Summary Translation of Question & Answer Session at
FY 2019 First Quarter Financial Results Briefing for Analysts

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Presenter: Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A

Q1: *You have said that the effect of the resource shift across all of Technology Solutions amounts to 3.6 billion yen, but how much of that was in Services? The Services sub-segment delivered an improvement in profits of more than 10 billion yen against a 7.2 billion yen improvement in revenue, so could you break down that impact a bit more for us? I believe you had a plan to exit from unprofitable countries in Infrastructure Services, so is that part of the reason for the lower revenue?*

A1: The impact of the resource shift on Services was around 2.5 billion yen. This is because the proportion of people shifted in non-customer-facing units was larger. Looking just at our core business, growth in the business and the accompanying improvements in profitability continued from the fourth quarter of fiscal 2018. We are continuing our efforts to implement policies to improve efficiency, including expanded use of offshoring, thereby raising profitability. In addition, losses due to unprofitable projects, which accounted for a few billion yen in the same period the previous year, were essentially zero in this first quarter, which also made a significant contribution to increased profits. Exiting from low profitability countries in Infrastructure Services has not had an effect in this first quarter. Outside Japan, EMEIA was basically flat if you exclude the impact of foreign exchange. In both the Americas and Oceania, the sense is that there is a gradual reduction in revenue taking place, but that this reduction is not large.

Q2: *With regard to business model transformation expenses, you initially incorporated 15 billion yen in expenses into your plans for the year, and you have recorded 6 billion in the first quarter, but what do you plan to do with the remaining 9 billion yen, and when will those expenses be recorded?*

A2: I believe we said at the beginning of the fiscal year that about half of the 15 billion yen in business model transformation expenses was for the restructuring of manufacturing plants in Japan, and about half was for expenses outside Japan. The expenses outside Japan were recorded as a provision in the last fiscal year for expenses relating to the structural transformation in EMEIA, but for some locations in EMEIA, the scope of the restructuring was not clear enough for it to be recognized as a loss in the previous fiscal year, so will be recorded in fiscal 2019. Both inside and outside Japan, our forecasts for the business model transformation expenses are based on expenses for specific items. I would like you to understand that the expenses recorded this quarter are the half of the expected cost of 15 billion yen that applies to expenses in Japan. Expenses outside Japan are proceeding on a location-by-location basis, so there is a possibility that they will occur intermittently, rather than all at once at some specific time.

Q3: *Is there any possibility that some of the 15 billion yen in business model transformation expenses you have planned will be left over?*

A3: No. At the moment, unless the situation changes dramatically, we do not expect the expenses to fall below the planned amount of 15 billion yen.

<u>Questioner B</u>
Q1: *It seems that you are making progress in increasing the efficiency of management, with measures like cutting the number of executive officers in half and significantly reducing the number of consolidated subsidiaries. Could you please tell us what your aim was in undertaking these efforts, including increasing the efficiency of management and changing your organization?*

A1: This is difficult to express in terms of numbers, but I have really felt that cutting the number of executive officers in half has sped up executive decision-making. Management decisions by top executives are handed down the chain with a sense of urgency, and discussions have also become easier to follow with fewer people involved. With regard to the reorganization of subsidiaries, we were also aiming to increase the unity of our businesses and speed up operations by incorporating system engineering companies whose businesses overlapped into Fujitsu proper. In addition, I think this has also had a positive effect in terms of profits, as in the process of these initiatives, there have been side effects, such as increasing the efficiency of non-customer-facing units.

Q2: *Will you continue with the reorganization of subsidiaries?*

A2: The number of subsidiaries is greater outside Japan. That number is expected to decrease as subsidiaries outside Japan that are currently operating in unprofitable locations are being reduced. Within Japan, we are considering integrating or absorbing subsidiaries where it would be better to work as a unified body.

Q3: *The sale of your semiconductor plant in Mie has been delayed, but what sort of progress has been made? Depending on circumstances, is there a possibility that the deal could fall through?*

A3: It is true that the Mie plant deal has not been closed. At the current stage, the reason is that there have been delays with the process of closing on UMC's side, but UMC's intentions have not changed. At the current moment, we have not had any particularly pessimistic news.

Q4: *How much of the improvement in profit in the first quarter was due to your own cost-cutting efforts within the company? Also, how do you think that will that impact the total for the entire year?*

A4: We could also say that the increased sales revenue was the result of our own efforts, so I cannot really break out just the cost reduction efforts.

<u>Questioner C</u>
Q1: *I would like to ask about your future forecasts. Though profits significantly increased for the first quarter, you have said that this was in line with internal forecasts, so are you expecting a significant drop in profits in the second quarter and beyond?*

A1: The first quarter has exceeded our forecasts. To put that in numerical terms, it was by about 5 billion yen. In the fourth quarter of fiscal 2018, the number of orders in Services in Japan really picked up, which was due to bullishness in the market, and we expected that favorable trend would continue in the first quarter of fiscal 2019. On top of that, we were also able to limit losses from unprofitable projects, so we exceeded our targets. We expect that these trends will continue in the second quarter as well. Just because we had zero losses from unprofitable projects in the first quarter, we cannot say that we will have no losses in the second quarter. We cannot be wholly optimistic that this high level of orders in Japan will continue forever, so it is true that we are taking a somewhat conservative approach to our forecasts. We have announced a forecast in line with the previous year, but we consider this number to be the absolute minimum we must achieve.

Q2: *So do you mean that you expect that this year's fourth quarter will be less profitable than for the same period in the previous year?*

A2: That is our expectation.

Q3: *Revenue from Services as a whole increased by 7.3 billion yen, with profits increasing by 14 billion yen. I understand that the impact of the resource shift was 2.5 billion yen, and that losses due to unprofitable projects in the first quarter of fiscal 2018 amounted to about 2 billion yen. You have said that the profit margin on your core business increased due to a reduction of unprofitable projects. I believe that together these account for about 6 billion yen of the increase in profits, but that leaves a gap of 8 billion yen. Could you explain the breakdown of this portion a bit more?*

A3: There is a gap of 8 billion yen, but half of that is improvements in our business outside Japan. The 14 billion yen is for Services as a whole, and this includes two factors outside Japan. One is greater efficiency in expenses, which we have been working on since last year. We have made significant reductions, even compared to the first quarter of last year. I think the other factor is that, in addition to the impact of ordinary cost reductions, greater use of offshoring and a higher rate of outsourcing, as we are also doing in Japan, have improved profitability.

Q4: *With the change in CEO and CFO, what are your plans for holding a new meeting to explain your management direction, or do you have plans for something like an IR Day, as other companies have done?*

A4: We would like to give a presentation on our management direction as soon as possible, but the timing has not been decided. I also personally recognize that we must continue to be robust in our approach to investor relations. Whether that will take the form of an IR Day, or something else, is not yet determined, but we would like to bring more substance to our efforts to inform all our stakeholders about Fujitsu and help them understand our situation.

Questioner D

Q1: *With regard to growth in your Solutions and System Integration business, you grew by 9.7% in the first quarter, but I would like you to comment on how sustainable that is. In particular, what was the state of orders in the first quarter and what is your feeling on orders for the second quarter? In addition, I would like to hear if you have any updates about the current state of business in areas such as local government and healthcare, or about your current forecasts for the second half of the year, including your view for the potential upsides.*

A1: With regard to our current status, in general, demand in Japan continues to be strong. Orders continue to be high, and our pipeline is getting stronger. In the manufacturing sector, demand for updates of mission-critical systems is extremely strong, with the key words being things like strengthening production platforms, automation, and digitalization. Demand is extremely strong, due to issues such as the 2025 problem, an IT issue specific to Japan, as well as a desire to update systems before the Olympics. In the retailing and distribution sector, as well, there is strong ongoing demand, due to factors such as growing internal demand, with an eye toward increased tourism and the Olympics, and the rebuilding of mission critical systems with an awareness of digital transformation. In the field of telecom career customers, at the moment we have entered into something of a trough in a cyclical period in both services and hardware, ahead of the launch of trial 5G services. We believe that once the commercialization of 5G begins, there will be a subsequent trend toward recovery, but I think that will take a little more time. The public sector and local government business has also been very strong, with several major deals with government agencies in the second half of the previous fiscal year. Although this trend has passed its peak, it has not fallen off significantly, and the remaining order volume is coming in at a high rate. Projects in areas such as local government, healthcare, and education remain at a high level. With regard to the second quarter, we expect current trends to continue, more or less. Sales in the manufacturing sector and the retailing and distribution sector, however, have significantly exceeded those of the previous year for the past two or three years running, so when it comes to the second half of the year, we are somewhat concerned how far this trend can continue. In addition, we are also somewhat concerned about what will happen to IT investment sentiment across the whole market when the consumption tax in Japan is raised. Moreover, the international state of affairs is extremely fluid, with issues such as the relationships between the US and China and between Japan and South Korea, as well as Brexit, so while we expect that these will not have a very significant direct impact on our company, we think there is a possibility that there may be an impact on our customers. Against this background, it is not clear whether the current positive trends will continue, so we would like to evaluate our future forecasts while keeping an eye on the situation in the first half.

Questioner E

Q1: *You explained that component costs have fallen, but do you have an estimate of the impact the fall in component costs as an amount had in total in the first quarter?*

A1: I do not have specific numbers in front of me as to how much of an impact it had on the total. Both DRAM and SSDs have come down a fair bit in terms of unit price, however, so the impact was primarily in x86 servers and in PCs. PCs, in particular, experienced a greater increase in volume than anticipated. We did see some component supply shortages, but once that weight was lifted we were able to quickly clear the backlog and increase our volume, so the reduction in costs contributed to improved profits for both servers and PCs through the effects of increased volume.

Q2: *I think the increased profit in the EMEIA Region stands out against the rest of the segments outside Japan. Is it the case that this was primarily supported by Fujitsu Technology Solutions (FTS)? Do increased profits from FTS show up only in System Products and Ubiquitous Solutions when looking at the segments? Have you been able to increase the services business there as well?*

A2: In EMEIA, we have seen increased profits from services, x86 servers, and from PCs. Volume has increased, and cost reductions have taken effect. With regard to services, the effects of our changes have not been readily apparent since last year, but we have been undertaking activities to increase the efficiency of overhead, so compared with the first quarter of last year, we have made significant strides in improving the efficiency of sales expenses, which has resulted in an improvement of several billion yen.

Q3: *Of your subsidiaries, FTS and Fujitsu Services (FS), which has contributed more to the improvement in profits?*

A3: FTS has really made the larger contribution, but FS has also improved by a little bit.

Q4: *Selling, General, and Administrative (SGA) expenses have fallen by about 25 billion yen in the first quarter compared to the previous year. Could you give a breakdown of how much of this was the impact of restructuring, how much was in Japan, and how much was outside Japan?*

A4: The 25 billion yen reduction in SGA can be split into three main areas. One is that two Device Solutions-based subsidiaries, Fujitsu Component and Fujitsu Electronics (FEI), have been excluded from the consolidated results. The impact of this was around 8 billion yen. The next is the impact of the reduction in overhead costs due to the resource shift, which in the first quarter amounts to 5 billion yen, for a total of 13 billion yen. The remainder is about 12 billion yen which come from a general reduction in expenses. Within that, less than half, at just over 5 billion yen, were reductions outside Japan, with the remainder inside Japan. Outside Japan, we are seeing effects from the gradual expense reductions we have been undertaking since last year. Inside Japan, we have been more selective and focused in our investments, which has reduced expenses.

<u>Questioner F</u>
Q1: *I think results in the Ubiquitous Solutions segment slightly exceeded your internal targets, whereas Device Solutions underperformed, but you have not changed your full-year forecast. Is there anything you expect in the second quarter or beyond in the Ubiquitous Solutions segment or another segment that would detract from your results?*

A1: In the first quarter, results in the Ubiquitous Solutions segment slightly exceeded our target, while results in the Device Solutions segment, primarily in the electronic components sub-segment, came in slightly below our target, but the overall difference was not big enough to warrant a change in our full-year forecast. In addition, in the Ubiquitous Solutions segment, part of the reason for the outperformance is that demand for upgrades from Windows 7 came in earlier than anticipated. We cannot yet determine whether, on a full-year basis, performance in the Ubiquitous Solutions segment will exceed our target. As for electronic components, current conditions are very severe, and it is difficult to imagine at present that, before the end of the fiscal year, conditions will undergo a strong rebound. At the same time, we do not think conditions there will drag our performance down that much, so we decided not to change our forecast.

<u>Questioner G</u>
Q1: *In the Other/Elimination and Corporate segment, compared to the previous year, results improved by about 9 billion yen if temporary factors are excluded. What is the reason for this, and will it continue into the second quarter and beyond?*

A1: The Other/Elimination and Corporate segment was affected by our initiative to shift resources, and that impact was about 1.3 billion yen. Other than that, although there were some cost efficiencies in administrative and support functions, the main factor was selection and concentration in upfront investments. A big factor there was that development expenses for the next-generation supercomputer had already peaked. In the second half of this year and the first half of next year, we will enter the phase in which we are making and deploying the supercomputer. We have completed the phase of heavy spending on development. Other than that, in terms of key areas of spending in the Other/Elimination and Corporate segment, there are cloud-related investments and AI-related investments. At the same time that we are trying to squeeze development expenses in these areas, a portion that is tied to sales has increased, so we are in the process of entering the phase in which we earn a return on our investment. The combination of lower development expenses and the generation of earnings, when added to the impact of the resource shift, amounted to an improvement of about 9 billion yen. We need for this trend to continue. Still, there are always upfront investments, and in areas in which we want to increase our investment, such as the area of digital transformation, we will make investments after careful examination. In previous areas, we have generated efficiencies and squeezed spending, and we are now seeing the results of those efforts.

Q2: *For the 25 billion yen in operating profit in Services, what is the breakdown between solutions and system integrations services, on the one hand, and infrastructure services, if you could give us a rough indication?*

A2: The breakdown of the 25 billion yen is half and half.

***Q3:** With the new organization in place, in the realm of transforming your growth strategy, are you doing anything new, or do you have plans for new initiatives?*

A3: Just because there has been a switchover in senior management, it does not mean that we are starting something completely new, but in our initiatives to transform our business structure, we think we have a fairly clear picture of our direction and where we will be, so we think the switchover in management was to speed up our initiatives to transform our growth strategy. Because the management change was to speed things up, it is not as if the measures themselves are new. In terms of initiatives to transform our growth strategy, we are strengthening our capability in the consultation business, such as by increasing our consultants, and we are also enhancing our training programs. In terms of reforms to our delivery capabilities, there are initiatives that we have been pursuing already, such as agile development, automation using AI and robotic process automation, and accelerating our use of offshoring, and we are vigorously pursuing these initiatives. In terms of initiatives to strengthen the competitiveness of our offerings that we initiated last year, even in services we are no longer pursuing vertical integration or attempting to do everything ourselves. For example, just as we talk about multi-cloud business, we are not looking to have all platforms built by Fujitsu. We are raising the competitiveness of our offerings from a slightly broader perspective. As a result of our efforts to improve overall quality, raise profit margins, and increase volumes, it is our understanding that things are improving, albeit bit by bit.

Questioner H

***Q1:** In terms of network products, you had mentioned that there will be orders for 5G base stations in the second quarter. Could you give us an idea of the magnitude of these orders and how you expect the business to expand in the future?*

A1: For this fiscal year, the scale of the 5G base station business will not be very large. The first 5G orders will come in the second quarter, but it will not be a lot of money. We expect it to be in the lower double-digit billion yen range. The situation this year will be a small amount of 5G investments, and we do not think there will be big investments in fiscal 2020, either. We think 5G investment will begin to really pick up in the second half of fiscal 2020, with the biggest increases in fiscal 2021. As 5G increases, the amount of data traffic will, of course, increase, so, in terms of fixed line networks, as well, we see them increasing as a set. Taking that into account, we think the big increases will be from the second half of fiscal 2020 and into fiscal 2021.

Questioner I

***Q1:** You mentioned that there was an improvement in operating profit by several billion yen, but I thought that, including upfront investments, for fiscal 2019, you were planning that operating profit would fall by over 10 billion yen,. Can we assume that, in the second and third quarters and beyond, your investment expenses will ramp up, and that, ultimately, operating profit will be lower than last year? Even in the Americas, your operating loss was* *reduced by just over 1 billion yen, compared to the previous year. Please tell us about your business conditions in North America.*

A1: The figures for EMEIA are not very good, but we got off to a better start this year compared to last year. I mentioned that, in fiscal 2019, our business outside Japan will be in a deeper hole. There are two factors involved here. One is that, with our structural reforms, we will exit unprofitable countries, and that will result in the loss of some business. We are just starting to exit unprofitable countries, so we have not yet seen much damage from that. The other factor is more positive, in that we are considering hiring more people and making investments as part of our shift to services. So, although we started out ahead in the first quarter, our projections from here on out are not strong. We will try to improve things, such as through expense reductions. Our services business in the US is not performing well, but our network products business is doing a little better, with a small profit, through reductions in development expenses.

Q2: *Even though your losses declined, despite lower revenue, you are not satisfied?*

A2: We can see a path toward reducing the rate of decline, but we have not yet stopped the decline altogether, so we are not in a position to be satisfied.

<u>Questioner J</u>

Q1: *I would like to confirm the impact of the reduction in overhead expenses with respect to your forecast for Other/Elimination and Corporate for fiscal 2019. Of the forecast for the year of 106 billion yen in operating losses, excluding the 15 billion yen in business model transformation expenses, how much progress has been made by reducing expenses in projects such as AI, cloud, and next-generation supercomputers?*

A1: In terms of comparing against our forecast, we are in line with our forecast. I spoke earlier about how we have reduced expenses in these various projects, and I also spoke about how the development expenses for the next-generation supercomputer project had peaked, but all of that was foreseeable, and is in line with our forecasts.