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

Date: April 28, 2017
Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, President & Representative Director
Hidehiro Tsukano, Executive Vice President & CFO

Questioner A

Q1: *Previously, you have said that business model transformation expenses would be 140.0 billion yen over two years, while returns would be 110.0 billion yen. Business model transformation expenses for fiscal 2015 were actually 41.5 billion yen, and for fiscal 2016 were actually 44.7 billion yen, so how much do you expect in terms of expenses in fiscal 2017, and how much do you expect in the way of returns?*

A1 (Tsukano): There has been no essential change to the basic scenario of transformation expenses of 140.0 billion yen with returns of 110.0 billion yen. What I want to emphasize, however, is that the operating profit forecast for fiscal 2017 of 185.0 billion yen is for that generated by our core businesses only, and we would like you to focus only on our core businesses going forward.

We spent a total of 86.2 billion yen over the course of two years, which falls short of the 140.0 billion yen, but at the same time, the returns of 110.0 billion yen for the most part have yet to materialize. The business model transformation expenses we will face going forward will be primarily offset by the remaining returns. This is why I would like you to separate out transformation expenses and returns when you consider our core business going forward.

With regard to the results of the transformation, we will thoroughly explain them individually as they arise on a case by case basis.

Q2: *Could you please tell us about your view of the IT services market in Japan this year, in terms of your first-hand feelings about the business?*

A2 (Tanaka): Taking into account a variety of customer projects, we expect that fiscal 2017 will be a bit of a transitional year, but that there will be a recovery from fiscal 2018 to 2019. We will make up for this weakness through such measures as proposing our new digital services and capturing market share from competitors.

(Tsukano): In terms of our perception of the IT market in Japan, for fiscal 2016, we projected overall growth in our revenues of 2%, but we actually achieved 3%, exceeding our projections by one percentage point. We experienced particularly significant growth in our business from the manufacturing sector and retailing and distribution sector, which drove our overall growth, along with the social infrastructure area (networking business). On the other hand, in fiscal 2017, we are expecting revenues to decline about 1%, but we are aiming to build on top of that.

Q3: *With regard to Device Solutions, even though demand for CMOS sensors from your biggest customer has significantly recovered, your actual revenue performance for January through March does not seem very strong. Has your relationship with your customer changed? Also, in your progress report on the management direction at the end of October last year, you indicated that your involvement with devices was getting weaker, but is there a possibility of excluding this area from your consolidated results in the future?*

A3 (Tsukano): Our relationship with our customer has not changed in any way. Until December 2016, it felt more like things were a bit slow, but from January through March things suddenly began ramping up. There will be a slight delay before that is reflected in actual revenue, so it may seem that it is not reflected in actual revenue performance.

(Tanaka): With regard to semiconductors, there has been no change in our overall direction. In order for Mie Fujitsu Semiconductor and Aizu Fujitsu Semiconductor, which are producing 200mm devices, to both further expand their businesses, we are aiming to maximize their business synergies with their respective partners, UMC and ON Semiconductor. With regard to Mie Fujitsu Semiconductor, the launch of a 40nm line in cooperation with UMC is proceeding smoothly, with the goal of creating a business structure that does not rely on a limited number of specific products, including the cultivation of new customers. With regard to Aizu Fujitsu Semiconductor, which is currently producing 200mm products, there is getting to be a shortage of 200mm production lines in the industry, so I think demand is extremely high. It is currently working to accelerate the incorporation of products from ON Semiconductor, its partner.

Q4: *While the 40nm line represents an investment in advanced devices, as the state-of-the-art in logic devices moves to 28nm, I am concerned that you will not be able to make the shift, and you might not be able to maintain relationships with customers. I would like to confirm whether you are planning to search for other customers while demand is strong, or if you are planning to make further investments in advanced devices to maintain relationships with existing customers, or if you are planning to exit the semiconductor business even before then.*

A4 (Tsukano): It is not that we are completely reliant on 40nm. Demand for products that do not require that level of technology is strong. Moreover, we expect that demand will increase dramatically going forward. If we consider our current production capacity, we are not particularly concerned. We expect that strong demand may continue for two to three years. On the other hand, except for the bare minimum of necessary facilities investment, we do not plan to make any further investments to expand basic facilities or production capacity.

Questioner B

Q1: *It seems that the operating profit margin for System Platforms in fiscal 2017 is projected to be 9.6%, which is extremely good, but is this within your abilities? I believe component costs for DRAM and NAND are increasing, which will create problems with costs, but does your forecast of 9.6% take that into account?*

A1 (Tsukano): Increases in component costs are a problem of overall demand, and are having a bigger impact on Ubiquitous Solutions, in terms of PCs and mobile phones, instead. The overall demand for servers is smaller, so the impact of increased component costs is not large, and I believe we have sufficient ability to overcome these issues.

Q2: *With regard to the data center restructuring included in the business model transformation expenses for fiscal 2016, I get a sense that your way of thinking is different than for other transformation expenses. Is it not the case that, going forward, you will have to regularly amortize your capital expenditures in property, plant and equipment for data centers every year? I think Fujitsu is focused on mission critical operations, so how should we understand this expense burden in your strategy going forward?*

A2 (Tsukano): Because we are providing services, I think we have to change our way of thinking with regard to data centers. Originally, we would have continued with a scrap and build concept, but I would like you to understand that, within that process, with regard to things that were previously left alone too long and had become very obsolete, we decided on impairment.

Q3: *Does that mean that the data center-related expenses for fiscal 2016 are just a lump-sum that had built up over several prior years, and that you will not be incurring such expenses every year going forward? Will you be amortizing them periodically?*

A3 (Tsukano): Yes, that is the case.

Q4: *I think that, while Fujitsu is a general electronics maker, it is also good at developing subsidiaries, as was once the case with Nifty, but could you explain your way of thinking about your subsidiary strategy going forward?*

A4 (Tanaka): Essentially, following the management direction, we are concentrating management resources in Technology Solutions. We are looking closely at whether our subsidiaries outside of Technology Solutions have synergies with our core business as independent companies. As a result, I think things will go well in some cases, and there will also be times in which they do not go well, so we are making decisions along the way as appropriate. In the midst of digitalization and a variety of connected services, such as IoT, we are looking to actively take advantage of opportunities in which we can generate a variety of synergies.

Q5: *If you were to create a new company for a business that is closely related to your core business, would you create it internally, or would you use a start-up company through open innovation? What are your thoughts on this issue?*

A5 (Tanaka): Amidst a constantly changing market, I think it is risky to rely solely on businesses that have been nurtured from within Fujitsu. While we want to retain what is good about Fujitsu, if there is a start-up out there with novel ideas, or if we can generate synergies from an alliance with a company with unique capabilities, we want to carefully consider such opportunities. Ultimately we are thinking of synergies from the perspective of our Technology Solutions, which we aim to make our core business.

<u>Questioner C</u>

Q1: *I would like to confirm some points regarding your offshoring operations in the form of your Global Delivery Centers. I believe that, as of the end of December 2016, you had about 10,000 employees in your Global Delivery Centers, but to what extent has the number of employees increased as of the end of March 2017? In addition, has there been any change in your objective of increasing the number to 18,000 employees by the end of March 2018? Furthermore, beyond that point, do you think you will need to further increase the number?*

A1 (Tsukano): As of the end of March 2017, the actual number was 10,000 employees. There has been no change in our objective of having 18,000 employees by the end of March 2018. With regard to how we think about offshoring, while the original rationale for offshoring was to reduce costs, we, on the other hand, view it as a way of securing talented employees. Moreover, we want to secure capabilities. Having employees hone their skills and being able to make full use of their talents so as to raise quality will be one of our challenges as we move forward.

Q2: *Just to confirm, are we correct in understanding that offshoring is one driver for improving your profitability?*

A2 (Tsukano): Yes, that is correct.

Q3: *President Tanaka, in your comments earlier, you mentioned that Fujitsu would confirm the value of new technologies through internal deployments before offering them to customers, but is it really sufficient to move at that pace? When I was listening, I felt that the sense of urgency at Fujitsu has not improved from what it was in the past, but what are your views on this subject?*

A3 (Tanaka): As we explained at the management direction briefing last October, for core technologies, we want to further accelerate the development and commercialization work through Fujitsu Laboratories and the business units, and deliver them to customers. On the other hand, rather than simply offering things that customers have requested, we want to confirm their value through internal implementations within Fujitsu while offering them to customers, so we are thinking about both sides—both speed and implementation.

Q4: *Looking at the category "Other/Elimination and Corporate" in your fiscal 2017 forecast, it does not appear to be very different from fiscal 2016. I had been under the understanding that Fujitsu's management was aware that this presentation was a problem, but that awareness does not appear to be reflected in the initial forecast. What kind of timeframe do you have in mind for reducing expenses in this category?*

A4 (Tsukano): We are not satisfied with the present figures, and we want to further reduce expenses in this category. My hope is that, after this fiscal year, we can present actual figures in more precise categories.

<u>Questioner D</u>
Q1: *Up to now, you have spent 86.0 billion yen in business model transformation expenses, but please tell us what the effects have been. Particularly in the Services sub-segment, you are projecting an improvement in profitability in fiscal 2017, but what are your thoughts about the*

effects of conventional structural reforms, such as headcount reductions, and business model transformation initiatives?

A1 (Tsukano): The impact in fiscal 2015 was minor, but the effects starting in fiscal 2016 exceed 15.0 billion yen. Still, the effects of measures implemented do not become immediately apparent. It often takes about two years. In that respect, we did not enjoy the full effects in fiscal 2016. Roughly speaking, we will see the full effects starting in fiscal 2017, and we are anticipating an impact of around 30.0 billion yen. Because the main impact is on fixed costs, please understand that it appears that it is just an improvement in the cost structure of our core business.

(Tanaka): If I may add my comments, in our business model transformation, we are also investing in fostering the development of our employees. We integrate our technology with our personnel for delivery to customers. There is a time lag before the return on that investment materializes. While it did not materialize in fiscal 2016, as CFO Tsukano just explained, it will gradually materialize starting in fiscal 2017.

Q2: *Just to confirm, in the hypothetical event that your revenue in fiscal 2017 was flat, can we still expect that there is a possibility of operating profit increasing by around 15.0 billion yen?*

A2(Tsukano): Yes.

Q3: *Regarding the dividend for fiscal 2017, I think 10 yen was the highest you had paid in the past. It is fine to increase your dividend to 11 yen, but in terms of the dividend payout ratio, it will still be lower than both last fiscal year and the prior fiscal year. As you aim for an operating profit margin of 10%, I assume your operating profit will increase, but what are your thoughts on future dividends? Please tell us your rationale for choosing 11 yen for fiscal 2017.*

A3 (Tanaka): You talked of our dividends being higher than ever before, but there was a time, in the early days of Fujitsu, when the dividend was higher than 11 yen. Our basic stance on dividends is to provide shareholders with a stable return. Taking into comprehensive consideration a variety of factors, we decided to increase our year-end dividend for fiscal 2016 by 1 yen, and to increase our full-year dividend for fiscal 2017 by 2 yen. So that it is not just a transitory increase, we want to continue to expand our earnings over the long term, and accordingly continue to increase shareholder returns.

<u>Questioner E</u>

Q1: *Your forecast for operating profit in the Services sub-segment for fiscal 2017 is 202.0 billion yen, but did this include a gain on the sale of Nifty's consumer division?*

A1 (Tsukano): It is reflected in our company-wide figures, so there are also business model transformation expenses equivalent to the gain on sale. As a result, the operating profit from our core business would be 185.0 billion yen.

Q2: *In terms of actual amounts, how large a gain on sale is included? Is it about 15.0 billion yen?*

A2 (Tsukano): You can assume that it would be roughly that amount.

Q3: *Your fiscal 2017 forecast for cash flows used in investment activities is 140.0 billion yen, but does this figure include proceeds from the sale of shares in Fuji Electric from the announced the change of cross-shareholdings?*

A3 (Tsukano): No, we have not included any proceeds from the sale of shares in Fuji Electric.