

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

Date: October 29, 2015  
Location: Fujitsu Headquarters, Tokyo  
Presenters: Tatsuya Tanaka, President and Representative Director  
Hidehiro Tsukano, Executive Vice President & CFO

**Questioner A**

***Q1:** Will this be your final business model transformation? For the issue outside of Japan that was reported several weeks ago, will the negative impact of 20 billion yen in the second half be the end of it?*

**A1 (Tsukano):** We will be continuing our transformation efforts going forward. We spoke of 30 billion yen in transformation expenses, but we are considering expenses beyond that, so please understand that we are continuing to further accelerate our transformation. At the same time, we are also considering offsetting these expenses, so if we subtract inflows from the outflows, we end up with a net amount of 30 billion yen in expenses as we mentioned from the start.

***Q2:** You mentioned that you incurred 5 billion yen in expenses for realignment of your network business in the first half, and expect to incur 20.0 billion yen in expenses in the second half for the strengthening of the product operation cost structure in Europe, but since the total amount is 30.0 billion yen, what is the remaining 5.0 billion yen of expenses for? Also, you stated that there may be additional expenses, but when will those be incurred? What will offset these expenses? I think that with the worldwide restructuring of the memory and storage markets, as well as the slowing of China's economy, if you take too much time, you may be too late. Please tell us the timeline for your initiatives.*

**A2 (Tsukano):** President Tanaka has spoken of working with a sense of speed, so it is all a question of speed. With regard to the transformations accompanying these expenses, we are thinking of carrying them out during this fiscal year. The initiatives that offset these expenses have to be done within the same period, otherwise they are not an offset, so we are thinking of carrying those out this fiscal year. I cannot give any specifics as to their contents, but we are thinking about such things as asset sales.

***Q3:** What is your thinking about the structural reforms you are making, such as in networks, storage, and enterprise PC sales?*

**A3 (Tsukano):** There are two key words, the first of which is Software Defined everything (SDx). We will press on with our efforts to convert hardware functions into software. I think some of you may be worried about our network business, but I want to make clear that we are moving from a simple vertically integrated business model to one of “connected services.” I do not mean network products but, rather, network services, and I think that the shift to software functionality in our network business is an important component of that.

**Questioner B**

*Q1: Where did the mid-term target of 250 billion in operating profit go? Do you aim to achieve it in five years instead of three, or have the numbers themselves lost their meaning? Please explain your thoughts.*

**A1 (Tanaka):** To give a straight answer, we have reevaluated our targets. As stated previously, we want to move ahead in thoroughly transforming ourselves. We presented our overall direction in the form of our operating profit margin target, but the important question in getting there is whether or not we can transform, so with that in mind, I think that fiscal 2015-2016 will be an extremely important period. If we can transform, I think our profit margin will improve itself, and our sales growth will also follow. For these first two years, rather than focusing on size, I would like to make moving forward in our fundamental transformation our priority. On that basis, with regard to financial outcomes, as stated previously, I would like to explain them properly each fiscal year, and share our situation with you.

*Q2: With regard to your target of a 10% operating profit margin, the achievement deadline is not clearly specified, but when you achieve it, what will the size of your sales be? Will this include the PC and mobile phones businesses that will be formed as wholly owned group companies, as well as listed electronic components companies and so forth?*

**A2 (Tanaka):** With regard to the size of sales, as stated previously, because I think it is important for us to focus on transformation, I do not have an answer at the present time. The decision to concentrate management resources in Technology Solutions is set, but by making PCs and mobile phone businesses wholly owned group companies and giving them agility, I expect they will become stronger. I want to make us, including those group companies, into a stronger organization.

*Q3: I understand that by making them into wholly owned group companies you want to make them more self-reliant, but going forward, if the subsidiaries get into a severe financial situation, will you be strict with them as a parent company?*

**A3 (Tanaka):** It is not as though nothing has been decided at the present time, but with regard to these businesses, we will keep a strict eye on them.

### **Questioner C**

*Q1: You say you want to transform, but when we attend next year's management direction briefing, in what way, or by what metrics, can we get a sense of these changes looking from outside? Please tell us the specific metrics you are considering.*

**A1 (Tanaka):** With regard to our overall direction, I will be having discussions with the responsible parties in each business unit and sales unit about their plans for next year and beyond. So as for what sort of metrics I will show you, I would like to ask for a little more time. With regard to our transformation, I think you can evaluate it by the expansion in the businesses we are aiming for.

*Q2: You have said that fiscal 2015 and 2016 will be a period of accelerated investment, but will you maintain that level going forward? Also, please let us know what you are doing internally to achieve returns on these investments.*

**A2 (Tsukano):** This was also in the presentation, but we have over 300 operational trials and other trial projects underway. Because each one is a tiny business sprout, I think we need to properly follow up and manage our ROI. At the same time, I think that, in the midst of a variety of efforts, we need to properly narrow down which ones can really be nurtured into core businesses within a certain timeframe. I would like you to understand that the scale of our investments itself will be largely flat, but as a result of narrowing it down to specific projects, it is possible that we will increase investment to bring them to market more quickly.

**(Tanaka)** I would like to add that advance investments are what is needed in the focus areas we want to expand, so investments are necessary. We will be increasing the speed with which we determine a project's viability. This also means we will be speeding up decisions to terminate investment and end projects.

#### **Questioner D**

*Q1: With regard to implementing measures to strengthen the cost structure of your business in Europe, are the major parts of the two initiatives announced here all that are planned? Or is there still a lot left to do? Also, please tell us the size of the losses you are projecting in your European hardware business this fiscal year, and the extent of your estimate of improvement next fiscal year.*

**A1 (Tsukano):** In addition to current efforts, we are aiming to achieve additional efficiencies. As a result, we believe that we will be able to turn the business around to be profitable next fiscal year. We do not feel we will be able to make a complete recovery in just one year. We think a full recovery might take at least three years.

*Q2: You set a goal of achieving a ratio of sales outside Japan of 50%, but suppose the sales are mostly from Technology Solutions. I think the scale of business outside of Japan will have to almost double from its current state to achieve this, so does this mean you will be making some bold M&A moves?*

**A2 (Tanaka):** Of course I will not deny the possibility of M&A, but we have nothing specific planned at the moment. Right now, we are building a framework to carry that out. Once we have a framework in place, then we will have to develop a policy for what sort of company to buy, or sell for that matter. We have just now begun building that framework.

#### **Questioner E**

*Q1: I would like to ask about SDx. Right now, servers and telecom equipment are becoming increasingly commoditized, and consolidations are continuing among suppliers. At the same time, the unit price of mission-critical type mainframes and Unix servers is on an upswing, and I think this polarization will continue going forward. How is Fujitsu viewing this situation?*

**A1 (Tsukano):** As you pointed out, in the world of SDx, hardware is being polarized into increasingly high-level hardware that can support business support systems (BSS) and operations

support systems (OSS), on the one hand, and commodity devices, on the other. The status laid out on page six of the presentation materials cannot be achieved in one year, but we will be further focusing on SDx servers, storage, and network devices, and network functions virtualization (NFV) going forward.

*Q2: We think NEC has a lead on you in the software-defined networking (SDN) and NFV market in Japan. I feel that it will be difficult for Fujitsu to compete globally in SDx with its current scale, but please tell us how you plan to compete in the market in and outside of Japan.*

**A2 (Tsukano):** In Japan, competition continues to be very severe, but of course we would like to grow our business in Japan. In addition, I think we can expect greater growth from North America. We have built relationships of trust over time with our telecommunications carrier customers, so we think that launching new technology will be the foundation of significant growth.

*Q3: Does your focus on Technology Solutions mean that PCs and mobile phones should be wholly owned subsidiaries with the possibilities of being sold? Also, if it seems like their situation will continue to be difficult, is there a possibility, at the worst, of exiting from these businesses?*

**A3 (Tanaka):** Nothing has been decided at the moment. As for my personal thoughts, I think that by making these businesses into independent businesses, I would like them to make progress in commercializing differentiated products and succeed in launching competitive products.

*Q4: The cloud is expanding in the US. Because the industrial structure of Japan's market is different from the US, it has been said that a Japanese cloud will emerge, but how does Fujitsu see the influence of the cloud in your business by 2020?*

**A4 (Tanaka):** I think there have been different moves between public clouds and private clouds. The market share of public clouds is growing, centered on European and US companies. On the other hand, I think that because private clouds involve a variety of requirements from the customer, you have to respond with a fuller understanding of the customer's business. I think that Fujitsu will compete globally with our recently announced MetaArc platform, but at the same time I think that other companies will be producing a variety of products going forward, so I would like us to continue our cloud business while also connecting with other companies' products.

#### **Questioner F**

*Q1: While you talk about having a sense of urgency, it seems that six months have passed and nothing has been decided. I did not get the impression of a sense of urgency from either the contents of your transformation or from the direction you outlined. The fact that the management metrics have not even been decided leads me to believe there is some kind of disconnect when I hear you say that you will place a priority on speed. What kind of sense of urgency did Fujitsu's executives have when making this plan?*

**A1 (Tanaka):** I will talk about the sense of urgency I feel. Right now, our Technology Solutions segment is performing well, especially in systems engineering services. Still, we do not know how long the business model of systems engineering services will last, so I felt we needed to take action. That is why, as we focus management resources on Technology Solutions, we are changing the services delivered by our systems engineers. We put this framework together over the past several months. Since that framework is now solidly in place, we took this opportunity to announce it. Now it is important to whole-heartedly move ahead with the framework and work to accelerate our pace. As for management metrics, there are various metrics we could consider, such as revenues or profits, but now, as we move forward on our big-picture objective, we are internally considering benchmark metrics, and we are working to put these in place. I would like a little more time before briefing you on them.

*Q2: As you move ahead on your transformation, what kind of frameworks, such as evaluation processes, personnel processes, and authority for investment, are you putting in place to change the mindset of employees?*

**A2 (Tanaka):** One issue I see with Fujitsu is that we need to clarify lines of responsibility a bit more. In the global matrix organization we implemented last year, we put in place an overall framework of responsibility for the regions and business units. Now, to change our business fundamentals, we are concentrating our business units. Considering our current structure and the direction we are heading, I think we need to establish new lines of responsibility in accordance with our new formation, and that is what we are working on now. Aligned with that, we will also move ahead with programs to foster the development of our personnel. At the same time, as the business environment and global environment continue to change, we will accelerate initiatives in line with our new business model, including the reforms in each region, such as EMEIA and Asia, as well as our Global Delivery organization.

*Q3: The 30 billion yen in business model transformation expenses this year are included in the business units. Are the figures you announced today on transforming your cost structure separate?*

**A3 (Tsukano):** Yes, those figures are separate.

### **Questioner G**

*Q1: With respect to your stance on your hardware business, it is difficult to understand what has changed from previous management. While the message on establishment of separate company or wholly owned subsidiaries is very easy to understand, please tell me what is different from previous management about your stance on your hardware business.*

**A1 (Tanaka):** Our thinking on hardware is that we want to emphasize creating software functionality and strongly position it within the context of connected services. For other businesses, we want to make them independent and see them become stronger.

*Q2: I am having difficulty understanding why you are putting out a figure of 10% as the target for your operating profit margin. Previously your target was 5%, and now it seems like you have a completely different figure. To achieve 10%, it would be difficult to assume that there will be*

*no changes in your product mix or business portfolio. Even if your services business were to expand, unless there were to be major changes in your portfolio, I do not think you will be able to meet that target. Given that you have not yet achieved 5%, please tell me why your target is now 10%.*

**A2 (Tanaka):** Our systems integration business in Japan is performing well, but by enhancing its expertise, we can make this area even stronger. The structure we have in mind is to replicate this globally. When doing so, because the platform will increasingly be cloud services, we will also expand our platform globally, and we want to generate synergies. When implementing this approach, even if we put forth an operating profit margin that we could achieve through an extension of our current status quo, that would not represent a true transformation. As a longer-term target, we put forth the figure of 10%, which you may consider high, but we had internal discussions about what kind of change in our fundamentals we wanted to achieve, and we decided upon an overall direction. Now we will execute on a pathway to achieve it. While concentrating our strengths and expanding them, we will move forward step by step, and we will also evaluate whether we are achieving the intended results.

#### **Questioner H**

*Q1: I would like to confirm how things are in your business right now. Was the 12.4 billion yen operating loss for the first half really what you had expected? You also mentioned that there were unprofitable projects, but how were your results when looking at your different business units?*

**A1 (Tsukano):** They were roughly in line with our internal projections. We thought they might be a little better, but the risks we were concerned about materialized.

*Q2: Which business units performed better than expected, and which performed worse than expected?*

**A2 (Tsukano):** Fujitsu's focus area of Services performed well, especially system integration. That said, an unprofitable project dragged down our results, and the figures we achieved were not at a satisfactory level. As for other businesses, for the first half, one could say that the shortfall in Ubiquitous Solutions was covered by Device Solutions.

*Q3: Even though free cash flow in the first half is down dramatically compared to the same period last year, you have not changed your full-year forecast of 60.0 billion yen. My impression is that you have a lot of catching up to do, but what is your view as CFO?*

**A3 (Tsukano):** Compared to last year, our performance in network products was weak in the first half, and the slump in the PC business also had a slight adverse effect, so cash provided from operating activities was slightly lower than we had planned. For cash used in investing activities, we are holding down capital expenditures, but still our free cash flow in the first half was not good. We are certain to make up for it in the second half, so we feel there is no need to change our projection for the full year.

#### **Questioner I**

*Q1: In your discussion of SDx, you mentioned that there will be a polarization, but, depending on the circumstances, is there not a risk that just the commodity side will be chosen? Please tell us how you will be able to prevail in the global market?*

**A1 (Tsukano):** In the new business model we are pursuing, we will concentrate all of our management resources in one segment, Technology Solutions, with services at the core, and that is our major direction, our strategy. In a world where everything and everyone is connected, we want Fujitsu to support that world with technology. In doing so, it is true that we need to strengthen our software capabilities, and we especially have some catching up to do in the area of creating hardware functions in software.

We want to be able to understand what our customers are thinking and what they are expecting from Fujitsu, tie together data from devices over a network with analytics and decision-support tools, and bring what customers want to do to reality. That is the model we are pursuing.

*Q2: I would like to confirm how you are viewing fiscal 2016. At the start of this fiscal year, you said that, with 30 billion yen in business model transformation expenses and currency effects of foreign exchange translation effects of 20 billion yen, you would have a total of 50.0 billion yen in transient factors depressing profits. Since you will implement the transformation this year, can we assume that we can add back that 50 billion yen to the baseline as a starting point for the operating profit plan for fiscal 2016?*

**A2 (Tanaka):** We plan to fully implement the business model change within this fiscal year, but because it is an extremely big transformation, there will be a variety of effects. On the other hand, in terms of keeping a careful eye on how the results of the initiatives this year show up in the results for the following year, we think these two years are very important, and we would like to demonstrate results starting next year.

#### **Questioner J**

*Q1: It sounds to me that, because you do not want to incur huge expenses, you are carrying out structural reforms because you see prospects for actually selling some assets. Is this incorrect?*

**A1 (Tsukano):** It is not the case that we are carrying out reforms because we have something to sell. It is because the reforms are necessary. In carrying out reforms, various expenses will be incurred, and there may be things we want to dispose of or sell if we do not want to damage overall operating profit.

**(Tanaka):** What we presented to you today is a vision of the company we have decided we will become. It is not because we have some assets to sell. Rather, it is because we put together a major framework. With regards to functions and our financial results, however, there are various things we will be working on.

*Q2: Is the vision you presented today something you had in mind six months ago? Is it the case that, ideally, you would have liked to reveal everything today, but that you were unable to reveal everything today?*

**A2 (Tanaka):** Today we revealed the framework, but there are various things we will do from now to keep pace with changes in the environment.

*Q3: If you are able to achieve a 10% operating profit margin, I think you should be able to generate even more free cash flow than you indicate in your target. With this plan, it does not seem as though your asset turnover ratio is improving, but is that because you are considering more capital expenditures?*

**A3 (Tsukano):** In the four targets we have put forth, there is some degree of variation, both on the upside and downside. In light of what we plan to do, please understand that the target for free cash flow is somewhat conservative. Theoretically, we should be able to achieve a higher figure.

#### **Questioner K**

*Q1: I think that you are breaking even in your services business outside Japan, but this is an extremely rare case among global IT service vendors. Previous managers have tried to improve the performance of the services business outside of Japan, without success. What will you do to try to succeed?*

**A1 (Tanaka):** The services business outside Japan varies quite a bit by region. There are regions where the shift to services is ahead of the curve, and areas where it is not. The Asia region, which I was in charge of, was primarily focused on hardware. A globally unified focus on the shift to services is necessary going forward. That is why I think we must spread our expertise to the whole company, including human resource development, and why I want to continue our transformation centered on EMEIA and Asia.

*Q2: If we subtract the operating profit from the first half of the year from the full-year forecast, the target for the second half will be about 160 billion yen, and if we include the remaining 20 billion yen of expenses, then you need a total of 180 billion yen in operating profit in real terms. This far exceeds your highest ever previous record for the second half, and I feel that achieving it will not be simple, given current market conditions, so is it really possible for you to achieve your goal of 150 billion yen for the year?*

**A2 (Tanaka):** We recognize that our plans for the second half of the year will not be easily achieved. In particular, there are risks in our over-reliance on the second half of the year in our network business, but at the same time our system integration business remains solid. Our business varies depending on the industry, but if there are areas where we risk falling short of our targets, we try to compensate in areas that are performing well. Since we have announced our cloud services, I would like that to be one area in which we out-perform.