

## Summary Translation of the Q&A Session at Nomura Investment Forum 2014, Investor Relations Presentation

Date: December 4, 2014  
Location: Palace Hotel, 4F Conference Room I  
Presenter: Masami Yamamoto, President & Representative Director

### **Questioner A**

*Q: Due to the spread of the cloud, I feel that Fujitsu can expand its business with small- and medium-sized companies, but how much of a positive impact will these types of opportunities have on Fujitsu's business?*

**A:** Fujitsu's business model is mainly B-to-B. Within that, between large companies and small- and medium-sized companies, our focus is on large companies. Moving forward, I think spending on ICT by large companies will increase, but I believe there will be an even greater increase in ICT spending in the small- and medium-sized enterprise market, which has an even a broader base. Through our cloud services, we would like to expand our business with small- and medium-sized companies. As we work towards meeting our medium-term targets for fiscal 2016, an important global challenge for us is the extent to which we can bring the cloud to the small- and medium-sized enterprise market.

### **Questioner B**

*Q: The financial performance of domestic companies seems to be on the course to recovery, but in terms of the willingness of domestic customers to invest in IT, what are your thoughts on how it looks in the short term and how it will look one to two years from now?*

**A:** According to statistics, spending on ICT by Japanese companies is about half that of foreign companies. Japanese companies allocate approximately 1% of revenue towards ICT investments, but overseas it is double that, over 2%. Up until now, Japanese companies have been utilizing ICT in a defensive mode. With the advancements in ICT, however, it is transforming from a defensive tool into a vital tool for expanding business. We think that this is a common understanding, globally, and our customers are also thinking about utilizing ICT as a tool for going on offense. I feel that what is important is how well we as vendors are able to prepare that tool.

In this way, there is growing momentum among our customers to increase their value through the use of ICT. It may, however, take one or two years before that momentum shows up in our numbers.

### **Questioner C**

*Q: Lenovo is claiming that they will grab a large share of the Japanese server market, but do you see it becoming a big competitor of Fujitsu in the future?*

**A:** While being a threat, I also perceive the situation to be an opportunity for Fujitsu. In the domestic ICT market, a great weight is placed on one's track record. Customers will

not simply switch over to another company because their products are cheaper. We actively market towards customers who were IBM users in the past.

**Questioner D:**

*Q1: You have undertaken various structural reform initiatives up to this point, but when looking in from the outside, it is difficult to understand what exactly you plan on doing with the Fujitsu Group structure in the future. Please tell me your thoughts on how you plan to approach group company management.*

**A1:** What is important is where we apply our greatest strengths, which is vertical integration and the combination of hardware, software and services as we seek to improve customer satisfaction. My approach to the structure of the Fujitsu Group is based on that. As ICT undergoes rapid change, however, we must think of how much value Fujitsu can deliver, especially in the field of hardware, while paying attention to the changing business environment. It was with that in mind that we significantly streamlined our semiconductor business. The way we define the starting point in our business is changing. In the past, we used to say that we build everything, starting from the components, but now, for us the starting point for everything is the human interface. In terms of the future structure of the Fujitsu Group, it might be necessary to do more streamlining. In your question, you may be wondering what we intend to do with our remaining component subsidiaries, and my thought is that we would like to thoroughly examine our options, including further streamlining.

*Q2: For your fiscal 2014 earnings projections, it seems that you are expecting a greater concentration of business in the fourth quarter than in normal years, but are any efforts being made to even out revenue and profit so that there is less concentration in the fourth quarter?*

**A2:** Fujitsu has, from the past, been using percentage of completion accounting method to level off quarterly variations, but apart from that, I feel that we must change the structure of our business, itself. One part of that is our cloud services business. The cloud is a system where customers pay as they go, and as cloud-type services spread, I think we can expect that there will be considerably less concentration in the fourth quarter. I do not think that the Japanese business practice of spending budgets in the fourth quarter will change much, so it will be difficult to level everything off at once, but we would like to pursue leveling through changes in our business structure.

*Q3: With respect to the medium-term management plan you announced in May, I wonder if you could comment on which business areas have performed better than initially expected, and which areas have been more difficult.*

**A3:** The priority areas of our growth strategy, such as big data, cloud, and mobile, are progressing according to plan. Among those, our performance in mobile, particularly in the area of work style transformation, has been especially strong, and this is where we are seeing results accelerate. We are making good progress on shifting our mobile business to comprehensive solution services, including PCs and mobile phones. On the other hand,

the area where we see major business opportunities but have not yet been able to take full advantage of them is big data. We have many discussions with customers about big data, but if it is not clear how the customer wishes to use the data, they will not benefit from it. We have advanced technologies for collecting and analyzing massive volumes of data, but unless we can reach a meeting of the minds with customers about how best to leverage big data for their business, we cannot move forward. The technologies in this field have become quite sophisticated, so if we can build our track record in showing customers how best to leverage big data, it should become a major pillar of our business.

**Questioner E**

*Q: At the second quarter financial results briefing, your CFO said that your margins may improve because Fujitsu is in a position to be selective about orders, but what is your view on margins for the second half of this fiscal year and next fiscal year? In addition, if your cloud business or big data business were to increase, what is your view of pricing? Would it be a conventional pricing structure in which you add some margin on top of your costs, or would it be a completely new structure in line with benefits to customers?*

**A:** As a major trend, there will be fewer and fewer business models in which we can be sure to capture large margins. Increasingly, the models will involve expanding the types of business we do and, while securing some margin, growing profits by scaling the volume of business. Our competitors in cloud services will go on a pricing offensive with us, so we may need to adjust our pricing accordingly. On the other hand, because there will be more types of cloud services, that will result in greater value, and that is where we see a big opportunity. Fujitsu is not just providing cloud services. Our model is to provide various solutions and make money on the total value we deliver. Rather than viewing the cloud on a standalone basis, we will increase our profits by combining the cloud with solutions and ancillary services. To a certain extent, there is not much we can do to prevent a decline in margins on our conventional business, so what is important is how we can make up for that through a comprehensive solutions.

**Questioner F**

*Q: I heard that, in the second quarter, the reason why operating profit in System Platforms declined in comparison with the same period in the previous year was because there was a deceleration in investment on the part of telecom carriers. Is that still the case today?*

**A:** Yes, it is. We expect a recovery sometime after January, but there were no major developments so far in the third quarter. Because telecom carriers need to invest or they risk losing out to the competition, however, if we look on a 1- to 2-year time horizon, we expect capital spending in the sector will recover.

**Questioner G**

*Q: What areas are you prioritizing for M&A? Would it be particular technologies, such as big data, or particular geographic regions?*

**A:** Fujitsu is a technology-based company, so if there are technologies we need in which our own capabilities are not sufficient, I would like for us to actively seek to acquire them through M&A. Because many technologies are moving toward open standards, however, we think it is very important to take a cold, hard look at what technologies we will choose to make our core technologies.

As for geographic regions, even though we are building our global capabilities, there are some regions where we are relatively weak. For example, in Southeast Asia, a market that is expected to continue to grow, there are countries in which our reach is still fairly limited. For areas in which we are weak and need a customer base, I would like us to supplement our capabilities through acquisitions.

**Questioner H**

*Q: Your regular systems integration business in Japan is booming, and it seems as if you might be short-staffed. Amid concerns about a declining population, it is thought that companies will increasingly expand their investments in ICT, but how do you think that will change the margins in your systems integration business?*

**A:** I do not think the margins in our systems integration business will change very much. Whether a customer thinks a system is cheap or expensive depends on how much value they feel from it. Moreover, price competition is expected to become even more severe. Personnel costs may also rise because of a shortage of talent. We will deal with this situation by leveraging our global development organization, including offshoring capabilities. As part of that, we created a global matrix organization. More recently, we established a global service delivery group so that, instead of dividing our organization into domestic and overseas resources, we can utilize all kinds of uniform global resources, and we have built a cost structure that enables us to compete globally.