Summary Translation of Question & Answer Session at
FY 2019 Financial Results Briefing for Securities Analysts and Institutional Investors

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Presenters: Takahito Tokita, CEO and Representative Director
Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A

Q1: *You are refraining from announcing a financial forecast for fiscal 2020, but, on at least a qualitative level, please tell us what positive and negative impacts you foresee on each of your business segments from COVID-19. Please also tell us what you had anticipated in terms of your business prospects and financial results in the absence of COVID-19.*

A1 (Isobe): The impact of COVID-19 is very difficult to grasp. I would like to briefly explain our views, including some qualitative effects. For Fujitsu, generally speaking, the effects fall in two categories. The first is on our manufacturing and delivery capabilities. At the present time, we think the effects here will be relatively limited, and we think we should be able to manage these effects. For example, on the manufacturing side, there are supply chain disruptions, lower operating levels in manufacturing facilities, and logistics issues, but these are, more or less, beginning to be resolved, and we think the overall impact for the full year can be contained. In our Services business, we have significantly shifted our work to remote environments, and we are concerned that productivity will decline, but it should be only temporary. In terms of the immediate positive and negative effects, the sudden change in the ways we work and in how our work is performed will obviously tend to have a negative impact. On the other hand, our business is focused on changing the ways people work and using the power of IT to support society and our customers, so, here too, we should be able to manage these challenges. What is more difficult to assess, and where the impact is likely to be large, is the impact of an economic downturn with the decline in economic activity in Japan and around the world. Here we think the magnitude of the impact is likely to vary greatly depending on the industry, the type of business, and one's market position, but we expect there to be a prolonged impact on a global scale and across a wide spectrum of markets. This is the area that we think will have a greater impact on our business results. Even if COVID-19 can be contained relatively quickly, we expect that there will of course be large changes in the ways people consume and consumption trends, but also in the ways that business is conducted. As you indicated in your question, we think there will be both positive and negative impacts on our business. There will be differences by industry, type of business, and one's market position. The impact on our customers in the manufacturing and retailing/distribution sectors is likely to be very different than the impact on public sector customers. Even among businesses in the same industry, there are likely to be some customers that are impacted very severely and decide that they need to pull back on planned investments in IT. On the other hand, there will be other customers that, in order to overcome these challenging circumstances, will decide that they need to step up their investments in digital transformation, and we are already seeing some of that increase in demand. How best to assess the overall impact of these positive and negative effects is something that we are taking a very close look at right now. In terms of the impact on project-based business, it used to be that companies like Fujitsu in the IT industry would expect the business impact to lag about six months behind any major shift in the economy. When economic conditions deteriorate, the willingness to spend on new investments weakens, and about six months later we would see a decline in orders and revenue. This time, in addition to the effects appearing much more rapidly, we expect that there will likely be some positive impacts on our industry. Therefore, while it is not as if we only foresee negative effects, please understand that it is difficult for us to know what to expect. In Japan, there has been the impact of the declaration of emergency, and outside of Japan there are still many places where the infection is spreading, but there are also regions where the stay-at-home restrictions are being lifted, and the situation is changing every day.

You also asked about what our expectations were in the absence of COVID-19. Originally, we were anticipating decent growth in our plan for fiscal 2020. For Ubiquitous Solutions, there were special circumstances in fiscal 2019 that significantly boosted demand in our PC business, so we were expecting a large decline in both revenue and profits in fiscal 2020. On the other hand, we also expected the beginnings of a recovery in our Device Solutions segment, so the impacts in those two segments would have essentially canceled each other out. In our core business of Technology Solutions, we expected a further increase in profitability. In fiscal 2019, if we take results from Technology Solutions and Other/Elimination and Corporate, our operating profit margin was 5.9%. As a medium-term target, we seek to achieve an operating profit margin of 10%. On the path towards that target, for fiscal 2020 we were looking at a level of around 7%, and we were confident that we could achieve it. It is not the case that this target is no longer achievable because of the impact of COVID-19. In Technology Solutions, it will depend on the extent of the damage to our customers as well as on their willingness to invest. In Ubiquitous Solutions, while the special circumstances that boosted demand last year are no longer there, we are seeing some new sources of demand as more people are telecommuting. Right now we want to keep a close eye on the differing effects of these various factors.

Questioner B
Q1: *Please confirm whether you see any decline in the functionality of your main Global Delivery Centers as a result of COVID-19.*

A1 (Tokita): Our understanding is that no major service problems have arisen from the GDCs. In fact, with the spread of COVID-19, more customers from many countries around the world are themselves shifting towards telecommuting, and our GDCs were already raising efficiency by working remotely. Customers that are being serviced remotely from the GDCs have told us that they have a renewed appreciation of the advantages of using our GDCs. Inside our GDCs, we of course are taking such measures as social distancing and working in shifts to ensure the safety of our employees.

Q2: *Are there any aspects of your business model or business portfolio that you think should be changed because of COVID-19?*

A2 (Tokita): Regardless of any impact from COVID-19, as I have said, since last year, both outside and inside Japan, we have been reorganizing all of our solutions, our service delivery organization, and our portfolio. Starting in April, we changed the organization with the creation of a new business group called the Global Solutions Business Group. Led by the Global Solutions Business Group, all regions, including Japan, are now working on reorganizing their business portfolios. Our service delivery and offerings will now be unified globally, with implementation suited to the characteristics of each region and country. So, we have already shifted course to a unified service delivery model with fine-tuned support in each region and country.

Q3: *Now that former Chairman Tanaka is no longer a member of the Board of Directors, in what ways do you think Fujitsu's corporate governance will change? From the perspective of corporate governance, to what degree do you think you have now enabled improvements in decision-making, and what are the remaining challenges?*

A3 (Tokita): As we previously announced, as of April former Chairman Tanaka is now Chairman of Fujitsu Marketing. The background to this move is our plan to strengthen the Japan Region. With our goal of making an even greater contribution to the market in Japan with the establishment of a new company, former Chairman Tanaka conveyed to me his desire to make full use of his experience and his relationships with customers and partners by further focusing his efforts on this initiative. In that sense, of course, the composition of Fujitsu's governance structure has changed, but I take pride in the fact that Fujitsu's governance structure has long been on a path toward greater soundness and strength, and this move will not change that. As to further improvements, I think we need to inject greater diversity into Fujitsu's corporate governance. For example, we are thinking of introducing greater diversity in terms of nationality, gender, etc., into our governance structure.

<u>Questioner C</u>
Q1: *Even if it is in qualitative terms, could we get a comment from you on what kinds of scenarios you have in mind in terms of the outlook for the IT investment environment in Japan? Also, if the business environment in Japan becomes difficult, please tell us your thoughts about any cost control measures you might take.*

A1 (Isobe): We anticipate that there will be a temporary erosion in the economic environment. For Fujitsu, this is likely to have a short-term negative impact. On the other hand, in terms of broad trends, we expect that one major effect of the current crisis on the IT industry will be to accelerate the move towards digital transformation. There are likely to be some immediate fall-outs, but, for the major trend of moving ahead with digital transformation, which we have been seeking, we think that, conversely, demands may appear for us to move more rapidly. As for cost controls, regardless of whether one of our businesses is performing well or not, we of course will pursue strict cost controls. That will not change. We feel there may be a risk of a short-term set-back in our performance, but we have no intention of adopting a management stance that would prioritize taking drastic measures to avoid a short-term set-back in our performance. We do not think there has been any change in the trends that would enable us to grow over the medium term by pursuing growth in the field of digital transformation, so we would like to move forward with investments that will lead to future growth. Although we cannot yet claim that it is extremely strong, our financial foundation has improved to a certain extent, and our current thinking is that we would like to use that as a base for continuing to make further investments.

Q2: *Having just launched Ridgelinez, I imagine that it must be difficult to not be able to meet face-to-face with potential customers. What are you doing to deal with this situation?*

A2 (Tokita): As you point out, it is difficult. We launched operations at Ridgelinez in April with an organization headed by President Imai, and we wanted to meet with customers, especially the top executives of customers and organizations—the approach we envisioned in creating Ridgelinez—to make a variety of proposals and suggestions, while introducing our strengths. Under the present circumstances, however, we are not able to do that as much as we would like, so we consider it to be a very unfortunate lost opportunity. We would like to use a variety of remote business tools, such as those being used in telecommuting, to gradually get the business going. I think it must be difficult for President Imai, but even under these circumstances, similar to the ways we have changed Fujitsu's overall activities, I think we can come up with new ways of approaching customers. Currently, in the area of risk management, in which Fujitsu Research Institute has considerable expertise and which it has made into an area of its business, we are receiving many customer inquiries, and solid preparations have been made to present a menu of services to customers. When we consider the threat posed by COVID-19 as a business risk, customers want to know how to manage and control that risk, and I think we can meet their needs. We think this can serve as a major lever in getting Ridgelinez's business off the ground. In addition, we have received many more inquiries than we anticipated from a variety of people who want to join Ridgelinez. Although this is a time in which we need to focus on serving customers, we are also actively interviewing candidates using remote business tools and videoconferencing to recruit potential new colleagues. Once the situation calms down, I have very high expectations that Ridgelinez will emerge with a wealth of new capabilities.

Questioner D

Q1: *President Tokita, you have now been Chief Executive for one year. How do you now view Fujitsu's strengths and weaknesses? In particular, could you tell us about any changes in this past year? Also, could you tell us about what sort of management you think is needed to continue to improve things?*

A1 (Tokita): My impression is that this past year has gone by in a flash. I could not have even imagined a major crisis like COVID-19, but I think it is truly a strength of Fujitsu that, even in the midst of this crisis, we have been able to appropriately continue our businesses, and also been able to support the business continuity of a variety of customers. I personally feel the weight of responsibility for the extent to which we are able to contribute to this era of a new normal, addressing the new issues and initiatives that have arisen in response to COVID-19. At the same time, it is also exciting for me to see what we can do. I realize that our employees are the embodiment of Fujitsu's capabilities. That is another strength, and Fujitsu has the technology to support our employees. I also think we have the potential to approach our customers about these issues. At the same time, one of our weaknesses is that, although we have a variety of solutions and know-how that would be particularly useful at this time, and although our employees seriously and earnestly want to help our customers and society, there is a sort of passive attitude with regard to speaking up and expressing what we could do to help. I am currently thinking very hard about the fact that we need to launch a major company-wide movement to inculcate a more positive, proactive mindset. Over this past year, I have been spreading the message, both inside and outside the company, that we will do all we can to invest in making contributions to society. We relaxed the dress code, implemented a position-based human resources management, reformed the compensation of high-skilled employees, and are empowering individuals as much as possible. I want to bring together all of the 130,000 employees of the Fujitsu Group around the world into a major movement, not just to offer support to our customers but to bring about major changes in our customers, undertaking corporate activities such that we ourselves can serve as a reference for our customers for new ways of doing business in this era of the new normal. This is why I would like us to push forward even faster with the transformation of Fujitsu itself, with the participation of all 130,000 employees, and with the powerful shared vision of becoming an example for our customers.

Q2: *You said that you could not see any impact from COVID-19 in incoming orders in Japan in the fourth quarter, but since the beginning of April, have you noticed any changes in the volume of incoming IT orders in Japan? Could you please tell us about the current situation, and whether you are still in a situation where you are continuing to see orders coming in at appropriate prices?*

A2 (Tokita): With regard to April, while we have seen a slight decrease, we have not seen any significant changes that we recognize as being due to the impact of COVID-19. As CFO Isobe said earlier, this might be because the impacts on the ICT business will be somewhat delayed relative to other industries. In that sense, we also feel that it will be extremely difficult to make predictions based just on April. After all, the world has changed significantly, and I think that values have also changed significantly. It may be the case that we may even have to change the very way of thinking that says the impacts will be delayed in the IT industry, as that is based on what our previous experiences taught us was normal. We recognize that the world has changed to such a degree that even this might be wrong. I think our way of thinking about IT investment will probably also have to undergo a major change. It is often said that Japan is late to digital transformation, but as the world is in this current state, perhaps both Japan and the rest of the world are beginning to think of ICT in the same light. We are considering that, in light of this, perhaps our idea that the impacts will be delayed relative to other industries is wrong. It is true that we are hearing from people on the front lines that there are schedule changes for a variety of projects, including major system integration projects, and that discussions for a wide range of projects are being pushed back, which may result in a negative impact in the numbers, but at the same time, inquiries about services relating to digital workplaces and how to do work in virtual spaces are several orders of magnitude higher than they were before the impacts of COVID-19 became clear. I think we may need to ascertain how much of a positive impact that will have. Outside of Japan, looking at how people valued IT infrastructure services, the cost-cutting pressure was strong, and customers frequently switched to vendors who could deliver services more efficiently. Japan is not in that state yet, but I think that there is more dynamism in how customers value existing systems and investments, and that a way of thinking about IT investment that is more focused on selection and concentration is becoming more prevalent. In our Management Direction briefing in September of last year, we said that our traditional IT business in Japan is still going strong, but as customers have taken steps to move from placing emphasis on traditional business continuity and stability toward an emphasis on the coming digital world, we may see a shift toward new uses for a variety of ICT, as customers transform their business processes in preparation for this sort of risk, a real shift to the new normal. In these circumstances, we expect that the degree of growth in digital and traditional businesses, or as we are now starting to call them, "growth" businesses and "stability" businesses, will diverge significantly as the value that customers put on IT investment changes dynamically.

Questioner E

Q1: *With regard to your operating profit results for the fourth quarter of fiscal 2019, could you please tell us the reasons behind both why Other/Elimination and Corporate has improved significantly compared to your forecast in January, and why Services fell below your forecast? In particular for Services, while I understand that fiscal 2018 was a high-water mark, so some fall-off compared to last year might be expected, there was no change in the trend of strong sales through the third quarter. So, I am wondering whether something happened that needs to be taken into account when thinking about future profitability.*

A1 (Isobe): I apologize, but this explanation will be somewhat technical and hard to understand. First, Other/Elimination and Corporate seems to have improved massively compared to our forecast in January, by over 20 billion yen, and there are two main reasons for this. The first is that business model transformation expenses, one of our special items, is normally listed under Other/Elimination and Corporate, but when the expenses are actually recorded, they are distributed across the various segments, so the whole 14 billion yen of expenses that were included under Other/Elimination and Corporate in our January forecast was primarily distributed to Technology Solutions, as it was used for expenses such as the restructuring of our businesses outside Japan and our production facilities. The second reason is the impact of bonuses. With the improvement in our results, we felt that we ought to pay a rather higher bonus that was initially envisioned, so our forecast included about 9 billion yen in extra pay, and the entire amount was listed under Other/Elimination and Corporate. In reality, our profits increased even more than expected, so these bonuses were paid out through each segment, meaning that expenses in Other/Elimination and Corporate decreased, while at the same time these bonuses became a negative factor in each segment. Excluding these two points, the results for Other/Elimination and Corporate are in line with expectations. As for our Services business, on the flip side of what I have just explained, about 5 billion yen in business model transformation expenses were recorded as a special item, and bonus expenses increased by another 7 billion yen or so, so the overall results look like they have deteriorated. If we exclude both this reclassification of expenses and the impact of COVID-19, we actually exceeded our forecast by several billion yen. Moreover, with regard to your question about whether our Services business deteriorated towards the end of the fiscal year, in comparison with last year, the impact of the bonuses was fairly significant. Even looking at just the fourth quarter, including the improvements at the end of the quarter, the impact of higher bonuses in the Services business was to lower operating profit by about 15 billion yen compared to the previous year, while the impact of COVID-19 lowered it by about 1 billion yen. We also had a few unprofitable projects, while last year we had essentially no unprofitable projects, so that had a negative impact of a few billion yen. While our results for the fourth quarter of fiscal 2018 were extremely good, if we had not had these special factors in the fourth quarter of fiscal 2019, we would have more or less matched our results for the previous year, so there has been no change to the overall trend.

Q2: *With regard to the background to your decision not to give guidance for fiscal 2020, could you please explain in which areas the impacts of COVID-19 are particularly difficult to read for Fujitsu, as well as which businesses or items face risks you are particularly concerned about at the present moment? Is there a difference in your concerns about a decrease in willingness to invest in ICT between the public and private sectors? Should you be concerned about risks in areas such as your business in Europe, or your consulting business, which I think is a high-cost business?*

A2 (Isobe): I think our concerns about a decline in the willingness to invest in ICT are somewhat different between the public and private sectors. At the same time, I think there are also significant differences between different industries and sectors, or between customers who have a strong position in a market and customers who have a weak position in the same market. As our business in Europe is centered on infrastructure services, we are somewhat concerned that pressure to reduce costs may intensify, and we are in the midst of a major structural transformation, so we are also somewhat concerned that those efforts will be damaged. As for our consulting business, we feel there will be strong demand for proposals relating to how businesses should transform themselves, both before and after the impact of COVID-19, so our present feeling is that, rather than a risk, this may be more of a demand-driven area.

Questioner F

Q1: *Of the increased profits in System Platforms and Ubiquitous Solutions for fiscal 2019, how much do you attribute to the impact of temporary factors, such as the sudden replacement demand for PCs? Hasn't the trend of cheaper prices of key components, which you raised as a factor behind the increased profits, begun to reverse itself at present?*

A1 (Isobe): While it is difficult to determine at present whether the increased profits in fiscal 2019 are temporary or not, we feel they are not temporary for System Platforms, at least. While the size of contracts can vary, in fiscal 2020 we expect to be able to make up for the reduction in major projects, such as servers, with the increase in 5G service projects in Network Products and other areas, so our initial plan was to aim for an increase in profits. In Ubiquitous Solutions, we think that, overall, the benefit was only temporary. Going forward, while we expect an increase in demand due to people working from home, our expectations prior to COVID-19 were that the boost to profits in fiscal 2019 would disappear in fiscal 2020, and we are prepared for that. In terms of overall structure, as long as lower demand for PCs is offset to some degree by higher demand for electronic components, then overall results will be driven higher by steady growth in Technology Solutions. The question of how much impact COVID-19 will have on each segment, however, is not something we can answer clearly in the present circumstances. We are assuming that the lower prices on key components have hit a bottom. We were assuming that they would gradually increase from here. As for how demand for key components will move going forward, our starting assumption is that it has now stopped falling, and our current thoughts are that it is beginning to turn around somewhat.

Questioner G

Q1: *Hypothetically, if your results for fiscal 2020 were to deteriorate due to COVID-19, would you pursue supplementary measures, such as reducing fixed costs?*

A1 (Isobe): Regardless of special factors like COVID-19, we will continue to work to reduce unnecessary fixed costs. We are not taking a management stance of pulling back because of COVID-19, and there has been no change of our stance of properly making the investments necessary for growth, regardless of any short-term damage to our performance, or to our stance of thoroughly addressing areas of our business that carry excess fat, regardless of positive results.

Questioner H

Q1: *Do you feel that the business model transformations you have already implemented in Europe are sufficient to achieve your medium-term plans? It seems to me that you are assuming that you will improve profits based on higher revenue, but with your current revenue structure, your profit margins are low compared to competing companies outside Japan, so I think your structural transformations may not be sufficient, but what are your thoughts?*

A1 (Tokita): We have been working on transformation in Europe for some time. We have split it into the Northern & Western Europe (NWE) region, centered on the services business and based in the UK, and the Central & Eastern Europe (CEE) region, centered on the products business, including mainframes, and based in Germany. With regard to our products business, we are in the midst of transforming our production facilities, and last year we began the process of implementing an organizational structure for the shift to the services business, preparing a structure that will work closely with our Global Delivery Centers (GDCs) as part of a larger structure that we are calling the service factory structure, where they collaborate on services from the planning stage through to delivery. With regard to profitability, as well, we are further increasing efficiency, with the GDCs at the center. The trend outside Japan is a shift to modernization, or mainframe-centered business to hybrid IT. We will need to keep a close eye on how this changes due to the impact of COVID-19, but there has been no change to the fact that we are making steady progress in transforming our business to catch this trend. In order to further increase the profitability of services in NWE, where the services business has made up a larger proportion of our business for some time, we are not only working to improve productivity through ongoing automation, an initiative that has been in progress for some time, we are also working to strengthen engagement with customers, which has been a weak spot, strengthen communication between customers and our front-line employees, and shift to a structure that does not separate off delivery from everything else. In particular, we are beginning to see effects from the unification of regional delivery teams and GDC teams in the sharing of know-how and the lateral sharing of intellectual property, and we are working to further strengthen their role as solution hubs, as part of rebuilding a global portfolio, including Japan.

Q2: *You have mentioned data-driven management as part of your internal transformation, but what specifically does that mean? What specific parts of your business are currently not actually involved in this effort to strengthen data-driven management?*

A2 (Tokita): We are internally evaluating our own degree of data utilization. When we have an opportunity, I would like to also publicize these evaluations, and let you all review the growth of that degree of utilization. With the changes and reorganizations in business structure, our internal systems have a few weak points, particularly with regard to the structure of unified systems across Group companies inside and outside Japan. We do analyses based on data, capturing future trends from a variety of angles, but we have not yet built a global mechanism for creating an overall cycle of allocating resources to those trending areas, working in concert with various individual evaluations. I think that the fundamental structure of continuing to maintain legacy systems and compensating for the places where they fall short with manpower is a concern that many companies around the world face, particularly many of our customers in Japan, but Fujitsu itself is also one of those companies. The conclusion that I have reached after this first year is that we are not delivering the sort of management that can serve as a reference for our customers. We are taking in new insights from outside, and Fujitsu itself is continuing with the massive transition to become a digital transformation company, but I think we must not only transform our business processes and culture, but also our IT infrastructure itself, on a massive and global scale. Even in these circumstances, I do not plan to let up on internal investment aimed at this transformation. Along with our investment in people, we will continue to invest in the ICT that supports their activities, in line with our plans. I want us to become a major example for our customers.

Questioner I

Q1: *Network traffic is increasing. Is there a possibility that this will be a positive factor in encouraging incremental new investments in fixed line networks in Japan? In fiscal 2019, my understanding that the main reason for the strong performance in your network products business was investments in 5G base stations. Will COVID-19 have a positive impact on that business?*

A1 (Tokita): The increase in network traffic has also had a significant impact on Fujitsu, itself. We are doing what we can just to keep up to a minimum extent with Fujitsu's own internal traffic, but there were cases in which some customers were adversely impacted by our network services. I think the advent of the next era—the new world that is being called the "new normal"—is being accelerated by the current crisis, and we want to be sure to take steps to strengthen our network infrastructure and network services. With regards to 5G, in part because we provided base stations and other products before our competitors, this business made a significant contribution to our results in fiscal 2019. We launched a new specialist organization for continued investments in 5G and to build new application services for 5G, such as local 5G services. We will launch new services next year or the following year, when full-fledged 5G businesses are underway. I think a services business centered on networks will become an important part of our business. While listening to the needs of customers, I would like us to build this business with our own proprietary services.