

**Summary Translation of Question & Answer Session at  
FY 2014 Third Quarter Financial Results Briefing for Analysts**

Date: January 30, 2015  
Location: Fujitsu Headquarters, Tokyo  
Presenters: Hidehiro Tsukano, Corporate Senior Vice President & CFO  
              Takeshi Isobe, Head of Accounting Division, Finance and Accounting Group

**Questioner A**

***Q1:** What are the capacity utilization levels at your semiconductor facilities? In addition, what are the main products you are making there?*

**A1:** The Mie 300mm facility is operating at close to full capacity. As for the Aizu 200mm facility, as a result of various measures we have implemented, it is now operating at nearly 80% of capacity, and, although it has been operating at a loss, we are hopeful that it will turn profitable. The products that are selling well are devices for smartphones. Also selling well are devices for servers. Those are the two products driving sales.

***Q2:** What is your view on the current business environment for your network products?*

**A2:** The market environment for network products is complex. Over the medium and long term, network traffic will continue to grow, and new technology will be required to absorb the higher traffic volumes, so the future is bright. Now, however, the deployment by carriers in Japan of base stations supporting carrier aggregation and LTE-Advanced, which had been planned for the third quarter, has been pushed back to the fourth quarter. In addition, outside of Japan, North American carriers continue to restrict capital spending after making large-scale capital investments in the previous year. Since we are now in a new calendar year, it is a new fiscal year for carriers in North America, so we had hoped that capital spending would resume, but the U.S. Federal Communications Commission just had another spectrum auction, so it is thought that the carriers will again need to face large-scale expenses. As a result, we are concerned that they will continue to restrict capital spending. Still, in the future, network infrastructure will expand, so we are hopeful that, at some point, we will see some large capital investments.

***Q3:** You mentioned that LSI devices for use in smartphones are selling well, but roughly what percentage of your sales of logic LSI devices is for smartphones?*

**A3:** It is between 30% and 40%. The smartphone market also includes devices for tablets, and demand is expected to continue to expand.

***Q4:** In North America, Verizon has said that it will increase capital spending, while AT&T is saying that it will reduce spending. Overall, will this year represent a favorable operating environment for Fujitsu?*

**A4:** I cannot comment on specific customers, but, overall, we expect revenue from our network products business to be flat or higher. For that, however, we will need to work very hard.

**Questioner B**

*Q1: What is the status of IT sales growth in Japan broken out by vertical sector? Please also comment on increases in your backlog of orders at the present time.*

**A1:** For the third quarter, overall IT sales in Japan were down 1% from the same period last year. Sales were up 7% to customers in the manufacturing sector, up 5% in distribution, up 8% in financial services, down 20% in social infrastructure, and sales were flat in the public and regional sector. For the full year, we expect overall sales to be up 1%, up 3% in the manufacturing sector, up 1% in distribution, up 4% in financial services, flat in social infrastructure, and down 1% in the public and regional sector. As for increases in the backlog of orders, as of the end of December our backlog of orders was up year-over-year by several percentage points. Orders for system integration services were particularly strong, and we think orders will continue to be strong. For some industries, however, particularly the telecom carriers, we want to keep a cautious eye on trends.

*Q2: In revising your full-year earnings projections, you mentioned that you will increase upfront investments, but what specifically will you be increasing?*

**A2:** Initially we had said that we would spend around 25 billion yen on upfront investments, but we want to accelerate investments. We decided that we should invest more, particularly in the Technology Solutions area, so now we are thinking of spending around 30 billion yen, including a portion that we will bring forward that had been planned for next fiscal year. In terms of a breakdown of the investments, about half will be in Technology Solutions, and the remaining half will be investments in healthcare-related technologies and other areas of innovation as well as in basic R&D. Please understand that this is a fairly major acceleration.

*Q3: Am I correct to assume that the entire amount of the upfront investment expenses will actually be spent, and that there is no portion that you do not intend to spend?*

**A3:** We will spend the entire amount. We need to further accelerate our investments.

*Q4: In terms of IT sales growth in Japan, it seems that the overall amount is declining, but is that because sales in social infrastructure and of hardware are down, whereas sales of system integration services are strong?*

**A4:** That is exactly right. Even in the third quarter, sales in the social infrastructure sector were down 20% from the same period of the prior year, bringing the total figure down. Judging from what we see of orders and our order backlog, however, we think we can make up for it in the fourth quarter.

### **Questioner C**

*Q1: You mentioned that sales of semiconductors for servers are strong, but are these for Fujitsu's servers, or are these for external customers, such as for data centers?*

**A1:** It is mainly sales of devices for use in Fujitsu's own products that are increasing.

*Q2: You said that earnings for system products are expected to be largely concentrated in the fourth quarter, but is there any relation between that projection and the strength of your sales of semiconductors? Since operating profit did not post year-over-year increases in the second and third quarters, will operating profit really increase in the fourth quarter?*

**A2:** In the second quarter of last fiscal year, we had several large-scale deals, including for mainframes, so that affected the prior year comparisons in this fiscal year's second quarter. In this fiscal year, however, we had large-scale deals in the third quarter. There is no direct relationship between demand for semiconductors used in servers and our server sales. What propelled sales of servers in the third quarter were sales of mainframes, which use different models of semiconductors than the semiconductors for our servers. What we are hopeful about in the fourth quarter are mainframes, UNIX servers, and x86 servers, and we expect higher sales of these products will drive year-over-year growth in system products.

*Q3: For operating profit in the fourth quarter, last fiscal year you recorded 80.6 billion yen, and this fiscal year you are projecting 119.6 billion yen, an increase of nearly 30 billion yen. In switching to IFRS, I think the expenses for structural reforms in your semiconductor business had a significant impact on last fiscal year's results. Could you tell us about the composition of the increase in operating profit?*

**A3:** About 20 billion yen is mainly from the structural reform expenses incurred last fiscal year. The remainder stems from a recovery in our core businesses and the beneficial impact of foreign exchange movements.

*Q4: Am I correct in understanding that, aside from devices, the year-over-year improvement is not from any other structural reform expenses incurred last fiscal year?*

**A4:** Aside from devices, there were also structural reform expenses for mobile phones last fiscal year that will contribute to the improvement projected for this fiscal year, but those are the only two areas.

### **Questioner D**

*Q1: Please tell us about the condition of orders and the improvement in profitability. When you announced your second quarter earnings, you said that it appeared that you would be in a position to be selective about the orders you would take, but how is the situation now? I also hear that, in the IT market, particularly for customers in the financial services sector and public sector, as well as for big data-related business in the distribution sector, the supply of system engineers is beginning to tighten. For fiscal 2015,*

*will these conditions make for an environment in which you can be even more selective in the orders you take, possibly leading to further improvements in profitability?*

**A1:** It is not as if we can always be selective in the orders we take, but it is true that the supply of system engineers is tightening, particularly for projects in the financial services sector and public sector. If we seek to further expand our orders, we may need to expand resources by asking for the cooperation of Japanese subcontractor partners or by using offshore resources. On the other hand, aside from the financial services sector and the public sector, the situation in other private sector industries is somewhat different, and customers are beginning to change the way they place orders, depending on the nature of their IT investments. As a result, it is not necessarily the case that the environment is just becoming good for vendors.

**Questioner E**

*Q1: You said that results in the third quarter exceeded your internal projections by 8.0 billion yen, but please give us a breakdown of the improvement by segment.*

**A1:** Results exceeded projections by 3.0 billion yen in Services, by 2.0 billion yen in the Ubiquitous Solutions segment, and by 5.0 billion yen in the Devices Solutions segment, and results in the Other/Elimination and Corporate segment were worse by 2.0 billion yen.

*Q2: What is your outlook for operating profit in fiscal 2015?*

**A2:** We are currently in the process of putting together our projections for fiscal 2015, but we think there will continue to be political and geopolitical risks stemming from the low price of oil. There are areas of uncertainty, including the trend of foreign exchange rates, so I cannot give you specific figures.

**Questioner F**

*Q1: Regarding the status of IT sales growth in Japan, for the second quarter you had said that sales in the distribution sector were weak, but what is the situation for each sector for sales in the fourth quarter?*

**A1:** Overall, we expect sales to be strong, but sales in the social infrastructure sector are weak. Sales in the manufacturing sector are very strong. While not as strong as in manufacturing, sales in the distribution sector have also strengthened. Going forward, it will depend on trends among carriers, but we are hopeful that sales in the social infrastructure sector will begin to firm.

*Q2: You mentioned that sales in the manufacturing sector are very strong, but in what industries within the manufacturing sector are you seeing strong sales?*

**A2:** If I say the industries, you would identify the companies, so I cannot answer that question, but, basically, sales are very strong for some large accounts that operate globally.

### **Questioner G**

*Q1: For other companies, too, we have seen that sales to the manufacturing sector, which had been weak until the summer, have recently improved quite rapidly. In the case of Fujitsu, it appears to be with some specific customers, but with other companies, we have heard that they are seeing improvements in the cumulative total of deals with small- and medium-sized companies. I think that, with manufacturers, orders can stop quite quickly when there is a change in their external environment, but does Fujitsu have a different view on this issue? Likewise, for the financial services sector, are we correct to assume that we are beginning to see an increase in large-scale projects that will continue for the next 2-3 years, and that the outlook for next fiscal year is positive?*

**A1:** I emphasized sales to big customers to make it easier for you to visualize the situation, but sales to small- and medium-sized companies in the manufacturing sector are also strong. Going forward, too, customers that export for their business, in particular, will benefit from the weak yen, so I think trends will continue to be strong.

*Q2: Starting in October 2015, companies in Japan will also be notified about the “my number” national ID system, and all companies will need to comply with it, but how large a business opportunity does this represent for Fujitsu?*

**A2:** Generally speaking, there will be the central government agencies and the regional governments, and then there will also be horizontal connections from there that will need to comply with the new system. Beyond that, it will also spread to private sector services, including healthcare providers and banks, so it will result in business for us. We actually thought progress would be faster, but there were regulations and discussions about what to do about privacy, so the deployment period will be a bit later than we initially anticipated. On the other hand, we have a feeling that the base of business will spread quite broadly. We are not expecting a lot of business immediately, but we are hopeful that it will materialize in the future.

*Q3: What are your thoughts about the scale of this business and the timing of when it will start to materialize?*

**A3:** It also depends on what one would classify as “my number” business, but for this fiscal year sales may or may not reach 10 billion yen, and we expect that sales next year will finally exceed 10 billion yen. Still, we think it will take time before the scale of “my number”-related business becomes large.

### **Questioner H**

*Q1: You mentioned that, for your mobile phone base station business, capital spending by customers had been pushed back from the third quarter to the fourth quarter, but is there a possibility that it will be pushed back further and not take place in fiscal 2014?*

**A1:** My explanation about spending being pushed back from the third quarter to the fourth quarter was about base stations for LTE-Advanced. For this equipment, we have already received orders from our customers. Going forward, all base stations will be

replaced by base stations that support LTD-Advanced, so we expect spending there to continue in the future.

*Q2: Please tell us about the trend of demand for servers. We have heard other companies say that current demand is weak, but how were your results in the third quarter, and what is your outlook for the fourth quarter? Also, with the discontinuation of support for Windows Server 2003, what is your view of demand for replacements?*

**A2:** We expect the server market itself to be flat or even decline, but the trend in unit prices is increasing because of increases in the memory capacity installed and other factors. As a result, the scale of business is on a rising trend, and in the third quarter, sales of x86 servers in Europe were particularly strong. On the other hand, there is no escaping the impact of higher component costs because of the strong dollar. As for replacement demand stemming from the discontinuation of support for Windows Server 2003, in comparison with the demand for replacements that occurred with the discontinuation of support for Windows XP, the dimension of the volume differs by an order of magnitude, so we are not anticipating any significant impact. In addition, it appears that Intel will come out with an enhanced CPU for servers just a bit after support for Windows Server 2003 is discontinued, so if both of those events occur around the same time, we think there could be a sudden increase in demand.

*Q3: It appears that results in your semiconductor business are improving quite significantly. In light of that, are the partners that invested equity in your semiconductor production subsidiaries (UMC and ON Semiconductor) beginning to think about increasing their equity stakes, or have there been any negotiations about their equity stakes?*

**A3:** We are considering a variety of scenarios relating to our partnerships, and we plan to make final decisions while considering timing factors. Our basic stance regarding these alliance partners is that their equity stake should be commensurate with the amount of capacity they want to use in the production facilities. At the present time, demand is becoming extremely strong, particularly for our partner in 200mm devices. While that does not relate directly to potential changes in equity stakes, business is booming.

### **Questioner I**

*Q1: What is the outlook for your mobile phone business for the fourth quarter?*

**A1:** In addition to positive results in the third quarter, we are projecting solid results in terms of unit volumes in the fourth quarter, as well, so we think we would be able to post a profit in mobile phones. That said, however, we do not expect a huge profit.

*Q2: What is your outlook for PCs in the fourth quarter? Although demand is increasing, there is also a negative factor in the form of the weakening yen. There is a strong general tendency for Fujitsu to make its business profitable in the fourth quarter, but what is your outlook?*

**A2:** In addition to our initiative to sell PCs in our solutions business, there is also an opportunity to pick up some sales volume outside of Japan. While there are some negative factors, such as the rise in component costs because of the strong dollar, we think our PC operations will be able to post a profit.