Summary Translation of Question & Answer Session at
FY 2020 Management Direction Briefing and First-Quarter Financial Results Briefing for
Securities Analysts and Institutional Investors

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

Questioner A

Q1: *Regarding trends in orders, it seems that the impact of large-scale projects is lagging, and there are worries about the future, but what about the recent trends in orders from July to September? Are you actually witnessing large projects declining?*

A1 (Isobe): Of course, I have some concerns about the trends in orders and business negotiations. Up until the first quarter, there was a much stronger overall momentum, but some industries showed some weakness. There were many large customers in government and local government sectors, and there was not much impact. In healthcare, there was a slowdown for some customers but for other reasons. However, I think there was a slight slowdown in manufacturing, distribution and retail. This is my feeling for Q1, but if this continues, or if we have more damage caused by delays due to COVID-19, then this will of course be a cause for concern. At the moment though, it's not as if all of the big business deals have slipped away.

Q2: *Regarding the capital allocation policy, from free cash flow of 1 trillion yen to be generated over 5 years, is it correct to say 500 to 600 billion yen will be invested in and the remaining 400 billion yen will be returned to shareholders. If that's the case, if you divide it by 5 years, it will be about 80 billion yen per year going to shareholder returns, which – given the latest results – is a very significant increase. I don't think this would be possible only from a stable increase to the dividends. If you are considering large-scale shareholder returns, what kind of measures will be carried out?*

A2: (Isobe) Of the 1 trillion yen in free cash flow, if we invest 500 to 600 billion yen in growth investments, then you would be right to say 400 to 500 billion yen will go to shareholder returns. Currently, we are thinking of such a structure, where we will make growth investments and shareholder returns at a ratio of 6 to 4. Therefore, if 600 billion yen goes towards growth investments, 400 billion yen going towards shareholder returns would be a reasonable conclusion to come to. As you pointed out, if 400 billion yen is simply divided over 5 years, it will be 80 billion yen per year. We plan to pay a dividend of 200 yen in fiscal 2020, but if we multiply this by the number of shares, we will have a total dividends payout cost of approximately 40 billion yen. If the annual shareholder return is 80 billion yen, it would be reasonable to assume the remaining 40 billion yen would be devoted to buybacks. However, this is just the basic way we are thinking about shareholder returns over the five year period. As for when and how we will make returns, we have made these plans on the assumption that our profit base will rise, and so we would like to maintain a reasonable payout ratio in line with our profit base. We are also considering increasing dividends steadily in line with our profits. If the current level of profits continues at this level, then of course, shareholder returns on the scale we have just discussed will not be possible so please understand that this allocation plan assumes sustainable growth of the business overall.

__**Questioner B**__

Q1: *I think progress has been made in terms of withdrawal from low-profit countries in Europe, etc., but regarding restructuring, in what stage of progress are we now in? I think that the scale of revenue is declining of course, but if it falls further in the next quarter, the scale of revenue decline will stop to a certain extent, and so from the second half of the year, will you be able to make progress in areas in which you expect to be able to have a certain degree of success?*

A2: (Tokita) Regarding the overseas business model transformation, despite concerns about the impact of COVID-19, we are making good progress. The closure of a factory in Europe and the withdrawal from low-profit bases are progressing as planned. We expect that this process should be concluded by the end of this fiscal year. Once that is completed we will finally have arrived at the starting line for next chapter of our overseas business. In the meantime, we are also working to establish a solid portfolio of global offerings, and we expect that we will be able to take solid steps toward growing the business starting from fiscal 2021. COVID-19 has significantly affected our overseas business, and I don't think we can expect it to reverse a great deal in the second half of fiscal 2020.

Q2: *You expect to spend 10 billion yen on business model transformation in fiscal 2020. What will you use this for?*

A2: (Isobe) Half is for finishing up the transformation in Europe. We originally planned to close the Augsburg plant and withdraw from low-profit countries by the summer, and in-fact we are finishing those up right now, we expect a certain amount of costs to arise from this. The other half will be used to improve efficiencies in the domestic business. There are certain issues that need to be addressed in Japan, so we have a budget for that. Regarding improving efficiencies in Japan, we are considering various realignments and review of manufacturing capabilities. Also, we need to think about our whole group sales formation along with establishing Fujitsu Japan Ltd.

Q3: *I think there is a subtle distinction between the 10 billion spending and what you are considering as growth investments, but is it not true that actually you have a buffer?*
A3: (Isobe) If we don't do anything, it may be a buffer in the short term, but we intend to sort out what needs to be sorted out. We are not saving money from the beginning to have a buffer.

Questioner C

Q1: *In the first quarter, revenue significantly increased for both system products and network products, but please tell us the reasons behind these increases. For your full-year forecast, I think you have factored in a positive impact from COVID-19 on revenue for network products, but please also tell us how you arrived at that forecast.*
A1 (Isobe): It is true that both system products and network products performed strongly in the first quarter. To speak in broad terms, in the first quarter there were a number of deals for higher-margin mainframe systems. As for network products, from around the second half of last fiscal year, 5G base stations have started to be deployed. Therefore, in comparison with last fiscal year's first quarter, revenue was high. In that sense, the strong performances were not the result of one-time items. Rather, from our perspective, they were within the realm we anticipated. For system products, in particular, when we look quarter by quarter in a typical year, in some quarters there are large-scale mainframe deals, and in other quarters there are none, so please understand that this is not anything special. Because of these deals, revenue was strong, and we expect full-year performance in system products this year to be strong. For network products, we are working to ensure a strong rebound in performance this year. As for why we think COVID-19 will have a positive impact on full-year performance in network products, there were some supply delays in the fourth quarter of fiscal 2019, so we think that demand will slip into fiscal 2020 sales. We have factored this rebound into our fiscal 2020 forecast, and that is why it may appear that COVID-19 is having a positive impact. It is not as if COVID-19 is causing a big boost in demand. In our Ubiquitous Solutions segment, COVID-19 has boosted demand to some extent because many people are working from home, but there is no such impact on our network products business.

Q2: *How are you viewing your shareholdings in Fujitsu General, Shinko Electric, and FDK? Are you thinking of divesting those holdings by the end of fiscal 2023, or on a longer timeline of, for example, five years from now? Please give us a sense of your thinking.*
A2 (Isobe): We will concentrate our management resources in Technology Solutions. The flipside of that point is that, for other businesses, our policy is promote their independence, and that policy has not changed at all. We are thinking of such things as which companies they should partner

with in order to create an even stronger independent business, or when would be the best timing for creating the highest value. Another point is that how much cash we will need for such purposes as growth investments, and that is also influencing our decision. Regarding the companies you named, we are constantly thinking of options in all directions. On that topic, we have been saying the same thing for years, but today, in the context of our capital allocation planning, we included the issue of optimizing those existing assets as one element in generating cash flow. We indicated our intentions about optimizing existing assets to fully concentrate on our core business. As for the specifics on whether we will do something this year or do something next year, it is a fairly sensitive topic, so please understand that I cannot give you a clear answer.

Questioner D

Q1: *You explained that you will optimize global offshoring work, but please tell us what you mean by "optimize." By raising the proportion of outsourcing by utilizing offshore resources, will it lead to lower costs?*

A1 (Tokita): With respect to offshoring, we will launch our Japan Global Gateway, and we want to further increase the amount of work handled by our GDCs, which are located in eight different countries. In particular, we need to focus on raising the utilization of offshoring from Japan, and that is why we are creating a near-shore center to close the distance with the GDCs. This applies not just to Japan. We think it is necessary to apply this model to other regions where there is a need to handle special requirements in terms of regulations or languages for each country. Actually, we have been building the same thing in Germany since last year. We will promote offshoring to raise our cost-competitiveness across the globe.

Q2: *From the time Mr. Tanaka was president, we have been hearing talk about optimizing your global business structure. What is new about your announcement this time? Or are you simply following on efforts from before?*

A2 (Tokita): The new structure is a big change from the global matrix organization we had. The thinking behind our global matrix organization was to have cross-cutting governance, but the actuality was that it was up to each region to create their services offerings, and portfolios were also confined within each region. From the perspective of bringing together the full power of Fujitsu as a whole, unified globally, problems and weaknesses remained. With the new structure, the responsibility for the development of services offerings and the investments associated with them is up to headquarters, and responsibility for sales and delivery is with the region, so there is now a change in the division of responsibilities. Please understand that we are making big changes to the structure.

Q3: *You explained that you will be making growth investments of 500-600 billion yen, but when you determine which investments you will make, are you approaching them with an investment discipline, such as ROIC? If so, it would also be easy for people outside of Fujitsu to understand what level of target returns you seek to achieve.*

A3 (Isobe): We do not currently have a uniform way of measuring everything, so I would like to break things out for you a bit. When we talk about investing in value creation, there are investments in services offerings, and with acquisitions, there are high-risk, high-return investments in which the objective is to obtain particular technologies, while there are also low-risk, low-return investments in delivery capabilities, so I think it is difficult to have a uniform index for measuring everything. In addition, in terms of investments in our own transformation, there are investments in One ERP, reskilling, and ESG investments, so I would like to make adjustments in terms of which investments we make and how we will recoup those investments.

Q4: *You explained that, this fiscal year, you had some good deals for system products, and you also have the Fugaku supercomputer, so revenue for the sub-sector is high. On the other hand, what is your outlook for fiscal 2021? With Fugaku ending, is there a possibility that both revenue and operating profit could decline? Are there a lot of positive factors this fiscal year that may not necessarily reoccur?*

A4 (Isobe): With respect to mainframe deals, there are fluctuations depending on the fiscal year, but it is not the case that the deal flow in fiscal 2020 is exceptionally high. The relative contribution in the first quarter was high, but it is not a factor in boosting our outlook for the full year. Changes in our development organization and progress in cost efficiencies are the factors that should boost our profit for the full year. These factors should continue in fiscal 2021 and beyond. In addition, in our network products business, the full-fledged deployment of 5G base stations should continue in fiscal 2020, fiscal 2021, and fiscal 2022, so we do not think that positive factors are transitory just for fiscal 2020 and will disappear after this fiscal year.

<u>Questioner E</u>

Q1: *Please tell us about your expansion outside Japan with 5G base stations. For example, there is talk that Huawei will be excluded from Europe and that NEC will team up with NTT to expand globally, but what are Fujitsu's thoughts about expanding outside Japan?*

A1 (Tokita): North America is already a location in which we have expanded our telecommunications equipment business for many years. DISH Network, which is the fourth-largest carrier in North America, has chosen to use our 5G base stations, so we think that is an important step in the global expansion of our 5G business, and want to push further ahead. In North America, we want to use this as a foothold and hope to expand our business. On the other hand, in terms of our network products business, expansion into Europe is something we have not yet done. If there is an opportunity to expand into Europe, we would like to actively start, including by building an appropriate structure for that business. If we cannot do it alone, we would not rule out the option of creating a partnership or alliance with another company. We would like to use open standards for 5G base stations to use as a powerful wedge to expand our business globally.

Q2: *With regard to the decline in overhead costs in the first quarter, if we add together things such as R&D expenditures and depreciation, I think the declines have been fairly significant since last year. On the other hand, for the full year, it appears that you are projecting an increase in depreciation expenses, with flat R&D expenses. Could you give an explanation regarding the first quarter?*

A2 (Isobe): For R&D expenses, there are also project-related expenses, and expenses, including outsourcing expenses, tend to be uneven. In the waterfall chart in the materials, the expense reduction in the first quarter was 15 billion yen, and a little less than half of that was what we would call indirect expenses. These include domestic travel expenses, international travel expenses, meeting expenses, and expenses relating to events, but there were no international travel expenses in the first quarter. In the second half, not everything is going to be zero, so the scale of reduction in overhead expenses in the first quarter will not continue into the future. On the other hand, it is also not the case that expenses for travel and events will return to the scale that they were in the past. In our approach to Work-Life Shift, some costs, such as travel expenses, should go down, but those savings are likely to be used in necessary expenses for other things. In the first quarter, the impact was roughly 5-6 billion yen, and there should be some impact in the second quarter and the second half, but the scale of the cost reductions will decline over time.

<u>Questioner F</u>

Q1: *My impression is that the 12 billion yen of impacts to operating profit from COVID-19 in the first quarter is very precise. Is this a number you have arrived at yourselves? Do you have some sort of basis for this calculation, and do you have high certainty with regard to the forecast of 38 billion yen of impacts for the year as a whole? Also, is the damage in the first quarter represent just business that has been deferred, and that can be recovered later?*

A1 (Isobe): The impacts of COVID-19 are a difficult question. In terms of our actual results, strictly speaking there may be some projects where it is somewhat doubtful that the slip is truly due to COVID-19. The truth is that we have had great difficulties in ascertaining this sort of thing. Essentially, this is something primarily based on customer factors, and is an accumulation of things that we feel may slip into the second half, so we believe there is some degree of accuracy. We have calculated the impacts of COVID-19 based on information we are getting from customers, who are telling us that projects will have to be postponed to the second half of the year, or frozen for the moment, or pushed into the second quarter. At the same time, there are places where we cannot be certain how much damage there is to our customers themselves, or to a given market as a whole. We believe that some industries are suffering significant damage, and we cannot be certain how much ICT investment will shrink going forward. We are working to expand our business in the public sector, or with local governments, where we can break through these circumstances, but even here we are not as certain as we would like to be. While I am sure there will be both positive and negative factors, these are our basic thoughts with respect to the impacts of COVID-19. While we have said that impacts on the services business are often a lagging indicator, our assumption is that the major impacts will occur in the first half, and that while there will be negative impacts in the second half, we will be able to recover some of those losses, so we will gradually recover from there.

Q2: *It seems that the drop-off from last year's high revenue in PCs has not yet begun in the first quarter, and thinking about the surging demand for high end products, it seems like there has not yet been much damage to either revenue or profitability. Could you tell us how much of a scope for changes there is in your current forecasts?*
A2 (Isobe): With regard to Ubiquitous Solutions, while we believe that there are some lingering effects from the significant improvements in profitability over the course of last year, we are prepared for some degree of drop-off in the second quarter and beyond. Volume in the first quarter was significantly stronger than we initially thought, as well, so we are assuming that that will drop off in the second quarter and beyond. We have already incorporated some degree of positive effect from COVID-19, so we do not feel there is much room for a strong upward deviation from our current forecast trend line, as we think it is reasonably accurate.

<u>Questioner G</u>
Q1: *Today you talked about capital allocation and about making EPS (earnings per share) a key performance indicator, but what are your thoughts with regard to tax planning? If you are forecasting an increase in profitability in your businesses outside Japan, what sort of tax rates do you think you will end up at?*
A1 (Isobe): We are assuming between 25% to 30%, or around 25% tax rate. We are working hard to improve our business outside Japan, but the balance of our profits is still significantly weighted toward Japan, so we are not forecasting any major fluctuations.

Q2: *My impression is that the base station business has become more software-oriented. On the other hand, for Fujitsu's 5G base stations, my understanding is that for devices such as central* *units (CUs) and distributed units (DUs), where control functions have shifted to software, you had worked with Ericsson, while for radio units (RUs), these are still more hardware-focused products, and that your business is focused on volume. As you expand your business globally, in which direction will you be trying to expand it?*

A2 (Tokita): With regard to base stations as hardware, we made a decision to work with Ericsson on CUs and DUs, while we focused Fujitsu's business on RUs. At the same time, even when it comes to RUs, we are at a stage where we are working with other companies to develop an approach to software base stations. Our current business in North America, where DISH Network has decided to use our products, is a business focused on the combination of software and RUs. We believe it will be best if we can put together a portfolio that can be supported in a variety of combinations. Assuming that we will expand globally, there will be a variety of needs in a variety of places, some of which will be based on open standards and some of which will not, so we also think this is a very important period for making certain of where we focus our efforts. Our company, however, has a major advantage in that we were able to take the lead in manufacturing radio units. We would like to utilize this advantage and position ourselves to be able to support a variety of options. At the same time, with regard to private 5G, we expect that full scale deployments will start from next fiscal year, and we feel that this will be an area where we very much want to utilize Fujitsu's total capabilities, expanding not just our hardware sales and network-related integration, but also our comprehensive integration services, including both the applications that will run on that hardware and those networks, and the services that go along with them. This is why we have also created an organization we are calling the 5G Vertical Service Office, making preparations to take on the challenges of 5G business in the private 5G space, where we can expand our services.

<u>Questioner H</u>

Q1: *On page 10 of the presentation materials, you list the status of incoming orders for the first quarter, and on page 22, you give your views on the economic situation, but my impression is that your views for the second quarter and beyond in each industry are slightly different, so could you explain again how we should view future trends, breaking it down by industry?*

A1 (Isobe): I do not think there is that much of a perceptual gap, but orders in the first quarter were down by 9%, or down by 3% if you exclude PCs. When you consider that orders were exceptionally high last year, you get the overall sense that orders have not fallen that far, but when you look at the breakdown by industry, I think you will understand that there are strengths and weaknesses. Things are relatively strong in the Public & Social Infrastructure sectors, and in the Private Enterprise section and the Finance & Retail section, despite a significant drop-off in finance-related orders from some major projects last year, orders are only slightly weak. Page 22 is written qualitatively, but we expect that orders in the Enterprise section will be a little weak, and while we expect them to normalize in the second half, it does not seem that they will return to the strength we have seen in the past. For the second half, and for the year as a whole, we are expecting the Enterprise sector, and the healthcare field within the Japan region, to trend relatively weaker. At the same time, we expect public sector and telecommunication carrier-focused business to be strong, including the response to COVID-19.

Q2: *How should we envision the state your company will be in after the 500-600 billion yen of investments you mentioned? Which segments do you expect to grow, and in what ways?*
A2 (Tokita): In terms of the areas where we will be investing the 500-600 billion yen over the next five years, we will be aiming for acquisitions and investments in solutions that will have global ripple effects at the very least, and that will be able to raise the level of the entire company, rather than investments in enhancing software or services, or investments specialized for particular regions or industries. We are not considering investments that target specific segments or regions. As for the state of our company after the 500-600 billion yen in investments, I think it might be best to say that we will be a technology company that can offer globally unified services. Once we get there, however, I am sure that for the software and services companies and IT-related companies that you could say are our current competitors, their situations will have also changed, so we will need to focus our growth in areas where there are elements that differentiate Fujitsu. In that sense, we would like to steadily acquire technology. Rather than our previous business of selling boxes of things, however, and attaching maintenance services to that, we believe that ought to be positioned as only one component in a larger business of selling services.

<u>Questioner I</u>
Q1: *Your medium-term management target is operating profit of 350 billion yen. In your explanation for how you would achieve this about a year ago, I believe the breakdown of your plan for increasing profits was 70 billion yen in your services business in Japan, 60 billion yen in business outside Japan, 20 billion yen in your network business, 50 billion yen in your digital transformation business, and 30 billion yen from rethinking expenses company-wide. Have there been any updates to this breakdown in the past year? Also, you mentioned growth investments of 500-600 billion yen, and I think the majority of that will be investments and financings, but I think you said before that some of that will have an impact on profits and losses. If there have been any changes here, could you explain that as well?*
A1 (Tokita): I believe I was speaking about the approximately 200 billion yen in increased profits from the baseline of our initial forecast for FY2019 that we will need to achieve an operating profit margin of 10%. There has been no change to this line of thinking. In FY2019, while there were some effects of COVID-19 in the fourth quarter, we were able to end the year in good shape, so we

view that as something we were able to carry forward towards FY2022, which is our deadline for achieving this target. The improvement in our services business in Japan reached about 30 billion yen, and we are making progress in rethinking expenses company-wide. On the other hand, we still have a long journey ahead of us in terms of improving our business outside Japan. Our expectations for our network business is very high, and for our digital transformation business, once Ridgelinez is fully up and running, we expect knock-on effects of 100 billion yen or more.

Q2: *I would like to ask about your enthusiasm for expanding your base station business outside Japan. The total market is on the order of 4 trillion yen, so if you are able to capture even a 1% market share, that business would be on the order of 40 billion yen. Could you tell us the scale of your business with this North American carrier, and give us a sense of the business size you are aiming for going forward?*

A2 (Tokita): We think this was a good step toward securing further contracts in North America, so we would like steadily deliver on this, and use it as a foothold for future expansion, but in terms of numerical scale, I cannot give you any sort of breakdown. As for what we are aiming for with our global business, there are a number of strong players in the 5G market, and we are not yet at a level where we can say how much we want to capture outside Japan. Having said that, we would like to handle it in a way that will leave a clear imprint on the global market.