Summary Translation of Question & Answer Session at
FY 2016 Second Quarter Financial Results and Management Direction
Briefing for Analysts

Date: October 27, 2016
Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, President and Representative Director
Hidehiro Tsukano, Director, CFO, SEVP, Head of Global Corporate Functions

Questioner A
Q1: *On page 26 of the briefing materials for the management direction, where you describe the progress of cost reductions, it states that the total impact of cost reductions is 36.0 billion yen, but is this reflected in the operating profit targets for this year? If so, then that means that, if there had been no impact, operating profit would be much lower, so could you explain about the actual condition of your business, excluding the impact of these cost reductions?*

A1 (Tsukano): First, with regard to the cost reductions, there are parts where, for example, personnel expenses rise, or where we provide cost reductions to customers. As a result, there are parts where the effects of these cost reductions are absorbed within the business, and the cost reductions do not necessarily lead to overall increase profits.
I would like you to understand, however, that without these policies our profits would have decreased.

Q2: *When referring to company-wide cost reductions, are you referring to a day-to-day effort to reduce costs carried out over the course of many years?*

A2 (Tsukano): Exactly. For example, we are recording lower costs in component procurement and the amount by which we have been able to hold down headquarters expenses.

Q3: *You explained that an operating profit margin of 5% is within the realm of possibility for fiscal 2017, but if your revenue is, for the sake of argument, 4,000 billion yen, then an operating profit margin of 5% would generate an operating profit of 200 billion yen. If we add the 45 billion yen of business model transformation expenses back in to your 120 billion yen forecast for this year, that would give us a starting point of 165 billion yen, so to get to 200 billion yen, you would need to raise your operating profit by 35 billion yen. What would that 35 billion yen consist of?*

A3 (Tsukano): Please understand that the figure of 5% is a figure that is conceivable by transforming our business structure. We would like add to this by taking steps aimed at reducing costs, such as headquarters expenses, creating a base of profits. Then we would like to improve our core business on top of that, to improve our profit margin.

Q4: *Do you mean that, by reducing costs and improving your business structure, you will increase your profits in fiscal 2017?*

A4 (Tsukano): Yes.

<u>Questioner B</u>
Q1: *Since your appointment as President Tanaka, I have had the impression that you are pushing your structural transformation forward with a greater sense of urgency than previously, but could you tell us about something in the past year that was particularly difficult or which required unusual effort, and how you overcame those hurdles to achieve your objective?*

A1 (Tanaka): In announcing the management direction, I knew that, just because I put forth my ideas, it does not mean that anything will be executed. I had put forth a plan to concentrate management resources in Technology Solutions, and create a company that could increase earnings around the world in digital services, but we had to build consensus while proposing numerous specific plans to achieve this, then carry them out and get actual returns. It took time to bring the whole company together. It was not a simple case of cutting this and that, and adding that or the other, but endeavoring to make the company move internally by coordinating together in a comprehensive way, taking an approach that would create synergies. We took great pains to bring the consciousness of all our employees to a place where this could be done properly. I think we are now in a place where the whole company can share this vision.

<u>Questioner C</u>
Q1: *On page 28 of the management direction briefing materials, would it be correct to understand the reference to digital transformation expenses to mean expenses related to personnel? Also, you said earlier that you were eliminating about 3,300 positions and adding about 1,200 new positions, but will these 1,200 new positions be mainly in the UK? Does this mean you have already added them?*

A1 (Tsukano): 30 billion yen of the 45 billion yen in business transformation expenses is related to personnel, as it is expenses for changing skillsets.
These expenses include education expenses and costs for integrating into existing organizations.
The 30 billion yen will be centered in Europe, but it also includes expenses in other regions.
We have just begun to strengthen our personnel, but the prospects look good.

Q2: *What is the timing on achieving an operating profit margin of 5%? Is there also a possibility it will be in fiscal 2018? In addition, you previously explained that over the two years of fiscal 2015-16, you would use 140 billion yen in business model transformation expenses, and further that there would be 110.0 billion yen in "returns" to offset expenses, but what is the status of this?*

A2 (Tanaka): There are parts of the details of achieving an operating profit margin of 5% that are not just measures we are taking internally, but are cases that also involve outside parties, so there are things we cannot answer at this time. We expect that, if we successfully execute the transformation of our business structure as envisioned, a level of 5-6% will be within the realm of possibility. In the process beyond that, aiming for 10%, I think it will be necessary to transform our business portfolio toward growth.

With regard to the 140 billion yen in expenses, again it involves outside parties, so I cannot give specifics at this point, but I would like to finish this process as quickly as possible. As for the measures that will take us from a 6% operating profit margin to 10%, the first is raising the profitability of our systems integration business in Japan. We will advance this goal through efforts such as offshoring and automation using digital technology. The second measure is to improve our overall profitability by properly establishing our digital services unit. The third measure, outside Japan, is to reorganize in EMEIA to catch the wave of digitalization, and to raise our profitability in the US as well. We think that if we can implement these three measures, we can move from the 5-6% zone to 10% operating profit margin.

A2 (Tsukano): Among the things we are calling "returns," some will have effects on operating profit, some on net financial income, and some on cash flow, so please consider it the sum of all of those effects. We have sold off a few small assets in this first half, but they are not at a level sufficient to be worth detailing, so we would like to give a further explanation at the appropriate time, incorporating both the first half and the second half.

Q3: *On page 7 of the presentation materials for the management direction, could you please explain the various meanings of the solid lines, dotted lines, and the ones without lines connecting them? President Tanaka, do you believe that you will be able to successfully complete the structural transformation you were planning for fiscal 2016?*

A3 (Tanaka): We are proceeding on the idea that we will concentrate our management resources in Technology Solutions, and we would like to make the parts of our business outside of Technology Solutions into strong independent businesses. By saying "strong, independent businesses," I do not mean we will be cutting them off entirely, but rather we will be deepening our cooperation with businesses that have synergies that could further strengthen Technology Solutions. We would like to look at the relationship between them, while also looking at the individual businesses. In order to achieve this, we first have to create their basic structure. From fiscal 2015 through to fiscal 2016, we envision successful completion of this, which is a process I am personally eager to complete.

<u>Questioner D</u>

Q1: *In the diagram on page 7 of the management direction briefing materials, Ubiquitous Solutions and Device Solutions each have three small circles. For Ubiquitous Solutions, this looks like PCs, mobile phones, and Fujitsu Ten, and for Device Solutions, this looks like semiconductors, Shinko Electric, and FDK. For fiscal 2017 and beyond, it changes to either a dotted line or no line at all. Does this mean that in the future further reforms will be implemented?*

A1 (Tanaka): It is just a conceptual diagram, and it is not as if each circle represents a specific business. Just to repeat, we are considering all options with respect to these independent businesses. We are examining what synergies there may be with Fujitsu's core business, and then we will decide.

Q2: *You are exploring a strategic cooperation with Lenovo, but Lenovo also bought IBM's x86 server business, and it is expected that there will be further cost reductions or synergies. In addition, the SDN and NFV fields of networking, as well, there is the potential for broader use of* *general-purpose servers. In light of this, is there a possibility of a broader strategic cooperation with Lenovo in the area of system products?*

A2 (Tanaka): We have just started discussions with Lenovo about our PC business, so I will refrain from commenting beyond that, including on whether there will be further announcements in the future.

Q3: *I understand the use of AI, IoT and big data in digital services, but I am not certain that the ICT market will actually grow as digitization advances. Right now, it looks like consulting companies are growing. Will Fujitsu be able to ride the digitization wave when it arrives?*

A3 (Tanaka): With respect to AI, currently customers have yet to embrace it in their core operations. They are looking at phased deployments using approaches such as consulting projects and field trials. We are also increasing our personnel in this area to meet their needs, and have also started field trials with many customers. Still, this is just the first step. AI is a means for automating the intellectual tasks performed by people. We think that is where breakthroughs will occur and new business models will emerge. As to what forms it will take, I think ideas for each company will emerge in the course of competition. For that purpose, too, we are conducting internal implementations. For example, through such initiatives as converting the knowledge of system engineers to AI, we will think about new business models. We will be examining it in the steps of digitization, but we believe that AI will be widely deployed in the future, and we think the ICT market will also become bigger.

Questioner E

Q1: *I would like to confirm what you have explained so far regarding the 140 billion yen in business model transformation expenses over two years. If we take 41.5 billion yen in fiscal 2015 and add 45 billion yen so far this year, we get 86.5 billion yen, so is it correct to understand that we will see the remaining 53.5 billion yen for something in the second half of this fiscal year? Also, regarding the "returns" of 110 billion yen, there was nothing last year, and the only thing I can imagine this fiscal year is capital gains of about 10 billion yen for the transfer of a portion of shares of Fujitsu Ten to Denso. Will we see something specific for the remaining 100 billion yen in the second half?*

A1 (Tsukano): As I explained earlier, we do not consider the 45 billion yen planned for this fiscal year to be a definite amount. We want to fully complete everything we have to do. The expenses come first, and the returns come with a time lag. We will start to see some of those returns in the second half, but please understand that we would not record others until fiscal 2017 or possibly fiscal 2018. What is also important is cash flow, and that is how we want to view matters.

Q2: *Viewed in terms of cash flow, roughly what are the returns? Should we assume that there will still be some cash outflows?*

A2 (Tsukano): As we record the 41.5 billion yen and 45 billion yen in expenses, there will certainly be some cash outflows.

Q3: *Does that mean that the timeframe you had indicated of fiscal 2015 and fiscal 2016 might be delayed?*

A3 (Tsukano): There is a possibility that it will be delayed.

Q4: *In fiscal 2017, because you will transfer a portion of shares of Fujitsu Ten to Denso, are we correct in understanding that its results will no longer be consolidated? And are we also correct in understanding that, for your PC business, as well, when you formulate your projections for next fiscal year, you will also take out its results?*

A4 (Tsukano): For Fujitsu Ten, it is true that, after the final agreement goes into effect, its financial results will be eliminated from our consolidated results. As for the PC business, since we are now in the midst of considering various approaches for a strategic cooperation, I cannot answer at the present time.

Q5: *Regarding the path toward an operating profit margin of 5%, when you complete the reforms you have announced, is it correct to assume that several tens of billions of yen of losses will instantly disappear from Other/Elimination and Corporate, and your operating profit will increase by that amount?*

A5 (Tsukano): That is exactly right. In other words, that must happen.

Questioner F

Q1: *You paint an idealistic picture in your management direction, but I get the feeling that the execution timeline keeps getting more delayed. You have talked about an operating profit margin of 5% for fiscal 2017, but is this part of the idealistic picture, or is it a commitment?*

A1 (Tanaka): We did actual simulations, and we could see it in the 5% zone. If it was just our plan, I could show you the factors, but some parts involve other parties, so I cannot talk about them. As for what we are planning, there may be some parts that get pushed back into fiscal 2017 or beyond, but all of our decisions will be made in fiscal 2016.