

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

Date: July 30, 2013
Location: Fujitsu Headquarters, Tokyo
Presenters: Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

***Q1:** Please tell us about the number of PC and mobile phone units shipped during the first quarter of fiscal 2013.*

A1: Please allow me to refrain from disclosing the specific numbers of units shipped. While first-quarter sales of mobile phones declined 30% compared to the same quarter of fiscal 2012, sales dropped to half of last year's average quarterly sales levels, as did unit shipments. This reflects the impact of our products not being incorporated into NTT DoCoMo's sales strategy of focusing its marketing efforts on two smartphones.

***Q2:** You mentioned that there was a significant decline in sales in your mobile phone business during the first quarter. Please tell us about the direction of the business going forward. Will you take steps to strengthen it or scale it down?*

A2: We have no intention to exit from our mobile phone business. We believe the market will continue to grow. Last year, our products were plagued by quality issues. Models released since the second half of last fiscal year have improved in quality, and at this time, comparatively fewer units are requiring repairs. We can be, at last, quite confident about the current quality levels. Going forward, we will continue to pursue quality improvements. Furthermore, we believe that use of mobile devices in the enterprise market will grow, expanding the mobile devices market overall.

If we can maintain annual sales of one million units of our flagship models, we can sustain this business model while pursuing cutting-edge technologies. Business-wise, maintaining monthly sales of roughly 300,000, including non-flagship models, will enable us to keep this business model profitable. While it might not be possible to hope for the kind of operating income previously generated by the business, on the scale of tens of billions of yen, we do not expect to post additional major losses like we saw in the first quarter. Positioning the business for profitability with minimum monthly production of around 300,000 units will sufficiently enable it to continue going forward.

***Q3:** Six months have passed since you announced the restructuring of your LSI business. Please describe the progress that has subsequently taken place.*

A3: There are three things I can say with respect to the progress of the restructuring initiatives. First, we have entered into an agreement with Spansion regarding the sale of our microcontroller and analog businesses. This deal is expected to be concluded in August. Next, regarding the establishment of a new joint venture company for our system LSI business, progress is being

made in our discussions with Panasonic and the Development Bank of Japan, but it will require a bit more time. We also expect to shortly conclude discussions about the transfer of the Mie Plant's 300mm line to a new foundry company in which TSMC will participate.

***Q4:** Would it be safe to assume you will conclude your LSI business restructuring initiatives within the current fiscal year?*

A4: Our target is to conclude discussions by the end of September. We would like to wrap up as soon as possible.

***Q5:** Will you be able to ensure profitability even if NTT DoCoMo begins to carry the iPhone?*

A5: As long as we can keep pace with technological changes, we believe we will be able to secure our position in the race. Anticipating an expanding scope of the mobile phone market, we are making a variety of preparations. While one approach is to pursue volume-based business targeting consumers, we think there are also possibilities for a stable enterprise business that combines handsets and service offerings.

Questioner B

***Q1:** You mentioned that during the first quarter, the mobile phone business incurred significant development costs and quality-related costs. From the second quarter, what are your expectations for these costs?*

A1: We have narrowed down our portfolio of models, but low sales in the first quarter have made it difficult to absorb development costs. We are not anticipating major changes in development costs this year. At the same time, quality-related costs have risen because of quality issues with a couple of models released last year. These costs are beginning to wind down, but we expect they will continue into the second quarter. The models we released this summer are considerably better in terms of quality. Going into the second half of the fiscal year, we anticipate substantially reduced costs associated with the burden of quality.

***Q2:** You emphasized that orders for system integration services were strong. Please discuss this in more detail by industry. In addition, please give us your projections for the second half of fiscal 2013.*

A2: Based on the current status, orders are increasing in the manufacturing, retailing and distribution, financial services, and public sectors. In addition, since we anticipate some major deals in the next three years, we expect the systems integration business will continue to generate a high level of sales.

***Q3:** You mentioned that there were some unprofitable projects in the systems integration business. What effect did it have on your first-quarter results? Moreover, how much risk do you expect to incur in the second quarter of the fiscal year?*

A3: There have been some unprofitable systems integration projects in Japan, which are long-term development projects. Although we were unaware of it during the development stage, some

issues were found during testing. It was on the order of a few billions of yen. We have ordered an additional review of other large-scale projects, and have not yet come across any major new issues.

***Q4:** Will the unprofitable projects be a factor in reducing your profit for the second quarter on a year-on-year basis?*

A4: No, they will not.

Questioner C

***Q1:** I believe you projected other income and expenses to be negative in your forecast, but it was positive in the first quarter. Was it simply that your projections were conservative? What are the prospects for the coming quarters? There were no extraordinary losses in the first quarter, but when do you think you will record extraordinary losses? In semiconductors, for example, depending on the progress of the business, is there the possibility of additional extraordinary losses?*

A1: In other income and expenses, interest income, equity in earnings of affiliates, and foreign currency translation adjustments all were higher than we had projected in the first quarter. In that sense, you could say that our projections were conservative. For foreign currency translation adjustments, it is difficult to tell in advance what they will be, but this time they were positive. Investment income from equity method investments was higher than projected because of the positive impact of exchange rate movements on Fujitsu General and other companies. For the second quarter and beyond, as long as the yen does not strengthen past 93 yen per dollar, other income and expenses should not deteriorate more than we have projected. At the beginning of the fiscal year we projected 30.0 billion yen in extraordinary losses, and we expect to record them once our negotiations are completed. If they are completed by the end of September, we will record the extraordinary losses in the third quarter. As for whether they will exceed 30.0 billion yen, at present we do not anticipate that they will.

Questioner D

***Q1:** I believe that unit shipments of mobile phones in the first quarter were below projections, but since you are keeping your full-year projection for unit shipments at 5.2 million units, does that mean that you now expect more shipments in the second half? Are you assuming your model will be one of the two models selected to be promoted by NTT DoCoMo in the second half? If that assumption is incorrect, do you have a fall back plan?*

A1: We are projecting an increase in unit shipments of fall-winter models. If that assumption is incorrect, unfortunately we will likely record a loss. But if we stop development work, we will not be able to sustain the business. So we will continue our development efforts and work to sell 5.2 million units for the full year. We do not assume that those efforts will go to waste. We are bullish about the future.

***Q2:** You commented that system integration orders are at their highest level in ten years. Assuming there are no unprofitable projects, won't the income in your system integration business further exceed your projections?*

A2: We think the volume of work in our system integration business will be high from fiscal 2013 to fiscal 2015. If there are no unprofitable projects in fiscal 2013, then there is a possibility that our solutions business, including system integration services, will exceed our projections. Conditions in our service businesses, including outside of Japan, are not bad.

Questioner E

***Q1:** In the first quarter your mobile phone business posted a loss of over 10.0 billion yen. How much of that was from the expenses you incurred in addressing the software quality problems and how much from the decline in unit volumes? In relation to that, I believe you are trying to reduce costs. If your break-even level of sales is approximately 300,000 units per month, will a reduction in development costs be enough, or will you need to reduce your production costs?*

A1: Compared to other companies, the percentage of our mobile phones that were returned was high, and we have continued to incur heavy expenses in addressing problems since the second half of last fiscal year. This was also true in the first quarter. I cannot comment on the details of the amounts, but the expenses incurred in addressing quality problems account for a significant portion of the loss. Our development expenses also continue to be high. Under these circumstances, our failure to increase unit sales put us in a very severe position. Group-wide we have approximately 2,000 employees in our mobile phone business. In manufacturing, I think we have basically succeeded in converting most of our fixed costs into variable costs. We are now deploying robots and using 3D printing. If we can take our manufacturing innovation model to the next level, we think it will be possible to further reduce costs. If we can further increase our development efficiency, maintain quality, and if we reduce the number of models, we should be able to reduce our development costs.

***Q2:** My understanding is that the ultimate objective of the structural reforms in your semiconductor business is to bring your ownership down to the point where it is no longer a consolidated subsidiary. Depending on the results of your negotiations with TSMC, is there a possibility that you will continue to own the Mie Plant? Please tell us what terms you are negotiating.*

A2: We are making progress in working out the details. We already outsource all production involving 40nm or below process technology to TSMC. We are not considering the possibility of continuing to own the Mie Plant.

***Q3:** Given that sales increased by 8% in the Services sub-segment, the 2.2 billion yen improvement in operating income appears rather small. Is it that most of the sales increase was attributable to the higher conversion into yen from the sales of the infrastructure services business outside Japan, and therefore that there was not much of an increase in operating income? Please tell us about the status of improvements in the profitability of your business outside Japan, including whether costs are increasing or decreasing.*

A3: There are two reasons why there was not much of an increase in operating income in the Services sub-segment in the first quarter. One is because there were some unprofitable projects in Japan. The second is that, outside Japan, particularly in the UK, there has been a very large

increase in pension expenses. Aside from the impact from these special factors, such as the unprofitable projects and the pension issue, the profitability is fairly high and has improved by several percentage points compared to the previous fiscal year.