**Summary Translation of Question & Answer Session at FY 2017 Second Quarter Financial Results Briefing for Analysts**

Date: October 26, 2017
Location: Fujitsu Headquarters, Tokyo
Presenters: Hidehiro Tsukano, Senior Executive Vice President & CFO

**Questioner A**

***Q1:*** *Regarding your performance in the second quarter in relation to your internal projections as of July, which businesses underperformed and which outperformed relative to your expectations, and why? Also, you have not changed your full-year guidance, but how do you expect to catch up in the second half of the fiscal year?*

**A1:** Performance varied, depending on the business, but our Services business was strong. It was the network products business that somewhat dragged down our performance. To explain the background, in last fiscal year's second and third quarters, there was very strong demand for wireless base stations for mobile phones, but demand this year is lower in unit volume terms, and, on top of that, we also have competitors to contend with. Currently, our operating profit projections for that business are skewed to the fourth quarter, so we have to pay very careful attention to developments there.

Overall, our Technology Solutions is performing well, and we view it as being strong. Another factor that we expect to boost profits is the performance of our business outside of Japan, particularly in Europe, which was an important focus of the business model transformation initiatives we began to implement last year, and we are hopeful that we will see concrete results from those efforts, but we also realize that there is a risk that our expectations will not be fulfilled.

Some of the products in our Ubiquitous Solutions segment are considered to be cyclical or seasonal in nature. For retail sales of PCs, it used to be the case that sales were concentrated around the summer and winter bonus seasons, but now the main selling season is largely centered around January. Enterprise sales of PCs tend to be concentrated at the end of the fiscal year. We have high hopes for the new models we have launched, including the world's lightest model and all-in-one models, so we expect our performance in this area to be relatively strong. Mobile phones are products for which the period to launch new models is especially clear, so we launched new models in the first quarter, when demand was at its peak. That said, we had no new models in the second quarter, and, in any case, the demand cycle had already peaked. We will launch more new models in the second half, so we have a bullish view on our mobile phone business. Overall, we believe the Ubiquitous Solutions business is solid.

As for Device Solutions, the recovery in demand has significantly boosted our profits, and foreign exchange trends in the first half had a beneficial effect, creating tailwinds for our operating profit. We expect these trends to continue in the second half. However, we think there are risks surrounding foreign exchange movements. In addition, while current market conditions for both electronic components and semiconductors are very favorable, a large semiconductor manufacturer in Taiwan, among others, is already reporting a decline in profits, and if that is a leading indicator, we may face some risks a year down the road. However, we think the solid performance of our Device Solutions business should continue until at least next summer.

***Q2:*** *Regarding your business model transformation, previously you had said that you were hopeful that for the PC business things would be dealt with in the first half, and that for other businesses that things would be concluded in the second half, but what is the status of progress in the transformation of your PC business?*

**A2:** I did not intend to refer just to the PC business, and my recollection is that I was referring broadly to commodity hardware businesses. I said that we were about six months behind our original schedule, and that, for semiconductor components, we were about twelve months behind schedule, indicating that it would be around the first half and around the end of the fiscal year, respectively, but it is true that we are behind schedule. We are making steady progress in the PC negotiations, and, to use a soccer analogy, we are now in the additional time period. I would like to say that I hope to have a relaxing Labor Thanksgiving Day (November 23).

As for mobile phones, we are in the midst of advancing the process, and while it is true that we are behind schedule, we are confident that we can get it done.

As for devices, there is no deviation from the scenario we have outlined up until now. I apologize that it is taking so long, but we plan to do exactly what we said we would do.

**<u>Questioner B</u>**

***Q1:*** *Was the 27.3 billion yen gain on the sale of shares in Fuji Electric factored into your projections?*

**A1:** The gain on the sale of shares in Fujitsu Electric was not factored into our net profit projections. Ordinarily it would be our regular financial plan and a little something extra on top of that, but our forecast of 145.0 billion yen for profit for the period is the highest in Fujitsu's history. As CFO, no matter what, I would never want to be in the position of making excuses afterwards if we had to lower our forecast, so, to some degree, this time we have been using figures that we can achieve with a high degree of certainty. I am sure that, as investors and analysts, you pay close attention to our forecasts for profit for the period, and you expect to hold us to them, so we do not want to betray those expectations.

**<u>Questioner C</u>**

***Q1:*** *Regarding your business model transformation expenses, you were just talking about possible risks, but were you referring to the possibility that the 45.0 billion yen in costs you incurred in the second half of last fiscal year would produce no results? Does that mean that you no longer have confidence that your overhead costs in Europe will be reduced? If not, when do you expect the improvement effects to materialize?*

**A1:** Effects are materializing from the costs that we incurred, but that is in the form of propping up profits. What we are really expecting is for better core business performance. So far, however, our business has not improved as much as we had anticipated, so there is some risk that we will not actually reach the level we had originally expected.

***Q2:*** *You explained that you generated an operating profit in your Services business outside of Japan in the first half, but what was the improvement effect from the business model transformation initiative?*

**A2:** The effect is included in the figures for the first half. It does not reach the level of double-digit billions of yen, but it is in the high single digits.

***Q3:*** *Please tell us the factors that could impact your efforts to improve profits, setting aside market trends, in order to achieve an operating profit margin in the 6% zone in the second half. For example, if there are factors such as the possibility of large-scale contracts or efforts to reduce expenses, please tell us about those.*

**A3:** I will give my answer by segment. For Services in Japan, our orders for large-scale contracts had entered a valley after peaking sometime earlier, but this fiscal year things are gradually recovering, and we are certain that they will grow significantly as we move toward 2020. Our large-scale projects for financial institutions and My Number-related deals have passed their peak, but deals in the manufacturing and the retailing and distribution sectors are filling in that valley. If even more large-scale projects come back, we will naturally see numbers trending upwards in fiscal 2018 and beyond. Our Services business outside Japan needs to make up more ground going forward, and the essential question is whether the profits we are expecting will materialize. I am not worried about mission-critical hardware, such as servers and storage, but in network products, investment in 4G is falling off, while at the same time the number of competitors is increasing, so we cannot look at this as a period of strength. Things will recover when investment ramps up in 5G before the Olympics, so I think if we can properly catch that wave, we can expect numbers to trend upward. For PCs and mobile phones, we have been shoring things up for the past while, and it has now become a steady business for us. Also, we have produced some extremely competitive products in PCs, so we expect steady earnings, and I think if we successfully carry through on the projects currently under way, we can make this business grow dramatically. The mobile phone business has its ups and downs depending on the season, but it is fundamentally sound, and I think it is also producing sufficient profits.

Devices has particularly high volatility, so I would like us to keep a very careful eye on market conditions for mobile devices and IoT devices. In summary, I think that the businesses we are redefining as connected services will produce positive trends for the next 3-5 years.

**<u>Questioner D</u>**

***Q1:*** *Could you please give us your sense of the state of the IT market in Japan, both at present and the outlook going forward, by industry?*

**A1:** Our full-year forecast for revenue compared to the previous year is growth of 3% for the manufacturing sector, growth of 1% for retail and distribution, a decline of 1% for finance, a decline of 7% for social infrastructure, and a decline of 1% for the public and regional sector, for a total decline of 1% overall. For the second quarter, revenue is up 3% for manufacturing, down 1% for retail and distribution, down 6% for finance, down 8% for social infrastructure, and down 9% for the public and regional sector, for a total fall of 5% overall. In the first half, the first quarter was strong, so looking at the whole picture, overall revenue was nearly flat.

***Q2:*** *What sorts of changes have happened since your last set of forecasts?*

**A2:** For our forecast for the full year, we expect revenue from customers in the manufacturing sector to be about 2% higher than we projected in our previous forecast. Our projections for retail and distribution, as well as financial services, have essentially not changed, while we have raised our projections for the social infrastructure sector by a few percentage points and lowered our projections for the public and regional sector by a few percentage points, compared to our previous forecast, so overall we think the numbers are not that different from our initial forecast. We take the view that the figures we are seeing from the manufacturing and retail and distribution sectors will more than make up for any weak spots in other sectors. We originally thought revenue from the financial services sector would be weak, but it has not fallen to that extent, and it looks like it is heading toward growth. In the social infrastructure sector, despite the impact of the weakness in network products, the outlook is for stronger performance than last year. In the public and regional sector, we have not been able to compensate for the loss of revenue from certain large projects that have peaked out.

***Q3:*** *Your forecast for this fiscal year projects both Services and System Platforms producing significant profits in the second half, but could you please explain your way of thinking with regard to this forecast?*

**A3:** For Services, we expect things to be skewed toward the second half, particularly the fourth quarter, in which we expect to see very significant profits. We not only expect to reap the benefits of our business model transformation outside Japan, but we also based this on how much we expect to be able to grow our core business. In addition, if the yen keeps trending weaker, revenues will increase —at the same time, however, profits could move in another direction depending on the dollar/yen and euro/dollar rates, so our final results may be somewhat different than what I have said today, depending on that impact.

***Q4:*** *I think your operating profit forecast for System Platforms in the second half will be quite difficult to achieve. How do you think you will manage to achieve an improvement in operating profit of more than 10.0 billion yen even as your revenues are levelling off?*

**A4:** I also touched on this somewhat previously, but I think sales are strong for servers and storage. The only segment that is deviating significantly from our operating profit forecasts is network products. In Japan, the periods in which demand for network products has been concentrated this fiscal year are the direct opposite of last year, while overall demand in terms of unit volumes is also contracting, so our ability to deliver profits will depend on whether we are able to secure orders and generate revenue in this situation. Our forecast for the fourth quarter is quite high, so I see an equal mix of opportunity and risk, whether or not we can achieve this. Outside Japan, we expected that in the first half we would be able to launch a new product, which we have been working on since last year, and that those sales would contribute to profits, but there were considerable delays in development, and we were not able to achieve this goal. We have been able to recover from the development delays themselves, but the question is how much more we can make up in the second half. So we have a significant profit forecast for the fourth quarter for a completely different reason than for our business in Japan, but that does not mean we are unaware of the risk.

**Questioner E**

***Q1:*** *In your second quarter results, did revenue fall for solutions and system integration services? In addition, you wrote that "operating profit rose due to revenue growth" in the first half in Japan, but if we just consider solutions and system integration services, did operating profit fall?*

**A1:** I think revenue fell slightly. One point that I would like to make is that I think the market for system integration services in Japan is growing at around 1-2%. In particular, I think that the number of players who can handle large-scale business deals has decreased, which is making the environment better and better for us. In this sort of market environment, I think that this fall in revenue is just a matter of a shift in timing, and that, as a business, system integration is extremely strong.

***Q2:*** *With regard to the lower operating profit, I believe last year you recorded a loss due to temporary factors, but to have operating profit fall in the second quarter in light of that, does that mean this year there are also temporary factors causing a fall in operating profit?*

**A2:** There are no temporary factors. There are numerous factors contributing to the downward swing, and there were a few too many deals that were not booked in time, and I think the accumulation of these factors is making it seem that it is not growing. It is not the case that profitability has structurally deteriorated.

***Q3:*** *You said that revenue from infrastructure services increased in yen terms, but what is the situation of your business outside Japan when looked at in local currency terms? Also, how has performance compared to forecasts for each region?*

**A3:** The situation by region is that, in Asia, business is strong, and Oceania is also passably strong, while in the Americas we still have more work to do, and in Europe the situation is split between risks and expectations. Europe is the largest in terms of the scale of revenue, so that is where we will be looking at how to contribute most to profits going forward.

***Q4:*** *Are your order numbers and revenue for businesses outside Japan moving in line with your forecasts?*

**A4:** I think we are thoroughly reaping the harvest that will provide our daily bread. Beyond that, we are taking on the challenge of harvesting even more, or, in other words, obtaining large-scale, high profit contracts, but you win some and you lose some.