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

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Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, President & Representative Director
Hidehiro Tsukano, Senior Executive Vice President & CFO

Questioner A

Q1: *On page 17 of the slides, could you please give us a breakdown of the 30.0 billion yen in increased profits you forecast for your actual business for fiscal 2018? What degree of higher profit impact do you forecast for each of the three measures listed? With regard to reducing unprofitable projects, in particular, what degree of losses were incurred due to unprofitable projects in fiscal 2017, and how much do you plan to reduce that in fiscal 2018? What specifically will you be doing to strengthen your assurance capabilities?*

A1 (Tsukano): With regard to the three measures, we forecast around the lower 10.0 billion yen range of impact per policy. For growing upfront investments, in particular, unprofitable projects were around the upper 10.0 billion yen range in fiscal 2017, which we plan to reduce mostly by about half. At the same time, with regard to the impact of business model transformation, while the impact has been rather delayed, we expect it to be somewhat less than 10.0 billion yen. In total, it will be an improvement of 30.0 billion yen. We have set forth a plan with extremely achievable measures.

Q2: *With regard to the impact of business model transformation, what sort of impact did you see in fiscal 2017, particularly in your infrastructure services segment?*

A2 (Tsukano): The impact in fiscal 2017 was on the order of 20.0 billion yen. We expected a greater improvement in profits than that, but it is a fact that it has not had the impact we hoped.

Q3: *For "Other/Elimination and Corporate," you forecast higher expenses for fiscal 2018 compared with fiscal 2017, but could you give us a breakdown of that? For your profit forecast for fiscal 2017, you included about 20.0 billion yen in risks, but does your forecast for this year include that as well?*

Also, your assumption for the euro/dollar cross-rate is 1 dollar to 1.10 euro, but looking at the current situation, that seems like a very conservative assumption. If component prices were to stabilize, due to your collaboration with Lenovo, for example, then would it not be the case that, if euro/dollar rates were to continue at current levels, you would see benefits from foreign exchange in fiscal 2018?

A3 (Tsukano): The forecast of 104.0 billion yen for "Other/Elimination and Corporate" does not include risks. One thing I would like you to keep in mind is, while this amount includes upfront investments in each segment, this will be adjusted going forward. The results of those investments have not yet been sorted out, so they are not included. In light of this situation, the operating profit forecast for fiscal 2018 of 140.0 billion yen is a number we will definitely hit, and represents a “bottom-level” figure that we will raise going forward with a variety of initiatives. As for the euro/dollar rate, if the foreign exchange situation were to take a turn, and prices were to rise or fall two or three months behind those market movements, generally more than half of the foreign exchange impact would end up being absorbed. Therefore, we do not think we can take an optimistic viewpoint, and we have not incorporated foreign exchange impacts in our forecasts, so this is certainly a severe and conservative view.

Q4: *In terms of shareholder returns, you increased dividend amounts to a dividend payout ratio of 28%, but on what basis are you raising the dividend to 15 yen? In addition, with regard to stock buybacks, looking at the jump in your free cash flow, I think you could have increased the amount a bit. Why did you decide on 10.0 billion yen? If your free cash flow rises again this fiscal year, should we expect further stock buybacks?*

A4 (Tsukano): In general, we consider that shareholder returns should be done through dividends. We definitely do not want to suddenly raise the dividend, and then lower it again when times get tough. We are constantly considering higher levels of dividends. Cash flow has begun to recover steadily, and we are also improving our balance sheet. If anything, the scale of our shareholder returns had previously been quite small, so we would like to provide steady returns to all our shareholders going forward. In particular, returns this time include profits from the sale of financial assets, and we decided on a certain proportion of that, so we settled on 10.0 billion yen. Going forward, we would like to pursue a high level of returns centered on dividends.

Questioner B

Q1: *In your financial results briefing for the third quarter, you said that you had not revised your thinking with regard to the profitability of your various core businesses, but your remarks today included some signs of regret, realizing that, in the end, you had set your goals too high. Looking back on fiscal 2017, where did you go wrong in your management? Was there a lag in management decision-making because of some kind of gap between management and the front lines that prevented information from smoothly making its way upwards?*

A1 (Tanaka): I think there are a number of factors. First, in the case of network products, as the result of our long-standing, ongoing relationships with our customers we set overly optimistic projections. There were extremely tight restrictions on investment spending throughout the year. In light of those circumstances, we have set our numbers for fiscal 2018 based on the premise that the business environment will be very tough, as we are factoring in the risk that we are still not going to be able to foresee how the situation will unfold.

Unprofitable projects, another one of these factors, are something about which we are always sharing information internally. Our systems integration business in Japan continues to see strong sales, and we have been able to manage large-scale projects in our social infrastructure and finance sectors. The downside of this strong business is that, as the scale of individual projects has become much smaller, and the number of projects has increased, project management became negligent. In the end our countermeasures came too late.

Finally, as we shifted our businesses outside Japan to digital, we also included personnel shifts in that effort, but we focused too much on personnel in our shift to digital, which resulted in reduced support for our legacy businesses. In fiscal 2018, we would like to revive that support. We were sharing information, but I cannot deny that we were slow in acting on it.

Q2: *You have said that you will definitely achieve your operating profit forecast for fiscal 2018 of 140.0 billion yen, but I believe that you are considering your management direction and future transformations to your business structure as we head toward October. I think that, as a result, you are assuming a variety of possible expenses and profits from the sale of businesses. What is your reason for making the point of promising 140.0 billion yen at this point? Could you not have also chosen to say that you would not be issuing any guidance on your results forecast because you were not clear on your circumstances?*

A2 (Tanaka): We have reflected on the fact that, for our financial results for fiscal 2017, we had no choice but to revise our numbers downward on an actual business basis, but at the same time, I would like us to act without hesitation in fiscal 2018. This forecast takes into consideration the allocation of profits derived from the transformation of our business structure. However, in addition to that, we must also build the pillar of our core businesses. Just because we are doing this transformation does not mean we will not invest in growth. There are new areas where we are seeing a response, so we aim to properly see the benefits of those areas. After stringently reviewing the fiscal 2018 plans with our business and sales units, we took the perspective that the 140.0 billion yen is an amount our actual business can definitely deliver.

Q3: *You are shifting your strategic expenses for your network products business and your Ubiquitous Solutions business to "Other/Elimination and Corporate," but I hear many investors voice the opinion that Fujitsu puts all of its expenses under corporate-wide expenses, so it is no longer possible to see what the expenses are for. The view is that Fujitsu is unable to set an appropriate level of capital expenditures and development expenses for each business segment, and the fear is that you will become undisciplined in your P&L management. While other electronics manufacturers are managing expenses by each business segment rather than on a company-wide basis, Fujitsu is going in the opposite direction. What is your view of this point?*

A3 (Tsukano): Regarding the transformation of our business structure and transformation of our growth strategy, the one that is taking more time than we anticipated is the latter. By changing our structure, we are closer to becoming the services-oriented company that we aspire to be. Accordingly, initiatives or investments that previously had been dispersed among different business areas are now becoming much more narrowly focused. It may appear now that our expenses have ballooned, but if you go back and look at our figures in a time series, it is clear that there is a change to a much narrower focus—in other words, you can see a qualitative change. It is not as if we are storing everything there so that nobody can understand what we are doing.

<u>Questioner C</u>

Q1: *You said that the impact of the restructuring of your Ubiquitous Solutions business would be to reduce operating profit in fiscal 2018 by 20.0 billion yen, but how do you get that figure? I do* *not believe the remaining PC sales business or retail mobile phone shop business is in the red, so why would it reduce operating profit? Are you factoring in some kind of risks?*

A1 (Tsukano): The reason is not because of losses. This is indicating a decline in profit due to businesses leaving our portfolio as a result of restructuring.

Q2: *Operating profit in fiscal 2017 in Ubiquitous Solutions was 11.3 billion yen, so how are we to reconcile that with your figure for fiscal 2018?*

A2 (Tsukano): We had factored in growth for fiscal 2018, so our figure is roughly 20.0 billion yen.

Q3: *In your full-year forecast for fiscal 2018, the 30.0 billion yen in profit that you are giving as the improvement in core business does not correspond to an increase in revenue. That being the case, where is the additional profit from the increase in revenue you expect from your Services business in Japan?*

A3 (Tsukano): In formulating our forecast for operating profit, we made severe assumptions about our core business.

Q4: *For the 10.0 billion yen revision to upfront investment expenses, what business segments will be affected? Also, I think there already is an issue about how large "Other/Elimination and Corporate" is, but are you considering whether to reduce it in the future?*

A4 (Tsukano): We definitely will reduce "Other/Elimination and Corporate" down a level. For our investments in AI, for example, we are consolidating the amounts that had been spread among other operating segments, and we will sort through and rationalize the remaining amount.

<u>Questioner D</u>
Q1: *You said that the operating environment for your network products business is very severe, and I certainly believe that is true, but when you say that you are taking a severe view of your network products business and projecting zero profit, is not even that projection too optimistic? How are you viewing 5G and other trends 2-3 years in the future?*

A1 (Tanaka): Regarding the projections for fiscal 2018, please understand that we have brought together various data, and we view fiscal 2018 as the bottom. On top of that, we are in a globally competitive environment, and based on the premise that we still do not know how 5G will develop, even for Japan, we want to consider a variety of options and then take action. In that sense, too, we would like a bit more time before we give you further details.

(Tsukano): As we have explained in the past, in no way are we taking an optimistic view of the operating environment for network products. Although we had assumed that some portion of capital spending on 4G would continue, our view was that it would be very limited, but it actually fell considerably below even that level. To give you an idea of the scale, in three years our business fell to about one-tenth of its previous volume, and we simply did not foresee such a slowdown. You commented that our projection of break-even might be optimistic, but in our forecast, we are viewing it as there being nothing at the very bottom, and then assume conditions crawl up from there. Under these circumstances, we have to consider all scenarios for this business, including scenarios in which we do not go it alone, so it is going to take some time. It is especially difficult to forecast the crossover from 4G to 5G. Even though we know it will happen as we move towards 2020, we do not know what will come at the beginning. We feel we cannot be optimistic about this, so we are assuming a level that is as low as we can go.

Questioner E

Q1: *You said that you are considering all options for your network products business, but is there a possibility that you would exit the business of mobile phone base stations?*

A1 (Tsukano): We have no intention of exiting the business of mobile phone base stations or, for that matter, the network products business.