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

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Location: Fujitsu Headquarters, Tokyo
Presenters: Masami Yamamoto, President
Hidehiro Tsukano, Corporate Senior Vice President & CFO
Youichi Hirose, Corporate Executive Officer

<u>Questioner A</u>

Q1: *The assumptions underlying your projections for net sales in fiscal 2014 appear to be conservative. What was the status of orders for IT services in fiscal 2013?*

A1 (Tsukano): Let me explain the status of orders for IT services in Japan. The overall increase in orders in fiscal 2013 was 10% compared to fiscal 2012, a very high increase. For fiscal 2014, we are projecting an increase in the low single-digits for the sales of IT services in Japan. For fiscal 2013, the large increase in orders was reflected in sales within the fiscal year. As a result, compared to fiscal 2013, our projected growth in sales for fiscal 2014 may appear low.

Q2: *How is the impact of the establishment of the new, integrated semiconductor company reflected in your projections in fiscal 2014?*

A2 (Tsukano): The assumption is that its results will no longer be consolidated starting from the fourth quarter, and that will have the effect of lowering sales by approximately 10 billion yen and lowering operating income by slightly less than 5 billion yen.

(Yamamoto): A portion of the development-related sales will be transferred to the new company, so we expect a slight decline in sales, but sales activities will still be handled by the subsidiary Fujitsu Semiconductor Limited. Accordingly, the impact on sales is limited, so consolidated sales for the Fujitsu Group will not decline very much. We do, however, expect a commensurate decline in operating income.

Q3: *You had nearly a 40 billion yen operating loss in your mobile phone business in fiscal 2013. For fiscal 2014, by shifting human resources or other measures, how are you expecting results to improve?*

A3 (Yamamoto): We began structural reforms in our mobile phone business in the fourth quarter of fiscal 2013, but the most significant aspect of that is the shifting of human resources. We consolidated our two manufacturing companies into one, and we shifted approximately 40% of the total employees to other areas. We also significantly reduced the number of development models. Because of those measures, we expect an improvement of roughly 30 billion yen in fiscal 2014. On top of that, we expect that the inventory impairment posted in fiscal 2013 will have a positive impact on fiscal 2014 results. In fiscal 2014, if we reach 3.1 million in unit shipments, as we have planned, we are confident that we can return the business to profitability.

<u>Questioner B</u>
Q1: *What would your fiscal 2014 projections be for operating income and net income using Japanese accounting standards?*

A1 (Tsukano): The shift to IFRS adds about 20 billion yen to fiscal 2014 operating income and about 30 billion yen to net income.

Q2: *What is the reason why your free cash flow in fiscal 2013 was lower than you had projected in January?*

A2 (Tsukano): We worked hard to reduce costs, but please understand that we moved some investments forward that had initially been scheduled for fiscal 2014.

Q3: *If investments that had been scheduled for fiscal 2014 were instead made in fiscal 2013, does that mean that your investments for fiscal 2014 have been reduced by a corresponding amount?*

A3 (Tsukano): It is true that some investments scheduled for fiscal 2014 were made in fiscal 2013, but there were also investments that were subsequently added to fiscal 2014, so our cash flow projection for fiscal 2014 is as we have explained in our plans.

Q4: *In your fiscal 2014 projections, how have you treated restructuring expenses and pension expenses?*

A4 (Tsukano): At this point, we foresee no major restructuring expenses. With respect to pension expenses, the adoption of IFRS means that the expected rate of return on plan assets in Japan is the same as the discount rate. As a result, we expect service expenses to increase, but there are no longer any annual amortization expenses for unrecognized retirement benefit obligations, so it will have a positive impact on income. For plans outside of Japan, we have already adopted IFRS, and the expected return on plan assets is the same as the discount rate. Therefore, even with the move to IFRS on a consolidated basis, there is no increase in service expenses. And amortization expenses are eliminated on a consolidated basis, so, here, too, we have factored in a positive impact on income.

<u>Questioner C</u>
Q1: *You mentioned that the adoption of IFRS would increase operating income by 20 billion yen compared to Japanese accounting standards, but please break out the components of that increase. Similarly, you mentioned a 30 billion yen increase in net income, but please break out the components of that increase, as well.*

A1 (Tsukano): For operating income, where the switch to IFRS has the biggest impact is the elimination of amortization expenses, with the reflection of unrecognized retirement benefit obligations on the balance sheet, and the elimination of goodwill amortization expenses. In fiscal 2013, there were two other major special factors. One was the extraordinary loss, but no extraordinary loss is projected for fiscal 2014. The other was specific adjustments, which were a large amount—36.9 billion yen—in fiscal 2013, but most of this was from the liquidation of a subsidiary outside of Japan, and this was a one-time event for fiscal 2013. Excluding these special factors, what will impact fiscal 2014 is the elimination of amortization expenses for unrecognized retirement benefit obligations and goodwill amortization expenses, and, in addition, other income and expenses. For net income, simply shuffling accounts for other income and expenses will not have an impact, but what will is just the elimination of amortization expenses for unrecognized retirement benefit obligations and goodwill amortization expenses.

Q2: *For fiscal 2013, I think you had originally projected 30 billion yen in semiconductor-related extraordinary losses, including the Mie Plant, but they were actually only 20 billion yen. Since you are continuing the 300mm line of the Mie Plant as a business, it cannot be included in extraordinary losses. Hypothetically, however, in the event that the capacity utilization rate at the Mie Plant suddenly deteriorated, would you need to recognize extraordinary losses? Also, for the SoC business, when its results are no longer consolidated in the fourth quarter of fiscal 2014, is there a possibility that any further charges could be incurred?*

A2 (Yamamoto): In fiscal 2014, we are not expecting any major changes to the Mie Plant's 300mm line. We have sufficient demand from customers, so there is no reason to incur any major extraordinary losses, such as workforce rationalization measures. For the newly integrated SoC company, we have spent the past year going over its growth strategy and organization, so I certainly do not expect that there to be further extraordinary losses.

Q3: In fiscal 2013, t*he extraordinary losses in your mobile phone business consisted of such items as repair costs and disposal of inventory, but please tell us the amounts for each category. In addition, you are projecting that the business will be profitable in fiscal 2014, but does that mean you are expecting zero repair costs and inventory disposals?*

A3 (Tsukano): In fiscal 2013, quality-related costs were approximately 15 billion yen, and inventory impairment costs were about 10 billion yen. Aside from that, there were costs associated with the shift in development resources and plant restructuring expenses.

Q4: *Will all of those expenses by zero in fiscal 2014? Is there a chance that there will be some additional repair costs or extraordinary losses?*

A4 (Yamamoto): Every year, we incur some repair costs, but you can think repair costs for fiscal 2014 will not be out of the ordinary. In addition, repair costs are determined based on the rate of damages on previously released models. For fiscal 2014, therefore, please assume that there will not be a further increase in repair costs in our mobile phone business.

Q5: *In fiscal 2014, you are projecting 190 billion yen in income before taxes and minority interests, but how much will taxes and minority interests be in relation to fiscal*

2014's net income? Also, in light of plans for your SoC business, what are you anticipating for equity in earnings of affiliates?

A5 (Tsukano): A big part of the difference between 190 billion yen in income before taxes and minority interests and 125 billion yen in net income is that taxes will be roughly 50 billion yen. The rest is minority interests. For equity in earnings of affiliates in other income and expenses, we are projecting a little less than10 billion yen.

Q6: *You have several listed subsidiaries, including Fujitsu Components, Fujitsu General, and Fujitsu Frontech. What do you plan to do with these in the future?*

A6 (Yamamoto): For businesses that are synergistic to our business, we have no intention of changing our policy of keeping them within the Fujitsu Group. Accordingly, for each subsidiary, we need to pay close attention to where they are contributing to Fujitsu or whether they should be independent of the Fujitsu Group. For example, you mentioned Fujitsu Frontech, and there are very strong synergies with them in the fields of financial services and retailing, so we want to strengthen our relationship with them. Fujitsu General, on the other hand, is strong in air conditioners, where there are few synergies, and we have in the past sold a portion of our shareholdings in them, but there are other areas, such as disaster prevention, where there are significant synergies, so we have no immediate plans to sell our entire stake.

Q7: *When thinking about earnings per share or net income, I think that deciding what to do about your minority interests is a significant management issue. For example, you could make Fujitsu Frontech a wholly owned subsidiary, and for Fujitsu General, you could retain the disaster prevention units and have the air conditioning business be independent, but are these issues you are considering from a medium- to long-term management perspective? I would like to hear what medium- to long-term measures you are considering to improve earnings per share.*

A7 (Yamamoto): This is a significant management issue, but these are not binary considerations. I would like to take into account a variety of considerations and make a determination over the medium- to long-term. For example, in the case of Fujitsu General, can they survive just with air conditioners in the future? In the field of disaster prevention, I think there will be many business opportunities, including with the Tokyo Olympics, so I want to see how these develop before making a decision. As for Fujitsu Frontech, there is the view that it would be good to make them a wholly owned subsidiary, but there are many good points about the current structure, as well. We will continue to think about how best to leverage these relationships.

Questioner D

Q1: *On page 4 of your explanatory materials, you break out special items in other expenses, and one of them is a loss on the reversal of foreign currency translation adjustments. Is there a possibility of something similar happening again if you were to liquidate a similar type of subsidiary outside Japan?*

A1 (Tsukano): FMSA stands for Fujitsu Management Services of America, Inc. This is a company that performed management services for several subsidiaries in the US. Over time, however, the number of companies for which it was performing these services dwindled, and it was left with just the losses from subsidiaries in North America. In liquidating this company, losses were incurred in fiscal 2013 because of factors that are unique to that company, so there will not be any similar recurrences. Please consider it something that is unique to fiscal 2013.

Q2: *For foreign exchange sensitivity, sensitivity to the US dollar is +300 million yen in fiscal 2013 and -600 million yen in fiscal 2014. Is this assuming some kind of structural change in your business?*

A2 (Hirose): In fiscal 2013, dollar-denominated purchases of parts and materials exceeded dollar-denominated sales. We expect this to be reversed in fiscal 2014.

Q3: *In your non-consolidated results, there was a large increase in the dividend payments you received in fiscal 2013, but why was this possible in fiscal 2013? Why didn't it happen before?*

A3 (Yamamoto): We have been determining Fujitsu's dividend payment based on our non-consolidated results, and that remains our policy. In fiscal 2012, our balance sheet on a non-consolidated basis took a hit, and retained earnings—the source of dividend payments—turned negative. On a consolidated basis, however, we still had positive retained earnings. Since we expected the Fujitsu Group as a whole to post a profit in fiscal 2013, the parent company collected dividends from its subsidiaries, thereby replenishing retained earnings on a non-consolidated basis as a source for dividend payments. If you are asking why we went to such lengths to pay dividends, it is the resolve of management. We decided to resume dividends as a way of emphasizing that, in fiscal 2013, Fujitsu achieved a structure that generates profits. In other words, you can consider the dividend as our way of signaling our confidence in being able to generate a profit in fiscal 2014 and beyond.

Q4: *Has there been any significant change in your relationship with subsidiaries, such as a change in your management approach, whereby the parent company is now asserting its strength and supervising its subsidiaries?*

A4 (Yamamoto): The Fujitsu Group has always taken a Group management approach, so it was simply an issue of where the profits were within the Group. Moving forward, there will be no major changes in the relationship between the parent and the subsidiaries.

Questioner E

Q1: *Please tell us about your outlook for IT sales in Japan by industry sector in fiscal 2014.*

A1 (Tsukano): With respect to orders, I cannot break them out by industry sector, but we are expecting a single-digit rise for the sales in fiscal 2014. The increase from fiscal 2013 to fiscal 2014 may seem low, but since the actual increase in fiscal 2013 was high, you could say that we are plateauing. The absolute level of orders is expected to remain high. In addition, while there is one day remaining in April, actual orders so far for April are extremely strong, exceeding our projections. If this pace continues, we could say with confidence that the sales will increase, but there are still many factors that we need to take into account, such as the possibility of a drop-off in May or in later months, so there are still uncertainties with respect to the future. You could say, however, that we are optimistic about our future prospects.

Our projections for IT sales in Japan for fiscal 2014 are an overall annual increase of 2%, an increase in sales to the manufacturing sector of 6%, and an increase of 6% in retailing and distribution, 4% in financial services, 3% in social infrastructure, and a decline of 3% in the public and regional sectors.

Orders and sales in fiscal 2013 both increased at double-digit rates. From that we can infer that, in fiscal 2013, there was a shorter cycle between orders and sales. At this stage, it is difficult for us to say how the pace of orders will be, so we are projecting an overall increase in sales of 2%.

Q2: *At the time of the third quarter results announcement, you talked about going after some large-scale deals in your business outside of Japan, but were you able to get them? Will they have an impact on fiscal 2014 results?*

In addition, how does your new global matrix organization differ from the Regional Operating Office structure you had in the past?

A2 (Yamamoto): Unfortunately, I cannot make any announcements on large-scale wins outside of Japan, but I can say that we are beginning to get some fairly promising deals. Large-scale deals outside of Japan are not limited to one location. Rather, these are multi-region deals. One reason we implemented the new global matrix structure is because of these multi-region deals.

Up until now, we had Japan and the rest of the world, but with these deals, we wanted to avoid a situation in which both Japan and the overseas group would separately approach the customer, or in which just the overseas group would have access to the customer. Therefore, we made Japan into one region and adopted a flat structure with five regions.

The difference with the Regional Operations Office structure we had in the past is that, in the new structure, we are delegating authority to each regional head. The head of each solutions business is a Corporate Executive Officer within Fujitsu. In addition, to ensure that we provide uniform services globally, we established a Global Delivery organization, which is a cross-cutting group. It will take lead responsibility for the uniform delivery of services and for the global roll-out of competitive solutions from each region. The structure has been established, so we will be working on making it fully functional this year.

Q3: *Please tell us your current thoughts about your strategy in the hardware business.*

A3 (Yamamoto): I will interpret your question as asking about the future of our server business. While maintaining our existing business in mainframe computers, for several years now we have been focusing on open standards with x86 servers.

As a result, in 2013 we had the highest market share in Japan for x86 servers. I think our unit volumes and reputation in x86 servers have been gradually increasing. We also plan to build the infrastructure for our cloud business mainly using x86 servers.

There is a lot of Fujitsu's own technology in UNIX, and many customers are using UNIX servers. We would like to wait a bit more and see how things develop.

Questioner F

Q1: *In the newly integrated system LSI company, the shareholding ratios for Fujitsu Panasonic and DBJ are 40%, 20%, and 40%, respectively, but there have also been media reports about the use of preferred shares. For Fujitsu, is it your policy to treat the new company as an equity affiliate? In addition, for your Mie Plant, you said you intend to continue the business for the time being, but if you find a partner, rather than continuing in the business, is there a possibility that you would change direction and distance yourself from the semiconductor business?*

A1 (Yamamoto): We have no intention of changing the shareholding ratios anytime soon. As we stated in our recent announcement, semiconductors are extremely important for Japan's industries, and we think their importance will only grow in the future. The biggest issue for Fujitsu is not decreasing our shareholding ratio. The biggest issue, in our view, is having the newly integrated company go through an IPO so that it can expand on a large scale. In addition, the capacity utilization rate of the 300mm line of the Mie Plant is fine, but, as you know, right now it cannot produce devices beyond 55nm. In the future, when technologies advance to 40nm, for example, it would be fairly difficult for Fujitsu to make that investment on its own as we have done in the past. We would need to think very seriously about how, with a variety of partners or even customers, we would convert it into a foundry company.

Q2: *You talked earlier about upfront investments, but you do not show an increase in R&D expenses for fiscal 2014. In what form, and in what amounts, are these expenses being posted in your projections for fiscal 2014?*

A2 (Yamamoto): In fiscal 2014, in addition to the types of investments we have made up to now, we would like to invest an extra amount of 25-30 billion yen. Specifically, we are considering investments of over 6 billion yen on datacenters to strengthen our cloud business, and invest over 4 billion yen to strengthen our global service delivery capabilities, including for large-scale deals. In addition, our network business is performing very well, so we would like to invest over 5 billion yen in software-defined networks and other areas. Furthermore, we would like to invest 5 billion yen in areas to generate innovation, such as the future of medical care, so that would be 5 billion yen for basic research at Fujitsu Laboratories. Adding in other smaller projects, overall we are projecting upfront investments of around 30 billion yen.

Q3: *For fiscal 2013, between orders and sales, which had a higher absolute level of growth?*

A3 (Tsukano): In fiscal 2013, orders and sales both grew at a nearly equal rate. The absolute level may have been a bit higher for orders, but the cycle for orders and sales is different, so we need to keep in mind that we cannot make simple comparisons.

Q4: *In Japan, many industries are facing labor shortages, but I am wondering if you are seeing any business flowing into your system integration business with the purpose of covering labor shortages through the power of IT?*

A4 (Yamamoto): I certainly think it makes sense to use ICT to address Japan's problem of labor shortages. In areas we have positioned for innovation, such as medical care and agriculture, the use of ICT is also intended to help with labor shortages. On a related point, I am often asked about labor shortages in the IT industry, and there are a variety of system integration projects for us on the horizon, such as the national ID system. It is true that we are starting to not have enough system engineers, but if you asked me whether I intend to expand our number of system engineers in Japan, the answer would be, "No." I would rather make up for shortages through the use of offshoring capacity outside of Japan or through the effective use of experienced engineers who are over the age of 60.

Q5: *The tax rate for fiscal 2014 looks to be about 25%, but what do you expect the typical tax rate for you to be under IFRS?*

A5 (Hirose): Up until now, because we had amortization expenses for goodwill and for the unrecognized retirement benefit obligations, which are not deductible for tax purposes, our tax rate appeared high. Under IFRS, those amortization expenses no longer apply, and we think our typical tax rate will be between 25% and 30% going forward. For our effective tax rate, we are using 35%, which is the same rate most are using. In addition, to the extent allowed under current tax regulations, we are deducting experimental research expenses.

(Yamamoto): Our tax rate for fiscal 2014 is reduced because of R&D expenses, so it appears lower than one would expect based on the total income level. It is not the case that we are assuming a reduction in corporate tax rates.

<u>Questioner G</u>

Q1: *In looking at Fujitsu's financial reports over the past 10 years, extraordinary losses have been reported on a fairly frequent basis. The category of extraordinary losses is eliminated under IFRS, but do your projections for fiscal 2014 include any items that would be classified as extraordinary losses under Japanese accounting standards?*

A1 (Tsukano): At the present time, we foresee no such items.

Q2: *For fiscal 2013, net income under Japanese accounting standards is 48.6 billion yen, and under IFRS it is 113.2 billion yen, leaving a gap of 64.6 billion yen. You mentioned that, of that gap, about 30 billion yen is from lower pension expenses and the elimination of goodwill amortization expenses, but what accounts for the remaining amount of roughly 35 billion yen?*

A2 (Tsukano): The table in the top of page 25 of the explanatory materials shows a specific adjustment of 34.8 billion yen, which are the other factors that pushed up net income besides the reduction in pension expenses and the elimination of goodwill amortization expenses. The biggest part of this specific adjustment is a gain recognized (on an exemption allowed in the first year of IFRS adoption) on the loss on the reversal of the foreign currency translation adjustment recorded as an extraordinary loss. In addition to that, in accordance with the structural reforms in Device Solutions in fiscal 2013, for each business we wrote off the full value of the unrecognized retirement benefit obligations, which reduced amortization expenses, and this amounted to several billions of yen. The positive effects of this specific adjustment are temporary effects for fiscal 2013, so the ongoing positive impact is just the reduction in pension expenses and the elimination of goodwill amortization expenses.