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

Date: January 29, 2016
Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, President and Representative Director
Hidehiro Tsukano, Executive Vice President & CFO

Questioner A

Q1: *What stage are your structural reforms in Europe up to? What have you done, and how far along is it, as of the third quarter?*

A1 (Tanaka): We have finished the first round of changes to achieve our desired structure for fiscal 2015. We will be continuing our measures to further raise our level going forward. Out of ten stages, you might say we are in about the third or fourth stage.

Q2: *With regard to your framework of 30 billion yen in transformation expenses, have you finished with the portion for fiscal 2015?*

A2 (Tanaka): As far as the first round is concerned, we have finished, but we will be continuing to work on this transformation going forward.

Q3: *Can you explain in more detail about what the first round of changes to achieve your desired structure means?*

A3 (Tanaka): Along with the plan to close the center in Paderborn, we are changing the sales and service delivery structure across the entire EMEIA region to a structure that supports the shift to services. We have now made the outline as a first round, so going forward we will be further strengthening our capabilities to compete globally and continuing to strengthen our structure, including cost competitiveness.

Q4: *With regard to the net 30 billion yen of transformation expenses, you stated that the gross expenses were a little larger, but how much were the gross expenses, and how much were the offsetting benefits, as of now?*

A4 (Tanaka): What I can talk about now is that we used about 20 billion yen on structural reforms in Europe. Outside of that, in the first quarter, we recorded approximately five billion yen in network-related expenses. Moreover, we have not changed our forecast for a total of 30 billion yen in transformation expenses, including gains to offset the net expense, in fiscal 2015.

Q5: *Please tell us your sense of business conditions in the IT services business in Japan.*

A5 (Tanaka): At the moment, there is a certain degree of severity in our Ubiquitous Solutions segment and network products, among others, but, from an overall perspective, I think that there will be a certain amount of growth in Japan's IT services market by the 2020 Tokyo Olympics. From a longer-term perspective, however, I think that the Japanese market will shrink. Therefore, at this moment, we need to expand our global business and pivot toward growth. Of course, Fujitsu does not have a huge global market share, so rather than chasing scale, we will focus on target areas where we can compete, secure contracts, and still achieve growth, even if the market in Japan shrinks in the future.

Q6: *What is the growth rate of your IT business in Japan's vertical markets?*

A6 (Tsukano): Breaking them out by industry sector in comparison with last fiscal year's third quarter, this third quarter sales were up 6% to customers in the manufacturing sector, up 7% in retailing and distribution, and up 9% in financial services, all much higher than we had projected three months ago. Sales were down 10% in social infrastructure, which includes network products, well below our projections, which were that sales would be essentially unchanged. Sales in the public and regional sector were down 9%, in line with our projections.

Questioner B

Q1: *In your opening remarks, President Tanaka, you said that you are laying the groundwork for higher profits from fiscal 2017 onward, so does that mean that fiscal 2015 and 2016 are a business model changeover period?*

A1 (Tanaka): I myself do not have a rosy view of our core business in the next fiscal year, and while we will move forward in the areas of business in which we excel, I would like to focus more on our business model transformation to enable even greater growth in the future. In any case, I would like us to work without hesitation on the things we must do to grow in the future in the next fiscal year as well.

Q2: *Some people in the equity market say they do not understand Fujitsu because they do not have a sense of the scale of your business model transformation. For a company with 4.7 trillion yen in sales to transform with just 20 billion yen in expenses, we wonder how much will actually change? What sort of scale of expenses will be required to follow through with this series of transformations?*

A2 (Tanaka): I certainly understand why there is a sense of opacity, as we cannot say much in the way of specifics, but as soon as we have a situation where I can make an announcement, I will immediately disclose it, so I hope you will give me time until then. I cannot speak to the scale of expenses now, but with regard to the 30 billion yen in business model transformation expenses, we have performed more-or-less in line with our scenario. In the next fiscal year, there is the possibility that deviation from our target trajectory will occur, but I want us to focus on future growth, and spend the money to steadily work to accomplish what we need to.

Q3: *For the timing of when we can hear about this, can we expect it for the full-year financial results briefing or in May, when you will disclose your projections for fiscal 2016.*

A3 (Tanaka): We will definitely announce our direction for the next fiscal year, so I will thoroughly explain the things I can talk about at that time.

Q4: *Will that include things about the state of your transformation that will enable those of us looking from the outside to make predictions?*

A4 (Tanaka): I would like to accelerate it as much as possible to enable that to happen.

Q5: *As you are shifting your business to center on IT services, what are your thoughts about the direction of consolidated subsidiaries that have no direct connection with your Technology Solutions segment, such as Shinko Electric?*

A5 (Tanaka): As explained in the management direction, we are shifting our focus mainly to services, so we are taking a hard look at what we define as Devices, and we hope that making them independent will make them stronger. At the same time, as many businesses move into the IoT field, we will need to make some determinations, so these are decisions we will make while looking at the appropriate business environment.

<u>Questioner C</u>

Q1: *If your business model transformation expenses for this period are 30 billion yen, that means there is another 10 billion yen. Does this have something to do with the PC business merger with Toshiba and VAIO that has been reported since December? What is the status of those negotiations?*

A1 (Tanaka): I cannot affirm or deny any questions relating to other companies. We will first be making our PC business into a wholly owned subsidiary on February 1^{st} of this year. We are thinking that this subsidiary will not be in its final state, and we want to take appropriate action, but at this stage, nothing has been decided.

Q2: *Will you be able to record the remaining 10 billion yen in this period? Or is there a possibility that it will be extended into next fiscal year?*

A2 (Tanaka): I would like us to take care of it with as much of a sense of dispatch as possible, but there are many factors, so I cannot deny the possibility of an extension.
(Tsukano): To supplement with a few numbers, we stated that it would be a gross amount of 70 billion yen in expenses, with offsets of 40 billion yen. As of now, we recorded network transformation expenses of five billion yen in the first quarter, and 20 billion yen in restructuring expenses in Europe now. With regard to the remaining five billion yen, we are trying to record it in the fourth quarter. We would like to complete what we need to do, but we are not in a position to discuss it at this stage.

Q3: *With the recent rise in US interest rates, the economies of emerging market countries are beginning to wobble. You stated that your business in Japan is solid through 2020, but do you see any changes in IT investment in emerging nations? In addition, when you think about Fujitsu's growth going forward, what are your thoughts about your global portfolio of businesses?*

A3 (Tanaka): The BRICs countries will feel a substantial impact. Fujitsu is impacted both directly and indirectly by the slowdown in the Chinese economy. We have seen the impact in the greater China region, but at the same time we have seen great growth in our business in Southeast Asia and South Korea this fiscal year. With the measures we have put in place and our One Asia initiative, we have seen an expansion rate of almost 20% compared to last year by investing resources from Japan. In terms of profits, things are still rather severe, but since sales are growing, we would like to expand further.

Q4: *Are you feeling any adverse effects from the fall in the value of currencies in emerging markets?*

A4 (Tanaka): At present, we are not.

Q5: *I think Fujitsu is strong in the UK, Germany, and Australia, but are you feeling any adverse effects there?*

A5 (Tanaka): I do not have the impression that our current business there is being impacted.

Q6: *In your telecommunications equipment business, how do you compete with such global players as Huawei, Nokia, and Alcatel? Or are you thinking of some kind of alliance strategy?*

A6 (Tanaka): I, too, am aware that we face issues in our telecommunications equipment business. It is a fact that we are highly dependent on business with telecommunications carriers, especially in Japan. In light of that, we are launching a new business unit in April, and rather than just offering networking equipment, it will also be bringing together areas related to the cloud and IoT, and it will be pushing network utilization in the context of services in new areas. We have operations in the US, as well, and I would also like to leverage them to the greatest extent we can. From the perspective of growth, I think we need to objectively review our strategy for our network products business.

Q7: *You mentioned that you would launch a new business unit in April. Does that mean that, for your telecommunications equipment business, you will eliminate the network products reporting segment and, instead, include it in your IoT business?*

A7 (Tanaka): Right now our telecommunications equipment business is struggling, but we have 5G on the horizon, and a new wave of business will come. To broadly apply the technologies we have in new areas, we want to include them in a new organizational structure and consider new usage scenarios.

Questioner D

Q1: *With regard to semiconductors, I've heard that a certain customer has changed its sourcing strategy, but does that mean it is a short-term production adjustment, or does it mean that the company will not place orders with you for 2-3 years?*

A1 (Tsukano): I think it is just a short-term adjustment. By short-term, I think it will last 3-6 months. As to whether the customer will come back after that, I strongly feel that the customer will come back, but half of my belief might just be my own expectations..

Q2: *Does that mean that your adjustment will also have an impact on your outsourcers?*

A2 (Tsukano): Yes, you should assume that it will.

Q3: With respect to business model transformation expenses for this fiscal year, you have said that 70.0 billion in expenses will be offset by 40.0 billion in benefits, for a net amount of 30.0 billion yen, but through the third quarter, we have only seen twenty-something billion yen in expenses. On the other hand, President Tanaka says that everything is on track. Do you really expect to achieve 40.0 billion yen in benefits by the end of March?

A3 (Tsukano): Yes, that is our target.

Q4: For business model transformation expenses, when netting expenses versus income, aligning the timing is difficult. I think the expenses should come first, but why have we not seen more benefits by now?
In addition, we have heard that you plan to report expenses next fiscal year as well, but could you explain specifically what you plan to report?

A4 (Tanaka): I have to refrain from giving specifics, and I understand that would mean that they are not coming, or that they are delayed, but internally we have decided on a target and are moving ahead toward it. There is a possibility that there will be some slippage in the timing of the associated expenses, as well as in the benefits we expect to receive. But we still want to move forward on what we have planned.

Q5: In PCs, there has been talk about mergers, but should we understand that you are moving ahead with what you need to do regardless of whether there is progress on potential mergers?

A5 (Tanaka): I am always thinking about our many options and which among them is the best. Even while there might not be progress on those options, we are moving head on initiatives that will make the PC business an independent and strong player.

<u>Questioner E</u>
Q1: *How was your performance in the third quarter compared with your plans? There are some restructuring expenses that cloud the picture, but if we exclude the 17.6 billion yen in business transformation expenses, operating profit would have been 31.6 billion yen. How does that compare with your plans?*

A1 (Tsukano): Excluding those expenses, our performance was basically as we had planned. Although we had anticipated the business model transformation expenses, we expected to record them in the fourth quarter, but instead we recorded them in the third quarter. While those expenses make it difficult to see, the performance of our core businesses was quite solid. Breaking it out by segments, results in our Services sub-segment were 3.0 billion yen above target, but results in our Device Solutions segment were 3.0 billion yen below target.

Q2: *Were your results in network products within the range you had anticipated?*

A2 (Tsukano): Yes, they were as planned. Essentially, the results in network products were as weak as we had anticipated.

Q3: *In semiconductors, in previous guidance you had said that you expected your advanced 300mm wafer production line be operating at a full utilization rate in the second half, but could you tell us what your book-to-bill ratio was for the third quarter, and what you anticipate for the fourth quarter?*

A3 (Tsukano): The 300mm line was operating at close to full capacity in the third quarter. We expect it to be at about a 90% utilization rate in the fourth quarter. Our general-purpose logic chip lines were also performing relatively well, at about 80% of capacity in the third quarter, and that is also what we expect for the fourth quarter. Because we spun off the SoC business into a new company, there is no book-to-bill ratio to disclose anymore.

Q4: *While you talk about solid performance through 2020, you also said that you do not have a rosy view about fiscal 2016. How are you viewing next fiscal year and beyond? Also, with respect to the My Number initiative, I think you were forecasting 65.0 billion yen in sales over three years, but what level of orders and sales are you expecting in fiscal 2015?*

A4 (Tanaka): It is true that, for fiscal 2016, there are some uncertainties, and we have a somewhat severe outlook. For the period up until 2020, the reason we say we anticipate solid performance is because that while there are ups and downs when looking out over a certain period of time, we do not expect that there will be a declining trend. The next steps are coming through for large-scale projects, as well, so, overall, we are expecting solid performance through 2020.

(Tsukano): We have publicly disclosed the figure of 65.0 billion yen for the My Number initiative, over the nearly two-year period from fiscal 2014, it has already reached around 50.0 billion yen. We expect there will be further increases in fiscal 2016.

Q5: *If that is the case, what is it that is causing you to have a somewhat cautious outlook for fiscal 2016?*

A5 (Tanaka): We saw some of these effects in the third quarter, but we feel that the capital spending environment for telecom carriers will be challenging. In addition, while the performance of the manufacturing sector and retailing and distribution sector is very solid right now, we have some reason for concern because, if the level of global uncertainty increases, there is a possibility that they will put off investments. We need to look very carefully at a variety of conditions, but we think it is best to have a cautious outlook.

Questioner F

Q1: *I understand that conditions in your network products business are difficult, but of the decline in sales of 50.0 billion yen, 40.0 billion yen of that is in your business in Japan. Given the size of the business, it appears to be a fairly major impact. How would you characterize the causes of that, in terms of the extent to which the investment plans of customers changed,* *whether the share you expected changed, or whether the levels you expected were simply too optimistic?*

A1 (Tsukano): I cannot comment in detail, but we knew the conditions of our customers were challenging. Even so, our sales teams worked hard to somehow try to get orders. Up until now, since they were somehow able to get orders, we expected the same would hold true in the third quarter.

On the other hand, I can say that there were cases of customers putting off investments in mobile phone base stations and transmission systems. We had expected some of those deals to come through, but there are cases where our expectations were inaccurate.