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

Date: April 26, 2019
Location: Fujitsu Headquarters, Tokyo
Presenters: Hidehiro Tsukano, SEVP and CFO
Takeshi Isobe, EVP and Head of Corporate Finance Unit

Questioner A

Q1: *For fiscal 2019, you said that you expect an increase in operating profit of 20 billion yen from your business in Japan, but you also said that you expect 20 billion yen in cost savings from your resource shift, and my understanding is that most of these savings are in Japan. If that is the case, then, aside from the impact of the cost savings, does that mean you expect your business in Japan to be essentially flat?*

A1 (Tsukano): Our IT services business in Japan has performed exceptionally well in fiscal 2018, achieving a record level of sales. There are various views about whether, in fiscal 2019, the business will plateau, or whether it will grow even further, but for now we have decided to position our forecast for that business as being flat with fiscal 2018 levels. We are right in the midst of passing the baton from our existing management to our new management, so, with regard to our thinking about fiscal 2019, after a period of time we would like to take another opportunity to explain our thinking about fiscal 2019 and beyond.

Q2: *With regard to your business outside of Japan, sales are on a downward trend in the UK and elsewhere, so I think there will be a need for either further reductions in headcounts or measures to increase sales, but could you tell us what you plan to do from a long-term perspective?*

A2 (Tsukano): The biggest country outside of Japan in our services business is the UK, but the country for which we have the highest expectations is Germany. Currently, the political situation of major European countries is on shaky footing, but, while we have been told to expect fallout over Brexit in the UK, we expect our business environment to be comparatively strong, and we would like to expand our public and private sector business. Germany is the head of the Eurozone, and, in terms of the country’s industrial structure, we have customers both among global companies as well as companies with strong positions in niche markets, and we would like to focus mainly on these customers to grow our services business. In particular, we would like to expand new cloud-related business. Having created a solid foundation in these areas, that is where we are expecting sales growth.

Q3: *Your balance sheet is in a net cash position, and, in terms of shareholder returns, the trend of your dividends is up. What is your thinking with regards to acquisitions?*

A3 (Tsukano): With regard to shareholder returns, our basic policy is to continue stable dividend payments. Accordingly, as our profits grow, we would like to increase the absolute level of our dividends. Beyond that, our current stance is to undertake share repurchases when necessary. As for acquisitions, while we are not considering any major acquisitions at the present time, we want to continue to carry out smaller acquisitions to gain new business models or tool sets.

Q4: *I believe the transfer of your LSI plant in Mie prefecture is not progressing, but when do you expect it to be completed?*

A4 (Tsukano): Our thinking is that it is just a matter of time before it will be completed.

<u>Questioner B</u>

Q1: *You said that you would lose 200 billion yen in LSI sales, but am I correct in understanding that, in terms of its accounting treatment, your Mie plant is classified as a discontinued operation? Even if the sale of the plant was delayed or you needed to have a different buyer, would it still be considered a discontinued operation?*

A1 (Tsukano): It will be included in our operating results for fiscal 2019, so it is not a discontinued operation.

Q2: *You said your systems integration business performed well, but please tell us the growth rate for your Technology Solutions revenue in Japan in fiscal 2018 and give us a sense of business conditions in each industry segment.*

A2 (Isobe): For the full year, revenue increased by 4% in fiscal 2018. The areas of manufacturing, retailing and distribution, and public sector and regional business were strong, financial services was flat, and social infrastructure was relatively weak. In particular, revenue from the manufacturing sector grew by double digits. For fiscal 2019, we are currently expecting growth of 1%, but conditions right now appear to be stronger than that.

<u>Questioner C</u>

Q1: *With regard to your structural reform expenses, if we subtract the amount disclosed up to February from the full-year total of 117.5 billion yen, that leaves about 28 billion yen. What is this being used for?*

A1 (Tsukano): It is mainly for structural reforms in Europe, with expenses covering the closing and consolidation of unprofitable or marginally profitable locations.

Q2: *You said that the benefits from your reforms would emerge starting in fiscal 2020, but please tell us the reason why it will take so long to see benefits from the reduction in overhead expenses from your reforms in Europe.*

A2 (Tsukano): Of the transformation that has taken place in Europe, the location with the most number of employees is the factory, but we cannot just suddenly declare one day that we will shut it down and not make anything anymore. For a certain amount of time, we will shift to make things at a different place. Because employees will remain during that period, it will take a bit more time for benefits to emerge. We expect it will be in the latter half of fiscal 2020.

Q3: *I think expenses associated with the closing of the factory were included in the 43.6 billion yen in expenses you posted in the third quarter, but am I correct in assuming that, for the 28 billion yen in expenses posted this time, it will similarly take a certain amount of time for the benefits to emerge?*

A3 (Tsukano): Yes, for unprofitable or marginally profitable locations, we cannot simply shut them down and not operate anymore. While keeping in mind the continuity of our business, we will reduce our locations. Please understand that is why it will take a bit of time.

Q4: *In the presentation materials at the time of the announcement of your third quarter results, I believe you had about 10 billion yen in improvements to your core business. If we subtract that from the improvements for the full year of 34.1 billion yen, we find that operating income in your core business improved by about 24 billion yen in the fourth quarter. I understand that your profit structure is skewed to the fourth quarter, but, in contrast to the tone of your business up until the end of the third quarter, it appears that everything suddenly improved in the fourth quarter. What happened? In addition, even though operating profit in your core business improved by 34.1 billion yen in fiscal 2018, why does it appear that improvements in your core business suddenly stop in fiscal 2019?*

A4 (Isobe): I realize that it appears that we had lackluster results up until the end of the third quarter and that everything suddenly got better in the fourth quarter, but, as we said from the start in our guidance, our forecast was predicated on a very large scale project being concentrated in the fourth quarter of fiscal 2018. Of course, we had high expectations for the fourth quarter, and we achieved them.

On top of that, in fiscal 2017 and fiscal 2016, we had some losses on unprofitable projects in the latter part of those fiscal years, but we were able to hold down such losses in fiscal 2018, so it had the result of boosting the profits of our services business in Japan.

On the other hand, because our results in fiscal 2018 were so good, our forecast for fiscal 2019 may appear to be unsatisfactory. One reason is because our sales revenues for our services business in Japan hit an all-time record in fiscal 2018. Internally, in some areas we are facing a shortage of resources, and while we think the market in Japan will remain strong, our current forecast is that our sales will plateau. There will be some benefit from our resource shift, but in other areas we have a cautious outlook. Regarding this, we would like some additional time, and as our management structure changes, we would like to go over this again with you.

<u>Questioner D</u>

Q1: *For fiscal 2018 you had business model transformation expenses of 117.5 billion yen, while for fiscal 2019 you are forecasting 15 billion yen, so what sort of scale of effect will this transformation have?*

A1 (Tsukano): I think there will be two main effects. The first is the effect of the resource shift in Japan. I would like you to understand that this will have immediate effects beginning in fiscal 2019, and that it will have an effect of about 20 billion yen per year. On the other hand, the effects of the restructuring in Europe, as explained earlier, will only come slowly, as personnel will be gradually reduced. I would like you to envision that effects will gradually grow starting in fiscal 2020, and overall reach between 5 and 10 billion yen.

Q2: *It seems that you are not forecasting any changes to profitability in fiscal 2019 except for the amount of the reduction in fixed costs. On the other hand, you have been saying that the environment is not bad, so in that case, why is your forecast flat compared to the previous year? You've said that you will be handing things off to new management in fiscal 2019, but is there also a possibility that you will undertake some upfront investments, depending on circumstances?*

A2 (Tsukano): It has only been less than one month since the names of the new management were announced. We hope to hold the management direction review for this fiscal year as soon as possible, so I think that will be an opportunity to once again talk about not just fiscal 2019, but also the path to our goals beyond that. With regard to the current profit level forecast of 130 billion yen, we are of the opinion that we would like to set it there for now and look at it again later. In that sense, I hope that you will understand that we have made very conservative forecasts.

Q3: *I think it can be assumed that IFRS16 will have an impact on your balance sheet and on your profit and loss statements, but how much have you taken that into account for this year, especially with regard to profits and losses?*

A3 (Isobe): We think that the impact of IFRS 16, which concerns leases, will be insignificant in terms of profits and losses. The major change is that the amount of the lease will become a depreciation expense, but that will not have a very big impact. The impact on the balance sheet will have some scale, which we are assuming will be about 170 billion yen on balance.

Questioner E

Q1: *You have forecast 15 billion yen in business model transformation expenses for fiscal 2019, but does this include additional expenses for unprofitable locations in Europe? Do you have some sense of the time frame, and have the costs been decided? Or is there a possibility that you will have further added expenses in Europe?*

A1 (Tsukano): With regard to additional expenses in Europe, please understand that when we talk about separating off marginally profitable locations, the number of affected regions is quite large, and there are some that we were not able to make allowance for in fiscal 2018.

Q2: *Then, should we understand that with this 15 billion yen, you will have reached your goal for now?*

A2 (Tsukano): With regard to Europe, we will more or less reach our goal this year.

Q3: *While the effects of the business model transformation done in fiscal 2018 will come out positive, as you are forecasting reduced profit from your business outside Japan, could you tell us where specifically will those reduced profits occur, and will they continue structurally, or are you also looking at your business outside Japan a bit more conservatively?*

A3 (Tsukano): This is connected to my earlier statement about the factory, but while we talk about restructuring unprofitable locations, that does not mean that one day we suddenly stop the business – we gradually ramp down, so that means that the effects will come slowly. In addition, because the back-office units supporting those locations will also likewise be cut back, it will require some time before the effects occur.

<u>**Questioner F**</u>
Q1: *At the Management Direction Progress Review held last year, you said that core business operating profit for fiscal 2019 would be 150 billion yen. Now, that has become 145 billion yen – could you please give us some background on that change?*

A1 (Isobe): I think the idea was that if you calculate based on an operating profit margin of 5% in Technology Solutions, you get 150 billion yen. Starting from there, it may look like we have slightly lowered the forecast, but for one, when we looked at the actual results for fiscal 2018, the damage to our business outside Japan, our efforts to recover, and the steps we took were all extremely significant, so along with that we are trying to expand the reach of our business model transformation a little further, including cutting back in or pulling out of unprofitable locations. Due to that, we think that some of the damage will remain in fiscal 2019. We are trying to work even harder, however, including in our businesses in Japan, but at this moment, we are keeping a careful watch on our business outside Japan as a negative factor.

Q2: *You are forecasting a recovery in revenue and profits for your network business this fiscal year, but could you give us some background on that?*

A2 (Tsukano): The main reason is 5G. We think that full-scale investment will start in the second half of fiscal 2021, or perhaps in the first half, hopefully. At the same time, outside Japan 5G is already being highly publicized, and in Japan, we have both the Rugby World Cup this year and the Olympics/Paralympics next year, so while it may be limited, we expect some first-stage investment will begin. We had this sort of background in mind when forecasting an improvement.

<u>**Questioner G**</u>
Q1: *For your revenue from services in Japan for fiscal 2019, you are forecasting a leveling off, but how much chance is there that revenue will really level off? Also, what was your actual performance with regard to limiting unprofitable projects in fiscal 2018, and how much do you expect for this year?*

A1 (Tsukano): If we limit the question to services in Japan, there are some parts of the business where we expect fairly strong revenue. For fiscal 2018, we were able to reduce losses from unprofitable projects to about half that of the previous year. While in theory we should not have any at all, I think we have been able to sufficiently reduce them to a level where they are, to some degree, unavoidable.

Q2: *By "about half," do you mean that you cut losses from unprofitable projects from 18 billion yen to about 9 billion yen in Japan?*

A2 (Tsukano): I will leave that to your imagination, but that is about the right scale.

Q3: *What sort of losses are you expecting from unprofitable projects in this year?*

A3 (Tsukano): For this year we are expecting a further slight improvement.

Q4: *You have forecast 15 billion yen in business model transformation expenses for fiscal 2019, but how does that break down between Japan and the rest of the world?*

A4 (Tsukano): Taking 15 billion yen as the base, a little over half will be spent outside Japan, the remaining smaller half will be spent in Japan. In Japan, we expect expenses relating to hardware, outside Japan, expenses related to services.

Questioner H

Q1: *Of the 25 billion yen in increased profit for Services in fiscal 2018, how much of that was due to the impact of limiting losses from unprofitable projects?*

A1 (Isobe): About 7-8 billion yen.

Q2: *Does that mean that the remaining not quite 20 billion yen is due to improvements in profitability in your core business?*

A2 (Isobe): Yes. There are also parts of our ordinary business where profitability has improved due to increased volume.

Q3: *Listening to your presentation, CFO Tsukano, it sounds like the 15 billion yen in business model transformation expenses is a placeholder number, so is there a possibility that this 15 billion yen will change?*

A3 (Tsukano): It is correct that right now, we are forecasting 15 billion yen. When it comes to whether that will actually change later on, however, if there were to be changes, we would like to discuss them at that time.