Summary Translation of Question & Answer Session at
FY 2018 First Quarter Financial Results Briefing for Analysts

Date: July 26, 2018
Location: Fujitsu Headquarters, Tokyo
Presenters: Hidehiro Tsukano, Senior Executive Vice President & CFO
Takeshi Isobe, Executive Vice President, Head of Corporate Finance Unit

Questioner A

Q1: *Please update us on the progress you have made in changing the skillset of your employees in Europe for new business. Looking at operating profit by region, Europe posted a loss in the first quarter, but what stage are you on, and how will Europe contribute to profits in the future?*

A1 (Tsukano): The upgrading of employee skillsets in the EMEIA region does contribute to profits, and we certainly see the effects of improvements. That said, the region is still not profitable. So far, we have only succeeded in reducing the size of the losses. For the past two years we have been working to upgrade the skillset and transform our business model, but we have not been able to capture new business areas. We are headed in the right direction, but we have not made progress fast enough, so accelerating the speed of our progress is the most important point.

Q2: *With respect to your business model transformation, in addition to selling majority stakes in your PC business and mobile phone business, and selling the LSI device production facility in Mie, today you made an announcement about Fujitsu Component. It appears that you have basically completed the transformation of your business structure, but you have left your full-year profit forecast unchanged because of the possibility of continued transformation initiatives. What are you thinking of now, and what are you trying to do?*

A2 (Tsukano): In terms of how we intend to use the one-time gains, it will not necessarily only be used for business model transformation initiatives. We are also planning on using it for a variety of other measures. I cannot discuss details at this time, but we are also considering lateral moves, and not just specific areas. In particular, in terms of transforming our business structure, there is still work that remains to be done, so we want to do that, and I hope I am able to discuss it with you during this fiscal year.

Q3: *I would like to ask about shareholder returns. Your cash position is greatly improved, and more cash will come in from the sale of your Mie facility, but how will you allocate that?*

A3 (Tsukano): With respect to shareholder returns, I cannot give you specific target levels, but we realize that, from fiscal 2016 until the first half of fiscal 2017, the rates of shareholder returns were low. Although our policy has been to pay stable dividends, there have been times in the past when we paid no dividend. To avoid that happening again, we want to be able to pay stable dividends, and at a high level. We are thinking of shareholder returns primarily in terms of dividends, but we recently executed some share buybacks, and we will continue to keep them in mind, because we want to think in terms of total shareholder returns.

<u>Questioner B</u>

Q1: *Regarding the change in your retirement benefit plan, you had about 150.0 billion yen in reserves for your retirement benefit plans in Japan, and there was a one-time gain of 91.9 billion yen in the first quarter, so I think that about 60% of your pensions in Japan have now shifted from a defined benefit plan to a defined contribution plan. On top of that, on page 28 of your materials, you state that the impact of higher contributions from the second quarter through the fourth quarter will be 5.0 billion yen, but isn't this too low? Currently, I think you are contributing about 50-60 billion yen a year for your defined benefit plans, and about 20 billion yen a year for your defined contribution plans. Given that volume, I would have thought that the increase in your contribution would be around 20-30 billion yen, but is it only this year that it will be limited to just 5.0 billion yen? Or will it still be this amount next year and beyond?*

A1 (Tsukano): To explain the increase in the contribution, in shifting to a risk-sharing corporate pension plan, we pay a special contribution and one more, a risk reserve contribution for future risks, and these are the major factors behind the higher contributions. Rather than just this year, the higher contributions will continue for about three years, but after that, the company's burden will decrease. As the source of funds for the special contribution, we will use the cash received from the sale of our shares in Advantest, so we are thinking of ways to minimize the burden on the company.

Q2: *Please explain the background to the widening operating losses for your business in the US, as shown on page 24. Are you still piling up development costs for your network products business?*

A2 (Tsukano): At the end of fiscal 2017, a contract expired for the services business with a large customer, and the impact of that loss of business in fiscal 2018 is fairly large.

Q3: *To what extent are you making progress in holding down new investment spending in Other/Elimination and Corporate?*

A3 (Tsukano): In terms of upfront investment areas, we are thinking in terms of two major issues. The first is that we want to limit the scope of investments just to those for which we can foresee a certain return. We have been doing this since the beginning of the fiscal year, but some that we were unable to stop still remained in the first quarter, and we still do not see any certain benefit from them. The other issue is that, when we try to stop certain investments, we anticipate having to pay related exit costs, but these have not materialized. What happened is that the expenses we were unable to cut were offset by the exit costs that did not materialize. We did not make much progress in the first quarter, but we are working on it, and I think we will begin to see the effects starting in the second quarter.

Q4: *With the switch from the defined benefit plan to a defined contribution plan, I think that your defined contribution plans will increase by about 1 trillion yen, and therefore your contributions will also increase, accordingly. Won't there be more regular payments that will impact your profit and loss statement?*

A4 (Isobe): We have shifted from a defined benefit plan to a risk-sharing corporate pension plan. There was an impact on our profit and loss statement in that we make a special contribution, and there was also a one-time settlement of any past shortfall. After making the special contribution, a gain of 90.0 billion yen remained. In terms of future portions, there is the risk reserve contribution, but in the past, we had to make a special contribution whenever the investment performance was poor, so we benefit from that being eliminated, and the increase in the contribution from the risk reserve contribution is not very large. Although it is comparatively large this year, it will only be about 1-2 billion yen starting next year. In terms of cash flow, we will be making contributions for the next 3-4 years, so there will be cash outflows, but we intend to use the retirement benefit trust for that. Therefore, even in terms of our cash position, there will not be a large impact.

Questioner C

Q1: *What is the magnitude of the one-time gains, and which business segments are involved?*

A1 (Isobe): The pension-related gain was 91.9 billion yen, and it was posted to the "Other" account in the Other/Elimination and Corporate segment. Regarding the semiconductor business in Mie, we do not anticipate that there will be much of a gain or loss, and since the transaction has yet to close, it is not included in this year's forecast. For the majority sale of our PC business, it is recorded as 11.5 billion yen in operating profit, and 11.5 billion yen in financial income. The operating profit was posted to the Other/Elimination and Corporate segment.

Q2: *Starting this year, because a portion of the AI and IoT expenses and upfront investment are being reallocated, I think that is why the losses in the Other/Elimination and Corporate segment increased. Compared to the previous year, please tell us which segments are affected the most.*

A2 (Isobe): With respect to AI and IoT, we are putting a lot of effort into this area company-wide, so basically we are consolidating it in the Other/Elimination and Corporate segment and trying to manage it in an integrated way. In the first quarter, however, the amount was not that large, on the magnitude of just under 5.0 billion yen. Although AI and IoT-related expenses increased a bit, there were other areas that we reduced, so expenses have not increased that much, once we take out special items.
(Tsukano): As promised, we are seeking to hold down investment spending and limit it to investments for which we see a clear return. As I touched upon earlier, although we were unable to put a stop to some investments, some of the costs associated with stopping certain projects also did not materialize, so the end result was that these two effects offset each other, with a net effect of zero. In that sense, I cannot see that we have been able to achieve actual savings. Starting in the third quarter, we expect to be able to see a certain amount of savings.

Q3: *In your business model transformation, you have already spoken about the majority sale of Fujitsu Component and the sale of your semiconductor facility in Mie, but I think there are a variety of other candidates you could consider as well, such as Fujitsu General, Shinko Electric, and FDK. At the present time, if you have made any decisions regarding certain businesses, such as that you will not sell it, or that you intend to make changes so that it is no longer consolidated, please let us know.*

A3 (Tsukano): In terms of transforming our business structure, we have basically been referring to the commodity hardware businesses of our Ubiquitous Solutions and Device Solutions segments. Fujitsu General is not part of those segments, but we have been saying all along that we want to transform Fujitsu into a services-oriented company. Within that context, for big businesses like Shinko Electric and Fujitsu General, I think we need to spend more time deciding what to do. Shinko Electric is just starting to develop a new core business, so we need to think about that while considering how it might be combined or what partner might be best. It is not just a matter of capital. We are looking in a variety of directions, such as what technologies could be acquired. On the other hand, for Fujitsu General, we do not think we have to do anything right now. We need more time, but you should understand that we do not intend to make exceptions to our overall strategy.

<u>Questioner D</u>
Q1: *Operating income in Services was 11.0 billion yen, but when we consider that, in the previous year, there were costs associated with a legal dispute outside of Japan, is it fair to say that, on an actual basis, profit declined?*

A1 (Tsukano): Because there were one-time expenses last year, results should improve this year without expenses, so, yes, you are correct in pointing out that operating profit was weaker. It is a very slight decline, however, basically on par with last year, and please understand that the core portion remains very strong.

Q2: *You explained that some business was shifted from infrastructure services to solutions and system integration, but if you exclude that business, is the solutions and system integration business growing?*

A2 (Tsukano): In the solutions and system integration business, while there was a portion that was lost, aside from that, the core is strong. Moreover, orders are very strong, especially in the manufacturing sector and retailing and distribution sector, so please understand that this is an area that can sufficiently recovery leading into the second half by converting these orders.

Q3: *Looking at different industry sectors in Japan, which sectors do you think your business will see especially strong growth?*

A3 (Tsukano): Our business with customers in the manufacturing sector and retailing and distribution sectors is growing by double digits. In financial services, growth has slowed since last year when we had large-scale projects. In the public sector, large-scale projects tend to come in cycles of 4-5 years, and through last year we had been in a trough, but since then we began to receive orders, and these should begin contributing to sales from this year. Taking this and other factors into account, I think our business is becoming strong again. The social infrastructure sector includes a network business component, and because network investment spending has been weak, that part has had a large adverse effect on our business, but our perspective is that we can make up for that with the growth of our business in other sectors.

Q4: *For your business outside of Japan, currency movements for the euro and pound should be having a positive impact, but revenue still declined. On an actual basis, how bad is the situation,* *and is it worse than you anticipated, or on par with your projections? Also, please tell us your outlook.*

A4 (Tsukano): Our business outside Japan is more or less in line with what we anticipated, but there is no denying that it is weak.

Questioner E

Q1: *You said that, on a core business basis, performance in your Services business was roughly flat, but looking at the industry environment, if it was roughly flat, I think it is hard to describe it as strong. On the contrary, it does not look very good. Could you tell us about factors that are contributing to low profitability or tough competition in the current market?*

A1 (Tsukano): I will refrain from commenting on specific business domains, but in our Services sub-segment, there are core areas and non-core areas, and we faced severe conditions in the non-core areas compared to last year, and that made our overall performance in the sub-sector look worse.

Questioner F

Q1: *Looking at the factors behind the change in operating profit, I think your results in the first quarter show an operating loss of 4.8 billion yen on an actual business basis. In the second quarter and beyond, what will change to return you to profitability?*

A1 (Tsukano): Looking at different market sectors, orders from customers in the manufacturing sector and retailing and distribution sector for the second half are piling up to a very significant extent. If we pull those through, we will get very significant results. We do not have high expectations for the financial services sector, but we would like to maintain the level we achieved last year. In the public sector, we are seeing a return of large-scale deals, and we expect them to continue until they peak in fiscal 2020. In social infrastructure, the main area where conditions are severe is networks, and a big issue is how quickly there will be a recovery. On the other hand, in enterprise PCs, we expect to see significant demand this year for upgrades from Windows 7. As for LSI devices and electronic components, we expect performance to be roughly the same or possibly a little better. As for our Services business outside Japan, we expect the speed of the recovery to remain very slow, and we do not anticipate any large improvements this fiscal year.

Q2: *Regarding your business in Europe, looking at your results by segment and factoring in the legal expenses you incurred last year, even though revenue declined, if we take out non-recurring expenses, it appears that your results were flat in terms of operating income. Could you briefly explain what increased and what decreased?*

A2 (Tsukano): In Europe, through a transformation of our business model, we are upgrading our skillset and trying to shift as quickly as possible into new areas of business. In our legacy business, the size of each deal is large, and revenue is recognized over several years. We want to shift from this area into the digital services area, and we have implemented a variety of measures, but even large deals in the new area are 100-200 million yen, so we would need to win dozens of deals just to make up for one of our legacy deals. Things did not go as ideally as we imagined, and we ended up unintentionally reducing the size of our overall business. We need a more balanced approach, in which we continue to win deals on the legacy side, so we are implementing a course correction in which we reallocate resources.

Q3: *You said you are not reflecting the gain from your retirement plan in your full-year forecast, but is that because you have not yet determined the size of the expenses you plan to incur, or is it because you expect to need to incur that level of expenses?*

Also, regarding Shinko Electric and Fujitsu General, has there been any change in your priorities for your transformation? For example, there may be a transaction that is of higher priority, and therefore you are focusing on that?

A3 (Tsukano): First, regarding the gain relating to the retirement plan, we are planning to record expenses in the second half, and we have specific measures in mind, but if we add up these expenses, they are not as large as the one-time gains. We still need to firm up the details. I would like all of you to focus first on our main business. We will strictly control the gains and losses from non-recurring items, and I will discuss them with you when the timing is clear.

Regarding Fujitsu General and Shinko Electric, we do not intend to change our thinking. For example, upon Fujitsu having become a services company, is Shinko Electric a business that we should continue to own, or is Fujitsu General a business that we should continue to preserve as a core business into the future? I think the answer is "no." On the other hand, in transforming our business structure, some transactions take priority. Our initial focus was on large-scale commodity hardware businesses and our highly volatile device business. I think it is best that we take our time and think seriously about Fujitsu General and Shinko Electric. We would like to work on thinking about what would be best for them as solid, stand-alone businesses.

Questioner G

Q1: *Trade disputes are becoming a problem around the world, but in what ways will this affect your company's business? Please tell us about the positives and negatives.*

A1 (Tsukano): I think that the US-China relationship is drawing the most attention, but thankfully the impact on our business of the targeted commodities is extremely small. We do an extremely small amount of business exporting from China to North America, to the point that it would not be overstating things to say we do essentially none at all. We will need to keep an eye on this going forward, but please understand that, as things stand, there will be almost no impact.

At the same time, however, there is also some kind of direct economic friction, and then behind that many things are happening on a variety of levels, such as technological conflict, so I think we will need to take proper countermeasures in this area.

Q2: *It seems like you significantly changed your cloud strategy in June. What is the background behind this shift in direction toward a multi-cloud strategy, and what is your goal?*

A2 (Tsukano): There has been no change to our policy of putting K5, developed in-house, at the forefront, and moving into the market to expand sales to customers, but at the same time, we have had many requests from customers wanting to use different products. We hope to expand revenue utilizing our ability to handle a variety of integration work, one of Fujitsu's strengths, using various types of outside clouds or partner cloud technology that can satisfy customer needs. We use multi-cloud as a general term for this.

Questioner H

Q1: *You said that orders are increasing for your IT services in Japan, in areas such as manufacturing. retailing and distribution, and the public sector, but could you give us more specifics on what sort of changes are happening, in terms of things like the scale of the change, your degree of certainty, and project timeframes.*

A1 (Tsukano): Results with regard to orders received in the first quarter have now come into focus. We have a general sense of the first half, and we believe that these areas are clearly on the path to growth. For the second half, we are closely examining a number of possible pipelines, and they seem to be stronger than they have been previously.