

**Summary Translation of Question & Answer Session at
FY 2015 First Quarter Financial Results Briefing for Analysts**

Date: July 30, 2015
Location: Fujitsu Headquarters, Tokyo
Presenters: Hidehiro Tsukano, CFO
Takeshi Isobe, Head of Accounting Division, Finance and Accounting Group

Questioner A

***Q1:** You have not disclosed your forecast for the first half of fiscal 2015, but can you tell us what it is?*

A1: We started this fiscal year with a large loss in the first quarter. Unlike the case last year with Windows XP or the year before with LTE base stations, there are no special sources of demand, so that you should expect the pattern of quarterly profits to be similar to what it had been in the past. In our network business, although telecom carrier investments are shifting into services, their spending on infrastructure hardware will slip into the second half instead of the first half, so our profit will also shift from the first half to the second half. As a result, for the first half, we expect to report a loss in the double-digit billions of yen. We expect a big rebound in the second half, however.

***Q2:** You have said that you expect to hold a briefing on your business model changes in early fall, but is there any special reason why it will be in early fall?*

A2: We are calling it a change in our business model not because we are implementing changes to a specific business. Rather, it is because of a change in Fujitsu's overall approach to business so as to enable us to achieve sustained growth and create long-term value. We want to thoroughly complete these changes in fiscal 2015. Senior executives are currently considering various options, and they also would like to talk about these moves as quickly as possible, but we need a bit more time.

***Q3:** I get the impression that your profit from Services is slightly weak. Are there any negative factors impacting the business?*

A3: Overall, including for our subsidiaries, it was a slow quarter for profits, but this is only temporary. We will rebound in the second quarter and beyond, and we expect to be able to meet your expectations for the full year.

Questioner B

***Q1:** Of the 30 billion yen in expenses for business model changes, how much of that will be for the first half of fiscal 2015?*

A1: If we add up all of the expenses relating to changing our business model, it will be more than 30 billion yen, but some of them will have offsetting positive effects, so the net amount is 30 billion yen. The 5 billion yen in expenses we recorded ahead in the first quarter were for strengthening organization for our network business, but most of the expenses will be

concentrated in the second half, and relatively few in the first half. It would be ideal if everything could be implemented altogether and we could talk about the net amount of positive and negative changes, but we are considering a variety of measures likely to be spread out over time.

Q2: You recognized 5 billion yen in expenses in the first quarter for strengthening the organization of your network business in Japan. Will that be it for reforms to your network business, or are there further reforms you still have to make?

A2: For expenses generated for structural reforms to our network business in Japan, that is it. In the flow of the overall changes to our business model, however, please understand that, as we shift from hardware to services, and as we transition into a world of software-defined X(SDX), we will continue to shift our resources accordingly.

Q3: Please tell us about IT services sales trends in Japan.

A3: Breaking them out by segment in comparison with last fiscal year's first quarter, this first quarter sales were up 12% to customers in the manufacturing sector, up 7% in retailing and distribution, up 20% in financial services, down 37% in social infrastructure because of the drop-off in our network business, and down 3% in the public and regional sector. For the public and regional sector, last year we had deals involving PC upgrades because of the ending of support for Windows XP, but this time we mostly made up for it with solutions and system integration deals. For the full fiscal year, we are expecting overall growth of 3%, which is unchanged from our previous forecast.

Q4: Please tell us about your IT services business outside Japan.

A4: On a macro level, the market environment in the EMEIA region is good, and we have been able to win some large-scale public sector deals, but it varies by country. The market is very strong in the UK, and it is also strong in Western Europe. On the other hand, although the market is recovering in Germany, our hardware business there was adversely affected by currency movements, so it has not been performing well.

Questioner C

Q1: In your network products business, what will recover in the second half? Will it be sales of mobile phone base stations?

A1: Yes, mobile phone base station equipment. This will be the last generation of 4G LTE, but shipments that had been planned for the first half have been shifted to the fourth quarter because of our customers' spending plans. Those are the sales that will rebound in the second half.

Q2: Are similar changes in spending trends occurring outside of Japan and affecting your network products business outside Japan?

A2: The trend with telecom carriers is an acceleration of the shift in spending toward services, and there is about a two or three year lag in spending on infrastructure hardware. In terms of large-scale capital spending going forward, in Japan it will depend on the timing of the shift from

4G to 5G, and we expect a similar trend outside of Japan. It will also depend on the timing of core network enhancements to keep pace with traffic growth.

Q3: The 5 billion yen in expenses you recorded for your network business are the expenses associated with the organizational strengthening of your network business in Japan that you announced in May, correct?

A3: Yes, that is right.

Q4: From the second quarter on, how will Socionext affect income from investments accounted for using the equity method?

A4: Socionext is an independent company, so it is not our position to comment, but our understanding is that Socionext is on track, and we expect to continue to receive a positive impact in the future.

Questioner D

Q1: Of the loss you recorded in PCs in the first quarter, how much was in Japan and how much was from outside Japan? You expect to break even for the full year, so how much of an improvement do you expect for the second half?

A1: The losses outside of Japan were slightly larger than the losses in Japan. In addition, for the second half onward, we are thinking of sales measures that would change our pricing, reducing costs through supply chain efficiencies, and shifting the product mix to higher margin products. For the long term, we are thinking of ways to reduce our overhead costs and component costs.

Q2: I think you have already had initiatives involving pricing, your supply chain, and the product mix. Moreover, even if you think of longer term measures, it will be difficult to recover to the point where you reach profitability in the second half. Could you elaborate on this point?

A2: In terms of sales measures, those in the consumer market are different from the ones in the enterprise market. With enterprise customers, it will take some time to raise prices. It will take a bit of time to reach the levels we seek, and we think we will be able to see the full impact in the second half.

Q3: You have said that you expect to brief us on your business model changes in early fall, but if you are considering a variety of measures, I feel there is a risk that they will not all come together by early fall. As to whether they will come together by early fall, Mr. Tsukano, what degree of risk do you think there is, or how much confidence do you have?

A3: There have been thorough discussions involving President Tanaka as well as Chairman Yamamoto, so you should understand that we already have a blueprint in place. The reason why it is taking time is because we continue to discuss internally with management to arrive at the best solutions. In terms of execution, as we have a variety of options, those considerations take some time. When we announce the measures in early fall, it is important to be as specific as possible, and our goal is to provide to you all a satisfying explanation.

Questioner E

***Q1:** In the guidance you gave at the beginning of this fiscal year, I remember you saying that, compared to fiscal 2014, there would be a negative impact of 30 billion yen for higher expenses and a negative impact of 20 billion yen due to the effect of currency fluctuations. Of the 30 billion yen in expenses, how much have you already spent?*

A1: I think you are referring to the 30 billion yen in expenses for business model changes, so I will explain about that. With the reforms, there will be positive effects on profit and negative effects on profits, so please think of the net effect as being negative 30 billion yen. The upfront reforms we implemented in our network business had a negative effect of 5 billion yen, and you should consider this as being part of the total negative effect. There are various positive and negative effects, and there may be some measures taken in the second quarter, but you should understand that most of the expenses will be incurred in the second half. Most will be in the fourth quarter. I consider it my role to control things so that costs do not exceed 30 billion yen.

***Q2:** To what extent did foreign exchange movements impact your first quarter results?*

A2: They had a negative impact of roughly 7 billion yen. In some cases we were able to pass through a portion of the currency effects in our pricing, such as for PCs, so if that is factored in, the negative impact would only be about 5 billion yen. In terms of currency movements in the dollar, euro, and British pound against the yen, because we are exporting as well as importing, we are well-balanced, but we are being severely affected by the US dollar/euro exchange rate.

***Q3:** The first quarter operating loss in “Other/Elimination and Corporate” increased by about 10 billion yen compared to the first quarter of fiscal 2014. What types of expenses are increasing?*

A3: The biggest increases are in upfront strategic investments for future growth. For example, our spending is increasing in such areas as next-generation cloud and future medical-related innovations.

***Q4:** We see a spread of software-defined X(SDX) in both IT infrastructure and communications infrastructure. The movement is to use general-purpose hardware and use software to control things, but what technological changes is Fujitsu focusing on?*

A4: The fusion of communications with IT is a topic that has been discussed for twenty years. In today’s market, there are players focused on communications technology and players focused on IT, and then there are what we call over-the-top services players who use those technologies for their infrastructure. Fujitsu has both communications and information technologies, and in the past we developed such hardware technologies as mainframes and switching equipment, but now there is a rapid trend toward services, as exemplified by the cloud. In relation to the commoditization of hardware, we want to prepare more specialized and integrated hardware, and have it run by software. We have been working on these initiatives for some time, and we are thinking of how to incorporate them into services. Even though many suppliers have been seeking to do this, they have not been able to. That is what we are seeking to achieve. Especially

in comparison with competitors who do not have hardware capabilities, we want to achieve it in a way that is unique to Fujitsu.

Questioner F

Q1: What are the gross expenses for the business model changes? For example, if the net expenses are 30 billion yen, could it be that the gross expenses are 50 billion yen, but you will reap improvements of 20 billion yen?

A1: I will refrain from giving an answer on gross expenses. The negative effects in the form of expenses go beyond 30 billion yen. The 5 billion yen in one-time expenses that we recorded for our network business should be considered just the beginning. We want to anticipate future trends and thoroughly strengthen our capabilities.

Q2: Under IFRS, you need to recognize actuarial gains and losses in relation to the discount rate used to measure pension obligations. What is the percentage rate for fiscal 2014 and fiscal 2015, and how will the actuarial gains or losses change?

A2: I cannot give you specific figures, but interest rates outside of Japan are rising. In terms of investments, price movements on bonds in the UK have been slightly negative, but they have been positive in Germany. Please understand that our investment performance on retirement plan assets is going well.

Q3: Hypothetically speaking, even if you reduced your headcount by 5,000 employees in the first half, the result would last only a half year period, just the second half. The gross reductions this time will result in cost savings, but how should we think about allocating the improvement in profitability between the fiscal 2015 portion and the portion for fiscal 2016 and beyond?

A3: It is not as though we are thinking of cutting just to reduce expenses. Reducing headcount is a last resort, and, as a company, we also would like to maintain employment to the extent we can – minimizing reduction in headcount reduces the expenses associated with layoffs. While taking these factors into consideration, we are exploring a variety of options. It will take time to see the effects. As with the expenses associated with the organizational strengthening of our network business, we recorded the expense in the first quarter, and some portion of the benefit may be realized starting in the second quarter, whereas other portions may not be realized until subsequent quarters.

Questioner G

Q1: The Ubiquitous Solutions segment posted a loss in the first quarter on the impact of the PC business, so if you do not expect much improvement in the second quarter, to break even for the full year, by my calculations, you would need to have an operating profit margin of around 5% for the business in the second half. I think that will be difficult to achieve, but what is your view?

A1: There is a seasonality to PC deals that is concentrated in the second half. The tendency for Fujitsu's business as a whole is that our profits are concentrated in the second half. In addition, since the fourth quarter of fiscal 2014, we have started to implement various sales measures, but the market has not yet taken to these measures. It takes time for these measures to take hold, and

gradually our profitability will increase. Moreover, we do not expect to see benefits to changes in our product mix until the second half. We think we can still adequately offset the first quarter's loss in the second half.

Q2: If you project a loss in the double-digit billions of yen for the first half, does that mean you expect higher profits in the second half compared to fiscal 2014's second half? Considering that you expect to record expenses for business model changes in the second half, what businesses do you expect to post significantly higher profits in the second half?

A2: The shift in profits from the first half to the second half is, in our network business, because the investment period of telecom carriers is concentrated in the second half.

Q3: In the past you had some smartphone software defects that required time and money to resolve, but will you incur similar problems due to the suspension of sales for smartphones with iris recognition?

A3: We are providing the hardware to NTT DoCoMo, so please refer to NTT DoCoMo's official announcements. The problem has been identified as a bad connection in the circuit board. In consultation with NTT DoCoMo, we want to address the problem in a way that does not inconvenience customers.

Questioner H

Q1: You have talked about how, in your network products business, sales are being pushed back to the fourth quarter, but is there any risk that they could be pushed back further into next fiscal year?

A1: Amid a shift in spending by telecom carriers toward services, the fact is that, for several years, total spending on infrastructure has been declining. But if services are increased, communications traffic will also increase, so there is an unavoidable need to invest in infrastructure to support that extra traffic. In addition, the provisioning of base stations is the essence of the capital spending plans of telecom carriers, and that is what has been pushed back into the second half.

Q2: Because of that, you have a high degree of confidence in your projections for the second half in your network business?

A2: Yes, that is correct.

Q3: You mentioned the reduction of overhead costs in your PC business, but is that a measure you are planning for your PC business in Europe, included in the measures to deal with currency movements?

A3: I did mention a reduction in fixed costs earlier, but I should have called it a shift in resources, which is the correct way of putting it. And it is not just for Europe. It applies to our PC business as a whole.

***Q4:** You acquired the PC business in Europe from Siemens, and because it is difficult to integrate PCs into solutions, the tendency has been to sell PCs stand-alone. That's why it seems to me that there are few prospects for improved profitability. In light of this background, I think that is why you will announce measures in October, or am I wrong about that?*

A4: Our location in Germany that we took over from Siemens is the stronghold of Fujitsu's presence in continental Europe. The issue is not simply determining what to do with hardware manufacturing. The issue is how to create a presence that is unique to Fujitsu. We are considering how best to foster our services business while maintaining the hardware business.

***Q5:** Regarding software-defined X(SDX), in the future, when there will be common platforms that are standardized, will the services delivered by each of the various business units in Fujitsu really become tied together for the company as a whole? There is also the changeover to the new president, who is Fujitsu's first to emerge from a sales background, but has there been any change in Fujitsu's corporate culture?*

A5: Up until now, as well, based on our corporate philosophy, while each business unit developed products, our goal was to integrate them and deliver them to customers. Even viewed on a global level, we think Fujitsu is among the companies with bright business prospects, so we want to think about what specific services businesses we can build in the future.