Summary Translation of Question & Answer Session at
FY 2016 First Quarter Financial Results Briefing for Analysts

Date: July 28, 2016
Location: Fujitsu Headquarters, Tokyo
Presenters: Hidehiro Tsukano, Director, CFO, SEVP, Head of Global Corporate Functions

Questioner A

Q1: *Please tell us about capacity utilization rates in LSI devices. How do you see the situation in the second half of the year, particularly including the impact of the Kumamoto earthquake?*

A1: We do not see much of an impact from the earthquake. Previously, I said that the 12 inch fab was operating at 100% capacity, focused on demand in smartphones, but due to extensive production cutbacks by the important customer, it was operating at about 80% in the first quarter. In addition, in April we had the mandatory inspection, which happens once every six years, and that had a further negative impact of about 10%. We expect demand to recover in the second half, but there is still a degree of uncertainty.

Q2: *You said that you have not factored in any impact from the Brexit in your risk calculations for this fiscal year, but what about in the medium term?*

A2: Because of the results of the UK's referendum, the markets were in a state of chaos for some time, but now I think things are starting to calm down. Going forward, talks about the Brexit will begin at the end of this year or the beginning of next, so we have about five months left. Beyond that, there will also be another two years before the Brexit actually occurs, so we do not see much of an impact in the near future.

Of course, we can envision negative impacts, but at this stage we could also see that upcoming renewal negotiations might move ahead, including government-related deals, or even be expanded, so I think there are both negative and positive possibilities.

Q3: *With regard to LSI devices, have there been any changes of demand volume from customers?*

A3: With regard to the volume of demand, there is certainly an aspect of risk, but on the other hand, I think it might be an opportunity to win new business deals.

Q4: *You have said that the UK leaving the EU has both positives and negatives, but if, for example, there were impacts on the EU side, wouldn't that have some sort of impact on the business model changes currently underway?*

A4: There are potential problems such as with the passport system, for example, and I think we need to keep a careful eye on the organizational reforms currently going on in the Eurozone, but there have been no changes to the overall plan for the transformation.

Questioner B

Q1: *With regard to the transformation you are currently working on, you have not offered a detailed explanation, so your stock is trading at a significant discount. Will you explain the full picture of this transformation by the second quarter financial result's briefing at the end of October?*

A1: We plan to offer an explanation.

Q2: *You recently announced a collaboration with Oracle in the field of cloud computing, but are you trying to become a cloud hub vendor that connects the world's strongest products to the cloud, without really pushing your own products?*

A2: As a service provider, I think we always need to be thinking about whether we should operate our own products or those of other companies. As part of that, we have the K5 cloud platform as one of our products. On top of that, we have the broad services menu under MetaArc, including PaaS, which we are working to make into one huge core. On the other hand, I think that the greatest strength of Fujitsu's cloud strategy is our ability to respond to the customer's requests and flexibly build applications on any sort of cloud base, including multi-cloud and hybrid cloud systems.

Q3: *With regard to Fujitsu's business structure, I think there should not be very big transformation costs going forward. For example what sort of costs might you consider going forward? You do not seem to have many factories that you need to impair, so will it be centered on staff reductions and so forth?*

A3: What we are working on right now, our aim, is for an operating profit margin of 10%, beginning with planning in fiscal 2015, execution in fiscal 2016, evaluating results in fiscal 2017, further raising management efficiency in fiscal 2018, and reaching our goal by fiscal 2019 or 2020. In the midst of that process, we have two main points of focus. One is to change the shape of the Fujitsu Group's entire business portfolio, and the other is to change its character. As we change the shape, in particular, we estimate that there will be a variety of unavoidable expenses. We never expected much in the way of expenses in the first quarter. Hereafter, I think that many more things will come into view around the end of the first half and in the second half.

Q4: *Will this be a situation where the expenses happen all at once? Or will this be a case of costs building up as businesses such as the cloud proceed?*

A4: By expenses, I mean expenses incurred in structural transformation, beyond ordinary business costs. Of course, we also expect gains on sales of assets, and we are working on a variety of projects that can offset expenses. I think the president will be present to thoroughly explain this at the next management direction review.

Questioner C

Q1: *Will there be an impact on your business strategy from Softbank's purchase of ARM?*

A1: Currently there are many ARM core varieties that have become de facto standards, but in a sense this is an open world, so even if the ownership changes, I do not think the product structure will change very much. In addition, when IoT devices such as wearables come out in the future, we are thinking that we can expand our services business by incorporating ARM cores into our product lineup.

Q2: *I think that your company is similar, in that you are working on IT services while retaining engineers working on things like designing and developing SPARC. I think it is possible that your business opportunities might expand because of Softbank's acquisition of ARM, but I also think it is possible that you will lose market share when low-power servers using ARM cores enter the market. How do you think about your strengths of having both hardware and IT services in this context? Do you think that this sort of company will be an ally or a rival in the long term?*

A2: Fujitsu's engineers have the possibility of using a variety of ARM cores. They can use both SPARC and ARM. I think that what is ultimately important in a service business is not what the CPU architecture is, or what the OS is, or what the final product is, but rather how they are used.

Q3: *In the management direction briefing in October of last year, I think you were aiming for cost reductions on the 100.0 billion yen scale through use of offshoring and implementing K5 as cost structure transformations. Please tell us about how much progress or effect there has been through this first quarter.*

A3: We do not have totals for just the first quarter, so my answer is from another angle, but first, with regard to offshore resources, we stated that we wanted to expand from 5,000 people at the time we announced the management direction last fall, to 18,000 people by the end of fiscal 2017. As of the first quarter, we have expanded to about 9,000 people, including resources still in training. As we shift from high-cost resources to offshore utilization, we would like to utilize these resources in the digital services area and in business deals that previously we were not in a competitive position to win. With respect to using K5 to reduce internal IT systems costs, we had a goal of 35.0 billion yen in five years, and at present, we are continuing to migrate internal systems to the cloud.

Questioner D

Q1: *Please tell us about market conditions for your IT business in Japan.*

A1: Breaking out revenues by industry sector, let me talk about our growth rate compared with the same period last year. In the first quarter, sales to customers in the manufacturing sectors were up 7%, versus projected growth of 6%. Sales to customers in the retailing and distribution sector were up 11%, versus projected growth of 5%, down 3% in financial services, versus a projected decline of 18%, up 24% in social infrastructure, versus projected growth of 10%, down 1% in the public and regional sector, versus a projected decline of 2%, and overall sales growth was 6%, versus our projection of flat sales. Our full-year projections have not changed since last time. We expect sales to increase 1% in manufacturing, to increase 1% in retailing and distribution, to decline by 5% in financial services, to decline 1% in social infrastructure, to increase 2% in the public and regional sector, and to be flat overall.

Q2: *Results for the first quarter have exceeded your projections in every industry. Could you tell us why that is the case, and what the implications are for your full-year projections? In addition, there might not be an immediate impact from Brexit, but could you give us more comprehensive perspective?*

A2: With regard to Brexit, it is not that we are not concerned, but at this point in time we do not see anything specific that will have a negative impact. On the other hand, the investment environment in Japan basically continues to be strong. Last fiscal year we had some large deals in the public sector and in financial services, but they have already passed their peak this fiscal year, so there will be some impact from that, but, even still, the market remains strong overall. What I would like you to note is that, compared with the fourth quarter, the scale of revenues is completely different, so just because the first quarter was good, it does not mean that trend will continue throughout the year.

Q3: *Is the reason you are not changing your full-year projections because, even though recent revenues have been good, there are signs of a decline in incoming orders?*

A3: Incoming orders received in this period also include orders that will not be converted into sales for another year, for example, so just because orders came in at the same time, the period they cover can be different. Recently, orders are becoming more spread out over the year, and we are seeing strong numbers even in current orders.

Q4: *I was thinking that losses in Device Solutions would be even bigger. Please break down the operating profit for LSI devices and electronic components and explain both the current situation and the directionality going forward.*

A4: The losses are in LSI devices, and electronic components posted a slight profit. Certainly you can say that our LSI device business has been working hard, but the yen continues to appreciate, so there is a big negative impact. On top of that demand is also weak, so the impact from these two factors was unavoidable.

Q5: *The appreciation of the yen is continuing into the second quarter and possibly beyond. How should we think about the profitability of your LSI device business going forward?*

A5: I think that, with regard to capacity utilization, we should not have a very optimistic viewpoint, but the business we are aiming to get is reflected in our projections. As for foreign currency movements, I do not know what will happen.

Questioner E

Q1: *Regarding the transformation of your business model, I think your management direction was decided at a Board of Directors meeting held last fall, but since that time a lot has happened in the world. In light of these developments, has anything emerged that now you need to newly address? For the analyst briefing you are planning to hold in late September or October, will you be discussing measures that you have already announced, or are you prepared to talk about initiatives that have not been announced?*

A1: As to whether there is anything new that we will do, in addition to a review of last year's management direction, we would also like to discuss other matters to the extent possible.

There are all kinds of conditions, and there may be some things that we will not be able to discuss with a great deal of specificity, but we think we will be able to talk about a lot of it. That said, there are no impacts from changes in our operating environment that would prevent us from moving ahead with our initiatives.

Q2: *Compared to the previous year, in the first quarter there was a significant narrowing of the operating loss in the "Other/Elimination and Corporate" segment, but all that was written in the explanation was that this was a result of "cost efficiencies." Is this a phenomenon that is limited just to the first quarter, or is it something that will continue in the second quarter and beyond? Are changes emerging that represent improvements in the form of lower company-wide expenses, which had been considered a problematic issue?*

A2: We will continue to work to cut expenses, and that includes company-wide expenses. Please assume that this trend will continue in the second quarter and beyond.

Questioner F

Q1: *You mentioned that there has been an improvement in operating profit outside Japan, but looking at page 25 in the presentation materials, it appears that some regions are performing better than others, and operating profit has deteriorated in the Americas region, in particular. Because you recorded impairment losses on datacenters last fiscal year, with that burden behind you, I was expecting results to improve in the Americas this year, but is it that the beneficial effects of having recorded the impairment have not emerged, or is it that those benefits have been outweighed by weak market conditions? Please tell us more details about your business outside Japan.*

A1: In North America, the area of business known as infrastructure services, which had been an important area for us, is now suffering, and while we are now benefiting from the datacenter impairment losses recorded last fiscal year, business conditions remain severe. We are making steady progress on shifting the business into business application services, a slightly upper layer of high profitability. I think it will take some time to complete this shift, so it appears that the profit picture this fiscal year will continue to be severe. Just by looking at the numbers, please note that in our network products business in North America, investment in infrastructure hardware on the part of telecom carriers has been constrained, and that is having a negative impact on results.

In Europe, to shift our business from hardware to services, which has been the biggest issue we face there, we have been making organization reforms all across Europe, including the UK and Ireland. Last year, movements in the euro and US dollar cross rate caused a very significant deterioration in our operating profit, particularly in our hardware business, but as a result of implementing various pricing measures, performance has sharply improved, even though the business there is still generating losses. While our business in the UK is performing very well, the impact of the recent Brexit movement is cause for concern, so we want to keep an eye on those developments while we firm up our business there.

Q2: *You mentioned that the Ubiquitous Solutions segment performed slightly better than expected in the first quarter, and if exchange rates stay at their current levels, I think there is a strong possibility that its performance will exceed your projections by an even greater extent. From a management perspective, what impact does that outperformance have on the future direction of your business model transformation?*

A2: Basically, if we ask ourselves whether business in Ubiquitous Solutions can increase its operating profit margin to 10%, I would say that it is likely to be difficult. In that respect, there has been no change to the direction of the business model transformation that we put forth last year.

<u>Questioner G</u>
Q1: *Over the past 20 years, you have not been able to achieve an operating profit margin of 5%. Now you are aiming for a margin of 10%, but do you have a concrete scenario in mind for how you will achieve it?*

A1: As I mentioned earlier, in the five years to fiscal 2019 or fiscal 2020, our stance is to conduct planning, to execute, and verify to achieve our goal. The most important point in this process is whether, in fiscal 2017, we can raise our operating profit to a certain level. As you said, the highest operating profit margin we achieved in the past was 4.4%, in fiscal 2000, when our operating profit was 244 billion yen. The issue, however, is how close we can come to our goal in fiscal 2017. The structure of our business has changed, so we cannot make simple comparisons in terms of absolute amounts, but as we look to achieve an operating profit margin of 10% by fiscal 2019 or fiscal 2020, if we view our results in fiscal 2017 as a launching point, it will be an important first milestone showing the extent that we can improve our operating profit margin. We have devised a scenario to achieve this target, but I think the issue is whether we can make progress in our transformation in accordance with this scenario. At our next management direction briefing, I would also like to talk about this scenario.

<u>Questioner H</u>
Q1: *With regard to profits and losses for each segment in the first quarter, Technology Solutions and Ubiquitous Solutions saw improvement, while results in Device Solutions deteriorated. Are there factors beyond the impact of currency exchange movements that account for these results?*

A1: Results in Technology Solutions and Ubiquitous Solutions exceeded our projections, while Device Solutions fell slightly below what we anticipated. With regard to the impact of the strong yen in Technology Solutions, it is benefiting our server business. In addition, Ubiquitous Solutions is enjoying the full benefit of foreign exchange movements. Even in our core businesses, our services business is producing solid profits, and our hardware business is also contributing to the improvement, meaning that large profits are being produced. All of this is in comparison with the previous year, however.

Q2: *Are the losses in LSI devices purely due to the impact of foreign exchange movements?*

A2: Currency movements are a factor, but it is also because actual overall business demand has fallen for LSI devices.

Q3: *Should we understand that the reason you cannot assume a higher capacity utilization rate for LSI devices for the second half is that, at this point, you already have some idea of what demand will be for the second half, and you are speaking based on that knowledge? Or is it that you would like to increase capacity utilization based on demand outside of smartphones? Please tell us about your thinking in terms of time frame.*

A3: The situation is one where we are keeping a close watch on the biggest sources of demand, but visibility is not that long term, and it's not as if we can see what demand will be in the second half. Because there are a number of parts we cannot yet see, this is a situation in which each month we will look to see if we can achieve the specific levels we had anticipated.

Questioner I

Q1: *Your capital expenditures are around 150 billion yen per year, but are these mainly investments in datacenters? In addition, for your investments in datacenters, what is the rough breakdown in terms of land and buildings versus servers and other equipment? As demand for datacenters is expected to increase, there are concerns that it will become difficult to secure space for datacenters. As you look toward the IoT era, what are your thoughts on this issue?*

A1: I think that, as a services company, rather than having an enormous volume of fixed assets, Fujitsu should pursue an “asset-light” strategy. Regarding the demand for datacenters, I think that the production capacity will not be fully utilized. For Fujitsu, right now we have facilities such as Tatebayashi and Akashi data centers, and I think it will take some time before the capacity is fully utilized. Whether, in the future, it is better to own or better to simply use outside capacity is something I think we should evaluate in terms of which is more profitable.

Q2: *Does that mean that, in the future, you would take the property, plant and equipment for datacenters off of your balance sheet by relying on dedicated datacenter providers?*

A2: One could consider a variety of scenarios. One issue that is difficult to handle is the need to secure special high-voltage power supplies, and for Tier 4 datacenters, in particular, there is a need to have at least two separate power supplies, which, to a certain extent, limits the areas in which datacenters can be located.

Regarding our capital expenditures, while expenditures relating to datacenters are high, there are also expenditures relating to our semiconductor device business. It is not as if the entire 150 billion yen is spent on datacenters. That portion accounts for a little over half.

Q3: *When intangible assets are included, your depreciation and amortization expenses are 190 billion yen, and depreciation for property, plant, and equipment is 120 billion yen, leaving a difference of around 70 billion yen. Is the amortization of intangible assets mainly related to your Technology Solutions segment, or is it mainly for the Other/Elimination and Corporate segment?*

A3: It is mostly for the Technology Solutions segment.

Q4: *Within property, plant, and equipment, do investments in datacenters account for a substantial portion of the total?*

A4: Yes, they do.