Summary Translation of Question & Answer Session at
FY 2020 Second Quarter Financial Results Briefing for Analysts

Date: October 27, 2020
Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenters: Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A

Q1: *On the slide about actual incoming orders in Japan, the number of past orders seemed to have changed a bit. Could you explain the reasoning behind the change?*

A1: In the first quarter, the total number included an "other" category, but this time the "other" category is not included.

Q2: *Your forecast for the full-year impact of COVID-19 has not changed, but I feel that the drop off from the first quarter to the second quarter was particularly significant. Do you really believe that the impact of COVID-19 will recede in the second half?*

A2: The negative impact in the first half was a fall in revenue of 138.1 billion yen, with a negative impact on gross profit of 41.0 billion yen. On the other hand, it also had a positive effect of 52.9 billion yen in higher revenue, and a positive impact of 16.0 billion yen on gross profit. The gross margins on the positive side were slightly lower than the gross margins on the negative side, for PCs make up part of the positive side, so please understand that is the reason it comes out somewhat lower. To touch on another point, while I think your impression is that we are saying there will be very little negative impact in the second half, or that conditions will improve to a great extent, but in fact, while COVID-19 had some impact on reduced demand in the first half, what actually happened out in the field was mostly delays in projects. There were many cases where the decision was made to push back the start date, at least for a while. So, while there has been a drop in demand due to COVID-19, please understand that our plan is for those delayed projects to start moving in the second half. For our business in regions outside Japan, this was our original plan, but now it seems that the second half will also be fairly difficult. In Japan, we expect that orders will gradually return in the second half, and delayed projects will start moving forward. However, while we expect that the drop-off in orders and sales will significantly recover, it is also true that we do not have a lot of momentum. In terms of our forecast, this is how we are looking at future trends with COVID-19.

Q3: *Your forecast also shows the impact on the positive side for the second half as smaller than in the first and second quarters, but I think you might very well expect new COVID-19-related demand to grow in the second half, so are you certain of your forecast that the positive side will shrink?*

A3: The positive side for the first half includes some carry-over impact of COVID-19 from March. For example, problems occurred in the Network Products supply chain, so some sales slipped into the first quarter. That may account for why the positive impact in the second half appears smaller than the first half.

Questioner B

Q1: *What are your expectations for demand with regard to the digitalization of the government, or the Digital Agency? It seems like there has been some movement in central ministries and agencies, for example, and there are parts where they are working on increasing efficiency, so it seems to be doubtful to see it as a pure positive, but what are your thoughts? In addition, I believe that effects have also spread into the local government and healthcare fields, so could you explain to us, as far as you know at the moment, the positive and negative factors for these various fields, as well as your overall impressions?*

A1: These are only my impressions, so please understand that. With regard to the digitalization of government, we are seeing strong demand across this space, from the central ministries and agencies, to local governments, and even from various healthcare customers. It is true that, with the Digital Agency taking over leadership of this effort, we expect that the speed of the government's digitalization will further increase, and I think we will be able to be of some assistance in that. To comment broadly on each of the three areas you mentioned, with regard to our customers in the major government departments, we have not felt any particular drop-off in demand due to COVID-19, so that is an area we would definitely like to focus on. It is true there has been some talk of efficiencies, but at the same time, there is also strong demand from the ongoing digitalization, so in terms of positive and negative factors I would like you to take this as a positive movement. At the same time, while our customers in local governments and healthcare institutions are exhibiting fairly strong demand and are increasingly aware of digitalization as an issue, we also keenly feel that our customers in local government and, with regard to healthcare, our customers at hospitals in particular are extremely busy at the moment with the response to COVID-19. I also think that our hospital customers are facing a deterioration in their management situation, so the impression that I am getting is that they really are not getting around to IT investment. We feel that the demand for digitalization will be extremely strong going forward, but the timing of when they turn to actual, active investment will be sometime in the future.

Q2: *If you complete the sale of shares in the mobile phone retail business as planned, I believe you will reap a considerable return. Could you tell us your thoughts on how you will use this, whether you have some sort of business model transformation expenses you will have to use it for, for example, or whether you will simply return it to shareholders?*

A2: To say that we have not included the profits from the sale of the mobile phone retail business in our earnings forecasts may not be quite accurate. We are not changing our earnings forecast totals, but we are of course aware that there will be a positive impact from the closing next month. I would like you to understand that we have not changed our earnings forecast, taking two factors into consideration. First is the uncertainty due to COVID-19. We are assuming a gradual improvement, as stated earlier, in the negative impacts of COVID-19, but as of right now we are hearing reports of growing case numbers outside Japan, and in the end there are many areas that are not clear, so one factor is that we cannot completely eliminate the risk of a downturn in earnings. The other factor is that we could have some room to make growth investments in the next fiscal year and beyond, or we could bring forward the implementation of some business efficiencies. At the moment, we have not changed our earnings forecast either positively or negatively in consideration of these changing factors, but we are keeping a close eye on them, and if there are any changes in these factors we will reflect them in our earnings forecast.

Questioner C

Q1: *With regard to the For Growth and For Stability division you laid out this time, in which fields, such as in SI or in cloud-service related areas in the first half, for example, has demand become stronger? I would also like to ask if you could share a few more thoughts about specific movements in fields, such as, for example, you saw such and such movements in the public and enterprise sectors in the first half, and in the second half you expect such and such movements.*

A1: To be honest, growth in "For Growth" fields in the first half was driven by Fugaku and by 5G-related business. Both "For Growth" and "For Stability" have been affected by COVID-19, but the reason "For Growth" was able to expand, overcoming that damage, was primarily because we had both Fugaku and the 5G-related business. With regard to growth this year, there will naturally be an impact from COVID-19, so enterprise-related business in "For Growth" fields will be weak, but it is difficult to give a categorical explanation. While we have a number of projects for specific implementations of local 5G and for AI-based optimization projects, even in enterprise-related fields such as manufacturing, logistics, and mobility, they are still relatively small-scale, so we would like to grow those going forward. In terms of local government, education, and healthcare, while there is demand, due to the circumstances I explained earlier, they are, for the most part, not yet in a place where projects can begin. With regard to the public sector and social infrastructure fields, this is an area where momentum is relatively strong, and we envision significant growth in security-related business, 5G base stations, and accompanying improvements in backbone infrastructure.

Q2: *For your categories of Private Enterprise, Finance & Retail, the Japan Business Group, and Public & Social Infrastructure, what sort of shape do you see them being in for the year as a whole? Could you tell us if you have any forecasts, such as, for example, whether the second half will be in line with the previous year, or whether you will see growth in the public sector compared to the previous year?*

A2: In terms of impressions, our strongest sector is Public & Social Infrastructure. While there has been some increase in major business deals, we feel that we will only be able to ensure a standard in line with the previous year for the year as a whole. For Finance & Retail, there were a number of major business deals last year that did not recur this year, so the first half looks worse by comparison, but we expect that the second half will return to a level more in line with the previous year, to some degree at least. On the other hand, both Enterprise and the Japan Business Group will continue to be relatively weak. We are expecting some recovery in Enterprise, particularly in the fourth quarter, but orders have continued to be quite low in the second quarter, so we are expecting a difficult third quarter as well. For the Japan Business Group, while there is significant demand, this is also where the damage has been most significant, in areas such as local government, healthcare, and education, as well as in small and medium-sized enterprises, so our view is that this fiscal year may continue to be difficult, even in the second half.

Questioner D

Q1: *With regard to the "For Growth" and "For Stability" categories you laid out this time, what sort of gap will there be in profitability? Also, how do you view their future growth potential?*

A1: In terms of profitability, looking at them from a gross margin perspective, there is not that much difference between them, at least right now. Gross margins in Technology Solutions are about 31% right now. While added value is quite high in "For Growth," for recurring business and subscription-based business, it is difficult to recover fixed costs without growth in scale, so we have not yet reached a configuration where profit margins break through. "For Stability" refers to our previous main battlefield, and we already have our businesses in place, so we are simply steadily pursuing profitability improvements. As a result, the two categories appear similar in terms of gross margins. The main businesses in "For Growth" are in fields where profit margins can improve significantly once their scale has grown, so this is where we would like to achieve steady growth. In terms of growth potential in the "For Growth" area, we are forecasting an average annual growth rate of 10% from fiscal 2019 through fiscal 2022, with projected revenue of 1,300 billion yen in fiscal 2022. For "For Stability," we expect relatively marginal change, so the overall average annual growth rate of 3% is expected for combined revenue. However, due in part to the current COVID-19 crisis, there are some areas where revenue growth will remain difficult. We are currently keeping a close eye on whether we can expect to be able to recover from this and grow further this year, or whether revenue will be flat for this fiscal year, and the 10% growth rate will apply to next year and beyond. With the acceleration of digital transformation and the 2025 digital cliff, both customer awareness and society's needs are rising, so we would like to aim for an average annual growth rate of over 10%.

Q2: *In order to meet your management target of an operating profit margin of 10%, are you planning to improve your profit margin through expanded revenue in the "For Growth" category? Or do you think that there is still room to improve profitability in "For Stability" as well?*

A2: We are expecting significant improvements in profitability in "For Stability" as well. Last year and the year before that, we managed to improve gross margins by about 1% each year. Even now, we are continuing to implement initiatives such as expanding offshoring, providing global offerings company-wide, and applying offshoring to Japan using the Japan Global Gateways, as explained in the management direction. Through these policies, we are making steady improvements in the profitability of "For Stability" as well. Currently, our annual revenue from Solutions/Services is about 1,800 billion yen, so a 1% improvement in profit margins would mean an improvement in profits of close to 20 billion yen per year. We would like to approach an operating profit margin of 10% by both improving profitability in

"For Stability," including also limiting losses due to unprofitable projects, and revenue growth in "For Growth."

Q3: *With respect to your progress in the first half, you have explained that, for the company as a whole, everything has gone according to plan, but if we just look at the International Regions, the situation appears to be rather challenging. How was the operating loss for the International Regions compared to your internal targets? In addition, it appears that you will need to raise operating profit fairly substantially in the second half, and I would like to hear your thoughts about the measures Fujitsu will take to improve profitability.*

A3: The figures for the International Regions still present a challenging image. Performance in the International Regions is according to plan, however. In the former EMEIA-region, we had been continuing structural reforms, such as exiting from unprofitable countries and reorganizing our manufacturing, and finally this process was essentially completed in the first half. In the Americas, we took a reserve last year for business model restructuring expenses, and we are now in the midst of restructuring our product business in a shift toward services. These moves have progressed as planned, and we are now at the stage at which we can finally see the path forward in the shift toward services. Unfortunately, however, this progress is not yet reflected in the figures. As I mentioned earlier, the exit from unprofitable countries has increased operating profit by 1-2 billion yen, but this was completely offset by the negative impact of COVID-19. We will not begin to reap the benefits of these moves in the International Regions until next fiscal year. I want to create better numbers once we have restored the International Regions to health. Even in this year's second half, we will not have figures that will enable us to say that things are getting better. Excluding the impact of the reserves taken last year for structural reform expenses, there will be no significant improvement in the figures, but we think there will be improvements in fiscal 2021 and 2022.

Q4: *Yesterday SAP announced a major downward revision in its projections. It said that the second wave of COVID-19 in Europe and the US is substantially lowering customers' willingness to make investments, and that the impact is likely to last fairly long, causing a change in customers' willingness to invest that could last into next year. You are expecting the impact of COVID-19 to ease in the second half, but is that realistic? Won't the situation actually be more difficult?*

A4: Outside of Japan, we do not foresee a recovery from the impact of COVID-19 in the second half. We expect the negative impact will continue in the second half. We are expecting a recovery to a certain extent in Japan, but we think the difficult conditions will continue outside of Japan. In addition, unfortunately Fujitsu's business outside of Japan is not even close to achieving the scale of SAP's. To be honest, it is now so small that that it cannot get any smaller. We want to grow this business. The figures for the International Regions in the second half are not expected to be very strong, so we expect them to bottom out and we can rebuild from there. The resources and delivery capabilities of our International Regions have been weak, but we want to shift gears by raising our delivery capabilities with our Global Delivery Centers and the strengths of our global offerings as we shift our business toward services.

Questioner E

Q1: *For Solutions/Services, if we subtract first-half revenue from your projection for the full year, second-half revenue appears to be essentially unchanged from the prior year, but given what you said earlier, does that mean there is a risk of falling short of your projection? Could you give us your view of what level you expect the market to be at through the year?*

A1: In terms of the level for Solutions/Services, because we expect the impact of COVID-19 to substantially subside in the second half, we think there is a relatively high probability that we can achieve a level of revenue that is close to the level of last year's second half.

Q2: *I do not think you have changed your full-year guidance for the segments, so does that mean that after again assessing the prospects for the second half, you felt your existing projections were fine? Profit in the first half was lower in comparison with the previous year, and you are projecting it to be flat for the full year, so the second half appears stronger. Does that mean that in examining each business unit, you projected second-half results and decided not to change your full-year projections?*

A2: Yes, that is exactly right. It is also true that we are projecting stronger revenue in the second half. In terms of operating profit, we also had lower profit in the first half because of COVID-19, and we are projecting higher profit in the second half, resulting in flat results for the full year. In the second half the negative impact of lower sales will diminish, and we took plenty of reserves for bonuses in last year's fourth quarter, so this year's fourth quarter will certainly improve to that extent, and we have also been able to hold down any losses on unprofitable projects so far. It is not as if we did not change our projections even though we thought they would be difficult to achieve. Please understand that we did not change them based on our latest outlook for the market and our examination of our progress on projects.

Q3: *You said that it is not the case that your projections do not include a gain on the sale of the mobile phone retail business, so does that mean the gain is included? I think the sale is expected to take place on November 2nd, so does that mean a gain of over 25 billion yen will be recorded in operating profit?*

A3: Yes, it will be about 25 billion yen in operating profit and about 18 billion yen in net profit. On the other hand, we do not know exactly what to expect in terms of the impact of COVID-19, and, in addition, because we need to make a jump in progress in terms of our financial targets for fiscal 2022, there are also thoughts that we should push up the timing of some growth investments to this fiscal year. That would result in us recording some investment expenses in advance, and while it is not the case that we are now certain to record some big expenses, that is a possibility that we would like to consider for a bit. It will not be the case that we will suddenly spend billions of yen on various growth investments, so if that is not the case, I think it is fine for you to take the view that the gain on the sale will be added to operating profit.

Questioner F

Q1: *Technology Solutions fell by about 13% in the second quarter. Since I think the market was down about 4-5%, does that mean that we should assume there were individual reasons why your results fell below that level, such as that your results in last year's second quarter were especially strong? Moreover, you also said that you expect results in the third quarter to recover somewhat, so could you tell us what level of growth you are expecting for the market in the second half?*

A1: We do not think that our results will differ that greatly from the state of the overall market. As you mentioned, results in any given quarter can vary depending on whether there were any big deals, and I think there was that kind of impact. The impact of COVID-19 was stronger in the second quarter than in the first quarter. In the first quarter, existing projects from the previous year continued, and there was not any big damage in terms of revenue. The overall weakness in demand from the first quarter is reflected in revenue in the latter half of the first quarter and into the second quarter. In addition to that, please understand that our results in last year's second quarter were fairly strong. In that respect, we do not expect an especially strong recovery in the third quarter, but we expect some projects that were delayed will begin to return, and we expect that overall results in the second half will return to last year's level.

Q2: *How were your results in 5G base stations in the second quarter, and what are you expecting for the second half?*

A2: There is strong demand for 5G base stations. The deployment of base stations has started in earnest, and there is strong demand this fiscal year. Demand in the second quarter was nearly double the volume of last year's second quarter. We expect it to remain strong in the second half. The expansion of 5G will drive demand in fiscal 2020, fiscal 2021, and into fiscal 2022. We even hear talk that the 5G expansion will further accelerate, so we have high expectations about the speed of the expansion and we will be focusing on it.

Questioner G

Q1: *A structural impact of COVID-19 is advancing the shift to the cloud, and we think it will cause headwinds for your System Products business. This time you broke out numbers in the For Stability area of your business. What is your medium- to long-term outlook for your hardware in that area, the legacy business, now that you are beginning to see the impact of COVID-19?*

A1: Our hardware business today is very different than it once was. Even if we talk about platform systems, the volume of products we make ourselves is lower, and rather than everything being vertically integrated, we have shifted to a model in which we combine various things to deliver value to our customers. Even if our hardware volumes decline because of the shift to the cloud and hardware efficiencies, we are gradually devoting fewer of our resources to that volume part, so we do not think if will have a very big direct impact on our business. We are also providing cloud services, and the expansion of the cloud can also drive some demand for hardware, so we want to be selected for that business. Taking that into consideration, we do not think there will be a big negative impact on Fujitsu. That said, in terms of major trends, we are always thinking about which products and services we should continue to provide. Our baseline is to thoroughly examine and reconsider our areas of focus from time to time.

Questioner H

Q1: *On page 15 of the presentation materials, you show the status of orders in the first and second quarters, and I suspect order backlogs must have shrunk yeor on year at the end of the first half. Accordingly, I think the level of downward pressure on operating profit for Solutions/Services in the third quarter is fairly high, so what level of orders do you need in the third quarter for there to be a 50-50 chance of achieving your full-year target? Please tell us what your thoughts are.*

A1: In the first half, there were business model transformation expenses, and operating profit declined compared to the previous year, but even with COVID-19, we made progress in improving profitability, so we feel that we succeeded in holding down the decline in operating profit despite the sharp decline in revenue. Even regarding our full-year forecast for revenue, it is not the case that we did not change our forecast because the shortfall in the first half was not that big. Rather, our decision not to change our forecast was based on the status of our progress in the second half as of now. We think we can achieve these figures. Your question about how many orders we need in the third quarter to be OK or not is difficult, and I cannot give you a clear answer, but our approach to this is not that we still do not want to give up in terms of our original forecast. Rather, it is that the trends are playing out just as we had originally anticipated. Even with respect to the impact of COVID-19, I personally was concerned that the negative impact would widen, but, amazingly, it has not, and we think we can clearly achieve our full-year targets.