projections. For the second half, we foresee results about 20% below those previous projections. On an annual basis, we project about 40% below last fiscal year's shipment for the full-year. For the second half, our model was finally selected as a recommended model by NTT DoCoMo. If the models we have delivered sell out and we receive additional orders, then I think one could say that we have come back strongly.

Questioner C

***Q1:** What is the status of your services business outside of Japan broken out by region? Please tell us on the basis of local currency results, excluding the impact of foreign exchange movements.*

A1: On a regional basis, business in the UK and Germany has been strong. On the other hand, in Australia, the National Broadband Network business ended in the first quarter of this fiscal year. Therefore, on an annualized basis, the decline in Australia appears to be especially pronounced, but the overall trend is solid. Even in government-related business in the UK, we won a deal in the first quarter that we did not expect to receive. From that perspective, we do not think there is a need to be overly concerned. Going forward, we will have an opportunity to bid on a number of large-scale global deals, and if we can win some of these deals, it should be reflected in good results in fiscal 2014. Still, to make sure that we do not rush to get orders and then wind up with unprofitable projects, as we did in the past, we are now carrying out wide-ranging checks, including an examination of contracts. I would like to be optimistic about the second half, but we do not know what will happen, so we are taking a somewhat conservative view.

***Q2:** At your last briefing, you said you were aiming to achieve an annual break-even point of 4.0 million units in shipments of mobile phones. This time you explained that your projection of 2.9 million units in the second half represents your break-even point. Has your cost structure changed so that you now need a higher number of units shipped to become profitable?*

A2: We would like to make it so that we can break even at a monthly production level of 300,000 mobile phones. That is why we are trying various measures to reduce costs, including lowering our development costs. We have been implementing these measures starting in the second quarter, but we have not been able to catch up to our plans for break-even levels. The reason why we need monthly production of over 400,000 units in order to break even is because of the quality problems we had relating to our shipments in fiscal 2012. That accounts for roughly half of the expansion in losses in the first half. Were it not for the previous quality problems, we would be close to breaking even with monthly production of 300,000 units. This impact will continue in the second half. The rate of customer returns of models shipped in the second half of fiscal 2012 and beyond is now declining, so we expect the quality problems to be over by around the start of fiscal 2014. After that, it will just be a matter of reducing our regular operating costs.

***Q3:** Please tell us about the current status of orders in your semiconductor business, the book-to-bill ratio, and your view of future prospects.*

A3: The book-to-bill ratio in the second quarter remained at 0.8 times. Demand for devices used in smartphones is slowing down, and our expectations for the third quarter are not very good. We will need to see if there are some signs of a recovery in the fourth quarter. To the extent that demand increased in the first half, we expect a drop-off in the second half, so we expect full-year figures to be as we had projected at the outset of the fiscal year. Our previous projections included relatively aggressive assumptions on sales of third parties' products, so we have revised that part of our current projections accordingly.

Questioner D

***Q1:** You project full-year R&D expenditures to be 220 billion yen, 11 billion yen less than the previous year, but first-half expenditures were roughly the same as in last year's first half. Therefore, your second-half R&D expenditures will be roughly 10 billion yen lower. Which segments will see higher profitability in the second half as a result of these lower expenditures?*

A1: The R&D expenditures are a group-wide expense and allocations for individual segments are not disclosed. That said, R&D expenditures for the network products business are increasing fairly significantly. On the other hand, since we sold our microcontroller and analog device business, development expenditures for Device Solutions are declining.

***Q2:** With respect to the structural reforms you are currently pursuing, you mentioned that, outside of the semiconductor business, you are also implementing personnel reductions, primarily outside of Japan. What is the progress of these initiatives?*

A2: At the end of last fiscal year, we recorded reserves for expenses associated with personnel reductions, primarily in Germany, and at that time we were targeting a reduction of 1,500

employees. We had expected the timing of the retirement for those employees to be in the second half of this fiscal year or later, but many had retired by this summer, and over half of the 1,500 had retired by the end of September. We expect most of the remainder will retire during the second half, so we are 1-2 months ahead of our original plan. In the second quarter of this fiscal year we again posted an extraordinary loss for restructuring expenses, and this included expenses for an additional workforce reduction of roughly 100 employees in the Nordic region. We had developed a great deal of business in the Nordic region with telecommunications equipment manufacturers and other customers, but the volume of business had begun to decline, so we reduced our personnel. There have been no major problems in other regions.

Questioner E

***Q1:** NTT DoCoMo is now selling the iPhone, and I am wondering if there has been any change in Fujitsu's stance regarding your mobile phone business. As a board member, please tell us your views about any changes you think are warranted.*

A1: We think the smartphone market essentially will continue to grow for several more years. The scale and growth in that market make it an attractive target. Amid these developments, what will be the next devices to appear? There is all kind of talk about wearable devices, but, for example, we may switch our business model so that we provide the terminals for free and make money by providing services. That is something we need to consider. If that happens, it could be that we face a different set of competitors. Therefore, honestly speaking, at the current time it is very difficult to envision what will happen.

Undoubtedly, wireless technology and an ability to deliver mobile services are key components in Fujitsu's pursuit of front-end interface business. Still, incurring major losses would prohibit our efforts in this area. Transforming our mobile phone business model so that it ties-in more to services business is one path to consider, while securing some minimum level of volume and profits on the front-end interface. We use various terms with "ubiquitous," and to give more specific examples, our mobile solutions cover various domains, such as automobiles. In that sense, we view the mobile phone business is important to sustain.

***Q2:** Fujitsu, having developed the Raku-Raku phone, is strong in feature phones, and I think you can continue that business. But, like NEC and Panasonic, will you exit the smartphone market, continue with your current volume levels, or slightly reduce your volume? Do you have any ideas?*

A2: It really depends on what the carriers and their customers want to use, whether it is Apple, Samsung, or Fujitsu. I think that relates to the issue of services and applications. As long as there is demand for what we are providing, and we have a given level of volume, I think we can somehow continue to be in the mobile phone business. People use the term "flagship model," but if we can ship one million flagship models a year, we can continue this business. This year it took us a long time to have a designated flagship model. Finally, our fall/winter model was designated. If, in the future, we can continue to sell one million units each year, the loss we posted for the first half will have been worth it. In that respect, we think it is worthwhile to continue in this business.

Questioner F

***Q1:** You mentioned that, recently, the pace of negotiations has picked up regarding the structural reforms to your semiconductor business. Are there any particular factors that caused this?*

A1: Essentially, there are many parties involved in the SoC negotiations, and, although we had promised to get something done in September, we have not yet come to an agreement on the details. We are aware that the more time passes, the more anxious employees become. In that sense, I think there is now an acknowledgement on all sides of the need to get this done quickly. Rather than pointing fingers, there is now agreement that we should work to develop a good business.