Summary Translation of Question & Answer Session at
FY 2021 First Quarter Financial Results Briefing for Analysts

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Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenter: Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A

Q1: *On slide 14, you show that revenue from network products increased by 12.3 billion yen from the same period in the previous year, and you mentioned that revenue increased both in Japan and outside of Japan. What is the breakdown?*

A1: A little over half was from Japan.

Q2: *When you formulated your target plans at the beginning of the fiscal year, the circumstances were that, because another company's shipments were delayed in fiscal 2020, there was a concentration of Fujitsu's share in shipments, so I had thought that sales in fiscal 2021 would be flat from fiscal 2021. Please tell us the background to why results in Japan in the first quarter were so strong.*

A2: On a full-year basis, we are anticipating that revenue in Japan will be about flat, but our customers are currently putting efforts into having a greater allocation in the first half, so we think that is why demand was a bit strong in the first quarter.

Q3: *Shinko Electric has raised its full-year guidance for operating profit from 33.4 billion yen to 40.6 billion yen. In keeping your full-year guidance for operating profit in Device Solutions at 30 billion yen, are you conveying some kind of message, such as that you will be using some additional expenses?*

A3: Device Solutions slightly exceeded our projections in the first quarter, and the segment's performance was better than we anticipated. Still, we have just rounded the first corner, and while we think that the performance of Device Solutions will certainly be strong, in light of the risk associated with disturbances in the global balance of supply and demand in semiconductors, the fact that large-scale deals are concentrated in the second half of this fiscal year, and the uncertainties relating to COVID-19, even though the trends are slightly above projections now, please understand that we intentionally kept the same overall figures. It is not the case that we are expecting something in particular that would negatively affect our plan. We just think it is too early to make adjustments.

Questioner B

Q1: *Regarding the trend of orders in Japan on slide 10, I feel that the full-year sales projection for Solutions and Services is rather aggressive, but orders in the first quarter were not that strong, so please tell us your outlook for the second quarter and beyond. If orders are concentrated in the fourth quarter, is there a risk that orders might not be able to be converted into sales within this fiscal year?*

A1: As you've pointed out, orders in the first quarter are not off to a particularly robust start . While the fact that orders are skewed toward the second half is a factor, the main reason is that there are many projects that we expect to book as sales in the second half of this fiscal year. Just because the orders are received in the second half does not mean that the sales will not occur in the second half, so we are not too worried about it. Rather than that, we are slightly concerned about other things, such as whether we will be able to seize the demand we are projecting, whether we can beat our competition, and whether the overall economic outlook will brighten for a full recovery, so we will need to work hard. We are projecting that orders for Solutions and Services, for which we adjusted some of the segment categories in the first quarter, will be about 6% higher than in the previous year. If you just consider this first quarter, our progress hasn't been great, but we think we can fully make up for it in the rest of the year.

Q2: *You are saying that you can see projects that will be booked as sales in the second half, but will you be able to see a recovery in orders in the second quarter, or will it be in the second half of the fiscal year?*

A2: We expect the second quarter to still be soft. We anticipate that orders will begin to materialize in the third quarter.

Q3: *Please allow me to ask a question about your profitability. On slide 13, you state that the operating profit margin for Solutions and Services improved. Please tell us the factors that contributed most to this improvement in operating profit margin. For the full year, you are projecting a 1% improvement, but in the first quarter the improvement was still just 0.3%. In which quarter do you expect to be able to catch up? In addition, regarding slide 14, for Network Products, if there was an increase in sales outside of Japan, I think the change in your product mix would have depressed margins, so what was the profitability of Network Products in the first quarter?*

A3: On the whole, we are making progress in improving profitability. The gross margin for Solutions and Services is improving, but because we accelerated growth investments from the start, the growth in sales was offset by the deterioration in the expense ratio. It is not as if the gross margin is going to explosively change based on any specific measures. We continue to work every year on improvements. The growth in agile development work or the utilization of Japan Global Gateway is just beginning, but by using these, our offshoring utilization ratio is gradually increasing. Results from remote development work and remote maintenance, which we implemented last year, are also adding up. Still, because we greatly accelerated growth investments in the first quarter, please understand that, when we look at the operating profit margin level, we only see an improvement of around 0.3%. Regarding Network Products, this year we expect sales in Japan of 5G base stations to be flat, and we expect sales in North America to Dish Network to increase. For sales in Japan, because it is the time to reap rewards, the gross margins are high, but the gross margin on sales in North America is lower compared to Japan. Accordingly, we expect the gross margin on Network Products to deteriorate this year, and that is also what happened in the first quarter. In terms of factors that could appear to be improving profitability, there is the increase in volumes and the fact that the base of profitability in Network Products is not that bad. For System Platforms, in terms of negative factors for products, I mentioned the fall-off from last year for Fugaku, but because the gross margins on Fugaku were not that high, within the product mix there was an increase in high-margin business. In that sense, while the operating profit margin for Solutions and Services is low, in fact there is clear progress in each of the factors that improve profitability, and profitability in the first quarter for System Platforms benefited from the product mix.

Q4: *You are projecting a full-year operating profit margin for Solutions and Services of at least 1%, including the growth investments, but are we correct in understanding that because the growth investments have been made upfront, they will account for a smaller proportion in relation to sales in the second half as the sales amount grow? Also, is it correct to assume that because your profitability will be higher that you will be able to catch up to your projection of a 1% improvement for the full year?*

A4: Basically, yes. Although we have been making efforts to eliminate the disproportionate concentration by quarter, sales are still concentrated in the second half, so even if we make the same amount of growth investments in the second half, the ratio of expense to sales will be lower. Profitability improvements are continuing, and although we have taken upfront expenses for the Japan Global Gateway, the benefits will expand as we look to the second half. We think we are on a trajectory to fully achieve an improvement in profitability.

<u>Questioner C</u>
Q1: *Did the large-scale contract you won in the UK contribute to your sales in the first quarter, or just to your orders? Please also tell us the scale of the deal and its duration.*

A1: The profitability of the contract we won in the UK is slightly higher than other previous contracts, and, although it was just a small amount, it contributed to sales in the first quarter. Compared to a typical systems integration contract, in which we do the work, deliver the work, and then it's over, contracts in Europe tend to include a larger volume of work, like operations and maintenance services, and so they tend to last relatively longer. This means that this deal will continue contributing to our sales for the next several years. Forgive me for not commenting on the scale of individual deals, but please understand that this is a relatively large public sector contract with good profitability.

Q2: *Revenue increased by around 11% in the NWE region, but, if foreign exchange effects are excluded, I think revenue was flat. Was it the case that you were able to offset declines in business elsewhere with this large-scale deal?*

A2: Sales were strong in some areas and not strong in others, ending flat. With regards to profits, Please understand that deals with poor profitability have declined, and deals with good profitability have increased, which led to positive results in profitability.

Q3: *In North America, you have completed your restructuring and exited low-margin businesses, and you talked of some brighter prospects for the future, such as getting a new pipeline of deals, but please elaborate a bit more on these developments. In addition, I think now is the time that you need to increase sales in other regions as well, so please also tell us what measures you are taking.*

A3: Just as you say, we need to strongly expand our sales. In every region, overall results benefited from foreign exchange effects, but on an actual business basis, the level of performance in revenue is not very different from the previous year. We received several orders, but they have yet to really show up in our sales. Right now, each region is focusing on our global strategy. Global offerings, global delivery, global accounts, global alliances—we have a unified global strategy we are pursuing, and we are working to improve profitability and increase sales. In terms of sales, the results will not be immediate, so we are not yet able to demonstrate results in our figures, but the improvement in profitability has produced results in accordance with our internal efforts. We cannot yet take any satisfaction in these figures, but please understand that, in comparison with the past, things are slightly starting to improve. Some bright signs have emerged, such as the deal we mentioned in the UK, and the pipeline of deals in the Americas, although they are relatively small. We would like to make it so that you can see the results in the figures we present as quickly as possible.

Q4: *In the services business in the Americas, are there any special qualities you can highlight that have enabled you to win certain types of deals for your pipeline, or any trends that demonstrate what your strengths are?*

A4: It is difficult, but there have been cases in which we went after deals with poor profitability and paid the price for it, so rather than blindly chasing deals, we want to focus our energies on our areas of strength and be selective in the deals we choose, but it is not the case that we see strong increases in deals that are in our areas of strength. That said, I do feel that there has been a slight increase in our pipeline in our areas of focus. We need our global offerings to take shape a bit more, and I would like us to get our business outside Japan to the point that I can quickly give you strong reports. Unfortunately, however, we are not yet at a level at which we can take much satisfaction.

Q5: *Are the deals you have started to get for your pipeline datacenter deals or services deals?*

A5: Please understand that, to a certain extent, rather than datacenter deals, we are starting to get ERP deals, such as SAP implementations.

Questioner D

Q1: *I think you are seeing some results of your transformation in the various regions outside Japan in the first quarter, but does your forecast include the beginnings of growth in annual revenue for these regions? Or even if, hypothetically, revenue growth does not start from this first half, should we consider that a profitable structure has been established for the NWE and CEE Regions in this first quarter?*

A1: For regions outside of Japan, while there are areas where revenue has fallen due to restructuring, we expect that revenue will recover to some degree this year. There is also the fact that the damage from COVID-19 was quite severe last year, so this year will see relative growth regardless, so I think that, overall, we will be able to achieve some degree of recovery in revenue, excluding restructuring and special items. In terms of profits, we cannot consider the current results at all sufficient, and we are not at a level where we can boast about it, but I think that we will be able to make profits in each region. The Americas Region was still making losses as of last year, but I think even there we will be able to achieve a properly profitable structure as a baseline this year, and we are proceeding with that in mind.

Q2: *I think the first quarter was extremely strong with regard to cash flow, but were there elements that just happened to be good by chance? Or does the increase in cash flow reflect your inherent capabilities? If you keep going like this, your free cash flow for the year will also see a significant upswing, but what are your views on this area?*

A2: It is true that our cash flow for the first quarter was good. We have a seasonality in which sales largely concentrate in March, so the absolute figure for the cash inflows for the first quarter tends to be high, but it is also high compared to the previous year. When you ask if this was just chance, of course there is a significant element of chance, but one characteristic factor was that our outflows for taxes were somewhat light in this first quarter. As we significantly increased our profits from FY2018 to FY2020, our profits jumped a great deal from FY2018 to FY2019, so when we made interim tax payments based on the previous year's profits and final payments based on the current year's profits in FY2019 and FY2020, the balance shifted noticeably. The interim tax payment in FY2019 was made on the lower basis of FY2018, when our operating profit had not yet reached 200 billion yen, so when you compare it against the interim tax payment made in FY2020, based on our operating profit for FY2019, which was over 200 billion yen, it looks quite low. On the other hand, when you combine the interim tax payments and the final tax payments for FY2019 and FY2020 respectively, the total amount did not change very much, so if you compare just the amount of the final tax payment, then the end result is that the amount for FY2019 was significantly larger than that of FY2020. This means that cash outflows due to tax payments in this first quarter are tens of billions of yen less than the first quarter of last year, so if you want to say that was by chance, then yes, that was by chance, but our progress in improving cash flow has not been bad, and we think we will absolutely meet our forecast target for free cash flow of 210 billion yen.

Q3: *You are planning to make growth investments in the amount of 100 billion yen this period, so could we have an update on that?*

A3: To speak in absolute figures, the plan was to use 40.0 billion yen in total for fiscal 2020, including both investments in the form of expenses and investments in the form of assets, while for fiscal 2021, the figure is 100.0 billion yen. Of that, we have said that the operating expenses portion will increase by 50.0 billion yen. In terms of the total scale for this first quarter, we have invested close to 20.0 billion yen, including both operating expenses and asset-based investments. Overall, this balance breaks down as a little less than15.0 billion yen in operating expenses, an increase of approximately 10.0 billion yen from last year, and asset investments of a little less than 5.0 billion yen, so in terms of just operating expenses, we are now at a level 11.0 billion yen higher than the previous year.

Questioner E

Q1: *I would like to ask about the expansion of your base station business outside Japan. In June, it was announced that Deutsche Telekom had selected your company as one of the vendors expanding O-RAN. I would like to ask if you could speak to your sense of the path forward with regard to this sort of expansion to vendors outside Japan, other than Dish Network.*

A1: Also in Europe, we are actively taking on new challenges, with a variety of inquiries coming in about deploying base stations or in relation to O-RAN. We have begun shipments at an appropriate scale for Dish Network in North America, but it is not the case that our network business can run entirely on base stations alone. We are not proceeding with a plan of turning base stations into a volume business as we expand around the globe. We are thinking of using this technology as a starting point for expanding services. Of course, we do not think that we can achieve this on our own, but in light of the fact that we have established this sort of foothold in North America, with respect to Europe as well, we would like to expand our business while working closely with local manufacturers and telecom carriers, or with vendors in Japan. I would like you to understand that we are not thinking of competing with just base stations.

Q2: *Could you speak about any specific contribution to your financial results from your business with Deutsche Telekom?*

A2: We are not forecasting any significant contribution in terms of immediate results.

Questioner F

Q1: *You have said that the weakness in orders in Japan is in line with forecasts, and that orders will not be particularly strong in the second quarter either, but will pick up in the second half. If you separate hardware-based orders and service-based orders, how does that change things?*

A1: The relative strength or weakness does not change much for either hardware-based or service-based orders, but in terms of just total volume, demand in network products is relatively strong. If I had to categorize them, I would say that in network products, hardware-based orders are the majority, so in total, I would say that, for the first quarter, the hardware side looks a bit stronger. In the sense that we are providing solutions, however, there are not necessarily many orders that are just for hardware alone, or just for services alone, so I would like to not to judge our progress in terms of which is stronger or weaker, but to have a similar view of both sides.

Q2: *CEO Tokita has previously said that you want to compete on technology itself. Recently, IBM's quantum computer began operating in Japan, but does Fujitsu have any desire to* *compete in this field? I personally think the ROI might be even higher than for Fugaku, but are you currently doing any amount of fundamental research as part of your upfront investments? Or is this a case where more investment will be forthcoming if you decide to pursue this seriously?*

A2: We are conducting research into the possibilities of quantum computing, including at Fujitsu Research, a new division established in April this year as Fujitsu Laboratories was integrated in to Fujitsu. Of course we have the Digital Annealer, which is a sort of quantum-adjacent technology, and we are currently working to advance research into quantum computing itself as well. The applications and use cases for Fugaku and quantum computing are quite a bit different, so we do not think it is the case that the field of quantum computing will necessarily be extremely broad, or that HPC such as Fugaku has no future or anything like that, but rather that they cannot necessarily be compared with one another. We are not conducting our research and development blindly, but we will proceed steadily, keeping careful control as we select technologies that are in line with our purpose, with an eye toward what is within reach, technically speaking, and something that has its own unique path forward. Naturally, if something seems like a good bet, we will of course make an appropriate wager, but we will keep an eye toward balance. We are keeping an extremely close eye on quantum computing.