Summary Translation of Question & Answer Session
FY 2013 Third Quarter Financial Results Briefing for Analysts

Date: January 30, 2014
Location: Fujitsu Headquarters, Tokyo
Presenters: Kazuhiko Kato, Corporate Executive Vice President & CFO

Questioner A

Q1: *The results in your PC business were quite good, but what was the negative impact of foreign exchange on your operating income? In addition, after demand for replacements peaks and sales decline, how much of an impact will that have on your operating income?*

A1: In Japan, the weakening of the yen had a negative impact on foreign exchange, but outside Japan, with the strengthening of the euro, the impact was positive with regard to foreign exchange. For the PCs that we are manufacturing in Japan, approximately 50% of the components are imported, so we suffered a negative impact of several billion yen because of the weaker yen. We were able to absorb this impact primarily by raising prices, so our PC business in Japan shifted into the black. Outside of Japan, too, we were able to manage the cost well and were able to swing to a significant profit. As a result, our PC business generated a large profit overall.

In the fourth quarter, we expect unit sales to increase even further, and we expect an even larger profit. For fiscal 2014 and beyond, we do not think the demand for replacements will end in this fourth quarter. We expect some demand to carry on into fiscal 2014. It is not clear how much volume the demand will bring, but considering the current level of orders, it is reaching a level where our production cannot keep up. If demand increases even more, we will reach a level where it will be difficult to source a sufficient amount of components. When demand for replacements comes to an end and sales return to normal, it will be a difficult market environment for us.

Q2: *How are the structural reforms of your semiconductor operations progressing? Why is it taking so long?*

A2: With respect to the establishment of a new-fabless SoC company, please be assured that negotiations are steadily progressing. We are now in the final stages, so I think we will soon be able to reach a final agreement.

With respect to the Mie Plant, we had been negotiating with TSMC, and now we are also talking with other companies. We projected 30 billion yen in restructuring charges for this fiscal year, that’s why we have not changed our financial projections.

Q3: *Is the main reason why it is taking so long to sell the Mie Plant because there is a problem with determining its value?*

A3: If the problem was with the value of the plant, it would be something that could be quickly resolved. Please understand that we need to take into consideration the ongoing servicing of our customers.

Q4: *You revised your full-year projections for operating income in the Ubiquitous Solutions segment, but was operating income for the PC business revised upward?*

A4: Yes. For the Ubiquitous Solutions segment as a whole, full-year operating income was revised down by 12.0 billion yen from the previous projection, and we are expecting a loss of 27.0 billion yen. Within this is mobile phones, with the worst results, and for which we project a deterioration of 15.0 billion yen in the second half. What's remaining is the PC business. Sales in the Mobilewear business are expanding very strongly, but we are intensifying our efforts to develop products to be launched next year and beyond, so we have not kept our operating income projection for that business.

Questioner B

Q1: *Please tell us about the trends you are seeing in the IT market in Japan, broken out by industry sector.*

A1: For the third quarter, we had projected sales to increase by 11% year-over-year, but they actually increased by 13%, exceeding our projections. Sales to the manufacturing, financial services, and public and regional sectors all grew by double digits. Sales for the retailing and logistics sector and social infrastructure sector grew by single digits. For the full year, but we have revised our sales projection up slightly to 6% from 5%. In particular, we expect sales of PCs to increase. Moreover, orders through to the third quarter were record high, and order flow in January is also strong. We expect sales in Japan to continue to be solid.

Q2: *You mentioned that there are some uncertainties surrounding your Services business outside Japan in the fourth quarter. Would you please provide details.*

A2: As we head into February, we are trying to win a large-scale multi-regional deal outside of Japan. We are using a lot of resources in the negotiations for this contract. If we can quickly seal an agreement, these resources can then be shifted to other potential deals. If, on the other hand, an agreement is delayed, we may begin to feel a strain on our regular projects, and we have scaled down our sales projection to account for this risk. This downward revision is not because of unprofitable projects. Rather, it stems from potentially positive news. If we can win these deals, our business outside Japan is sure to improve.

Q3: *You mentioned that, in the third quarter, your network business in Japan performed well, but that there has been a slowdown in business outside Japan as overseas carriers have reduced their budgets. Do you expect this slowdown to be temporary, or do you think it will continue into fiscal 2014 and beyond?*

A3: From the first quarter of this fiscal year, we received a lot of orders from telecom carriers outside Japan, but budgets were cut in the third quarter, so our sales declined. In January, however, orders have rebounded.

Q4: *It appears that your mobile phone business will post a loss of approximately 35 billion yen in fiscal 2013. With the reforms of your production facilities, do you expect this business to be profitable in fiscal 2014, or will the losses continue? To what extent will you be able to reduce costs?*

A4: The loss for the full year is partly the result of the decline in volume, but it is also because we recorded abnormal costs due to quality issues as well as impairment losses on inventory.

The quality issues have not been completely resolved, and we expect them to continue in the fourth quarter. On top of that, unit shipments were lower than we had expected, resulting in the problem of excess inventory. To put the business on a sounder footing, we recognized an impairment loss and disposed of excess inventory in order to lower our risk. You can think of these out of the ordinary costs as amounting to the third-quarter loss of 9.0 billion yen. The costs relating to quality issues will be mostly resolved in the fourth quarter, but the problem of inventory valuation, we project, will lead to unit sales in the fourth quarter down by 30% lower than previous projection, so we may need to do another round of inventory disposals, and we have factored that possibility into our projections. For that reason, we expect abnormal costs to amount to roughly 5.0 billion yen in the fourth quarter.

Accordingly, we plan to post a loss in the mobile phone business of over 35 billion yen for fiscal 2013, but please keep in mind that roughly 17 billion yen of this is from out of the ordinary costs. If there are no further such charges, and if sales fall by 40%, then if we reduce our fixed costs by 40%, it stands to reason that profitability will improve. That is why we are consolidating production at our plant in Hyogo Prefecture. That plant employs advanced robotics, and we expect to be able to double our productivity. We will also make our product development operations more efficient. Including the product development group, we have nearly 4,000 employees in our mobile phone business, including outside contractors. If we can reduce our headcount here by 40%, we expect the mobile phone business to be profitable.

We will reallocate those employees to new services businesses utilizing our ubiquitous products, or to Fujitsu Ten, or to our network products group or other areas that are short-staffed in product development. For production workers, too, we can find them new positions in areas that are using outside contractors. We intend to have these efficiency measures in place by the start of the 2014 fiscal year.

Q5: *In that case, even if your production levels in the fourth quarter of fiscal 2013 continue at the same pace in fiscal 2014, will you be able to break even for the year? Or is it more likely that some quality issues will linger on into the first quarter, resulting in continued losses, with a shift into profitability in the second half of the fiscal year?*

A5: When thinking about how far unit production levels will fall, as you have pointed out, we expect average monthly production in the fourth quarter to be a little under 300,000 units. We are thinking in terms of a model that would enable us to be profitable even at that level of production. Starting in the first quarter of fiscal 2014, if there is demand for a monthly production level of about 300,000 units, then the business could steadily become profitable.

Questioner C

Q1: *Earlier you mentioned that the domestic IT market is buoyant, but what is the level of your orders compared to a year ago? Do you expect that momentum to continue?*

A1: As of December, orders were up by double digits. Accordingly, our workload is significantly growing, and our profitability is also increasing. We have strengthened our quality assurance measures, so there have not been any significant loss-generating projects. If our workload can continue growing at a double-digit rate, our profitability in fiscal 2014 will also be significantly higher.

Q2: *When do you expect to adopt the International Financial Reporting Standards (IFRS)?*

A2: As of now, we are thinking of adopting IFRS starting in April. It will be a significant change, so I am thinking that I will need to take a sufficient amount of your time in April to explain the impact.

Q3: *As a follow-up to your previous answer on your pipeline of orders, putting aside the issue of whether any loss-making projects will emerge, is the average profit margin on this pipeline of business improving?*

A3: Yes it is. In the past, as the volume of our business increased, we would need to continually utilize outside resources. From about three years ago, we decided to build development tools, and we began to build standardized development tools. We invested quite a lot of money in these, but now it is time for us to reap the rewards of this investment. By using these standardized tools, when we reach the maintenance phase of projects, our workload is now much lighter, and it is easier for us to shift resources into new areas. When using tools tailored to a specific industry, it becomes difficult to shift between industries, but now we can do that.

Questioner D

Q1: *It sounds like we can assume that you will be adopting IFRS, and if that happens, are we correct in our understanding that certain categories of expenses that have affected operating income, such as goodwill amortization expenses of about 10 billion yen and amortization of unrecognized retirement benefit obligations of 20-30 billion yen, will for the most part disappear?*

A1: Yes, I believe that is correct. It will make M&A deals easier. Of course, risks will still remain.

Questioner E

Q1: *You are trying to cope with markets that are shrinking, such as PCs and mobile phones, but thinking three years ahead, how do you expect to come up with products that are attractive enough to compete with companies that have ten times as many unit shipments? Moreover, unit prices for mobile phones and smartphones are expected to fall. If that happens, will you still be able to break even with the unit volumes you are planning? Could we get your perspective* *looking ahead three years, or your plans to sustain profitability, including what happens when there is a contraction in the demand for PC replacements?*

A1: The key point is the attractiveness of the product. In mobile phones, it is true that our reputation for reliability was damaged by the quality issues that continued since the year before last. The products we released last summer were finally up to the quality levels of our competitors, so we could finally compete again. We believe the market for mobile phones and other mobile devices will continue to expand. In the past, we pursued volume, and as a result, we increased the number of models and released various applications, so the business was profitable until two years ago. Starting in the second half of fiscal 2012 and continuing into fiscal 2013, however, we went overboard in our pursuit of volume, and now we are facing the repercussions. When we think about what an attractive product is, products like our Raku-Raku phone series are used by many people. The simplicity of the product is what made it attractive to people. Going forward, if we pursue this type of simplicity, I think we can secure a position in the market. If we jump into the competition for volume, when we make any kind of operational mistake, including on inventories, we can do big damage to ourselves, as we have learned from recent experience. If, instead, we just go after the market that is within our reach, I think it is a business model that will generate steady profits.

In PCs, too, rather than retail business, we are generating profits in the enterprise market. It would be a problem if market volumes were to decline, but thinking of the overall market for mobile devices, I expect the market will still be growing three years from now. It is, however, still unclear what specific types of devices will be experiencing growth at that time.

Moreover, if we are going after business in the enterprise market, without a certain level of volume, our costs will not decrease. In mobile phones, as well, in order to able to endure with a monthly volume of 300,000 units or less, we need to reduce our design costs, or we will not survive. The way we have operated up until now will no longer work, and we have no choice but to acknowledge that there is an excessive level of design. When we put benchmark in place, we realize how much waste is in our operations, so if we can trim that away, I think we can significantly improve our profitability.

Q2: *In the solutions/systems integration and other IT services businesses, other companies are also enjoying a strong flow of orders, and the Japan Information Technology Services Industry Association even projects that there will be shortages of qualified IT engineers when the national ID number system is introduced. I have heard that the activity rate of Fujitsu's systems engineers is also increasing, but how much more can sales grow before Fujitsu bumps up against capacity constraints?*

A2: If every year sales continued to grow at 20%, we would run into constraints. Considering our resources, if sales grew at 10%, we would have no problem handling it. If revenue increased by 10% a year for even five years, we could handle it.