

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

Date: April 28, 2016  
Location: Fujitsu Headquarters, Tokyo  
Presenters: Hidehiro Tsukano, Director & CFO

### **Questioner A**

***Q1:** Please explain the objectives behind the decision you announced today to make Nifty Corporation a wholly owned subsidiary.*

**A1:** When Nifty Corporation publicly listed a portion of its shares ten years ago, it had two broad goals. One was to expand its ISP business for consumers, and the other was to expand the services business that is triggered by the ISP business. In light of intensified competition and the increasing complexity of the market, however, rather than Nifty Corporation operating independently from Fujitsu, its parent company, and have each company pursue its own business separately, we decided that it would be better to bring the companies together and grow the business, and that is why we have taken this step.

Nifty Corporation's main enterprise service is called "Nifty Cloud," and Nifty Corporation has with agile footwork been providing this service to small- and medium-sized enterprises. By bringing it together with Fujitsu's solid base in the cloud, however, and by integrating it with our newly announced MetaArc and K5 cloud platforms, we will seek to generate synergies.

On the other hand, for Nifty Corporation's B-to-C business for consumers, our objective is to halt the gradual contraction of the ISP business and membership declines through a variety of alliances and partnerships, and we are also seeking new services business that will be generated from such alliances.

***Q2:** Is the move to make Nifty Corporation a wholly owned subsidiary part of your business model transformation, or is this something different? You could have chosen to exit the business or sell it. It seems to me that getting involved in Nifty Corporation's business will bring headaches for you, but please tell us your view on this issue.*

**A2:** We view the move to make Nifty Corporation a wholly owned subsidiary as part of our business model transformation. As we explained one year ago, our business model transformation is a two-year plan, and you should consider this our first move in this fiscal year.

As for our strategy, I think you already understand our strategy on the enterprise side, but on the consumer side, we want to halt the decline in membership and offer new services to existing members. In addition, if possible, we would like to increase memberships in a different form, such as by merging different membership levels, and achieve growth in new ways.

***Q3:** Was this decision on Nifty Corporation consistent with your strategic direction two years ago, or was it the case that, two years ago, you were also thinking about selling Nifty Corporation? In addition, how does this relate to the 45.0 billion yen in business model*

*transformation expenses for fiscal 2016, and what impact will it have on your income and balance sheet.*

**A3:** It is true that, in the past, there were a variety of opinions and many discussions on this issue. In what we have basically been seeking to do, our focus was always on the main objective of determining what we could do to achieve the greatest growth and expansion of Nifty Corporation and its business. In this process, we searched for various forms of alliances, but our core thinking on this issue has basically not changed.

As to the relationship with the 45.0 billion yen in expenses, because Nifty Corporation is a consolidated subsidiary, this move basically will not result in any significant changes to our figures. There will be a cash outflow with the tender offer, but that has already been factored into our forecast for fiscal 2016.

*Q4: Please tell us what impact the earthquake in Kumamoto has on your business.*

**A4:** Regarding the earthquake, we again express our heartfelt sympathies for all of those who were affected. At the present time, we do not yet have a clear idea of what the impact on the Fujitsu Group is. It could be the case that there will be a considerable lag before we see any impact, and if we are just thinking about fiscal 2016, even if there is a temporary impact, there is also the view that any temporary impact could be later offset within the fiscal year.

*Q5: If the effects of the earthquake drag on, other companies may alter their supply chains and may ask for Fujitsu's help in manufacturing. What is your view on this?*

**A5:** What I can say at the present time is that, through the hard work of everyone involved, we would like to see overall supply chains restarted as quickly as possible to minimize the impact on Japan's overall manufacturing sector. If we are just thinking about Fujitsu's own manufacturing facilities, if we were to receive a request for help as you suggested, we would like to do what we can to help.

### **Questioner B**

*Q1: In your previous explanation on the business model transformation expenses, you said that you would incur expenses of 70.0 billion yen in fiscal 2015, but that there would be gains to offset a portion of those expenses, so that the net amount of expenses in the end would be 30.0 billion yen. What was the amount of the gains in fiscal 2015?*

**A1:** A year ago we said that there would be 70.0 billion yen in expenses, offset by 40.0 billion yen in gains. Actually, in fiscal 2015 we were just able to record 41.5 billion in expenses. We are pursuing a variety of initiatives, some of which are behind schedule, so the balance has been carried forward into fiscal 2016.

*Q2: It was presumed that the gains represented gains on sales from selling businesses, but to what extent have you factored gains on sales into your earnings forecast for fiscal 2016. If you have not factored in any gains, what is likely to be the scale of such gains?*

**A2:** For fiscal 2016, we had said that there would be 70.0 billion yen in expenses that would be offset by 70.0 billion yen in gains. As it turns out, we are carrying forward approximately 30 billion yen in expenses and approximately 40 billion yen in gains, so we have 100.0 billion yen in expenses and 110.0 billion yen in gains remaining. Of that, we have only factored into our forecast the 45.0 billion yen in expenses that we can clearly see right now.

***Q3:** In the semiconductor business, process technologies are always advancing, requiring a certain amount of ongoing capital expenditures. Because Fujitsu has outlined a strategic direction focused on strengthening investments in IT services, I get the feeling that the semiconductor business is more of an afterthought for Fujitsu. Please tell us about your strategy in semiconductors and your method for hedging your risks.*

**A3:** As the Mie semiconductor plant strengthens alliances, we are considering how much of an investment we need to make in assets. Based on these alliances, we plan to continue to make capital expenditures to enhance its production capacity to a certain extent.

***Q4:** Are you planning a management direction briefing in fiscal 2016? If so, what will be the timing? And will it include an explanation of your strategy in the software-defined X (SDx)?*

**A4:** Towards the end of this September or the beginning of October we would like to hold a briefing on the progress made on the management direction we announced in fiscal 2015.

### **Questioner C**

***Q1:** Please tell us about business conditions in Japan's IT market. What was the growth rate of your IT business in Japan's vertical markets in fiscal 2015, and what are you projecting for fiscal 2016?*

**A1:** Breaking them out by industry sector in comparison with the prior fiscal year, in fiscal 2015 sales were up 4% to customers in the manufacturing sector, and are projected to rise 1% in fiscal 2016, up 8% in fiscal 2015 in retail sector, and projected to rise 1% in fiscal 2016, up 5% in financial services in fiscal 2015, and projected to decline by 5% in fiscal 2016, down 19% in social infrastructure in fiscal 2015, and projected to decline 1% in fiscal 2016, and up 2% in the public and regional sector in fiscal 2015, and projected to rise 2% again in fiscal 2016. Overall, sales were flat in fiscal 2015 and are projected to be flat in fiscal 2016.

***Q2:** Please tell us to what extent these figures deviated from your projections. In addition, for fiscal 2016, please give us your qualitative assessment of Japan's vertical markets.*

**A2:** For fiscal 2015, results in the manufacturing, retail sector, and financial services sectors exceeded our original projections. On the other hand, as I explained in the presentation, for social infrastructure, sales fell short of our projection even in the fourth quarter. In the public and regional sector, results were in line with our projection. Overall, sales were flat, but we had projected a decline in sales of 2%.

For fiscal 2016, we expect sales in the manufacturing and retail sectors to be strong. In financial services, large-scale deals peaked in fiscal 2015, so we expect fiscal 2016 to be weak. We expect

it will take 1-2 years to recover. As for social infrastructure, we expect continued severe investment spending constraints on the part of telecom carriers, but we are trying to salvage sales by approaching peripheral industries. In the public and regional sector, we expect growth in deals relating to the new “My Number” system, particularly a shift from public sector demand to private sector demand.

*Q3: You said you expect sales in the manufacturing and retail sectors to be strong, but your projected growth rate is only 1%, so the figures indicate a leveling-off in momentum. Should we believe that number, or should we assume it is conservative? Also, please give us more specifics on the scale of your My Number business in fiscal 2015 and your expectations for fiscal 2016.*

**A3:** Overall momentum in the manufacturing and retail sector is strong, with excellent customer engagement, so my understanding is that the growth projection of 1% is a conservative number.

As for our My Number business, originally the entire market was projected to be 300.0 billion yen. In relation to this, our plan was to capture a one-third share of the market for three years. The figures for fiscal 2014, the first year, were extremely low, but please understand the most important years are fiscal 2015, 2016, and 2017. The scale of our business in fiscal 2015 was around 30.0 billion yen, and we expect to achieve the same or slightly more in fiscal 2016.

*Q4: The yen has been strengthening, but do you have any concerns that, because of the strong yen, customers will be less willing to spend on IT investments?*

**A4:** At present, we do not consider it to be a cause for concern.

*Q5: I think your semiconductor business is being affected by the Kumamoto earthquake, but what do you expect the capacity utilization rate for your manufacturing facilities to be for the April-through-June period?*

**A5:** For the January-through-March period, capacity utilization on the advanced-technology line was 90%, and for standard products it was around 80%. For the April-through-June period, we expect it to be around 70% for both the advanced-technology product and standard-technology product lines.

*Q6: Could you give us a hint about the book-to-bill ratio?*

**A6:** I am sorry, but because we spun off the SoC business into a new company, we no longer disclose the book-to-bill ratio. My impression, however, is that it may have slightly declined.

*Q7: Viewed from the outside, it is difficult to understand your business model transformation. Your forecast for operating profit for fiscal 2016 is 120.0 billion yen after subtracting expenses of 45.0 billion yen, but is it correct to assume that, without these expenses, operating profit would revert to 165.0 billion yen? In addition, is that the perspective to take on fiscal 2017?*

**A7:** Yes, I think your understanding is correct. In accordance with the targets we announced in our management direction briefing last year, we are in no way satisfied with our current level of

profit. In terms of a typical cruising speed, companies are expected to be able to achieve an operating profit margin of 5% or more, and to achieve that we want to change our organization, business model, and portfolio. That is why we are spending two years in making thorough and comprehensive changes. As for specifics, please wait a little bit until President Tanaka gives his briefing at the end of September.

**Questioner D**

*Q1: You spent about 10.0 billion yen on structural reform expenses in North America, but how much will this improve your operating profit in fiscal 2016?*

**A1:** The reason our operating profit for fiscal 2015 fell 10.0 billion short of our plans is because of this impact. This is a one-time loss, and going forward, depreciation expenses will be lower. Starting next fiscal year, we expect to record about one-fourth of this amount per year in improvements from the impact of these reforms.

*Q2: About the business model transformation expenses, in your initial explanation it was about 140.0 billion yen of expenses over two years. Looking at the numbers you just announced, however, it seems to be about 90.0 billion of expenses over two years. Does that mean that the 140.0 billion yen was reduced to 90.0 billion yen?  
Also, why has your announcement on the offsetting gains been delayed?*

**A2:** First, the scale of the total number planned for fiscal 2015 and 2016 has not changed since the initial announcement. This was always a ballpark figure, however, and, in particular, we are not thinking that the offsetting gains will simply appear just as part of our operating profit, but rather as part of our profit as a whole, including non-operating gains, depending on the circumstances.

As for your question about why there have been delays in announcing any gains, with regard to what we are trying to do and how we are trying to do it, we naturally want to minimize expenses while at the same time maximizing the positive effects. We want to choose the best from among many options, even if it does take some time.

*Q3: Is the 45.0 billion yen of expenses a net result after gains?*

**A3:** No, it is just expenses. This figure excludes the impact of any potential offsetting gains.

**Questioner E**

*Q1: In your thinking about profits and losses for fiscal 2017, you expect to be able to add back the 45.0 billion yen, but to what extent will there be additional positive effects in accordance with your business model transformation?*

**A1:** There will be a difference in the benefits that accrue depending on the region. In addition, depending on what we do and the way we do it, I think there will be a variety of effects, or that our way of thinking about the benefits accrued in relation to the expenses will change, but I think we can expect beneficial effects on the level of 20.0 to 30.0 billion yen in fiscal 2017.

*Q2: You said that you did not have much in the way of cash outflows from your business model transformation in fiscal 2015, and that they will be carried forward into fiscal 2016, so should we understand that to mean that your cash outflows will exceed the 45.0 billion yen you plan to record in your income statement for fiscal 2016?*

**A2:** After we record expenses in our income statement, the later the execution, the later we push the actual cash outflows. Expenses for fiscal 2015 will result in large cash outflows in fiscal 2016. The impact of what we are doing in fiscal 2016 will come in fiscal 2017. You should understand that there is about a one-year lag between the impact on our income statement and the impact on cash flow.

*Q3: Your total business model transformation expenses for fiscal 2015 and 2016 is about 85.0 billion yen, but how much of that is in cash?*

**A3:** For the impact on cash flow, please think in terms of about 40.0 billion yen each for fiscal 2015 and fiscal 2016.

#### **Questioner F**

*Q1: With regard to the impact of reforms on your forecast for fiscal 2016, you spoke about 5.0 billion yen for your business outside Japan, and 5.0 billion yen in System Platforms, but is there anything besides these?*

**A1:** At this point we do not see any impact of reforms beyond the roughly 10.0 billion yen total for System Platforms and our business outside Japan.

*Q2: In the chart on page 15 of your presentation, you have actual business as +1.0 billion yen, but should this be read as the 10.0 billion yen in reform effects being offset by about 10.0 billion yen in upfront investments?*

**A2:** That is correct.

*Q3: Your Digital Services Group started in April of this year, and it has only been a month, but could you please tell us about its progress so far, such as what sort of issues it is facing and how resources are being distributed?*

**A3:** Digital Services is concentrating on data center outsourcing, primarily MetaArc and K5. In addition, it also includes our network businesses centered on connected services, and it is currently in the midst of consolidation. At the same time, it is also working on building teams specialized for IoT, and investigating and debating what form new services will actually take and what fields it should concentrate on.