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

Date: January 30, 2020
Location: Fujitsu Headquarters, Tokyo
Presenter: Takeshi Isobe, Corporate Executive Officer and CFO

<u>Questioner A</u>

Q1: *You revised your forecast for operating profit upwards by 40.0 billion yen, but you revised your forecast for profit for the period upward by as much as 35.0 billion yen. Why is this?*

A1: Are your referring to the fact that the increase in net profit seems too big for the increase in operating profit? Some of that is due to rounding, but we are not including any special factors, such as tax impacts. There is also the fact that the PC business in performing very well, and that, in terms of our equity in the earnings of Fujitsu Client Computing Limited (FCCL), we view the balance between operating profit and profit for the period as falling slightly more on the side of net profit.

Q2: *You have added a major investor and shareholder as an independent outside director. Could you tell us the reason for this, and whether it will have an impact on future policies regarding things like shareholder returns?*

A2: I have heard that it was our side that approached Mr. Scott Callon. I am not in a position to be involved in the selection process of directors, so these are just my thoughts as CFO, but in my position as CFO, I have met him several times, and basically, he has offered forward-looking suggestions about how Fujitsu can improve its performance from a long-term perspective, so I expect we will be able to have lively discussions going forward. As to the question of whether our approach to shareholder returns will change due to Mr. Callon's joining the board, he has a variety of suggestions which will of course prove helpful, but I definitely would not say that we have changed our way of thinking in any particular way due to this new board structure, including with regard to today's announcement on shareholder returns. We will simply continue to consider the strengthening of shareholder returns in accordance with the extent of the company's growth, in terms of profits and other measures. Personally, I look forward to receiving a wide range of counsel from Mr. Callon's perspective as a shareholder and an investor. Board discussions should also become more active with outside directors, and I welcome these moves.

Questioner B

Q1: *With regard to your IT services business in the Americas, you have said that you are pursuing selection and concentration of your businesses. What progress have you made in those efforts?*

A1: We recorded business model transformation expenses in the Americas this quarter. As part of the selection and concentration of businesses, we have conducted a write-down of the value of assets. We are right in the middle of sorting out the process, so I would like to explain the details further at the end of the year.

Q2: *I would like to ask about the status of incoming orders, as shown on page 13 of the presentation materials. You said that orders have remained fairly high, and that this trend will continue going forward, but you cannot grow just by maintaining a high level. How are you analyzing the retailing and distribution and financial sectors, which fell in the third quarter? Also, could you explain your thoughts on business forecasts on a sector-by-sector basis?*

A2: Overall, we think demand will continue to be strong, so we are not worried about major trends. If you just look at the third quarter, retailing and distribution fell by 5% compared to the previous year, but we had several major deals in the third quarter of fiscal 2018, so that quarter grew by 12% compared to fiscal 2017, meaning that we view the decline this quarter as a reversion to the more normal state of affairs. In a similar way, for the financial sector, if you look at individual quarters, you will always see slight fluctuations in the growth rate. In terms of an overall picture of cumulative orders for the first nine months of this year, we feel the level of orders has remained consistent. The manufacturing sector is modernizing and updating its mission-critical systems, so demand is strong. In the retailing and distribution sector, we also have inbound demand from foreign tourists in Japan as well as active investment in cross-industry business. In the same way, strong demand is continuing for the financial, social infrastructure, and public sectors as well. Our only concern is that our system engineering resources are being drained by the continuing environment of high demand, and we are reaching a point where completing our current business is approaching the limits of what we can do. In order to break through this situation, we are undertaking measures to further increase our delivery resources through greater use of offshoring and automation. I think that when we start enjoying these effects in fiscal 2020 and beyond, we will see another stage of growth.

Questioner C

Q1: *A broad picture of your results for fiscal 2019 has become clear, so could you please tell us what factors you currently think will impact your results for fiscal 2020 compared to fiscal 2019? I think that the major factors will be that you will no longer see the loss from your semiconductor business, and that your improvements in Europe will begin to take effect.*

A1: We have not yet completely sorted out our plan for next fiscal year, so I am speaking only in terms of what we know now, but I think the main factor will be that we will no longer be suffering losses from our non-core LSI business. The PC business achieved a sudden bump in fiscal 2019, due to the rush demand coming from an increase in the consumption tax in Japan, and the end of support for Windows 7, so I think that might result in a relative decline in fiscal 2020. At the same time, while our electronic components business, another non-core business, continued to have low sales in fiscal 2019, we expect that there will be some increase in fiscal 2020. As a result, we are optimistically estimating that the falloff in our PC business will be offset by our LSI and electronic components businesses. For Technology Solutions, we are working to strengthen our business delivery capability, further improve profitability, and increase our ability to capture business. As for businesses outside Japan, our business model transformation in Europe will be finished by the first half of fiscal 2020, so we expect to see some of the effects of that, little by little. We also expect to see a falloff relative to some major business deals in fiscal 2019, but we are not particularly bearish on this point. 5G, however, will be reaching full scale deployment in fiscal 2021 and beyond. We also estimate that the business model transformation in Europe will take full effect in fiscal 2021, so for fiscal 2020, we would like to focus on further improving services in Japan.

Q2: *With regard to Other/Elimination and Corporate, do you envision further constriction in fiscal 2020?*

A2: We believe we can bring it down a little further.

Q3: *There has been a media report that you may be reorganizing your listed subsidiaries. The Tokyo Stock Exchange has issued guidelines calling for explanations of dual listings of parent companies and subsidiaries, so could you explain your thoughts with regard to your listed subsidiaries?*

A3: With regard to non-core businesses, there has been no change to our previous guidance. We have said that Fujitsu will concentrate its management resources in Technology Solutions, so we want our non-core businesses to spread their wings as strong, independent businesses, and this applies to non-core listed subsidiaries as well. I would like to make a few points here. The first is that, in order for them to take flight as strong independent businesses, as their capital relations with us become weaker, or as they are unwound, the question is in what areas they display their independence. The second point is because they are our assets, we would like to generate cash flow by making them independent in a form that has value. The third point is that when we are using the cash flow generated in this way for investments in growth, the question is one of optimal timing. We do not intend to hold onto them forever. Rather we intend to deal with them as part of our medium-term plans. This way of thinking is one we have held since the previous managements' term, so there has been no change to our guidance.

Questioner D

Q1: *Recently we have seen all sorts of cyberattacks in the news, and many other companies are also increasing their investments in response. What sort of measures has Fujitsu taken in light of these trends? I think that until now, structural transformation has been the main focus of your use of expenses, but will we see some sort of investment going forward as a risk hedge against trends in cyberattacks?*

A1: With regard to cybersecurity, we think this area of technology is an extremely important part of digital transformation (DX). We have previously made investments in this field, and we have a dedicated business unit for cybersecurity, so we are making progress with our efforts. We are also undertaking efforts to look at how to protect our company from the sorts of cyberattacks you see in the news. It is a bit difficult to give specifics of what exactly we are doing, and how we are doing it, but we are approaching it as part of our core business. With regard to investments, we are naturally looking at accelerating growth investments, and we regard cybersecurity as one of the key areas for growth investments. We see our role as one of helping to prevent the wide range of problems that have been troubling the world in recent years, so we are actively undertaking investments in order to improve our capabilities in this area.

Q2: *Regarding your share buybacks, what was the reason you set the amount for this at 50 billion yen? The period is for one year, but you stated that you would explain the thinking behind your medium- to long-term perspective on shareholder returns at the end of the fiscal year. Does that mean that, with this round of share buybacks, there will be no share buybacks for one year as of now beyond this 50 billion yen amount, or does it mean that, at your briefing at the end of the fiscal year, you are considering the possibility of something like further structural reforms?*

A2: Basically, it is the latter. When you ask me to state clear reasons why the amount was set at 50 billion yen, it is a bit difficult for me to respond specifically, but you can assume that we considered it from various perspectives. Because we have achieved much of what we first anticipated in terms of our profit expansion, and because our cash flow has improved because of the strong sales in the first half, we decided to do a share buyback. Still, our basic approach to shareholder returns, including dividends and share buybacks, is to strike an overall balance with growth investments from a medium- to long-term perspective, and we are now working on a more detailed approach. This time we set the amount at 50 billion yen for a period of one year, and it was because there is not much time left in fiscal 2019, so setting a period of one year enables us to have some flexibility in doing the buybacks. At the end of the fiscal year, when I talk about our approach to capital allocation, I would like to talk about our approach to shareholder returns and growth investments. We certainly do not think that, because we are doing 50 billion yen in buybacks this time, we will not do anything next fiscal year.

Questioner E

Q1: *Regarding your move to strengthen your digital transformation (DX) consulting business by establishing a separate new company, please tell us about its current progress and what moves you are making, such as, for example, how you are recruiting employees for it, and the direction in which you will grow the business in fiscal 2020 and beyond.*

A1: We issued a press release today on the DX company. We established a company called Ridgelinez in January. We have still only just established the company, and we are at the stage of preparing to start business on April 1. The current status is that we have started in earnest to recruit employees, either by transferring existing employees or hiring people from outside. Regarding the lineup of the new DX company's activities and the scale of its business, we would like to give you an explanation at a later opportunity.

Q2: *Regarding your orders in Japan, from the first quarter through the third quarter of fiscal 2018, orders in the field of social infrastructure had dipped. The rebound in the third quarter of fiscal 2019, however, appears quite weak. Could you explain the background to this?*

A2: Our orders in the field of social infrastructure are still weak, and are likely to remain that way for several quarters. The next big wave for social infrastructure projects will be with 5G, but, unfortunately, investments in base stations and backbone networks for 5G have not yet fully materialized. This year they have finally started to very gradually materialize but are expected to grow further from the latter half of fiscal 2020, and then we think there will be a peak of investment in fiscal 2021 to fiscal 2022. Of course, in our business in the field of social infrastructure, we have customers beyond a particular telecom carrier that is purchasing base stations, so there will be other influences on the business, but our level of orders in this fiscal year continues to be low for the reasons I just stated, and it will take some time before it rises.

Questioner F

Q1: *Regarding the business model transformation in the Americas, will you explain at the end of the fiscal year what impact the expenses recorded in this 3Q will have? Or, will you be taking an additional action in a different way and – should additional costs occur – will you be explaining those as well at that time?*

A1: At the end of the fiscal year, I would like to talk about specific actions and the overall picture of how we are considering the direction of the business, so at this point I would like to refrain from making any statements. About additional costs, it wouldn't be the case that we wouldn't take action because costs would arise for areas that need to be reformed.

Q2: *Please let me know if you have numbers relating to orders for Solution/SI only, for either Q3 alone or for the consecutive nine-month period. Also, next year, it seems there may be a rebound from major deals excluding PC related deals, but I also think the mainframe business has been quite strong this year. Will this level be sustained next year, or will there be a rebound next year?*

A2: Orders for technology solutions, excluding PCs, are around 95% compared to the previous year in Q3. This is 102% compared to fiscal 2017, and 104% for consecutive nine-month period in fiscal 2019. In terms of Technology Solutions, orders have increased significantly compared to the previous year for six consecutive quarters. There are several large-scale mainframe deals in fiscal 19, and the outlook for fiscal 2020 is not clear, but there is always a certain amount of volatility as – to a certain extent – depending on the timings of major deals, so I am not worried so much because I think there is a good chance of being able to counter a rebound.

Questioner G

Q1: *In Other/Elimination and Corporate, I think that for Q3, even if we exclude the effects of resource shifts and special items, it seems as though there has been progress. What exactly are you referring to when you say reviewing upfront investments and improving the efficiency of indirect operations? I think that this segment includes up-front investment in AI, so is it indeed those kinds of items that you are referring to?*

A1: The effect of the resource shift is having a direct impact, but the efficiency of indirect operations is not a huge amount because it is an accumulation of very detailed work. The big thing is that the cloud and AI, etc. – all part of 'upfront investments', are now starting to generate a higher profit base. The size of the investments has not changed much, but the return has started to be matched in terms of profit. Another big thing is R&D investment in supercomputers. Right now we are shipping Fugaku, so research and development costs are peaking out and thus being curtailed, which has led to a significant reduction.

Q2: *Regarding the base station business in Network Products, while tax breaks have been determined for investments in base stations from fiscal 2020 onwards that have been moved-forward, have you seen any such indication from telecommunication carriers that they will indeed move their investments forward? Please let us know if there has been any movement in comparison with the original investment plans.*

A2: In terms of telecommunication carrier investment trends, we do not know if there will be any tax incentives, etc., but I have heard that there are moves to deploy base stations as early as possible ahead of schedule compared to the initial deployment plan in which the investment peak was expected to happen around 2023 or 2024.

Questioner H

Q1: *What is your approach to investment for growth? I think this relates to the cash inflow due to the sale of the non-core businesses and the capital allocation that will be announced in the future, but what do you think about the size of growth investment and the areas you will invest in?*

A1: As mentioned in last year's management direction, basically we will invest in the growth of digital transformation (DX). Fujitsu will make investments to grow in areas such as AI and security, which are key technologies for achieving DX. I would like to explain the sense of scale of this and whether it will be through M&A or R&D in a future capital allocation plan, so please wait until the end of the fiscal year for that.

Questioner I

Q1: *You mentioned that there are pluses and minuses in terms of domestic orders. There is a general feeling that investment in the manufacturing sector is slowing down, but from Fujitsu we have been told that you don't have enough resources to meet the demand. Please explain a little more about that gap.*

A1: I think that there is a strong desire from companies to invest in DX and transformation in general, not only in the manufacturing industry, but also in other industries with tough economic conditions. I feel that customers have a strong sentiment to transform their businesses, and IT investments do not slow down just because the economy slightly fluctuates. We think there is an area where we can help in when customers are making a change. I think the '2025 problem' is part of the reason for such demand. In our business, of course, interest is strong in industries where customers' business is relatively strong, and we do not feel that we are so weak in industries where the environment seems to be severe.

Q2: *You split Europe into two parts and changed the reporting directly to the President. Could you please tell me any examples of the effects and changes caused by this?*

A2: Due to its size, EMEIA has been divided into two regions: NWE (Northern & Western Europe) and CEE (Central & Eastern Europe). In this way, the President and Vice Presidents are looking directly at both regions, and they are aware of the difficult situation at hand. We are in the process of a business model transformation, so it is difficult to explain the effects at this time, but we are very sure that the business model transformation is progressing. I don't yet feel it's clear at this time regarding how far we can go in terms of the stage of growth, but we are starting to be able to operate the overseas regions and Japan together as one.

Questioner J

Q1: *What is the current outlook for PC demand for schools?*

A1: We have expectations and to a certain extent have some visibility for volume growth, but when we look at the total amount of PCs, we don't think there will be a big impact because of the rebound from a special demand for PCs we have experienced in fiscal 2019.